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AN INVESTIGATION INTO THE NATURE OF THE RELATIONSHIP OF CORPORATE CULTURE TO LOGISTICS OUTSOURCING DECISIONS

A Dissertation
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Degree
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DEDICATION

This dissertation is dedicated to my wife, Sandra, for her support and patience over the last four years. Without her help I could not have made it through the Ph.D. program and achieved my dream of becoming a college professor.

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ABSTRACT

The purpose of this research was to investigate the relationships between corporate culture and logistics outsourcing. Using primarily depth interviews, data was collected from twenty-eight participants from three companies. Grounded theory methodology was utilized to interpret the data. Models were developed that provide frameworks for understanding the role cultural orientations take in influencing the "perform versus buy" decision in logistics outsourcing in the participating companies, and in the approaches those firms take regarding the relationships they develop with logistics suppliers.

The findings of the research indicate that, for the participating companies, cultural orientations concerning control and transactional/relational exchange influence the outsourcing and inter-firm relationship strategies of the buying firm. These strategies in turn affect the extent of logistics outsourcing the participating firms engaged in, and the types of relationships those firms established with their logistics suppliers. An additional finding of the research is that a cyclical, five-stage process of logistics outsourcing occurred within the participating firms. The model of this process provides a new framework for studying decision making in firms that are considering or are engaged in logistics outsourcing.

Managerial implications for both buying and selling firms, further opportunities for research, and a proposed research agenda are provided.

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Chapter 1-Introduction to the Phenomenon

The use of third-party logistics providers (3PLs) services once performed in-house is undergoing rapid increase in the United States. Reasons for this trend in outsourcing include reduction in costs, customer service improvement, focus on core competencies, improved productivity, and heightened communication capabilities (Leahy, Murphy, and Poist 1995). Along with the increase in the use of 3PLs is an increased emphasis on supply chain management, which has been posited as necessitating collaborative arrangements between purchasing firms and service providers based on long range, cooperative relationships (Gibson, Rutner, and Keller 2002). While logistical activities have been outsourced for many years, there appears to be momentum toward increased use of this strategy along with a focus on long-term relationships between service providers and their customers (Murphy and Poist 2000). For purposes of this research, the term "outsourcing decisions" will include the full spectrum of activities involved in outsourcing, including make-versus-buy decisions, decisions regarding the type of relationships a company maintains with its suppliers, and decisions regarding the termination of such relationships.

The shift from spot transactional modes of exchange between suppliers and customers toward alternative methods of exchange governance that encompass heightened relationships has been noted in the marketing and logistics literature for over two decades (Heide 1994; Morgan and Hunt 1994; Morris, Brunyee, and Page 1998; Rindfleisch and Moorman 2003; Webster 1992; Weitz and Jap 1995). Some of the terms

that are typically used to describe relational exchange include relationship marketing, strategic alliances, channel partnerships, co-marketing alliances, symbiotic marketing, supplier partnerships, and relationship management (Ellis and Mayer 2001, Morgan and Hunt 1994; Morris, Brunyee, and Page 1998). This research will adopt the term "inter-firm relationships" when referring to exchange relationships because it encompasses a wide range of relational types, and does not impose a value on exchange that terms such as "alliances" and "partnerships" can. Additionally, this recognizes that transactional, market-based exchange is an appropriate relational type for certain companies or business conditions. The supposition for why the shift toward stronger inter-firm relationships has occurred is that such relationships between suppliers and customers help to combat increasingly stiff global competition (Anderson and Weitz 1989; Doney and Cannon 1997).

A number of studies have explored the antecedents to inter-firm relationship formation. Such factors as the environmental pressures of uncertainty, global competition, time and quality based competition (Mentzer, Min, and Zacharia 2000), changing customer needs (Rindfleisch and Moorman 2003), and need for efficiency, stability, or legitimacy (Oliver 1990) lead companies to form closer relationships. Sheth and Parvatiyar (1992) identify four strategic reasons for forming closer relationships, including growth opportunity, strategic intent, protection against external threats, and diversification. They also identify four operational purposes, including resource efficiency, increased asset utilization, enhancement of core competencies, and closing performance gaps. Termination costs, mutual benefits, shared values, communication, and reduction of opportunistic behavior, mediated by commitment and trust, have also

been shown to be antecedents to relationship outcomes (Morgan and Hunt 1994). Additionally, historical evidence suggests that relationships result from an interaction of firm competencies, forces within the industry, and the intentions of individual participants (Keep, Hollander, and Dickenson 1998).

While the transformation to inter-firm exchange governance has been described as a "paradigm shift" (Kotler 1991; Pavatiyar, Sheth, and Wittington 1992), not all studies have shown the trend to be universal (Cannon and Perreault 1999). Ellis and Mayer's (2001) research of specialty chemical markets found local relationships between companies overridden by corporate strategies based on coercive power and short-term transactional goals. Factors such as the need to reduce costs, managerial effort (Frazier and Antia 1995), and idiosyncratic investment (Brennan 1997) are forcing many channel members to place less emphasis on close inter-firm relationships due to their expense. A global survey of businesses found that while many companies had long-term relationships, these relationships were not necessarily close ones: arms-length relationships with customers, and slightly closer relationships with suppliers, were found to be the norm (Kanter 1991). An American Marketing Association survey of firms that outsourced activities formerly performed by their own firms indicated disappointment in results by a quarter of the respondents, while over half of the respondents said that they had brought at least one outsourced activity back in-house (Greco 1997). These examples illustrate the apparent gap between the normative guidelines emerging from the relationship literature and their application in many companies. On one hand, there are reasons why companies see advantages in closer relationships with suppliers and

customers; on the other hand, companies are feeling pressures to reduce the closeness of their relationships with other companies.

One potential influence on outsourcing decisions, organizational culture, is not well developed in the relationship literature. The concept of organizational culture arose due to the realization that traditional models of organizations failed to explain "observed disparities between organizational goals and actual outcomes, between strategy and implementation" (Deshpande and Webster 1989, p. 4). Studies of organizational culture take a holistic view of the corporation, tending to focus on the organization as a group of people who share common values and norms, as opposed to taking an approach that views an organization as a set of sub-systems accomplishing specific functions (Hofstede 1986). Researchers study organizational cultures in part due to the behavioral force they exert on the people within an organization. Recognition of this behavioral force as a potential influence in determining inter-firm relationships is noted in the literature (Deshpande and Webster 1989; Frazier 1999).

With some notable exceptions, little emphasis has been placed on the concept of corporate culture and its role in channel and supply chain relationships (Frazier 1999; McAfee, Glassman, and Honeycutt 2002). Ford, McDowell, and Tomkins (1996) recognized the need to analyze corporate belief systems as important to understanding outsourcing decision making. Ellis and Mayer (2001) note issues with culture clashes between senior and middle management regarding relationship management practices in chemical markets. Corporate culture has been suggested as a moderator between buyer perceptions of relationship quality and repurchase intentions by Hewett, Money, and Sharma (2002). The compatibility of various culture types with business-to-business

relationships is discussed by Paulin, Ferguson, and Payaud (2000). The importance of cultural similarity between companies in industrial channel dyads (Anderson and Weitz 1989) and inter-company alliances (Cooper et al. 1997), and the need for companies in partnerships to have similar values and beliefs (Weitz and Jap 1995) are also explored in the literature. Additionally, McAfee, Glassman, and Honeycutt (2002) present a model of the influence of a firm's culture on human resource policies, which can subsequently result in a transactional or relational focus for employees in purchasing, distribution, and other boundary-spanning functions. While the concept of corporate culture is thus linked with inter-firm relationships, to date no model has been developed that encompasses the relationship that may exist between a company's culture and the decisions it makes concerning suppliers.

Values have been identified as a key element of culture. Rokeach defines values as an "enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence" (quoted in Brangule-Vlagsma, Pieters, and Wedel 2002, p. 268). Values held in common by members of a group serve as a guide in dealing with events, and can be used to predict behavior (Schein 1985). Values that are validated by success in dealing with business problems transform into beliefs and assumptions through a process of cognitive transformation. Conversely, values that fail to lead to success are discarded, and new values are constructed based on experience (Schein 1985). As firms attempt to solve problems through establishing relationships with other firms, cultural values may guide the company and relationship type selection process by providing a predisposition toward certain relationships types. Values may also play a part in determining how firms

go about reviewing and adjusting these relationships over time by influencing how the firm views rewards and losses, levels of equity, and overall satisfaction with a relationship (Frazier 1983). Thus, cultural values and cultural change may be a key to understanding why companies transform from acting in an individual manner to working in relationships with other firms, and may also be a key to understanding inter-organizational relationship outcomes.

The research described in this manuscript fills a critical gap in our understanding of how corporate culture affects the manner in which companies go about doing business with other companies. The research will contribute to the knowledge of inter-firm relationships by exploring the ways corporate culture and outsourcing decision-making are interrelated. To this end, a qualitative approach to data collection and analysis was used in order to obtain a rich, in-depth understanding of the outsourcing decision-making phenomenon. Rather than taking a cause/effect approach to the phenomenon, the use of qualitative methods will allow for an exploration of the social process interactions that occur between a company's culture and outsourcing decisions, including the possibility that relationships with suppliers may influence the culture of the organization.

There are several reasons for choosing firms that outsource logistics activities. First, the current emphasis on supply chain management and driving costs out of firms' logistics operations has drawn attention and focus to logistics outsourcing as an important corporate strategy (Gibson, Rutner, and Keller 2002; Leahy, Murphy, and Poist 1995). Second, there has been a limited amount of empirical research on 3PL relationships (Murphy and Poist 2000), and this research may be able to add to this body of knowledge. Third, as Vickery et al. (2004) point out, there are several aspects of

relationships between 3PLs and their customers that raise the criticality level of such relationships, and provide an appropriate research setting. The success of the service provider and the customer firm are highly interwoven, due to the fact that the 3PL literally manages some or all of a firm's logistics functions. This has serious implications for the purchasing firm on costs, manufacturing support, inventories, customer service, and so on. Additionally, "the provision and quality of logistical services are distinct from the associated physical materials/goods, thus alleviating the potential for 'halo' effects, and multiple available alternatives mean customer evaluations reflect services received rather than 'captive commitment'" (p. 1110). Thus, a setting involving relationships between purchasing firms and 3PLs lends importance to the findings and provides some distinct characteristics that may be difficult to find in other contexts.

Since qualitative studies generally start with a rudimentary conceptual framework (Miles and Huberman 1984), an overview of the problem area is presented that includes some basic concepts from the relationship and corporate culture literature that will serve as a general foundation from which to build the research.

Overview of the Problem Area

Much research has been devoted to the subject of inter-firm relationships. Literature important to this research concerns the nature and types of relationships that can be formed between companies, and the processes involved in relationship formation/change/dissolution between companies. The notion of a continuum along which a relationship can be categorized provides a means to measure the outcome of

inter-firm relationship processes. The processes involved in relationship formation/change/dissolution provide a framework for identifying initial activities to research. The literature concerning factors that influence inter-firm relations, notably internal and external conditions, reveals additional forces that may impact the relationship formation/change/dissolution process. Together these three areas in the relationship literature serve to provide an overview of the problem and a basis for theoretical sensitivity concerning activities and outcomes in the inter-firm relationship process.

The Relationship Continuum

A number of researchers have developed ways of classifying inter-firm relationships. For example, Frazier and Antia (1995) propose six relationship types along the dimensions of two distinct channel contexts from low to high environmental uncertainty and manufacturer-intermediary interdependence (see Table 1-1). The relationships types range from no commitment on the part of either firm (market exchanges) to very high commitment by both parties (bilateral relationships). Based on empirical research, Cannon and Perreault (1999) propose eight standard relationship types: basic, market exchange, bare bones, contractual transaction, custom supply, collaborative, mutually adaptive, and customer is king (see Figure 1-1). The relationship types vary based on extent of seller adaptation, organizational linkages, information exchange volume, contractual arrangements, and extent of cooperation between parties (Morris, Brunyee, and Page 1998). Based on the variables of trust, frequency of

Table 1-1: Frazier and Antia (1996) Relationship Typology

A Typology of Channel Contexts

	Manufacturer-Intermediary Interdependence		
	Low (balanced)	*Unbalanced*	*High (balanced)*
Low Environmental Uncertainty	Cell 1 market exchanges no commitment	Cell 3 unilateral relationships one-sided commitment	Cell 5 long-term relationships high commitment
High	Cell 2 repeated transactions low commitment	Cell 4 leadership relationships moderate commitment	Cell 6 bilateral relationships very high commitment

Geometric Representation Of Rotated Discriminant Function For Relationship Types

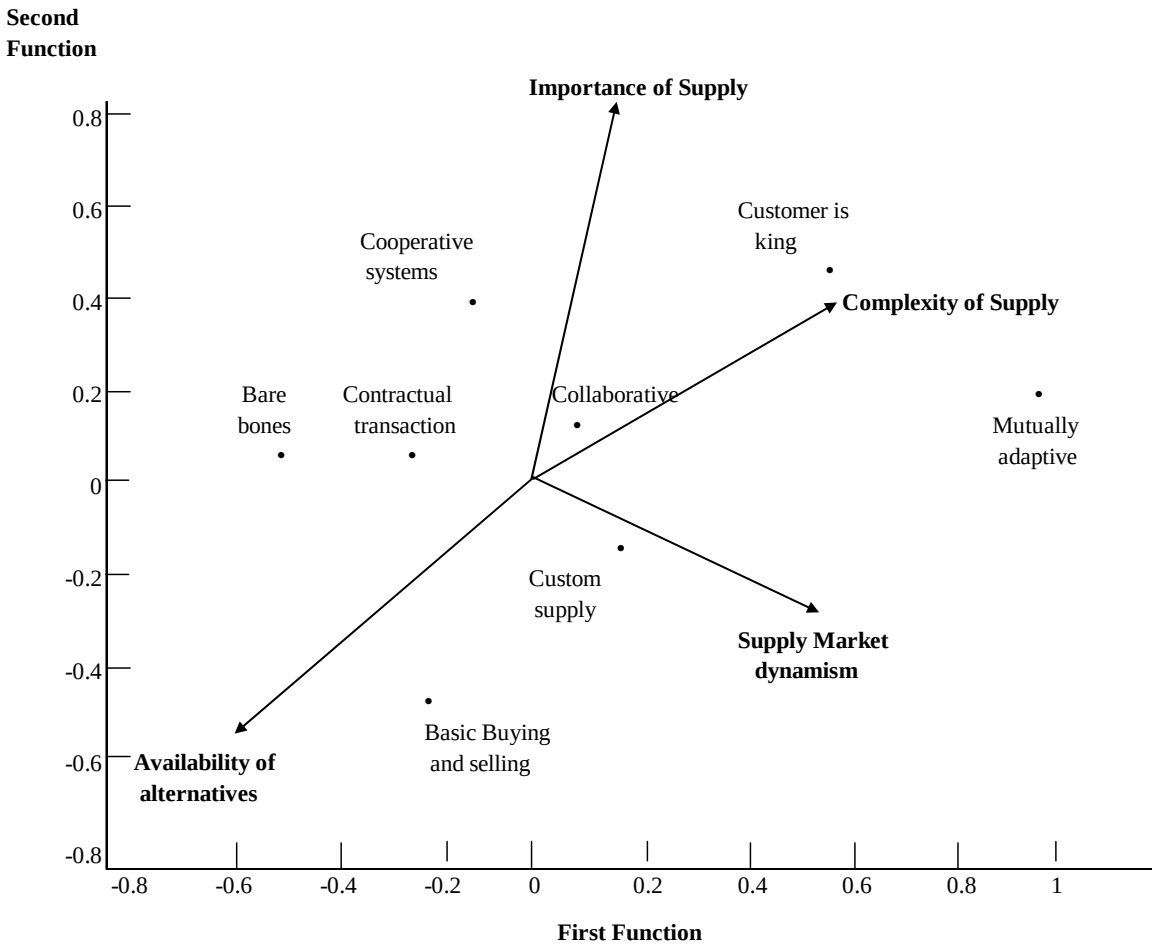


Figure 1-1. Cannon and Perreault (1999) Relationship Types

interaction, and commitment, Rinehart et al. (2004) identified seven relationship types including non-strategic transactions, administered relationships, contractual relationships, specialty contract relationships, partnerships, joint ventures, and alliances (see Figure 1-2). Zinn and Parasuraman (1997) propose a typology of logistics-based strategic alliances along the dimensions of scope and intensity that includes limited alliances, focused alliances, and extensive alliances (see Table 1-2). Thus, while there is agreement that a range of relationship-types exist, there is lack of agreement as to the exact typology of relationship types.

The lack of agreement on specific types, however, does not mask agreement that relationships lying along a continuum from transactional (discrete) to affinity-based (long-term, collaborative, high commitment) exchange. Dwyer, Shurr, and Oh (1987) "emphasized the importance of a transactional/relational continuum" based on Macneil's (1980) work on contract law (Garbarino and Johnson 1999, p.70). According to Dwyer, Schurr, and Oh (1987, p.12), "Discrete transactions are characterized by very limited communications and content", while "[R]elational exchange transpires over time…The basis for future collaboration may be supported by implicit and explicit assumptions, trust, and planning." Webster (1992) also developed a range of marketing relationships that lie on a continuum from pure transactions to fully integrated hierarchical firms. Along this continuum firms move from market control towards more administrative and bureaucratic control (network organizations). Brennan (1997, p.763) offers a "useful

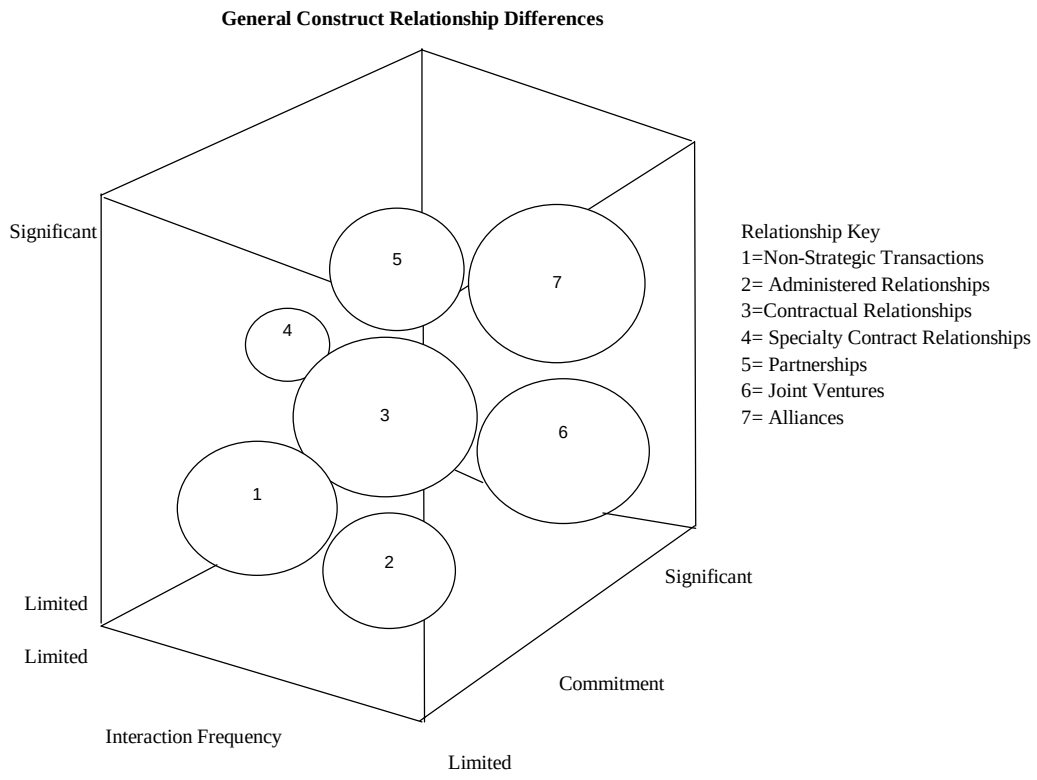


Figure 1-2. Relationship Types (Adapted from Rinehart et al. 2004)

Table 1-2: Zinn and Parasuraman (1997) Typology of Relationships

A Typology of Logistics-Based Strategic Alliances

	Intensity	
	High	Low
Scope		
Broad	Integrated	Extensive
Narrow	Focused	Limited

spectrum by which to judge buyer/supplier relationships." These relationships are characterized by "[T]he extent to which a relationship conforms to a collaborative, partnering model" versus "[T]he extent to which a relationship conforms to a market-based model." A market-based model is one in which transactional relationships are based on individual purchases (Frazier, Spekman, and O'Neal 1988), while a collaborative, partnering model involves operational or strategic coordination (Mentzer, Min, and Zacharia 2000) and can include joint planning, benefit and burden sharing, trust, extensive information sharing, and "operating controls between firms, and corporate bridge-building" (Cooper et al. 1997, p. 74).

Rather than identify specific relationship types, this research adopts a transactional/relational continuum similar to that of Brennan's (see Figure 1-3): relationships on one end of the continuum represent those characterized by pure arms-length transactions governed by the market (i.e., transactionally-oriented relationships), while those on the other end are those that incorporate close, ongoing, business-to-business relationships that focus on collaboration and are meant to yield mutual benefit (i.e., behaviorally-oriented relationships) (Cooper et al. 1997; McAfee, Glassman, and Honeycutt 2002; Paulin et al. 1997; Walton 1996).

Conditions Affecting Inter-Firm Relationships

Frazier and Rody (1991, p.53) note that "research in sociology, organizational behavior, and marketing supports the view that the context or situation has an important effect on the nature and functioning of exchange relationships." Certain conditions both

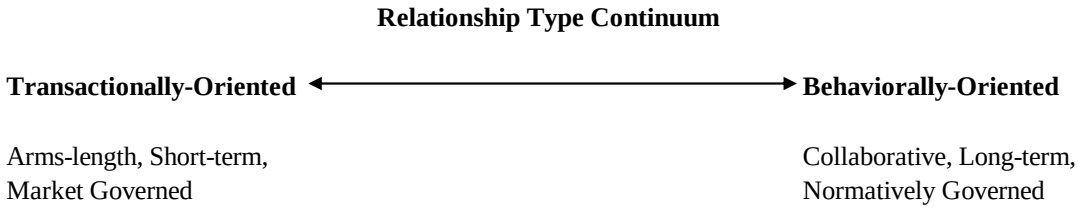


Figure 1-3. Relationship Type Continuum

external and internal to the firm are recognized as having an effect on inter-firm relationships, and conceivably these conditions could play a role during any of the stages in the relationship formation/change/dissolution process. While not an exhaustive list, Table 1-3 outlines the multiplicity of the conditions that may influence inter-firm relationships. In this table external conditions are identified as being of two types: environmental conditions and inter-firm conditions. Intra-firm conditions are also identified, with specific emphasis on cultural assumptions and values that may predispose companies toward relationships toward the transactional or relational end of the relationship continuum.

Environmental pressures from a national and international context identified as encouraging the formation of long term relationships include globalization and integration of markets (Rindfleisch and Moorman 2003; Sheth and Parvatiyar 1992), environmental uncertainly (Bucklin and Sengupta 1993; Mentzer, Min, and Zacharia 2000), global competition (Bowersox, Closs, and Stank 2000; Mentzer, Min, and Zacharia 2000), time and quality based competition (Mentzer, Min, and Zacharia 2000; Rindfleisch and Moorman 2003), emerging technologies (Bowersox 1990), governmental regulation and deregulation (Bowersox 1990; Grewal and Dharwadkar 2002; Sheth and Parvatiyar 1992; Varadarajan and Rajaratnam 1986), national culture (Kanter 1991), and normative institutions such as trade associations (Grewal and Dharwadkar 2002).

Within an inter-firm context, conditions that can affect the formation and outcome of relationships include power/dependence balance between parties (Ellis and Mayer 2001; Lusch and Brown 1996), network identities and organizational fit (Anderson et al. 1994; Cooper et al. 1997; Smith and Barclay 1997), relationship benefits (Bowersox

Table 1-3: Factors Influencing Inter-firm Relationships

Environmental Conditions	Literature Sources
National and International Contexts	
Globalization and integration of markets	Rindfleisch and Moorman 2003; Sheth and Parvatiyar 1992
Environmental uncertainly	Bucklin and Sengupta 1993; Mentzer, Min, and Zacharia 2000
Global competition	Bowersox 2000; Mentzer, Min, and Zacharia 2000
Time and quality based competition	Mentzer, Min, and Zacharia 2000; Rindfleisch and Moorman 2003
Emerging technologies	Bowersox 1990
Governmental regulation and deregulation	Bowersox 1990; Grewal and Dharwadkar 2002; Sheth and Parvatiyar 1992; Varadarajan and Rajaratnam 1986
National culture	Kanter 1991
Normative institutions	Grewal and Dharwadkar 2002
Inter-firm context	
Power/dependence balance	Ellis and Mayer 2001; Lusch and Brown 1996
Network identities and organizational fit	Anderson et al. 1994; Cooper et al. 1997; Smith and Barclay 1997
Relationship benefits	Bowersox 1990; Brennan 1997; Morgan and Hunt 1994
Relationship termination costs	Morgan and Hunt 1994
Communication between firms	Morgan and Hunt 1994
Opportunistic behavior	Ganesan 1994; Gundlach, Achrol, and Mentzer 1995; Morgan and Hunt 1994
Trust and commitment between firms	Doney and Cannon 1997; Ganesan 1994; Gundlach, Achrol, and Mentzer 1995; Morgan and Hunt 1994; Sheth and Parvatiyar 1992; Smith and Barclay 1997
Relational norms	Achrol 1997; Dwyer, Schurr, and Oh 1987; Heide and John 1992; Frazier and Antia 1995; Gundlach, Achrol, and Mentzer 1995; Rindfleisch and Heide 1997; Weitz and Jap 1995
Channel history	Brennan 1997
Cultural values shared between firms	Anderson and Weitz 1989; McAfee, Glassman, and Honeycutt 2002; Morgan and Hunt 1994
Intra-firm Conditions	
Focus on cost/price	Doney and Cannon 1997; Ford, McDowell, and Tomkins 1996
Time orientation	Ganesan 1994
Willingness to engage in trusting behaviors	Smith and Barclay 1997
Specific orientations toward exchange types	McAfee, Glassman, and Honeycutt 2002
Partnering orientation	Mentzer, Min, and Zacharia 2000
Corporate belief systems	Ford, McDowell, and Tomkins 1996

1990; Brennan 1997; Morgan and Hunt 1994), relationship termination costs, communication, opportunistic behavior (Morgan and Hunt 1994), trust and commitment between firms (Doney and Cannon 1997; Ganesan 1994; Gundlach, Achrol, and Mentzer 1995; Morgan and Hunt 1994; Sheth and Parvatiyar 1992; Smith and Barclay 1997), relational norms (Achrol 1997; Dwyer, Schurr, and Oh 1987; Heide and John 1992; Frazier and Antia 1995; Gundlach, Achrol, and Mentzer 1995; Rindfleisch and Heide 1997; Weitz and Jap 1995), channel history (Brennan 1997), and cultural values shared between firms (Anderson and Weitz 1989; McAfee, Glassman, and Honeycutt 2002; Morgan and Hunt 1994). Thus the formation/change/dissolution process lies within a complex set of conditions that can affect this process in any number of ways.

Adding to the complexity is the effect intra-firm conditions could have on this process. The literature identifies a number of factors internal to companies that may influence the direction a firm takes in inter-firm relations. One potential factor is focus on cost/price or revenue/cost drivers (Doney and Cannon 1997; Ford, McDowell, and Tomkins 1996), where firms are "driven by short-term, financially oriented concerns" (Ellis and Mayer 2001, p.192). Short-term or long-term orientations can play a part in relationships, with a short-term orientation predisposing a company toward discrete transactions and a long-term orientation representing a desire for a long-term relationship (Ganesan 1994). Willingness or unwillingness to engage in trusting behaviors, i.e., "actions that reflect a willingness to accept vulnerability in the face of uncertainty" (Smith and Barclay 1997, p. 6), may influence the type of relationship a company prefers. McAfee, Glassman, and Honeycutt (2002) identify specific orientations toward relational or transactional exchange in firms as influencing relationship types. Partnering

orientation, defined by Mentzer, Min, and Zacharia (2000, p.551) as "patterns of shared values and beliefs that help individuals in the partner firms understand the functioning of the partnership and, thus, provide partnership behavioral norms," also influence relationship types. Ford, McDowell, and Tomkins (1996) also identify corporate belief systems as an area that needs to be understood in relational decision making. Shared values and beliefs between organizational members have been identified as part of what makes up corporate cultures (Deshpande and Webster 1989; Schall 1983; Pettigrew 1979). Thus, a linkage between corporate cultures and inter-firm relationships has been established.

Some basic understanding of what is meant by the term "corporate culture," and how cultures are looked upon by those who research them, is needed to provide the researcher with theoretical sensitivity toward the cultural processes that may bear on the phenomenon to be investigated. Such theoretical sensitivity is important to gaining insight into the phenomenon under investigation, and to thinking conceptually about the data. Some concepts of corporate culture, and ways that researchers approach the research of cultures in organizations, are therefore presented in the next section to provide a foundation for the research.

Corporate Culture Literature

Culture Definitions

Many definitions of organizational culture exist in the literature. Gordon (1991, p. 397) defines corporate culture as "an organization-specific system of widely shared

assumptions and values that give rise to typical behavior patterns." Schein (1991, p. 247) defines culture as:

1) A pattern of shared basic assumptions,
2) invented, discovered, or developed by a given group,
3) as it learns to cope with its problems of external adaptation and internal integration,
4) that has worked well enough to be considered valid, and, therefore,
5) is to be taught to new members of the group as the
6) correct way to perceive, think, and feel in relation to those problems.

While Schein places emphasis on shared assumptions, Thompson and Wildavsky (1986) note that organizations justify their actions based on shared beliefs and values. Deshpande and Webster (1989, p. 4) define organizational culture as "the pattern of shared values and beliefs that help individuals understand organizational functioning and thus provide them norms for behavior in the organization." This pattern of shared assumptions, values, and beliefs provides a foundation for how individuals approach how they act within their organization, and may also help account for how they approach relationships with other organizations. Therefore, this research will define corporate culture as:

> *That unique set of assumptions, values, and beliefs that are shared by a firm's members and that shape their behavior within that organization.*

As will be seen below, this definition dovetails well with Schein's (1985) model of corporate culture.

The Schein Model

Schein (1985) presents a model of corporate culture useful as a starting point from which to gain an understanding of the components of a company's culture. This model is

based on Kluckhohn and Strodtbeck's (1961) extensive comparative research of many cultures in the Southwest United States (Schein 1985). It defines three levels of culture in organizations (see Figure 1-4). At the surface level (level one), visible artifacts of the organization exist: its structure, technology, rules of conduct, dress codes, records, physical layout, stories, and rituals (Marcoulides and Heck 1993). These are the overt behaviors and other physical manifestations of the organization, and can be observed by a researcher (Gordon 1991). At a second, unobservable level are the organization's values, including strategies, goals, and philosophies, which may be articulated by an informant. At an even deeper level (level three) are the underlying assumptions such as beliefs, habits of perception, thoughts, and feelings that are the ultimate source of values and action. These may be unconscious and difficult for individuals to articulate. At the core of a firm's culture are the "implicit assumptions that actually guide behavior, that tell group members how to perceive, think about, and feel about things" (Schein 1985, p.18). In an organizational context, these assumptions are of five types:

1) Relationships to environment- how the firm's members view the organization's relationship with its environment; e.g., can it dominated and changed, or must the organization accept its circumstances and subjugate itself to the environment;
2) the nature of reality- the most important assumptions being about group boundaries and assumptions concerning in-groups and out-groups;
3) the nature of human nature- assumptions about whether people are basically "good" or "evil" (i.e. can they be trusted?);
4) the nature of human activity- assumptions regarding whether activity should be focused on tasks, or on building relationships; and
5) the nature of human relationships- assumptions concerning the use of power, influence, and peer relationships; for example, whether people are naturally aggressive or inherently cooperative.

Cultural assumptions form the foundation for values in a firm (Schein 1985), and help

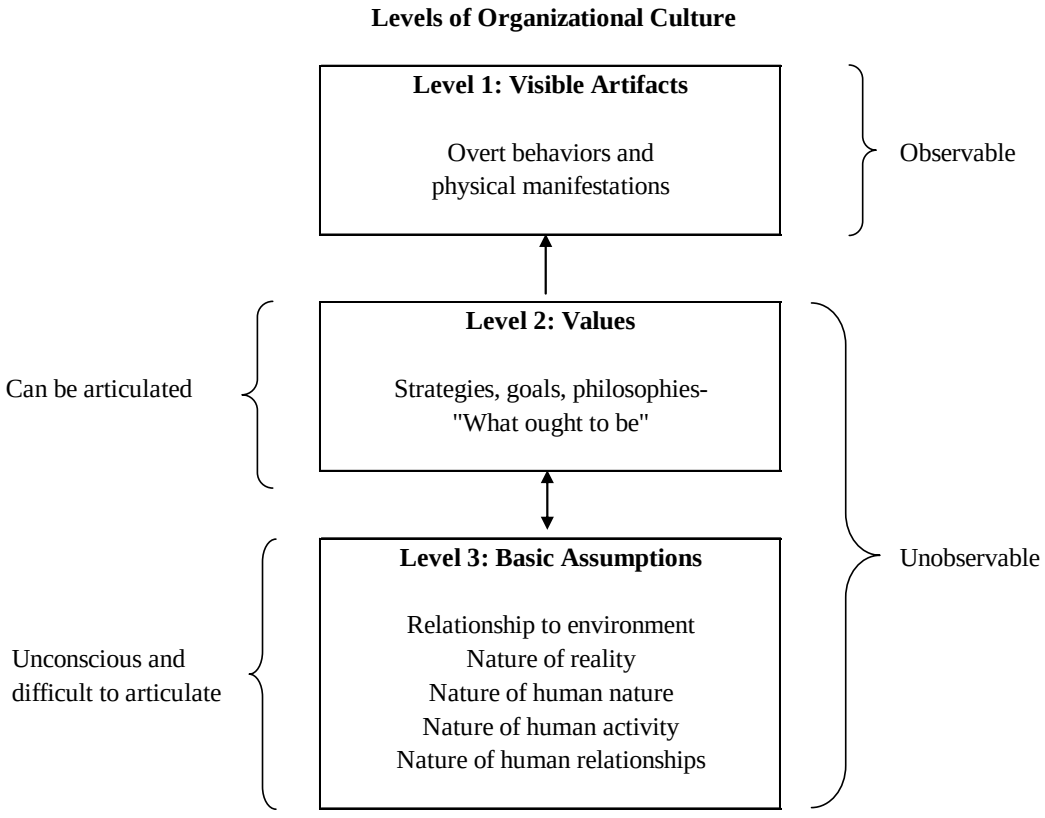


Figure 1-4. Levels of Organizational Culture

individuals decipher the visible manifestations of culture such as artifacts and behavior. They are part of what Sackmann (1991) refers to as "tacit culture," which is comprised of the unspoken, unobservable cognitive manifestations of culture. Since assumptions are unobservable and often difficult for people to articulate, they are difficult for a researcher to uncover.

According to the Schein model, values comprise the next level in a company's culture. Schwartz and Bilsky's (1990, p. 878) definition of values delineates five features. Values "a) are concepts or beliefs, b) pertain to desirable end states or behaviors, c) transcend specific situations, d) guide selection or evaluation of behavior and events, and e) are ordered by relative importance." Once values are acquired, they form a system in which each value is ordered in relative priority to other values; this system is usually considered to be stable over time, but can be changed by endogenous and exogenous forces (Brangule-Vlagsma, Pieters, and Wedel 2002). In organizations, values describe what is important for individual employees and for the organization as a whole. The alignment of values across an organization can influence a wide range of individual and business outcomes. Values influence behaviors at work, and underlie structure, function and change (Maierhofer, Griffin, and Sheehan 2000). In analyzing values one must be careful to identify those values that are congruent with underlying assumptions and those that are, in effect, either rationalizations or aspirations for the future (Schein 1985). Additionally, one must discriminate between "espoused values," i.e., those that are touted by management as firm values, and the actual values held in common by employees. These values are not necessarily congruent. The idea that not all firm assumptions and values are shared by members of an organization is addressed by

the various perspectives culture researchers take on organizational culture.

Differing Perspectives on Corporate Culture

It is important to get an understanding of some differences in how researchers fundamentally view organizational culture due to lack of agreement on its key aspects. There are three main perspectives from which researchers typically approach organizational culture (Frost et al. 1991) (see Table 1-4). The first perspective is that of the integrationist. The integrationist sees culture in terms of consistency in that there is organization-wide agreement on what to do and why to do it (Frost et al. 1991). From this viewpoint, ambiguity about values and correct behavior is nonexistent in an organization. The integrationist approach sees a "strong" culture as exhibiting consistency, consensus, and clarity (Martin 1992). In contrast, from the viewpoint of the differentiation perspective organizations are filled with inconsistency. Meanings are shared primarily within the boundaries of subcultures. Outside of these boundaries, ambiguity about values and norms is prevalent. From this standpoint, what makes an organization's culture unique is the manifestation of the various subcultural differences and how they interact (Frost et al. 1991; Martin and Meyerson 1988). The third viewpoint is the fragmentation perspective, which sees little consensus on values and norms in an organization, except within an organization's subcultures. In this view, ambiguity and confusion regarding behavioral expectations permeate the organization. From the fragmentation perspective, consensus rarely occurs except in issue-specific instances (Frost et al. 1991). This brings up the critical question whether a culture

Table 1-4: Cultural Research Perspectives

Research Perspective	Corporate Culture Strength	Subcultural Strength	Agreement	Outcome
Integration	Strong, dominant corporate culture	Weak subcultures	Consistent agreement on assumptions and values throughout organization	Norms and behaviors consistent throughout organization
Differentiation	Weak corporate culture	Strong, dominant subcultures	Agreement as to assumptions and values within subcultures but not between them	Norms and behaviors consistent within but not between subcultures
Fragmentation	Weak corporate culture	Weak subcultures	Ad hoc and situation specific	Organization in flux-no consistency of norms and behaviors

can exist without a clear consensus on values and beliefs? Schein (1991) believes that it makes little sense to look at cultures as devoid of consensus. In his view, consensus is core to culture's definition. On the other hand, from the fragmentationist viewpoint, the assumption that an organization's culture consists of a homogeneous set of shared beliefs, values, and norms, is misinformed (Trice 1991). However, as Schein (1991, p. 248) points out, "only that which is *shared* is, by definition, cultural…if things are ambiguous, then, by definition, that group does not have a culture…." The position taken in this research is that the extent of consensus on shared beliefs, values, and norms probably lies on a continuum, but that total lack of consensus regarding fundamental values and norms within an organization indicates that no organizational culture exists. Two important concepts germane to this research emerge from this debate: that of a "strong culture", and that of "subcultures".

Strong cultures

There are numerous definitions of cultural strength: homogeneity, coherence, stability and intensity, congruence, thickness, penetration, and internalized control (Gordon and DiTomaso 1992). The consensus among researchers is that strength of culture involves a combination of the positions held and the number of people who accept the dominant value set within the organization; the intensity to which these values are held; and the length of time the values have been dominant (Gordon and DiTomaso 1992). The strength or weakness of a culture is thus a function of the extent to which a set of values is both widely shared and strongly held by members of an organization (Chatman and Jehn 1994). A strong culture requires consistency between values, beliefs,

and rules throughout the organization (Schall 1983). Strong cultures provide homogeneity of values and norms throughout an organization, while weak cultures exert less pull toward a commonality of norms (Gregory 1983). The importance of the "strong culture" concept for this research is the extent to which an organizational culture influences the type of inter-firm relationships the firm chooses, versus the extent to which subcultures influence those decisions.

Subcultures

This second concept proposes that separate subcultures may co-exist with the dominant culture within an organization, and that some of their assumptions, beliefs, and values may be incompatible with those of the organization (Thompson and Wildavsky 1986). This does not imply that all subcultures are in opposition to the dominant culture, but rather that there may be some aspects of a subculture that differ from it in important ways. There is a tendency for people to develop relations that are contrary to a sanctioned organizational structure (Young 1991). Thus, subcultures can develop within units with sufficient social stability to sustain a separate culture (Rousseau 1990). Gregory (1983, p. 359) suggests, "…many organizations are most accurately viewed as multicultural." Some empirical evidence exists to support this proposal. For example, Mahenthiran, D'Itri, and Donn (1999) found that the loyalties of supervisors who began their careers as shop floor employees extended more to their workers than to management. The norms exhibited by this group of supervisors detrimentally affected the implementation of an automated system for recording labor hours in their research.

Sackmann's research of organizational knowledge (1992) identifies numerous subcultures clustered around types of knowledge bases. She contends that cultural groupings may form according to functional differentiation. This view is reinforced by Gordon (1991), who found distinct subcultures within different functions (e.g. engineering, marketing, and manufacturing) in an organization. Trice (1991) contends that occupational subcultures can either dominate an organization, coexist along side an organizational culture, or become assimilated within a dominant culture. However, other configurations such as subcultures that are parallel or sympathetic to the dominant culture can exist as well. In this research the researcher will need to be sensitive to the relative influence of subcultures versus the influence of an overall corporate culture on the choices a company makes in establishing and maintaining relationships with other companies.

Summary

The problem area overview presented some basic concepts from the relationship and corporate culture literature that can serve as a general foundation from which to build the research. This foundation includes the ideas that relationships between firms can be identified somewhere along a continuum of transactional to relational exchange, that there are distinct processes involved in inter-firm relationships, and that a number of factors may be involved in influencing these processes. Additionally, from the corporate culture literature a framework of corporate culture is presented, along with differing research perspectives on cultures within organizations; these perspectives lead to the

concept that within companies there may be multiple cultures that can influence the behavior of employees. From this foundation an initial set of research questions can be drawn to guide the initial phases of the research.

Purpose of the Research

The purpose of this research is to explore the area of outsourcing decision-making within a logistics context, with the purpose of developing a theoretical understanding of the relationship between corporate culture and the decisions companies make regarding the outsourcing of logistics functions. As previously noted, this area of research is relatively unexplored. Through investigation of the relationships between corporate culture and outsourcing decisions, a contribution is made to theory by filling gaps in the research that may help explain why some companies choose to outsource and others choose to manage logistics functions themselves, why some inter-firm relationships succeed and others fail, and why certain companies develop long-standing relationships with some suppliers and not others. Additionally, a contribution is made to practitioners by providing insight into how the cultures of companies affect how those companies make decisions concerning customer and supplier relationship formation.

Research Objective

The specific objective for this research is as follows:

To construct a substantive theory that leads to future understanding of the relationship between corporate culture and logistics outsourcing decisions.

Since this research utilized grounded theory methods for data collection and analysis, it may be more useful to express this objective in grounded theory terms. In grounded theory, the goal is to account for the major patterns in a substantive area in which participants resolve their main concern (Glaser 1978; 2001). These patterns are explicated through a theoretical description of the basic social processes most central to the participants in the phenomenon (Robrecht 1995). An emergent set of categories and their properties are generated, and theoretical codes are used to conceptualize how these categories and properties "may relate to each other as hypotheses to be integrated into a theory" (Glaser 1978, p. 72). In this research, categories and their properties concerning participants in the process of outsourcing logistics services were identified. Additionally, concepts such as the structural conditions that affect the activities, the strategies that are used by participants, the basic social processes that occur, and other such concepts were identified if they were indicated as important by the participants or were recognized by the researcher as having an influence on the phenomenon. Within the developing theory corporate culture was identified as condition that serves to explain some of the behavior in this field of research.

Research Questions

In a research proposal, the function of research questions is to explain what the research will attempt to learn. They also help to focus the research, and to give guidance on how to conduct it. However, it is possible for questions to be too focused at the start of a research, causing one to possibly overlook areas of theory that may be relevant. It is

also possible that one may bring unexamined assumptions into the questions, imposing a conceptual framework that does not allow the theory to emerge from the data (Maxwell 1998). This is why Glaser (1992, p.25) maintains that "questions regarding the problem emerge" during the investigation. Given the potential of restricting the scope of the research, and possibly biasing its results through strict adherence to research questions, the following research questions were regarded as preliminary and subject to change as the research progressed:

- What are the processes that decision-makers experience when deciding to outsource or manage their logistics functions in-house?
- What are some conditions and contexts under which firms decide to manage logistics operations in-house?
- What are some conditions and contexts under which firms decide to outsource logistics services?
- What are the processes that decision-makers experience when establishing and managing relationships with logistics suppliers?
- What is the nature of the relationship between corporate culture and logistics outsourcing decisions?
- What is the nature of the relationship between subcultures in organizations and logistics outsourcing decisions?

These preliminary questions were used to establish an initial interview protocol and assist in the early stages of theoretical sampling. As theory emerged from the data new questions arose and supplemented these initial questions.

Assumptions

The objective of building a theory concerning the relationship between corporate culture and inter-firm relationships in a logistics context is predicated on a set of assumptions concerning the nature of the phenomenon. These assumptions are:

- corporate culture is related in some way to the manner in which firms make logistics outsourcing decisions,
- the phenomenon of logistics outsourcing exhibits some law-like patterns which can be interpreted through the data collection and analysis methods used in grounded theory,
- these law-like patterns are likely to hold true under various contexts and conditions,
- identifying these patterns will enable the prediction of behavior of participants in the phenomenon in the future,
- participants in the research will be able to identify and articulate the thought processes they go through when making logistics outsourcing decisions,
- aspects of the culture of firms that influence the behavior of participants can be identified and linked to those behaviors,
- understanding the influence of corporate culture on the behavior of firms engaged in the purchasing of logistics services will be of value to both buying and selling firms (Flint 1996).

Chapter Summary

This chapter has introduced the topic of this proposed research, namely the relationship between corporate culture and outsourcing decision-making in a logistics context. While many factors have been shown to influence firms when they go about making outsourcing decisions, the role of corporate culture has not been adequately

explored. Corporate culture has been shown to influence the behavior of individuals in organizations through the socialization processes that occur in companies. The cultural assumptions and values of an organization impact how it relates to its environment. It was assumed that these same cultural aspects have an effect on how companies make logistics outsourcing decisions. The objective of this research was to apply qualitative methods, specifically those used in grounded theory, to explore this phenomenon, with the express purpose of building theory that explains and predicts the impact that firm culture and subcultures have on the participants in this phenomenon. The next chapter discusses the methodology used to build such theory in this research.

Chapter 2-Applying Grounded Theory Methodology

Introduction

Research in the field of logistics has traditionally been most concerned with operational level issues such as inventory policies, routing and scheduling of delivery vehicles, facility layout, and so on. Therefore, it is not surprising that the majority of logistics research has followed a positivist perspective. Surveys, mathematical modeling, simulations, and similar types of research have been the norm. As Flint (1998, p. 37) points out, "distinctions among perspectives are important because researchers' perspectives influence the questions they ask about a phenomenon and the methodological approaches on which they tend to rely to answer those questions." Stock (1996) reviewed the influence that such fields as anthropology, sociology, and psychology have had on logistics research, and found that while the impact of these fields had not been significant to date, they offered promising applications in certain areas of the logistics field. The opportunity for fresh perspectives that social science research methods can bring to behavioral issues in logistics still exists (e.g., driver retention, customer perceptions of logistics service quality, carrier contract negotiation), but the application of such theories and methods remains a rarity in logistics research.

Researchers in these fields often take interpretivist, constructivist, and naturalistic approaches to data collection and analysis. Some types of research, such as culture studies, are generally approached in a naturalistic manner, with researchers spending a great deal of time in the field collecting qualitative data that is analyzed in an interpretive

manner (Pelto and Pelto, 1978). Culture researchers, termed ethnographers, research the meanings of behavior, language, and interactions of a culture-sharing group. The ethnographer uses artifacts, physical trace evidence, stories, rituals, and myths to uncover cultural themes. To accomplish this objective, ethnographers usually (although not always) engage in extensive fieldwork, typically providing findings that are interpretive and based on qualitative data (Creswell 2003). Since this research is concerned with the impact of corporate culture on inter-firm relationships, a more qualitative, interpretive approach is offered as appropriate to meeting the goals of the research, for reasons discussed below.

This chapter is designed to expand on how such an approach was used to build theory in the research. To that end, there are four objectives for this chapter, and it is organized around these objectives. The first objective is to explain why qualitative methods, and in particular grounded theory, fit well with the goals and nature of the research. The second objective is to provide an overview of grounded theory methods, including its history and philosophy, with emphasis on the methodological split between the originators of grounded theory, Barney G. Glaser and Anselm L. Strauss. The third objective is to provide an explanation for why the research followed the tradition of grounded theory research as advocated by Glaser, a tradition that he terms “orthodox” grounded theory. The fourth objective is to discuss how this methodology was followed in the research, and the manner in which the reader may judge the rigor and theoretical contribution of the research.

Why Qualitative Research?

Characteristics of Qualitative Research

Qualitative researchers typically take an interpretivist view that reality is socially constructed, that there is an "intimate relationship between the researcher and what is studied," and that there is a value-laden nature to inquiry; they seek an understanding of how social experiences are created and the meaning these experiences have to people (Denzin and Lincoln 1998, p.8). This is in contrast to the positivist ontology wherein a single reality is believed to exist, and the researcher is independent and apart from what is being studied (Goulding 2002). While quantitative researchers are usually concerned with sampling accuracy, reliability, validity, and generalizability (Goulding 2002), qualitative researchers are more interested in obtaining an emic ("insider's") perspective, are more case-based, and are more concerned with the specifics of a site or group than in the ability to generalize to a population (Denzin and Lincoln 1998). However, aspects of grounded theory, to be discussed later in the chapter, do not fit neatly into this description (e.g., searching for law-like generalities and sampling beyond a single site or group).

The main reason for choosing a research strategy is the nature of the research problem (Strauss and Corbin 1998). For this research the primary objectives were to gain an understanding of a firm's culture and the relationship between culture and logistics outsourcing decision-making. This required gathering data on employee perceptions and experiences concerning assumptions, values, and norms in the organization (Schein 1985). Qualitative methods can be particularly effective in

understanding the meaning or nature of personal experiences, and in researching areas where there is little previous knowledge (Strauss and Corbin 1998).

Qualitative studies "look for socially constructed reality, and seek knowledge of how social experience is created and given meaning" (Denzin and Lincoln 1998, p. 8). Qualitative research is usually conducted in a natural setting, using direct data collection, rich narrative descriptions, a process orientation, inductive data analysis, and participant perspectives; the research design evolves and changes as the research takes place (McMillan 2000). Qualitative researchers thus typically use a multi-method, interpretive, and naturalistic approach to research (Denzin and Lincoln 1998). This approach lends itself well to cultural studies, and perhaps explains why much organization culture research has involved qualitative methodologies (Denison 1996).

Culture researchers are usually concerned with gaining a "rich" understanding of underlying assumptions and individual meaning from the "insider's" (emic) point of view (Denison 1996). This can be difficult to obtain from quantitative approaches, since participants typically are given a choice of predetermined values that can be highly abstract (Meyerson 1991) and do not provide the depth of information desired (Kerlinger and Lee 2000). As Meyerson (1991, p. 258) points out, "Naturally left out of these methods are those aspects of culture that are diffuse, unclear, volatile, and irreconcilable." Such aspects are important to understanding culture within organizations; therefore, one of the aims of this research was to attempt to uncover the assumptions and values of an organization that are not easily drawn out through quantitative approaches, such as surveys. Since cultural interpretation involves the ability to describe what the researcher has heard and seen within the framework of the

social group's view of reality (Fetterman 1998), multiple methods of data collection and interpretation may be required. Due to their emergent design, qualitative methods allow for a broad range of data collection and analysis procedures that allow the researcher a good deal of freedom in obtaining data from participants and research locations.

Additionally, the use of a qualitative approach lends itself well to theory building in corporate culture research since the objective is to obtain an in-depth, detailed understanding of the culture. Three types of information are typically used to make cultural inferences (Spradley 1980). The first type is obtained through observation of what people do (cultural behavior). The second is through observing what people make and use (cultural artifacts). The third is through listening to what people say (speech messages). Such qualitative methods as participant observation and in-depth, unstructured interviews provide effective means by which such information can be obtained. Therefore, given the nature and depth of the information needed to understand culture in organizations, a qualitative approach seems appropriate to this research.

Researcher Assumptions

In qualitative research, the researcher is the primary mechanism for collecting and interpreting data in the research. The analyst's own interests and assumptions about meanings in what is being said and observed potentially derails grounded theory in favor of the preconceptions and personal interests of the analyst (Glaser 1992). Therefore, it is necessary for the researcher to be especially sensitive to and cognizant of any potential preconceptions that may influence analysis of the data and conclusions drawn from this

analysis. One method for achieving awareness of potential researcher bias is through researcher self-analysis and introspection, which in part involves explicating any assumptions or preconceptions that the researcher has regarding the nature of inquiry (Wallendorf and Belk 1989).

This researcher believes that for researching phenomena that are not well understood, the assumptions typically held by humanist and interpretivist researchers in general, and grounded theory researchers in particular, appropriately guide inquiry. The Humanistic approach is based on a set of beliefs outlined by Hirschman (1986, p. 238). These beliefs are:

1) Human beings construct multiple realities that can often only be comprehended as *gestalts* (that is, holistically).
2) The researcher and the phenomenon under research are mutually interactive. There is no separation of the researcher from the data since the researcher is the tool for collecting and analyzing the data.
3) Because phenomena are engaged in a process of continuous creation, it is sometimes meaningless to designate one set of phenomenal aspects as "cause" and another set as "effects."
4) Research inquiry is inherently value-laden because the researcher values inevitably influence the choice of *phenomenon*, choice of *method*, choice of *data*, and choice of *findings*.
5) Research inquiry is a social construction resulting from the subjective interaction between the researcher and the phenomenon. Thus, knowledge is subjectively attained: knowledge is *constructed*, not *discovered*.

Interpretivists provide some additional perspectives to these assumptions. These perspectives are (Hudson and Ozanne, 1988, p.p. 510-512):

6) People *actively* create and interact in order to shape their environment. They are not merely acted upon by outside influences.
7) The primary goal of research is understanding behavior, not predicting it. (However, in grounded theory, attempts to predict behavior is a by-product of understanding).
8) Interpretivists seek to determine motives, meanings, reasons, and other subjective experiences that are time- and context-bound. However, some interpretivists do make generalizations between contexts.

9) The researcher and the people under investigation interact with each other, creating a cooperative inquiry.

Additionally, Strauss and Corbin (1998) provide a set of assumptions that reflect the beliefs of researchers who engage in grounded theory inquiry. These are:

10) The need to conduct research in the field.
11) The importance of theory that is grounded in the data to the development of knowledge.
12) The belief that persons take an active role in resolving problems.
13) The belief that people act on the basis of meaning that is derived from interaction.
14) A need for sensitivity to processes in human interaction.
15) The importance of the interrelationships between conditions, action, and consequences to events and incidents.

Ontological and epistemological assumptions held by researchers translate into ways of doing research (Hudson and Ozanne 1988). The 15 assumptions and beliefs outlined above provided a basis for this researcher to choose a research method that is qualitative in nature, and established a foundation for selecting grounded theory as the specific methodology for this research.

Another issue that must be addressed concerns the personal preconceptions and expectations that a researcher carries into a research project that may taint the types of questions asked in interviews, the nature of events that are observed, and the analysis of the data. To this end, this researcher is providing his personal background, and what his assumptions and expectations were concerning the research prior to beginning the research (see Appendix A).

Why Grounded Theory?

Introduction

Grounded theory is a "method of constant comparative analysis based on the thesis that social science theory can be built from data systematically obtained in a social setting" (Robrecht 1995, p. 170). Like any research methodology, it has its own unique terms; therefore, to assist the reader a glossary of terms is provided (see Table 2-1). Grounded theory lies within the broader traditions of qualitative research. Most grounded theory research uses qualitative materials collected in the field, and investigates social processes (Charmaz 1998). However, grounded theory research differs from other qualitative methodologies in important ways. First, its emphasis is on theory development and building rather than the descriptive objectives of other qualitative methodologies. Second, it attempts to verify theory. This is accomplished by checking hypotheses of the theory against other people and locations as indicated by theoretical sampling. Third, attempts may be made to go farther than other qualitative methodologies in conceptualizing beyond the people and places of the immediate research to related settings (Goulding 2002). The differences between grounded theory and other qualitative methodologies can be traced to the origins of grounded theory. These origins had a significant impact on the development of grounded theory, including its assumptions, objectives, and applications to research problems.

Table 2-1: Glossary Grounded Theory of Terms

Glossary of Grounded Theory Terms

Term	Definition
Axial coding	In axial coding categories are related to subcategories at the level of properties and dimensions. As the term implies, it can be visualized as coding and coding integration rotating around an axis where the axis is a core category. This type of coding consists of intense analysis done around one category a time, in terms of the Strauss and Corbin paradigm items (e.g., conditions, actions/interactions, and consequences).
Basic social processes (BSP's)	BSP's are one type of core category, often best visualized when the category involves multiple concepts linked together in a larger social process - all BSP's are or involve core variables, but not all core variables are or are part of BSP's. The primary distinction between the two is that BSP's are processural- they have two or more clear emergent stages in a temporal sense. They are often, but not always labeled by a "gerund" (for example, "becoming").
Coding paradigm	This is an analytic tool Strauss and Corbin devised to help integrate structure with process. Essentially it is a perspective taken toward data that helps to systematically order data. When using the paradigm one codes for core phenomena, *conditions*, *actions/interactions* , and the *consequences* of those actions/interactions.
Categories	Abstract, higher order concepts under which other concepts can be grouped through an underlying, shared uniformity. Categories name patterns in the data. They have analytic power because they can be used to explain and predict behavior in a phenomenon.
Coding families	Sets of interrelated theoretical codes. For example, the "cultural family" includes social norms, social values, social beliefs, and social sentiments.
Conditions	The term used in grounded theory to refer to context. Sets of events that create the situations, issues, and problems within which a phenomenon is manifest and help explain the behavior of individuals or groups. Types of conditions include causal, intervening, and contextual conditions.
Conceptual ordering	The organization of data into categories according to their properties and dimensions.
Conditional matrix	A diagram used to track or contemplate the various levels of influence on a phenomenon as well as the implications on those levels of the phenomenon. Generally the diagram consists of a series of circles, with the outer circle representing macro (environmental) conditions and the inner circles representing micro (more immediate, idiosyncratic) conditions.
Constant comparison	The investigation of similarities and differences across incidents recorded in the data. A technique used to generate concepts and their properties based on repeated patterns of behavior. Comparisons are made within and across data sources.
Core category	The central category of the phenomenon about which the theory is concerned having emerged from the data. It may not necessarily be a category originally sought at the beginning of the research study. It explains the majority of the behavior in a phenomenon.
Dimension	The range along which properties of a category vary. It is used to provide parameters for the purpose of comparison between categories.
Formal theory	Theory that is developed for a conceptual area of inquiry at a high level of generality (scope). Formal theory develops through the generalization and modification of substantive theory as it is applied to different areas of inquiry.
Process	Sequences of evolving action/interaction taking place over time and that are related to changes in structural conditions.

Table 2-1: Continued

Glossary of Grounded Theory Terms

Term	Definition
Properties	The general or specific characteristics or attributes of a category which allow a category to be defined and given meaning.
Selective coding	To selectively code means to delimit coding to only those variables that relate to the core variable that has emerged from the study. In selective coding the analyst links related and subordinate categories to a core category in sufficiently significant ways to assist in the formulation of theory.
Structure	The social conditional context in which a phenomenon is located. Social structure creates the context for action and interaction, and as such it is inexorably linked to process.
Substantive theory	Theory that is specific to time and place. A substantive theory may eventually be extended to a formal theory if becomes supported across multiple contexts.
Theoretical memos	The written ideas of the researcher concerning codes and their inter-relationships within a phenomenon.
Theoretical sampling	Theoretical sampling is the process of data collection where the analyst collects, codes, and analyzes data and decides what data to collect next and where to find them based entirely upon the emergent theory. Specifically, the emergent theory suggests additional concepts/aspects of the phenomenon that must be investigated which in turn lead the researcher to contemplate where and form whom to collect those data.
Theoretical saturation	The point at which no new information appears to emerge during coding and subsequent data collection; i.e., when no new properties, conditions, and so on can be attributed to a category.
Theoretical sensitivity	Theoretical sensitivity refers to the researcher's knowledge, understanding, and skill which foster the generation of categories and properties and increase the ability to relate them to emergent theoretical codes.

Background of Grounded Theory Development

The roots of grounded theory can be traced to a movement known as symbolic interactionism, which is built upon the work of Charles Cooley (1864-1929) and George Herbert Mead (1863-1931). According to symbolic interactionism, "individuals engage in a world which requires reflexive interaction as opposed to environmental response. They are purposive in their actions and will act and react to environmental cues, objects, and others, according to the meaning these hold for them" (Goulding 2002, p.39). A researcher operating within this paradigm will attempt to interpret what symbolic meanings such things as artifacts, behaviors, and words have for people as they interact with others (Cutcliffe 2000). For symbolic interactionists, people actively construct social realities based on the symbols around them (Morse and Field 1995). The result of this background is that grounded theory is rooted in the search for the social processes (what Glaser terms "Basic Social Processes") that are involved in interactions between people. The contributions of symbolic interactionism to grounded theory are "the realization that persons act on the basis of meaning," and "the understanding that meaning is defined and redefined through interaction" (Strauss and Corbin1998).

Grounded theory was originally developed in the 1960s by two American scholars, Barney G. Glaser and Anselm L. Strauss, and started to become well known with the publishing of their book *Discovery of Grounded Theory* (1967). Although they collaborated on several books and monographs together (e.g., *Awareness of Dying*, 1965; *Anguish: A Case History of Dying*, 1970; *Time for Dying*, 1974), they came from different research backgrounds and eventually parted ways in their interpretation of what

constitutes proper grounded theory methods. Glaser's training was in positivistic, quantitative methodology at Columbia University, which had a tradition of formal theorizing, verification of theory, and quantitative methods in research (Goulding 2002). Strauss trained at the University of Chicago, which was known for qualitative approaches to research such as participant observation and in-depth interviewing. He trained under Herbert Blumer and Robert Park, and hence brought a symbolic interactionist viewpoint to the relationship (Goulding 2002). Grounded theory methods are based on Glaser's positivistic epistemological assumptions, methodological terms, and systematic approach to research, while Strauss brought the notions of process, action, and meaning from symbolic interactionism into grounded theory's approach to empirical research (Charmaz 1998).

Grounded theory was developed as a challenge to the criticisms of qualitative approaches to research. These challenges concerned the lack of reference to the exact methods naturalist researchers used to formulate theoretical explanations about the phenomena they were investigating (Robrecht, 1995). The sociological academy in the 1960s "regarded qualitative research as subjective, unsystematic and, above all, unscientific" (Goulding 2002), and therefore looked upon qualitative research as inferior to quantitative methods. Glaser and Strauss sought to blunt these criticisms by applying rigorous guidelines to qualitative research methods in the field of sociology, and in the process they developed a more defined and systematic set of procedures for collecting and analyzing qualitative data than had previously been explicated by qualitative researchers. They called their new methodology *grounded theory* because, through their methods, theory is developed that is grounded in the behaviors, words, and actions of the

participants in the research (Goulding 2002). Grounded theory was designed to be a careful, systematic approach to the research of the relationship of individuals and their experiences to society (Goulding 1998).

As Charmaz (1998, p. 511) points out, *Discovery of Grounded Theory* (1967) revolutionized thought in sociology concerning qualitative research by challenging "a) arbitrary divisions between theory and research, b) views of qualitative research as primarily a precursor to more 'rigorous' quantitative methods, c) claims that the quest for rigor made qualitative research illegitimate, d) beliefs that qualitative methods are impressionistic and unsystematic, e) separation of data collection and analysis, and f) assumptions that qualitative research could produce only descriptive case studies rather than theory development." By providing guidelines for conducting systematic data analysis, including specific analytic procedures and research strategies, Glaser and Strauss made it possible for qualitative researchers to explain, and if necessary, to defend how they conducted their research and arrived at their conclusions.

Grounded theory is based on a number of methodological assumptions that guided its development. Strauss (1987, p.p. 1-2) identifies these assumptions as:

1. Very diverse materials…provide indispensable data for social research.
2. …[T]he methods for qualitatively analyzing materials are rudimentary. They need to be developed and transmitted widely….
3. There is need for effective theory- at various levels of generality- based on the qualitative analysis of data.
4. Without grounding in data …theory will be …ineffective.
5. Social phenomena are complex: Thus, they require complex grounded theory. This means conceptually dense theory that accounts for a great deal of variation in the phenomena studied.
6. While there can be no hard and fast rules governing qualitative analysis…it is possible to lay out general guidelines …to effective analysis.
7. Such guidelines can be useful to researchers across a broad spectrum of disciplines….

8. Finally, research is basically work- sets of tasks, both physical and conceptual- carried out by researchers. Development, use, and teaching of qualitative analysis can be enhanced by thinking specifically of analysis in terms of the organization and conduct of that work.

These assumptions are important in understanding both the objectives of grounded theory and its methods.

One feature of grounded theory based on these assumptions is its eclectic use of data sources. While some qualitative methods, such as phenomenology, only use words and behaviors of participants as data sources, grounded theory accepts multiple sources of data: observations and interviews are the primary sources, but such data as company reports, secondary data, and statistics are also used as long as they are relevant to the research (Goulding 2002). Indeed, as Strauss (1987, p.5) points out, grounded theory is "without any particular commitment to specific kinds of data." This perspective has allowed grounded theory practitioners a relatively free reign with data collection, as long as the data enable the researcher to generate an inductive theory (Glaser 1992).

Another aspect of grounded theory arising from these assumptions is the codification of specific methods for collecting and analyzing data. As we have seen, this specification of methods was a direct rebuttal to criticisms from quantitative researchers concerning a perceived lack of rigor in qualitative research. Thus, it was essential to Glaser and Strauss to not only develop a rigorous approach to qualitative research, but to make that approach available to as many researchers as possible. It is important to also note that while guidelines can be laid out for grounded theory research, the door is always open for modification and addition of analytical techniques (Glaser and Strauss 1967).

Perhaps the most critical aspect of grounded theory that arises from these assumptions is that Glaser and Strauss took qualitative research in the direction of theory development and away from what Geertz (1973) describes as "thick description." The emphasis on building effective and complex theory, grounded in data, at various levels of generality (from substantive to formal theory), characterizes grounded theory's most important objective.

Objectives of Grounded Theory

Grounded theory is predicated on the idea that "social science theory can be built from data systematically obtained in a social setting" (Robrecht 1995, p. 170). The purpose of grounded theory is to account for variation in behavior, but is neither descriptive, nor bound to a particular unit of analysis, time, or place. Glaser distinguishes grounded theory from other qualitative methods by emphasizing its transcendent nature. Given application to multiple settings and phenomena, in some cases grounded theory can eventually be transformed into formal theory because "a substantive theory invariably has formal theory or general implications" (Glaser 1978, p. 6), although it is more likely that the theory will be "middle range" rather than formal. This feature of grounded theory helps set it apart from other qualitative methods, which tend to render data into accurate description but do not attempt to generalize beyond the time, place, or unit of analysis.

The grounded theory perspective of what constitutes a "theory" is defined by Strauss and Corbin (1998, p.15) as a "set of well-developed concepts related through

statements of relationship, which together constitute an integrated framework that can be used to explain or predict phenomena." The theory should provide clear categories and hypotheses that can be verified, and can be operationalized in quantitative studies when appropriate. Thus, the product of grounded theory research should offer hypotheses that are themselves testable. Additionally, a grounded theory should also be easily understandable, not only to academics, but to students and practitioners as well (Glaser and Strauss 1967).

Placing Grounded Theory in Perspective with Other Approaches

In order to provide insight into where grounded theory fits into a broader framework of approaches to research, Figure 2-1 depicts a matrix of approaches that can inform logistics research. The figure has two axes. One axis shows a continuum from contributions to methodology to theory-building contributions. The other axis shows a continuum from qualitative (relativist/interpretivist) approaches to quantitative (positivist) approaches. In addition, a timeline is provided to place approaches in historical perspective. The historical perspective is important because of the debates that occurred particularly in the 1980's-early 1990's between advocates of positivist (e.g., Hunt 1991) and interpretivist (e.g., Hirschman 1996) approaches. Without that debate there might not be as much acceptance of interpretivist/qualitative approaches that now exists. The table is not meant to be all-inclusive as to methodologies and philosophies, but rather to provide a perspective for where grounded theory may be placed in relation to other approaches that can be used in logistics research.

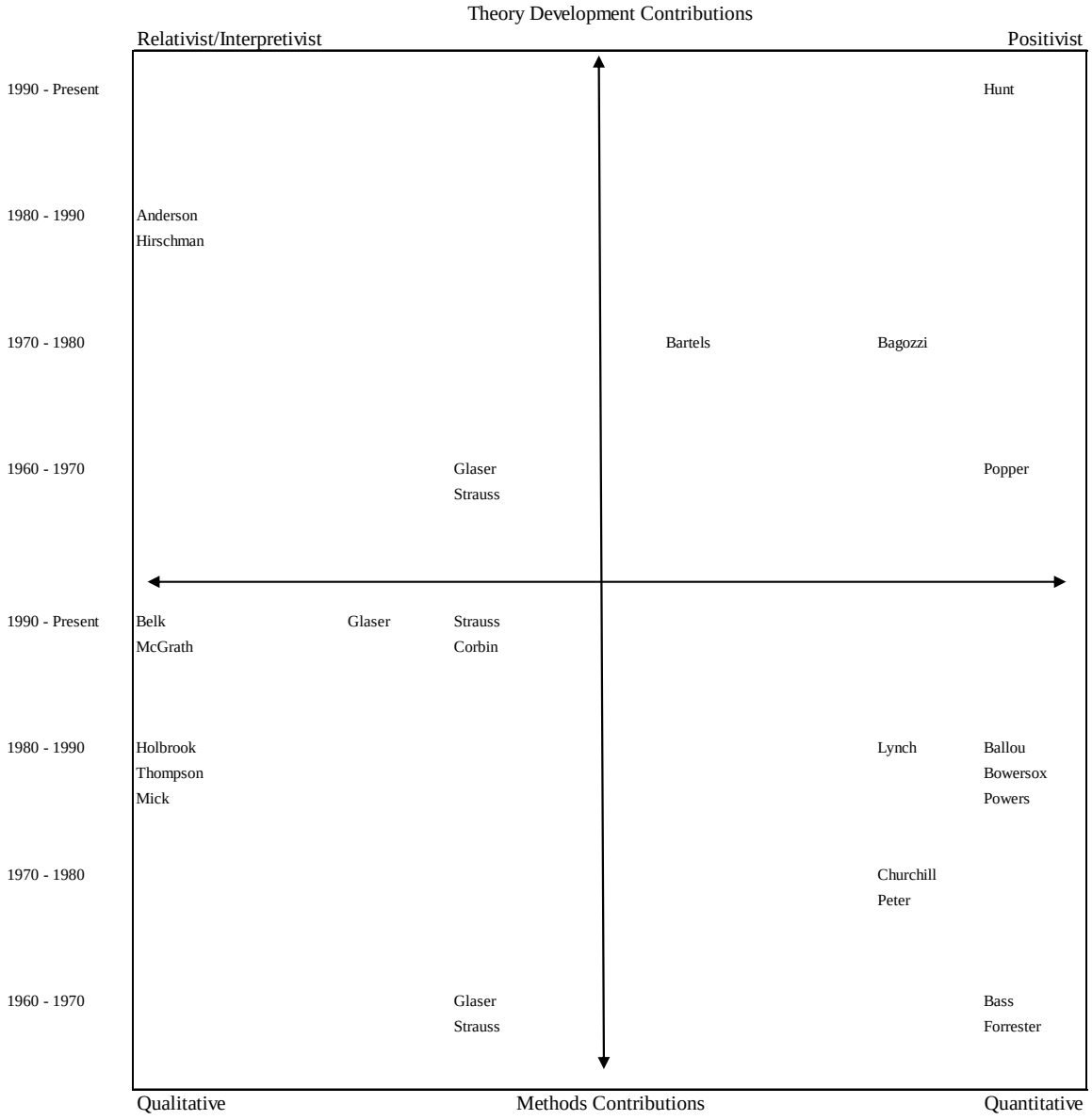


Figure 2-1. Theory/Method/Temporal Development Matrix

Theory development contributions from a positivist perspective include falsificationism (Popper 1962), scientific realism (Hunt 1991), and meta-theory development (Bartels 1970). Bagozzi (1980) exemplifies the use of causal models in theory-building. These approaches emphasize precise, probabilistic theories that can be verified with quantitative methods such as surveys and experiments. On the relativist/interpretivist end of the continuum are such researchers as Anderson (1983) and Hirschman (1986), who take an approach that emphasizes description rather than prediction in theory-building, and qualitative rather than quantitative methods of collecting data. Glaser and Strauss (1967) could be placed more toward the qualitative/interpretive end of the continuum because of their inductive approach to theory-building. However, because they define theory as "an integrated framework that can be used to explain or predict phenomena," rather than describing phenomena as relativist/interpretivists would do, Glaser and Strauss are more positivistic in approach than others.

Within the methods development continuum, the quantitative approach toward data collection and analysis is represented by management science approaches such as mathematical modeling (Bass 1961), simulation (Forrester 1968; Bowersox and Closs 1989), heuristics (Ballou 1989), and optimization (Powers 1989). Regarding verification of data collection and analysis from a positivist perspective, methods for establishing reliability (Peter 1979), internal validity (Churchill 1979; Peter 1979), and external validity (Lynch 1983) became an important part of research methodology. Perspectives from the relativist/interpretivist end of the continuum include ethnographic (Belk et al. 1998; McGrath et al. 1993), semiotic (Holbrook and Grayson 1986; Mick

1986), and phenomenological (Thompson et al. 1990) approaches. These methods involve qualitative methods for data collection and analysis. Glaser and Strauss (1967) established grounded theory as a methodology with defined steps in data collection and analysis. While primarily concerned with qualitative data collection techniques, grounded theory also encourages quantitative methods. Differences in data analysis between Glaser (1992; 2001) and Strauss and Corbin (1990; 1998) allow the placement of Glaser slightly farther to the relativist/interpretivist end of the continuum than Strauss and Corbin because his procedures are not as precisely defined as theirs. Thus, in relation to other methodologies grounded theory sits toward the relativist/interpretivist end of the continuum, but is more positivistic in its approach toward theory-building and data collection/analysis than other methods.

Summary

Grounded theory presents itself as an appropriate choice for this research for a number of reasons. First and foremost, one of the primary goals of the research is to add to the body of knowledge by generating a theory of corporate culture's effect on inter-company relationships in the field of logistics. While the literature points to a number of drivers in inter-company relationships, corporate culture has not been adequately explored as a factor, nor has its relationship to other factors been satisfactorily explained. Since there is no extant theory on this subject, a grounded theory approach that allows theory to emerge from the data would appear to meet the objectives of the research. Second, the procedures for grounded theory development are well established and

accepted, and will help guide the conduct of the research. Third, the assumptions behind grounded theory- the need to do research in a field setting, the relevance of theory to the development of a discipline, the belief that people take an active role in responding to situations, the understanding that people act on the basis of meaning as defined through interaction, and a belief in the importance of understanding the "interrelationships between conditions (structure), actions (process), and consequences" (Strauss and Corbin 1998, p.p. 9-10)- are accepted by this researcher as necessary to do research on social processes. Fourth, grounded theory provides the best qualitative method for developing hypotheses for predicting behavior in organizations. Given these reasons, grounded theory appears to be an appropriate approach to this research.

Grounded Theory Methodology

Evolution of Grounded Theory

Understanding the evolution of grounded theory is critical to both the researcher and the reader of grounded theory due to a divergence of approaches within the methodology. The divergence manifests itself most strongly in the differing views held by Glaser and Strauss. These views affect how data is collected and analyzed by the researcher, and ultimately affect the kind of theory that will result from the research. The differences in approach must be understood by the researcher so that a method can be selected to serve as a general guide for the research. They must be understood by the reader so there is a realization that grounded theory can be practiced in multiple ways,

which is why the researcher should spend time explaining why a particular path is chosen within the methodology.

An important point concerning the origination of grounded theory is that Glaser and Strauss encouraged other researchers to be creative in generating theory. Indeed, they state "Our principle aim is to stimulate other theorists to codify and publish their *own* methods for generating theory" (Glaser and Strauss 1967). Strauss goes on later to say, presumably with Glaser in mind, that "We take the stand about our own suggested methods that they are by no means to be regarded as hard and fixed rules…They constitute guidelines that should help most researchers in their enterprises" (Strauss 1987, p.7). These statements reflect the open nature of grounded theory, which allows alternate methods to be developed, as long as they stay true to the original intention of Glaser and Strauss to use comparative analysis to formulate theory. This has allowed researchers to branch out from original grounded theory in response to methodological issues within grounded theory, which led some researchers to adapt grounded theory methods and philosophical underpinnings. Examples of such methods include dimensional analysis (Schatzman 1991) and constructivist grounded theory (Charmaz 1998). Ironically, however, the main controversy over the evolution of grounded theory developed between its two founders, Glaser and Strauss.

Glasarian and Straussian Grounded Theory

In 1991, Barney Glaser wrote Anselm Strauss two letters. The first, dated in January, was written in response to Strauss and Corbin's (1990) *Basics of Qualitative Research*. In this letter, Glaser asks Strauss to "pull the book," stating that it "distorts

and misconceives grounded theory, while engaging in a gross neglect of 90% of its important ideas" (Glaser 1992, p. 2). He accuses Strauss of trading on the grounded theory name, while writing a whole new method in *Basics of Qualitative Research*. After communications between Glaser and Strauss lasting much of the year, Glaser wrote a second letter in September outlining his frustration with Strauss' refusal to recall or modify the book, or to listen to Glaser's criticisms any further. In this letter, Glaser reiterates his demand that the book be pulled from circulation, and insists that once this is done, that he and Strauss "sit down and go through each page of the book…and then rewrite the book by mutual consent. Or, you rewrite the book deleting all the tie-in references to me and to grounded theory…" (Glaser 1992, p.1). No further communication occurred between the founders of grounded theory, as Strauss refused to listen to any more of Glaser's critiques. This impasse resulted in Glaser (1992) publishing *Basics of Grounded Theory: Emergence vs. Forcing*, which brought the break between the two authors into public view.

What made Glaser take such a hard line against the Strauss and Corbin (1990) book was his insistence that while *Basics of Qualitative Research* purported to be a further refinement of grounded theory methods, it "cannot produce a grounded theory. It produces a forced, preconceived, full conceptual description…which is not grounded theory" (Glaser 1992, p. 3). This distinction became the crux of the argument between Glaser and Strauss, and has set up an important question for prospective grounded theorists: Does one believe that what Strauss and Corbin call grounded theory is, in fact, something different? The answer to this question is important, because if one takes the Glaserian viewpoint, those researchers practicing the Straussian methods are doing

qualitative research, not grounded theory. If one takes the Straussian view, the specific techniques described by Strauss and Corbin (1990, 1998) can be followed with the claim that grounded theory research is being conducted. The importance of this controversy is heightened by the fact that grounded theory is increasingly becoming "synonymous with a usage, to greater or lesser degrees, of the Strauss and Corbin text" (Melia 1996, p. 375). If it is true that Strauss and Corbin's methods produce something different than grounded theory, then quite a few studies claiming to produce grounded theory may actually be producing something else entirely.

A review of the methodology books written by Glaser and Strauss after their initial collaboration on *Discovery of Grounded Theory* reveals a number of similarities and differences between the two authors. These findings are shown in Table 2-2. One of the main similarities between Glaser's vision of grounded theory and that of Strauss is in their treatment of theory. For both authors, building theory from data is the objective. Theory is constructed from conceptual categories and their properties, and these categories are systematically interrelated through statements of relationships to form a framework that explains the behavior of actors in solving a core problem. Theory emerges from the data, not from *a priori* assumptions developed before the research begins. The ultimate objective in theory building is to achieve a formal theory, but substantive theory is what is initially sought, and can be sufficient for the researcher's purposes. Both authors advise against rigid adherence to research guidelines, while at the same time trying to further explicate what they originally set down as grounded theory in *Discovery of Grounded Theory*. Their treatment of categories as the key integrating building blocks of grounded theory, and core categories as essential to accounting for

Table 2-2: Comparison Between Glaser and Strauss

Comparison Between Glaser and Strauss' Views of Grounded Theory and Implications for Research

Category	Sub-Category	Glaser	Strauss	Comments
GT Objective	The generation of theory, grounded in data.	Glaser maintains that Strauss is generating forced description, not GT. Glaser sees a divergence between two different methods: full conceptual description by a preconceived model and GT by a systematic model of induction and emergence.	Maintains that he is true to original objective. Also, he notes that "There are some differences in his (speaking of Glaser) specific teaching tactics and perhaps in his actual carrying out of research, but the differences are minor."	Glaser maintains that his methods are "orthodox GT." Strauss maintains that his methods also produce GT. The researcher must consider the issue of whether Strauss' methods produce GT, or description. The overall research strategy will depend on this determination.
	Principal aim is to stimulate other theorists to codify and publish their *own* methods for generating theory (G&S 1967).	Glaser says: "GT works best using the orthodox package. Strauss actually did not have a clue to the true nature and method of GT."	"We take the stand about our own suggested methods that they are by no means to be regarded as hard and fixed rules for converting data into effective theory. They constitute guidelines that should help most researchers in their enterprises."	The researcher will need to decide for him/herself whether to use Glaser's methods ("orthodox GT"), or some other, revised form such as Strauss'. Note: Glaser may actually not have abandoned the original aim of *Discovery* ; as long as revised methods are not called GT he may be OK with them. However, any revisionist methods that still maintain the title of GT will, he feels, violate his intellectual property.
The Research Question		The research question in a GT study is not a statement that identifies the phenomenon to be studied. The problem emerges and questions regarding the problem emerge by which to guide theoretical sampling. Out of open coding, collection by theoretical sampling, and analyzing by constant comparison, a focus for the research emerges.	The specific query to be addressed by the research that sets the parameters of the project and suggests methods to be used for data gathering analysis. The research question helps to narrow the problem down to a workable size.	The researcher will have to make an initial decision regarding how tightly defined the research is to be. Research questions delimit the phenomenon to be explored. Generally in qualitative research, however, questions are allowed to emerge from the study as well.
Theory	Method of generating theory	Through comparative analysis generate categories, their properties and theoretical codes that connect them. Believes that it is "simple and simply best to go directly for categories, their properties and theoretical codes that connect them."	The generation of categories, their properties and dimensions, along with conditions, consequences, and associated interactions and strategies. Additionally, use of "special techniques" that enable the researcher to perform " microscopic examination of the data."	Glaser presents a simpler approach, and feels that the "special techniques" offered by Strauss force description, not GT. However, if a novice is to use Glaser's methods he/she must be good at conceptualizing and interpretation. Strauss' methods may make it easier for a novice to learn GT. The researcher must consider this issue as part of an overall research strategy.
	Theory elements	First, conceptual categories and their conceptual properties; and second, hypotheses or generalized relations among the categories and their properties.	A set of well-developed categories, systematically interrelated through statements of relationship to form a theoretical framework that explains a phenomenon.	Basically the same.
	Emergence of theory	Researcher does not begin a project with a preconceived theory in mind; allows theory to emerge from data.	Same	Same

Table 2-2: Continued

Category	Sub-Category	Glaser	Strauss	Comments
	Substantive and formal theory	One property of GT is that constant generation, conceptual saturation, and the verification impact lead to constant modification which yields a dense, rich substantive theory. And if diverse comparison groups are used, the result is a dense formal theory.	The writing of formal theories is, from the GT perspective, viewed as being ultimately of the greatest importance.	Both authors encourage moving from substantive to formal theory if possible.
	Criteria for judging theory	Fit, relevance, workability and easy modifiability; also parsimony and scope.	Criteria for evaluation: 1) judgments about validity, reliability, and credibility of the data; 2) judgments about the theory itself; 3) judgments about the adequacy of the research process; 4) conclusions made about the empirical grounding of the research.	The researcher will need to make a judgment as to which set of criteria to use. This decision will impact on how the research is conducted.
	Verification of theory	GT is not verificational. GT is simply modified by subsequent data. Its statements are probabilities that are readily modifiable as new data emerge properties of categories. Verificational studies are drawn from a different methodology. The hypotheses need not be verified, validated or more reliable, as Strauss keeps emphasizing. These tasks are properties of verificational and replication studies.	Although validated during the actual research process, a theory is not tested in a quantitative sense. This is for another study. All theoretical explanations, categories, hypotheses, and questions about the data arrived at through analysis should be regarded as provisional. These should be validated against data in subsequent interviews or observations. Those found not to "fit" can then be discarded, revised, or modified during the research process.	Glaser does not discard hypotheses, he extends the theory when hypotheses are disproved. Strauss may discard or modify them when disconfirmed. Neither feels that grounded theories should be tested as part of grounded theory research. These positions appear to be very similar, although Glaser tries to claim that Strauss advocates testing as part of GT.
Description vs. GT		Maintains that Strauss is producing description rather than GT by using prescribed codes and methods. Also the act of dimensionalizing properties is moving toward description.	Wants to see the researcher move quickly away from describing the specifics of a case to thinking more abstractly.	There is a clear disagreement as to whether Strauss is producing description or GT. Glaser makes a strong point that Strauss forces the data into a descriptive mode. The researcher must consider this issue as part of an overall research strategy.
Methodology	GT techniques and procedures	Glaser sees a divergence between two different methods: full conceptual description by a preconceived model, and GT by a systematic model of induction and emergence. In GT the analyst follows a few simple rules of constant comparison and emergence. Glaser claims that Strauss produces full conceptual description by following a myriad of fractured, forcing rules which are very hard to follow and very derailing for productivity.	Discusses a number of techniques that are specific to their version of GT. Strauss says that GT should be approached in a step-by-step fashion.	Strauss clearly states that he has his own, distinct approach, but he still calls it GT. Glaser calls it "forced description." The researcher will need to determine whether Strauss produces GT or not.
	Research guideline adherence	GT generates at the conceptual level, which results in a main concern which motivates most of the observed behavior as the concern is being continually resolved. This abstraction of a conceptual problem and its resolution delimit, focus and theoretically guide the data collection and resulting emergent, generated theory. The problem and theoretical framework emerge on the conceptual level.	To adhere rigidly to initial guidelines throughout a study, as done in some forms of both qualitative and quantitative research, hinders discovery because it limits the amount and type of data that can be gathered.	Basically the same.
	Modification of methods	"GT works best using the orthodox package." Glaser maintains that there is a set of fundamental processes in GT that need to be followed if the study is to be recognized as a product of the GT methodology.	GT can be adapted.	Originally G&S claimed they wanted to stimulate other theorists to codify and publish their own methods for generating theory. Glaser, in later years, seems to become very protective of his "intellectual property." This is a crucial issue: one must decide if only "orthodox" (Glasian) GT produces GT, or if "revisionist" (Straussian) GT can also produce GT.

Table 2-2: Continued

Category	Sub-Category	Glaser	Strauss	Comments
	Use of literature	Specifically warns the researcher away from the literature so that *a priori* assumptions are not formulated before the study begins. The dictum in GT is: There is a need not to review any of the literature in the substantive area under study. This dictum is brought about by the concern to not contaminate, be constrained by, inhibit, stifle or otherwise impede the researcher's effort to generate categories, their properties, and theoretical codes from the data.	There is no need to review all of the literature in the field beforehand. The researcher does not want to be so steeped in the literature that he or she is constrained and even stifled by it. However, the authors list a number of potential use of technical and non-technical literature in the research process. Literature can be a source of unifying concepts.	Both Glaser and Strauss warn against extensive reading in the substantive area prior to beginning the study. However, use of literature seems to be more important to Strauss than Glaser. The researcher must consider this issue as part of an overall research strategy.
	Use of description	The goal of GT is concept generation, not differences, similarities, and accuracy for description.	Description is basic to what Strauss calls "conceptual ordering." This refers to the organization of data into discrete categories according to their properties and dimensions and then using description to elucidate those categories.	The authors disagree on this point. Glaser is quite explicit concerning description having no place in GT.
	Coding for dimensions and properties	Recognizes "properties" within categories, but considers "dimensions" an unnecessary diversion toward description. The analyst has no idea that "dimensions," merely one of many theoretical coding families, is, before emergence, the most relevant of the eighteen coding families.	Dimensions and properties enable researchers to differentiate items between and within classes and thus to show variation along a range. Interested in how the pattern varies dimensionally, which is discerned through comparison of properties and dimensions under different conditions.	Disagree on the use of dimensions to build theory. The researcher must consider this issue as part of an overall research strategy.
	Inductive and deductive reasoning	GT is an inductive method. Deduction in GT is used minimally in order to derive, from emergent codes, conceptual guides as to where to go next. This is an action of conceptual elaboration: systematic deduction from emerging theory to show probabilities for elaborating an emerging theory's explanations and interpretations.	At the heart of theorizing lies the interplay of making inductions (deriving concepts, their properties, and dimensions from data) and deductions (hypothesizing about the relationships between concepts, the relationships also are derived from data, but data that have been abstracted by the analyst from the raw data).	Strauss puts more emphasis on the role deductive reasoning plays in GT.
	Categories	A type of concept. Usually used for a higher level of abstraction.	Categories are concepts, derived from data, that stand for phenomena. They depict the problems, issues, concerns, and matters that are important to those being studied.	Basically the same.
	Subcategories	Glaser does not discuss subcategories.	Subcategories specify a category further by denoting information such as when, where, why, and how a phenomenon is likely to occur. Subcategories also have properties and dimensions. They refer to conditions, actions/interactions, or consequences.	With subcategories, Strauss creates a level of analysis beyond Glaser's categories and properties. The researcher needs to make a decision regarding the utility of this level.
	Theoretical sampling	The process of data collection for generating theory whereby the analyst jointly collects, codes, and analyses data and decides what data to collect next and where to find them, in order to develop theory as it emerges. The process of data collection is controlled by theoretical sampling according to the emerging theory.	Interest is in gathering data about what persons do or do not do in terms of action/interaction, and range of conditions, that give rise to action; and in variations: how conditions change or stay the same over time and with what impact, also the consequences of either actual or failed action or of strategies never acted upon. Sampling is directed by the logic and aim of the three basic types of coding procedures: open, axial, and selective coding.	Glaser calls what Strauss considers theoretical sampling "modeled sampling", and says Strauss looks for his paradigm in the data. The researcher should determine whether Straussian theoretical sampling forces the data.
	Theoretical sampling decisions	The initial decisions in theoretical sampling are based only on a general perspective about a substantive area, and not a preconceived problem or hypothesis. The analyst cannot know in advance precisely what to sample for and where it will lead him or her.	Initial considerations include the following: 1) site or group to study must be chosen, 2) a decision must be made about the types of data to be used, 3) how long an area should be studied, 4) decisions regarding the number of sites and observations and/or interviews depend on access, available resources, research goals, and the researcher's time and energy.	Glaser's approach differs from Strauss in that Strauss is concerned with a set of considerations, which Glaser would find highly restrictive. The researcher should decide which is a more effective, and possibly more practical, approach.

Table 2-2: Continued

Category	Sub-Category	Glaser	Strauss	Comments
	Open coding	To achieve a GT the analyst cannot code for preconceived theoretical codes. He must code for whatever category emerges on whatever unit in the data, and theoretical sensitivity applies to whatever theoretical codes fit. He jots down his codes over the incident in text or notes them in the margins and he writes memos on them as they emerge.	The aim is to produce concepts that seem to fit the data. Open coding quickly forces the analyst to fracture, break the data apart analytically. The first additional guideline is to ask of the data a set of questions. The second guideline for open coding is to analyze the data minutely, which means frequently coding minutely. Coding follows Strauss' "paradigm."	Glaser feels that Strauss forces the data by asking predetermined questions rather than letting the codes emerge from the data. He also notes that Strauss "over conceptualizes."
	Microanalysis of data	Strauss' dictum to raise questions about possible meanings whether assumed or intended in order to bring out the analyst's own interests and assumptions about meanings in what is being said, is a method that derails GT in favor of the preconceptions and personal interests of the analyst. It over works one probably irrelevant incident or word, instead of continuing the search by constantly coding and analyzing for patterns within the data and saturating them.	The authors believe that a detailed type of analysis is necessary to generate initial categories, with their properties and dimensions, and to discover the relationships among concepts. They refer to this as "microanalysis", but it is also referred to as "line-by-line" analysis. "Microanalysis" is a combination of open and axial coding. It involves very careful, often minute examination and interpretation of data.	Strauss develops methods for and places emphasis on minute examination of the data. Glaser sees this as a waste of time that may lead the researcher toward his or her own preconceptions. The researcher must consider this issue as part of an overall research strategy.
	Axial coding	Not in Glaser's methodology. Glaser feels that the use of axial coding excludes and ignores theoretical coding. He criticizes Strauss for requiring the analyst to utilize a coding paradigm involving conditions, context, action/interactional strategies, intervening conditions and consequences. Says that this is not GT.	Procedurally, axial coding is the act of relating categories to subcategories along the lines of their properties and dimensions. In axial coding, the analyst is relating categories at a dimensional level.	Glaser does not recognize axial coding in his methods. The researcher must consider the use of this type of coding as part of an overall research strategy.
	Mini-frameworks	Glaser does not discuss mini-frameworks.	These are small, diagrammatic structures that arise as a result of coding around a concept. Part of axial coding.	The researcher would not use this technique unless the technique of axial coding is used. Its utility must be determined by the researcher.
	Selective coding	Selective coding: To selectively code means to cease open coding and to delimit coding to only those variables that relate to the core variable, in sufficiently significant ways to be used in a parsimonious theory.	The aim of selective coding is to integrate the categories along the dimensional level to form a theory, validate the statements of relationships among concepts, and fill in any categories in need of further refinement. A central category, like any category, must be defined in terms of its properties and dimensions.	Glaser appears to limit selective coding to a smaller set of variables than Strauss, who would use dimensions to connect the categories to a core. This is a procedural issue which will depend on whether the researcher identifies dimensions or not.
	Core categories	Since a core category accounts for most of the variation in a pattern of behavior, it has important functions for generating GT: integration, density, saturation, completeness, and delimiting focus.	The first step in integration is deciding on a central category. The central category (core category) represents the main theme of the research. It has analytic power: the ability to pull the other categories together to form an explanatory whole. Also, it should be able to account for considerable variation within categories.	Basically the same. The selection of a core category can be the most difficult part of the analysis.
	Discovering process in the data	It is, according to Glaser, just another theoretical code that emerges when relevant, otherwise it does not, and digging for it is forcing. Does put more emphasis on basic social processes (BSP's).	Sequences of evolving action/interaction, changes in which can be traced to changes in structural conditions. One is looking at action/interaction and tracing it over time to note how and if it changes or what enables it to remain the same with changes in structural conditions.	The researcher must decide whether "process" is just one of many theoretical codes, or whether it must be always be coded for. The researcher must consider this issue as part of an overall research strategy.

Table 2-2: Continued

Category	Sub-Category	Glaser	Strauss	Comments
	Structure	Structure is part of the "ordering or elaboration" family of theoretical codes.	The conditional context in which a category (phenomenon) is situated. Because structure over time tends to change, action/interaction has to change to stay aligned with it. In this way, process and structure are inextricably linked.	Glaser sees structure as just one of many theoretical codes, while Strauss places more emphasis on it due to its relationship to process. The researcher should make a determination on whether to always code for this or let it emerge.
	Use of "Far-out" comparisons	Should only be used when a substantive theory is well developed so as to not go far afield too early in the study.	"Far-out" comparisons can be used at times to stimulate theoretical thinking. These comparisons are between otherwise disparate classes of objects, incidents, or acts.	Differ on when in the study the technique can be used. The researcher must consider this issue as part of an overall research strategy.
	Use of visual devices	Sees Strauss as "fracturing" the notion of memoing into various types, including diagrams, logic diagrams, and integrative diagrams. He states that it does not help in GT analysis to fracture memos like this. "The grounded theorist just writes memos as formulated by the emergent theory."	Various kinds of visual devices conceived while doing analysis can be incorporated into the follow-up theoretical memos. Among these devices are diagrams, matrixes, tables, and graphs.	The researcher will need to decide for him/herself the value of visual devices such as diagrams in making analysis, and whether this leads to forcing preconceived theory.
	Use of participants to validate theory	Inviting participants to review the theory for whether or not it is their voice is wrong as a check or "test" on validity. GT is not their voice: it is a generated abstraction from their doings and its meaning which are taken as data for the generation.	One way to help validate is to tell the story to respondents or ask them to read it and request that they comment on how well it fits their cases.	Whether to use participants to help validate theory is a decision that concerns criteria for judging the soundness of a GT. The researcher will need to determine whether the participant can grasp a theoretical interpretation of his or her actions.
	The conditional/consequential matrix	Sees this method as a divergence from the simpler approach of "orthodox" GT. Sees Strauss' "zeal to see all conditions, types of conditions and consequences" as leaving GT "quite far behind."	Understanding a phenomenon means locating it contextually or within the full range of macro and micro conditions in which it is embedded and tracing out the relationships of subsequent actions/interactions through to their consequences. The analytic device used by Strauss is called the "conditional/consequential matrix."	Glaser sees the matrix as forcing the data. The researcher should decide for him/herself whether it leads toward theory or not.
	Memoing	Strauss proceeds to fracture the notion of memoing into various types: code notes, theoretical notes, operational notes, diagrams, logic diagrams and integrated diagrams. According the Glaser, it does not help in GT analysis to fracture memos like this. The grounded theorist just writes memos as formulated by emergent theory, and the memos change the way they look at each stage.	The term memo refers to very specialized types of written records- those that contain the products of analysis or directions for the analyst. Recognizes several types of memos, such as code notes, theoretical notes, etc. In memo writing, relational statements are written as hypotheses, indicating that they are provisional statements to be validated through further data collection and analysis.	Glaser takes a freer approach, simply terming these notes "memos" without labeling them. How the researcher wants to label memos should not be a major issue. However, the researcher can be drawn into producing specific kinds of memos following Strauss' methods.
	Theoretical codes	There is not just one theoretical code that is a must in all cases. A pet theoretical code violates relevance and forces data.	Strauss focuses on the elements of the paradigm regarding theoretical codes.	This is a major division between Glaser and Strauss. Glaser's viewpoint is that Strauss has "pet" theoretical codes, which restrict theorizing to those just codes. The researcher must consider this issue as part of the coding process to be used in the research.
	Coding for conditions	The same criticism of Strauss' demand for a "dimensional profile" also applies to his later, incessant demands for "conditions"- one property of the six C family (of codes). It forces preconceived, full conceptual description.	As part of the paradigm, conditions are always sought after and coded for.	Glaser's position is that Strauss limits the research, and moves it toward description rather than GT, by always coding for certain aspects of a phenomenon. The researcher must decide for him/herself whether this is true.

variation between categories, are identical. Thus, the main framework of grounded theory- building theory directly from data, identifying categories and their properties within a phenomenon, choosing a core category that unifies the categories and accounts for variation between them, initially building substantive theory but striving for higher levels of abstraction to produce formal theory, and allowing methods to be flexible and appropriate to the research- is shared by both Glaser and Strauss.

The main differences between Glaser and Strauss lie in the areas of specific techniques employed in the research, verification versus modification of hypotheses, and the criteria for judging theory. It should be noted that while Strauss (1987, p. xiv) maintained that "the differences are minor" between him and Glaser, Stern (1994, p. 212) states that "students in the 1960s and 1970s knew that they had quite different modus operandi, but Glaser only found out when Strauss and Corbin's *Basics of Qualitative Research* came out in 1990." As we have seen, Glaser's reaction was to publish *Basics of Grounded Theory Analysis: Emergence vs. Forcing* in 1992. This was followed by *The Grounded Theory Perspective: Conceptualization Contrasted with Description* in 2001. Both of these books deal directly with what Glaser calls "orthodox" grounded theory and Strauss' modifications, which he considers a new method and terms "full conceptual description." Glaser (2001) maintained that there is a set of fundamental processes that need to be followed to produce true grounded theory and that Strauss "actually did not have a clue to the true nature and method of grounded theory" (p. 217). It should also be noted that Glaser (2001) basically ignores any contribution that Corbin may have made to *Basics of Qualitative Research*, and relegates her to the role of a student of Strauss who he "generously puts on the title of a book" (p.126). Thus, Glaser treats the authors of

Basics of Qualitative Research with a certain amount of contempt at this point in the development of grounded theory.

Regardless of the vehemence with which he attacks Strauss, however, Glaser presents a convincing argument concerning the need to follow "orthodox" methods in order to produce grounded theory. These arguments are critical to understanding the differences between "Glaserian" and "Straussian" grounded theory, and in determining which path to take in a grounded theory research project.

Choosing a Path

A major issue facing the researcher who wants to use grounded theory is determining whether Glaser correctly sees Strauss' work as a fundamental change from grounded theory's origins, or whether Strauss correctly argues that methods to produce grounded theory are bound to change over time (Stern 1994). Strauss and Corbin (1998) are quite explicit that their methodologies and procedures reflect Strauss' approach to doing research, maintaining that their version of qualitative research is grounded theory. In contrast, Glaser (1992) calls the product of Strauss and Corbin's methods "forced description." Glaser argues that the "special techniques" offered by Strauss force description, not grounded theory. He also claims that "grounded theory works best using the orthodox package" (2001, p.217). By "orthodox package" Glaser is referring to the methods developed in *Discovery of Grounded Theory*, and further explicated in *Theoretical Sensitivity*.

A researcher just beginning to use grounded theory must make a judgment as to the veracity of each of these claims. Additionally, the researcher should examine the differences in light of the objectives of his or her own research and determine if there is only one "best" path to take, or if there exists a middle ground between the methodologies that may accomplish the researcher's goals more effectively. To this end, this researcher has developed a set of criteria by which to examine and choose between the two approaches to grounded theory (see Table 2-3).

First and foremost, whatever methodology is followed must meet the objective of assisting the researcher in progressing toward development of a substantive theory concerning the phenomenon. Second, it is important that this theory emerges from the data and is not constrained in any way by the researcher's preconceptions. Third, the methodology needs to provide structure so that the researcher can have guidelines to follow and can demonstrate how the theory was developed. However, while providing structure, the methodology should also allow for a certain amount of flexibility in the research design as the research progresses, and needs for adjustments in data collection and analysis surface. Fourth, whatever method is chosen must be able to assist the researcher in conceptual thinking and allow for ways to "think outside of the box." Fifth, the methodology must provide specific criteria for judging its worth as a contribution to knowledge in the field of logistics. The following discussion lays out the differences between Glaser and Strauss along the framework of these criteria and establishes the position this researcher will take for this research.

Table 2-3: Criteria for Selecting a Methodology Within Grounded Theory

Criteria for Selecting a Methodology Within Grounded Theory

Criterion	Description
Assists in Reaching Research Objectives	Assists the researcher in progressing toward development of a substantive theory concerning the phenomenon.
Allows Theory to Emerge	Allows the theory to emerge from the data and is not constrained in any way by the researcher's preconceptions.
Provides Structure, yet Remains Flexible	Needs to provide structure so that the researcher can have guidelines to follow and can demonstrate how the theory was developed. Should also allow for a certain amount of flexibility in the research design as the research progresses and needs for adjustments in data collection and analysis surface.
Assists in Conceptual Thinking	Must be able to assist the researcher in conceptual thinking and allow for ways to "think outside of the box."
Provides Judgment Criteria	Must provide specific criteria for judging its worth as a contribution to knowledge in the field of logistics.

Assists in Reaching Research Objectives

The objective of this research, as stated in the introductory chapter, is "to construct a substantive theory that leads to understanding of where corporate culture fits into and affects the processes of inter-firm relations within a logistics context." The key word in this objective is *theory*, and one of the departures between Glaser and Strauss is whether Straussian methods produce theory or description.

In *The Grounded Theory Perspective* Glaser (2001) discusses the methodological dissimilarities between Strauss and himself in great detail; he terms one of the main divergences "conceptualization contrasted with description." For Glaser (2001, p. 2), the essential comparative difference between other types of qualitative research and grounded theory is that grounded theory "exists on a conceptual level and is composed of integrated hypotheses and [qualitative] methods produce description with or without conceptual description mixed in." To Glaser, the goal of grounded theory is concept generation, not production of what Geertz (1973) would call "thick description." Glaser (2001, p. 13) maintains that while concepts can be related to concepts as hypotheses, "descriptions cannot be related to each other as hypotheses since there is no conceptual handle." This is because description does not allow abstraction from specific times, places, groups, and so on; description is situation specific. In contrast, Strauss and Corbin (1998) consider description to be basic to "conceptual ordering." This refers to the organization of data into categories according to their properties and dimensions and then using description to elucidate those categories. Strauss and Corbin's approach is to always code for dimensions of categories (for example, identifying dimensional ranges such as "small to large"), and to break categories into subcategories.

Strauss and Corbin (1998) see subcategories as serving to specify a category further by identifying information such as when, where, why, and how a phenomenon is likely to occur. Subcategories also have properties and dimensions that refer to conditions, actions/interactions, or consequences, further delimiting the category's properties. To Strauss and Corbin, dimensions enable researchers to differentiate items between and within classes and thus show variation along a range. For Glaser (2001) the level of specificity that includes core categories, categories, and their properties is sufficient for comparison of incidents in a phenomenon, and any further specificity is considered an unnecessary diversion toward description. Additionally, Glaser maintains that automatically coding for dimensions focuses on differences and similarities for descriptive accuracy purposes only. He insists that dimensions are not to be coded for unless they emerge from the data.

The use of dimensions also becomes an issue in selective coding. Selective coding delimits coding to only those variables that relate to the core variable; it is used to systematically link subordinate categories with the core category (Strauss 1987). Selective coding is essential to grounded theory. The integration of a core category with the other categories and their properties takes grounded theory to a higher conceptual level and away from "description capture" (Glaser 2001, p. 199). Strauss and Corbin (1998) integrate categories along the dimensional level to form a theory. Glaser integrates categories through their properties and therefore limits selective coding to a smaller set of variables than do Strauss and Corbin. The automatic use of dimensions in analysis is therefore a critical decision the researcher must make because their use will determine how selective coding is to be accomplished.

The defining difference between Glaser and Strauss regarding theory generation is in the levels of analysis used in generating theory. Glaser maintains that such levels as subcategories and dimensions of properties add unnecessary layers of analysis that result in a description of the phenomenon rather than formulation of theory about the phenomenon. Strauss sees these additional levels of analysis as necessary to fully understand what is going on in the phenomenon and to enable the researcher to more clearly differentiate variation among times and places when and where the phenomenon occurs. Thus, the determination of which of the two methods best meets the objective of theory generation is an important input in choosing a specific methodology to be followed.

Regarding the controversy over description, grounded theory is clearly a methodology designed to produce theory, not description (Glaser 2001; Glaser and Strauss 1967; Strauss 1987). Glaser has a valid point when he says that applying additional levels of analysis such as dimensions and subcategories can add unnecessary description to the theory, and that the analyst may actually be unnecessarily delayed in developing theory. Dimensions are only one code in the set of codes that Glaser (1978) sets out in *Theoretical Sensitivity*. If the use of this code is warranted, then it should be applied; otherwise, dimensions should be left out of the analysis. Likewise, the use of subcategories to explicate the Straussian paradigm could be an unneeded level of description- categories and their properties may be sufficient levels of analysis to achieve grounded theory comparison of incident to incident. Thus, given the arguments set out above, this research will proceed along the lines of analysis established by the original Glaser and Strauss (1967) text, and as elaborated on in Glaser's (1978) subsequent text

on theoretical sensitivity. Categories and their properties were coded for, but subcategories and dimensions of properties were only pursued if indicated by the data as necessary to theory development.

Allows Theory to Emerge

A second major area of disagreement between Glaser and Strauss is what Glaser (1992) calls the "emergence versus forcing" of theory. The essence of this disagreement revolves around Glaser's argument that Strauss uses a preconceived model, while his own model is one of emergence (Glaser 1992). In what Glaser terms "orthodox" grounded theory, the analyst follows "a few simple rules of constant comparison and emergence," while in what Glaser calls Strauss' "full conceptual description," the analyst "must follow a myriad of fractured, forcing rules which are very hard to follow and very derailing for productivity" (Glaser 1992, p. 101).

The divergence between the two originators leaves the grounded theory researcher to decide whether Glaser's claim is correct. Unquestionably, Strauss and Corbin add a number of techniques aimed at assisting the researcher in analyzing data. Chief among these techniques are what Strauss (1987) calls the "coding paradigm." The coding paradigm functions as a guideline to remind the analyst to code for conditions, interaction among actors, strategies and tactics, and consequences of the above. Thus, in open, axial, and selective coding, the analyst always codes for these aspects of the phenomenon. Significantly, Strauss (1987, p. 28) claims that "without inclusion of the paradigm items, coding is not coding." Glaser's (1992) rejoinder to this claim is that the coding paradigm forces the analyst to ask preconceived questions that can take the analyst away from what

the data indicates. He considers these Strauss' "pet" theoretical codes, and argues that by automatically coding for these items, rather than letting them emerge from the data, the analyst "forces" theoretical codes on the data. Glaser's point is that in grounded theory, categories, properties, and their theoretical codes must emerge, and that this cannot be done through forcing conceptualizations on data. This point carries over to theoretical sampling and theoretical coding of memos as well.

Glaser (1992) calls what Strauss considers theoretical sampling "modeled sampling", and says Strauss looks for his paradigm in the data. This is an important point because in grounded theory, theoretical sampling is used as a way of checking on the emerging conceptual framework, and guides the researcher as to who, what, and where to sample to reach theoretical saturation. Glaser (1992, p. 103) claims that data collection in Strauss' method is not guided by emergence of categories and their properties, but rather is "based on a pre-existing framework from which the analyst deduces hypotheses and questions on where to go next." Glaser (1992) also claims that in Strauss' method, when the analyst gets to axial and selective coding, sampling gets increasingly forced as the analyst narrows in on finding "preconceived conditions, consequences, strategies, relationships, and so forth…." (p.103). The grounded theory researcher is left to decide whether Strauss' methods are likely to assist in or constrain the theoretical sampling process.

Likewise, Glaser attacks Strauss' paradigm as detrimental to the sorting of theoretical memos. The theoretical sorting of memos is key to the presentation of theory. It consists of sorting memos written during data analysis into a theoretical outline (Glaser 1992). Glaser claims that with Strauss' method, most categories and their properties are

presorted according to the paradigm, which preconceives the sorting rather than allowing the analyst's own interpretations to shape it. Thus, according to Glaser, in Strauss' method sorting memos is not as important an activity as it is in "orthodox" grounded theory since the sorting process is guided by a pre-established analytical framework. Whether this framework actually helps or constrains theory building depends on whether a researcher needs a scheme to organize the theoretical connections between incidents in a phenomenon (Strauss and Corbin 1998), or whether the researcher feels that the paradigm forces preconceptions on the data.

The same issue of forcing codes comes up with coding for process and structure. Strauss and Corbin (1998) describe process as sequences "of evolving action/interaction, changes in which can be traced to changes in structural conditions" (p.163). Structure is defined as "the conditional context in which a category (phenomenon) is situated" (Strauss and Corbin 1998, p.123). Structure changes over time, and as actions and interactions adjust to these changes, process changes as well. Thus, process and structure are always linked. In Strauss and Corbin's methodology, coding for process occurs automatically and simultaneously with coding for properties, dimensions, and relationships among concepts. Strauss' emphasis on social processes may stem from his sociological background. This background could influence him to see phenomena in the light of social structural influences on people. This viewpoint may predispose Strauss toward always looking for conditional contexts in the data. While Glaser (1978) places a good deal of emphasis on basic social processes (BSPs), he later (1992) recognizes process as "just another theoretical code that emerges when relevant" (p. 91). He sees this as another example of Strauss using "pet theoretical codes" to build theory.

The researcher needs to carefully consider whether the use of Strauss' methods preconceive theory or open the researcher to thinking more conceptually about the data. Perhaps the most damning criticism from Glaser revolves around the distinction between the emergence and forcing of theory. Glaser (1992) claims that a researcher following Strauss' method enters the field of inquiry with a predetermined set of questions and attempts to answer these questions regardless of whether they are relevant. Glaser's position advocates the collection and analysis of data without imposing preconceived questions or frameworks on the process. Glaser (1992) finds "Strauss and Corbin to be forcing …analysis through their preconceptions, analytic questions, and methodological techniques" (Charmaz 1998). This is particularly apparent in Strauss and Corbin's (1998) advocacy of the "coding paradigm," which directs the researcher to use predetermined categories of codes involving conditions, context, action/interaction strategies, intervening conditions, and consequences in coding. Glaser (1992) describes the paradigm model as "a wonderful set of directives and demands for forcing the conceptualizations on data which is diametrically in opposition to emergence of categories, properties and their theoretical codes" (p.63). Glaser further points out that in *Theoretical Sensitivity* there are 18 coding families (see table 2-4), any combination of which may be applicable to the phenomenon. To focus on one small subset is thus seen as forcing theory into a constricted framework that may not actually represent what is happening in the phenomenon. The position taken in this research was that no specific "coding paradigm" be used to analyze data.

Table 2-4: Glaser's 18 Coding Families

Glaser's 18 Coding Families

Family	Types of Codes
The "Six C's"	Causes, contexts, contingencies, consequences, covariances, and conditions.
Process	Stages, staging, phasings, progressions, passages, gradations, transitions, steps, ranks, careers, orderings, trajectories, chains, sequencings, temporaling, shaping, and cycling.
Degree	Limit, range, intensity, extent, amount, polarity, extreme, boundary, rank, grades, continuum, probability, possibility, level, cutting points, critical juncture, statistical average, deviation, standard deviation, exemplar, modicum, full, partial, almost, half, and so forth.
Dimension	Dimensions, elements, division, piece of, properties of, facet, slice, sector, portion, segment, part, aspect, and section.
Type	Type, form, kinds, styles, classes, and genre.
Strategy	Strategies, tactics, mechanisms, managed, way, manipulation, maneuverings, dealing with, handling, techniques, ploys, means, goals, arrangements, dominating, and positioning.
Interactive	Mutual effects, reciprocity, mutual trajectory, mutual dependency, interdependence, interaction of effects, and covariance.
Identity-Self	Self-image, self-concept, self-worth, self-evaluation, identity, social worth, self-realization, transformations of self, and conversions of identity.
Cutting Point	Boundary, critical juncture, cutting point, turning point, breaking point, benchmark, division, cleavage, scales, in-out, intra-extra, tolerance levels, dichotomy, tricotomy, polycotomy, deviance, and point of no return.
Means-Goal	End, purpose, goal, anticipated consequences, and products.
Cultural	Social norms, social values, social beliefs, and social sentiments.
Consensus	Clusters, agreements, contracts, definitions of the situation, uniformities, opinions, conflict, dicensus, differential perception, cooperation, homogeneity-heterogeneity, conformity, nonconformity, and mutual expectation.
Mainline	Social control, recruitment, socialization, stratification, status passage, social organization, social order, social institutions, social interaction, social worlds, social mobility, and so forth.
Ordering or Elaboration	Structural- organization, division, group, subgroup, team, and person. Temporal- one category comes after another in a sequence. Conceptual- as in specification of concepts, and in developing properties of categories.
Unit	Collective, group, nation, organization, aggregate, situation, context, arena, social world, behavioral pattern, territorial units, society, and family. Positional- status, role, role relationship, status-set, role-set, person-set, role partners.
Reading	Concepts, problems, and hypotheses.
Models	Linear or property space.

Provides Structure, Yet Remains Flexible

Structure is inherent in grounded theory due to its origins as a reaction to attacks on the rigor of qualitative research. An issue related to structure is flexibility. Qualitative methods of data collection and analysis are typically emergent rather than tightly prefigured (Creswell 2003). This allows the researcher to adjust research questions, procedures (such as sampling strategies and data collection methods), and analysis tools as the research changes and evolves. A methodology that tightly prescribes aspects of the research provides structure to the research, but will not allow for any adjustments the researcher may need to make as the research progresses. Therefore, one of the criteria selected for this research is that the methodology provides structure to the research, yet allows for flexibility in data collection and analysis procedures.

In determining whether to follow Glaser's or Strauss's methodology, then, the issue becomes a matter of the degree of structure needed to accomplish research objectives. Strauss' methods are guided by the coding paradigm, which has the analyst automatically use a select set of codes. This predetermines the open coding and axial coding process, subsequently influences theoretical sampling, and ultimately affects selective coding. This seems to place an artificial framework on the research that may not fit the phenomenon. Glaser's (1992) approach is that it is "simple and simply best to go directly for categories, their properties and the theoretical codes that connect them" (p.45). Categories and their properties are developed without use of subcategories and dimensions, and the analysis goes directly to selective coding without the intermediate step of axial coding used by Strauss. Included in Strauss's methods, and missing from Glaser's, are aids to analysis such as separating memos into various types (e.g., code

notes, theoretical notes, operational notes), a coding "paradigm" that is used for all open coding, the use of "microanalysis" to discover the meaning in data, and the use of a "conditional/consequential matrix" to identify macro and micro conditions in the phenomenon.

While Glaser provides a defined process for generating grounded theory that includes coding, sampling, memoing, and sorting procedures, Strauss offers a process that is more refined and that requires the analyst to perform more required steps than Glaser. Strauss's position is that a highly codified set of procedures will aid the researcher in producing grounded theory. This has led to what some critics have suggested is an overemphasis on research mechanics that seem to focus more on technique and less on the data itself (Cutcliffe 2000; Goulding 2002; Robrecht 1995). As Glaser (1992) points out, overemphasis on the mechanics of the research may reduce theoretical sensitivity and lead to less insightful theory. On the other side of the argument, Melia (1996) advises students that the more procedure-oriented works of Strauss (1987), and Strauss and Corbin (1990), are helpful in working out the complexities of grounded theory. Charmaz (1998) echoes this view, noting that Strauss and Corbin's many questions and techniques may help novices improve their data gathering.

Therefore, while structure is provided by both Glaser and Strauss, the researcher has to determine how much structure he or she may need to accomplish the objectives of the research, and whether there is sufficient flexibility to allow for adjustments as the research progresses. The main concern for this researcher is that a methodology should not force the research toward a preconceived structure, as in the case of the coding

paradigm offered by Strauss and Corbin (1998). Focusing mainly on a small set of potential theoretical codes constrains the analysis, and the emergence of the theory from the data could be channeled in a direction not indicated by the data. While this approach might provide structure to the analysis, it seems to contradict the intention of the original grounded theory methodology, which is to apply a general method of comparative analysis (Glaser and Strauss 1967), rather than a specific set of procedures and codes. Additionally, always applying a technique such as the "conditional/consequential" matrix, as suggested by Strauss and Corbin (1998), automatically gets the researcher to consider both macro and micro conditions, whether their influence is indicated by the participants or not. Glaser admonishes the analyst to follow a few rules and ask a few basic questions, then let the data drive the analysis. This position appears to provide the researcher with sufficient structure to begin the research. This researcher therefore followed Glaser's advice, with the proviso that any techniques that could aid the research at any point in its development could be used to further data collection and analysis.

Assists in Conceptual Thinking

Grounded theory combines concepts and hypotheses that have emerged from the data with some existing ones that are useful and fit the data (Glaser and Strauss 1967). *A priori* concepts are not the primary building blocks of theory in this methodology. Concepts are more often formulated by the analyst directly from the words and actions of participants in the research. It is critical to collect and analyze data in a manner that is free from any preconceived notions the researcher may have concerning the phenomenon. The objective is for the researcher to use expertise on the subject in a way that helps to

construct knowledge about the phenomenon without imposing his or her own views on the subject. The burden is on the researcher, then, to conceptualize directly from the data, utilizing theoretical sensitivity, intuition, and logic to formulate an explanatory scheme that explains behavior (Strauss and Corbin 1998). The analyst, therefore, may need some assistance in this endeavor in order to be able to conceptualize at a high enough level to formulate categories, properties, conditions, strategies, and other elements of a grounded theory. This is an area of major departure between Glaser and Strauss. Glaser (1992; 2001) maintains that a number of techniques proposed by Strauss (1987) and Strauss and Corbin (1990; 1998) take the researcher away from the data because preconceptions and personal interests of the analyst influence their use. The argument for the use of these techniques is that they provide ways of stepping away from traditional modes of thought to allow for conceptualization at higher levels and for making connections otherwise not apparent to the analyst.

Microanalysis is a good example of a technique offered by Strauss and Corbin (1998) to aid the researcher. Microanalysis refers to close examination of single words, phrases, and sentences and involves very careful, often minute examination and interpretation of data. The researcher is instructed to "consider the range of plausibility" concerning what the participants are saying, to "ask abstract theoretical questions" that "stimulate discovery of properties, dimensions, conditions, and consequences" within the data (Strauss and Corbin 1998, p.p. 65-66). There are a number of other techniques that Strauss and Corbin (1998) feel can open up the researcher's imagination. Among these techniques are "far-out comparisons" and the "conditional/consequential matrix." Far-out comparisons (Strauss and Corbin 1990; 1998) are comparisons between otherwise

disparate classes of objects, incidents, or acts; they are used to stimulate theoretical thinking. Thus, a researcher might compare the work of industrial buyers to grocery shopping to identify similarities between the two activities in properties and dimensions of those properties (e.g., both involve choices between suppliers, getting the most for one's money, buyer satisfaction, repeat purchasing, and so on). Glaser (1992) sees the use of far-out comparisons as acceptable only when the researcher has a well developed substantive theory and wishes to extend it toward a formal theory. Strauss and Corbin find this method useful at any stage of theory development. This difference is important because Glaser feels that the researcher who uses far-out comparisons early in a research may end up too far afield of the true nature of the phenomenon, while Strauss and Corbin see this method as helpful in thinking about potential properties and dimensions of categories.

A larger disagreement between Glaser and Strauss occurs over the use of the "conditional/consequential matrix". Strauss and Corbin (1998) use this analytic device to "locate a phenomenon contextually or within the full range of macro and micro conditions in which it is embedded, and tracing out the relationships of subsequent actions/interactions through to their consequences" (p. 182). To Strauss and Corbin (1998), the acceptance of this technique means the researcher recognizes that conditions/consequences of a phenomenon are related to its actions/interactions, that micro conditions have their roots in macro conditions, that conditions and consequences can associate and co-vary in many ways, and that actions and interactions can be carried out at very high levels (e.g., national and world-wide). Thus, actions occurring between nations regarding trade agreements may have consequences reaching down into the

buying behavior of firms. Glaser (1992), on the other hand, regards this method as a divergence from the simpler approach of "orthodox" grounded theory. He sees Strauss' "zeal to see all conditions, types of conditions and consequences" as leaving grounded theory "quite far behind" (p. 96). Glaser considers the use of the conditional/consequential matrix yet another example of Strauss forcing preconceived codes on the data without first determining whether they are important to the phenomenon.

Clearly, integrative devices such as microanalysis, “far-out comparisons,” the “conditional/consequential matrix,” process diagrams, and other such techniques offer promising opportunities to conceptualize at higher levels. To automatically exclude such tools is closing the door on potentially useful ways of furthering theory. However, the researcher must be cognizant that these tools may lead the analysis toward pre-conceptions. For example, to always use the conditional/consequential matrix means that the researcher is always looking for conditions in the data, even if their influence is not indicated by the data.

This researcher took the position that any tool that aids in the analysis of the data could be used as warranted by need and appropriateness. Thus, if conditions surfaced as a factor in the phenomenon, then the conditional/consequential matrix is appropriate and could be used. Likewise, microanalysis, particularly in the early stages of the research, could be used to help open up thinking about the phenomenon. The usefulness of some of Strauss (1987) and Strauss and Corbin’s (1990; 1998) methods led this researcher to reject the act of religiously following Glaser’s “orthodox” grounded theory and remain open-minded to the use of these techniques to enhance the research.

Provides Judgment Criteria

A final major point of distinction between Glaser and Strauss lies in their criteria for judging the quality of grounded theory. Choosing which direction to take on this issue is of high importance because ultimately the worth of the research is assessed through the application of such criteria. In the original grounded theory book, *Discovery of Grounded Theory*, Glaser and Strauss (1967) identify four aspects necessary for practical application of grounded theory. The first of these is *fit*, which refers to the necessity for theoretical categories to fit and explain the data (Charmaz 1998). All concepts must earn their way into the analysis by emerging from the data (Glaser 1978). This does not preclude concepts obtained from the literature, but these concepts must fit the data as well. Thus, if a theory is properly induced from the data "its categories and their properties will fit the realities under research in the eyes of subjects, practitioners and researchers in the area" (Glaser 1978, p.15). The categories, properties of categories, conditions, strategies, and so on that appear in the theory should reflect the everyday realities of the substantive area under research (Glaser and Strauss 1967). A theory that does not fit well will result in an inability to match the theory to the data.

The second is *understanding*- the theory must be understandable to laypersons working in the substantive area. A grounded theory that relates well to the realities of the area under investigation will be understandable and make sense to these people. The third is *generality*. Generality means that the theory must be applicable to most or all of the incidents that occur within the area, not only certain types of situations. Thus, the level of generality is such that the theory is "flexible enough to make a wide variety of changing situations understandable and also flexible enough to be readily reformulated"

(Glaser and Strauss 1967, p.242). The fourth aspect is *control*- the practitioner should be able to apply the theory in order to "understand and analyze situational realities, to produce and predict change in them, and to predict and control consequences" (p. 245). Thus, Glaser and Strauss established these criteria as necessary for judging the applicability of grounded theory to substantive areas of research.

By the time Glaser (1992) wrote *Basics of Grounded Theory Analysis,* these criteria had changed somewhat. Glaser kept *fit* as a criterion, stating the theory's categories and their properties will fit the realities of the substantive area under investigation. Glaser's next criterion became *work*. In order for a grounded theory to work it must render a useful conceptual ordering of the data that explains much of the behavior in the phenomenon (Charmaz 1998). If a grounded theory works "it will explain the major variations in behavior in the area with respect to the processing of the main concerns of the subjects" (Glaser 1978, p.15). *Relevance,* according to Glaser, follows directly from fit and work; if the theory fits and works it has relevance to the substantive area. The relevance of a grounded theory "derives from its offering analytic explanations of actual problems and basic processes in the research setting" (Charmaz 1998. p. 511). Glaser (1992) maintains that if a theory fits and works, it has also met the relevance criteria. Grounded theory arrives at relevance because it allows core problems and processes to emerge from the data.

The fourth criterion is *modifiability*, which means that researchers can change their emerging or existing analyses as conditions within a phenomenon change, or as further data is gathered (Charmaz 1998). This criterion says that a grounded theory should be readily modifiable to new conditions, new subjects, and new perspectives on

the same problem (Glaser 1992). Since grounded theory is a research of abstract problems and their processes, unlike some types of research that focus on one case or group, the theory must be able to explain behavior across multiple incidents and sites of research. Glaser adds that when these four criteria are met, the theory provides an approach to problems and changes in the area, and that *control* of the area under research is a result. Note that control is no longer a criterion, but a byproduct of grounded theory.

Glaser (1992) also maintains that the achievement of parsimony and scope (generality) are necessary criteria for judging theory. What Glaser means by parsimony and scope is that a grounded theory should account for as much variation in behavior in the phenomenon with as few categories and properties as possible. Thus, a grounded theory "provides the best comprehensive, coherent and simplest model for linking diverse and unrelated facts in a useful and pragmatic way…Theorizing is the process of constructing alternative explanations until a 'best fit' that explains the data is most simply is obtained" (Morse 1994, p.p. 25-26). Thus, Glaser stays close to the original criteria laid out in *Discovery of Grounded Theory*.

Contrast Glaser's criteria with those of Strauss and Corbin (1998). Strauss and Corbin call for:

1) Judgments about validity, reliability, and credibility of the data,
2) judgments about the theory itself,
3) judgments about the adequacy of the research process, and
4) conclusions concerning the empirical grounding of the research.

Strauss and Corbin cite a number of studies concerning the first criterion (e.g. Gliner 1994; Guba 1981; Miles and Huberman 1984). They note that triangulation, negative case analysis, and testing for alternate explanations are means for assessing rigor in

qualitative research. Strauss and Corbin cite the Glaser and Strauss text (1967) as adequately addressing judgments concerning the theory itself. Decisions regarding how well the research process has been performed are based on judgments of how well information is provided to the reader on seven criteria:

1) Sample selection,
2) emergent major categories,
3) indicators leading to these major categories,
4) theoretical sampling,
5) hypotheses concerning relations among categories,
6) hypothesis modification and negative cases, and
7) core category selection.

These criteria are noted as specific to grounded theory.

A set of criteria is also formulated for judging the empirical grounding of data. These criteria are laid out in the form of questions (Strauss and Corbin 1998, p.p. 270-272):

1) Are concepts generated?
2) Are the concepts systematically related?
3) Are there many conceptual linkages, and are the categories well developed? Do categories have conceptual density?
4) Is variation built into the theory?
5) Are the conditions under which variation can be found be built into the research and explained?
6) Has process been taken into account?
7) Do the theoretical findings seem significant, and to what extent?
8) Does the theory stand the test of time and become part of the discussions and ideas exchanged among relevant social and professional groups?

It should be noted that although Strauss and Corbin present a number of criteria for assessing a grounded theory research, they present these criteria as guidelines rather than rules. They leave it open to the researcher to determine if the criteria need modification to fit the specific circumstances of the research.

The differences between Glaser and Strauss' approaches to evaluating grounded theory studies are thus significant. This researcher accepts Glaser's (1992) argument that grounded theory should be judged according to criteria laid down specifically for the methodology. A well constructed grounded theory will meet its four most central criteria, that of fit, work, relevance, and modifiability. If a grounded theory is carefully induced from the substantive area its categories and their properties will fit the realities under research in the eyes of research participants, practitioners, and researchers in the area. If a grounded theory works it will explain the major variations in behavior. If it fits and works the grounded theory has achieved relevance to both practitioner and academics because it can be used to explain and predict activities and behaviors in the phenomenon. If the theory is modifiable it can be adapted to new conditions, subjects, and perspectives and be used to explain behavior across differing incidents and locations. Parsimony and scope mean that the theory accounts for as much variation with as few categories and properties as possible. These criteria appear to be sufficient to judge grounded theory and were therefore be applied in this research, thus following a more "orthodox" interpretation of grounded theory. Means for satisfying these criteria are presented in a later section.

Summary

Considering all of the criteria for selection of a methodology within grounded theory, this researcher concluded that the procedures used in "orthodox" grounded theory, as laid out by Glaser (1987; 1992; 2002), should primarily be followed in this

research. Researchers have noted that Strauss and Corbin's methods appear programmatic and restrictive (e.g., Melia 1996; Robrecht 1995), and this is in part due to the overriding nature of "the paradigm." This researcher agrees with Glaser that codes should not be set in advance, that structure and process should be coded for only if indicated as important by the participants or subsequent analysis, that techniques such as the conditional/consequential matrix and "far-out comparisons" should not be used unless they are warranted by the analysis, and that the researcher must vigilantly guard against the use of "pet" theoretical codes.

That being said, Cutcliffe (2000,) brings out an important point concerning grounded theory. He maintains that "straying outside of the boundaries of one particular version is less of an issue than limiting the potential depth of understanding that strict adherence to one version would produce" (p.12). This comment speaks to a question that should be answered by any researcher who is deciding which path to choose: Is there is a middle ground where some of Strauss' methods may be applied without the frameworks inherent in his methodology controlling the research? The key to answering this question is whether Strauss' methods are ever called for or helpful to the grounded theory researcher. It seems that Glaser's main argument rests on the fact that Strauss (1987) and Strauss and Corbin (1990; 1998) require the researcher to follow coding paradigms and use techniques without regard for their relevance to the analysis. This is Glaser's "forcing" argument, and it is a strong one. However, in this researcher's opinion, some of Strauss' techniques could be useful at certain stages of a research.

The objective in this research, then, was to use Straussian approaches and techniques only when appropriate and called for by the research, not automatically as part

of applying a specific framework on the analysis. Thus, "orthodox" grounded theory as Glaser defines it was followed, but with an open mind toward other methods when they enhanced the analysis. This approach does not violate Glaser's notion of "orthodox" grounded theory because he states in *Theoretical Sensitivity* that "the author trusts that readers can see other possibilities for ordering a grounded theory research" beyond what is outlined by Glaser (1978, p. ix). The specifics of this approach are discussed in the next section.

Grounded Theory Guidelines

Glaser (2001) maintains that there is "a set of fundamental processes in grounded theory that need to be followed if the research is to be recognized as a product of the grounded theory methodology" (p. 225). These fundamental processes include theoretical sensitivity, theoretical sampling, coding, memoing, sorting procedures, and the generation of substantive and formal theory. Also important to explicating how this research proceeded is a discussion of the methods used to select settings for and participants in the research, and how data was collected. Critical to this method is the non-sequential nature of the process. In grounded theory, the researcher is constantly tacking back and forth between collecting and analyzing data from the first to the last data collection effort. Figure 2-2 illustrates the activities that will be addressed in the next sections. These activities are:

1) Selecting a phenomenon,
2) Selecting settings and participants for the research,
3) Theoretical sampling,
4) Data collection methods to be employed,
5) Theoretical sensitivity,
6) Coding procedures,

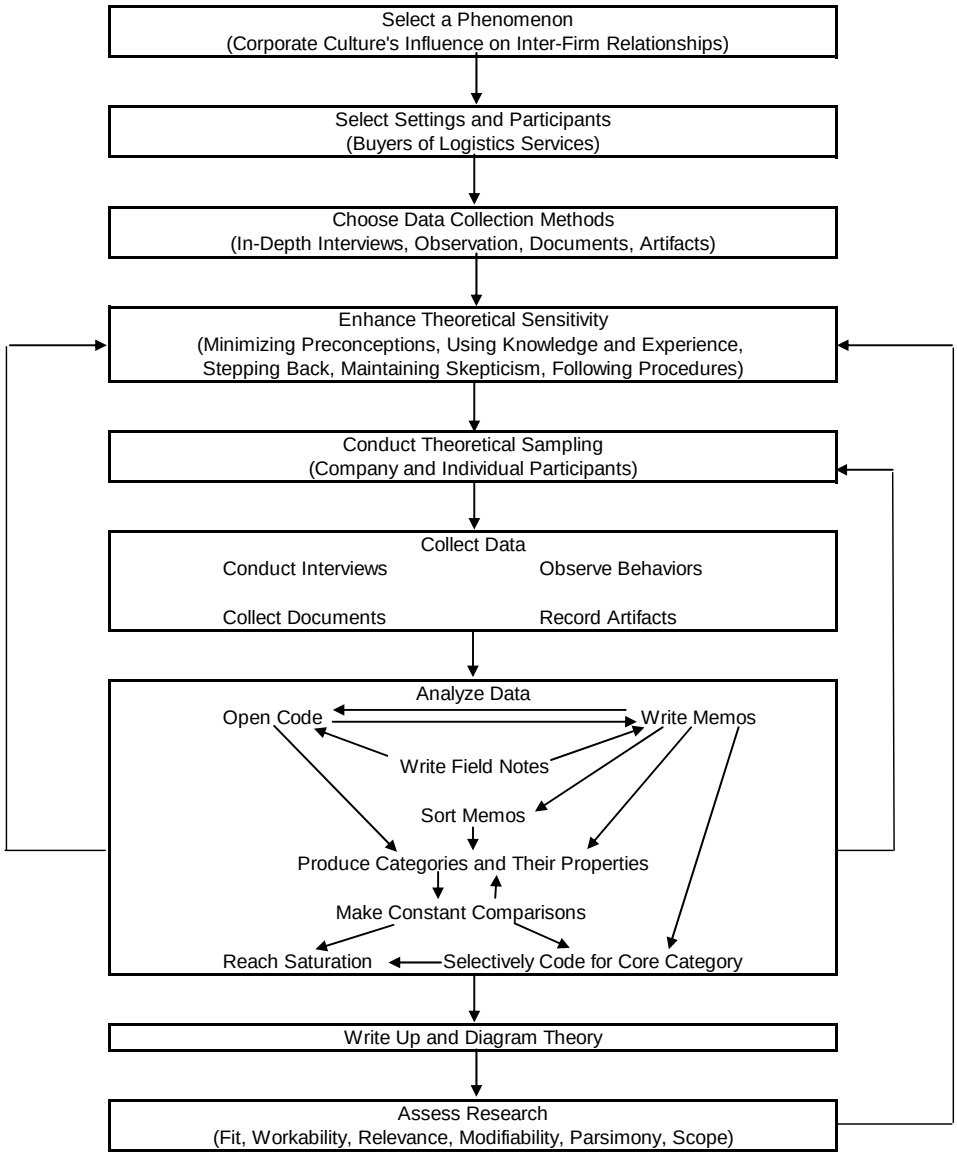


Figure 2-2. Grounded Theory Research Activities (adapted from Flint 1998)

7) Memoing,
8) Sorting procedures,
9) Reaching saturation, and
10) Theory generation.

Additionally, methods for assessing the trustworthiness of this research, following Glaser's (1992; 2001) guidelines for "orthodox" grounded theory, are presented.

Selecting a Phenomenon

Selecting a phenomenon of interest is usually the first step in a research project. Phenomena involving complex human behavior wherein participants are involved in resolving a dilemma or concern are appropriate to grounded theory methodology (Glaser 2001; Goulding 2002). The phenomenon of interest in a grounded theory research will therefore "…involve situations with which it is difficult for people to deal in order to conduct their work or achieve their objectives" (Flint 1998. p. 59). Additionally, grounded theory applies well to phenomena about which little is known, and where a holistic approach to theory building will add to the body of knowledge (Flint 1998).

The Relationship between Corporate Culture and Outsourcing Decision-Making as the Selected Phenomenon

As outlined in Chapter One, the term "outsourcing decision-making" refers to the activities by which companies choose to buy or perform logistics activities in-house, and the manner in which they form, change, and dissolve business associations with 3PLs. For those firms that choose to outsource some or all of its logistics needs, relationships with 3PLs take on different forms and levels of intensity, and often do not pass the test of

time. Differences between the cultures of the purchasing firms in these relationships may help to explain why companies approach outsourcing decision-making differently, and why the outcomes of these decisions may differ. Certain key characteristics of the phenomenon are thus assumed beforehand. First, that companies approach logistic service relationships with other companies for different reasons and with different objectives in mind. Second, that specific aspects of company cultures can be reflected upon and identified by participants. Third, that there are specific processes (such as initiation, implementation, review, and disposition) and activities within these processes which can facilitate comparison between the approaches companies take toward logistic service relationships. Fourth, that corporate cultures vary between companies, and the differences can be identified by the researcher in order to make comparisons between the cultures of the participant firms. Given this definition of outsourcing decision-making and its assumed characteristics, the manner of selecting settings and participants will be addressed.

Selecting Settings and Participants

This research seeks to add to our understanding of the relationships between corporate culture and outsourcing decision-making. To further delimit the scope of the research, a logistics context was chosen to provide a boundary for selecting settings. Within this context, three firms were chosen for research. One firm primarily outsources its logistics activities from third-party providers. A second firm primarily performs its logistics operations in-house. The third firm performs approximately half of its logistics

activities in-house, and outsources the other half to logistics providers. This allowed for the maximum contextual variation between firms, and provided an opportunity to compare firms that take a different approach to outsourcing decisions.

Equally important to selecting the setting of a research is selecting participants from whom to gather data, especially interview data. The primary participants were individuals who are involved in the phenomenon; namely, those employees who are making decisions and taking action on selecting logistics suppliers and maintaining relationships with them. Kumar et al. (1993) recommend that for studies involving inter-firm relationships, the length of time an informant has interacted with the other firms of interest is an important selection criterion. Additionally, the informant should be willing to participate and adequate time to devote to lengthy interviews. Due to the nature of the type of interview used in this research, mainly those participants who were willing and able to give up several hours of their time, were willing to answer follow-up questions, had several years of tenure with the company, and were actively or recently involved with logistics suppliers were selected for in-depth interviews.

Theoretical sampling was also be used to guide the selection of participants. Participants were chosen in a manner that both minimized and maximized differences between participants in order to help saturate categories and their properties. Thus, whenever possible participants were selected from different levels within an organization (e.g. purchasing agents, purchasing managers, logistics managers, distribution specialists, relationship managers, supply chain vice-presidents), from different functional units, from different geographic locations, of varying years of tenure with the company, and of varying personal characteristics (e.g., age and gender). This was done for several

reasons. First, in order to get an understanding of the strength of an organization's culture it is useful to sample across the organization's members to determine the culture's depth and breadth. Second, by sampling across an organization one may be able determine that subcultures exist which affect the way certain members act. Third, by using a diversity of informants the validity of interpretations can be challenged through triangulation of sources of data and through a search for exceptions that may limit such interpretations (Schouten and McAlexander 1995). Thus, in addition to selecting participants who are actively involved in the purchasing of logistics services, attempts were made to seek out other members of the organization who might be able to inform the research regarding the culture of the organization. The overarching guiding principles for selecting settings and participants are those set forth in theoretical sampling, discussed in a following section.

Data Collection Methods

Grounded theory research is open to many methods for collecting data (Goulding 2002), and leaves the details of data collection methods open to the researcher's discretion (Flint 1998). Three sources of data were used in this research - interviews with key informants, observation of activities within the participating companies, and review of company artifacts. Multiple methods of data collection are employed in social science research in order to cross-validate findings and fill in information difficult to obtain from just one source (Schouten and McAlexander 1995). Interviewing and observation are especially complementary, since observation often requires the researcher to make

inferences about what is going on in an event, and such inferences can be verified through interviews with participants. Likewise, statements made by participants can be validated through the observation of behavior, and discrepancies can be noted and followed-up on. Artifacts of an organization, such as company mission and vision statements, supplier contracts, visual signs, memos, and so on can be used as clues to an organization's culture and as means for checking the statements of informants. The following outlines specifics of each data collection method to be used in the research.

Interviewing

The primary method for data collection in this research was interviewing using open-ended questions. Qualitative inquiry aims to avoid imposing predetermined responses from respondents. Thus, it follows that questions should be asked in a truly open-ended fashion so people can respond in their own words. Patton (2002) identifies three basic approaches to collecting qualitative data through open-ended interviews. The three alternatives are the informal conversational interview, the general interview guide approach, and the standardized open-ended interview. The informal conversational interview relies entirely on the spontaneous generation of questions during interaction with participants; for example, during observation of a company event. The general interview guide approach involves establishing a set of issues to be investigated with participants before interviewing begins. The guide serves as a checklist to make sure that all relevant topics are covered during the interview. The standardized open-ended interview consists of a set of questions arranged so that each respondent is taken through the same sequence and asked the same identically worded questions. Such a format is

typically used when it is important to minimize variation in the questions posed. Of the three types of interviews, only informal conversational interviews and interviews using a guide were used in the research, since the objective was to allow the interviewing process to be a dynamic, meaning-making occasion (Holstein and Gubrium 1995).

Informal, conversational interviews occur whenever one asks someone a question during the course of participant observation (Spradley 1980). The conversational interview, also referred to as "unstructured interviewing" and “ethnographic interviewing,” offers maximum flexibility to pursue information in whatever direction seems appropriate to the investigator. Most questions arise from the context of what is being observed by the researcher. Due to the emergent nature of the questions, predetermined questions are usually not appropriate for this kind of interview.

In-depth, or what McCraken (1988) terms “long interviews,” are utilized to produce meaning from respondents from their own point-of-view (Holstein and Gubrium 1995). While the format is usually flexible, an interview guide containing specific questions or topics, contingency questions or topics, and a rough outline for the ordered placement of topics is used to maintain focus on the research. It is prepared to ensure that the same basic lines of inquiry are pursued in each interview. The guide helps make interviewing a number of different people more systematic and comprehensive (Patton 2002). In practice, however, interview schedules are guides, not scripts. Interviews need sufficient flexibility to be substantively built up and altered in the course of the interview (Holstein and Gubrium 1995).

The focus of this research was on understanding the relationships between corporate culture and logistics outsourcing decision-making. Ethnography offers two

types of questions that are useful in understanding culture and processes, and these types of questions were used to develop an interview guide. The first is the "grand tour" type question. A grand tour question asks a respondent to take the interviewer through a verbal description of a cultural scene. They may ask about events, people, activities, objects, space, or time. Typical grand tour questions "ask the informant to generalize, to talk about a pattern of events" (Spradley 1979, p.87). In this type of question, the researcher asks for a description of how things typically are, such as: "Please describe a typical performance review with a supplier." Another type of grand tour question is the "specific grand tour," which asks about a specific event, time, or location. An example of this type of question is: "Describe to me your most recent performance review with a supplier." The second type of question is a "mini-tour" question. Mini-tour questions use the same approach as grand tour questions, but they deal with much smaller units of experience (Spradley 1979). An example of a mini-tour question is: "Describe to me your last phone conversation with a supplier that dealt with a performance problem." Grand tour type questions were used to develop the interview guide, and mini-tour type questions were used to probe more deeply into subjects during the interviews.

Interview Guide Specifics

Although the approach to interviews was flexible and subject to change, an interview guide provided a basic structure and focus to each interview (see Appendix B). McCraken (1988) indicates that the guide should consist of a set of biographical questions followed by a series of question areas. Biographical questions and small talk early in the interview allows trust and rapport to be built up between the interviewer and

interviewee (Flint 1998). Additionally, questions concerning the company, such as company size, sales dollars, important customers and competitors, and so on were asked to develop a company profile. The question areas were developed using grand-tour type questions, and also consist of planned prompts in the form of "contrast," "category," "special incident," and "auto-driving" questions. Contrast prompts ask for the participant to explain the difference between categories or concepts. Category questions ask for all of the characteristics of the topic being discussed, such as key actors, action, structure, roles, cultural significance, and so on. Special incident questions ask the respondent to discuss exceptional occurrences related to the research topic. Auto-driving questions ask the respondent to comment on a stimulus, such as a photograph or diagram, and provide an account of what they see. These prompts offer the respondent an opportunity to think about the phenomenon more deeply, or bring to mind something about the phenomenon that the respondent had not previously considered (McCraken 1988).

This research is concerned with both the phenomenon of inter-company relations and the potential effects the purchasing company's culture has on these relationships. Therefore, to guide and focus the participants on these two areas, several types of questions following the grand-tour style were developed. They are:

1) Tell me about a time when your company considered outsourcing a logistics function.
2) Tell me about a time when you dealt with a logistics supplier.
3) Pretend I am a new employee. What would you tell me about this company that would help me get acquainted with the way things are around here?
4) If I were to ask people in your company what is important to (company name), what do you think they would say?
5) Tell me about an issue you recently had concerning logistics operations.

The first two questions are designed to help the researcher understand what a company goes through when making logistics outsourcing decisions. Prompts would look for the strategies and thought processes that influence these activities. The third question is seeking information about the behavioral norms in the company, which offer clues to the company's culture. Likewise, question four is designed to obtain information about the prevailing values of the company. The fifth question was analyzed for themes in order to uncover cultural assumptions in the company.

As the research progressed, variations on these questions were developed as categories and their properties emerge from analysis. "Floating prompts," such as repeating key terms from a respondent with an interrogative tone, shaking one's head in the affirmative, or simply asking the respondent to "tell me more about that" were used to keep the interview flowing. Additionally, planned prompts using the forms of "contrast," "category," "special incident," and "auto-driving" questions were used to drill down into more specifics, or to elicit meaning from the respondents.

As the research progressed, and the analysis moved toward selective coding, interviews moved from the general to the specific, and grand tour type questions were replaced by mini-tour and other more focused types of questions. Thus, once categories and their properties had been established, more specific questions tended to be asked. This is because at this point in the research the analyst is attempting to saturate, rather than identify the categories. Interview guides were adjusted as the research progressed to accomplish this. Following what Spradley (1980) terms the "verbatim principle," all formal interviews were recorded and transcribed verbatim. This is necessary because the

words people use are one key to their culture. Additionally, such things as pauses, inflection, and tone can be helpful in interpreting meaning from a conversation.

While in-depth interviews were the primary method for collecting data, observation served as a secondary source of data and as a means for verifying concepts and meaning derived from the interview process.

Observation

Observation, particularly participant observation, is commonly used as a means for researching cultures in many types of settings, including societies, organizations, and small groups (e.g., Geertz 1973; Whyte 1943; Workman 1993). Direct observation can be highly effective at capturing the actual behavior of participants, even more so than self-reports of behavior (Russell 2002). It is also an effective method for verifying actual behavior against behavior reported in interviews (Spradley 1980). There are several advantages to direct observation. First, it enables the researcher to understand and capture the context within which people interact. Second, it allows the researcher to be open, discovery-oriented, and inductive. This is because by being on-site, the observer need not rely on prior conceptualizations to visualize the setting. Third, the researcher has an opportunity to see things that may routinely escape awareness among the people in the setting. Fourth, there is the chance to learn things that people would be unwilling or unable (due to the unconscious aspect of culture) to talk about in an interview. Fifth, it allows for the opportunity to move beyond the selective perceptions of people that may surface in an interview. Sixth, the inquirer can draw on personal knowledge during the formal interpretation stage of analysis (Patton 2002). Based on observation and carefully

taken fieldnotes, ethnographic techniques such as domain and theme analysis allow the analyst to develop an understanding of the group culture under investigation (Spradley 1979; 1980).

Spradley (1980) identifies five levels of observation in the field, from lowest to highest involvement level. The lowest is nonparticipation, in which the observer has no involvement with the people or activities under research. Next is passive participation, in which the researcher is at the scene of action but has little interaction with people and does not participate in activities. Moderate participation involves maintaining a balance between being an insider and outsider, where the observer participates in some activities and has some interaction with those being observed. Active participation involves the observer seeking to do what others are doing in order to gain acceptance and learn cultural rules firsthand. The highest level of involvement is complete participation in activities. This research involved observation at the second or third levels of involvement, those of passive participation or moderate participation, for two main reasons. The first is that the phenomenon does not lend itself to more active levels, since it involves activities that can only be performed by organizational members. While the researcher could sit in on meetings, for example, he would not be able to actually do the work of a purchasing manager in that setting. Second, high levels of participation require a great deal of time with one group, and it is unlikely that this research can be satisfactorily completed with very few participating companies due to the nature of theoretical sampling.

The primary purposes of observational data are to describe the setting of an event or phenomenon, the activities that took place in that setting, the people involved in those

activities, and the meanings of what was observed from the perspectives of the participants. The key to systematic, objective, and analytical observation lies in keeping complete, accurate, and detailed field notes. Included in the notes for this research were descriptions of the appearance of subjects, the gestures and expressions they use, their physical surroundings, seating arrangements, and other aspects of the scene that may have bearing on the activities being observed. Conversations were manually recorded as closely as possible to the actual words spoken. Feelings the researcher experienced, thoughts, preconceptions, and working hypotheses were also included in the notes (Patton 2002).

The settings for observation revolved around two objectives. The first objective was to gain an overall impression of the culture of the organization. To that end, any event that gave insight into the values and norms within an organization was observed. Such events included everyday occurrences such as coffee or lunch breaks, casual conversations between employees, formal and informal meetings, employees performing their jobs, and so on. The second objective was to observe processes that take place concerning logistics supplier relationships. Such events as strategy sessions, supplier negotiations, and supplier reviews were included in this category. Thus, any events that gave insight into the company's culture or supplier relationship processes, and which can be compared to those of another company, were open for observation and taking of field notes.

The methods used in this research followed Spradley's (1980) advice on producing field notes. This involved a three-stage approach. The first stage is to produce a condensed account, including phrases, single words, and unconnected sentences, during

or directly after every period of observation. As soon as possible after each field session, an expanded account was written in order to fill in details and recall things that were not recorded in the field. Additionally, a fieldwork journal representing a record of "experiences, ideas, fears, mistakes, confusions, breakthroughs, and problems that arise during fieldwork" will be written (p. 71). The purpose of following this methodology is to produce as complete an account of the field work experience as possible in order to capture an insider's view of the various companies participating in the research. The quality of these observational reports is judged by how well the description allows the reader to enter into and understand the situation described (Patton 2002).

Additional Data Sources

Rich information about organizations can be gained from such sources as company records, documents, and artifacts (Patton 2002). Company records, for example, can indicate trends over time that could give clues about an organization's processes and culture. Documents such as purchase orders and contracts could provide verification of information obtained in interviews about supplier relationships, and company mission and vision statements could be used to gain knowledge about a company's espoused values. Artifacts such as statues of company founders, or company slogans, could also provide insight into the culture of a company. Additional sources of data that were used in this research are such things as photographs, hand-drawn maps, seating charts, and other means of recording data that can be used to fill in detail in observational field notes. Besides adding detail to observational and interview data, such sources may also prove valuable as stimulation for paths of inquiry that can be pursued

though observation and interviewing (Patton 2002). Thus, this researcher remained open to any data source that could assist in gaining a holistic picture of both a company's culture and its relationships with logistics suppliers.

Theoretical Sensitivity

Theoretical sensitivity refers to the "researcher's knowledge, understanding, and skill, which foster his generation of categories and properties and increase his ability to relate them into hypotheses, and to further integrate the hypotheses, according to emergent theoretical codes" (Glaser 1992, p.27. Any grounded theory research requires that the researcher be theoretically sensitive to what is going on in the phenomenon so that he or she can conceptualize and devise a theory that emerges from the data. Theoretical sensitivity develops over time as the researcher contemplates in theoretical terms what he or she has observed, and in questioning existing theories as to their purpose, their general positions, and their models (Glaser and Strauss 1967). Theoretical sensitivity is about the researcher's "ability to have theoretical insight into his area of research, combined with an ability to make something of his insights" (p.46). It is the opinion of Glaser and Strauss that the "root sources of all significant theorizing is the sensitive insight of the observer" (p. 251). Without such insight the researcher is unlikely to make the necessary leap from comparison of incidents to category and property development, and then on to formulation of hypotheses and theory.

Following Glaser (1978), the first step to obtaining theoretical sensitivity in this research was to enter into it with a minimum of predetermined ideas; unlike in positivist

research, *a priori* hypotheses were avoided. The absence of such hypotheses allowed the researcher to remain sensitive to what is going on in the phenomenon in order to collect and analyze data "without first having them filtered through and squared with pre-existing hypotheses and biases" (p.3). The background of the researcher- experiences, education, literature reviewed, and training- were used to address broad issues and ask theoretical questions (Glaser 1978). As Becker (1993) points out, it is probably naïve to assume that a researcher can enter into the field without some preconceived ideas about the phenomenon to be studied. However, if the researcher remains "sensitive to how the actors in the social environment interpret and give meaning to their situation" (p. 256), the problem can be allowed to emerge from the data.

Theoretical sensitivity means that the researcher is aware of theories in the field that may help explain behavior, attuned to the theoretical implications of what participants are doing or saying, but resistant to preconceived notions that might influence the analysis. To that end, a preliminary literature review in the areas of anthropology, corporate culture, and inter-firm relationships was conducted. Additionally, as noted earlier, the researcher's preconceptions and expectations concerning the phenomenon were noted. However, it can be difficult to remove oneself from existing theories and preconceptions, even when they are acknowledged beforehand. Therefore, three techniques noted by Flint (1998) were used to enhance theoretical sensitivity.

The first technique is periodically stepping back and asking oneself "What is really going on here?", and "Does my interpretation fit the reality of the phenomenon as indicated by the data?" These questions help the researcher stay true to the data and help

filter out preconceptions. The second technique is maintaining skepticism concerning "all theoretical explanations, categories, hypotheses and questions about the data, whether they come from making comparisons across the data, the literature, or experience" until they are verified with the data (Flint 1998, p.p. 65-66). The third technique is to faithfully follow the chosen grounded theory guidelines; these are designed to ensure rigor and lack of bias are applied to all phases of the research.

Thus, through the use of literature, experience, stepping back from the data, maintaining skepticism, and following procedures, this researcher developed and applied theoretical sensitivity to the research. The analyst who is theoretically sensitive will be most likely to pick up on concepts important to the analysis, and will use them to further the research. Theoretical sensitivity is needed in all phases of grounded theory, including theoretical sampling, coding, memoing, sorting, use of literature, and generating theory.

Sampling

The strategy used in this research was to purposively sample three firms that appeared to approach outsourcing decisions differently, then use both purposive and theoretical sampling to select participants within these firms. The criteria for selecting these firms are twofold. The first criterion is that the three firms make logistics outsourcing decisions using different approaches. To meet this criterion, one firm primarily outsources logistics activities, another combines outsourcing with in-house management of logistics functions, and a third will performs its own logistics functions. A second criterion was that the firms are different in other respects, such as industry

involvement, company size, public versus private ownership, and so on. The reason for using purposive sampling is to maximize the differences between firms in order to capture as wide a range of company characteristics as possible.

Selection of participants within firms began with purposive sampling, and then moved to theoretical sampling in order to reach theoretical saturation within each firm. The sampling began with outsourcing decision makers within the firms, and then expanded following theoretical sampling guidelines as understanding of the firm's culture emerges. Theoretical sampling is a process in which a researcher using grounded theory "jointly collects, codes, and analyzes data and decides what data to collect next and where to find them, in order to develop the theory as it emerges" (Glaser and Strauss 1967, p.45). Theoretical sampling is not planned beforehand because sampling decisions evolve during the research. Selection of participants is based on emerging hypotheses and theory, not snowballing techniques (Cutcliffe 2000). The aim of theoretical sampling is to cultivate and sharpen concepts, not to increase or broaden the original sample (Charmaz 1998). Initial sampling decisions can be made on the grounds of participants having broad knowledge of a subject or ability to provide relevant information concerning the phenomenon (Hutchinson 1993; Morse 1991). Thus, theoretical sampling in the initial stages involves purposeful selection of participants in places where the phenomenon occurs (Coyne 1997).

Theoretical sampling as outlined by Glaser (1978) follows a general procedure, and these procedures were applied in this research. Starting with an initial sample, coding of the raw data through comparison of indicators is conducted. These early codes are used to direct further data collection, and the codes are refined based on their

properties and their relationships with other codes. Theoretical sampling on any code stops at the point of saturation (no further information is being gained from additional sampling), and the code is integrated into the theory. Sampling is always conducted on the basis of concepts (categories and their properties) that are theoretically relevant (Coyne 1997). Becker (1993) points out that theoretical sampling is integral to the inductive-deductive process inherent in grounded theory. The inductive process provides the emerging theory, while the deductive process involves the selection of samples based on hypotheses derived from the theory.

The basic question in theoretical sampling (Glaser 1978) is: To what groups or subgroups of people, in what situations, places, or types of organization, should the researcher turn to next for collection of data? The basic criterion for selection is that the group, situation, place, and so on, must contribute to the theoretical relevance of the emerging theory (Glaser and Strauss 1967). In order for a category or concept to be theoretically relevant, it should be present in many of the incidents observed or reported by participants. Therefore, as categories and their properties emerge, the researcher is looking for settings or situations that "appear to be similar to the one that displayed the initial variable, as well as in cases that appear to be different…" (Flint 1998, p. 80). Theoretical sampling is used to systematically investigate a range of incidents that, when compared to other incidents (see constant comparative method in next section), indicates the presence, alteration, or absence of the variable under investigation. Codes that have been identified as potential categories, properties, or other relevant variables (such as conditions or strategies) are thus followed-up on using theoretical sampling.

Initially, theoretical sampling was used to establish important variables by "minimizing differences in comparison groups" (Glaser and Strauss 1967, p. 57). An example of a question the researcher might ask at this stage is: "What groups within a company have characteristics similar to those present in the group where this variable was first discovered?" Sampling groups identified by this question continued until the category or property reached the point of "saturation" (no further information is forthcoming from firms or groups being sampled). Once this task was complete, theoretical sampling was used to maximize differences between comparison groups to broaden the scope of the theory. The researcher might ask at this stage "What groups within companies are dissimilar from those already sampled?" The objective was to sample diverse sets of groups and individuals until saturation of the category or property across dissimilar samples is achieved. Theoretical sampling ends when all categories and their properties have been saturated through this process.

Coding Procedures

Coding techniques are used in qualitative analysis to abstract meaning from data collected in the field (Goulding 2002). Qualitative coding involves creating categories from the data "rather than relying on preconceived categories and standardized procedures" (Charmaz 1983, p.111). Coding provides a number of useful functions in grounded theory. Coding:

1) Both follows upon and leads to generative questions;
2) fractures [breaks into distinct meaning units] the data, thus freeing the researcher from description and forcing interpretation to higher levels of abstraction;

3) is the pivotal operation for moving toward the discovery of a core category or categories; and so
4) moves toward ultimate integration of the analysis; as well as
5) yields the desired conceptual density (i.e., relationships among the codes and the development of each) (Strauss 1978, p.p. 55-56).

Thus, coding is a key process in moving the researcher from raw data to theory.

While Strauss and Corbin (1998) offer a number of code types (e.g. axial, relational, and variational coding), Glaser's (1978) approach, which was followed in this research, is fairly simple. The researcher starts with open coding, which leads to an emergent set of categories and their properties (see Table 2-5 for examples) with the aid of theoretical sampling. Once core variables are discovered, selective coding is conducted "along the lines of focus on the central issues of the emerging theory" (p. 46). The goal is to arrive at a core code that can be used to group all other codes together (Glaser 2001).

The purpose of open coding is to produce concepts (categories and their properties) that appear to fit the data well. Open coding is the process of breaking down ("fracturing") the data into distinct meaning units. This starts with a fully transcribed interview that is analyzed line-by-line in order to identify "key words or phrases which connect the informant's account to the experience under investigation" (Goulding 2002, p. 76). Basically, open coding breaks the data down into its component parts, where similarities and differences in the incidents are compared and grouped together under abstract concepts called "categories" (Glaser 2001). The analyst codes each incident either into new categories emerging from the data, or into existing categories, depending on what codes have been developed previously. Glaser and Strauss (1967) see the

Table 2-5: Examples of Categories and Their Properties

Examples of Categories and Their Properties

Categories	Properties
Dealing with Customers	Customer Importance
	Inventory policies
	Ordering policies
	Customer expectations
	Reacting to customers
	Number of customers
	Customer types
	Customer internal problems
Dealing with the Supply Chain	Capacity issues
	Extent of distribution
	Lead times
	Manufacturing base
	Flexibility
	Range of purchased items
	Number of purchased items
	Number of channels

fracturing of data as helping the analyst in several ways. First, it helps the analyst to avoid being immersed in the data which can lead to inadvertently adopting the perspectives of the participants. Second, it can assist the analyst from becoming overcome by the sheer volume of the data by breaking it down into more manageable pieces. Third, it provides organization and a way to interpret data (Charmaz 1998). While Strauss (1987) applies a coding paradigm revolving around a select set of codes, Glaser (1978) provides the grounded theory researcher with a fuller range of theoretical codes. Glaser categorizes these codes into 18 coding families (See Table 2-4). He notes that these families are not mutually exclusive. Codes can overlap, and one family may spring from another. Codes can also have subfamilies; for example, a subfamily of consequences includes outcomes, efforts, functions, predictions, and anticipated and unanticipated consequences. Glaser also notes that these families are not set in stone. A researcher can use his or her theoretical sensitivity to develop new sets of coding families.

Codes were generated through the application of a *concept-indicator model* (see Figure 2-3). This model links data and emerging concepts and properties, eventually resulting in a theory (Glaser 1978). The analyst first compares indicator to indicator until a conceptual code is created. As the concept emerges from the analysis, indicators are then compared to the concept. By comparing incidents to incidents the analyst is able to recognize "similarities, differences and degrees of consistency of meaning between indicators which generates an underlying uniformity which in turn results in a coded category and the beginning of properties of it" (Glaser 1978, p. 62). This process is part of what Glaser and Strauss (1967) term the *constant comparative method*.

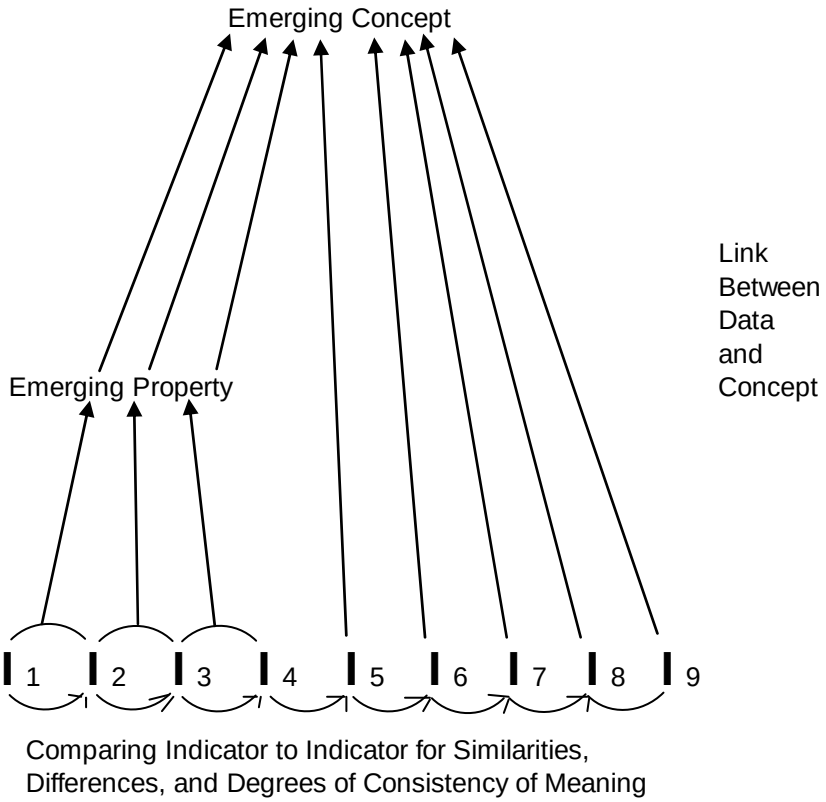


Figure 2-3. Concept-Indicator Model (adapted from Glaser 1978)

In the constant comparative method the analyst codes each incident into as many categories as applicable. During this coding the analyst compares an incident with previous incidents coded in the same category. This is done in order to generate theoretical properties of the category. For example, the analyst compares one incident to another to see if conditions, dimensions, strategies, consequences, or other theoretical codes can be applied to help understand the full range of the category (Glaser and Strauss 1967). As other categories and their properties emerge from the data during open coding, "the constant comparative units change from comparison of incident with incident to comparison of incidents with properties of the category that resulted from initial comparisons of incidents" (Glaser and Strauss 1967, p. 108). This type of comparison starts to cause the properties of categories and the categories themselves to become more and more integrated and saturated, allowing the analyst to begin to develop theory as "underlying uniformities" are discovered in the categories and their properties (Glaser and Strauss 1967). As these underlying uniformities are revealed, the analyst begins to turn to the second type of coding, selective coding.

In selective coding the analyst is looking for the core category that links all of the other categories and explains the majority of the behavior in the phenomenon. When a central category has been determined the analyst turns to selective coding to connect subordinate categories to the core (Strauss 1987). The purpose of choosing a core category is to "delimit the data collection or theoretical sampling…and to integrate the categories and their properties" (Glaser 1978, p. 199). Selective coding only starts when the researcher feels assured that the core category has been identified.

Selective coding means that the analyst is coding for only those variables that relate to the core category. The core category thus becomes the sole guide for directing data collection and theoretical sampling (Glaser 1978). The analyst is looking for variables such as conditions, strategies, actions/reactions, consequences, and so on that can be associated with the core category and that can be used to generate a parsimonious theory that incorporates these variables. A core category is the main concept, theme, or process that captures the patterns of behavior that are going on in the phenomenon (Goulding 2002). It therefore has considerable explanatory power and it can be used to unify the other categories identified in open coding. Goulding (2002, p. 89) summarizes the criteria that a category must satisfy to become a core category:

- It must be central and account for a large proportion of behavior.
- It must be based on reoccurrence in the data.
- A core category takes longer to saturate than other categories/concepts.
- It must relate meaningfully to other categories.
- It should have clear implications for the development of formal theory.
- The theoretical analysis should be based on the core category.
- It should be highly variable and modifiable.

Selective coding organizes categories around a central concept that has the most explanatory power of any developed in the analysis. Thus, it is through the process of selective coding that a theory is integrated and refined (Strauss and Corbin 1998).

Thematic Analysis

Understanding culture in an organization requires uncovering its underlying, cognitive, and unconscious components such as assumptions and beliefs (Frake 1977). Noting limitations of in-depth interviews and observation at getting to these underlying cultural components, Sackmann (1991) recommends using a technique called “thematic

analysis" to gain an understanding of the aspects of culture. Sackmann maintains that an issue-focused investigation enables the tacit components of culture to emerge, and at the same time allows comparisons across individuals and research settings. Participants are asked to discuss an issue or issues of relevance to them in their role as organizational members. Comparisons across answers can show themes based on respondent interpretations rooted in their cultural framework. When using this technique the "tacit components of culture become apparent in the specific interpretations attributed by respondents" (Sackmann 1991, p. 304). An issue-focused question concerning logistics services was placed in the interview guide (see question 5) to allow for thematic analysis.

Sackmann (1991) recommends conducting two theoretical content analyses- an individual and a group analysis. The procedure involves first analyzing each interview to identify emerging themes. A theme "refers to equivalent meanings attributed to situations or events" (p. 307). Thematic analysis is a search for patterns in the data that lie in the meanings of the respondents. Hall (1997) recommends identifying each theme through the frequency (how often they are repeated by a respondent) and weight (pervasiveness across respondents) of recurring statements that reveal similar assumptions and/or beliefs about how a company approaches an issue. Assumptions and beliefs are inferred from responses to such probing questions as why the issue was considered important, who got involved in resolving the issue, what obstacles to resolution of the issue were present, what could be done to improve the company's approach to resolving the issue, what company strengths contributed to its resolution, and how successful the respondent thought the resolution was. Once themes are identified, Hall recommends breaking the themes down further into properties of the theme, and

elements of those properties. These properties and elements can be compared across individual respondents to cross-reference thematic patterns in order to check for consistency across the company. Sackmann (1991) specifically mentions the Schein (1985) model's five cultural assumptions as ones that can be inferred from such an analysis.

Memoing

In grounded theory research multiple sources of data can be used. As this data is coded, the researcher also writes memos concerning the analysis. These memos keep track of the researcher's thought processes as the analysis develops. Memos help researchers "a) to grapple with ideas about the data, b) to set an analytic course, c) to refine categories, d) to define the relationships among various categories, and e) to gain a sense of confidence and competence in their ability to analyze data" (Charmaz 1998, p.p. 517-518). Memos contain thoughts about codes and their relationships, the results of analysis, or ideas concerning what directions the researcher should take next (Glaser 1978; Strauss and Corbin 1998). Memos keep track of theoretical ideas and help to link them and develop them over the course of the research (Strauss 1987). Memoing is therefore a core process in grounded theory analysis, and as such were an integral part of this research.

Initial memos are likely to concern operational issues such as what data should be collected and from where. Or they may simply be ideas that enter the analyst's thoughts. As the research progresses, later memos will be more conceptual and focus on such

topics as emerging categories and properties, the relationships between categories and properties, summarization of previous memos, and choosing a core category. Memos may also be used to help identify gaps in the current analysis that need to be filled in over time (Strauss 1987). Theoretical memos help direct the data collection that is needed to accomplish this.

To follow Glaser's grounded theory methodology in memoing is to proceed with complete freedom of action. Glaser prefers to follow no specific guidelines regarding memos. His position is that the ideational development in memos should not be hindered by any unnecessary constraints. Good prose is not needed in memos, and may actually inhibit the analyst's ideas from emerging- the point is to produce memos and not final drafts. He recommends that memos be "run open"; that is, there is no need to find fit or integration beyond the immediate incident or incidents under investigation. Theoretical sorting at a later date provides the necessary fit, integration, and relevance. In this research, then, memos were written to record, modify, or discard ideas on a regular basis but without constraints. If certain types of memos, like logic diagrams, proved useful to the analysis they were produced; however, no specific type of memo was forced into the analysis. The objective was to write memos and place them in a "memo fund" from which they could be sorted later.

In order for the memo fund to be of value, the memos must be sortable quickly in terms of the analyst's ideas as they come forth during the research. Glaser (1978) suggests a number of ways to prepare the memos so that they can be quickly sorted:

1) memos should have a title related to the category or property to which it is initially related,
2) any *other* category or property mentioned in the memo is to be highlighted,

3) if two categories or their properties are identified in the memo their relationship should be discussed or highlighted,
4) memos should be kept separate from data (e.g., not written in the margins of field notes), and
5) the analyst should be prepared to sort memos however the theory emerges, and not on a predetermined set of ideas.

These guidelines were followed by this researcher as long as they worked well. One departure from Glaser was taken, however. Glaser recommends putting memos on paper or index cards and sorting them manually. This researcher had experience using software (Atlas.Ti) and used that software to code and sort.

Theoretical Sorting

Theoretical sorting of memos is a key activity in grounded theory. It starts to put the data previously fractured in open coding into a theoretical framework in preparation for the writing stage of the research (Glaser 1992). During the sorting process connections are made between categories and properties. For example, memos concerning conditions affecting the phenomenon can be sorted together to help surface similarities in incidents based on comparable conditions. From such similarities, categories or properties of categories may emerge. Often the sorting of memos generates more sorting at a higher conceptual level. As the sorting proceeds to these higher levels, the theory becomes more dense and complex. These connections eventually result in an integrated model that explains behavior in the phenomenon (Glaser 1978).

Unlike the Straussian methodology, where the "paradigm" in effect presorts memos into a small set of criteria, the Glaserian method utilizes the set of theoretical codes as described in *Theoretical Sensitivity*, with encouragement to find additional codes

in the data. However, Glaser (1978) does offer some analytic rules concerning theoretical sorting and the subsequent writing of the theory that were followed in this research. These rules are:

1) Starting to sort: The analyst can start sorting anywhere in the memo fund.
2) Core variable: Begin sorting all other categories and their properties only as they relate to the core category. This rule forces focus, selectivity, and delimiting of the analysis.
3) Promotion-demotion of core variables: When the analyst is faced with two equally qualified variables, one must promote one variable to the core, and demote all other variables. Only those properties of the demoted variable that relate to the core variable are used in the analysis.
4) Memoing: Once sorting on the core variable begins, new ideas are likely to be generated, especially on theoretical codes for integrating the theory. It is necessary to stop sorting at these points and write memos.
5) Integrative fit: All ideas must fit in somewhere in the outline, or the integration must be changed of modified. This basic rule is unwavering.
6) Sorting levels: The analyst first sorts for chapters, then sections of each chapter, and then within sections.
7) Cutting off rules: The firm rule to follow is only to stop when theoretical completeness is achieved. This means that the theory explains variation of behavior in the phenomenon with the fewest possible concepts, and with the greatest possible scope.

The activity of theoretical sorting results in a parsimonious theory that covers as much of the behavior in the phenomenon as possible. While the researcher is admonished to follow these guidelines, Glaser also recognizes that other rules may be applied as the analyst works through the research. Therefore additional rules can be devised and used as research unfolds.

Reaching Saturation

Since grounded theory is primarily an inductive process, without any *a priori* constructs set at the beginning of the research to be tested, an important question

regarding theory building is: How will the researcher know and be able to demonstrate to others that the research is complete? In grounded theory the answer is when the research has reached theoretical saturation. Theoretical saturation is achieved when no new information emerges from interrogation of the data (Goulding 2002), such as categories, properties, conditions, strategies, and so on. The researcher has reached theoretical saturation when "a) no new or relevant data seem to emerge, b) the category is well developed in terms of its properties and dimensions demonstrating variation, and c) the relationships among categories are well established and validated" (Strauss and Corbin 1998, p.212).

The primary driver in achieving theoretical saturation is theoretical sampling. Through constant comparison of the data, the researcher asks questions regarding what aspects of the phenomenon might change from incident-to-incident and place-to-place, and these questions help direct the researcher to investigate different individuals, situations, conditions, locations, industries, and so on. Theoretical saturation is achieved by continuing to collect and analyze data until no aspect of the theory- the core category, other categories, properties of these categories, and relationships between these categories- are informed by further collection and analysis.

Theoretical completeness implies theoretical coverage as far as the research can take the analyst (Glaser 1978). There are no hard-and-fast rules governing how long the researcher should stay in the field, except that the data must be saturated; i.e., sampling has "stretched the diversity of data in order to ensure that saturation is based on the widest possible range of data" (Goulding 2002, p. 70). The best way to reach saturation is to maximize the differences between the groups, locations, and situations under

research (Glaser and Strauss 1967). The researcher must be aware to guard against coming to closure too early in the analysis. A particularly important point is for the researcher to acknowledge and investigate variation and issues that do not fit easily into the emerging theory (Goulding 2002), and to follow up on that variation in order to extend or modify the theory as necessary. The result of theoretical saturation is the emergence of a core variable, clarification of properties of categories, and the illumination of relationships between these categories, all leading to a grounded theory that explains much of the behavior in the phenomenon.

Generating Theory- Substantive and Formal

The elements of a grounded theory are comprised of two main components. These components are conceptual categories and their properties, and hypotheses or generalized relations among these categories and their properties. The theory should provide clearly formulated categories and hypotheses so that key ones can be verified in future research; they must also be well enough defined to be operationalized in quantitative studies when these are appropriate (Glaser and Strauss 1967). The process by which theories are derived in grounded theory research is a combination of inductive and deductive reasoning. Grounded theory is primarily based on the inductive process by which the researcher builds abstract levels of theoretical connections from the data through progressive stages of analysis (i.e., open coding, identification of categories and their properties, writing of theoretical memos, theoretical sorting, and so on). The deductive process involves developing hypotheses concerning the emerging connections, and then

selecting samples for further data collection to "check out" the emerging theory (Becker 1993). The end result is substantive theory.

Grounded theory studies are generally initiated in substantive (empirical) areas, such as patient care or professional education, and therefore result in substantive theories that are somewhat narrow in scope, or what Glaser and Strauss (1967) term "minor working hypotheses" of everyday life. However, from substantive theory one can go to a higher level, called formal theory (Glaser 2001). As Glaser (1978, p. 6) points out, grounded theory "is transcending in many ways. Its generative nature always takes it beyond the substantive area being studied. A substantive theory invariably has formal theory or general implications." Such theory is what Glaser and Strauss (1967) term "middle-range" theories, which fall between substantive and "all-inclusive" grand theories. An example of formal theory is one that explains socialization processes in organizations.

The aim of this research was to produce a substantive theory concerning the ways in which corporate cultures influence the logistics outsourcing decisions. The research culminated with a model that integrates conceptual categories with a core category that explains the majority of the behavior in the inter-company relationship phenomenon within a logistics context. A key finding was determining where corporate culture fits in that model. While the substantive area of research lies within the context of logistics services, it may be applied to broader areas, such as general supplier relationships, in future studies.

Criteria for Assessing Grounded Theory Research

All approaches to research have established ways of assessing the rigor and trustworthiness of a research. The methodology followed in this research is that proposed by Glaser. Glaser (1992; 2001) maintains that the criteria for evaluating grounded theory studies are limited to fit, relevance, workability, easy modifiability, and parsimony and scope in explanatory power. His rationale for this statement is that the criteria established for qualitative research (Lincoln and Guba 1985; Wallendorf and Belk 1989) are built into the grounded theory method, and that the researcher who follows grounded theory guidelines has "automatic 'built-in' compliance" with qualitative rigor requirements (Glaser 2001, p. 41). Therefore the grounded theory researcher (in Glaser's view) need only establish how these six criteria have been met in the research.

Fit

Fit was verified through input on interpretation of the data and consistency across incidents in the data from independent sources such as members of the dissertation committee (Flint, Woodruff, and Gardial 2002). Whenever feasible, members of the committee were asked to independently analyze interpretations and documents, and interpretations were refined based on reconciliation of differing interpretations. Additionally, participants were involved in verifying that what is derived as theory from the data actually fits what is going on in the phenomenon in their experience. This was accomplished by providing participants with summaries of initial interpretations, who were asked to review these interpretations and comment as to whether they accurately

reflect the participants' meaning. Interpretations were then discussed and squared with or adjusted to this input.

Workability

Participants should recognize their actions, reactions, strategies, etc., and those of other actors in the phenomenon in the theory. This is what Glaser (1978, p. 4) terms "getting the facts" straight by doing systematic research. This is not to say that participants will necessarily understand the theory, since the theory may encompass an etic interpretation based on concepts derived from sociological or other academic theories. As a check for the criteria of work, the theoretical interpretations were shared with the participants in the research for the purpose of ensuring that the researcher has faithfully reported the facts of incidents as reported by participants. Any discrepancies were reconciled in a manner that satisfied the dissertation committee that the input and concerns of participants were reconciled with what the researcher reported.

Relevance

A grounded theory is relevant to practitioners when it addresses core problems that they deal with on a regular basis. It is relevant to researchers when it offers a new or alternative explanation for behavior that goes beyond that offered in extant literature. Therefore, to ensure that this research is relevant, participants were invited to comment on how well the research addresses the core issues of the phenomenon. This was accomplished by providing participants with a summary of the results of the research

after the initial draft of the results was written up. Input from the participants was used to judge whether the theory addresses core issues in the phenomenon. Additionally, member checks from the dissertation committee and other academic researchers were solicited to assess how relevant the results of this research are to the academic field of logistics.

Modifiability

In order to meet the modifiability requirement, the researcher should be able to demonstrate that negative cases or incidents that do not fit the emerging theory have been appropriately handled with modification to that theory. For example, theoretical sampling may direct the research to look for conditions different from those already encountered in the research. Such conditions may require a modification of the theory in order to account for variation in conditions. To demonstrate that this modification occurred, an audit trail was established that shows how and why the theory was modified.

Parsimony and Scope

Glaser (1978; 1992) maintains that the two prime criteria of good scientific inducted theory are parsimony and scope. This research seeks to build substantive theory around the phenomenon of logistic supplier relationships. To achieve parsimony, categories and their properties were limited to those that best help to explain the behavior within that phenomenon, with the objective of providing a process model that utilizes the minimum number of categories and properties salient to the phenomenon. Additionally,

parsimony was achieved through the selection of a core category that considers the central issues with the phenomenon, and which organizes the other categories by continually resolving the main concern of the actors (Glaser 2001). Member checks from the dissertation committee and other academic researchers were conducted to assess how well the core category explains activities within the phenomenon.

The criterion of scope requires the theory to be flexible enough to clarify a wide variety of situations and to "discover multiple aspects of the phenomenon" (Flint, Woodruff, and Gardial 2002, p. 106). The theory must therefore be general enough to apply to changing conditions and have broad practical use. Scope was achieved in this research through theoretical sampling procedures that lead the researcher to a wide variety of circumstances in which the phenomenon is played out. Depending on what emerged from the research, this could mean that a number of conditions, strategies, actions, consequences, or other salient aspects of the phenomenon could be sampled for. Additionally, long interviews that are open in nature were used to draw out as many facets and nuances of the phenomenon as possible (Flint, Woodruff, and Gardial 2002), and participant observation was employed whenever possible to help the researcher fill in details that may be left out of other methods. The dissertation committee members were asked to review the theoretical sampling and data collection procedures to ensure that sufficient scope is obtained.

Chapter Summary

This chapter has provided rationale for choosing a qualitative approach to investigating the relationship between corporate culture and outsourcing decision-making

in a logistics context, and in particular why grounded theory was chosen as the specific methodology to be followed in the research. Background was provided on the basics of grounded theory, and particular emphasis was placed on the differences between the Glaserian and Straussian approaches to grounded theory. Additionally, a rationale was put in place describing why this researcher chose to follow what Glaser terms "orthodox" grounded theory. Lastly, the specifics of the Glaserian method were explained, and the manner in which the reader may judge the rigor and theoretical contribution of this research was described.

Two specific contributions were intended for this chapter. The first was to provide a detailed exploration of the differences between the Glaserian and Straussian approaches. This exploration should assist other researchers in understanding first, that there are real differences between these two methods that will impact how a grounded theory research is designed and implemented, and second, what the researcher must struggle with in terms of deciding on a particular path to take in grounded theory methodology. The second intended contribution was to show how a qualitative, interpretive approach to research can be applied in logistics research. It is hoped that this research will inspire future researchers to consider the advantages of using this type of research to investigate areas of logistics research where its application would be beneficial.

Chapter 3-Research Findings: Dealing with Change

Chapter Outline

This research set out to discover the relationships between corporate culture and outsourcing of logistics services. What emerged from the discovery process is commonality in two areas that have proven problematic for the companies: 1) dealing with change and 2) dealing with logistics suppliers. These two areas serve as contexts within which the companies apply various strategies, including logistics outsourcing and supplier relationship management, as they attempt to solve problems. The concept of control acts as a core category helping to explain the relationship between corporate cultures, outsourcing strategies, and governance. Figure 3-1 depicts the interrelationships between the three categories, and Table 3-1 lists the external and internal conditions, including corporate culture, that are related to the phenomenon. Appendix C provides a summary of which participants discussed which components of the model. This chapter focuses on the first area, dealing with change. Chapter Four focuses on the second area, dealing with logistics suppliers. This chapter and the next present interpretations of thirty-one depth interviews and conversations conducted during observation sessions with members of the three participating companies selected to help understand the relationship between corporate culture and logistics outsourcing decisions. Table 3-2 gives a brief biographical view of the participants.

The chapter begins with overviews of the participating companies, including characterizations of their cultures based on thematic analysis of the interviews.

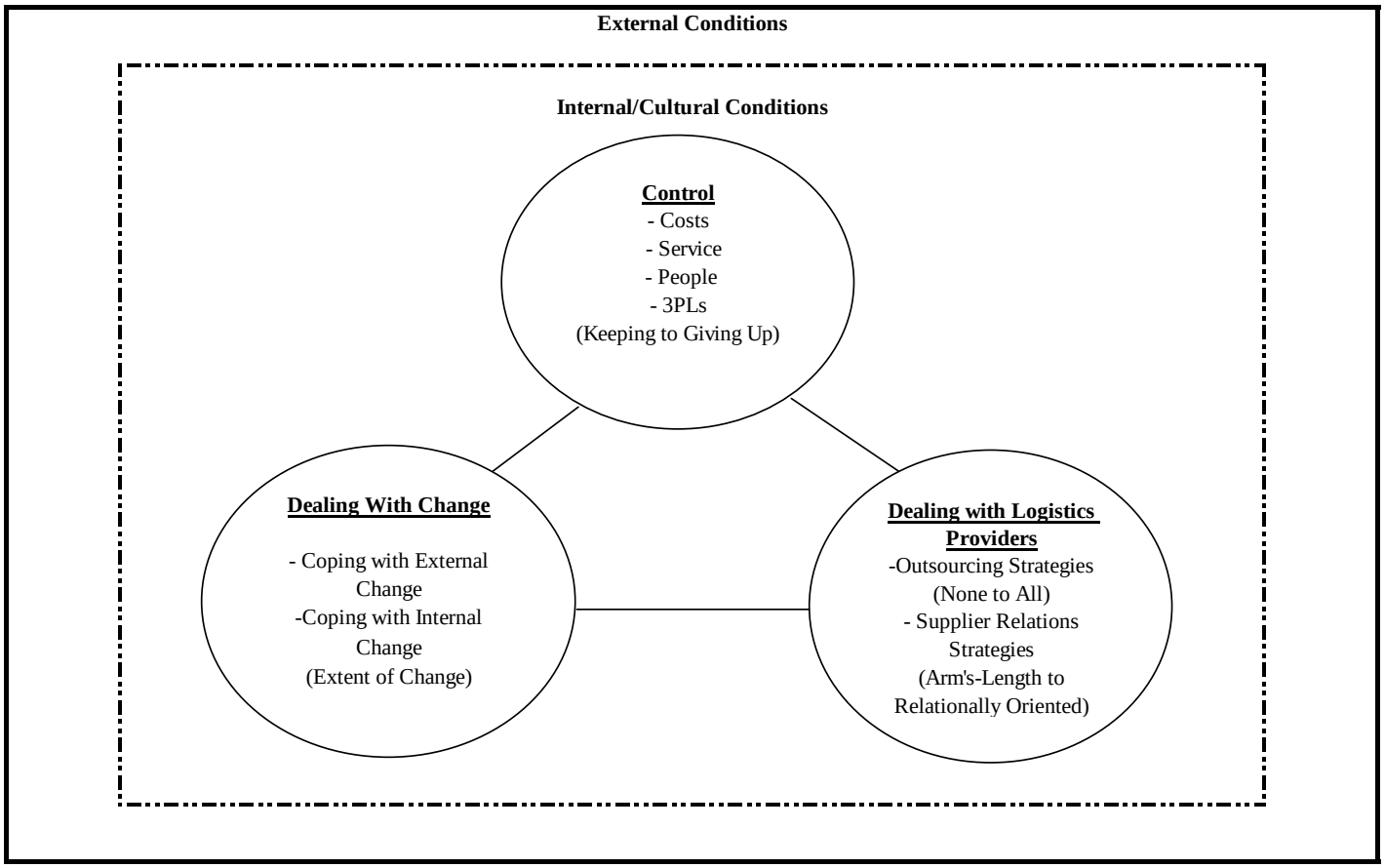


Figure 3-1. Logistics Outsourcing Model

Table 3-1: External and Internal Conditions

External and Internal Conditions
External (macro)
Change to and Uncertainty of:
Business Conditions
Competition
Power/Dependence Shifts
Seasonality
Threat from 3PL Pressure
Internal (micro)
Change
Cost Pressures
Company Characteristics
Company History
Social Dynamics
Integration/Differentiation/Fragmentation
Task/Relational Orientations
Owner/Parent Company Influence
Fear/Insecurity
Structure
Cultural
Assumptions
Rel. to Environment
Task/Relational Orien.
Trust/Distrust Orien.
Group Boundaries
Human Relationships
Values
Norms
Goals

Table 3-2: Study Sample

Study Sample

Interviews Pseudonym	**Industry**	**Job Title**	**Age**	**Time in Job**	**Time with Study Company**
Adam	Yard and Garden products	Company President	53	27 years	27 years
Brian	Yard and Garden products	VP Operations	58	6 years	6 years
Chris	Yard and Garden products	Director of Logistics	30	1 year	15 years
Cliff	Yard and Garden products	Global Procurement Director	43	3 years	26 years
Dan	Yard and Garden products	VP Product Development	42	3 years	23 years
Arlene	Yard and Garden products	Transportation Manager	47	5 years	5 years
Frank	Yard and Garden products	Forecasting Coordinator	35	3 years	14 years
Grant	Yard and Garden products	VP Sales	54	27 years	27 years
Harold	Yard and Garden products	Holding Company President	52	20 years	24 years
Jerry	Yard and Garden products	Raw Materials Warehouse Manager	37	10 years	16 years
Kerry	Consumer Packaged Goods	Customer Service Team Leader	57	5 years	25 years
Lem	Consumer Packaged Goods	3PL Relationship Manager	47	2 years	20 years
Manny	Food Distribution	VP Operations	40	18 months	18 months
Abby	Consumer Packaged Goods	Manager, Supplier Relations	49	18 months	26 years
Nate	Yard and Garden products	Shipping Supervisor	47	4 years	9 years
Katie	Yard and Garden products	Freight Auditor	32	4 years	6 years
Omar	Food Distribution	Logistics Manager (Previous)	47	3 years	27 years
Pete	Food Distribution	Buyer	48	20 years	20 years
Beth	Consumer Packaged Goods	Warehouse Analyst	48	18 months	27 years
Candice	Consumer Packaged Goods	Director of Distribution	39	6 months	18 years
Randy	Consumer Packaged Goods	International Distribution Manager	58	18 months	28 years
Sandy	Consumer Packaged Goods	Distribution Operations Manager	45	2 years	18 years
Sam	Distribution 3PL	VP Customer Service	42	5 years	10 years
Ted	Consumer Packaged Goods	Best Practice Manager- Logistics	49	4 years	22 years
Shanna	Consumer Packaged Goods	Distribution Specialist	40	5 years	20 years
Vernon	Consumer Packaged Goods	Intern	21	4 months	4 months
Warren	Food Distribution	Chief Financial Officer	38	18 months	4 years
Mark	Food Distribution	Logistics Manager (Current)	35	2 months	2 months

Observation Pseudonym	**Industry**	**Job Title**	**Age**	**Time in Job**	**Time with Study Company**
Chuck	Consumer Packaged Goods	Warehouse Analyst	32	2	2
Virginia	Consumer Packaged Goods	Distribution Specialist	38	6	6
Tony	Consumer Packaged Goods	Distribution Planner	42	1	1

The next section introduces a five stage, iterative process that serves as a framework for understanding the decisions companies make regarding perform-versus-buy logistics outsourcing decisions. This is followed by a discussion of internal change conditions and their relationships to outsourcing decisions, supplier relations, and governance. The chapter concludes with discussions of external change as a set of conditions that influence the ways companies approach logistics outsourcing.

Company Overviews

The three companies that participated in this research were chosen based on only one criterion: extent of logistics outsourcing. A fourth company, which owns one of the participating firms, figures significantly in the findings because it influences logistics outsourcing at that firm, and is discussed as a separate company. The objective of this selection was to obtain variation between the companies on how they approach the "perform versus buy" logistics outsourcing decision for purposes of comparison. The three companies vary considerably in the type of industry in which they compete, the size of their business, the internal and external conditions that affect their business, and their corporate cultures. However, all three companies are struggling with two common issues, how to cope with internal and external change, and how to deal with a supply chain comprised of numerous suppliers and demanding customers. The way these companies attempt to solve these issues appears to be affected in part by their cultures and to be related to how they approach logistics outsourcing and subsequent supplier relations and governance. In turn, the cultures of these companies are affected by a

myriad of conditions including their histories, ownership, industry conditions, financial positions, and management styles. The following overview provides a context for the research through which the findings of the research may be viewed.

Company A

The first company, Company A, was chosen as a participant because the majority of its logistics services are handled by a third-party. Figure 3-2 depicts the company's organization chart with regard to logistics activities. Company A is a company that manufactures and markets home and personal care products. As a subsidiary of a much larger company that owns approximately 500 companies worldwide, Company A was formed in the year 2000 by merging three of those companies into one. The new entity contributes approximately $4 billion in sales to the parent company. The company operates six manufacturing plants, twenty manufacturing co-packers, and five outsourced distribution centers. Customers of Company A are overwhelmingly domestic "big box" retailers, although there is a small international customer base as well. The major customers are demanding from a price and service standpoint, and have significant power in the supply chain. On the supplier side of the supply chain, Company A ships, receives, and stores thousands of truckloads of product each week and is considered a large and desirable customer by its logistics suppliers.

Participants describe Company A as highly customer focused, to the point that employees "put on a customer hat" when dealing with logistics suppliers to ensure the best customer service will be provided to customers. A great deal of emphasis is placed

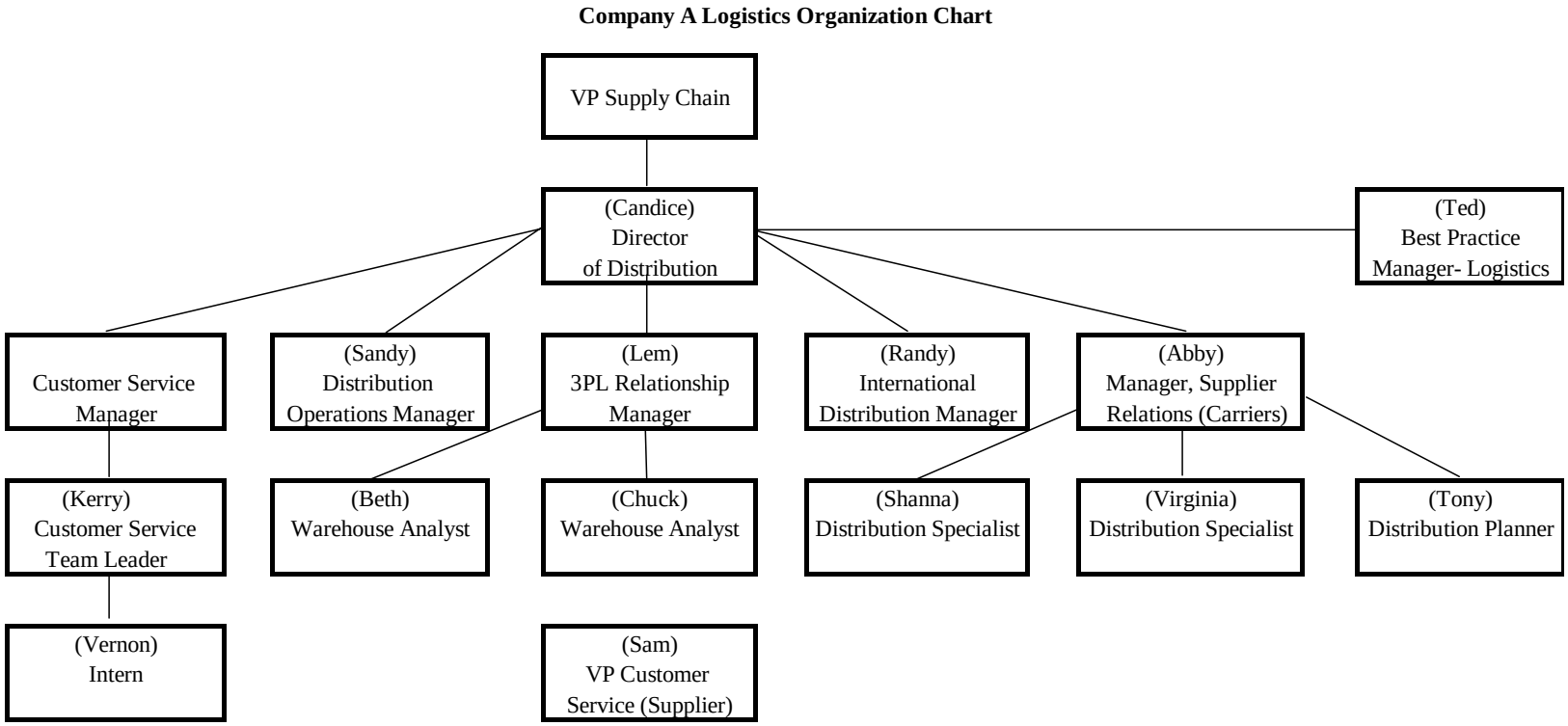


Figure 3-2. Company A Logistics Organization Chart

on growing the business and its brands; indeed, one of its stated values is "passion for growth." Related to this a strong desire to increase the profitability of the company, arising in part from a lack of profitability at the parent company, which has struggled in this area over the past few years. Participants describe the company as very team oriented, which is reflected in another of its stated values, "deliver through teams." Decision making is usually conducted by a committee formed to deal with an issue and comprised of personnel from various functional areas. Several participants viewed this aspect as a negative because it slows down the company's ability to react. Another aspect of the company that participants pointed out as an issue is a disconnect between upper management and the rest of the employees. Breakdowns in communication, a sense that the company is "losing its sense of direction," and general dissatisfaction with the leadership of the company were identified by a number of participants as outcomes of this disconnect.

Company A continues to struggle with the after effects of the merger. "Purging" of employees, transfer of people and departments to different geographic areas, changing management goals and styles, and frequent rotation of middle level managers into areas in which they have little experience were often mentioned by participants as causing confusion, disorientation, and anger among employees. Adding significantly to the stress on employees is an upcoming merger with the foods division, which is expected to result in more management changes, downsizing, and relocation of employees. From a cultural standpoint the company has never jelled into a coherent culture. Rather, it exhibits traits of a differentiated culture (see Table 1-4). Characterization of Company A's culture as differentiated derives from the researcher's thematic analysis of participant comments,

such as “there are all kinds of cultures in this building” (Kerry). Various subcultures appear to exist based on such factors as which of the merged companies the employee came from, age, and functional department. The influence of the parent company’s culture is off-set by the influence of these subcultures, particularly which company employees worked for before the merger. Outcomes of this struggle are manifested in how Company A deals with internal and external change, and its supply chain. See Figure 3-3 for cultural characteristics and change derived from thematic analysis of the data and interpretations of participant comments concerning their firm’s culture.

Company B

The second company, Company B, was chosen because it represents a company that performs some of its logistics functions in-house while also purchasing some logistics services. Figure 3-4 depicts the company’s organization chart with regard to logistics activities. Warehousing, with the exception of a distribution center in Canada, is managed by Company B. Nearly all transportation services are provided by a third-party with the exception of some local deliveries, but Company B performs transportation management activities such as arranging loads and deliveries to customers. Company B is a company that manufactures and markets lawn care products with $130 million in annual sales. The firm was started in the 1970’s as a hardware distribution company focused on direct sales to local hardware stores. As the company grew, a separate division was formed to handle the manufacture and distribution of lawn care products, which is called Company B. Company B is currently run by two of his sons and a

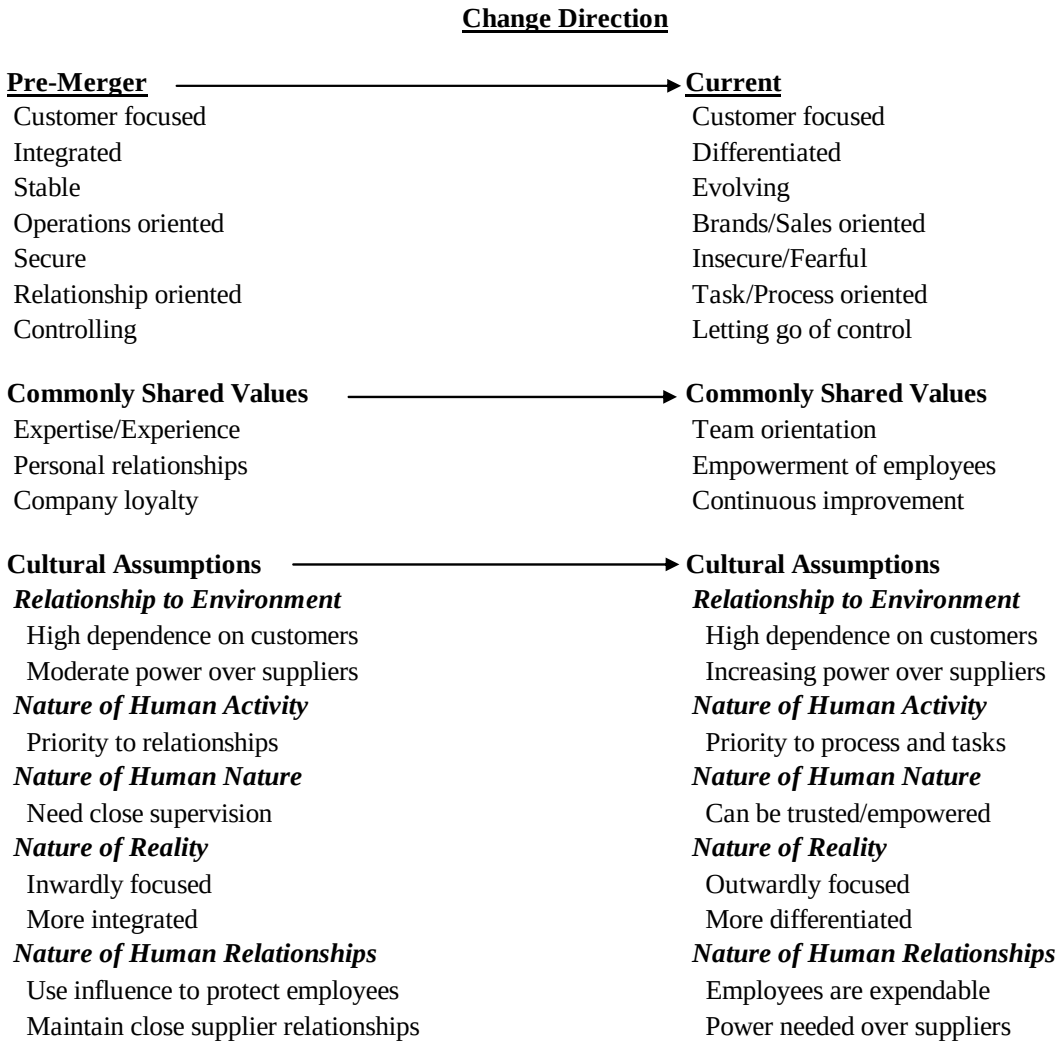


Figure 3-3. Cultural Characteristics and Change- Company A

Company B Logistics Organization Chart

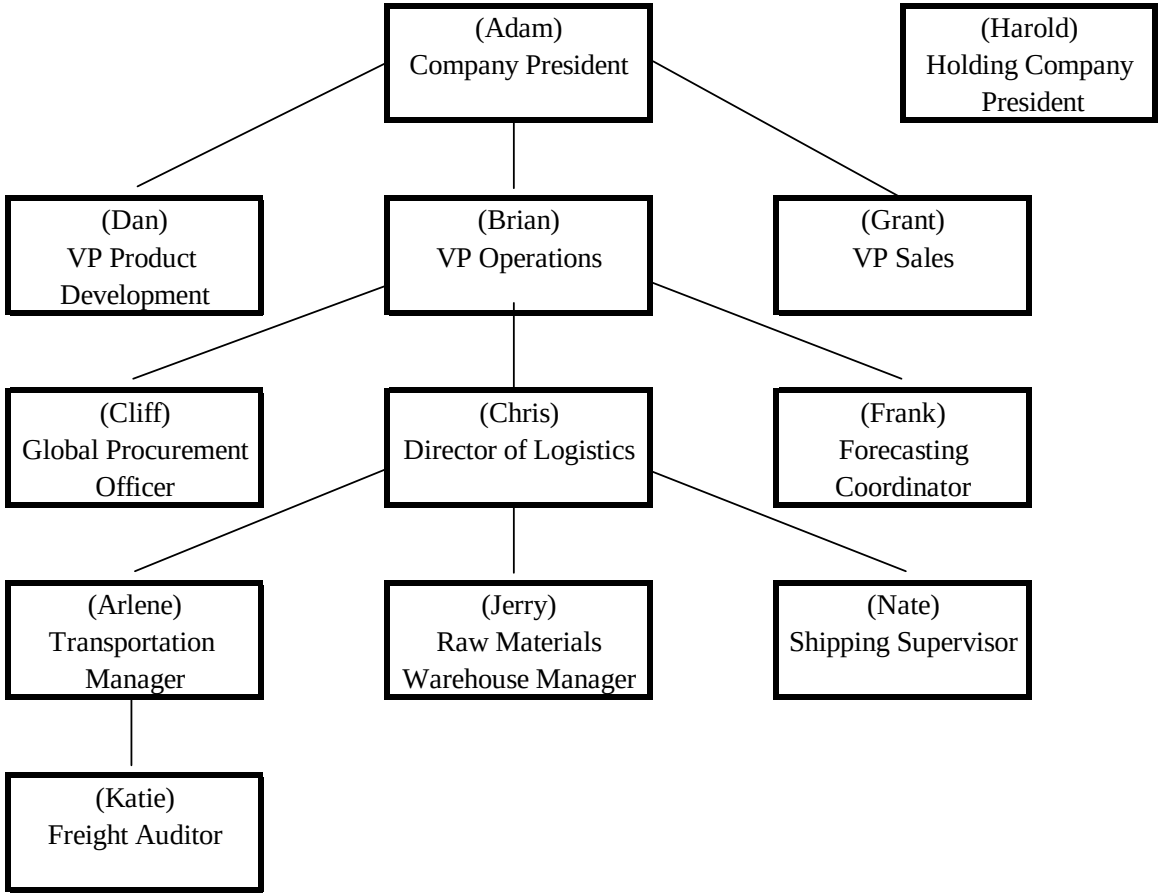


Figure 3-4. Company B Logistics Organization Chart

son-in-law; it remains privately held. The business is highly seasonal. The seasonality of the business centers on the spring and summer months, which gives the company some advantage with its logistics providers. Company B considers itself a "big fish in a small pond" because of the counter-seasonality of its shipping, and its geographic location in the Rocky Mountains, which makes it a high volume customer for many of its carriers. On the customer side of the supply chain, approximately fifty percent of its business is with one customer, and twenty percent of its business is with two other customers.

Participants described Company B as a sales-driven company highly focused on serving its customers. Considering that seventy percent of its business is with three companies, it is logical that the company would be very customer focused. The company has been growing rapidly in sales and the number of products it offers. The top management of the company is Mormon, and the President and the Vice President of Sales both hold high positions in the church. This appears significant because the culture of the company is described by one participant as being "deeply rooted in the church." The owners feel a high sense of responsibility for their employees, which follows along with the Mormon belief that people should take responsibility for their neighbors. The owners are described as being conservative, particularly concerning financial matters. The owners are also described as "hands on" managers very involved in running the company, ethical in business matters, and paternalistic toward their employees. Major decisions are kept within the family, but the family members are open to input from the employees prior to making their decisions. Employee satisfaction is high. Indeed, the most frequently heard comment from participants was that Company B is "a good place to work."

Participants talked about the changes that have occurred in the company because of its growth. Company B's approach to dealing with the changes required by its growth was to "turn inward," focusing on improving its business processes and determining the areas in which it needed to develop expertise. Described as "over their heads" due to this growth, the owners have been hiring from the outside rather than promoting from within in order to obtain needed expertise. Additionally, the company became ISO 2000 certified in order to tighten up its procedures. This has created stress within the family as members have had to let go of the day-to-day management of the company. The owners talked nostalgically about "the old days" when they knew all of the employees by name, and when things could be done without having to go through a lot of "red tape." One of the by-products of hiring from the outside has been a change in the company's culture. Participants made observations indicating that the company can still be described as having a fairly integrated culture, but that some elements of differentiation have developed as operations has followed the lead of a new vice president and developed values different from those of sales and marketing. See Figure 3-5 for cultural characteristics and change derived from thematic analysis of the data and interpretations of participant comments concerning their firm's culture.

Company C

The third company, Company C, was selected because it performs the majority of its logistics functions in-house. Figure 3-6 depicts the company's organization chart with regard to logistics activities. It operates four distribution centers and delivers to its

Change Direction

Previous	**Current**
Sales driven	Sales and cost driven
Ambitious	Ambitious
Paternal	Paternal
Secretive	Becoming more open
Controlling	Loosening control
Conservative	Conservative
Integrated	Signs of differentiation
Ethical	Ethical
Stable	Changing
Commonly Shared Values	**Commonly Shared Values**
Employee satisfaction	Employee satisfaction
Communication	Communication
Company success	Company success
Honesty	Honesty
Importance of people	Importance of people
Assumptions	**Assumptions**
Relationship to Environment	***Relationship to Environment***
High Dependence on customers	High Dependence on customers
Power over suppliers	Power over suppliers
"Us vs. Them"	"Us vs. Them"
Nature of Human Activity	***Nature of Human Activity***
Priority to relationships	Priority to relationships
	Becoming more process oriented
Nature of Human Nature	***Nature of Human Nature***
Need close supervision	Moving toward trust/empowerment
Nature of Reality	***Nature of Reality***
Outwardly focused	More inwardly focused
More integrated	Signs of differentiation
Nature of Human Relationships	***Nature of Human Relationships***
Employees are to be cared for	Employees are to be cared for
Harmony among employees	Increasing allegiance to sub-cultures
Increase and use power with suppliers	Increase and use power with suppliers

Figure 3-5. Cultural Characteristics and Change- Company B

Company C Logistics Organization Chart

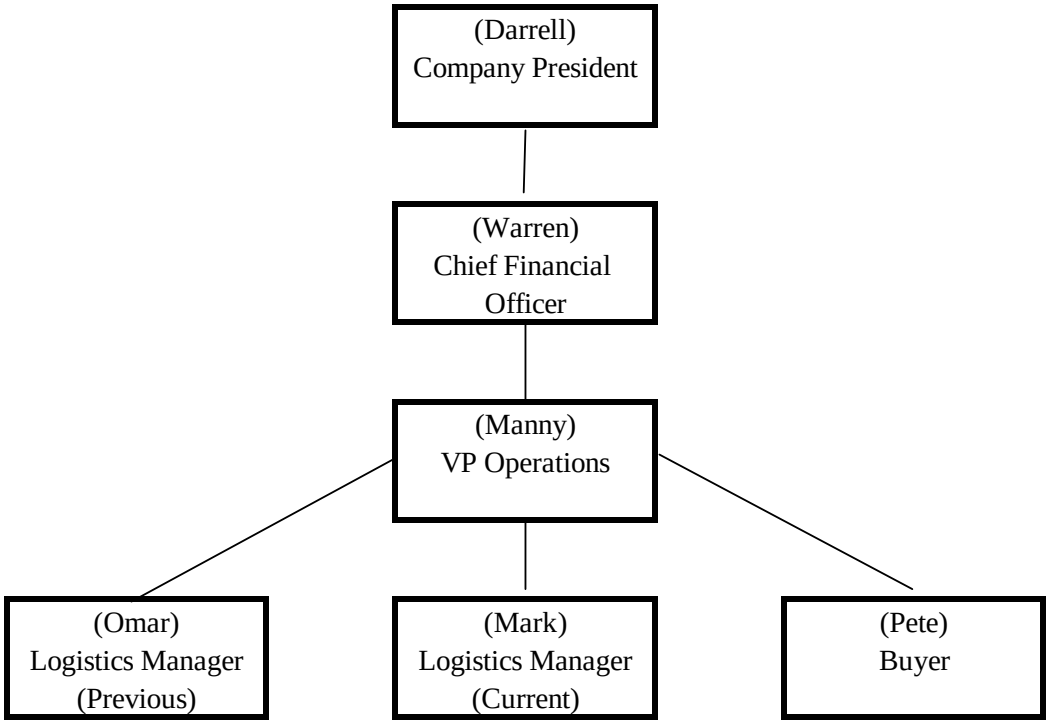


Figure 3-6. Company C Logistics Organization Chart

customers via a private trucking operation. The company is a $600 million regional food service business delivering food and food related products to restaurants and institutions in 20 states. It is considered a "major independent" company in the food service business. The founder started the business just after World War II to fill the growing need restaurants had for deliveries directly to their establishments. The company originally owned, serviced, and operated its own fleet of trucks, but now leases its tractors; the drivers continue to work for Company C. The company still owns its own trailers, and the company logo is prominently displayed on their sides.

Company ownership has passed down through three generations. In the early 1980's, the founder's son literally moved the founders desk out of the president's office one weekend and replaced it with his own. This action was precipitated by the growth of the company and the inability of the founder to adequately deal with the changing business environment. The son ran the business until the mid-1990's, then brought in a president from outside the company. A number of other high level positions were filled from the outside around this time, including vice presidents of sales and purchasing and the CFO position. However, because company performance was not satisfactory to the family the CFO was replaced in 2004, and the grandson took over running the company in 2005. These two management changes significantly impacted how the company is run, and is beginning to change the culture of the company as well.

Under the previous president, the company was described by a participant as having "a lot of bark and no bite." Employees "were not held accountable," and firing an employee was a rare occurrence. Once a weakness, process discipline is now driving many of the activities in the company. Accountability is strongly emphasized, with

weekly and even daily progress reports required from employees. New values are being driven from the top down, and there is considerable effort to get employees to accept them. The company's upper management is thus attempting to create an integrated culture based on shared values and goals. At the same time, elements of a differentiated culture exist, with long-term employees resisting the change efforts and a silo mentality between some departments. The Company C is thus in the midst of a transition that will likely have major impact on how it deals with both change and its supply chain. See Figure 3-7 for cultural characteristics and change derived from thematic analysis of the data and interpretations of participant comments concerning their firm's culture.

The Nature of "Dealing with Change"

Emerging from the analysis of the data is a process of logistics outsourcing that will be used as a framework for much of the discussion that follows in the two findings chapters (see Figure 3-8). This process is comprised of five stages: 1) *recognition of logistics providers as alternatives* to performing logistics activities in-house, 2) *motivation* to outsource, which involves conditions that lead companies to consider the perform versus buy decision, 3) *outsourcing*, which involves trial programs with third parties as well as on-going arrangements with service providers, 4) *confidence building* in the viability of logistics outsourcing as a strategy, and 5) *expansion/contraction* of outsourcing as an outcome of stage four. Note that companies may move back and forth between stages as conditions change. These stages are influenced by the experience of change as internal and external conditions exert forces that move an organization along

Change Direction

Previous	**Current**
Self-sufficient	Self-sufficient
Loosely controlling	Tightly controlling
Sales driven	Sales and cost driven
Outwardly focused	Becoming more inwardly focused
Stable	Transitioning, looking for common goals
Signs of differentiation	Signs of differentiation
Paternal	Paternal
Commonly Shared Values	**Commonly Shared Values**
Importance of customers	Importance of customers
Working hard for company	Working hard for company
Respect for people	Respect for people
Empowerment	Need for direction
Company growth	Profitability of company
Assumptions	**Assumptions**
Relationship to Environment	***Relationship to Environment***
High dependence on customers	High dependence on customers
Low dependence on suppliers	Low dependence on suppliers
Nature of Human Activity	***Nature of Human Activity***
Priority to relationships	Becoming more process oriented
Nature of Human Nature	***Nature of Human Nature***
Can be trusted	Need to be monitored closely
	Distrust of trading partners
Nature of reality	***Nature of reality***
Outwardly focused	More inwardly focused
Signs of differentiation	Signs of differentiation
Nature of Human Relationships	***Nature of Human Relationships***
Employees are to be cared for	Employees are to be cared for
Increase and use power with suppliers	Increase and use power with suppliers
Build trust in customers	Customers will take advantage

Figure 3-7. Cultural Characteristics and Change- Company C

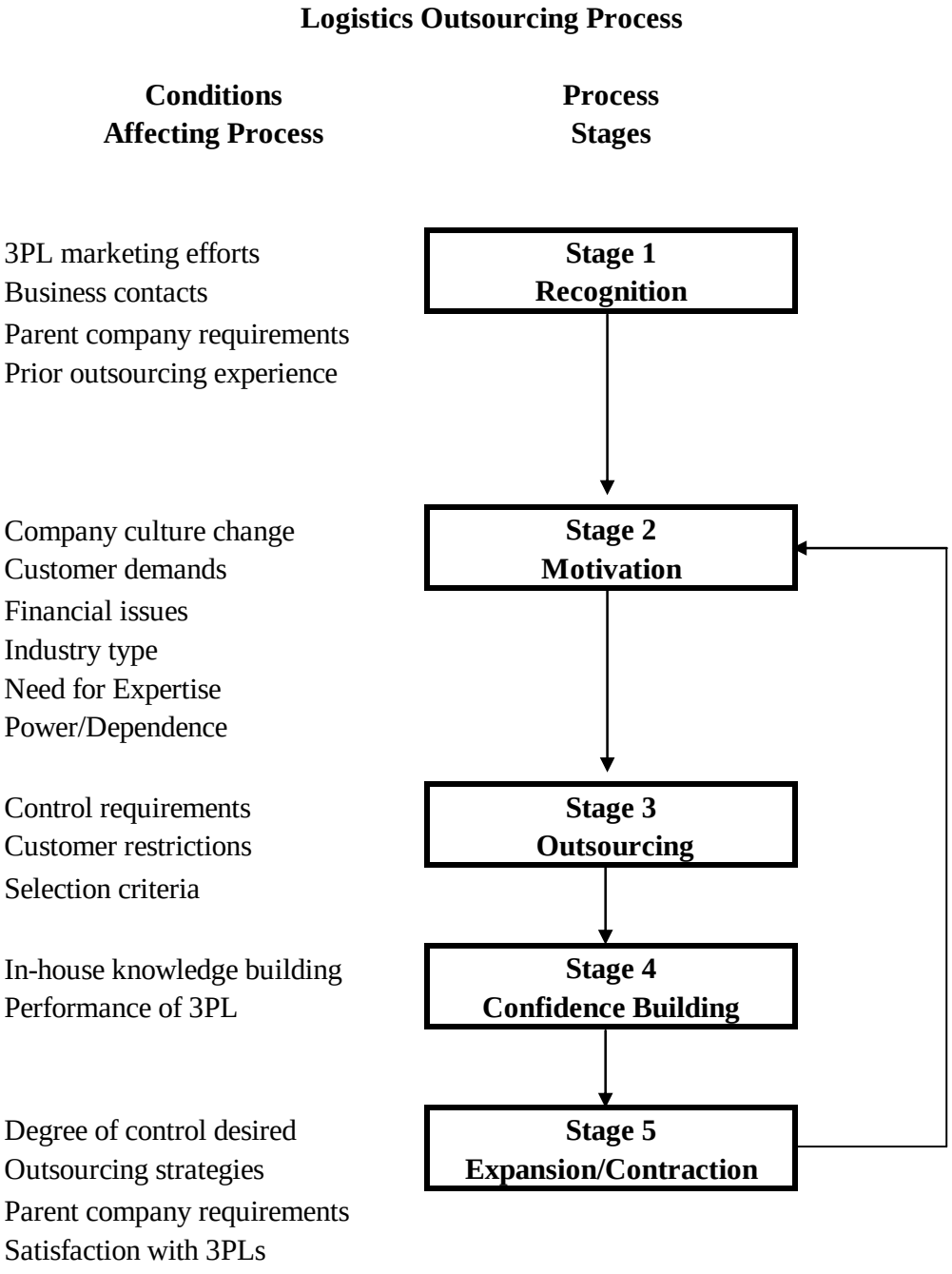


Figure 3-8. Logistics Outsourcing Process

the stages of the process. Cultural conditions, particularly those pertaining to control, are among the internal conditions that interact with and affect this process.

The reason for starting the research findings with the context of change is that change has affected all three companies in significant ways, impacting both company culture and logistics outsourcing strategies. By understanding the nature of change in these organizations we can begin to see how the cultures of the organizations are affected by change, how the cultures in turn affect the ways changes occur in organizations, and what role change plays in logistics outsourcing. The concept of "dealing with change" emerged from the data as a major category based on comparisons of commonalities between what participants within and between companies said were important events occurring in their business lives.

In all three companies, forces internal and external to the company are creating conditions that require the firms and the individuals within the firms to react to change. These reactions involve the formulation and application of various coping strategies that help the companies and individuals deal with the issues and stress that change is creating. While many properties of change are shared by participating companies, other aspects are unique to only one company. However, each property helps illuminate the relationships between corporate culture, control, and logistics outsourcing activities and governance in dealing with change in these companies. Table 3-3 shows the category of dealing with change, its sub-categories, and the properties associated with each sub-category.

Table 3-3: Properties of Dealing with Change

Category		Properties	Control	Cultural Orientations and Influences
Dealing with Internal Change		***Experiencing Change in Company Culture***		
	Company D	•Increasing outsourcing over time	Letting go of control	Becoming less relational over time
	Company A	•"Pushing Back" against Company D	Maintaining control of 3PLs through close contact	Need for stability; differentiated culture; culture "falling apart;" becoming disconnected from top management
			Maintaining close relationships with 3PLs	Retaining relational orientation
	Company B	•Family trying to hold culture together	Socialization of workers; paternalism	Relational orientation; paternalistic
	Company C	•Changes in upper management	Control through goal alignment; control through constant monitoring	Company like a parent
		Dealing with Uncertainty of Mergers		
	Company A	•Dealing with uncertainty of mergers (survival through performance)	Control performance to outperform other division	
		-Recognition of need for changes in process	Application of more formal approach	Concerns with pending merger
		-Application of various control mechanisms	Control through KPIs, constant contact	Uncertainty of future (purges)
		-Relational approach	Relational approach allows for closer control than arm's-length	Relational orientation of previous culture
Dealing with Internal Change		***Dealing with Company Growth***		
		•Expertise Strategies		
	Company B, Company C	-Outsourcing as strategy for getting	Outsourcing gains back control	"Over our heads" (Company B); specific skills needed (Company C)
	Company A	-Outsourcing results in losing internally, gaining externally	Outsourcing loses control	"Generalist theory"
		•Control Strategies		
	Company B, Company C	-Increased discipline	ISO certification, "Rockefeller Habits"	Task/Process orientation
	Company A	-Process orientation	Control through process	Process as means of improving performance
	Company B	-Opening up internally	Owners giving up some control	Empowerment, open communication
	Company C	-Taking back control	Owner becoming directly involved	Application of "Rockefeller habits"
	Company D	-Giving up control	Outsourcing of distribution	Task/Process orientation
	Company A	-Hanging on to control	Maintaining close supervision	Relational orientation

Table 3-3: Continued

Category		Properties	Control	Cultural Orientations and Influences
Dealing with External Change		***Dealing with the Emergence of 3PLs***		
	Company A	•3PLS as a threat to jobs -Performance through control of costs, service	Close contact with suppliers; KPIs	Relational orientation
	Company C	•The 3PL as a tool -Emerging realization that 3PLs can be useful; ad hoc use	With current high level of control, probably will not happen any time soon; need to control delivery people	Task orientation; history
	Company B	-3PLs as useful tool	Close contact with suppliers; KPIs	Loosening of need for control
Dealing with Internal Change		***Dealing with Company Growth***		
Dealing with External Change		***Dealing with Power/Dependence Shifts***		
	Company B, Company A	•Increasing power of retailers	Losing power over carrier choice	Assumption- dependence
		-Cost cutting and increased service	Closely monitor 3PL performance	Assumption- power
	Company C	•Customers taking away profits •Increasing power of 3PLs	Using 3PL to gain back profit	Assumption- do not trust customers
	Company D	-Gain leverage through "One Company D"	Take back control	Assumption- power
	Company B	-Using seasonal business as leverage	Take back control	Assumption- power
	Company C	-Not a factor		

Note that the category of change has two properties - internal change and external change - each of which has sub-properties associated with it. The next section addresses the property of internal change, followed by a discussion of external change.

Internal Change

The property of internal change is concerned with conditions within the participating companies that have important impact on the companies and their employees. Internal change emerged from the data with two sub-properties - experiencing change in company culture, and dealing with company growth. The first sub-category, experiencing cultural change, is shared by all three companies and is in part influenced by how the companies respond to company growth. Each of the three companies experiences cultural change in different ways and employs different coping strategies. The second sub-category, company growth, is shared by all three companies and exerts stress on the ability of management to effectively handle the increasing complexity of the businesses. Two common types of strategies to deal with growth emerged from the data, gaining expertise and exerting control. These two strategies are interrelated because the manner in which companies handle expertise is in part dependent on the degree of control desired by the firm. The outcome of strategies that these companies apply to dealing with internal change impact logistics outsourcing and supplier relations in direct and indirect ways.

Experiencing Cultural Change

Organizations experience cultural change in many ways. Sometimes the change is gradual and subtle, and sometimes the change is sudden and profound. Often cultural changes are triggered by an event, such as a merger or change in company leadership, and other times change is more evolutionary. The three companies in this research all have experienced and continue to experience cultural change; some of these changes have implications on how the companies approach logistics outsourcing and supplier relationships. We begin the findings of this research with cultural change because how the participating companies and the individuals within the companies effect, experience, and deal with cultural change is important to understanding what is going on socially and politically within these companies. This will also help bring to light some of the underlying dichotomies and paradoxes that exist in their cultures. This knowledge is necessary to more fully understand the relationships between corporate culture and logistics outsourcing in the companies.

Company A.

At Company A, cultural change came as a result of the merger of three companies owned by Company D. Along with this merger came a combination of downsizing and personnel realignment that created a profound change in the composition of departments and facilities within the newly created company. Of importance to this research was the establishment of a "logistics center" in a building that originally housed the logistics operations of Company E, one of the

three companies involved in the merger. People from various companies and locations were brought together to work in the logistics functional areas. Some of these people were already working in the building and were used to the culture and ways of doing business at Company E; the rest came from the different cultures of the other two companies. Mixing into this blend was the culture of the parent company, which had its own ways of conducting logistics operations. Participants often discussed the differences in values and norms between Company E and those that developed in Company A after the merger.

Most of the logistics outsourcing stages outlined above pre-date the merger. *Recognition* of logistics providers as an alternative to performing activities in-house came from the parent company, which had been outsourcing logistics activities at Company F and other divisions. *Motivation* to outsource comes from "not wanting to own real estate," to "save money" (Kerry), to "shift management responsibilities" (Abby), and because logistics is not considered a "core competency" (Lem). The VP of logistics for Company E instituted an *outsourcing* trial by transitioning a company run distribution center to a logistics provider in the early 1990's because he "saw the writing on the wall" (Ted), i.e., that Company D would be eventually forcing him to outsource all of distribution. *Confidence building* has occurred over the years as the relationships between Company A and its logistics providers have been "very positive" (Bill). *Expansion* has continued apace with elimination of the private fleet and transition of all distribution centers to logistics provider management. Other functions, such as customer service and carrier management, are under consideration for

outsourcing. What remains to be determined is more in the nature of how logistics providers relationships will be handled than the extent of outsourcing.

The merger resulted in people having to deal with a change from a fairly integrated culture at the location to one that exhibits characteristics of a differentiated culture. The old Company E culture is often described as "family-like" and relationship oriented. Prior to being purchased by Company D, there were no outsourced functions, and all workers were permanent; "temps" were seldom used until after the company was purchased by Company D. A long-term employee describes the culture in this way:

> TED:
> I think Company E, I'd always joked that, you know, we would fight like cats and dogs, but at the end of the day, at the end of the year, or at the end of the, you know, whatever it is that we're working on…we worked together to figure out a way to always make that a successful endeavor, and then we go back to fighting again…*like a family*…. (emphasis added)

This family-like aspect is also noted by employees who came to the location from one of the other merged companies, as Abby related in a story she told about a conversation after a retirement dinner for an ex-Company E employee:

> ABBY:
> We still talk about Company F, Company E and Company G. There's still that definition. She was Company F right, he was Company E, right, he was Company G, after so many years, okay. Someone was at one of the going away parties and they had come from the Company F side of the business and the Company F folks thought they had all the systems they thought everything they did was the way to go…. [B]ut after going through an evening of this celebration, they actually came back to me and said, you know what, I get it. *You guys on the Company E side it was like a family. Everyone, you know went through, if you had trouble, I was having the trouble too.*…[T]o have this individual that had such strong beliefs you know, that one culture was the one and only way, came to quickly realize that maybe there was something missing. (emphasis added)

The relational orientation of the culture also was seen as creating a bond between the company and its employees, where "you give complete loyalty to the company, the company gives you complete loyalty back" (Candice).

This culture disappeared, however, as the downsizing of long-term Company E employees and an influx of Company F employees brought in a less relationally-oriented culture:

> KERRY:
> We were purged as far as Company E folks go. There was a big purge, so basically it was a Company F organization…So we really had to adapt to the way they did their business.

Resentment over a perceived "purging" of Company E employees and the actions of some of the transferred people remains strong among a number of ex-Company E people who survived the transition. Abby gives some insight into this lingering resentment:

> ABBY:
> And while we tried to explain our culture to them, they didn't really think much about it, but they saw the support. *They saw the exchange and the interaction and it simply would not be the same for someone coming from the Company F side of the business.* (emphasis added)

One former Company E employee now working for one of the logistics providers servicing Company A summed up the feelings of many remaining Company E employees: "You see bitterness in the more veteran people" (Sam). This bitterness was noted by the researcher in many interviews. At times participants became very emotional as they related their merger experiences, and more than a few times this emotion turned to anger. Abby said about this feeling, "… it lingers."

One outcome of this residue of feelings has been the formation of a subculture within the logistics facility built around ex-Company E people. This subculture is one of several noted by participants, but it most clearly illustrates cultural differentiation within the facility. One can see an "us versus them" mentality manifested in resistance to change in this statement by the director of logistics, who refers to the ex-Company E employees in this passage as "they:"

> CANDICE:
> *They really need help* in adjusting to change, because they haven't had to change in this facility for a long time and then in, you know, 10 years, we made them change…. [T]hey don't see the benefit of what (the current VP)'s trying to do or what the rest of us are trying to do, they just see it as, but I like, you know, that's not what I signed on for…*I think resistance to change is stronger in this facility than any other facility*. (emphasis added)

Much of this resistance centers on changes in the values of the company. Participants noted that the new company is more "corporate," more focused on profits, and more task-oriented than before the merger. The relational orientation of the previous company is missed:

> RANDY:
> I think for the most part *people's contributions are overlooked* and what we've gone through here in terms of in the past, merit increases and decent bonuses. In lieu of that, we went through a quote, what is being referred to as "non-traditional benefits". 'Here's a free pizza today', okay. 'Here's logistic appreciation week,' that type of thing, okay. Which basically costs the company nothing, okay. (emphasis added)

Thus, people who came from the old Company E culture are finding it difficult to deal with the changes in culture, and one of the strategies they use to cope with these changes is to resist them.

One of the areas of resistance that affects logistics outsourcing has been against the "arms-length" relationships that Company F traditionally has with its suppliers and which ex-Company F managers attempted to institute within Company A. The VP of customer service at one logistics provider talked about the differences in approach between Company E and Company F:

> SAM:
> …it's funny because when we started this you had the Company E/3PL One relationship and you had kind of a Company F/3PL Two relationship, that were both two very different relationships. *Company E was very close-knit with 3PL One… where the Company F/3PL Two relationship is totally arms-length*…. (emphasis added)

Over the years since the merger, there has been a distinct effort on the part of ex-Company E employees to show that a relational approach is better than arms-length arrangements. Abby put this effort in terms of a "challenge in finding new ways of educating…decision makers on how important relationships really are." She goes on to discuss the difficulty of changing minds in the company about close supplier relationships:

> ABBY:
> …*there's such a high level of distrust from people, and that's real concerning to me because, that must then be coming from their experiences with either their internal customers or our external customers*, right? If somebody has that feeling, that sense, and it's very difficult to, I guess diplomatically challenge that….I don't know that Company D, I think they're an organization that thinks that they can do it on their own. You know, and I've talked to people in purchasing, in co-packing, in manufacturing that you know we all come to the same conclusion, that in the end, yeah, that's (close relationships are) nice, but 'we're Company D.' (emphasis added)

The fact that Abby brings up the possibility that lack of trust may be coming from experiences within the company reinforces how some ex-Company E employees view the post-merger culture.

The effort to influence the approach to suppliers toward closer relationships affects dealings with both distribution and transportation providers. The director of distribution, herself an ex-Company F employee, notes that the way the company treats carriers has changed over the years:

> INTERVIEWER:
> Where do you see relationships going with those top carriers? Do you see them going more to the type of relationships that you have with the DCs?
>
> CANDICE:
> Yeah. I think it's got to. Because we need them and they need us and you know, we just, it's a different culturally, it's totally different in transportation and warehousing and I just think we're at different points in our relationships. You know, as I said earlier, *we've always treated carriers like a commodity and we need to change that.* (emphasis added)

The relationships with carriers are not as fully developed as those with the distribution providers. Candice characterizes the nature of the relationships as "if our logistics provider's are at a 10 in the relationship, we're currently at probably a 4 and we need to get our top five carriers to about a 7." Recognition that there needs to be improvement in relationship development indicates that some of the resistance to the Company F approach to suppliers has taken hold in the culture of the post-merger organization in the form of relationally-oriented norms of dealing with logistics suppliers.

Another indication that the logistics function in the company has come to accept the importance of building close relationships with suppliers is that two of the higher level jobs in the organization are titled "logistics provider relationship manager" and "manager of supplier relations." The people who work for these managers are assigned to specific distribution centers and carriers, and essentially "help them through problems" (Beth). Candice sums up the change in approach toward suppliers in this way: "…we really try to change the philosophy from, you know, purchasing services to building relationships." Thus, for some ex-Company E employees, part of coping with culture change has been to resist change by pushing back against an increasingly task-oriented culture. One outcome of this strategy is a more relational approach toward logistics suppliers than would likely have developed had this subculture not existed.

Another outcome of the movement toward closer relationships is a higher level of control over suppliers than would be exerted by Company D's approach, as exemplified by Company F. The VP for customer service for one logistics provider puts it this way:

> SAM:
> Company E was very close knit with 3PL One …*where the Company F/3PL Two relationship is totally arms-length, hands off*, you know you run the site, we'll tell you how much we're willing to pay you and then you do it. And *we'll hold you accountable, we're not gonna interfere with you*. (emphasis added)

Comparing the two approaches we can see a dimensional range from letting go of control to keeping close control over suppliers. Company D's culture emphasizes letting go of control through outsourcing and maintaining arms-length

relationships, while Company A maintains tight control of its logistics suppliers. This desire to keep close control affects how relationships are governed, as reflected by the assignment of employees working for the relationship managers to specific logistics providers and carriers. While part of their job is to help suppliers solve day-to-day problems, these employees closely monitor the performance of the suppliers through weekly KPIs, monthly reviews, and occasional on-site audits. In addition to monitoring KPIs, specific procedures (described by Lem as "seven inches thick") are put into place to ensure that carriers and distribution centers perform work in a uniform manner. As the pending merger with the foods division moves forward, control will become a focal point of contention within the logistics areas as the two cultures vie for supremacy.

Indeed, experiencing cultural change within Company A also involves fear and uncertainty arising from the pending merger with the foods division. One component of this fear and uncertainty is concern of being downsized, or if a job is offered, concern about having to move to another location. The typical employee "wants to know his job is safe" (Sam), and "many people have left because they know their jobs are getting cut" (Vernon). Beyond losing a job, a typical employee worries "about where (he/she's) gonna be" (Sam).

Coping mechanisms among employees vary. While many of the older, ex-Company E employees are anticipating a "buyout" from the company that will transition them to retirement, others are anticipating and preparing for a clash of cultures. For example, during observation of one distribution specialist (Virginia)

going about her daily work activities, the researcher noted that she took a call from a carrier who was complaining about the ways the foods division calculates the "acceptance rate" (the percentage of tenders from Company A rejected by the carrier). Virginia agreed to intercede with her boss on their behalf, and then remarked that this was the beginning of the struggle between Company A and the foods division as to whose processes and ways of dealing with logistics providers would be adopted during the merger.

The impact on logistics outsourcing is likely to be significant regardless of which direction the merger takes. Under "One Company D," the name for the merger, logistics suppliers will be chosen to service all of the company, rather than having each division select its own suppliers. This will require a consolidation of employees in the logistics area, which will result in a meshing of cultural backgrounds that will need to sort itself out. Part of the outcome of this merging of cultures will be how suppliers are selected. The distribution operations manager suggests that much of the selection process at the food division is based on company history with a particular supplier:

> SANDY:
> I can't help but reflect on our food organization right now, as we look at whom their logistics provider suppliers are, completely different from ours. And when we ask why, there really is no clear answer. So I can't help, *my first assumption can't help but be that there's history there, you know it's who you feel comfortable with*, you know, so how does that come into play? (emphasis added)

On the other hand, Company A follows a very systematic process, developed by the previous director of logistics. One of the relationship managers describes the process in this way:

> ABBY:
> …we have one negotiating, program strategy and approach that we are all held to use. And within that approach, again it's very well defined that you identify what you're buying and what you're purchasing. You know, you identify what it is that I'm buying, okay. Depending on what you're buying, it then steers you in a direction that, this is a process I'm going to find to recruit potential candidates or suppliers, okay. I'm gonna then carry on and I'm going to negotiate, I'm going to award contracts. *But the last and most important piece is, I then need to continue, not sit the contract on the shelf, okay and forget about it, but to continue to refine and build upon that and develop that relationship.* (emphasis added)

This contrasts with how the director of logistics characterizes the food division's process:

> CANDICE:
> We do things a little bit differently here, I gather from talking to some of my cohorts in other companies…Our foods colleagues just from a warehousing perspective. They negotiate the contract, they review the contract, they agree the rate, *they award the contract to a logistics provider and then in their opinion it's (makes a hand washing motion).* You do what you've gotta do, you meet these criteria and I'm happy. You know, *we're much more directed and I think it's built into our culture*…. [W]e really try to change the philosophy from, you know, purchasing services to building relationships. (emphasis added)

Thus, the process by which suppliers are selected and the type of relationships that develop are two outcomes of the culture clash that is likely to occur under the "One Company D" merger.

The strategy in place within Company A logistics operations is to consider the merger a competition during which one Company's approach toward dealing with logistics suppliers will win out over the other:

> ABBY:
> Okay, it's like preparing for your in-laws visit. Everybody's tidying up and getting things organized in preparation of descending, okay *and demonstrating, our model is the way to go….* So, right now, you know as we speak, I'm involved in a number of different exercises, benchmarks and other things, you know hopefully for the folks who are driving it

> demonstrate that you know that we have the better solution…. (emphasis added)

While it is difficult to predict the trajectory of this merger and the cultural and relational changes that may occur, it seems likely that the choice of leadership will be a determining factor in the process. As of this writing, the VP of supply chain and director of distribution from Company A have been selected to run operations for the combined divisions. While the VP of supply chain is removed from the day-to-day work of the logistics group, the fact that he makes management choices will likely have some effect on the outcome. Also, the director of distribution has changed her philosophy toward the importance of close relationships with key suppliers. It would appear that the strategies for supplier selection, relationship building, and governance over suppliers that is in place at Company A have a good chance of being adopted after the merger.

As we have seen, dealing with culture change in Company A has affected the way the company approaches and controls its logistics suppliers. Much of these outcomes have to do with the "Company E" subculture, socialized in a more relational atmosphere, reacting against a more task-oriented culture. In this location the philosophy toward suppliers seems to be affected from the bottom-up, with ex-Company E employees influencing ex-Company F employees toward their way of thinking. This finding adds an additional layer of complexity to the relationship of corporate culture to logistics outsourcing activities, since it points out the need to go beyond the apparent culture of a company and dig deeper into the phenomenon. Close relationships coupled with a high level of control are two

outcomes of how culture change is being dealt with in this location. Figure 3-9 places each participating company along the relationship type continuum discussed in Chapter One.

Company B.

Company B has not experienced the kind of rapid cultural change that comes with a merger like at Company A. Company B has always been a family owned and operated firm, with an orderly transition of management from the founder to his sons and son-in-law. Culture change came more slowly and with more subtlety, mainly as an outcome of company growth. Yet culture change is present at Company B and continues to be experienced by its employees in various ways, with implications to the logistics outsourcing activities of the firm. Its relationship to logistics outsourcing is subtle, more an undercurrent of desire to retain control than a clash of cultural values and philosophies. Its relationship also has contradictions between retaining control and giving up control that add complexity to the phenomenon.

Since the retirement of the founder of the company, Company B has been run by two people, Adam, the company president, and Grant, the VP of sales. Much influence from the founder, Aaron, can be seen in the company operations. Aaron was frugal, conservative, and above all a consummate salesperson, and these traits are noted in such comments as the company goes “after every little penny” (Manny), is “sales driven” (Ralph), and is “risk-averse” (Harold). Jerry

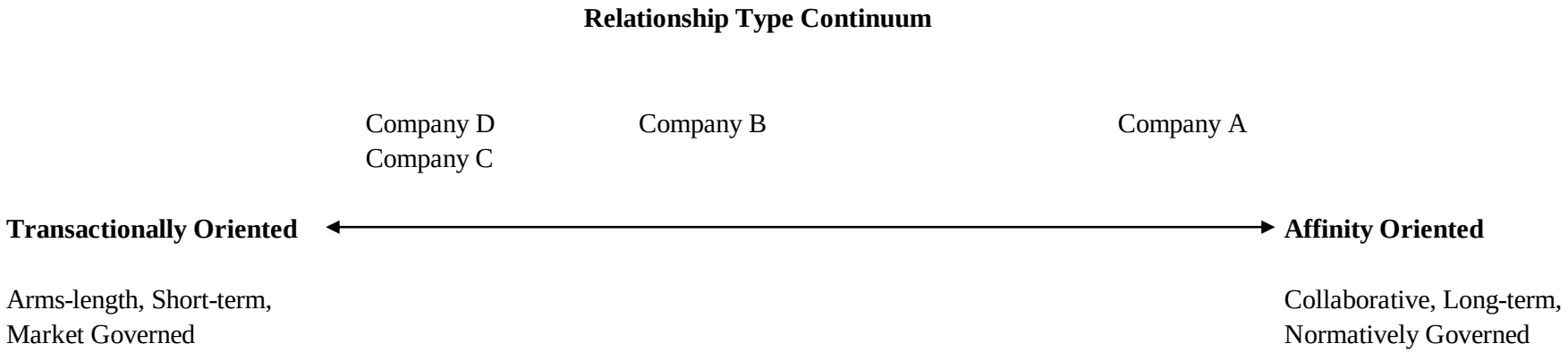


Figure 3-9. Participating Company Orientations toward Inter-Firm Relationships

describes Aaron as being "very concerned with the day-to-day operations" of the company. This involvement in the business passed on to his sons, who have been involved in every aspect of the business and make all of the major decisions. Dan also points out that the family, particularly Adam and Grant, "have a huge impact" on the company culture. As the VP of operations says, the president "sets the tone for the company" (Brian). He is also involved with the enculturation process, meeting with almost all of the new employees to "basically go through what our culture is, what we do, what we expect" (Adam). It should also be pointed out that frequently, when asked about culture within the organization, the discussion went immediately to the values and actions of the owners, which corroborates Dan's and Brian's impressions.

Frank describes the owners as "being very hands on with every little detail of the operation" and "running it real tight. However, the intensity of family control over the business has lessened somewhat over the past four years as financial conditions forced the family to recognize the need for change. Financial conditions put pressure on the family to change how they were running the business. One aspect of change that affected the culture of the organization was recognition by the family of the need to open up access to information that they previously closely controlled. As the global procurement director explains it:

> CLIFF:
> As far as corporate culture, for years *the company was very secret about a lot of things*…And about the time when we were, probably 4 years ago. Where we weren't making money, they decided they needed to make some changes, brought in some new people, some new ideas… *So they now have a policy where the management sees, I wouldn't say all the*

> *numbers, but important numbers, we know where we're at, at any given time.…* (emphasis added)

This passage indicates an important aspect of the company's culture with regard to a norm of secrecy within the company. The family's lack of trust of people outside the family was not overcome until financial difficulties forced change. This lack of trust had to be overcome to allow two things to happen - allowing outsiders into the company at high levels of management, and allowing people outside the family access to information previously controlled by the family.

It is important to note that the family was *forced* to extend trust to others; it did not extend trust easily or willingly. This extension of trust appears to have required a fundamental change in the family's assumption that employees could not be trusted.

A second change that the family recognized as necessary was to put in place increased discipline within the operations end of the business. The VP of sales characterizes the change in internal governance as "turning inward with processes and procedures" (Grant). This was a major change for a company that was always focused outwardly, toward the customer. The chief impetus of increased discipline was ISO certification, which requires procedures for many of a company's operations to be published in a manual and followed. It also took some control over decisions away from the family, and this has proven difficult for its members to cope with. Harold states that "there are some old habits that need to be broken" even now. The VP of product development gives an example of how difficult it has been:

> DAN:
> …the company has become …more structured and process driven. And *it's a lot more difficult for (the president) and (the VP of sales) to deal with…And they wanna run it like it's a 40 million dollar company*…But yet, we've put in ISO which doesn't allow you to run like we were…We have processes and procedures; we could just rock and roll like I told you. Now with (the president and VP of sales), *they want the culture, the way it used to be.* …To the point where they'll want you to go around the process, but they won't tell you that. (emphasis added)

The owners are thus signaling to their employees that they want to revert to the old way of doing things, when they had more control over the company than they do today.

Yet the situation is not as straight forward as that. Dealing with cultural change has been difficult for the family, but there is also an understanding that it is necessary. Dan highlights this struggle: "They want things done the way they used to do them, yet they want the ISO certification." The family also brought in a number of people from outside the company because they realized the need for expertise that Company B did not have in-house. Signs of letting go of control can also be seen in the area of employee empowerment, which involves giving up control of decisions to employees. In talking to the owners on the subject, they give a clear indication that they encourage employees to act on their own. For example:

> GRANT:
> I think they (the employees) feel like they are in charge …and empowered to make decisions.
>
> HAROLD:
> I think our management team is such that we give people a lot of space….

It appears that there is an inner struggle between letting go and keeping control on the part of the owners, but that they are coping with the necessity of running Company B like the large company it has become by letting go, even though this is apparently uncomfortable for them.

The trajectory of cultural change thus appears to be going in the direction of a more open culture, with freer access to information and empowerment of employees to make decisions. There has been more openness to outsourcing of various activities as well, part of which appears to be a willingness to let go of control. *Awareness* of logistics outsourcing as an option has existed in the company for most of its history. Except for local deliveries the company has always hired carriers rather than have a private fleet, but Company B has traditionally run its own distribution centers. Yet, for many reasons Company B went to a logistics provider when it decided to open a distribution center in Canada. The director of logistics explains part of the reasoning behind using a logistics provider:

> CHRIS:
> We don't want to… own a building, we don't want to hire the people, for the rates that I can get these logistics providers at it's probably as cheap to run it from there, as it would be for me and we don't have as much of a headache. *They control it for us*. With the Canadian one I'd cut them a check every month for their services, and they run everything for me. I called up if I had a problem. (emphasis added)

At Company B, burdens of ownership and management represent stage two of logistics outsourcing- motivation to outsource logistics functions. The Canadian operation represents the logistics outsourcing experience (stage three), from

which Company B has build confidence in logistics outsourcing as a strategy (stage four).

Stage five appears to be heading in the direction of expansion. Chris talked about plans for a new distribution center on the East Coast:

> INTERVIEWER:
> What about on the East Coast? What if you decide to put a distribution center, operations? You said you might wanna run that yourself. Given that you've had good experiences with logistics providers.
>
> CHRIS:
> I don't know. *I'll push for logistics providers*…I'll push for logistics providers if I can get the right costs.

Along the same lines, the raw materials warehouse manager, Jerry, discussed an initiative that he and the director were taking that also involved the use of logistics providers. This initiative involves using a third-party to unload, store, and deliver materials coming intermodally from the west coast. Like the distribution center in Canada, the logistics provider is to handle the operation without direction from Company B. He felt that if presented to the company president he would not "have any objections… I think he would allow things just to move forward." Thus, the data indicates that the manner in which the family has coped with cultural change affected its attitude toward giving up some control, which in part is allowing the company to move toward expansion of its logistics outsourcing strategy.

Company C.

Like Company B, Company C is privately held and run by a family member. Also like Company B, the company was affected by a financial condition that prompted the owner to make changes impacting the culture of the company. In the case of Company C, however, the outcome of these changes was to bring control back more strongly into the hands of himself and the CFO. This change came about through transferring the CFO from another family owned firm to Company C, and taking over the presidency of the company himself. Pete, a long term employee, discussed the situation prior to the owner taking over the presidency:

> PETE:
> …when we got a new president about five years ago, he was totally different from the other president. *The other president was hands on, this one was hands off.* The other president was a leader, and told people what to do, well this other president that we had was not a leader and wanted his senior management staff to do everything instead of leading and directing them. And, *it kind of fell apart* and in my opinion I think the morale of the company was bad and I think Darrell realized that …. And I think, Darrell was smart in saying, instead of going out and hiring a president from another company *I think I'm gonna come over here and find out what's going on for a little while and run the company myself*. (emphasis added)

The outcome of this change is an ongoing attempt to change the company's culture from the top down. This change is described by several participants as a change management strategy designed to bring more structure to the way business is conducted within the company. Part of this attempt involves increasing the control the president and CFO hold over the company.

The strategy in place at Company C is to tighten the management of activities of all functions in the organization. The philosophy behind this change management effort

lies in part in the ideas about management in Harnish's (2002) book *Mastering the Rockefeller Habits*, which teaches that "companies are nothing but parents" (Warren), and that there are fundamentals applying to business as well as parenting. These fundamentals are: "1) have a handful of rules, 2) repeat yourself a lot, and 3) act consistently with those rules" (Harnish 2002, p. xxi). Two specific actions were taken to implement this governance philosophy - alignment of goals throughout the company, and strict procedures for monitoring the progress against those goals.

The first action conforms to the idea that a firm must have "priorities," specifically "objective Top Five priorities for the year and the quarter," and that these priorities must be aligned throughout the company (Harnish 2002, p. xxii). The targets and goals at Company C are based on the company president's long-term goal, or "purpose," which extends out 10 years in the future. The CFO described the process of alignment as he discussed a document encased in plastic that sits on his desk:

> WARREN:
> The purpose is 10 – 30 years….Then targets are 3-5 years. Target geographic markets to improve density and market share, right. That's what our game's all about. People development, that's the second one. Technology is the third one. Goals, what are one year goals, these are all color coded…*They are color coded to show the alignment. We do a mapping every month*. What's my goal, what's everybody else's? The more colors that are the same, the more alignment we have. (emphasis added)

This document was observed on the desks of other managers as well. Warren went on to explain that each functional area comes up with its own goals, but that the president reviews those goals to ensure alignment throughout the company.

Once the goals are established a regimented procedure is used to ensure that everyone is working to meet them. This procedure involves frequent monitoring of performance:

> WARREN:
> So the other thing which I think is a very powerful technique and (the president) gives credit to this…end of the day reviews. *Every day we review each other*, okay… *We have bi-weekly meetings*; (the president) does with his staff. *I have weekly meetings every Tuesday*, they come in and they review not only the top five, but every other ….They have a daily huddle, 'what's up?'...10-15 minutes with my staff every single day. He does it with his staff at 4:30; I do mine at 8:00 in the morning. So every day I know exactly what everyone's doing…All the time, and so all of these things are working together to try to create this alignment….(emphasis added)

The CFO explained that this process has been in place for approximately one year and that it still needs to be accepted by some individuals in the company. However, one can project the likely trajectory of this cultural change as establishing a norm of tight control throughout the organization. As the company tightens control over operations, a logical inference is that it will continue to maintain control of logistics operations by performing logistics operations in-house. Indeed, one indication of this likelihood is that the CFO considers in-house performance of logistics a "competitive advantage" due to the ability to control costs and service, and considers owning distribution centers and trailers good business because they "pay for themselves so many times." Thus, motivation to outsource (stage two) is low in this company.

Summary

We have seen three examples of companies experiencing cultural change. In the first example, the influence of the parent company's culture is a condition that has moved

Company A along all five stages of logistics outsourcing and continues to influence expansion in stage five. However, a subculture resists the change from a relationally-oriented to task-oriented company by employing a strategy to influence the way the company approaches its logistics suppliers. This attempt appears to have been met with some success as evidenced by the establishment of supplier relationship functions within the logistics area and influencing the director of logistics attitude toward closer relationships with suppliers. Additionally, we see how members of the company are preparing for an upcoming clash of cultures by treating it as a competition between relationally-oriented values and task-related values. This strategy may influence the direction of logistics supplier relationships in the post-merger environment.

In the second example, Company B appears to be at stage four in the outsourcing process. Confidence in logistics providers is being built within the logistics management team. At this company we see people experiencing cultural change as the owners struggle with issues of trust and control, precipitated by a condition of financial underperformance. This struggle appears to be going in a trajectory of more trust and less control, which may create movement toward expansion of logistics services in the future. In the third example, we see people experiencing cultural change as the company moves in the direction of tightening internal control. Interestingly, the same condition of financial underperformance influencing cultural change resulted in an opposite strategy from Company B's. In this company the majority of logistics operations are performed in-house, although an initial trial with a third-party transportation broker is under way. Indications are that the company's culture is continuing to move toward increasing rather than lessening of control. Additionally, logistics is considered a core competency of the

company. These factors point toward status quo or possibly contraction of what little logistics outsourcing is done currently.

Dealing with Company Growth

Growth is a condition that can affect a company's ability to manage effectively. The complexities of increased numbers of customers, suppliers, and employees impacts the span of control upper-level managers are required to handle. Often companies find that the people who were able to get the company to a certain level of growth lack the expertise to take the company to the next level. As the complexity of supply chains increase, companies find it increasingly difficult to manage logistics activities. The three participating companies all experienced the effects of company growth at some level.

Company A.

One might expect that family owned companies like Company B and Company C would experience management problems as they grow, since the management of such firms is often in the hands of a small group of family members who may not have the training or ability to manage a company beyond a certain size. However, this issue also comes up in interviews with members of Company A, a multi-billion dollar company. In the case of Company A the issue is magnified due to the fact that the company grew almost instantly through the merger of three companies, and one of the outcomes of this merger was an exodus of knowledgeable people due to "purges" and the fear of being

"purged." One participant talks about the drain of expertise and the impact it had on operations and the remaining people:

> ABBY:
> [*T*]*here's so few people that were left that had a knowledge of the areas that maybe you're even responsible for any longer*, but somebody's gonna come to you cause you know, you're here long enough, you should know. You don't know, and people become a little frustrated with that, but the expert in that area, hasn't worked here in a year and a half… (emphasis added)

Regardless of the size and complexity of the business, each of the three participant firms faces similar difficulties in dealing with company growth. Strategies for dealing with growth in these companies are similar in that they involve expertise and control, but the strategies vary between the participating companies in how they are applied. For all of the companies, the need for expertise is a condition establishing motivation to outsource logistics services.

Expertise can be gained in many ways. For example, knowledgeable people can be hired from the outside, or they can be developed in-house through training, mentoring, and job progression. Another option is for a company to decide that an area of expertise is not in its core competency and the functions within that area can be outsourced. The degree of outsourcing can range from a few to many functions depending on the company's progression along the outsourcing process. We can see a combination of all of these strategies in the three participating companies, with varying effects on the people in the companies and the companies' logistics operations.

As noted earlier, Company A experienced a "brain drain" of experienced people during the merger. This drain was particularly severe in the logistics area because this was a function operating under a philosophy of developing expertise from within, and of

protecting employees during downsizing. Regarding this philosophy, Ted said "we used to joke that everybody would go through a re-organization occasionally and lose a few people, but (the VP of logistics) never would..." Many of the people in this area were long-term employees who had worked in distribution and transportation, developing considerable expertise over the years. Participants talked about how the culture of the company prior to the merger valued loyalty and experience, promoting within the company rather than seeking expertise from the outside. This led to highly experienced and knowledgeable leaders, many of whom had been with the company several decades.

These leaders were located in the same building with most of their employees and exercised day-to-day control over the operations. One participant compared this presence of leadership to the way it is now:

> TED:
> … [T]here isn't that constant presence that (the previous VP) brought in. You know, *(he) was a guy that just uh, was always there, I mean always had a presence here*…. There's, at least from my perspective …I don't know if independence is the word, but *you feel more empowered to just go do your stuff.* I think that's a little bit different from when (the previous VP) was here…. (emphasis added)

"Empowerment" is a word that came up in a number of interviews as something that the company values. Empowerment meant to participants things like "not having to get permission," not being "micro managed," and being able to "work in any way I want." Empowerment of employees also means letting go of a degree of control. If we compare the way the operation was managed pre-merger to the way the operation is managed currently, a cultural change appears to have occurred resulting in a greater willingness on the part of management to relinquish close control over the operation.

Under the influence of the parent company, Company D, the culture also changed to one that values potential more than experience. The new culture embraces what Abby calls "the generalist theory," which Ted describes as "the theory being, let's get them breadth throughout the organization and if they have the competencies and skills to manage people, they'll do fine there." Note that the emphasis has shifted from expertise in a functional area to ability to manage people. The "generalist theory" does not foster development of skills in specific areas such as logistics, nor does it encourage an employee to stay in one particular job or functional area for any length of time. Expertise, particularly in certain areas of the business, is no longer valued as highly as it once was, and this change affects the strategy Company A uses to gain expertise in the logistics area. Rather than develop expertise in-house, or hire from the outside, the strategy in place is to outsource functions. Due to the influence of the parent company, Company A has had to relinquish some of the control over day-to-day logistics operations and place it in the hands of outside experts.

The concept of core competencies is important to understanding logistics strategy development at Company A, particularly as a motivation for outsourcing. The company has specific areas that it considers important enough to develop to a high level in-house, and others it does not. One participant explains the thought process of deciding to outsource:

> CANDICE:
> In my opinion, it's really around finding a niche of an area that you don't wanna be the, you don't wanna invest resources in to be the best practice person. For example, running a warehouse. *You know, it's not our core competency as a business.* Our core competency is we make really good soap, so you know, we

> shouldn't be investing our time, resources and technology in an area that we can buy that expertise.… (emphasis added)

To Lem, who was forced to leave the company and join a logistics provider when distribution was outsourced, but who subsequently returned to Company A in a different role, the decision makes sense from a core competency standpoint:

> LEM:
> I think companies nowadays in general work out what their core competency is and if distribution is not your core competency, get out of it. You know, give it to someone that does. *I have to tell you that I actually think this is one of the smartest things we ever did. At the time I didn't think that*….I didn't wanna lose my job, but you know (names the logistics provider) understands distribution, that's what they do for a living. (emphasis added)

Abby and Lem exemplify how some of the ex-Company E employees have come to accept the thought processes that Company D is attempting to transfer to Company A. Yet at the same time, outsourcing logistics is creating an expertise drain exacerbated by a "the generalist theory" thought process that frowns on specialization.

Candice went on to explain that part of the decision process involves risk assessment. She recognizes that a company runs the risk of losing expertise when it outsources: "That's the big risk of outsourcing; you lose the ability to maintain talent internally." This risk is partially offset by the way that Company A governs relationships by exerting control over its logistics providers. Dedicated people are assigned to a "relationship department" to work with carriers and distribution providers on a day-to-day basis. Part of the work is to "get rid of the road blocks so they can get the job done" (Lem), and part of it is to monitor and report performance of the logistics providers. Performance of providers is monitored very closely, with a number of key performance indicators (KPIs) tracked on a daily and weekly basis. According to the director of

distribution, this approach helps offset the parent company's lack of emphasis on expertise:

> CANDICE:
> … [W]e purposely have built in those relationship roles, if you would, because *there's a risk and a danger in outsourcing that you lose expertise* and then you're at the mercy of, you know, if supplier X tells you there's a 20% increase next year and, tough, that's what it's going to be, you're at their mercy to know whether or not that's valid or not valid. (emphasis added)

An outcome, then, of exerting control is an understanding of the business that would otherwise be lost by giving up control completely to logistics providers.

In the case of Company A, logistics expertise is no longer considered a core competency, and the impact of company growth cannot be handled completely in-house as it once was. This change is due in large part to the cultural shift from the "old ways of doing things" to the influence of the parent company's culture which participants discuss in terms of changing values with regard to what is more important – expertise or potential. Control is gradually shifting from the direct management of day-to-day operations by managers with expertise in logistics to logistics providers that manage the operations. This is an outcome of conflicting strategies, with Company D pushing to let go of control and Company A pulling toward exerting more control. Paradoxically, outsourcing is both a motivation to outsource in order to gain expertise and a cause of expertise loss.

Company B.

While not experiencing the sudden growth of Company A, Company B has nevertheless been forced to deal with considerable growth in sales and new markets, as

well as experiencing the difficulties involved in marketing to foreign countries. The company is family owned and run, and the focus of the company has always been on sales rather than operations. As Cliff points out:

> [T]he owners of the company are primarily coming from a sales background. The company started out as selling. They were reps for other companies and their dad, (the founder) was a very good salesman and the kids were brought up selling. And *I think we still have a strong sales culture, I think that's what drives our company*. And that's what they understand, they being the owners. (emphasis added)

The fact that the family has not concentrated on the operations end of the business resulted in issues when the company reached a certain level of sales. The issues became acute when the sales level reached between 80 and 100 million dollars, depending on the person telling the story. The company also faced difficulties with marketing products in other countries, particularly Canada where the volume was fairly large. Solving both the operations and the international issues required expertise the company did not possess, and it addressed the problem in several ways that impacted both the company's logistics operations and its culture.

One way Company B addressed the issue was to hire from the outside, although this strategy was not completely by choice. The company president explains:

> ADAM:
>
> [W]e like to promote from within… we've found that we have to really go outside to some degree because we can't get the expertise, current expertise (in-house) can't take us to those new levels.

One example is hiring a transportation manager from the outside, a woman with over twenty years experience in the field. Another example is bringing in a new vice president of operations to take over the supply chain. From an expertise perspective the hiring of

the operations vice president has brought more focus and attention on the operations end of the business, and this has had a positive effect on the ability of the logistics operations to handle growth. One effect has been the ability of logistics employees to review ideas and get informed criticism from an experienced manager, what Arlene refers to as "educated push backs." Another benefit is that the vice president can apply his expertise to help his logistics employees solve problems. Brian gives an example of this help:

> When I get involved…it's because we've had a problem. *Something's happened, a supplier is late, the goods are coming to the port late and we've got a customer screaming about what to do*, and we're trying to look at, how do we get the goods from the port to their docks quicker? And I would get involved and discuss with others to see what we can do. (emphasis added)

From the perspective of the owners, bringing experts from outside the company also reduces the impact of company growth on the personal span of control required of the company president. Decisions in the logistics area can now require less of the president's time.

Another example at Company B of willingness to give up control in order to obtain expertise is outsourcing distribution in foreign countries. When Company B decided to market its products in Canada, the company experienced stage two of the logistics outsourcing process for distribution. Previous experience in transportation outsourcing suggests that the company used that knowledge to reach stage one. Realizing it did not have the requisite knowledge to run a distribution operation in that country, it looked to a logistics provider already operating in the country to manage distribution. Dan, who was the director of logistics at that time, explains the situation this way:

> DAN:
> [W]e weren't familiar with doing business in Canada, but we knew we needed to be in there, because that market was growing so quick and we thought, you know

> what, let's just put a small product mix in there, of our core items and let's have someone handle it that's in the business…They could help us get it from here to there, do the warehousing and shipping and *we wouldn't have to mess around with all the logistics within Canada that we didn't understand at the time.* (emphasis added)

Chris, who was running the warehousing operations at this time, reiterated that lack of knowledge of a country's customs and laws was a main reason for hiring a logistics provider. To Chris there was an additional set of benefits to outsourcing:

> CHRIS:
> … [I]t's also sensible to use logistics providers. It is, it's great. With the Canadian one I'd cut them a check every month for their services, and *they run everything for me*. I called up if I had a problem. (emphasis added)

Giving up control for expertise was thus an easy choice for Company B management under these circumstances. This experience also helped plant the seed for additional outsourcing in the future through building confidence in the logistics outsourcing strategy (stage four). For example, when asked about the possibility of using logistics providers in the future, Chris stated that he would "push for logistics providers," given the right cost and service dynamics.

Company C.

Company C has experienced steady growth over the life of the company, but chooses to perform its logistics operations in-house. The company has always done its own supply pickups and customer deliveries using a private trucking fleet, and has operated its own distribution centers. This is the norm within the food service industry according to several participants. Manny, the VP of operations, describes this as "the nature of the beast in the food service industry." Manny explained the situation this way:

> MANNY:
> …[I]t somewhat deals with the nature of our business and the physical nature of the job. All of our trucks are hand loaded so we pick everything on pallets, we take the pallets and load them off, put them off on the core trucks based upon the waiver truck or we pallet load them. But it's a very physical…. A very monotonous job…. So *it's difficult to have someone come in and really do it at a cheaper cost than I can do it…* (and) *to maintain the performance levels that are required.* (emphasis added)

Also, due to the fact that restaurants and institutions allow the food service companies to enter the premises at night with their own set of keys, the drivers must be tightly controlled in order to ensure trust between suppliers and customers is maintained. Control of people, both drivers and warehouse workers, thus plays heavily into operating the business. Companies apparently never get past stage two of the process due to this condition, and as a result logistics providers have failed to make inroads in the food service industry.

This failure to penetrate the industry appears to have insulated Company C from exploring logistics providers as an option until recently. When asked why Company C has performed its own logistics operations in the past, Warren replied, "cause it always has." Following up on this response, the previous logistics manager was asked if he had ever considered using a logistics provider, and he answered:

> OLIVER:
> I mean, I guess there's really no reason why, you know, you couldn't use a third-party… [*L*]*ike I said I didn't, you know, really thought that much about it* until I was talking to that gentleman from (names a logistics provider)…you know they do a lot of dedicated stuff for Wal-Mart, and you know, people like that. (emphasis added)

While the company has grown considerably over the years, the response to this growth has been to continue to build the expertise in-house through hiring people from the outside or developing skills in-house. Letting go of control of operations had not figured

into logistics strategies until recently in the company's history. The company had neither the motivation to outsource logistics functions nor the recognition that this is a viable alternative to performing in-house.

The event that appears to have triggered a motivation for using logistics providers at Company C was the realization that money could be made on company truck backhauls. Company trucks are used to deliver goods to Company C's distribution centers, and to deliver goods to customers. A large part of the logistics manager's job is to find backhauls for these trucks. However, the trucks delivering from Company C's suppliers often run empty on the backhaul. Running empty generates no revenue, but Company C realized that the trucks could be used to haul freight for other companies. As the previous logistics manager explains it:

> OLIVER:
> … [I]f you can find backhaul, you know pick up groceries to haul back home, then that's where you make your real dollars… You know, basically that money, *those monies go straight to the bottom line*, pure income. You know, and we didn't really have to do a whole lot to get that money. (emphasis added)

The problem was that Company C lacked expertise in-house to find customers with whom to contract backhaul services for another company's truck.

As one of the buyers explains it, the company was forced to find this expertise at a third-party broker:

> PETE:
> Because we're fairly new into this, we have always backhauled on our trucks that are pretty essential. But to get started with outside carriers, you almost have to use somebody that has a base or a knowledge of carriers throughout this whole United States and the lanes that they're in. *We did not have that expertise here.* So we had to go out and get an outside third-party to help us do that. (emphasis added)

He continued by stating:

> PETE:
> Do you want my opinion? When our contract's up with this outside third-party, I don't think they'll renew it…*I think we will have enough knowledge to do it ourselves*…. (emphasis added)

A follow-up interview with the current logistics manager confirmed that his intention is to "bring that function in-house in the future" (Mark). Stage four of the logistics outsourcing process at Company C thus appears to be building confidence in its own ability to perform an activity, in contrast to the other two companies where confidence is being built in the performance of logistics providers. Industry conditions and company history seem to have formed a "do-it-yourself" culture at this company that prefers to develop its own logistics expertise rather than hire it from the outside. Thus, stage five in this company appears to be heading in the direction of contraction rather than expansion of logistics outsourcing.

Comparing approaches to dealing with growth in the three companies, the concepts of expertise and control appears to play an important role, and also to be associated with logistics outsourcing decisions. With Company A we see an exodus of experienced people creating a void in the area of logistics expertise. However, the culture of the parent company appears to value expertise less than the old Company E culture, unless it is in an area of "core competency." The strategy in place to compensate for expertise is to outsource non-core functions as often as possible. The outcome of this strategy is draining of expertise within the logistics functions, with its associated risks to the business. At Company B, expertise is more valued, and the owners are willing to bring it in from the outside. This willingness allows the company to run much of its own logistics functions in-house. However, the company recognizes that there are situations

where specific expertise may be more easily obtained through outsourcing, and it is willing to apply that strategy under certain conditions. At Company C, expertise is most areas of logistics has either been developed in-house or hired from the outside. The company is willing to contract a logistics provider to do work it lacks specific expertise in, but its strategy is to bring that function back when it feels that the expertise has been developed in-house. Lack of expertise is thus a condition that sets up the possibility of logistics outsourcing, but the culture of the organization with regard to a high emphasis on in-house performance of important functions appears to influence what type of logistics outsourcing is used to gain that expertise, and for how long.

Across the three companies we see control spanning a dimensional range from exerting as much control as possible (Company C), to giving up control when it is not a core competency (Company D). Company B falls somewhere in the middle of the range - willing to give up control when advantageous, but not actively seeking opportunities to do so. While Company A is required to follow the direction of the parent company and outsource logistics functions, it has its own governance approach that allows it to exert significant control over logistics operations even though other companies are performing the activities. The data in this research shows companies seeking control by applying a strategy of in-house management of logistics operations; or, in the case of Company A, maintaining close relationships and contact with logistics suppliers. The company most willing to let go of control, Company D, applies a strategy of logistics outsourcing, and seeks to have an arms-length relationship with the suppliers. Thus, desire to control appears to be an orientation linked to corporate culture, and also appears to influence outsourcing strategies.

External Change

The property of external change is concerned with conditions outside the boundaries of participating firms that have important impacts on the companies and their employees. Two sub-properties emerged from the data as important to logistics outsourcing decisions: 1) the emerging importance of logistics providers, and 2) power/dependence shifts between the focal firms and their customers and suppliers. The first sub-category, the emerging importance of logistics providers, affects all three firms in the research. Each firm is affected in different ways and applies different strategies to deal with the emerging importance of logistics providers as forces in the business world. The emerging importance of logistics providers is also integral to stage one of the logistics outsourcing process- recognition of logistics providers as a viable alternative to performing activities in-house hinges on how well their service offerings and performance are known by logistics managers. The second sub-category, shifts in power between the focal firms and their customers and suppliers, also affects all three firms in the research in various ways. The cultural assumptions of each firm concerning their relationship to their business environment appear to be affected by these shifts in power, and in turn to affect the strategies the companies employ with their customers and logistics suppliers. The strategies employed by the firms to deal with the emerging importance of logistics providers and customer/supplier power shifts result in varying outcomes impacting logistics outsourcing and supplier relations.

Dealing with the Emerging Importance of Logistics Providers

Demands from customers to reduce costs and increase service have created a condition exerting tremendous pressure on firms to improve the efficiency and effectiveness of their supply chain operations. This pressure in turn creates motivation to seek alternative ways to perform supply chain activities. Companies routinely turn to logistics providers to provide services once performed exclusively in-house, particularly in the areas of transportation and warehousing. As discussed earlier, the expertise of logistics providers is sought when a firm lacks the expertise in-house, or does not consider the function a core competency. Other reasons for hiring logistics providers include such factors as need for additional capacity, cost reductions, coordination of logistics operations, elimination of the need to manage an operation, and redirection of capital. On the other hand, logistics managers sometimes shy away from logistics providers for fear they will be replaced. Thus, at stage one, managers can recognize logistics providers as threats to their livelihood instead of as tools to solve problems. Companies and individuals within those companies may differ as to how they view logistics providers (see Figure 3-10). How logistics providers are regarded appears to have a dimensional range from threat to preferred tool. In this research we see examples along the entire range, from the dichotomy of threat/preferred tool at Company A/Company D, to *ad hoc* use at Company C, to recognition of logistics providers as useful tools at Company B. How firms are reacting to the emerging importance of logistics providers appears to influence logistics outsourcing strategies at these companies.

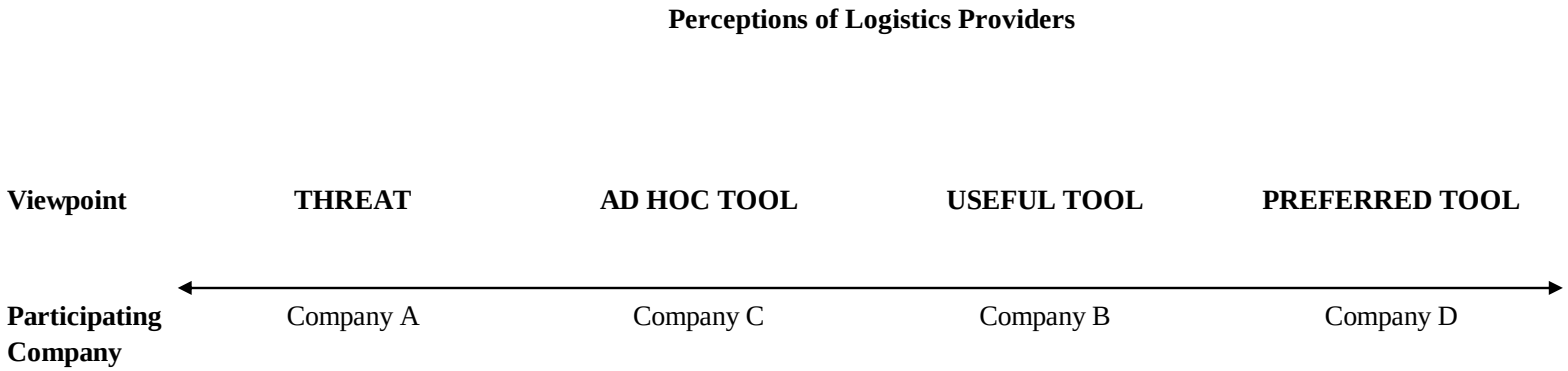


Figure 3-10. Perceptions of Logistics Providers

Company A.

At Company A we see a battle of cultures existing for almost two decades. Some of this battle has been fought over logistics outsourcing decisions. The Company D culture during this time always favored giving up ownership and control of non-core competency functions. Shortly after acquiring Company E in the late 1980's Company D forced outsourcing of such activities as plastics manufacturing and filling operations to suppliers and "co-packers," leading to several plant closings. Beginning in the early 1990's and continuing through the decade, such logistics activities as the private fleet and company run distribution centers were outsourced to third parties. The culture Company D sought to graft onto Company A is described by a logistics provider relationship manager:

> ABBY:
> We're now, someone used the phrase, you know *we've been "Company Dized,"* okay, I think it's taken a number of years. To get to the point, but it's really the culture of Company D….[A]ll they want to do is buy the brands, okay, and get the market share and *they don't wanna own or know about anything in between*. You know, less is better… (emphasis added)

As a result all carrier and distribution activities are now handled by third parties. However, management of carriers and involvement in the day-to-day activities of the distribution logistics providers has remained in the hands of Company A's logistics department. When compared to other Company D companies such as the food division, and to Company F before the merger, this way of governing logistics provider relationships deviates from the Company D norm.

The culture at Company E traditionally favored the performance of logistics activities in-house, and this culture has influenced how the logistics operations are

handled at Company A. Although the overall battle regarding outsourcing has been won by Company D, the logistics operations department serves as a pocket of resistance in its approach to logistics providers. This approach seeks to exert close control over suppliers, and is consciously being used as a strategy to counteract the threat of logistics providers. The essence of the strategy is for Company A to logistically outperform other Company D held companies in the hopes that when the merger with the foods division occurs, the Company A people, along with their values of close control and relationships with logistics suppliers will be retained. This thought process is summed up in this way:

> SHANNA:
> … (the VP of supply chain) made a hint about outsourcing transportation, so we're like yeah, okay. He actually went to a third-party that's a buyer transportation company, okay, so these are things we hear through the grapevine… [B]ut we took it upon ourselves as a team, Abby and her group to say alright, *we'll prove you wrong, and we did.*
>
> ABBY:
> …*everyone's nipping at your heels* and logistics providers are out there saying, we can do that for you. I think that was it, because what he (the VP of supply chain) said to us as a group was, "are you prepared at the end of this journey that if we fail, *if we're not able to prove to the business that we can run this transportation better than a logistics provider*, better than anybody else out there, you know. Are you prepared, you know, to go down that road? If at the end we fail, there is a solution outside of us to solve it. (emphasis added)

In this example, we see a subculture dealing with the emerging importance of logistics providers as a threat and the culture of its parent company dealing with logistics providers as a preferred tool. The outcome is a struggle of a subculture against a parent company's culture. Failure to win that struggle likely will result in the disappearance of the subculture as the jobs are outsourced.

Company B.

The approach to dealing with the emerging importance of logistics providers at Company B is to regard them as a useful tool to be used under the right circumstances. Success with such logistics providers as the distribution operation in Canada has given the director confidence that he can "depend on (logistics providers) to resolve our issues (Chris)." The raw materials warehouse manager explains his thoughts about using logistics providers during peak business after visiting a potential supplier:

> INTERVIEWER:
> How do you feel about giving over control of parts of the operation to another company, particularly when you are talking about a really busy part of the season?
>
> JERRY:
> You know I guess, for me I personally don't have a problem entrusting other people…I went into it and they looked very professional, they had a bunch of other companies in their warehouse already that they were doing the exact same thing for. And, I think they would probably relieve a lot of pressure that goes on in that timeframe because you are scrambling all the time, and in the four month period, you are just doing everything you can to make everything happen, you know…So I think it would be a benefit….

Chris discussed the opening of another company run distribution center as "just another hassle to watch," and appeared open to the use of logistics providers under the right conditions. These conditions included above all cost, with service to Company B and its customers a close second. For Company B, dealing with the emerging importance of logistics providers is a practical matter- if the service provider can satisfy the requirements of the company, for a better cost than performing the function in-house, there is a good likelihood that the function will be considered for outsourcing. As described by participants, the culture at Company B exhibits a willingness to give up control in order to save money and improve service. Thus, the data points to the

likelihood that Company B will be open to expanding its use of logistics providers in the future.

Company C.

At Company C the emerging importance of logistics providers has had little impact on logistics operations. In this company's culture, control over logistics operations has always been the strategy. The company has barely reached stage one, recognition of logistics providers as an alternative to performance in-house. The one logistics area in which a third-party is being used is in finding trucks to perform backhauls, and a purchasing manager at the company (Pete) predicts that once the contract with that logistics provider expires "we will have enough knowledge to do it ourselves" and the function will be brought back in-house. Thus, for this company stage four involves confidence building in performing activities in-house. Based on thematic analysis of what participants described as newly developing norms and behavior, the company's culture seems to be moving toward more tight control over operations. Since the company appears to deal with the emerging importance of logistics providers as of little consequence to their business at this time, it is likely that the strategy will be to continue to use logistics providers on an *ad hoc* basis and with an arms-length approach.

The data from these companies indicates that the ways companies deal with the emerging importance of logistics providers varies along a dimensional range. Logistics managers at Company A are threatened by logistics providers, and they consequently apply a strategy of close management of and relationships with logistics suppliers in order to prove the value of their function. The outcome of this strategy has yet to be

determined due to the pending merger with the foods division. The approach at Company B is to treat logistics providers as tools that can save the company management resources, money, and service issues. Management appears to be moving in the direction of giving up some control. Therefore, the likely course for dealing with the emerging importance of logistics providers is toward increasing usage of their services. Company C acknowledges that logistics providers can be useful, but the management of this company appears to prefer tight control over operations. Indications are this preference is likely to continue for the foreseeable future, and therefore the strategy of dealing with the emerging importance of logistics providers at this company is likely to be maintaining the status quo. The management of Company D continues to view logistics providers as preferable to performing logistics operations in-house. This will likely exert pressure on Company A to increasingly give up control over time, possibly moving toward using fourth-party logistics providers (4PLs) to manage logistics providers in the future.

Power/Dependence Shifts

Customers have been gaining considerable power over their suppliers, particularly "big box" retailers that buy from manufacturers. This power is often manifested in demands from suppliers, such as reduced costs and improved service, which directly affect logistics operations. Firms sometimes must respond to the demands of their suppliers as well, such as during tight transportation capacity, or when switching costs are high. The balance of power between firms is a condition that influences how a firm may respond to such demands. The balance of power can also be altered in a firm's favor through the use of various strategies. Examples of such strategies are pooling demand

with sister companies and consolidation of the supplier base. Depending on the assumptions of the firm regarding its external environment, various strategies can be put in place to create or react to shifts in power/dependence. These strategies can involve the use of logistics providers and the types of relationships that are formed with them.

Customer Power/Dependence

How a firm sees itself *vis-à-vis* its customers is part of its culture's core assumptions concerning the company's relationship to its environment. We would expect that customers have more power over their suppliers, but the seller's perceptions of how *much* power the customer has and how dependent the seller is on the buyer will influence how the seller acts toward the customer. The firm's culture may also influence its actions toward customers. For example, a firm with a "sales oriented" culture may have assumptions, values, and norms completely different from one with an "engineering oriented" culture, and therefore may view its relationships to its customers in a different light. The selling firm's perception of customer power is likely to also affect its willingness to accede to customer demands, such as reduced costs and improved service. The strategies a firm puts into place to satisfy or exceed customer requirements will often involve outsourcing some or all logistics functions in order to achieve customer satisfaction. Elements of the strategies may involve varying degrees of control and closeness of relationships. The three firms in this research provide examples of such strategies.

Company A.

Although Company A is a fairly large company in terms of sales, many of its customers dwarf it. Company A recognizes its relative lack of power over the major retailers. A best practices manager talked about having to respond to requests from large customers:

> TED:
> If Wal-Mart asked us to do it, most of the time we're gonna try to accommodate them…[W]e do push back on occasion, and say you know, that's gonna add 5 million dollars a year to our costs so we're not gonna do that kind of stuff. But, you know, *there's no doubt about it, that a Wal-Mart or Target will get more attention if they want*… (emphasis added)

The shift in power in supply chains toward large retailers has allowed such customers to demand ever higher service from its suppliers. Company A has responded by reorganizing its logistics functions to be more customer-focused. One part of the reorganization involved locating logistics provider specialists ("co-locators") with customer service personnel to create customer-specific teams. A distribution specialist explained their function:

> INTERVIEWER:
> Can you tell me what that co-locator type of function is about?
>
> SHANNA:
> Sure. *The purpose of the co-locator is willing to understand the needs of the customer*. So if we have up-coming promotions, what kind of capacity we're going to need? Do we have a new emerging lane coming up that supports, you know, part of our growth initiative? So Wal-Mart's gonna add another distribution center, let's say… So, they're kind of our face to customer service, but they report down into distribution. (emphasis added)

Another part of the reorganization involved creating new positions to manage logistics operations. One manager who recently took a newly created job discussed the impetus behind these changes:

> SANDY:
> … [T]his current role is actually very new was created about a year and a half, almost two years ago during a reorganization or redesign if you will, of the logistics environment. And our goal at the time, we had specific criteria that we wanted to meet when we decided to re-design, the key goal being that we wanted to be very customer focused. I*n the past, we were more inward focused and we wanted to become more outward focused.* So, we're looking to become much more customer focused and I think that this new organization has created that. (emphasis added)

This shift in focus points to a change in a core assumption- the firm needed to rethink its relationship to its business environment and refocus toward its customers.

The logistics operations manager went on to explain how the reorganization impacts the use of logistics providers:

> SANDY:
> … [T]he other key change that transpired in the process of creating this role was that we had two separate directors running the two aspects of the organization. So, we had a director of transportation and a director of warehousing. Quite often there was a lot of conflict between the two groups…Today, there's only one director and that person manages both transportation and warehousing…So, that certainly set the foundation for an organization that, sort of, was held accountable in one area, right, all of distribution is now held accountable for the same thing, and then *this role in distribution operations again, new, is sort of a liaison between the transportation logistics provider managers and the warehousing logistics provider manager.* (emphasis added)

The objective was to more closely control the operations of logistics providers in order to better service its customers. Additionally, relationship managers were assigned to specific distribution centers and carriers were put in place to both monitor the activities of logistics providers and as resources to assist with problem solving and coordination.

The desire to provide exceptional service affects the way the company approaches the operation of distribution logistics providers. The VP of customer service for one of the distribution logistics providers talked about Company A's approach compared to other companies:

> SAM:
> … [T]he other guys are just focused on getting cheap labor in there, making as simple a business as possible, just turning product in and out. Warehouses not particularly clean like Company A's are. *It's a real different philosophy…they want an outstanding operation and are not afraid to pay for it.* They want great service levels. That's more of an exception from my standpoint. (emphasis added)

Thus, Company A's approach to the increasing power of its customers has been to rededicate the company's efforts toward the customer. A strategy used to achieve this is to closely control its logistics providers, demanding high levels of service and closely monitoring performance to ensure it. Part of this strategy reflects the relational orientation the company has toward its logistics suppliers, which includes a willingness to work closely with suppliers and provide a fair return for their efforts.

Company B.

Company B is a much smaller company than Company A, and in relation to its major customers it is even smaller. One issue for Company B is that approximately 50% of its business is with one customer, and two other customers comprise another 20% of their sales. This condition makes it imperative for the company not to lose these customers, so it must place great emphasis on customer service. Company B always had a customer focused culture, a legacy left by the founder:

> HAROLD:
> …as a distributor I think there was always that reminder that you have to take care of the customer, you have to take care of their needs, their wants and satisfy them. Sometimes they are unreasonable and that sort of just came with the territory, so we were raised up with that and I think that's been, that was Aaron's attitude and certainly his sons as they came up, they were all in sales primarily and *so the 'customer was king' and so that really dominates this company.* (emphasis added)

The value of customer satisfaction was reiterated by many employees when asked what is important to Company B; comments such as "customer service is very important" (Chris) and "keeping the customer happy" (Frank) are examples.

This customer-focused culture, combined with increasing demands on Company B from its major customers can make life difficult for employees:

> NATE:
> *I feel there's a lot of pressure on the associates to get done what needs to be done,* just because of the sheer volume they've gotta deal with. You know, Home Depot, very demanding company, Lowes is demanding, Wal-Mart is demanding, basically the customers are getting more and more hey, we want it done exactly this way. *Our way or the highway*…. (emphasis added)

Additional demands are put on the company, particularly in the area of cost reductions: "There is constant pressure from our customers…to reduce costs…." (Cliff). These pressures have caused Company B to move toward outsourcing as a strategy to save management resources and money. Much of the outsourcing involves manufacturing that used to be performed by Company B and is now sourced from overseas. Success with this type outsourcing made Company B management more open to outsourcing distribution functions. As the director of logistics has stated, if offered a choice of running a distribution center or outsourcing, "I'll push for logistics providers…I'll push for logistics providers if I can get the right costs" (Chris). It appears that given the high level of customer service demanded by customers, the customer focus that drives the

company, and the limited resources available to Company B, the likely direction the company will take in the future is toward outsourcing more logistics functions to logistics providers.

Another aspect of customer power affecting outsourcing is the requirement by certain large customers for Company B to select carriers from a "preferred list" provided by the customers. The director of logistics explained how this works:

> CHRIS:
> There are some customers that we can actually pick whatever carrier we want to use. There's other customers, Home Depot, Wal-Mart, Lowes, where *they give us a list of their core carriers* and then we'll bring their core carriers in and then we have a choice to use whichever one of their core carriers we decide to …. (emphasis added)

The previous director of logistics talked about how this placed Company B in a less advantageous negotiating position with these carriers:

> INTERVIEWER:
> Could you tell me about your logistics supplier selection process?
>
> DAN:
> On the transportation side of it some of it is driven by the customers. They have preferred carriers…*which can be a challenge because the preferred carriers know that we've gotta use them*…So it takes away some of your negotiating power. However the Lowes, the Home Depots and the Wal-Marts of the world will tell you that's not the case, but in fact it is…[I]n certain markets if you want your product delivered and they set up appointments and they set their appointments up for their preferred carriers, and as you go down the list, your appointment can get pushed out you know, a week…And that has an impact on your service levels to that store…*With a preferred carrier you get pretty good treatment, you get a quicker appointment.* (emphasis added)

Given the circumstances of preferential treatment to certain carriers, Company B is not in a position to ignore the wishes of its larger customers. This reduces some of the control Company B has over its carriers in the sense that it cannot choose any carrier it wants, but gains some control over the ability to deliver in a timely manner.

Strategies Company B employees use for dealing with increased customer power include outsourcing some logistics functions to reduce costs and increase service, and acquiescence to demands from customers regarding carriers. The current direction at Company B appears to be toward relinquishing control over logistics functions as the owners and logistics managers become more open to outsourcing. The assumption of low power/high dependence with customers seems to be a condition influencing the move in this direction. Thus, the data points toward increased use of logistics outsourcing in the future at Company B.

Company C.

Although Company C's customer base is not as limited as Company B's, they are "still at the mercy of the customer" (Omar). The founder of the company was focused on sales, and this influenced the company's culture:

> WARREN:
> This company was a company that was founded on sales, the founders were sales, sales, sales, sales. As a result, there was only one way you got fired in this company, is if you lost an account. Since sales was the most important thing in the company and you only got fired if you lost a sale, *that allowed essentially the culture to become one of giving away the store*…and as a result, you know *the customer will want you to death*. They'll pay for what they need, but they will want you to death. (emphasis added)

Company C is described as a "service business and our job is to service that customer and satisfy their needs from A to Z" (Manny). The VP of operations goes on to explain the impact on logistics operations:

> MANNY:
> Our focus on this side of the fence is to really make sure we are servicing that customer's needs, because their menu changes are so important to them, you know, especially hospitals and things like that…So important that you have to be right there every time…So the focus on the purchasing side, on the operations side is, *get it there on time, give them what they ask for and hit their delivery windows*. Because, the windows are so tight in the market…. (emphasis added)

This pressure on the logistics operations has traditionally been handled through exercising complete control by performing logistics operations in-house with company owned transportation and warehousing functions. Outsourcing requires handing over some or all control to another party, and it appears that Company C prefers to control its own deliveries to ensure "the customer is serviced to the extreme" (Manny).

Customer power has increased in the food service business in part due to a condition of intense competition between food distributors, and this has impact on costs as well as service:

> WARREN:
> …we still have customers that have too much leverage that treat us very, very poorly. I mean we know it, and they know it.
>
> INTERVIEWER:
> What is their source of leverage?
>
> WARREN:
> Their source of leverage is, it's a competitive market out there and (a competitor) wants our business…And you'll do it or else…*We don't have power in many cases to say no*. Now that of course speaks volumes about their culture. Some customers, even though they've got leverage over us, aren't that way. *Others that do have the leverage are all about just cost. They'll take whatever they can get out of you*. (emphasis added)

An additional condition that has put cost pressures on Company C is that customers are beginning to go directly to manufacturers and dictating what prices Company C can buy and re-sell for, cutting profit margins. Thus, a power/dependence imbalance with

customers is placing significant stress on the company to perform logistics activities more effectively and efficiently, leading to motivation to look for alternative strategies to save money.

A strategy put in place to save money was to hire a third-party to broker carriers so that Company C could take advantage of backhauls. This strategy moved the company into stage three of the logistics outsourcing process. It should be noted that these strategies run counter to the organization's entrenched habits, and may be signs of cultural changes within the company. However, one would not expect a lot of movement toward the use of logistics providers in the near future due to a continuing norm of tightly controlling people and operations within the company, and a reported building of confidence in the ability of the company to handle the backhaul business in-house.

The data points to cultural assumptions regarding a firm's relationship to its environment, specifically shifts of power toward customers, as affecting the ways companies deal with customers. The strategies that companies use in dealing with these shifts focus on ensuring that customers get what they want but vary due to other conditions that influence their response. At Company A a reorganization of the logistics organization to be more customer-focused has led to closer control over, but also closer relationships with, its logistics providers. This is due to a relational orientation toward suppliers that acts as a condition influencing the company in that direction. At Company B the company is in the confidence building stage as it opens up to the use of logistics providers, and confidence in logistics providers is increasing. The evidence points toward expansion of logistics provider use in the future due to these conditions. Demands from customers to choose from a set of "preferred suppliers" creates a

condition that lessens the company's power relative to suppliers, but Company B employs a strategy of creating competition among its core carriers to offset this loss of power. At Company C the strategy for dealing with demanding customers is to control logistics operations by performing them in-house. While the company is slowly becoming aware of the potential for using logistics providers, the management of the company has become more controlling over people and processes. These conditions appear to indicate a likelihood of maintaining the status quo for the time being.

Supplier Power/Dependence

A firm's assumptions about its relationship to its environment can extend to suppliers as well as customers. It seems intuitive to assume that the larger the firm the more power it would perceive it has over its suppliers. Strategies to influence the relative size of the company's business with relation to the supplier's business are commonly used to shift the power/dependence balance to achieve a higher power over suppliers. One would hypothesize that a firm's assumptions concerning its relationship to its environment (e.g., the balance of power/dependence with suppliers) would influence how they treat their suppliers - the higher the power, the more demands would be placed on suppliers and the less concession would be given to their demands. One would also hypothesize that a firm's cultural orientation toward supplier relationships, regardless of power/dependence between firms, may also affect how it treats its suppliers. The data in this research support these hypotheses, but also point to additional conditions that can affect the power/dependence balance between companies.

Company A.

Company A has sales of $4 billion dollars and a freight budget of $220 million. As Abby, one of the logistics provider relationship managers says, the company is large enough so that logistics suppliers "don't want to fail" the company, but "just because we are Company A we don't rule…we found out it wasn't just about Company D." This statement indicates that the company looks on itself as having a fair amount of power over its logistics suppliers, but that suppliers may possess countervailing power as well. One of the strategies Company A is employing to shift the balance of power involves creation of Leverage over suppliers. This is being achieved in part through consolidation of demand with other divisions of Company D and working together with those companies in negotiating with suppliers. As Abby points out, "we weren't leveraging our scale." The strategy in place now is for Company A to join sister companies in negotiations to gain that Leverage:

> ABBY:
> …we took a new approach last year, when we went to bid and we entered into what was new for us, but not for foods, uh, were tri-party agreements. So we actually sit down with the railroads and the carriers and talk about our business opportunities, talk about strategy, talk about pricing *and we go to the market place to the railroads as Company D*. Not a customer of a hub or a clipper alliance…but as Company D…. (emphasis added)

Thus, we see a strategy of demand and information pooling with other Company D companies as Leverage to shift the power/dependence ratio in favor of Company A.

According to the director of distribution, another strategy in place at Company A is to consolidate the transportation suppliers into a smaller set, concentrating on giving the "top five carriers" more business at the expense of smaller carriers. This strategy is intended to increase the Leverage Company A has with these carriers through granting

them more lanes and tonnage, which makes Company A a more important customer. The likely cultural outcome of these two strategies will be to change Company A's assumptions about its environment to one of higher power/lower dependence *vis-à-vis* its suppliers. Such a change in assumptions should influence the company to negotiate harder and exact more concessions from its carriers. An example of this approach is provided by a logistics provider relationship manager when asked about how Company A has handled fuel increases:

> ABBY:
> …for carriers who feel we're not being fair with our fuel, they have attempted to put some fuel and line haul and basically what that has done with some carriers that tried that, *they lost the lane*…Carrier lost the lane. And, you know we circle back and say, you know *suck it up and deal with it*, because your competition is. (emphasis added)

This example provides insight into how Company A views its power over its carriers. However, a condition that may mitigate the use of power with carriers is the relational orientation of the company toward its logistics suppliers. The director of logistics noted that "we've always treated carriers as a commodity and we need to change that" (Candice). A likely outcome of these strategies is a consolidation of carriers that gives Company A more power over negotiations, but that also allows for closer collaboration between the company and its carriers because there will be fewer carriers to deal with. An additional outcome of this consolidation strategy may be the ability to more closely control the activities of carriers because smaller supplier bases are likely to be easier to monitor than larger ones.

Relationships between Company A and its two distribution suppliers are different than with its carriers. As the director of logistics points out:

CANDICE:
…it's different culturally, it's totally different in transportation and warehousing and I just think we're at different points in our relationships. You know, as I said earlier, we've always treated carriers like a commodity and we need to change that.

INTERVIEWER:
What would be the ideal relationship you'd have with a carrier?

CANDICE:
Ideally it doesn't have to be as close as we have with our logistics providers in warehousing because they don't manage as much of our business. (emphasis added)

Candice alludes to two conditions affecting the relationship between the two distribution logistics providers and Company A. The first is that historically the relationships have been close. This is due to the fact that Company E had a relational orientation toward suppliers that carried over when the distribution centers converted to third parties. As Abby says: "we've had long standing relationships" with the distribution center providers. The other condition is that the two distribution logistics providers handle all of Company A's business, whereas the carriers are more numerous and therefore individually have a smaller share of the business. This condition makes switching costs much more expensive because asset specificity in facilities, equipment, and systems make it much more difficult to change distribution suppliers.

Power/dependence dynamics appear to work differently with Company A's distribution logistics providers. Consolidation of business into two providers should make the power of Company A high, but this effect is mitigated by conditions such as switching costs and the close relationships built through years of working together. An example is offered by one of the logistics provider relationship managers, who discussed the "gainshare program" in which cost savings are shared between the companies:

> LEM:
> So we were able to get a good mark up and both the logistics providers accepted it, but they said, look we want, you know, you squeeze us all the time to save money. They are on a cost plus situation with us, so technically the more they spend, the more mark up they get, the more profit they get. Well we're telling them you better keep your costs down, so they're losing margin. So, they basically said, we'll do that but you know, *if we keep our costs down to save Company D money we want a piece of that, so that's what the gainshare program is*. (emphasis added)

Thus, we can see significant differences in the way power/dependence relationships are dealt with between carriers and distribution suppliers at this company. Cultural assumptions play a part in the strategies applied by the buying firm, but other conditions appear to alter how they are used with distribution logistics providers.

Company B.

With regard to logistics suppliers, Company B's assumption about its relationship to its environment is similar to Company A's. Although Company B is a small company, several conditions exist that raise its power position *vis-à-vis* carriers. The director of logistics discusses the unique position Company B is in:

> CHRIS:
> *…the nature of our product, it's off season* ….The location where we're at, *there is not a ton of freight going out* … so we send a lot of stuff out from Los Angeles, and Arizona where there is a lot of freight coming out of. (emphasis added)

The fact that Company B's products are counter-seasonal to many other companies, and that their freight volume is relatively high for the geographical area makes Company B "one of the customers to go after in the transportation industry" (Dan). These conditions help make Company B "a big fish in a small pond" with regard to its carriers, and "carry a big stick" (Arlene).

The transportation manager gives an example of how Company B uses its position of power to make demands on its carriers:

> ARLENE:
> We are moving a lot of stuff. We're a company that pays our bills exactly on time, we're a company that works exceptionally well at reducing ways that freight claims will occur. I mean, we make ourselves very, very attractive to carriers. And *by making ourselves attractive, then we are able to make some demands* that are kind of interesting. (emphasis added)
>
> INTERVIEWER:
> Right. So what would be some of those demands that you might make?
>
> ARLENE:
> A terminal manager is expected to be there…. Actually in several of the companies certain VPs of those freight companies have to own our account.

Arlene also talks about wanting to hear suppliers "snap to attention" when she calls, and the global procurement director describes Company B as being "very aggressive" when negotiating with suppliers.

Although larger customers require Company B to choose from a set of preferred carriers, Company B uses a strategy of creating competition among its suppliers to offset the condition of being restricted to a set of suppliers. The director of logistics gives an example of how they use the core carrier review to create competition:

> DAN:
> …we will try to bring the carriers in within a two day period…We stack 'em on top of each other…We wanna see them sitting in the lobby, you know, we want them to pass each other…And *we want to create that competition*. (emphasis added)

Company B also sends out invitations to the core carrier review in a group mailing that lists all of the carriers in attendance so that "everyone knows who is invited to come in and quote on the business" (Brian). Unlike Company A, Company B does not have a relational orientation toward its logistics suppliers, so its assumption of relative power

over carriers is not mitigated by that condition. In Company B's case, the assumption of power appears to lead to strategies attempting to gain advantages over its logistics suppliers.

Company C.

Company C is fairly large in its geographic area, but performs its own distribution warehousing functions and does most of its own transportation. It is realistic about its power over carriers, as the previous logistics manager explains:

> OMAR:
> …to the smaller guys we're probably a big chunk, for the big guys like a (names carrier) for example, you know, you're like a drop in the bucket.

Company C recognizes that it can gain power if it increases its business with certain carriers. As Omar states, "the more you deal with them" the better service you receive. Basically, however, Company C deals with a logistics provider to make arrangements with carriers, and therefore has no strategy in place to change its power position *vis-à-vis* carriers at this time.

We have seen how cultural assumptions and relational orientations are conditions that affect the way the companies in this research deal with and affect the power/dependence balance with logistics suppliers. Strategies such as consolidation of suppliers and teaming up with sister companies can be used to build higher power over suppliers. Other conditions, such as seasonality and physical location can create more power than would be expected by the size of a company. Power is used to gain concessions from suppliers, but power can also be mitigated by conditions such as

relational orientations and company history. Thus, culture may play an important role in how firms deal with power/dependence regarding logistics suppliers.

Chapter Summary

This chapter describes how some companies deal with internal and external change, and the implications the strategies they use have on logistics outsourcing decisions, supplier relationships, and governance. The property of internal change is described as having two sub-properties- changes in culture and company growth. Change in culture within the participating companies is related to such conditions as poor financial performance and company mergers, and is partially manifested in the degree of control a company exerts on its employees and its suppliers. Cultural conditions, such as relational versus task orientations and control orientations are shown affecting the way companies approach supplier relationships and governance. Growth is discussed as a condition related to an increase in need for expertise and control. The outcomes of logistics outsourcing strategies are shown creating expertise to deal help companies with growth, but helping to drain expertise from a company as well. Growth is a condition that is related to losing control, and the manner in which control is exerted and the extent of control over logistics operations is demonstrated to be related in part to cultural orientations in these companies.

The property of external change is described as having two properties impacting logistics outsourcing- the emerging importance of logistics providers as an alternative to performing in-house, and changes in power/dependence balances with suppliers and

customers. A dimensional range is presented showing how the companies in the research appear to view the emerging importance of logistics providers and how these views affect logistics outsourcing strategies. A firm's cultural assumptions regarding its environment (customer power/dependence relationships) are revealed as conditions affecting the way companies react to customer requirements, including the use of and control over logistics providers to reduce costs and improve customer service. Additionally, power/dependence relationships with suppliers are shown to be related to how the participating firms create strategies for dealing with suppliers, and how these strategies are affected by cultural orientations regarding inter-firm relations and governance.

This chapter also presents a theoretical framework for researching the phenomenon of logistics outsourcing. It describes a five stage, iterative process through which companies become motivated to outsource, become aware of logistics outsourcing as an alternative to performing in-house, initiate outsourcing trials, gain or lose confidence in outsourcing as a strategy, and expand or contract the use of logistics providers. Cultural conditions pertaining to control are related to how companies move between these stages.

Having described how dealing with change affects the way companies approach logistics outsourcing decisions, chapter four provides insights into the relationships between dealing with supply chain issues and logistics outsourcing.

Chapter 4-Research Findings: Dealing with Logistics Providers

Chapter Outline

The following discussion concerns the manner in which companies deal with logistics providers. The chapter begins with a discussion of the establishment of logistics provider strategies, including conditions that may affect the selection of those strategies. This section is followed by the presentation of a five-step, cyclical process for selection of and allocation of business to logistics suppliers that emerged from the data. The chapter concludes with a discussion of ongoing logistic supplier relationship actions that take place in the participating companies. Relationships between corporate culture, control over various aspects of a firm's business, and logistics outsourcing are discussed throughout the chapter (see Table 4-1). Additionally, theoretical frameworks for understanding how companies deal with logistics providers are presented.

Establishing Third-Party Logistics Strategies

Outsourcing strategies among participating companies appear to be related to how firms perceive logistics providers (see figure 3-2). Participants talked about various viewpoints toward logistics providers held by their firm, from viewing logistics providers as threats to their jobs to viewing their use as preferable over performing logistics

Table 4-1: Properties of Dealing with Logistics Providers

Category	Properties	Control	Cultural Orientations and Influences
Dealing With Logistics Providers	***Outsourcing Strategies***	Dimensional range- Keeping to Giving up	
Company D	• Outsource all non-core competency activities	Give up	Task orientation
Company A	• "Push Back" from subculture	Keep	Relational orientation
Company B	• Situational, depending on conditions	Willing to give up if conditions warrant	Culture changing in direction of giving up some control
Company C	• Take back in-house	Keep	Task orientation; industry conditions; lack of trust
Dealing With Logistics Providers	***Supplier Selection/Allocation Process***		
	• Selection		
Company B, Company A	-Carrier selection criteria	May not be completely under company's control due to demands of customers; selection based on need to control service and cost	Assumptions of power/dependence with logistics suppliers and customers
Company C	-Price dominant criteria	Controlling cost	Task orientation
Company A	-Culture fit between companies	Less control required when values are congruent	Important for DC's, becoming more important with carriers
	• Preparation		
Company A	-Formal process	Control through knowledge	Service orientation; relational orientation
Company B	-Formal process	Control through knowledge	Value conflicts
Company C	-None		
	• Negotiation		
Company A	-Formal process	Control through training, strategy, and formal approach	Assumptions of power/dependence with logistics suppliers
Company B	-Formal process	Control through knowledge and manipulation	Assumptions of power/dependence with logistics suppliers
Company C	-Ad hoc and informal	Broker controls	Lack of expertise
	• Review process		
Company B, Company A	-Formal weekly, monthly, and yearly reviews	Frequency related to high level of control	Assumptions of power/dependence with logistics suppliers
Company B	-Formal yearly reviews; other reviews more informal but frequent	Frequency related to high level of control	Assumptions of power/dependence with logistics suppliers
Company C	-Triggered by service failures	Control is looser, more ad hoc	Service orientation
	• Reallocation of business		
All companies	-Punishing suppliers	Means to establish and keep control	Assumptions of power/dependence; use of power to punish
All companies	-Rewarding suppliers	Means to establish and keep control	Assumptions of power/dependence; use of power to reward

Table 4-1: Continued

Category	Properties	Control	Cultural Orientations and Influences
Dealing With Logistics Providers	***Ongoing Relationship Management Actions***		
	• Relationship Building		
Company A	-Cultural alignment; bonding; collaboration	Control through constant contact and information sharing	Relationship Oriented
Company B	-Dichotomous, inconsistent	Control through "pushing hard" on suppliers	Cultural assumptions in transition
Company C	-None; arm's-length	May take back all activities	Task Oriented
	• Joint Problem Solving		
Company A	-Root cause analysis; giving logistics supplier time to fix problems	Control through being directly involved	Relationship Oriented
Company B	-Providing assistance to supplier	Control through being directly involved	Cultural assumptions in transition
Company C	-None		Task Oriented; dependent on expertise

activities in-house. These views translate to a range of "perform versus buy" strategies from complete in-house performance of logistics activities to complete outsourcing of those activities. Implicit in this range is the possibility that a company can adjust its strategy over time, depending on internal and external conditions. These conditions include those that affect a company's motivation to outsource (see stage two in Figure 3-1), degree of control desired, satisfaction with previous logistics provider performance, and parent company requirements.

Conditions Affecting Participating Company Strategies

Company A

Parent company requirements help explain the dichotomy between Company A's view of logistics providers as a potential threat and the extensive use of logistics providers by that company. Company D has maintained a distinct strategy of outsourcing non-core competency activities for decades. This strategy was applied to various activities, including logistics functions, at all Company D owned companies prior to the merger that created Company A. This strategy continued to be applied post-merger, resulting in complete outsourcing of transportation and distribution activities within Company A. A manager of logistics provider relationships discussed the origins of this strategy:

> INTERVIEWER:
> Where does all this, this idea of handing activities over to another company, where do you think that all came from?

ABBY:
From what I understand, *it's very typical of the Company D way*. And, from what I understand it is more prevalent in other parts of the world than it was here in the US…. (emphasis added)

Abby went on to describe this "Company D way":

ABBY:
Company D is all about "let me rent it"… it's really about "I can get the logistics provider to do it" and I have no further worry they're gonna deliver what I want, when I want it and the rest of the headaches go away.

Other participants characterized Company D's penchant for outsourcing as something like a business philosophy as well:

KERRY:
They don't want to hold any real estate.

++++++++++
LEM:
If you look at Company D today, I mean even a lot of contract manufacturing, you know, they outsource a lot.

++++++++++

CANDICE:
In my opinion, it's really around finding a niche of an area that you don't …wanna invest resources in to be the best practice person. For example, running a warehouse. You know, it's not our core competency as a business.

Thus, the Company D business philosophy shuns ownership of and management responsibilities for any non-core competency activity.

Constantly questioning core competencies and looking for opportunities to outsource was adopted from Company D by Company A's top management as a guiding principle for its logistics outsourcing strategy. Any activity within the supply chain is regarded as a candidate for outsourcing:

> ABBY:
> It appears that, probably within supply chain, *probably most of supply chain could be managed outside of Company D*, what do they want to keep, you know, some parts of finance, marketing, sales… it's like what the heart of Company D's gonna look like at the end. (emphasis added)

Examples of Company A logistics functions currently being looked at for outsourcing are customer service and transportation management:

> ABBY:
> … [R]ight now, we're exploring 3PLs, I think that you know, and it's not only in transportation, from what I understand. It's being looked at within customer service… *that was very surprising to me*, 'cause I thought that, within customer service you provided some unique support…. (emphasis added)

Company D's practices of giving up management control over activities and ownership of brick-and-mortar has thus established an outsourcing strategy in use throughout the Company A supply chain.

Abby's surprise at customer service being a candidate for outsourcing raises a question of how deeply Company D's culture has influenced the Company A culture. If the assumption that outsourcing is the right approach towards conducting business was well established in the Company A culture, one would expect little surprise among senior managers when functions are considered for outsourcing. Additionally, Chapter Three described how Company A was "pushing back" against Company D's willingness to relinquish control over operations. Anger among ex-Company E employees over Company D policies, particularly over past "purges," and concern about the pending merger is pervasive in the logistics area. While some managers have admitted that outsourcing was "the right thing to do" (Lem), there is too much resentment built up

within the organization over past Company D actions to suspect that Company A has adopted this aspect of Company D's culture.

Company A's logistics function appears to be a subculture within the Company D organization, with different values concerning control and assumptions concerning the nature of human relationships, than those of the parent company. Yet, given these differences the actions of the company follow those of Company D with regard to outsourcing. What one might say about the logistics outsourcing strategy at Company A is that is follows an overall *management philosophy* influenced by the culture of the parent company, but that the assumptions and values of the parent company have not been fully adopted by Company A's culture. The implication of these findings for this research is that the influence of the parent company is the paramount condition influencing Company A's logistics outsourcing strategy. Company A is in stage five of the logistics outsourcing process, and appears to be in an expansion phase. The likely trajectory of the process appears to be toward more outsourcing, with a potential to go to a fourth-party logistics provider (4PL) to manage logistics operations in the future.

Company B

While Company A has a distinct strategy regarding logistics outsourcing, participants at Company B discussed their company's approach in terms of conditions which might lead their management to consider outsourcing logistics activities. Those conditions include 1) cost savings, 2) desire to be relieved of management responsibility (letting go of control), 3) preference not to own facilities, 4) uncertainty, and 5) issues created by seasonality. An underlying condition that impacts these stated conditions is

the relatively small size of the company, which limits financial and human resources, making it more difficult for the company to respond to new markets and spikes in demand.

Participants pointed to logistics provider operations in Canada and Mexico as prime examples of an opportunity to take advantage of a third-party logistics firm to assist Company B with these conditions. The company president mentioned cost and management responsibility as reasons for using a third-party in Canada:

> ADAM:
> … [W]e employed a public warehouse, basically to facilitate all our shipments up in Canada. The reason for that was, *we just didn't wanna put the manpower in there and we felt like the overall costs were as good as or better* than what we could do it for ourselves…It's just easier to handle. (emphasis added)

The director of logistics discussed "having a good rate" and not having "as much of a headache" (Chris) trying to manage an operation in another country as reasons for used a logistics provider. The previous director of logistics discussed the issue of lack of familiarity with the Canadian market:

> DAN:
> … *[W]e weren't familiar with doing business in Canada,* but we knew we needed to be in there, because that market was growing so quick and we thought, you know what, let's just put a small product mix in there, of our core items and let's have someone handle it that's in the business…They could help us get it from here to there, do the warehousing and shipping and *we wouldn't have to mess around with all the logistics within Canada that we didn't understand at the time*. (emphasis added)

Similar conditions of cost, management requirements, lack of expertise, and the issue of facility ownership were cited for going to a third-party operation in Mexico:

> ADAM:
> I think *it was cost driven, but also just the local issues of dealing with people*.

INTERVIEWER:
Cultural type of differences?

ADAM:
Yeah, and also what the government requires us to do as far as, you know, maybe employment laws and things like that…. [W]e were just trying to facilitate shipments to Home Depot and other customers down there without spending a lot of time and money to move in there and have a warehouse, it just wasn't worth the money. And, *as it turned out, Home Depot moved out of there and it was the right decision. Because now we don't have a building and people, and everything else*. (emphasis added)

Significantly, the outcome of this decision has appeared to help build confidence in the use of logistics providers as the right thing to do under conditions of uncertainty.

This outcome, coupled with positive results from the Canadian operation, appear to have made Company B more cognizant of logistics providers as a viable strategy for dealing with supply chain issues. The director of logistics discussed his views concerning future use of logistics providers:

CHRIS:
… [T]he more I read about what other companies are doing that are our size or bigger, that seems to be the way, the direction a lot of companies are heading, is to the third-party logistic companies.

This awareness of logistics providers as a viable alternative to in-house performance of logistics activities has allowed Company B to consider using logistics providers to help alleviate a condition that Company B faces each year - lack of capacity to deal with seasonal spikes in demand. The raw materials warehouse manager discussed a project he and the director of logistics were currently working on:

JERRY:
What we were looking at … (is) going to an outside warehousing system and having them handle all our incoming containers and store it and then would allocate the product as we need it….

INTERVIEWER:
So what were the main drivers behind the idea of going and possibly looking at, for an outside supplier?

JERRY:
I guess, *space* and also at peak time we have 30 different containers here on hand at one time and you know we pay fines for anything over three days that has been sitting here, so we were looking at having those guys do that, *take out some of the load in the busiest times*. That would help us keep our time frame on that. (emphasis added)

Although this project has not been finalized, it indicates that Company B is beginning to think in terms of logistics providers as tools to help alleviate cost, management, ownership, uncertainty, and seasonality issues. There is also an indication that the company is changing its orientation from keeping control to giving up some control over operations. Company B's logistics outsourcing strategy appears to be in a formative stage, where certain conditions are making the use of logistics providers attractive. However, unlike Company D, at this point in time this is not a fully developed strategy, but is more situational in nature. Confidence building in logistics providers is taking place, with indications that additional expansion on logistics provider use will occur.

Company C

Company C's strategy concerning logistics operations is to continue to perform logistics activities in-house except under unusual conditions. The only current condition discussed by participants was lack of expertise in arranging outside carriers for backhauls. Participants expected that after the contract expires, Company C would bring the function back in-house:

MARK:
… [W]here do I see it going? One, is I am, as I continue to build the freight revenue or try to help build the freight savings, I would see, the first idea is *I think we're gonna bring it in-house*. (emphasis added)

++++++++++++++

PETE:
Do you want my opinion? When our contract is up with this third-party, I don't think they (Company C) will renew…I think we'll have enough knowledge to do it ourselves….

These discussions indicate that a desire to retain control over operations appears to be firmly entrenched in Company C's culture.

While few conditions were discussed for justifying outsourcing, a number of conditions were pointed out as reasons to keep logistics activities in-house. These conditions include 1) company pride in service, 2) control over service, 3) industry conditions, and 4) lack of trust in outside firms. These conditions appear to have influenced Company C's culture to develop a "do-it-yourself" orientation toward logistics operations.

The logistics manager related Company C's preference to perform logistics activities in-house to pride in the company and a service-oriented culture:

MARK:
I think, and many of the, for example, at least on the out-bound freight side, not having an outside party managing that for you, is *you're a member of this organization, the Company C and the Company C prides itself on great customer service*….And part of that customer service is getting the product to the customer on-time in good condition, okay…. I guess why we haven't had, or probably would not have an outside company…. And once again it goes back to that kind of a pride thing. You work for this company and we're delivering it to them. Now, if you have an outside company in here, say delivering your groceries, I would just use Ryder as an example. You're a Ryder employee, delivering for Company C to Company C's customers. It doesn't, *I think the pride thing just really is, I don't think you would get the performance out of a Ryder employee*

> *that you would get from the Company C employee* for that core category. (emphasis added)

The VP of operations reiterated this concern with people outside the company delivering to Company C's customers: "I really don't believe in getting temporary drivers…because there's no ownership for them to take care of the customer…." (Dan). Company pride thus appears to be associated with a high value being placed on customer service at Company C and excellent performance of service activities for its customers.

Control over service is an issue related to company pride - letting go of control over logistics activities appears to be construed as risking service performance. The logistics manager discussed loss of control over service as an instance when the company outsourced some customer deliveries and then brought them back in-house:

> MARK:
> And we did have an outside company (names company). (The company owner) was an employee for Company C at one time, and started his own company and then somehow started doing some of our longer hauls for us, where we were going further distances than normal for our regular fleet, and he would do those. He was doing quite a few of our loads, *but the service wasn't there as it should be, and then we pulled those back in too*. (emphasis added)

Concern with letting go of control of service may be a condition shared among companies in the food services business. The previous logistics manager discussed the commonality among companies in the business to maintain control over service activities:

> OMAR:
> … [F]ood distributors as far as I know around here pretty much do their own…Whether it's (names four food distributing companies), you know whoever we still pretty much do our, even though we may lease the equipment, you know, we still do the rest of it ourselves.

This statement is corroborated by the VP of operations and the current logistics manager:

MANNY:
I would have to say *it's the nature of the beast* in the food service industry. I don't know of any food service company nationwide that outsources its driving force. I think everyone has their own drivers because of the job itself, the difficulty in finding drivers and maintaining drivers. (emphasis added)

++++++++++

MARK:
The difference is our drivers load groceries into the back doors of restaurants, *it's a different beast*. That's where… you have to have customer service skills. Things that go along with what industry you are in. It's just not, you can't just drop the food at the back door of a restaurant. There's more to it than just hiring an outside company to deliver your product for you. (emphasis added)

The customer's trust is thus a necessary condition for a company to compete in the food service industry. Letting go of control over service activities would appear to be an action that creates too much risk for companies in this line of business.

Internally, Company C has developed distrust for the performance of outside companies. In addition to the example by the current logistics manager concerning delivery service issues, he also discussed delivery performance issues with the current logistics provider arranging freight and how it has added to this distrust:

MARK:
I don't think there's a lot of trust here … it's really just distrust that they can do the job effectively…It's just the overall general attitude of what's happened in the past performance wise. It's not distrust that they're lying to me over there.

INTERVIEWER:
No, but there's been a lack of performance?

MARK:
That's where the distrust comes from. So I think from that standpoint the relationship probably won't go any further. Now, could you bring on another third-party? I would say, you could, you could. But, that company would have to dig in. Would have to build in, *they would have to overcome the old stigma* of the last third-party. (emphasis added)

This lack of trust, coupled with a strong sense of pride in service performance and industry conditions, appears to have influenced the culture toward highly valuing service performance to the point where control over service becomes a goal for the organization. Confidence in the ability of logistics providers to perform has thus not been built. Based on this interpretation of the data, it appears likely that Company C will continue its present strategy of performing the majority of logistics activities in-house, and will likely bring any currently outsourced activities back in-house.

Summary

The establishment of third-party logistics provider strategies by firms in this research appears to be related to how firms view logistics providers, and internal and external conditions that influence these views. Company A represents a case in which the influence of the parent company is the dominant condition in the "perform versus buy" strategy. Logistics outsourcing will continue, and probably expand, regardless of the views of Company A personnel. This condition has implications for selling firms, who must understand the culture of both buying firms and their parent companies in order to market their services effectively. Conditions affecting Company B's strategy to outsource logistics activities include cost, desire for release from management responsibility, preference not to own facilities, uncertainty, seasonality, and lack of company resources. While Company B cannot be said to have a formal outsourcing strategy, it appears to have an orientation toward outsourcing that is influenced by these conditions. Confidence in the performance of logistics providers is acting as a feedback

mechanism reinforcing this orientation. Selling firms may be able to take advantage of such conditions to convince firms to make an initial trial of their service offerings.

Company C serves as an example of a company with a strategy strongly oriented toward performing logistics activities in-house. Lack of expertise is cited as the only current condition that may influence the company to consider outsourcing, although even when outsourcing the company is seeking to develop its own expertise. Conditions related to the company's orientation toward performing its own logistics activities include company pride in service, desire for control over service, industry conditions, and lack of trust in outside firms. Based on this example, selling firms should be aware that for certain companies efforts to market logistics services to companies strongly oriented toward performing activities in-house may not be able to overcome such conditions.

This section presented various logistics outsourcing strategies and some conditions that appear to influence them. A relationship between corporate culture and the development of these strategies can be drawn to such aspects as dominance of a parent company's culture, propensity to control logistics operations, assumptions about the nature of human nature (the trustworthiness of other companies), and values such as pride in service and cost containment. The next section addresses the application of logistics supplier relationship strategies once the "buy" decision has been made, and the relationships between corporate culture and a firm's propensity to control to these strategies.

Application of Logistics Supplier Relationship Strategies

Once a firm has established a strategy to guide the outsourcing of logistics functions there are certain activities involved in executing that strategy. This research identified two major types of activities- a supplier selection/allocation process and ongoing supplier relationship actions. Each of the firms in the research goes about these activities in different ways. The discussion that follows will describe these activities and relate the different approaches to the cultures of the organizations and their orientations toward controlling logistics operations.

The Supplier Selection/Allocation Process

Emerging from the data is a five-step, cyclical process for selecting suppliers and allocating business to them (see Figure 4-1). This process includes: 1) preparation, 2) negotiation, 3) allocation of business, 4) performance review/monitoring, and 5) reallocation of business. Preparation entails activities such as fact finding about logistics suppliers and conditions affecting their business, selection of suppliers to negotiate with, and activities performed to get ready for negotiations. Negotiation involves presenting the positions of the buying and selling companies regarding price, service, and other contract particulars, and give-and-take between the companies regarding these positions. Allocation of business includes decisions regarding which suppliers to do business with, and how much business to allocate to each supplier. Review involves formal and

Supplier Selection/Allocation Process

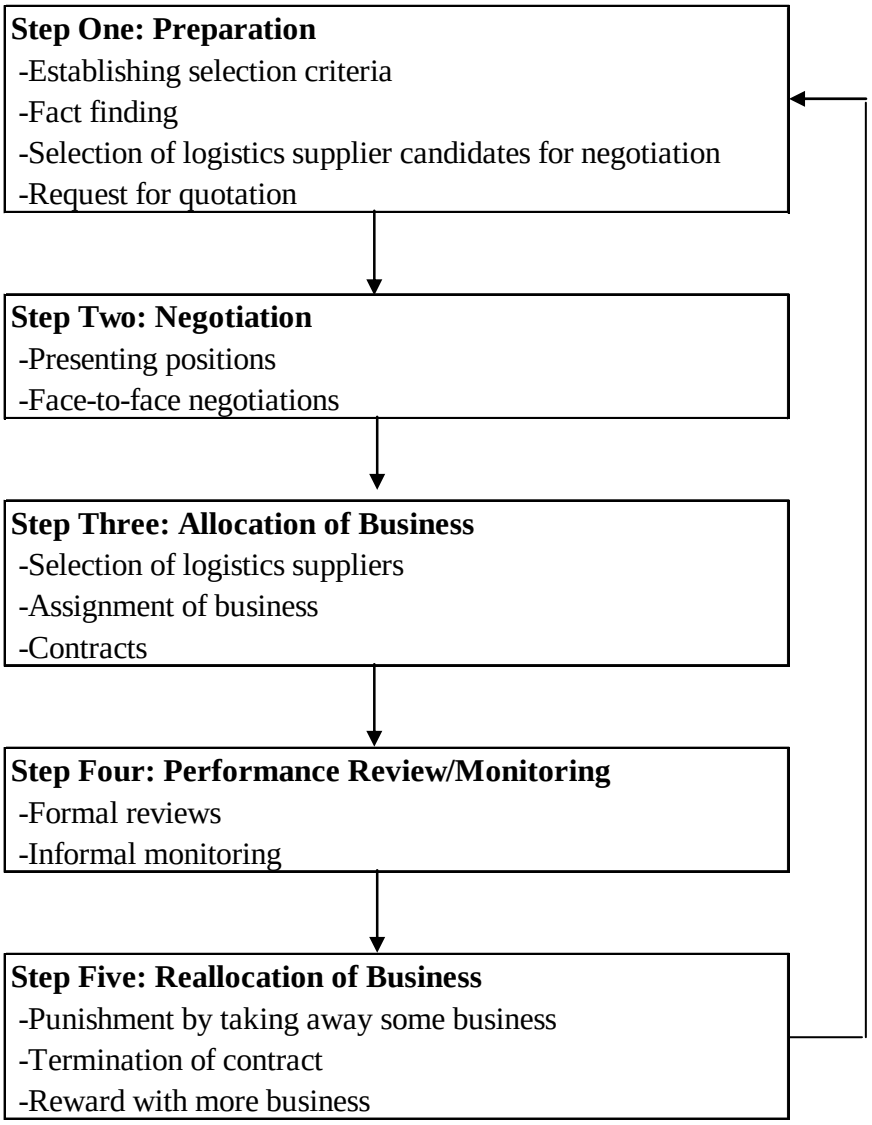


Figure 4-1. Supplier Selection/Allocation Process

informal methods of checking on supplier performance. Reallocation of business entails 1) punishing suppliers for poor performance by taking away business, 2) terminating relationships, or 3) allocating more business to a supplier because of good performance. These activities represent a process that often is repeated over time, but not always on a set schedule.

Preparation

Participants in this research discussed three main activities involved in the preparation step- 1) establishing criteria for selection of logistics providers (see Table 4-2), 2) fact finding about individual companies and pertinent business conditions, and 3) requests for quotations (RFQs). Specific criteria selected by companies, their order of importance, and the types of information about suppliers that firms look for appear to reflect some of the cultural values of the buying companies.

Company A.

Company A participants were in close agreement as to the criteria for selecting logistics providers at their company. Service was always mentioned first, then costs, followed by the cultural aspects of the provider and their capabilities. This was consistent for all types of logistics providers - distribution centers, domestic carriers, and international carriers.

> INTERVIEWER:
> What aspects of your business dealings are most important to you, with your logistics suppliers?

Table 4-2: Supplier Selection Criteria

Selection Criteria Hierarchy			
	Company A	***Company B***	***Company C***
Primary Criteria	Service Cost	Service/Cost	Cost
Secondary Criteria	Cultural Aspects Reputation Capabilities	Capacity Technology Responsiveness	Service

CANDICE:
First is their capability. You know, *are they capable of providing the level of service* that you want at the time that we need it? So that's the first hurdle, if you would. *Then there's the cost hurdle*. To be frank, we're Company D so there's gonna be a cost hurdle…that they'd have to go through. Then once they pass the cost hurdle, *then to me it comes down to the culture*, the interaction, the ease of use, the ease of interaction between us and our vendor… Do they have the infrastructure, the commitment, and the resources…? (emphasis added)

++++++++++

INTERVIEWER:
Tell me about how you choose, in the international arena, how you go about choosing your logistics suppliers. Who are you really looking at? What are you trying to achieve through that selection process?

RANDY:
What we're trying to achieve, *first of all, again, is the proper service level there*? Is the proper coverage in terms of the countries that we need to service, does that carrier that coverage, does it have the resources okay, to move the volumes that we may be moving. And *thirdly, we look at cost*…we're willing to pay for good service at a reasonable price…. [S]ize and world coverage, equipment availability, frequency of sailing, that type of thing. (emphasis added)

These statements are also in agreement with one of Company A's written values, "Be obsessed with customers." Statements from participants such as "…they are so focused on customer service levels" (Kerry), "…we're looking to become much more customer focused" (Sandy), and Company A is concerned with "…what does our customer want?" (Sam) agree with this espoused value. Cultural fit with logistics suppliers is also mentioned by several participants as important to the company: "…we really look for a cultural fit" with logistics providers (Lem), and "…they want you to buy into their culture" (Sam). Thus, it would appear that company values are influencing supplier selection criteria.

Fact finding in preparation for selecting suppliers for negotiation at Company A involves investigating the supplier's reputation, culture, and capabilities. Reputation is important because the logistics provider is seen as representing Company D:

> CANDICE:
> …I mean we sit with our logistics providers and *it's like they are our employees*, you know. And they have the pride. I mean, you go to any of our DCs and they're wearing Company D shirts, they've got Company D banners up and you really wouldn't know. And that to me is the important part of it. That *you really don't know that they're not Company D*. (emphasis added)
>
> ++++++++++
>
> RANDY:
> … [W]e try to do business, okay, with the, with the larger, more reputable firms….

Part of that reputation involves cultural aspects such as good treatment of employees and a pleasant work environment:

> ABBY:
> It gets down to the point that (truck) drivers can make it happen or not. So, carriers that treat their employees well, that have you know, competitive salaries and have low turnover or less turnover within their personnel becomes important.
>
> INTERVIEWER: They provide you with this information, you ask for this information?
>
> ABBY: Absolutely. Its part of our, what we call RFI,…Request for Information…So, before we even want to even talk about doing business with you, there's a number of different things that we wanna know about you…[W]e wanna know what is your turnover rate, not just for drivers, internal folks as well.
>
> ++++++++++
>
> INTERVIEWER:
> You said, you already had a relationship with 3PL One and 3PL Two. How would you describe the culture fit between Company A and those two?

> LEM:
> I would say the culture fit is one where we are both very safety conscious. To the point where their culture is a safety culture and the way they treat their people in terms of keeping a clean facility, *at the end of the day, you want it to be a place where people want to come and work*. You want people to come and work at the Company D 3PL One, Company D 3PL Two site. You know, you don't want it to be a dirty place. You don't want it to be unorganized. You want it to be an efficient place to work. So, that's the kind of culture fit we look for. (emphasis added)

This requirement for suppliers to be reputable companies that provide good working environments appears to be associated with the relational orientation of the logistics management at Company A, which has become part of their culture, despite the more task-oriented culture of the parent company. The VP of customer service for one of the logistics providers sees this culture as very different from most companies that outsource logistics operations:

> SAM:
> I overlooked one of the unique things…is their commitment to safety…Which they do for people who don't work for them, *which is absolutely unique in the industry*. I've never seen any company get involved…Most customers take a quick look at your operations. You wanna have people, you know, try to crash a fork lift, that's your problem. And that's very unique for Company D to take such a hands-on approach. I think it's a positive, cause it's not just having hands-on, they'll support you. If you go to them and say, look you know if I had some safety netting up around the pick areas or stuff like that, they really help, they get it. And that's unique too…Company A if you come to them with a safety issue and say it's gonna cost a few bucks, they're gonna get us the money. (emphasis added)

Thus, Company A's relationship-oriented culture is reflected in its concern for supplier employees and has bearing on what the company looks for in its suppliers.

Capabilities of suppliers are also important to Company A. Requests for information from suppliers include "identifying carrier capacity", as well as "the infrastructure, the commitment, and the resources" necessary to service customers

(Sandy). In-depth inquiries concerning many types of capabilities are part of the RFI process, as a distribution specialist explains:

> INTERVIEWER: Tell me some of the things you ask.
>
> SHANNA:
> … [I]t would be "where are your terminals located?" "What's your 24/7 plan?" "How does your emergency plan work?" "What kind of customer service do you offer?" "What's your innovation for this year and five years out?"

Once the RFI is complete then a request for quotation (RFQ) is sent out. Obtaining the best price becomes the objective of this activity. As the Shanna explains, "What we do is line them up…from a pricing perspective to see where they fall in." However, service continues to play an important part of this process as well. The international distribution manager and a logistics provider relationship manager explained its importance:

> INTERVIEWER:
> Of those aspects of the carrier that you're looking at, what would you rank the most important?
>
> RANDY:
> I think service is one, okay. Then comes price.
>
> INTERVIEWER:
> In that order?
>
> RANDY:
> In that order….Because again, *I mean you can get a cheap service, alright, but it will take forever for that product to get here*, so you have to know, you have to be in tune in terms of your transit time, whether it's a direct port of call, or whether it's a transshipment. And then, like I said, price. And it's not gonna do me any good to get it there in 60 days when I could have got it in 30 days, okay. If I need particular items that are needed in manufacturing, it doesn't pay. (emphasis added)
>
> ++++++++++
>
> ABBY:
> Last year, perfect example, we had two scenarios. One solution was going to deliver, you know, this impact to the freight budget; second solution was going to

> have this impact. One we called price and one we called service…Uh, *we demonstrated to the business that it was too risky to go with the price*. You know, to take that chance. (emphasis added)

Thus, although the RFQ process is important to the preparation step for Company A, service capabilities weighs most heavily in selecting suppliers for negotiation.

Company A also maintains a database of performance for current logistics suppliers

> SHANNA:
> What we do, is we have a weekly scorecard that we track. And we have a bank account, let's call it. We store their performance.

Other factors such as supplier's reputation, culture, and capabilities also serve as qualifiers. Company values, both espoused by the company and shared by most employees, appear to influence these criteria.

Company B.

Company B participants uniformly agreed that service and cost are the two most important criteria in selecting suppliers for negotiation, but there is no agreement as to their priority. While most participants referred to Company B as a service-oriented company in some manner, the subject of costs and profits was also foremost in their minds. Historically Company B has been a sales-driven company, but financial conditions have refocused its attention on costs. This lack of agreement as to priorities is demonstrated in many participant statements, as shown in the following examples:

> ARLENE:
> To me, cost is really secondary to service, but because the company demands cost as first, the two of them just bounce right at the top constantly… *(The VP of operations) puts cost as number one. I put service as number one.* (emphasis added)

++++++++++

JERRY:
… [M]y opinion would be service, but the company's probably opinion would be cost. C*ost is always the root answer*. I've noticed here, you know, a lot of times you go and you lay out three bids of something and which one's gonna go, the cheaper one. (emphasis added)

++++++++++

INTERVIEWER:
Can you tell me about a time when cost wasn't the most important thing for you selecting a transportation provider?

CHRIS:
Well, our ocean carriers, we have two of them and there are lanes that we actually will spend more money using a K line as opposed to P and O…Because, and it's not a lot more, it is more expensive, I mean *overall it does cost more money, but the service is better*. And we make that choice…. (emphasis added)

However, all participants placed cost and service as the number one and two criteria for selecting logistics suppliers for negotiation.

Beyond service and cost, Company B participants identified a set of secondary criteria for logistics supplier selection. These include capacity, technology, and responsiveness. Capacity refers to physical ability to move or store volumes of material. This is important to Company B due to the condition of business seasonality, where most of their business occurs over a six month period. The director of logistics talked about what he looked for when considering a logistics provider:

INTERVIEWER:
When you went out to this third-party logistics provider, what were you looking for when you got there?

CHRIS:
… [I]f they had the space, if they had the manpower, if they had the doors, if they had the trucks, the lifts, the jacks all that good stuff.

The raw materials warehouse manager recalled his discussion with a potential logistics supplier:

> JERRY:
>
> … T]hey said they could give us as many people on there to unload as we'd need, which obviously is critical because you know, we have nine people here unloading containers in our busy time, all day long, that's all they do, that's their job. You know, so that's a lot of work, you understand they hire temps; *they can get them in here to unload based on our capacity and our needs*, to me that was impressive…. (emphasis added)

He went on to explain how important technology, particularly integration of information technology (IT) systems, is to handling high seasonal volumes:

> JERRY:
> You can ask an IT question on how to keep track of it and how their system keeps track of it.
>
> INTERVIEWER:
> Is that pretty important to you?
>
> JERRY:
> Yeah. You've gotta have accuracy, you know you can't call them up and say, "we need these," and they're not there, that's gonna kill us…Our orders are quick, you know, we've got three days to get this stuff outta here. They knew all the IT things; they knew how to integrate us together and everything. They said we can use your part numbers, we can use our part numbers, they can track however you want to. All those things falls into a real good angle to me and made a lot of sense. I told (the director of logistics), I said I don't know what the price is they are going to kick out, which I never did find that out, but…*this would be enormously helpful in the busy time.* (emphasis added)

Capacity and IT capability are thus related to Company B's ability to deal with the condition of seasonality.

Also related to service is the concept of responsiveness. To the transportation manager, this means that a supplier must be willing and able to receive and answer

queries from Company B in a timely manner. The transportation manager explained what this means to her:

> INTERVIEWER:
> What would you think would be an ideal relationship with a carrier? How would that go about, like on a day-to-day basis?
>
> ARLENE:
> The ideal relationship with a carrier is, when we start out at the beginning of our fiscal year of the contracts, these are the things we need. And we keep them posted 24/7 we know what we're asking for. They keep us posted 24/7 they know what we're asking for and that it's a single phone call or single email, if something comes up and we can say, hey, this needs to be addressed on both sides. So we both respond to it. *I want a carrier that is willing to get back to me about problems, as much as I am to them*. (emphasis added)

This concept of responsiveness is reinforced by her statement that she expects carriers to "snap to attention" when they get a call from Company B.

Underlying the concept of service is the relationship between the ability of suppliers to service Company B and Company B's ability to service its own customers. This is particularly important during the busy season, since the company becomes inundated with incoming material that needs to be converted to finished product in a timely manner. Warehouse and transportation capacity are critical to handling vastly increased incoming and outgoing volume during the busy season. IT capability is necessary to track the components and products to ensure that products can be manufactured and shipped to customers in a timely and accurate manner. Responsiveness is required in order to anticipate and solve logistics problems, and to keep customers apprised of potential issues. Therefore, the requirements of capacity, IT capability, and responsiveness become part of the service component of Company B's criteria for supplier selection.

The lack of agreement on the priority of cost versus service may be an indication of value hierarchy changes in the Company B culture. As financial conditions have become an important issue to the company, movement away from a strict customer focus to a balance between cost and service is apparent. Unlike Company A, where there is a clear hierarchy of values, Company B appears to be pulled in two different directions. Priority rankings are unclear, and the selection process appears to be a balance between priorities rather than a strict hierarchy of values. This type of situation has implications for sellers, who in order to market their services effectively need to be aware that dichotomies regarding values can exist at a potential customer, and that they can affect supplier selection criteria.

Company B's fact-finding process involves monitoring the current business environment to understand trends in transportation and warehousing, and obtaining specific information concerning suppliers. The transportation manager explained that "changes are happening constantly in transportation" (Arlene), and management must keep up on these changes. One strategy at Company B for understanding this changing environment is to partner with other shippers in the area in a "logistics council." The VP of operations explained how the council works:

> INTERVIEWER:
> How do you know which companies if you haven't done business with them before, how do you know who you might wanna invite in?
>
> BRIAN:
> *It's kind of a, part of a networking thing.* We have been semi-successful with having this logistics council that we started a few years ago, which is a combination of larger companies in and around the area.… So we come together because we have a lot in common… because we all do a lot of bringing of products from Asia and the positive side of that relationship is that we don't compete at any level…So we just get together. We share war stories about what

> we are doing as far as how we do business and we ask them questions about, well who are you using? How are you doing what you do?... What's going on in his company that is interesting logistically to the rest of the group without telling any secrets, you know, that kind of thing and you know, we ask questions. Who are your carriers, why do you use them. We are not allowed to ask what they pay, we've tried. *These things go on, you establish relationships and…and so you get information.* (emphasis added)

Other research on the business environment involves taking advantage of public information," I read publications, I'm on the web constantly" (Arlene), and by listening to what other companies are saying, "…you hear a lot on the street" (Cliff).

In addition to monitoring the business environment, Company B seeks information about specific logistics suppliers. One strategy used at Company B is to visit potential suppliers to see first-hand what their operations are like:

> ARLENE:
> If they have open houses, if they are doing stuff, I go…I spend a lot of time checking them out. I wanna know what their facilities look like. I wanna know what their equipment looks like…I wander down to our main customers and watch their receiving docks because, one of our main customers receives late at night, and I go down and watch the receiving docks. I have introduced myself to our customers' receiving personnel, so they know I'm there watching. What I'm looking for, you know, my existing carrier will have down and who else they have in their yard.
>
> INTERVIEWER
> So you're actually checking up on your existing carriers too.
>
> ARLENE:
> Yeah, oh yeah. *You've gotta keep an eye*. *I wanna know before they know*. So yeah. I'm on their websites every day. (emphasis added)

The comment that she wants to know information before the carriers do is an indication that these fact-finding activities help to raise the power of the company in their negotiations with logistics suppliers; "I like to sit in a room with a carrier and surprise him with my knowledge" is how Arlene phased what she tries to accomplish. These

activities appear to be related to Company B's assumptions about its business environment- that it can dominate its suppliers, and place them at a disadvantage in negotiations. Significant effort appears to be expended to ensure that this outcome is achieved from these strategies.

Preparation at this stage also involves understanding negotiating parameters. The global procurement director discussed this part of the process:

> INTERVIEWER:
> Anything else that you do to prepare for these negotiations?
>
> CLIFF:
> From a company standpoint we obviously would have meetings, staff meetings where these subjects would come up and we talked about what we could accept, what we thought was real that we'd have to take…*How much room we thought they had to play with*.
>
> INTERVIEWER:
> This is always on cost? Or were there other components?
>
> CLIFF:
> No. There were other components…Whether if we played hardball and company A decided they didn't want to play anymore, and we had to fall to company B, is that something we are willing to risk because we obviously really like this guy, that's why we're using them and not the other guy…So the other service issues come into play. So yeah, cost was always, seems like it was always the fact we talked about first, and then we said okay, if this went bad and we had to go back to here, are we willing to take that risk.? *So, it seems like it always started with the discussion with cost and it ended with the discussion of service, and come full circle in deciding if it's worth it, worth the cost.* (emphasis added)

Other topics of conversation involve "going over objectives, carrier contracts, trade contracts, and vendor contracts" (Chris) to get a better picture of what the complete supply chain will look like in the upcoming season. Company B is therefore well prepared prior to negotiation to deal with contingencies as they arise. The extent to which Company B management prepares places it in an advantageous position to control

negotiations, since actions and reactions during actual negotiations are worked out in advance. This also helps to raise the company's power level vis-à-vis its logistics suppliers.

Company B's RFQ process involves what could be described as an arms-length approach to its suppliers. The director of logistics talked about how the RFQ is done:

> INTERVIEWER:
> Can you tell me a little bit about the process that you go through when you prepare to have negotiations with a transportation provider?
>
> CHRIS:
> What we do is, we send a letter out to a lot of different carriers. Most of whom are explaining, *it's a pretty generic letter* that goes out, to, for the LTL business, goes out to probably 30 different companies. For the ocean business, about 6, 7, 8, 10 different companies. Explains a little bit about our company, outlay, our seasonality, location where we distribute to and basically asks them to send proposals in.…So we get the proposals sent in and then we go through those and decide which ones are the best….
>
> INTERVIEWER:
> What's included in those proposals that they send back to you?
>
> CHRIS:
> Oh, they will include their, for LTL, they'll include their base rate, discounts…we start out there and we basically figure out the rates, what class, load excess, the lanes they go in…If there are any surcharges for lift gates, power blocks…Fuel surcharges has been a big one lately…Basically, we ask for everything, *so that we don't need really to have them come in except to try to beat them down a little bit to a better price*. (emphasis added)

The transportation manager receives the RFQ's and makes a determination at to which carriers will attend what is termed a "core carrier review." Since the carriers are pre-screened based on the selection criteria, price becomes the most important issue at the

negotiating table. This reflects the general arms-length approach that Company B takes towards its logistics suppliers.

Company C.

Company C works through a broker to obtain outside logistics services, and therefore has no process currently for selecting logistics suppliers. The broker Company C contracted to tender loads to carriers utilizes a carrier management selection system predicated on selecting the least cost provider in a transportation lane. The use of the broker is likely to change, however, if the anticipated move to bring carrier tendering in-house. Given the high level of control over logistics operations and service exercised in the company, it seems likely that a process will be developed that involves gathering information about the business environment and individual providers.

Negotiation

Once the pool of logistics suppliers has been reduced to only those suppliers that meet the buying company's criteria, the next step is to negotiate with the selected suppliers. Both Company A and Company B have defined processes for conducting negotiations, which seem to reflect a desire to obtain and maintain control over the negotiating process. However, Company A and Company B differ in some of their negotiation objectives. Company C uses a broker to establish rates with carriers. What little negotiation is done with carriers is ad hoc and informal compared to the other company participants.

Company A.

At Company A, once suppliers have been approved for meeting service criteria, price is the next "hurdle" potential suppliers must clear. The RFQ activity eliminates much of the "price" portion of negotiation, since suppliers must meet a price hurdle before face-to-face negotiations occur. Price guidelines are established prior to the RFQ, and Company A adheres closely to these guidelines. The relationship manager for transportation explained how this works:

> INTERVIEWER:
> You haven't mentioned cost at all. Where does cost fit in?
>
> ABBY:
> We have found, through our bids, believe it or not, it becomes less of a discussion point, because we went through an exercise you sent out a bid, *we said give us your best price*. We come back, we compare, it's like "oh my god", obviously, you know they're anticipating we are gonna come back again. So we circle back again, and even a second time some carriers just didn't get it. And we were pretty clear, we're on a tight timetable, you know we don't have time for all this back and forth. Carriers actually fell out, they got no further past, you know, second center rates. They came back and said "what's going on?" And we're like, we were very clear to you, you know we're not doing this back and forth. We have now, you know years later have gotten to the point, you know, "give me best price." There's so little wiggle room now, you know, when using benchmark pricing, so we know, okay what does it take to run this? *And there's an expectation that, you know, don't give me a cheap price and figure it out later, you know, we don't go down that road.* (emphasis added)

Thus, logistics suppliers are carefully screened prior to inviting them to sit down and negotiate a contract. The expectation is that the carrier will give the best price it can without losing money on the business. Figure 4-2 depicts the negotiating approach of the three firms in the research.

Company A personnel are trained in negotiating skills before they are allowed to deal directly with suppliers. Also, every negotiator follows set procedures they learn in

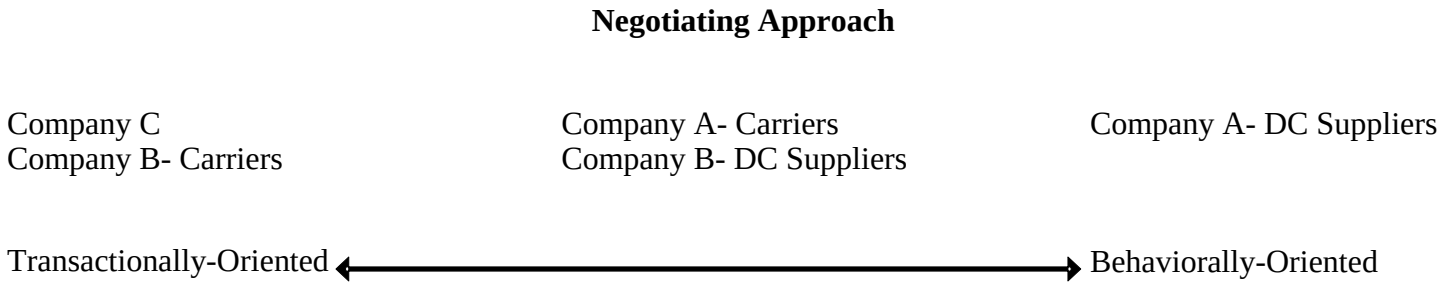


Figure 4-2. Approach to Negotiating with Logistics Providers

this training. As one supplier relations managers explains it: "we have one Company D negotiating, program strategy, and approach that we are all held to use" (Virginia). Negotiating positions are pre-determined, so people involved know the parameters under which they need to operate.

> INTERVIEWER:
> Was there any training or discussion about how you communicate with the carriers?
>
> SHANNA:
> Yeah, the "red card, green card strategy."
>
> INTERVIEWER:
> Okay, what's that?
>
> SHANNA:
> It's when you're negotiating and they throw you a red card, do you wanna throw them a red card?
>
> INTERVIEWER:
> What's a red card? An example of it?
>
> SHANNA:
> It's a defense mode, how do I explain this? We don't like to go there, unless we absolutely have to. If the carrier says, no, I'm not gonna give you that price…So, do you go back saying, "yes you're gonna give me that price" and run the risk of the carrier walking away? Or do you give them a little leeway and say, okay, and meet them in the middle…*You have an agreed strategy before you go and talk to the carrier*…And what it is, they're delegating the power of authority to negotiate with a carrier. Now, if that decides to go astray, and they throw you a red card and you don't have that authority to, you have to stop. Do a time-out on the negotiation. Excuse yourself, so back to, well now it would be Abby and say, this is what they've put. I need to re-delegate my authority to go down to give them the price they want or to continue on to try to get what we needed initially, what are your thoughts? (emphasis added)

Additionally, specific formats are established for the negotiation process:

> SHANNA:
> You have three folks on a team negotiating. You've got somebody whose the historian whose gonna come back and help the team leader person, regurgitate what was agreed here. So kinda sets the carry-off where they're trying to

> go…And then you have an observer and they're watching the carrier's body language, they're watching their tone of voice, because when you're the leader, you're not necessarily watching… And there could be more than one party sitting there. So you've gotta watch if he's being coached or if the other person is taking notes and looking at what the leader's saying. And you can call the time-out.

Note that control of the negotiation process is established prior to the negotiation through training of personnel and establishing an "agreed upon strategy," and control of the process is maintained during negotiations through the use of specific negotiating tactics and management intervention when required.

Control over negotiations is also maintained by holding a hard line on prices, and punishing suppliers that attempt to push Company A beyond pre-established price limits. A relationship manager gave an example of this happening:

> ABBY:
> We have a standard fuel schedule. It's been a discussion point for over a year. We have been described as, we're not, you know, we don't pay the least amount, but we're not on the top end either, and that's okay by us. We don't wanna be viewed as either…we don't wanna pay too much. We're in the middle of the pack; we pay on a cents per mile basis, not percent of line haul, which would be much more expensive for us. And it fluctuates weekly, so based on national fuel index you know we pay based on that.
>
> INTERVIEWER:
> So this is part of the contract?
>
> ABBY:
> Yeah. And we know for carriers who feel we're not being fair with our fuel, they have attempted to put some fuel and line haul *and basically what that has done with some carriers that tried that, they lost the lane*. (emphasis added)

As discussed earlier, the approach Company A takes with its carriers is much less relationally-oriented than the one it takes with its distribution center providers. Company assumptions concerning the company's power/dependence relationship with its business environment appear different between carriers and distribution center providers. For

example, there are numerous carriers capable of handling Company A's freight, making the business conditions more conducive to a hard negotiating strategy and the use of volume leverage. Such conditions as asset specificity and high switching costs with distribution center providers preclude the approach toward negotiations that occur with carriers. Concessions such as the "gainshare" program, and doing "collaborative work" (Lem) with the two distribution center providers, are examples of the difference in approach. Thus, various conditions affect how Company A approaches negotiating with logistics providers.

Company B.

Company B's approach toward negotiations with logistics providers has changed in the past few years, becoming more focused on controlling the face-to-face meetings with suppliers. In past years, Company B personnel were "not always on the same page" (Cliff) with regard to negotiation objectives and business conditions. The global procurement director discussed one such meeting four years ago:

> CLIFF:
> It seemed like oil was going up and they wanted some pretty good increases and *our people that were doing the negotiations, were saying yeah, we understand that and basically we accept that*, there's nothing you could possibly do about it and I said, "well wait a minute. Oil did go up, but it's actually on its way down now and so there was a spike and you guys obviously dealt with that, at that time." Oil's on it's way down *and I said, there's no way you can use rising oil as a way to get a price increase from Company B* and obviously my job in those negotiations is to keep our costs down. (emphasis added)

This lack of agreement within Company B's negotiating team has been rectified by the hiring of transportation experts from outside the company such as the VP of operations

and the transportation manager. Emphasis on research and preparation prior to negotiations has created a more unified approach toward the negotiation process. Carrier proposals "basically asking for everything and anything" (Chris) from suppliers are studied to understand positions prior to negotiations and "how much room they (suppliers) have to play with" (Cliff). Objectives are also discussed in staff meetings, and negotiating parameters set prior to meeting with suppliers.

One condition related to this change is a larger focus on costs within the company. This focus is reflected in the stated objective of "beating them up on their prices…to knock them down as far as we can get them" (Chris), and reinforced by the statement that cost is "always discussed first" (Cliff). The company president expects negotiators to be "on their toes" and "not leave anything on the table," which has caused employees to "be very aggressive" in negotiations (Cliff). This approach is also reflected in Company B's objective of creating a competitive environment between suppliers before negotiating sessions:

> DAN:
> …[W]e will try to bring the carriers in within a two day period…We stack 'em on top of each other…we wanna see them sitting in the lobby, you know, we want them to pass each other…And *we want to create that competition*. (emphasis added)

This attempt at manipulating suppliers to gain more power in negotiations seems to be indicative of a more general cultural assumption concerning human relationships that power should be used to control the actions of other companies. Comments such as Company B "carries a big stick" (Dan) and "has good negotiating powers" (Chris) also seem to be related to this assumption.

There also seems to be an "us versus them" assumption regarding Company B's relationship to its environment. Comments such as carriers are "always singing the same story", and "what they are saying has to happen, doesn't really have to happen" (Cliff) indicate a lack of trust in suppliers. At times, contempt for suppliers comes out as well:

> INTERVIEWER:
> [W]e were sitting in on two carrier reviews this morning. Tell me, what do you think the companies that you were reviewing this morning were trying to do?
>
> ARLENE:
> They are coming in kind of a little blustery, they know that this is the only time we are seriously looking at their potential and they are tied into some other core carriers. So they kind of came in with a bluster, look how good we are and we could just continue business like forever with you… [O]ne of them as I said tried to bluster and tried to go ahead with its own plans, you do this thing, no problem. And you know, they can tell that their, they know that we know that they may be the ones pushed out…*So it was kinda fun watching them* bring that in and it was very friendly but there is that situation going on and *I did get a kick out of the way they came in, hey, hey, we're alright*. (emphasis added)

This general attitude toward suppliers is also supported by Company B's objective of determining what a supplier "is willing to do" (Dan) for Company B, and a focus on cost and service to Company B. Little discussion of partnerships or long-term relationships were observed by the researcher over three days of carrier negotiations.

The atmosphere during these meeting is, as the VP of operations phrases it, "pretty relaxed" (Brian). Observations of carrier reviews by the researcher confirmed that meeting participants were relaxed, with lighthearted banter between the companies. But the meetings got down to business fairly quickly. Discussions were fairly structured, with the transportation manager reviewing a list of discussion points centered on costs and service, and suppliers presented their own prepared material. Contract negotiation discussions were based on one year contracts, with Company B holding out a "carrot" of

future business for good performance. In general, there appeared to be an arms-length approach on the part of Company B, very focused on what the supplier could do for Company B. The meetings lent confirmation of an "us versus them" approach and use of power in inter-firm relationships that appear to be related to Company B's cultural assumptions regarding firm boundaries and the nature of human relationships.

Company C.

At Company C, the transportation broker finds the carriers with the best rates for each lane using a transportation management system. Contracts are established based on the carriers "flat rate" in a lane, upon which a "fuel surcharge" may be added (Omar). Negotiations are not done "on a regular basis," and requests for fuel surcharge increases are faxed in by the carriers for approval by Company C. As a logistics manager gave an example of the process:

> OMAR:
> (The company representative) faxed me not too long ago just because he had to go up on one lane, of course he faxed me a whole new...lane sheet…[H]e noted with an asterisk the ones that went up, you know and *I just sign off on it and send it back to him*. (emphasis added)

This process appears to be incongruous considering the movement toward increasing control over various operations in the company. However, it is consistent with the company's approach toward the backhaul activity in general, which is to let a third-party handle finding carriers and tendering offers. Additionally, since the process is predicated on the transportation system finding the best price in a lane, negotiations can be held to a minimum while still obtaining the best price.

Allocation of Business

Allocation of business to logistics providers is approached in two different ways at Company A - one for distribution center (DC) providers, and one for carriers. At this point in time, Company A has handled the two types separately and has not sought a provider that offers both types of services. Conditions differ between these provider types in asset specificity, operations complexity, control requirements, coordination requirements, relational orientations, and numbers of providers available. These conditions are all related to the company's approach toward allocating business.

Company A

Company A's strategy concerning DCs has been to transition from company owned and operated facilities to logistics provider-run facilities that are solely dedicated to Company A's business. Signs at these DCs show the name "Company A" at the top, and "Operated by" the name of the logistics provider on the bottom (personal observation), indicating close association between the companies. The merger of the three companies precipitated a redesign of the supply chain network. The logistics provider relationship manager explained the strategy used to bring about the new network:

> LEM:
> We decided to go with two vendors because we weren't ready to make a strategic buy with one, *we wanted a competitive buy*. So when we did our network and we ordered the contracts for the new facilities we decided to go with two vendors because we wanted to stagger the start-ups. Our start-ups were so close together, *we didn't think one logistics provider could ramp up literally from green space to 5 mega centers*. (emphasis added)

While wanting a "competitive buy" and concern for getting the system up-and-running factored into the decision to select more than one provider, other conditions influenced the allocation of business to only two providers. First, Company E and Company F had long-standing associations with two logistics providers:

> LEM:
> … [P]art of it was Company E plants at the time had a relationship with 3PL One. 3PL One managed all their distribution centers…Company F had a relationship with 3PL Two….

Trust and confidence in these two suppliers had been built as a result of long-term relationships. Another condition influencing the decision to limit suppliers was the company's orientation toward control of logistics operations. Part of control involves maintaining close contact with the logistics providers, which is made more difficult if many suppliers are involved. Another element of control for Company A is uniformity of information systems, which requires a high degree of asset specificity. A third component of control for Company A is uniformity of processes and a commitment from the supplier to "buy into" the company's values of safety and customer service. The logistics provider relationship manager and the director of distribution discussed these elements:

> LEM:
> … [F]or the most part, we are more hands on with our logistics provider's than a lot of companies are. For instance one of the biggest drivers is *we control the systems*. We tell them what version of SAP to use, we own the WMS system, you know so everybody is on the same platform and *we're very much involved with procedures and process compliance*. So we are pretty much involved with them in terms of safety. In terms of, you know their service to the customer. You know, on-time loading to the point where we really look for a culture fit. You know, we wanna be safety conscious too; we want a logistics provider that's safety conscious. You know, we want a logistics provider that supports our customer service that will support our KPIs… once you put them on your

> operating system and your WMS system then you can more or less dictate procedurally how you want things done. (emphasis added)
>
> ++++++++++
>
> CANDICE:
> But, at the end of the day, it's our product and it's our customer and so there's a certain level of engagement that we have to have in the business.

These elements all require high levels of trust between firms, and a willingness on the part of the logistics provider to structure work around the buying company's requirements. The long-term relationships built up over the years with the two providers facilitated the decision to limit the allocation of business to two known entities. Company A has not revisited the allocation of business to the logistics providers since the network was established, likely due to the high switching costs involved in changing the network, and start-up costs with new DC's.

Allocating business to carriers at Company A is not restricted by the same conditions as allocating business to DC providers. There are many more competitors in the transportation business, asset specificity is not a big issue, and switching costs are considerably less. This lack of restrictions allows Company A to apply an allocation strategy that incorporates a number of selection criteria and can include a number of competing carriers. A distribution specialist outlined the process Company A applies to allocating carrier business:

> SHANNA:
> When you do a sourcing bid, obviously you're going to take into consideration what you have in your portfolio. You have regional carriers, you have national carriers, and you have non-asset based carriers…What we do is we line them up … from a pricing perspective to see where they fall in. And then what we do is we have different selection criteria where it would be "where are your terminals located?" "What's your 24/7 plan?" "How does your emergency plan work?"

> "What kind of customer service do you offer?"… So we take all that and we score it.

Price remains the primary consideration in allocating business to carriers. The director of distribution says that carriers are "treated more like a commodity," and the objective is "to get the lowest price possible" (Candice). However, while price is paramount, other considerations enter into play:

> TED:
> … [W]hatever we do we're looking to, from a supply chain perspective, is to reduce cost without…negatively impacting service or service improvement. So, you know supply chain, and you know as well as I do, that *it's really about cost and service*. (emphasis added)

Abby describes the approach as utilizing a "holistic view" that incorporates price, service, and other decision components to allocate transportation lanes to carriers.

Given the high value placed on customer service at Company A, one would anticipate that service both to the company and its customers would be an important criterion. "Dependable and consistent service" (Randy), and "proven on-time service" (Shanna) are representative comments made concerning service as a criterion. Not only is this expectation born out by specific discussions of service, the other decision criteria discussed by participants are related directly or indirectly to service as well. Carrier capacity, driver retention, employee turnover, having one single point of contact, and the financial stability of the company are all discussed as important considerations by participants. Capacity relates to the ability of the carrier to accept loads tendered. Driver retention and employee turnover are important to maintaining capacity and skilled workers. Having a single point of contact relates to the ability for the customer to get questions answered quickly. Financial stability is important because if a carrier fails,

gaps are left in the transportation network that can cause service failures. All of these factors are important to Company A's ability to control service to its own facilities and to those of its customers. Thus, it would appear that the cultural value of providing exceptional service to the customer is a main driver in allocating business to carriers at Company A.

Congruence of values, an element of cultural fit between Company A and its carriers, is also an important component of allocating business. The carrier supplier relations manager discussed the important of cultural fit:

> ABBY:
> … [W]here's there a good match? And that's kinda longer term vision and goal. What are they looking for? Do they fit into what our long-term goal is as a supplier? *And do we fit into theirs*… (emphasis added)

This approach provides a glimpse into the relationally-oriented culture that still exists within post-merger Company A. A one-sided, arms-length approach would likely center around whether the supplier's values and goals fit those of the buying company. Company A is interested in whether their values and goals fit those of the supplier as well. Corporate culture not only within, but between companies, thus emerges as an important element in allocating business to logistics suppliers at Company A.

Company B

Like selection of suppliers for negotiation, allocation of business at Company B is heavily tied to price and service. However, various conditions are moving the company toward putting more emphasis on the service component of the decision. The transportation manager noted the shift from emphasis strictly on price that has occurred:

ARLENE:
Company B is still is strongly tied to pricing. *When I came in that seemed to be the only thing they paid attention to. But I have pulled in service*…. Because I'm a transportation specialist, and expert, I look at a bigger picture of it…I did change their culture with, with using carriers that were rock bottom pricing, I changed that culture a lot. I pulled out of the rock bottom pricing, pointing out, how much those carriers cost by going bankrupt. (emphasis added)

The director of logistics also talked about the importance of both cost and customer service to the company in its decision on allocating business:

CHRIS:
… [W]e'll sign their contracts with them, once we find the best price, the line with the best service that meets the customer's requirements. And then Arlene will establish routing guides for each different part of the country *based on customer expectations*…So it's not completely cost based…. (emphasis added)

Indeed, participants offered examples of conditions that necessitate prioritizing service over price. Failure to service customers is one such condition noted:

DAN:
And at other times, there'll be a lot of heat coming out of one region. So we'll analyze that region and say we gonna make a shift…We're not gonna use the low cost provider at this point, we're gonna use a little higher cost because we're gonna get a two day improvement on our delivery… [W]e're very customer-centric driven….

Also related to customer service is the image a logistic provider projects on the customer that reflects back on Company B:

ARLENE:
I want every one of my customers to see their product on time, because I believe that customers say, you're the carrier, *they think that those people work for us*. Even if it's the other side's paying the freight. I want it looking so pretty that it's on the shelf immediately. (emphasis added)

Another condition affecting this decision is the necessity to meet the demands imposed by seasonality:

INTERVIEWER:
Could you give me an example of when you pick a supplier, when cost is not most important?

BRIAN:
[I]f a container goes on the ground, that can add weeks. Literally weeks to get it from… five miles away. So, *there are some situations where we've actually said, you know the service issue is a big deal* and we told the guys, if you can't make sure that we never have a container hit the ground, we're probably not going to use you…It's a good example, because if we're in prime time, as far as our season is concerned, we're in prime time and we have a critical container hit the ground, we're talking literally put on the ground at the rail head because there's not a trailer to put it on to get it up here, then we are at the mercy of the railroad to get, to go back at some point in time when it's available, put it on a trailer to get it here. They don't give a crap. (emphasis added)

Thus, beyond their ability to provide less expensive service, the conditions of poor customer service, company image, and seasonality will affect which companies get allocated business.

Another condition weighing heavily in the decision is the preference of major customers for certain carriers.

CHRIS:
… [W]e pick out which ones look the best both speed and price, usually of course we have worked with the majority of them already and we know pretty much who is gonna be what we call "core carriers". [B]*ut we also have some restrictions, some of the customers probably favor some of the core carriers* that you have to work out. (emphasis added)

There are decided advantages to Company B to allocate much of its business to these "core carriers." Preferential treatment at the customer's receiving dock is the main benefit as the former director of logistics explained:

DAN:
… [I]n certain markets if you want your product delivered and they set up appointments and they set their appointments up for their preferred carriers, and as you go down the list, your appointment can get pushed out you know, a

week…And that has an impact on your service levels to that store…With a preferred carrier *you get pretty good treatment, you get a quicker appointment.* (emphasis added)

This condition therefore influences not only which carriers are selected, but how much business will be allocated to a carrier.

Preferred carriers receive the majority of the business, unless they do not service a particular lane. Indeed, geography is also a condition impacting the allocation of business to carriers. This condition is also related to the carrier's ability to service Company B:

ARLENE:
We're land locked in a funny area….

INTERVIEWER:
So, some of its geographic?

ARLENE:
Surely geographic, because *we wanna be able to call for a pick up this morning and get it this afternoon*. So…I definitely pay huge attention to regional carriers. (emphasis added)

++++++++++

INTERVIEWER:
Can you think of any times when either cost or service wasn't as important as some other aspect?

DAN:
As far as picking a carrier?

INTERVIEWER:
Yeah, picking the carriers.

DAN: *Most of it would be where they are located, how quickly they can get our freight*…It's all pretty much service related. (emphasis added)

Another factor related to service that impacts which companies are given freight volume is carrier viability. The transportation manager discussed the importance of a carrier's financial stability:

> ARLENE:
> … [A]nother thing I watch for is financials… [W]hen I came in I went through all their old stuff and every transportation company that went bankrupt was a core carrier or the only carrier for Company B…. So they would have these, suddenly their carrier went dead, all their stuff was lost in the systems… So I wanted to avoid that. I wanna make sure that Company B never goes through that again.

There are thus a number of conditions, many related to service, that impact how Company B allocates its logistics business. While price remains a hurdle most companies must meet, the need to control service into and out of the Company B facility weighs heavily in these decisions as well. Given the fact that 70 percent of Company B's sales go to three customers, and that seasonality has a major impact on operations, conditions that affect service are likely to be given more weight than price under many circumstances.

Company C

Allocation of business to logistics providers at Company C is straightforward, and based primarily on price. The broker uses a transportation system to determine the cheapest carriers in a lane, and tenders offers for backhauls accordingly. This reflects the company's approach to logistics outsourcing, which is arms-length, short-term, and market-driven. While Company C does not control the broker's actions directly, control is maintained over price through the transportation IT system itself. As discussed in Chapter Three, control over this function is likely to pass back to Company C as the new

logistics manager gains expertise through learning the company's distribution network, and through learning the transportation IT system that Company C owns. The allocation of business process should not change appreciably, except the logistics manager instead of a broker will tender offers to carriers.

Performance Review/Monitoring

Performance review/monitoring of logistics suppliers by firms in this research was found to occur across a dimensional range of formality, from regularly scheduled review meetings and audits to informal, unscheduled monitoring (see Figure 4-3) The more a company desires to control the activities of its logistics suppliers, the more types within the dimensional range appear to be used. Frequency of reviews and monitoring appears to be associated with the buying company's approach toward relationships with suppliers. Monitoring can involve not only determining whether a supplier has performance failures in order to punish them, but also to determine if they need assistance. The three companies in the research approached the review process in different ways, and with different goals in mind.

Company A

Company A utilizes similar types of reviews and monitoring for its distribution centers and its more important transportation providers. Formal reviews are conducted on a quarterly and yearly basis with the purpose of improving distribution processes.

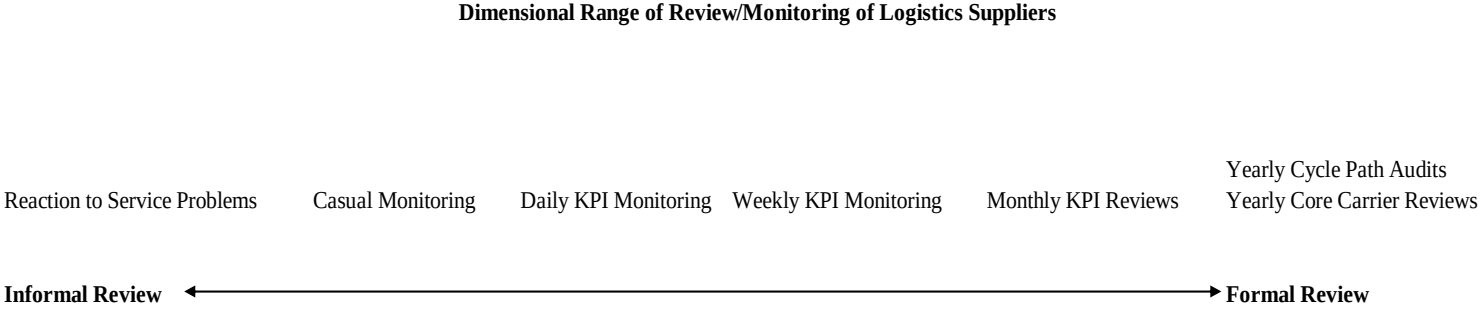


Figure 4-3. Dimensional Range of Review/Monitoring of Logistics Suppliers

Yearly meetings are conducted with all carriers for the purpose of reviewing cost and service performance. Quarterly meetings are held with core carriers and the distribution centers. The director of distribution explained the purpose of the meetings:

> CANDICE:
> … [W]hat we've done is we've really tried to look at our top five carriers and say okay, these are our national carriers, they are supporting us in all these types of initiatives, let's get them in here… [I]n December and January we're gonna start doing a quarterly review where we're gonna go to the regional carriers and we'll go to our DCs bringing in the regional carriers around there and talk about, you know what are we going wrong? What can we do better for you? You know, these are the issues we're having, and have a brainstorming relationship type (of meeting).

The fact that the word "relationship" was used is indicative of the change in philosophy toward carriers in the direction of more collaboration with and support from Company A, similar to the approach that has always been used with the DCs.

A number of control mechanisms are applied to ensure that logistics provider performance is acceptable (see Table 4-3). Performance monitoring frequency is one such control mechanism. Each carrier and DC has a Company A analyst assigned to them. Carriers are monitored for performance on a weekly and sometimes daily basis to ensure Company A's customers are well serviced:

> ABBY:
> *We are in…weekly and sometimes daily contact with the carriers* sharing the data. We will get feedback from the carriers once we push out the KPI reports which show them, they're on-time, they're EDI compliant…So we're measuring them on a whole bunch of different things… but our true focus is, you know, on the commitment to capacity and the on-time, particularly on our customer side of the business, because that's so important to us. (emphasis added)

Table 4-3: Company A Control Mechanisms

Control through Performance Monitoring Frequency
Daily
Weekly
Control through KPIs
Carriers
Rejection rates
On-time delivery rate
Order fill rates
Freight claims
Stated versus actual capacity
DCs
Case fill rates
Inventory accuracy
On-time loading
Procedure compliance
Safety
Control through Auditing
Financial performance audits
Cycle path audits
Control through Root Cause Analysis

++++++++

SHANNA:
Sometimes, with some carriers, we'll have conference calls on a weekly basis to really find out why every week we're having particular (problems)... And we would highlight any lane of less than 100% (acceptance of tenders) every week. So we look for, you know, continuing issues. And we'll actually start re-evaluating and looking at contingency plans, *because basically we can't afford to fail the customer*. (emphasis added)

Monitoring key performance indicators (KPIs) is a second control mechanism, used for both carriers and DCs. Carriers are tracked for such metrics as rejection rates (percentage of tender offers not accepted), on-time delivery, order fill rates, freight claims, and actual versus stated capacity:

ABBY:
… [I]t starts with weekly data that comes out of our SAP system that our logistics analysis group produces for everyone within the organization and within that data *we have case fill, we have on-time*, a number of different measures that each group is obviously focused on. Within our particular area group, *we're focused on on-time delivery. We're focused on carrier acceptance*…We allow them 2% reject rate and a 1% reject due to a time-out or a technical issue, if they are having any issues with their technology…Our true focus is…on the *commitment to capacity* and on-time delivery to customers…. (emphasis added)

The logistics provider relationship manager identified case fill rates, inventory accuracies, on-time loading, procedure compliance, and accident rates as metrics used for measuring DC performance. These KPIs are monitored and reported "once a week" (Lem) by Company A warehouse analysts.

A third control mechanism is monitoring through periodic audits. According to the logistics provider relationship manager, KPIs are reviewed at the DCs in monthly staff meetings, which include significant emphasis on financial performance. Yearly

on-site audits of "cycle paths" (tracing a customer order from receipt to shipment), freight handling, and inventory accuracy are conducted at the DCs. Issues that arise during monitoring are handled through a fourth control mechanism- root cause analysis. Company A applies total quality management techniques to get to the root cause of problems, and working with the logistics providers, controls actions to correct them. The distribution operations manager explained this process:

> SANDY:
> … [We're] tracking shipments from the point of leaving the distribution center to the point that it gets to the customer. And ensuring that…orders deliver on time, that any order that doesn't deliver on time, that we understand why it didn't deliver on time, and we code all the late shipments into customers and on a weekly basis create an on-time paredo of it *that allows us to seek out the root cause* and then, work with the logistics provider managers and then with (Lem), about how do we improve upon whatever the issues are. (emphasis added)

Thus, methods of control over logistics operations at Company A include not only tracking and monitoring the performance of logistics suppliers, but using the data gathered in these procedures to correct problems.

What emerges from this analysis is that at Company A, close relationships can be a facilitator of control for the buying company over its logistics suppliers. An arms-length relationship in which the logistics provider is left alone to manage its own operations would likely not allow for the buying company to gather the amount of information necessary to closely monitor performance and seek root causes of problems. At Company A, cultural orientations towards close relationships with suppliers and a desire to demonstrate that such relationships perform better than arms-length, market-governed relationships thus appear to be related to the application of various control mechanisms used to govern relationships with logistics providers.

Company B

At Company B, some formal logistics control mechanisms exist, but governance of logistics suppliers appears to involve more informal mechanisms than at Company A (see Table 4-4). Formal reviews with carriers are conducted as part of a "core carrier review" that takes place for domestic carriers in the third quarter and international carriers in March and April each year. Specific KPIs are reviewed for each carrier during the reviews. Much of this review concerns pricing for contract negotiation, but service related topics such as carrier delivery performance, receiving issues, billing issues, and freight claims

are discussed as well. However, based on personal observation by the writer, formal core carrier reviews are used primarily to discuss general performance expectations rather than specific performance issues.

Specific performance issues such as service failures, billing mistakes, and service lead times are handled on a daily basis as problems occur, and in regularly scheduled weekly meetings with carriers. The transportation manager discussed these meetings:

> ARLENE:
> We…have, sometimes day-to-day meetings, daily meetings…. In fact our main LTL carrier has a standing appointment with me every Thursday morning at 9:00a.m. I do reviews. Even if it's…just a quick, sit down in my office and here it is. It's not as structured as that core review…But there's an update constantly, and if anything comes up that's even a slight bit out of line. We sit down quickly.

Specific performance metrics are tracked and discussed during these meetings as well. The global procurement director and transportation manager outlined what Company B typically measures:

Table 4-4: Company B Control Mechanisms

Control through Core Carrier Reviews
On-time delivery rate
Receiving issues
Billing issues
Freight claims
Control through Daily and Weekly Reviews
Service failures
Billing errors
Service lead times
Control through Casual Monitoring

> CLIFF:
> We would track their, their service lead time … how they do their billing, if they had a lot of errors… [F]reight damage….
>
> ++++++++++
>
> ARLENE:
> So one of the metrics, to give an example, is what we call our "day's late report". …[I]f shipments are three days late, they come to the attention of a few people so that they know what's going on. When they hit five days late, they hit mine. I … directly email them…I send them all out to them, you know, respond to these today…So that can be a daily thing for carriers.

Formal "report cards" are developed for each logistics supplier, and these are shared with the suppliers during scheduled meetings as well. While Company B does not have the resources to assign employees to monitor specific carriers like Company A, carrier performance is tracked in much the same fashion by the traffic manager. Control of transportation provider performance is thus exercised in a formal manner at Company B.

Unlike Company A, control of logistics providers at Company B does not appear to be associated with a relational orientation toward suppliers. During three days of observation of core carrier reviews by this researcher, Company B employees never discussed long-term relationships with suppliers; rather, the focus was on yearly contracts and the exercise of power over suppliers to extract concessions during negotiations. While Company A participants talked about using monitoring activities to identify problems and work with suppliers to solve them, at Company B the focus appears to be toward reacting to problems and getting the supplier to fix them. Previous findings indicated that Company B views itself as having a high power, low dependence relationship with its logistics suppliers. Cultural assumptions concerning the relationship

of Company B to its environment, specifically exercising power over its suppliers, may also help explain its approach toward closely monitoring carriers.

Company C

Company C, by contrast to the other participating companies, has no formal or informal review process with its logistics suppliers. Loads are tendered by a third-party on the basis of price. Unless a particular carrier has noticeable service failures that generate internal or external customer complaints, Company C has little involvement with carriers. This approach is consistent with arms-length relationships, which are market-driven and focused on the short-term. Since Company C uses a broker to select carriers, there is no incentive currently to establish a monitoring program since Company C is not directly managing the backhaul business. However, given the likelihood that the company will perform this activity in the future, and given the change in culture toward more control over operations by upper management, it is reasonable to project that formal and informal monitoring processes will be put into place once Company C begins to manage their own backhauls.

Reallocation of Business

The companies participating in this research use several mechanisms for deciding when to give a logistics provider more business, or to take business away from a supplier. As noted earlier, formal reviews are conducted by Company A and Company B. Based on criteria such as price and service, carriers are allocated a portion of the business.

These reviews are conducted on an annual basis at the same time of year, depending on whether the business is domestic or international. Bids are handled on a competitive basis because of the large number of carriers available to the companies. Company C uses a broker to select carriers, and does not conduct formal reviews with carriers. Distribution center providers are handled differently than carriers at Company A. Due to high asset specificity and switching costs, business is not competitively bid. Therefore, this discussion will be limited to carriers.

While the formal review processes have been discussed in a preceding section, informal reallocation of business also occurs during the contract period. Depending on the severity of noncompliance, carriers may be punished by having some of their business taken away, or the relationship may be severed completely. Each of the participating companies reallocates carrier business as a means of governing its relationships with its carriers. In the majority of cases the issue is service, but price increases precipitate punishment as well.

Company A

At Company A, service issues are the primary reasons why carriers have their business taken away. A typical service issue is refusal of a load tender. Tenders are conducted through a transportation management system. Primary carriers in a lane are offered a load through the system and have 90 minutes to accept the offer. Non-acceptance causes problems for distribution planners because they must find a carrier for each load before they can go home at the end of the workday. Carriers having a non-acceptance rate of more than three percent are “punished” by the distribution

planner. For example, during a day of observing Tony, a distribution planner, he manually overrode the transportation system to reroute a load tender from the primary to a secondary carrier as "punishment for dropping the ball" on accepting loads. The data leading to this course of action came from the KPI tracking system. Control through KPIs thus can lead to control of carrier behavior through punishment. Tony noted that punishment "gets their attention," but that punishment is not meted out "at the drop of a hat." Suppliers are alerted to the problem and given time to put a plan in place to correct the problem. In this case, the supplier did not react in a timely manner, and sanctions were applied.

The international distribution manager gave a similar scenario where a carrier failed in service and was given time to correct the problem:

> RANDY:
> … [C]ommitment to service was not there with that particular carrier, they didn't have the equipment available when we needed it. They never got it to the pier on time to make the sailings. And then, when it did ship out of Puerto Rico, it took forever to get it off the pier and delivered. So, we called them in…we gave them, I think we gave them 30 days to improve their service. And essentially we tracked service levels for that period of time. The carrier still couldn't live up to the service levels that they committed to, *so we called them back in and told them we had to part ways*. (emphasis added)

This case differs from the domestic carrier example because the conditions are different. Domestic carriers have multiple back-ups that can be called, but international carriers are more limited and therefore non-compliance is a more serious issue. Terminating business with a supplier is sometimes necessary due to this condition.

Another condition that affects relationships to the point they may be terminated is lack of trust between parties. The distribution operations manager gave an example of this condition occurring between a carrier and Company A:

SANDY:
… [O]ne of the scenarios is a carrier who committed to filling in, back filling a gap that we had. I call them gaps so, you know, we agree that our primary carrier can manage 80% of the volume; we need somebody to manage the other 20%. So that introduction of that second carrier is key, right…[W]ell they commit to that requirement then, you know the first week comes and the trailer pool's not there. You know phone calls are taking place every day; discussions are taking place between the warehouse and the carrier themselves. They're saying, they're on route, they're coming in, and the trailers are on route. You know, a week goes by, there's no trailer pool. A week and a half goes by, there are phone calls every day, and still no trailer pools. We finally come to realize that either they don't have the equipment, they don't have the drivers, they just don't have it, …so we've actually been pretty frustrated in that we felt that again, *they weren't completely honest with us, and we didn't feel that the relationship was built on integrity*. So we actually said, you know what? Never mind, we're gonna pursue someone else. (emphasis added)

Another scenario discussed concerned Company A placing trust in a supplier that it would emphasize Company A as a customer. Having that trust broken became a major issue:

SHANNA:
… [W]hat we found out when we started drilling into it, is that she had other customers too…So we're like, Hum… where's the priority on Company D?

INTERVIEWER:
They were not dedicated to Company D?

SHANNA:
Correct…The perception that they brought forth during the conversations that I had, and having them come on site, was not the case…It didn't align with what was actually happening…So we had to breakdown the process and re-evaluate the relationship….

Company A shows signs of a cultural orientation toward close relationships with its suppliers. The emphasis on trust and integrity placed on these scenarios appears to be related to this orientation, and may indicate that when firms place emphasis on the

trustworthiness of its suppliers, failure to live up to expectations concerning trust creates a condition that can influence a firm to end a supplier relationship.

Company B

At Company B, service failures were the main reasons for terminating business with a logistics supplier. The director of logistics remembered a time when he had to fire a carrier:

> INTERVIEWER:
> What were the circumstances?
>
> CHRIS:
> Poor service. Poor service to us, not the customer… [W]e just couldn't get the service we needed. The drivers had an attitude when they came in. The first couple of times they go through the freight rep trying to get things resolved... People not showing up on time and that means people have to stay and wait for their pick ups and everything and it just got to a point…where I finally just cut them off and got somebody else.

The transportation manager also talked about service failures as the main reason for terminating business with a carrier, but she also discussed an ulterior motive for firing a carrier:

> ARLENE:
> … [I]t's true that I will on occasion bring in a carrier *just so I can fire them to make the other carriers nervous*.
>
> INTERVIEWER:
> That's interesting. You intentionally do that?
>
> ARLENE:
> I intentionally fire carriers…Sends a message, you have to do that…. (emphasis added)

This passage appears to relate to Company B's cultural assumption that it is in a dominant power position over its suppliers, and intends to keep that position. This approach of hiring suppliers just to fire them as an example to others may have implications for suppliers, who may not be aware that such tactics are being used.

Company C

Like the other two firms in the research, Company C discussed terminating logistics suppliers for service related issues. The VP of operations gave an example:

> INTERVIEWER:
> Can you tell me about a time when you had some dealings, either good or bad, with a logistics provider…?
>
> MANNY:
> Recently there was an individual who…used to haul freight for (us) years ago… he's a local operator, has seven or eight trucks…. He kind of started with the family way back when hauling freight in and out of here…and when the logistics group came in, they kinda' looked at him and said, look you're not delivering on time, your not consistent with your performance, your rates fluctuate too often, you know, everything he was doing wasn't…up to standard at all….So, about say, five months ago, he had an important load of chicken that was supposed to be here on time. He contacted us and said my driver quit, I'm trying to find a driver, and I'll get it there tomorrow. Well tomorrow wasn't good enough, so I told my guys over here and up to (names other DC), don't use him anymore. You know, *basically I don't care who he knows, but if he can't perform, then he can't deliver for us anymore*. (emphasis added)

Manny described this experience as a business decision in which you "have to wear your business hat." The previous logistics manager also discussed the service-related firing of a carrier in a more emotional way:

> INTERVIEWER:
> How did you handle it with this trucking company, how did you go about firing them?

> OMAR:
> Well, I mean I just told them, I said that's the last load you'll ever have, I told them, I said I've got three invoices right here in my hand. I said, I don't know if I'm gonna pay you or not.

Company C's sensitivity to service related issues is related to the competitive nature of the food service industry, and the high level of trust it must build with its customers. These conditions put additional pressure on the company to deliver exceptional customer service. In the case of Company C, these conditions appear to be the most important factors in reallocating logistics supplier business.

Summary

This section presented a five-step, cyclical process for selecting logistics suppliers and allocating business to them that emerged from this research. Examples of each step from the three participating companies were presented, and discussions concerning the internal and external conditions that relate to this process were presented. Additionally, the category of control's relationship to this process was exhibited. In the next section, supplier relationship actions and the conditions that relate to their application will be discussed.

Ongoing Logistics Supplier Relationship Actions

Emerging from the interviews and observation of participants in this research are two main types of actions taken by the participating companies with regard to supplier relationships (see Table 4-5). The first of these action types is relationship building.

Table 4-5: Logistics Supplier Relationship Actions

Relationship Building
Alignment of values
Bonding
Collaboration
Establishment of commitment
Dealing honestly and fairly
Joint Problem Solving
Understanding logistics supplier issues
Providing support
Establishment of procedures

This action is based on the company's cultural orientation toward relationships between companies, and involves alignment of values with logistics suppliers, collaboration between the buying and selling companies, and establishment of commitment to long-term relationships. The second type of action is joint problem solving with logistics suppliers. Joint problem solving involves providing support and assistance to suppliers to work through existing problems, and the establishment of procedures to help prevent problems from surfacing or reoccurring. The cultural orientation of the buying company toward relationships with suppliers is a condition that appears to establish a foundation from which the types of actions that participating companies take are built. Since these orientations differ between the participating companies, differing relationship building actions and their outcomes are identifiable across the three companies.

Company A

Company A's supplier relationship actions are built upon an orientation toward logistics suppliers that the distribution operations manager characterizes as "almost like a marriage" (Sandy). This orientation is founded on a change in approach from "purchasing services to building relationships" (Candice). Relationships with distribution center providers, for example, are described by the VP of customer service of a DC supplier as "closer than most relations that I've seen" (Sam). Carrier relations have also been moving toward closer relationships, because "at the end of the day they have to be your partner" (Candice). Cultural alignment between Company A and its logistics

suppliers, particularly the alignment of values, is important to relationship building as indicated by the director of distribution:

> CANDICE:
> We've had long standing relationships with companies that have the same corporate cultures like we do…And they're more aligned and that alignment makes it easier to see transparency between the two. I think long term, if we're not aligned in our values and our businesses aren't going in the same direction, then you know it's just going to be a natural process to sever the relationship.

In Company A's approach, another important foundation of relationship building is that there is a bonding between the companies. Candice talked about this aspect:

> INTERVIEWER:
> What would you consider the most important part of the relationship?
>
> CANDICE:
> … [T]hat it works for both of us. So you have that two-way as opposed to a one-way not just flow of information, but the flow of support and needs…I mean *we sit with our logistics providers and it's like they are our employees*, you know. And they have the pride. I mean, you go to any of our DCs and they're wearing Company D shirts, they've got Company D banners up and you really wouldn't know. And that to me is the important part of it. That you really don't know that they're not Company D. (emphasis added)

This feeling is reiterated by a warehouse analyst, who stated that when he visits a DC it's "like visiting his friends" (Chuck).

The alignment of cultures and bonding between Company A and some of its suppliers appears to culminate in actions that can be characterized as inter-company collaboration. The logistics provider relationship manager discussed what relationships meant to him:

> INTERVIEWER:
> How would you describe the culture fit between Company D and (the two DC providers)?

> LEM:
> *It has to be collaborative*, so you know, *our role up here, is to really get rid of the road blocks so they can get the job done*…And that's kind of what we are focused on here and helping the DCs and making sure they've got systems and you know the infrastructures in place to get that done… we are looking at a gain share program with the logistics providers…[I]n the future we're looking at maybe doing some enhanced technologies like voice pick recognitions, you know, things like that…. (emphasis added)

One of Lem's employees gave an example of how the idea of collaboration is put into practice:

> INTERVIEWER:
> How would you define "relationship?" What would you say a relationship was all about?
>
> BETH:
> Well, calling them to see if they needed any help, or suggesting an idea of a way to get information for us, an easier way…*Trying to make their job easier*… [M]y intent is not to ever make a logistics provider have to really work for their money…and vice versa, you know, they would also, *they're also very helpful to me*, 'cause I get some of my training from them. They know the warehousing, and then they'll call and they'll help me…. (emphasis added)

Another aspect of collaboration discussed by participants is not dictating to suppliers exactly how they are to perform services. The logistics provider relationship manager talked about this aspect:

> LEM:
> … [W]e just don't wanna dictate to them. You know, we want them to buy in, we want them to understand why we're putting policy in place, because at the end of the day, we want them to comply to it, without raising costs or getting anybody hurt… I don't see us as being big brother dictating, pounding things down to them and saying, "do this or else." I mean, I see it as a collaborative relationship…*We don't want to dictate a policy of procedures they can't do*…. (emphasis added)

The collaborative actions fostered by Company A's approach thus result in mutual support in which both buying and selling companies gain something from the relationship, and in which there is some give-and-take.

The outcome of collaboration with logistics suppliers is described by the distribution operations manager as a situation in which benefit is derived by all parties, including the buying company's customer:

> SANDY:
> … [T]hey are able to perform more effectively for us, so their KPIs look better... Now we're happy with their performance … and now…our on-time performance to our customer is now improved as well. *So as you can see it's a win-win*. (emphasis added)

The carrier relationship manager compared the current approach with carriers with the way Company A used to deal with them prior to the establishment of a group focused on carrier relations:

> ABBY:
> … *[W]e didn't have time to really nurture the relationships*. Right, to really get to know who they were and what their strengths were, and to allow them to know and understand who we were and what we were looking for, and where those areas of opportunity where we had synergies are. Okay, where we had something that could, you know reduce the complexity and then we could both enjoy the end result which would be reduced costs, you know greater volume, etc. (emphasis added)

An additional outcome of the approach Company A takes toward supplier relationships is a heightened sense of commitment between the company and its suppliers. The director of distribution discussed this outcome:

> CANDICE:
> I think we recognized earlier in the game that… partners had to truly be partners. *And we had to build a relationship with them*. And we've had long standing relationships and they have the same. (emphasis added)

Thus, collaborative actions appear to have resulted in mutual benefit to both the focal company and its suppliers, including lower costs, increased service to the customer, better understanding between the companies concerning capabilities and goals, and increased business for the suppliers.

Another aspect of Company A's approach is the performance of problem-solving actions with logistics suppliers. Often these actions involve the inability of the carrier to meet Company A's needs for shipping capacity. Initially, rather than taking an approach of punishing carriers for refusing loads, Company A tries to work with carriers to understand their issues:

> SANDY:
> (Abby) and her team, initially they would put in a few phone calls, because throughout the process of identifying the (capacity) gap, there are initial discussions that take place, so some conference calls with the carrier to try to get their perspective on why it is that they might be failing, right. What are their challenges, what are they dealing with, right? Is it short term, is it long term, right? *So, what do we need to do? Can we change something on our end that can support this carrier*, if it is a short term issue, versus if it's a long term issue or the carrier just admits, yeah, you know there's so much going on in the industry that I can't commit to more than this? I think in that situation, we've had very progressive discussions that said, so are you okay with committing to this number versus this number? They said "yes." They're happy that the pressure's off, right? *And now they are able to perform more effectively for us*. (emphasis added)

In addition to understanding internal carrier problems, Company A also works on helping logistics providers resolve problems that are caused by external sources. The distribution operations manager gave an example of Company A getting involved with its own customers who cause carriers problems:

> SANDY:
> *(Abby) and her team… have an intimate relationship with our carriers, so they understand what the carriers are struggling with.* They understand the regions in the country that are struggling for different reasons, and I wanna say that we do support them … And at the time when we are looking for support, at times when a carrier may say to us, you know, can you help us out with this customer, because this customer is…taking 12 hours to unload one of my trailers, I simply can't have that. We've taken the approach that we will go in to a customer and visit that customer and…first try to understand why they are taking 12 hours to unload *and then try to persuade them to improve upon their efficiency and including we'll give them some ideas about how to do it*, which in the end will help the carrier. (emphasis added)

This approach of giving suppliers an opportunity to correct problems before punishing them, and direct involvement in solving supplier problems appears to be associated with a general orientation toward close relationships at Company A. The carrier relationship manager sees this approach as the result of learning the value of close relationships over time: "[W]hat we've learned is that the key to success in the…future is all about collaboration" (Abby).

An outcome of this kind of action is that Company A can maintain a degree of control over its suppliers' performance and the outcome of issue resolution by being directly involved in problem solving. A less relational approach would likely not afford the degree of control that Company A appears to want to have over its suppliers' performance. The data indicates that positive outcomes from supplier relationship actions reinforce existing cultural orientations toward close relationships with and control over logistics supplier operations. An example of positive outcomes is provided by the VP of customer service of a distribution center provider, who describes this approach as "a real different philosophy" (Sam) from those of most other companies he deals with, and that it is a "partnership where you can solve problems." Thus, Company A's cultural orientations appear to influence its actions toward logistics suppliers, and these actions often result in outcomes that benefit the company, its logistics providers, and its customers.

Company B

At Company B there appears to be a dichotomy in the relationship actions the company takes with its logistics suppliers. At times the company's actions are centered on extracting as many concessions it can from its logistics suppliers, as though it is approaching the relationship at arms-length with only short-term gain as an objective. Other actions seem to be more relationally oriented, exhibiting mutual problem solving actions with its logistics suppliers with a win/win resolution as the goal. This dichotomy may be an indication that the company is going through changes in its core assumptions concerning the proper exercise of power and the relationship of the company to its business environment.

The former director of logistics characterized Company B's actions toward suppliers as "going after every penny" (Dan) the company can get.

> DAN:
> I think the way we treat our suppliers is…*we push hard, very hard*. Sometimes harder than other customers push, some of their other customers. (The company founder) always went after every little penny. (The company president) learned that, and… taught me…. I'd say that there probably is an impact now that I think back on it. 'Cause we have had feedback that says, why do you guys, why can't you just be happy with where you are at? You know we've worked our tail off to get you where you're at, why do you need more? I think there are times when our suppliers get pretty frustrated with us, because it's that lean and mean thing. It's never good enough and *we probably could be a little better at partnering with suppliers and doing some give and take*. (emphasis added)

The global procurement director talked about cost pressures from customers being "passed down" (Cliff) to logistics suppliers, and that the harder customers push Company B the harder Company B pushes its suppliers. He also talked about "taking back" from suppliers that may have cost the company money in expediting costs during the year:

> CLIFF:
> … [A] lot of times the president will say… we'll take it off an invoice. He talks tough and puts a lot of pressure on us to do that, and we do. And if he says, take it off the bottom at the end of the year, we just do it, because he's the president.

These actions appear to stem from the influence of the company founder, who passed his orientation toward suppliers down to his son. Financial conditions likely exacerbate this condition, since the company recently faced several lean years.

Yet other actions described by participants indicate that Company B is practicing a more relational approach toward its logistics suppliers. Actions such as joint problem solving with logistics suppliers occur. One such instance was described by the former director of logistics, who talked about a distribution center provider that failed to service Company B to its satisfaction:

> DAN:
> … [I]nitially we had issues, same thing, he would pull his workforce over here because he had a crisis over here….And no orders were getting picked. Two, three days would go by and orders haven't shipped and all of a sudden he'd pull them back over. We went through that initially, and then I worked some systems out with him where we talked about putting some dedicated people where Company B's Number One. We had to manage how the pay was going to work, if they were going to be dedicated. Anyway, it worked out good.

The director of logistics also gave an example of Company B working with a logistics supplier for mutual benefit:

> CHRIS:
> … [L]ast year we worked with (a carrier) to try to do things to help reduce their costs so that they could keep our costs down…So we get a few things on our end to help them keep our costs down, and that actually, took up half the discussion last year, finding ways that we can help them keep their costs down…. [P]ooling our shipments by region so they can move a container without having to break it. A break facility, pick up a pump, drive it straight to California without touching it. That helps save money. We try to find creative ways with both ocean and LTL to help them keep their costs down….

These actions appear to indicate that although Company B is a tough negotiator and may "play hardball" with its logistics suppliers at times, the orientation is not strictly toward arms-length, market-governed exchange.

Indeed, many participants talked about relationship building with logistics suppliers. The director of logistics talked about long-term relationships with carriers as being like partnerships:

> CHRIS:
> … [Y]ou know *we try to build relationships* with each of the carriers. You know we have been with certain carriers for a long time and you know, it's a partnership, I guess you would call it. So you wanna try to value that partnership and work together. (emphasis added)

The transportation manager discussed a specific carrier as an example of how Company B works with its suppliers:

> ARLENE:
> … [W]e worked very hard to…be the kind of people they can use as an example of how… two companies can work together to create mutual wonderful situations for each other…. [W]e have an attitude of we need to make a profit and we want our supplier to make a profit because we need our supplier here tomorrow. And if they treat us very well, and get it there when we need it, and they actually make a profit doing that, obviously we're both doing well and that's a good place to be.

Participants also talked about dealing with logistics suppliers in "an honest manner" (Arlene), being "liked" (Katie) by suppliers for the way she deals with them, and being "fair" with suppliers (Harold). Additionally, when there are gray areas where uncertainty concerning costs, Company B is "willing to take the hit" (Cliff) on cost rather than place the blame entirely on logistics providers.

Thus, Company B's actions toward its logistics suppliers indicate that the company may be transitioning from a strictly arms-length approach in which the goal is to exercise power over suppliers to one that is more relationally, win/win oriented. It

appears that positive outcomes from previous successful relationships have influenced the company's assumptions about its relationship to its business environment (vis-à-vis suppliers) and the use of power over other companies. If this is indeed the case, then it seems reasonable to project that Company B will continue to move toward a more relationally-oriented approach toward logistics suppliers in the future.

Company C

Unlike the other two firms in the research, Company C performs the majority of its own logistics activities, so there are fewer opportunities for ongoing relationship actions to occur. The main relationship the company has with a logistics provider is with the broker they use to set up backhaul loads. This relationship has not gone well, and will likely be ended in the near future. Appropriate to the issue of relationship actions is the way Company C entered into agreement with the broker. The current logistics manager talked about what he thought hindered the relationship:

> MARK:
> … [T]he current relationship that we have with this particular, with this vendor that's managing our freight is, to be honest, I don't know if it was set up correctly coming into the relationship.
>
> INTERVIEWER:
> From a contract standpoint?
>
> MARK:
> I don't wanna say contract standpoint, but I would say from an overall understanding what they were going to provide…And what we were going to provide them. In the contract I think it says this, but *whether or not either side put their best efforts forward, I don't know*…. [L]ooking back at least from this, from sitting in this chair today, I don't believe that really either party probably did as much as they could to make the effort. (emphasis added)

Mark attributed the lack of effort on the part of Company C to making the relationship work better to "lack of trust" between the parties.

Another influence may be the orientation towards arms-length relationships at Company C. When asked about the company's approach toward logistics providers, the previous logistics manager stated:

> OMAR:
> Basically, you just have to, coming from a purchasing point of view, you basically have to treat them just like a vendor… I have to treat them like a vendor. You know because they're providing the service for me.

No participants talked about actions to develop long-term relationships with any logistics providers. This is not surprising given that carriers are selected by an outside firm based primarily on price in a specific transportation lane. Given the orientation toward performing logistics activities in-house, and the current plans to eliminate the third-party broker and use a transportation management system in-house to tender loads, it appears that Company C will continue to treat its logistics suppliers with an arms-length, market governed approach.

Summary

This section presented ongoing supplier relationship actions undertaken in the participating companies. Conditions affecting the type of actions selected by the companies were discussed, and relationships between the cultures of the companies and how they act toward their logistics suppliers were proposed. Additionally, outcomes of these actions and their potential effect on the future trajectory of actions at each company were offered.

Chapter Summary

This chapter presents how participating companies deal with logistics suppliers. Two aspects of dealing with logistics suppliers are discussed - establishing logistics provider strategies, and application of those relationship strategies. The establishment of logistics provider strategies is presented as a dimensional range of "perform versus buy" strategies from complete in-house performance of logistics activities to complete outsourcing of those activities. Related to these strategies is a set of internal and external conditions that appear to influence what strategies are selected by the focal company. These conditions include the influence of a parent company, financial position, desire for release from management responsibility, preference not to own facilities, uncertainty, seasonality, lack of company resources, desire for control over service, industry conditions, and lack of trust in outside firms. Relationships between corporate culture and the development of logistics provider strategies were drawn to such aspects as dominance of a parent company's culture, orientations toward control, assumptions about the nature of human nature (e.g., trustworthiness of other companies), and values such as pride in service and cost containment.

The second aspect of dealing with logistics suppliers discussed is the application of logistics supplier relationship strategies. A five-step, cyclical process for selection of and allocation of business to suppliers is presented. These steps include 1) preparation for selecting suppliers to include in negotiation, 2) negotiation with suppliers, 3) allocation of business to suppliers, 4) performance review/monitoring, and 5) reallocation of business based on performance. Conditions related to this process are presented, including switching costs, asset specificity, company image, and seasonality. Cultural

conditions related to the process are also presented, including orientations toward the value of inter-firm relationship importance, customer service, cultural fit between companies, cost containment, and control over logistics operations.

In addition, ongoing logistics supplier relationship actions are discussed. Emerging from the data are actions of two types- relationship building and joint problem solving. Relationship building activities involve cultural alignment, bonding, and collaboration between the focal firms and their logistics providers. Two outcomes of relationship building that emerged from the data are commitment to the relationship and mutual support between companies. Joint problem solving is a specific activity that is related to mutual support. Conditions such as cultural orientations toward close relationships, assumptions about its relationship to its business environment (vis-à-vis suppliers), the use of power over other companies, and degree of trust in other companies appear to influence the use or non-use of joint problem solving. Control over supplier performance and issue resolution are presented as two outcomes of this action.

Research Findings Summary

Figure 3-1 depicts the relationships between dealing with change, dealing with logistics providers, and control that emerged from this research. Essentially, the category of dealing with change is related to *why* the firms in the research consider making the "perform-versus-buy" logistics outsourcing decision, while the category of dealing with logistics providers is related to *how* those firms approach supplier relationships when they choose the "buy" option. Change as a result of mergers, growth, power/dependence

relationship modification, and company cultural adjustment emerged as a causal condition influencing participating companies to consider outsourcing logistics activities as a strategy to cope with issues stemming from these external and internal changes. Extent of control considered desirable by the firm emerged as a condition that influences the "perform-versus-buy" decision. Those participating firms willing to let go of control of operations in many areas appeared to be inclined to outsource logistics operations; those firms desiring to maintain tight operational control appeared to favor performing logistics operations in-house. Thus, the ways companies in this research go about dealing with changes in their own company and in their external environment appear to be tied to the value it places on control of logistics operations.

The category of dealing with logistics suppliers involves the strategies companies in the research use to select, negotiate with, allocate business to, and govern relationships with logistics suppliers. These strategies appear to be related to cultural assumptions regarding the firm's relationship to its business environment (e.g., power/dependence), the nature of human nature (e.g., trust or distrust), and nature of human relations (e.g., the use of power), and also to cultural values such as task and relational orientations. Firms in the research (or subcultures within a firm) that have a relational orientation, assume they can trust their suppliers, and assume that the overt use of power is unnecessary as a governance mechanism appear to be seeking long-term, win/win, behaviorally governed relationships with some of their suppliers. Firms in the research with a task orientation, lacking trust in suppliers, and assuming that the overt use of power is necessary to govern supplier relationships appear to lake a shorter-term, win/lose, market-governed approach.

Control also emerged as being related to how participating firms approach the governance of their logistics suppliers, although this relationship is not straight-forward. Regardless of whether a firm was relationally-oriented or task-oriented, with the exception of Company C the companies in this research applied various methods of control over their logistics suppliers in order to achieve their goals. However, Company A uses control mechanisms in a manner consistent with a relational-orientation in that it is using control to identify problems and help the supplier correct them if it can. Company B, on the other hand, uses control mechanisms as means to extract as much as it can from its suppliers in terms of cost and service. Thus, in this research control is intertwined with other cultural aspects to create a complex set of conditions that interact with one another and result in outcomes that are not easily predicted.

Chapter 5- Literature Review

Chapter Outline

This chapter builds on the findings presented in Chapters Three and Four by exploring the answers to two emergent questions. Following an introduction of these questions, the chapter begins with a discussion of control, which emerged as the core category in the research. The final two sections suggest answers to the questions that arose during the research process. Each of the three sections reviews relevant literature and the research results for possible answers.

Introduction

Following a grounded theory approach to the literature review, in which a constant comparative approach is taken to theory building, literature is examined in this chapter in light of findings that emerged from the research. Specifically, this chapter examines findings in four relevant literatures: corporate culture, logistics, marketing, and social psychology. The literature examination was driven by two questions which have run through and emerged from the research findings. These questions are: 1) What is the nature of the relationship between corporate culture and the "perform versus buy" decision regarding logistics services? 2) What is the nature of the relationship between corporate culture and the management of logistics supplier relationships?

The "Perform Versus Buy" Decision

This research raised the question of how corporate culture is related to logistics outsourcing decision making in firms. Exploring answers to this question within the relevant literatures reveals three key aspects of the issue. The first aspect is identifying the drivers that influence companies in their decision of whether to perform logistics activities in-house or to hire an outside firm to perform those functions. The second is to ascertain what types of strategies companies use to accomplish their logistics goals. The third is to identify the processes firms go through when they make third-party logistics buying decisions. By comparing the findings in the research to the literature on these aspects of logistics outsourcing/in-sourcing, a better understanding of the relationship of corporate culture to the "perform versus buy" decision may be gained. The next three sections address these aspects of the issue.

The Logistics Outsourcing Process

Research into the acquisition of third-party logistics services, interorganizational exchange behavior, and relationship development processes are related directly or indirectly with the logistics outsourcing process. A five step conceptual model of the third-party logistics process presented by Sink and Langley (1997) is directly related to this research. Figure 5-1 depicts this process. The first step is identification of the need to outsource logistics operations. This involves recognition that outsourcing is a viable option for problem solving or taking advantage of opportunities. Recognition is initiated by someone from either inside or outside the company acting as a "change agent." This

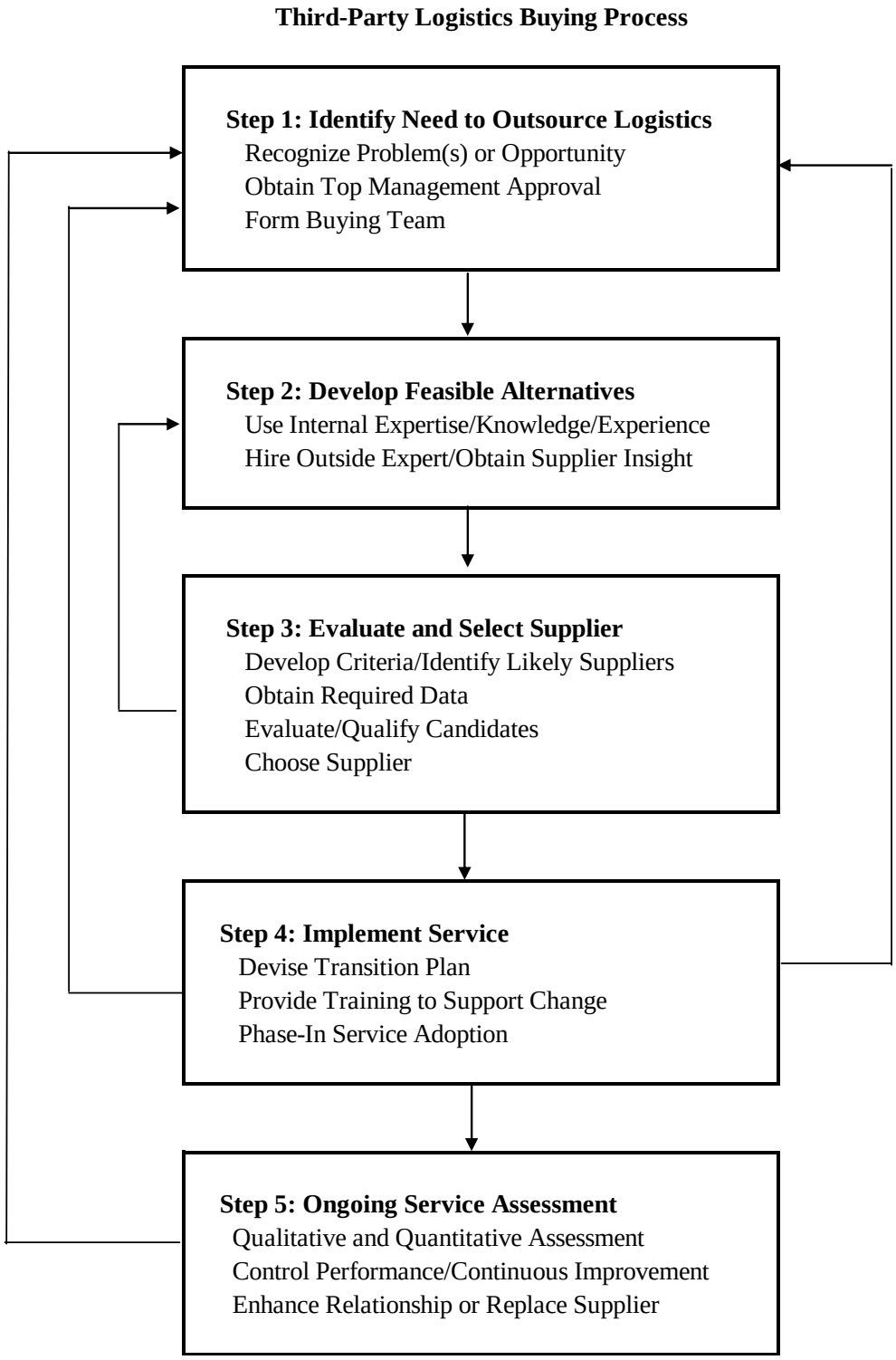


Figure 5-1. Third-Party Logistics Buying Process (Adapted from Sink and Langley 1997)

individual believes that outsourcing logistics activities is a viable alternative to in-house performance of those functions. A second aspect of this step is the enlistment of support from senior management to proceed with an investigation of outsourcing feasibility. The enlistment of senior management support is followed by formation of a team to begin the outsourcing process.

The second step involves an analysis of the make-or-buy decision that identifies all relevant costs. The findings of the team are presented to senior management in order to obtain an outsourcing commitment. The next step involves developing selection criteria, identifying potential suppliers, evaluating the supplier pool, and choosing a supplier. The fourth step is to implement the logistics service. This involves formulating a transition plan, providing transition support, and phasing in the service. The final step is an ongoing assessment of the provider's performance. This assessment leads to either an enhanced relationship with the supplier or replacement of the supplier with another provider. Sink and Langley are careful to point out that firms may not follow this format exactly – steps may be bypassed or cycled through repeatedly.

Two marketing studies addressing the development of inter-organizational relationships also provide theoretical frameworks that are useful to this research. The first is the Dwyer, Schurr, and Oh (1987) model of relationship development. The DSO model identifies the relationship development process as proceeding through five stages. These stages include awareness, exploration, expansion, commitment, and dissolution. Awareness refers to the recognition by one company that another company can serve as a useful exchange partner. Exploration involves the phase-in process during which firms are attracted to each other, begin communicating and bargaining, form relationships,

develop behavioral norms and expectations, and exercise power. The expansion phase entails "the continual increase in benefits obtained by exchange partners and their increasing interdependence" (p. 18). Mutual dependence and increased risk-taking develop during this phase.

The commitment phase concerns recognition of satisfaction in the relationship, with an implied or explicit promise of continuing exchange between the firms. High levels of input, continuity of association over time, and intentional commitment of resources necessary to maintain the relationship characterize this phase of the process. The possibility of dissolving the relationship is recognized as a potential action during any stage of the process. Significant points raised by the model are that relationships evolve over time, that this evolution can involve escalating mutual dependence and investment in resources, and that the parties are always aware that alternatives to the arrangement are available. These alternatives can include performing logistics activities in-house.

The second model is Frazier's (1983) framework of interorganizational exchange behavior. Like the DSO model this framework begins with need awareness.
In Frazier's model the initiation process "begins when members of a firm perceive a *need* and have a *motive* to form an exchange relationship" (p. 69). It should be noted that some firms may not perceive a need for or have a motive to form an exchange relationship - the firm may be satisfied with performing and managing certain activities in-house. However, for other firms this recognition sets off a search for suitable exchange associates, similar to what DSO refer to as the exploration phase.

The outcome of this search is choice of exchange partners, with each firm selecting a channel role. Levels of power and behavioral norms develop between the firms during this time, and each firm forms certain expectations for rewards to be gained from doing business with the other firm. The implementation process starts with exchange of products, services, and information between the firms, and interaction between boundary-spanning personnel. Parties may attempt to influence each other toward certain courses of action during this phase. Outcomes from this application of influence may include perceptions of goal compatibility and role satisfaction, but may also include conflict between the parties. Ultimately the companies will experience monetary gain or loss from the relationship.

The review process is concerned with "an evaluation of the rewards or losses achieved by each firm from the exchange" (Frazier 1983, p. 73). Attribution of responsibility for achieved rewards or losses are applied, and a perception of the level of equity between the firms is formed. Outcomes include satisfaction or dissatisfaction with the relationship. Satisfaction with achieved rewards is seen as leading to more effort and cooperation being exerted in the relationship, while dissatisfaction results in potential dissolution of the relationship.

Comparison of Literature to Findings

In Chapter Three a five stage, cyclical logistics outsourcing process emerging from the research was presented (Figure 3-5). The five stages include 1) recognition of third parties as a viable alternative to in-house performance of logistics activities, 2) motivation to outsource, 3) trial outsourcing of functions, 4) confidence building in third

party providers, and 5) expansion/contraction of the use of third parties. Comparison with the models in the marketing and logistics literature with this research reveals some similarities; it also identifies differences that may add to the body of knowledge on the subject.

The first stage in the process, recognition of third parties as an alternative, is similar to the DSO model "awareness" step and to the first step in the Sink and Langley model - recognition that outsourcing is a viable option. This step is important to the research because Company C has apparently only recently become aware of third parties as an alternative to performing logistics activities in-house. This finding opens up the question of whether there are other companies performing their own logistics operations similarly unexposed to the services of third-party providers. Sink and Langley maintain that this recognition is initiated by someone from inside or outside the company acting as a "change agent" who believes that outsourcing is a viable alternative. One of the findings of this research is that a parent company may act as such a change agent. The potential change agent at Company B is the director of logistics, who appears to be open to using third parties if the conditions are favorable. A company's perceptions of logistics providers (see Figure 3-7) will likely be altered by a strong change agent.

Stage two, motivation to outsource, is discussed in step one of Sink and Langley's model as recognition of a problem to solve or as an opportunity to be taken advantage of. The DSO model and Frazier's model start with need awareness or a motive to do business with an exchange partner. Emerging from this research were conditions leading to motivation to outsource, such as company culture change regarding control, customer demands concerning cost and service, internal financial issues, and need for expertise.

The influence of a parent company, as in the case of Company A, was also identified as a motivator. Recognition of these conditions may help add to the knowledge of what motivates companies to outsource logistics functions.

Stage three involves the actual outsourcing of activities. In all three participating companies the outsourcing process has taken place in phases. Company B and Company C have approached outsourcing in a "testing the waters" manner, basically trying out third-party providers to solve specific problems. Company A has also taken this approach by transitioning company-owned DCs to third parties over a period of time. Langley and Sink treat the outsourcing process for a type of logistics service as transitioning completely from in-house management to a third-party provider. While this type of scenario can occur, a model such as the one presented in this research may represent a more common approach to logistics outsourcing, since it gives a firm an opportunity to assess the effectiveness of outsourcing before fully committing.

The fourth stage in the logistics outsourcing process presented in this research is confidence building in third-party providers. This stage parallels Sink and Langley's step of ongoing service assessment, the DSO model's step of relationship exploration, and the Frazier model's review step. In all three models in the literature, this step involves assessment of relationships with suppliers leading to an outcome affecting that relationship. The model presented in this research indicates that the confidence building stage involves an assessment of the outsourcing decision *itself*, leading to an outcome of outsourcing expansion or contraction. Additionally, this stage may involve confidence building in the firm's own ability to provide logistics services. Thus, confidence building

through ongoing assessment of third parties can move a company into the next stage in the process.

The fifth stage is expansion or contraction of logistics outsourcing. This stage is similar to Sink and Langley's fifth step in which relationships are enhanced or suppliers are replaced. Outcomes in both the Sink and Langley model and the model presented in this research are influenced by the performance of third-party providers. These outcomes are also similar to Frazier's satisfaction/dissatisfaction with exchange relationships, and to the DSO model's phases of expansion, commitment, and dissolution. The DSO expansion phase involves the building of trust and satisfaction with suppliers, which subsequently evolves into a commitment to long-term relationships. The model identified in this research addresses the expansion of logistics outsourcing itself, but expansion is predicated on confidence building in the performance of logistics suppliers. Such confidence is built on satisfaction with suppliers and trust in their abilities to perform to the buying company's requirements. While the Langley and Sink, DSO, and Frazier models all concern relationships with suppliers, the model in this research goes beyond satisfaction/dissatisfaction with suppliers and addresses the possible outcome of bringing outsourced logistics functions back in-house.

Based on findings emerging from the research, the following observations were made concerning logistics outsourcing in the participating firms:

O1a: The firms participating in the research experienced a cyclical, five stage process of logistics outsourcing.

O1b: Company A's recognition of logistics outsourcing as a viable option, and its motivation to outsource were initiated by its parent company. Trial outsourcing resulted in confidence that third-party logistics providers were able to perform to the company's requirements. Confidence led to

expansion of outsourcing across all transportation and distribution functions. Expansion will continue in the future to include the management of third-party logistics providers by outside suppliers (4PLs).

O1c: Company B recognized outsourcing as a viable alternative through the influence of a change agent within the company. Motivation was provided by company growth and lack of expertise in new markets. Trial outsourcing has resulted in confidence-building in the ability of third-parties to perform adequately. In the future, outsourcing and in-house management will both be alternatives included in the company's logistics operations strategy. Selection of one alternative over another will depend on the cost and service conditions present in each decision.

O1d: Company C's recognition of third-party logistics providers as an alternative came through the marketing efforts of a logistics supplier. Motivation was provided by the need to reduce logistics costs. The initial outsourcing trial has not gone well, resulting in no confidence-building in the third-party provider. Based on this lack of confidence, in the future Company C will eliminate its one third-party provider and continue to manage all of its logistics functions in-house.

These observations in conjunction with the literature on logistics outsourcing and inter-firm relationship processes lead to the following proposition:

P1: The logistics outsourcing process consists of five stages, including:
1) recognition of third parties as a viable alternative to in-house performance of logistics activities,
2) motivation to outsource,
3) trial outsourcing,
4) confidence building in third part providers, and
5) expansion/contraction of third party use.

Drivers of the "Perform Versus Buy" Decision

According to the logistics literature there are myriad reasons why firms choose to perform their own logistics activities in-house, or choose to outsource those functions. The two most frequently cited reasons for outsourcing logistics activities are cost reduction and service improvement expectations from outsourcing (Boyson et al. 1999;

Lieb and Bentz 2005; Maltz 1994; Maltz and Ellram 1997; Sink and Langley 1997). Pressures from buying firms such as "Big Box" retailers to reduce cost and improve service have been a major factor in manufacturers choosing to outsource logistics functions (Lieb and Bentz 2005, Sink and Langley 1997). However, there is some debate as to whether cost or service is the most important factor in choosing to outsource.

Maltz and Ellram indicate that "numerous logistics studies continue to show that customer service capabilities dominate cost in the logistics outsourcing decision" (1997, p. 54). These authors state that logistics managers tend to be oriented toward service to the exclusion of almost any cost considerations. McGinnis (1990) noted that empirical research into freight transportation choice indicates that shippers in the United States generally valued service more highly overall than cost in the freight transportation choice process. He concluded that service generally will be more important to shippers than cost. Maltz (1994) and LaLonde and Maltz (1992) conclude that perceived service differences are associated with more use of private warehouses, and that service concerns rather than cost considerations drive private warehouse use.

Yet, other studies indicate that cost savings predominate as the main driver in the decision. For example, a survey by Boyson et al. (1999) found that the largest percentage of respondents (forty-one percent) indicated that their primary reason for outsourcing some or all of their logistics functions was to cut costs. An earlier survey by Bardi and Tracy (1991) found that anticipated cost savings was the most important reason to outsource logistics. A recent survey by Lieb and Bentz (2005) indicated that cost considerations dominate the decision to initially select a third-party provider. Thus, it would appear that there is no consensus among researchers as to the relative priority of

cost-versus-service in the logistics outsourcing decision process. This may reflect the complexity of the issues that logistics managers face when dealing with the trade-offs between lowering costs and improving service. However, regardless of the lack of consensus as to the primacy of one factor over another, clearly cost and service considerations are paramount in the decision making process.

In addition to cost and service, a number of other factors are cited as reasons why firms consider logistics outsourcing. These factors include opportunities to focus on core competencies (Leahy, Murphy, and Poist 1995; Razzaque and Sheng 1998; van Damme and van Amstel 1996), improving productivity (Leahy, Murphy, and Poist 1995), upgrading information technology (IT) capabilities (Leahy, Murphy, and Poist 1995; Sink and Langley 1997), supply chain management (Lieb and Randall 1996), changes in the regulatory environment (Sink and Langley 1997), need for expertise (Razzaque and Sheng 1998; Sink and Langley 1997; van Damme and van Amstel 1996), globalization of business (Razzaque and Sheng 1998), complexities of operating in a just-in-time (JIT) environment (Razzaque and Sheng 1998), rapid growth (van Damme and van Amstel 1996), and limited resources to apply to logistics activities (van Damme and van Amstel 1996). The extensiveness of these factors indicates that there are multiple ways in which firms consider third-party logistics providers capable of assisting them in dealing with their business problems.

The literature also discusses specific types of events that can "trigger" a company to become interested in outsourcing logistics functions. Such events as 1) corporate restructuring, 2) changes in logistics management, 3) changes in executive management, 4) corporate cost/headcount programs, 5) market and product line expansions, 6)

increasing customer demands, 7) mergers and acquisitions, 8) new markets, 9) customer use of Just-In-Time or Quick Response (QR), 10) labor costs/problems, 11) instituting a quality improvement program, and 12) CEO directives to investigate the feasibility of outsourcing are noted as reasons why companies start to consider outsourcing as an option (La Londe and Maltz 1992; Sink, Langley, and Gibson 1996). It should be noted that most of these trigger events concern changes to the external and internal environment of companies. The literature thus suggests that outsourcing is a common coping mechanism companies use to deal with change.

On the other hand, there are numerous factors influencing firms to perform logistics activities in-house. Venkatesan (1992) noted several conflicting priorities regarding how managers justified in-sourcing. Filling idle capacity on equipment, preserving jobs, maintaining cordial relations with a union, and more responsibility, more authority, and bigger salaries were cited as reasons why managers are reluctant to outsource. Concern that common carriers may not service customers as well as private carriage is another reason why companies choose not to outsource transportation activities. For example, Maltz's (1994) survey of the transportation choice literature found service quality to be a main reason for using private carriage.

Other reasons cited for performing logistics activities in-house include: 1) cost reductions over currently available service, 2) special handling and shipping requirements not offered by logistics providers, 3) special transportation routing needs, 4) need for tight control over interplant work-in-process goods movement; 5) loss and damage reduction or prevention, 6) need for special product control during movement, 7) availability of emergency transportation needs, 8) assurance of equipment availability

and 9) corporate advertising on company owned vehicles (Tyworth, Cavinato, and Langley 1991). Lieb and Randall (1996) suggest that the most serious concerns to shippers in the use of third party logistics providers include the potential for loss of direct control over logistics activities, uncertainties about the service level to be provided, and questions concerning the true cost of outsourcing. Thus, there appears to be nearly as many reasons cited for continuing to perform or bringing back the performance of logistics activities in-house as there are to outsource them.

Comparison of Literature to Findings

Comparing the drivers and trigger events from the literature to the findings of this research reveals a number of similarities between the literature and what participants were saying on the subject. Emerging from the data are also some new perspectives on what is discussed in the literature, and some potential findings that may add to existing knowledge on why companies in-source or outsource their logistics activities.

The literature on logistics outsourcing identifies costs and service as the primary drivers influencing a firm's decision to hire other firms to perform their logistics activities. Participants in this research also identified cost and service as the two aspects of logistics activities of most concern to their company. As noted in the literature, all three companies experienced requirements from their customers to lower costs, and this factor is discussed as a reason for looking to logistics outsourcing as a means to meet this requirement. The literature also indicates that service will be a main driver in logistics outsourcing, but service is also cited as a reason why some companies do not outsource. Interestingly, Company A participants never mention service gains as a reason for

outsourcing. One reason that Company C has not turned to logistics outsourcing is that the firm's management feels it can perform deliveries to customers at a higher service level than third-party logistics providers. While Company B has recently investigated the use of a third-party warehouse to store and move components to their manufacturing facility during peak sales periods, capacity issues and cost, not service, were given as reasons why the company considered outsourcing. It appears that this research supports the view that service is not the main driver in logistics outsourcing decisions.

Of particular interest to this research is a lack of discussion in the literature concerning value changes and how they may be related to logistics outsourcing. Values are an important component of an organization's culture, and the corporate culture literature points to values as influencing behaviors in the workplace (Barney 1986; Denison and Gretchen Spreitzer 1991, Maierhofer, Griffin, and Sheehan 2000; Quinn and McGrath 1985; Schein 1985; Zammuto and O'Connor 1992). The social psychology literature indicates that values form a hierarchical system in which each value is ordered in priority relative to other values (Brangule-Vlagsma, Pieters, and Wedel 2002; Rokeach and Ball-Rokeach 1989). Values may change in relative priority causing behavior changes within an organization. Such value changes can occur due to changes in personnel within an organization, or when values fail to match up well with changing business conditions (Flint, Woodruff, and Gardial 2002; Schein 1985).

Emerging from the research are several instances of value changes related to control that appear to influence logistics outsourcing decisions. At Company A the merger of companies and the influence of the parent company led to changes in the value of ownership of equipment and facilities, and in the value of control over activities.

These changes influenced Company A to accept logistics outsourcing as a strategy, which over time has transformed the company from performing logistics activities in-house to predominantly outsourcing those activities. Financial issues and growth at Company B influenced the owners to give up much of their control over the day-to-day operations of the company, and managers hired from outside the company appear to be amenable to loosening control over logistics operations. This appears to be opening the door to logistics outsourcing as a strategy for dealing with growth and lack of expertise. At Company C the value of control over operations appears to be becoming more important, and in that company it is likely that the only outsourced function will be brought back in-house. Thus, at two of the three companies participating in the research changes in company values appear to be related to changes in logistics outsourcing strategies. The third company has experienced stable values concerning service and control, and its logistics strategy has remained the same over time. This leads to the second set of observations:

O2a: Company A transformed from a company that historically performed its own logistics functions to one that currently outsources these functions. This is due in part to a change in company values regarding ownership and control. Lowering cost was also a driver in this strategy change, but service was not. The company made a similar decision with regard to outsourcing manufacturing. There are no indications that these values will change in the future, and therefore the company's strategy will probably remain focused on outsourcing.

O2b: Company B historically has performed its own distribution center functions and outsourced its transportation activities. Control of customer service was a major factor in this strategy. Recent value changes regarding control of operations and cost have influenced the company to become more flexible regarding its outsourcing strategy, moving the company toward becoming more open to outsourcing distribution centers. In the future the company's strategy will likely be to consider outsourcing

a viable alternative to in-house management of distribution, and will base its decisions on a balance between cost and service.

O2c: Company C has performed its own logistics activities throughout the company's history. This strategy has been driven by concerns for service to its customers. Control over customer service has been and remains an important company value. Company management has recently become focused on more closely controlling all aspects of business operations. There is no indication that the company's values will change in the near future; therefore, the company will likely continue to perform its logistics operations in-house.

Given what is known about value change from the literature, and the findings in this research, the following proposition is offered:

P2: Changes in the relative importance of firm values concerning ownership, control, cost, or service are related to changes in a firm's logistics outsourcing strategy.

Other drivers of logistics outsourcing decisions discussed in the literature that were also discussed by participants are core competency issues, company growth, need for expertise, and limited resources to perform logistics activities adequately. At Company A the strategy of the parent company is to outsource all non-core competency activities. Company D has determined that logistics functions do not constitute a core competency for the company, and this philosophy is reflected in the ongoing outsourcing of logistics activities over the years. Due to the nature of when and how delivery of goods is made, the importance of trust between Company C and its customers appears to have the opposite effect on the company's management. At Company C the desire to directly control logistics activities appears to make logistics important enough to be a core competency, and this is reflected in the company's philosophy that logistics activities should be performed in-house. The issue of core competency was not discussed at Company B, and therefore may not be a factor in its outsourcing strategy at this time.

However, in two of the three firms, the literature predicts the direction of outsourcing based on whether logistics is considered a core competency or not.

Company growth and related issues such as need for expertise and lack of resources are also noted by participants as being associated with outsourcing decisions. These conditions are linked to company change. The issue of growth is particularly acute at Company B because it is dealing with both seasonality issues and market expansion. Company B's outsourcing strategy is to consider using third parties to gain additional capacity during peak seasons, and as a means to gain expertise in geographic locations in which it lacks familiarity with markets. However, it has also run its own distribution centers when entering new markets. Company A dealt with the post-merger expansion of its products and markets through a pure outsourcing strategy. Thus far in its history Company C has taken an opposite tack, expanding its logistics operations to meet its growing needs. While change may be a *motivator* for a company to consider outsourcing, in this research corporate philosophies toward logistics as a core competency appear to play an important role in *how* a company deals with logistics issues that arise due to change. This statement is based on the following observations:

O3a: Company A considers logistics a non-core competency company function. As a result, company change affecting logistics activities has historically been responded to with a logistics outsourcing strategy, and this strategy continues to be utilized currently. It is expected that in the future the company will retain its belief that logistics is not a core competency, and that it will respond to change affecting logistics activities with an outsourcing strategy.

O3b: Company B has always considered logistics activities important, but not a core competency. This led to a historically flexible approach toward dealing with change in which multiple conditions are considered in deciding whether to outsource logistics activities or manage them in-house. This approach is currently used by the company, and it is

anticipated that in the future the company's belief that logistics is important but not a core competency will remain stable. Therefore, future requirements to deal with change affecting logistics activities will likely continue to be dealt with in a flexible manner.

O3c: Logistics activities at Company C have always been and continue to be considered a core competency. Change affecting logistics activities has been dealt with by in-house performance of these activities. There are no indications that the company's belief that logistics functions are a core competency will change in the future, and therefore it is anticipated that change affecting logistics activities will continue to be dealt with an in-house approach to management of logistics functions.

These observations and the literature concerning the concept of company core competencies lead to the next proposition:

P3a: A firm's response to change affecting logistics activities is related to whether the firm considers logistics functions a core competency.

P3b: Firms that consider logistics a core competency are more likely to respond to change affecting logistics functions by continuing to perform logistics activities in-house.

P3c: Firms that do not consider logistics a core competency are more likely to respond to change affecting logistics activities by outsourcing those activities.

Logistics Outsourcing Strategies

A firm's approach to the issue of whether to outsource logistics activities or perform them in-house has been likened to the classic "make-or-buy" decision, which typically revolves around the issue of whether the open market is a better source for goods or services than sourcing them internally. Economic theory suggests that functions should be located where they can be performed most efficiently. For example, firms may "vertically integrate to enjoy economies of scale, when there are no suitable outside alternatives, or when insufficient business exists for outside suppliers to be economically

viable" (Ellram and Cooper 1990, p. 5). As Maltz and Ellram (1997) point out, the operations management and purchasing literature typically treat this decision as a cost minimization issue. However, they also note that the make-or-buy decision can have corporate strategy implications due to the impact these decisions have on concerns such as employment levels, asset levels, and core competencies.

Additionally, the decision whether to perform logistics services in-house or hire third-parties to perform them can impact customer service and customer relations issues since outside firms may be delivering products to, and interfacing with, a the buying firm's customers. For example, Maltz (1992) concluded that service concerns drive private warehouse use, and that logistics managers are often reluctant to use third-parties due to a perception that private warehousing provides better service than third-party warehousing. Speh and Blomquist (1988) note that the decision to own warehousing facilities is based more heavily on service requirements and corporate policy than on hard-and-fast financial rates of return. Therefore, a company's "perform-versus-buy" strategy is likely to be predicated on more than just cost minimization principles alone.

Razzaque and Sheng (1998, p. 89) describe three options that a company may choose when establishing a logistics strategy:

1) It can provide the function in-house by making the service.

2) It can own logistics subsidiaries through setting up or buying a logistics firm.

3) It can outsource the function and buy the service.

A mixed strategy can also be employed in which some of the logistics functions are outsourced while other are performed in-house. Additionally, the level at which a firm

monitors the activities of its logistics suppliers must be considered a part of a firm's logistics strategy (Bowman 1994).

Several streams of research pertain to the choices companies make regarding logistics strategies. The first is the resource-based view (RBV), which proposes that such capabilities as operational flexibility and collaboration can be obtained as a result of interactions between firms (Wernerfelt 1984), and that such capabilities can lead to superior performance if managed well (Sinkovics and Roath 2004). The use of third-party logistics providers, for example, is one way that a firm can develop and leverage capabilities (Stank et al. 2003). Lack of viable logistics resources within a company, or the recognition that logistics activities are not a core competency for the company, may lead to a strategy for obtaining resources and capabilities from a third-party provider (Boyson, Corsi, Dresner, and Rabinovich 1999; Maltz and Ellram 1997; Vaidyanathan 2005).

Network theory also supports the idea that a firm's relationships with other companies often constitute its most valuable resources (Skjoett-Larsen 2000). Access to competencies in other firms through outsourcing constitutes one way a company can develop a supply chain network without possessing the resources required to perform all necessary logistics functions. Indeed, a number of outsourcing relationships have resulted in the development of more flexible organizations based on the buying firm's recognition that outside companies possess core logistics competencies it does not have or necessarily want to develop (Rabinovich et al. 1999).

The third stream of research potentially of value in understanding logistics outsourcing strategies is transaction cost analysis (TCA). TCA helps define contexts in

which specific activities are internalized by a firm, or procured from a third-party. The basis of TCA is the transaction, and "derives from Coase's (1937) observation that coordinating and costs must be considered explicitly to understand why some transactions occur within a firm and others occur between firms" (John 1984, p. 279). Certain costs arise when a transaction is carried out. TCA theory proposes that when transaction costs are low the activity should be obtained from a third-party, and when they are high they should be performed internally. Three dimensions (or attributes) of transactions potentially determine the most appropriate governance structure: 1) the degree to which transactions are supported by transaction-specific investments (asset specificity), 2) the frequency with which transactions occur, and 3) uncertainty surrounding the exchange (Noordewier, John, and Nevin 1990).

Asset specificity is defined as "investments related to a specific transaction and with a limited value when used in alternative applications" (Skjoett-Larsen 2000, p. 116). In a logistics setting, "specific assets are dedicated to a particular, specialized function" (Cooper and Gardner 1993, p. 16). Exchange frequency refers to the volume of transactions between firms. In logistics, frequency reflects the number of shipments or number of transactions processes over a given time period (Cooper and Gardner 1993). Environmental uncertainty is defined as "unanticipated changes in circumstances surrounding an exchange" (Noordewier, John, and Nevin 1990, p. 80). Within a logistics setting, environmental uncertainty could include the volume of goods shipped during a particular period, or the amount of warehouse space required to store inventory. Exchange uncertainty involves questions concerning demand for specific stock keeping units (SKUs).

As applied to logistics outsourcing strategies, TCA would argue the following (Skjoett-Larsen 2000):

- When transaction-specific assets are present, and a high degree of uncertainty exists, vertical integration is the most efficient form of organization to guard against opportunistic behavior.
- In situations with transaction-specific assets present but with a low level of uncertainty, either in-house performance of logistics activities or a third-party provider is appropriate.
- Under conditions of high transaction frequency and mid-range investment in specific assets, the third-party logistics option would be chosen due to the logistics provider's ability to realize economies of scale.
- In contexts where capacity utilization fluctuates greatly, third-party solutions are the logical choice because capacity and demand can be appropriately matched.

Table 5-1 illustrates TCA predictions as to what type of logistics outsourcing strategy a firm would take under a variety of business conditions.

The third stream of research that may provide a framework for understanding logistics outsourcing strategies is the political economy paradigm (PEP). PEP became an important framework for researching inter-organizational phenomena due to the realization that purely economic motives cannot completely explain organizational behavior. The main contribution of the political economy framework is its explicit insistence that economic and socio-political forces not be analyzed in isolation (Stern and Reve 1980). The political economy paradigm can be a particularly useful framework because it "views a social system as comprising interacting sets of major economic and

Table 5-1: TCA Predicted Logistics Strategies

Conditions	TCA Predicted Strategy
High asset specificity and high uncertainty	In-House Strategy
High asset specificity and low uncertainty	Mixed Strategy
High transaction frequency and medium asset specificity, or High capacity fluctuation, or High non-specific assets	Outsourcing Strategy

socio-political forces which affect collective behavior and performance" (Stern and Reve 1980, p. 53). This view enables the researcher to take a comprehensive approach to researching phenomena rather than focus only on economic factors.

The political economy paradigm highlights the relationship between socio-political and economic forces (Dwyer and Welsh 1985). The framework of the political economy paradigm includes the structure and processes of an internal polity and an internal economy within the unit of analysis, and an economic and socio-political environment external to the unit of analysis (Stern and Reve 1980; Arndt 1993).

Figure 5-2 depicts the PEP structure. Using a PEP framework, economic and political forces influencing behavior within and between organizations are viewed as interacting forces related to each other in unique ways. For example, the power and control system of a company can be studied as it relates to the firm's economic exchange system (Arndt 1993). Of particular interest to this research are those aspects of the internal polity that influence the economic decisions of the three participating companies.

Thus, this approach allows for the investigation into a variety of conditions potentially related to logistics outsourcing strategy.

Comparison of Literature to Findings

The three firms participating in this research exhibit very different logistics strategies. Comparing the research findings to the literature reveals instances in which the literature would correctly predict a firm's logistics strategy and other examples where there are discrepancies between theory and actual firm behavior. Emerging from the data

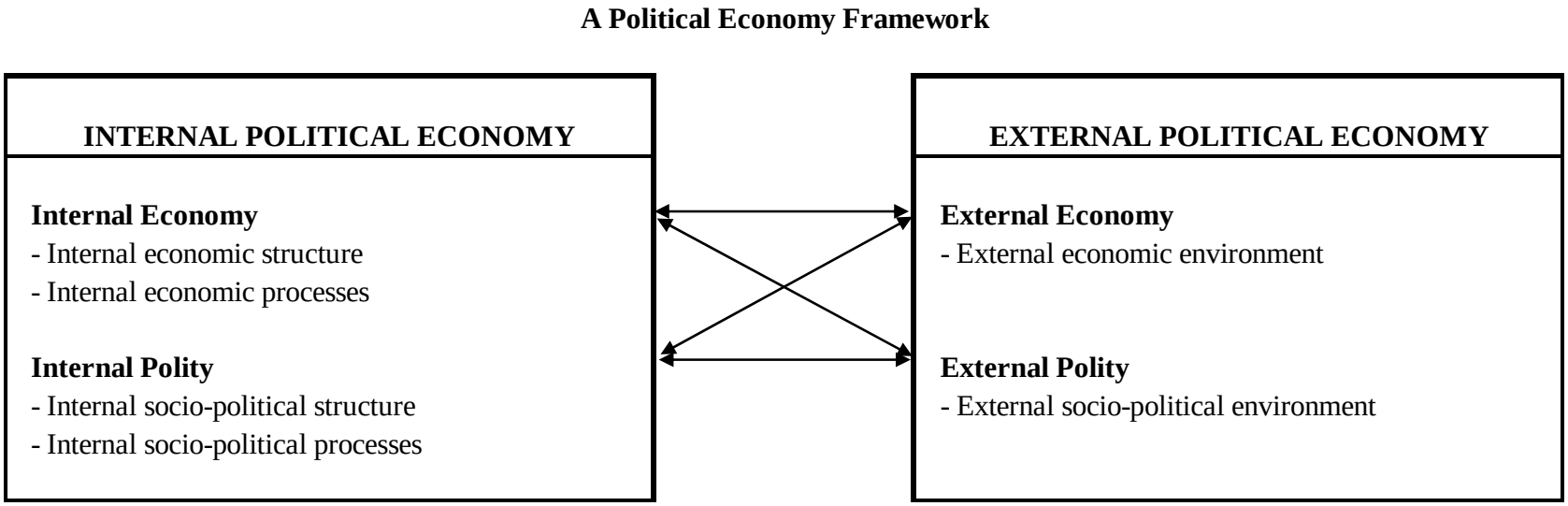


Figure 5-2. A Political Economy Framework (Adapted from Stern and Reve 1980)

are some potential findings that may help understand some of these discrepancies.

From a purely economic perspective cost minimization should be the primary consideration for logistics strategy. Theoretically, those firms that can vertically integrate logistics operations should be able to reap the benefits of economies of scale. However, in this research the largest firm transitioned from a company performing its own logistics activities to one that outsources all logistics functions. For this company economies of scale are quite possible; in fact, they were achieved by Company E prior to its acquisition. Yet they apparently do not come into play in Company D's strategy. On the other hand, Company B has a flexible approach influenced in large part by cost considerations. For example, the company's management is willing to look at outsourcing DCs "if the cost is better." At Company C, cost is a component of the strategy, but customer service issues and industry conditions bear far more weight in their strategy. Thus, in this research cost savings and economies of scale do not appear to be good predictors of logistics strategy.

The resource-based view helps to explain Company A's approach. In this company, any functions not regarded as core competencies are considered candidates for outsourcing. Likewise, at Company C logistics activities are considered important functions due to the high level of trust required from the customer, and this appears to heavily influence Company C's strategy. At Company B the strategy is flexible, situation dependent, and heavily influenced by cost. The predominant culture in Company B is sales oriented rather than operations oriented. Therefore, it would appear that logistics operations are not looked upon as core competencies, which may help explain the flexible nature of the company's approach to outsourcing logistics functions.

TCA predicts that under certain conditions a firm would follow a specific strategy. In this research, specific assets such as distribution centers and transportation equipment are present in the transactions of all three firms. According to TCA, other conditions affecting strategies are environmental uncertainty, transaction frequency, and capacity fluctuation. All three firms appear to operate in fairly certain business environments. Transaction frequency is high at Company A due to the number of shipments processed through the DCs. Company B and Company C are fairly small businesses and therefore the transaction frequency can be characterized as low. Capacity fluctuation is high at Company B and low at the other two firms. Table 5-2 compares TCA predictions based on these conditions to the strategies actually in place at the three participating companies. Note that based on the types of conditions TCA addresses, in no case does TCA predict the logistics strategy of the three companies in this research.

The PEP approach to understanding phenomena provides a framework for investigating the different conditions, both economic and political, that may be related to how a firm's logistics strategy is formulated. Using the PEP framework allows the researcher to account for economic conditions such as asset specificity and transaction while also investigating socio-political conditions such as power/dependence relationships, control mechanisms, and corporate culture.

One aspect of corporate culture that may be able to help integrate the economic and socio-political aspects of a firm's logistics strategy is the concept of values. How a firm ranks the importance of such inputs as cost, service, and ownership of facilities to logistics strategy may influence the extent to which it performs logistics activities in-house or outsources them. Thus, due to other factors influencing their choice, different

Table 5-2: TCA Predicted Versus Actual Logistics Strategies

Company	TCA Predicted Strategy	Company	Actual Strategy
		Company C	In-House Strategy
Company A, Company C	Mixed Strategy	Company B	Mixed Strategy
Orbit	Outsourcing Strategy	Company A	Outsourcing Strategy

firms with similar logistics asset specificity and transaction frequency may not make the same decision regarding outsourcing.

Several observations can be offered based on the importance of values in influencing the actions of participating firms:

O4a: Company A has historically placed its highest value on non-ownership of facilities, and this value has overshadowed potential cost or service benefits that could be derived from in-house operation of logistics operations. For this reason, given a choice between performing logistics services in-house and outsourcing to a third-party, the company historically has and continues to choose outsourcing. There are no indications that the primacy of this value will change; therefore, in the future the company should continue to choose outsourcing over in-house performance of logistics activities.

O4b. Company B historically has placed its highest value on customer service. In the past, this value has influenced the company to perform its own distribution functions. Recently, financial problems have raised the importance of cost in the company's value structure. Cost is currently given equal consideration to service when the company decides whether to outsource or perform logistics activities in-house. In the future, the company will probably continue to give cost and service considerations equal weight in logistics outsourcing decisions.

O4c. Company C has historically placed its highest value on customer service, and has associated service with performing logistics activities in-house. For this reason, the company has and continues to perform its own logistics functions. Indications are that the association of in-house logistics performance with customer service will continue; therefore, it is expected that in the future the company's policy toward logistics outsourcing will likely remain the same.

Given the preceding observations and the literature concerning company values, the following propositions are offered:

P4a: A high value placed on non-ownership of facilities is likely to influence a firm's strategy in the direction of outsourcing logistics functions.

P4b: A high value placed on cost is likely to influence a firm's strategy in the direction of outsourcing logistics functions.

P4c: A high value placed on customer service is likely to influence a firm's strategy in the direction of performing logistics functions in-house.

Events discussed in the literature that trigger interest in the use of logistics outsourcing that also emerged from this research include mergers and acquisitions, changes in management, and directives from the CEO to investigate outsourcing. All three events may be related, and in the case of Company A the acquisition of Chesebrough-Pond's by Company D and the mergers that created Company A brought about changes in management and company culture that influenced its motivation to outsource. Company D's culture is cited by participants as the main driver in converting the company's distribution assets to third-party management and ownership. At the time of the acquisition Chesebrough-Pond's had developed significant expertise in managing logistics operations, including transportation and distribution. However, the new management exerted pressure on existing management to outsource such activities as transportation and distribution. While influence of a parent company is not specifically addressed in the literature, it appears to act as a trigger in Chesebrough-Ponds' reassessment of its logistics outsourcing strategy and as the prime motivation for Company A to outsource logistics operations. This leads to the next observation:

O5: Prior to being acquired by Company D, Chesebrough-Ponds utilized a strategy of in-house performance of logistics activities. Post-acquisition, pressure from Company D acted as a trigger for Chesebrough-Ponds to reassess its logistics strategy and convert to outsourcing. Company A continues to adhere to this approach due to the influence of Company D. The company created by the future merger of Company A and the foods division will likely follow the strategy of Company D and outsource its logistics functions.

The literature concerning events that trigger logistics outsourcing and these research observations suggest the following proposition:

P5: The acquisition of a company may trigger reassessment of the firm's logistics strategy if it differs from that of the parent company.

The logistics outsourcing process culminates in expansion or contraction of logistics outsourcing which determines the firm's outsourcing strategy. This strategy can range from total performance of logistics activities in-house to complete outsourcing of those activities to a third party provider. Depending on contextual conditions, a firm's strategy may include outsourcing certain activities and performing others in-house. As values change a firm may adjust its outsourcing strategy to accommodate those changes. Thus, a firm's outsourcing strategy may adjust over time depending on how conditions affect a firm's motivation to outsource, its confidence in logistics providers to perform to the company's satisfaction, and ultimately whether the firm expands or contracts logistics outsourcing use. This leads to the next observation:

O6: The three firms in the research experienced the logistics outsourcing process with differing outcomes. Company A continued to expand its logistics outsourcing which resulted in a complete outsourcing strategy. Company B has stabilized its logistics outsourcing efforts and currently has a mixed outsourcing strategy. Company C is currently contracting its logistics outsourcing which will likely result in complete in-house performance of logistics activities.

Based on the literature and observations in the research, the following proposition is offered:

P6: The outcome of a firm's logistics outsourcing process is an outsourcing strategy that can range from total performance of logistics activities in-house to complete outsourcing of those activities to a third party provider.

Summary

In this section literature from the logistics, corporate culture, marketing, and social psychology fields was compared to findings in the research to help better understand the nature of the relationship between corporate culture and logistics outsourcing decisions. Assumptions concerning the nature of human relationships (e.g., power/dependence), value changes regarding control, cost, service, and asset ownership, and the value of core competencies to a firm were presented as cultural conditions impacting the perform-versus-buy choice. Other cultural conditions such as the influence of a parent company, orientations toward which functions constitute core competencies, and the impact of value changes regarding core competencies, cost, service, and control over logistics operations are related to firm outsourcing strategies. Additionally, the logistics outsourcing process emerging from this research is compared to existing literature, and potential contributions of this model are presented. The next section will discuss the nature of the relationship between corporate culture and the management of logistics supplier relationships.

Management of Logistics Supplier Relationships

Control Literature

The concept of control is commonly discussed in the finance and accounting fields, and in this context it is oriented toward the outputs of organizations (Merchant 1985). In a traditional management control system, output levels such as performance

goals are established and monitored for deviations. Action is taken to correct divergence from desired output levels. This traditional view of management control relies on cybernetic principles (setting standards, monitoring performance, and taking corrective action) and focuses on financial aspects of productivity and outputs (Jaworski 1988). The marketing literature has adopted the concept of control to address such issues as the influence of managers and other stakeholders on the behavior of marketing personnel (Jaworski, Stathakopoulos, and Frishnan 1993), manufacturer's efforts to coordinate and influence distributor actions (Bello and Gilliland 1997), and the influence of channel members on other channel members (Skinner and Guiltinan 1985).

Two main types of control mechanisms are identified in the literature: formal and informal. Formal controls are in written form and are initiated by management to influence the behavior of employees. Informal controls are unwritten, initiated by any member or group in an organization, and may not support the goals of the organization as a whole (Jaworski 1988). Jaworski further breaks these two classes of control into three formal and three informal types. Formal controls include: 1) input controls, which are measurable actions such as establishment of employee selection criteria; 2) process controls, which control the means to achieving goals (such as ISO 2000 procedures); and 3) output control, which includes the setting of standards, monitoring of results, and evaluation of performance against those standards. Informal controls are comprised of: 1) self-control, where the individual establishes goals, monitors progress toward those goals, and adjusts his/her behavior accordingly; 2) social control, defined as “the prevailing social perspectives and patterns of interpersonal interactions within subgroups in a firm;” and 3) cultural control, which involves norms of social interaction (Jaworski

1988, p. 27). Norms prescribe acceptable behavior (James, James, and Ashe 1990) and can serve as a powerful influence on the behavior of people in organizations (Dahlgaard, Kristensen, and Kanji 1998; Denison and Spreitzer 1991; Schein 1985).

Jaworski, Stathakopoulos, and Frishnan (1993) introduced the concept of primary and secondary controls, which recognizes that control types may be used in combinations by organizations to achieve objectives. Figure 5-3 depicts this concept, which identifies primary controls as the dominant control types used by organizations to influence behavior, and secondary controls as playing a lesser role. A combination of high levels of formal controls with a low level of informal controls is termed a *bureaucratic system*. In a bureaucratic system there is high reliance on written rules and low reliance on cultural control mechanisms. A combination of high informal controls and low formal controls is termed a *clan system*. In a clan system an organization relies mainly on cultural control mechanisms to influence behavior. An organization that applies both high levels of formal and informal controls is termed a *high control system*, while a *low control system* is one in which all forms of control operate at subdued levels.

In the context of inter-firm relationships, control may be defined as "the extent to which one party actually influences the strategic and operating decisions of another party" (Skinner and Guiltinan 1985, p. 70). Control refers to one firm's efforts to coordinate and influence the actions of another firm rather than to a firm's authorative ability to dictate another firm's behavior (Bello and Gilliland 1997). As part of a firm's ongoing relationship maintenance activities with an exchange partner, formal controls such as contracts, and informal controls such as behavioral norms, are used to influence

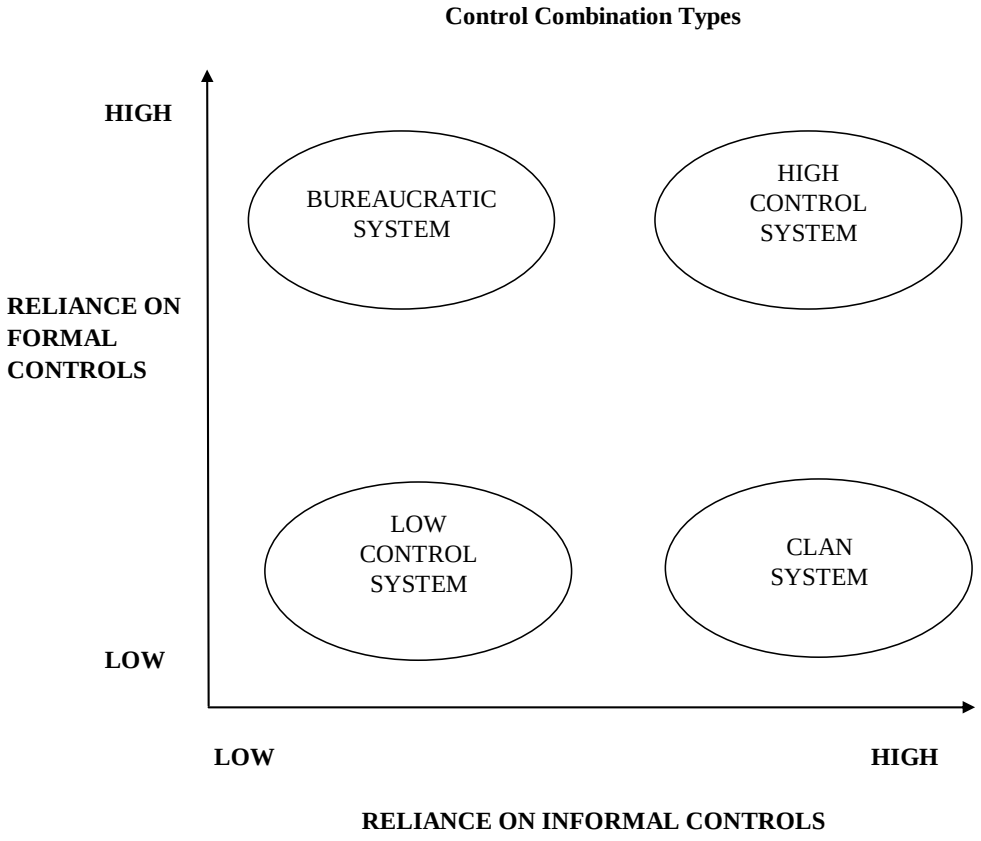


Figure 5-3. Typology of Control Combinations (Adapted from Jaworski, Stathakopoulos, and Krishnan 1993)

the behavior of other firms (Achrol 1997; Gundlach, Achrol, and Mentzer 1995; Heide 1994; Heide and John 1992; Walker 1997; Williamson 1985).

Control may be applied unilaterally by a firm, or may develop as bilateral adjustments to changing business conditions. Unilateral control refers to the efforts of a firm to influence the actions of exchange partners. Interfirm-relational processes, such as flexibility to the needs and requests of trading partners on both sides of a dyad, represents a form of bilateral governance based on norms of mutuality that can develop between firms (Heide 1994; Nevin 1995). Emerging theories of governance in the context of distribution channels point to the possibility that multiple governance mechanisms may be in effect in exchange relationships (Bello and Gilliland 1997). Thus, one may discover both unilaterally applied control and bilateral control mechanisms operating in a relationship between two exchange partners.

In addition to formal and informal controls that may be used in inter-firm relationships, Wathne and Heide (2004) identify two other mechanisms that can be employed to manage relationships with other companies. The first mechanism is careful identification and selection of exchange partners that have both the ability and motivation to support the goals and strategies of the buying firm. Specific selection criteria and formal programs of supplier selection are an example of this strategy. Dwyer, Schurr, and Oh (1987) hypothesized that a residual effect of such a program is to expose a potential exchange partner to the goals and values of the buying company, which serves as a socialization process. This strategy dovetails well with theory concerning informal controls, one of which is socialization. In effect, the goals of the buying company are

internalized by and aligned with those of the supplier prior to formalization of the relationship.

The second form of control mechanism identified by Wathne and Heide (2004) is the design and application of incentive programs that reward desirable behaviors from an exchange partner. Companies are given incentives to stay in a long-term relationship. The payoffs of these programs exceed those of short-term rewards such as those gained from undesirable behavior like opportunism. Mutual investment in dedicated assets that are unique to the two firms' relationship (asset specificity) is an example of this form of control mechanism. The use of this type of mechanism could be considered an informal control method in that it exerts a normative means of governance over exchange partners.

Comparison of Literature to Findings

In this research, controlling people, cost, service, and third-party logistics providers emerged as properties of the category of control. The dimensional range of control is "keeping to giving up," which describes the orientation of a firm toward directly controlling certain aspects of its business, or toward giving up direct control of those aspects. Figure 5-4 depicts this dimensional range and places participating companies within the range. The control literature does not address the possibility that a firm may prefer not to control certain behaviors or activities within its supply chain operations, and therefore a firm's cultural orientation toward control adds complexity to the subject. However, although cultural orientations toward keeping or giving up control do not appear to be present in the literature, the Jaworski, Stathakopoulos, and Frishnan

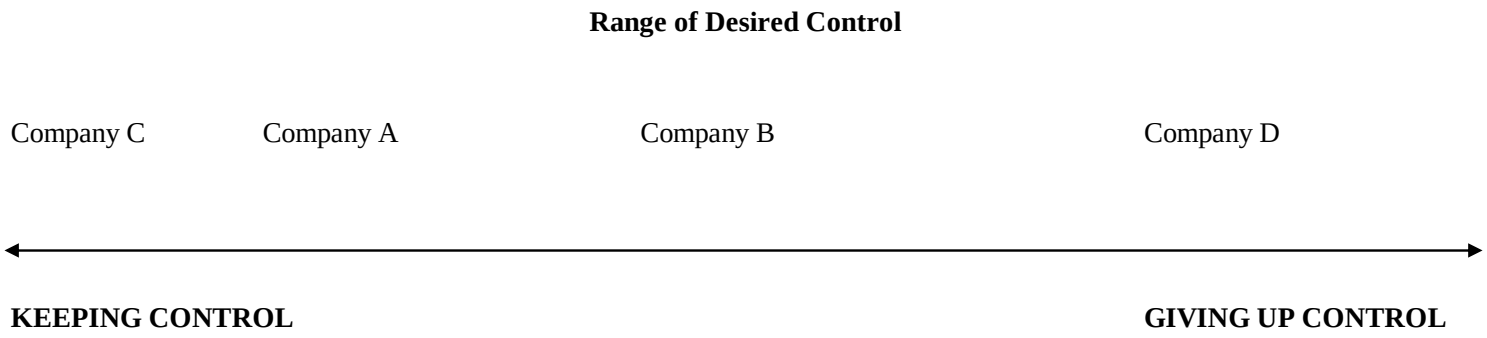


Figure 5-4. Dimensional Range of Control Category

(1993) framework of control combinations is a useful model for explaining much of the behavior of the firms in this research involving intra- and inter-firm control. Additionally, the notion that bilateral control mechanisms in the form of mutual norms of behavior can exist side-by-side with unilateral control mechanisms in an exchange relationship illuminates some of the behavior as well. There appear to be patterns in the data indicating a relationship between control preferences and relational/transactional orientations. Although Company A has outsourced its logistics functions, it still prefers to maintain close control over distribution operations. The company also exhibits a relational orientation toward many of its logistics suppliers. Company B is moving toward loosening control, but in most cases it still prefers to maintain close control over logistics operations, particularly transportation. Formal process and output controls are applied to carriers, and considerable management attention is focused on logistics suppliers. Company B exhibits a transactional orientation in its relationships as evidenced by yearly reallocation of business to suppliers, little concern with sharing benefits such as cost savings with providers, and no attempt to develop informal controls such as shared norms and values. Company C is continuing to tighten operational controls through formal methods such as performance standards and frequent monitoring of progress. Service to the customer is a high priority to this company and appears to influence its decision to keep customer deliveries under in-house management. Its approach toward the one third-party logistics provider has been arms-length, and appears to be short-term. There is no evidence of formal or informal controls being applied to this relationship.

The following observations concerning the control strategies used by participating firms with their logistics suppliers are offered:

O7a: Company A's approach toward third-party logistics providers has been and currently is to utilize a high control strategy in order to control cost and service. This strategy has consisted of a combination of formal and informal control mechanisms, supplier qualification programs, and incentive design programs. The use of this strategy will likely expand in the future as the use of informal control mechanisms is applied to more carriers.

O7b: Company B's approach toward third-party logistics providers has been and currently is to utilize a bureaucratic control strategy with its logistics suppliers to control cost and service. This strategy consists entirely of formal control mechanisms based on output controls. There is no indication that the company's control preferences will change in the near future, and therefore the bureaucratic control strategy will probably continue to be utilized.

O7c: Company C's approach toward third-party logistics providers has been and currently is to utilize a low control strategy with its logistics supplier. This strategy consists of few formal and no informal control mechanisms. This supplier's activities do not affect service to Company C's customers. In the event that Company C elects to outsource logistics functions that affect the service component of its operations, it will utilize a bureaucratic control strategy due to its control orientations and high concern for customer service. This strategy will likely consist entirely of formal control mechanisms, with no use of informal control mechanisms.

Based on these observations and the literature on control, the following proposition is offered:

P7: A firm's desired level of control is related to the specific outsourcing relationship form it develops and maintains with its logistics suppliers.

The Relationship Continuum

Much has been written in the marketing literature about inter-firm relationships. Some of this literature concerns relationship marketing, which is important to selling

firms for the reason that “committed relationships are among the most durable advantages because they are hard for competitors to understand, to copy, or to displace (Day 2000, p.24). While inter-firm relationships are important to selling firms, they are equally important to buying firms because of the importance of “systemic, strategic coordination…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” (Mentzer, Min, and Zacharia 2000, p.550). Therefore, a better understanding of the types of relationships that develop between firms and the various aspects of those relationship types can lead to improved supply chain management. This includes the management of relationships with logistics suppliers since they can be an integral part of the supply chain.

As noted in Chapter One (see Figure 1-3), inter-firm relationships have been described in the marketing and logistics literature as lying along a continuum from transactional (discrete) to behavioral (relational) exchange (Lusch and Brown 1996). Transactional relationships are reactive (Kahn, Mentzer, and Maltz 2004), short-term, often based on purchase-by-purchase exchange, and require little to no coordination between the firms involved in the transactions (Mentzer, Min, and Zacharia 2000). These relationships and are described as “a series of discrete transactions with roles reduced to simply those of buyer and seller,” with “the benefit of an exchange assessed on the basis of each transaction” (Gundlach and Cadotte 1994, p.517). On the behavioral end of the continuum are those relationships based on extended time horizons, collaboration between firms (Morris, Brunyee, and Page 1998), "supported by implicit and explicit assumptions, trust, and planning" (Dwyer, Schurr, and Oh 1987, p.12), and exhibiting

commitment to the relationship by the firms involved (Kahn, Mentzer, and Maltz 2004). Other aspects of relational exchange include sharing of benefits and burdens (Cooper et al. 1997), asset specificity, interdependence, operational information exchange (Walton 1996) and a "win-win" approach to inter-firm relationships (Ellram and Hendrick 1995).

As Knemeyer, Corsi, and Murphy (2003) point out, a firm may have a wide range of relationships, with most being on the transactional end of the continuum and a decreasing number of relationships toward the relational end. This is due to the increasing financial and managerial resources needed by a firm to maintain close exchange relationships. However, orientations within a firm's culture, such as a "partnering orientation," may predispose some companies toward a more relational exchange with other firms than companies without such an orientation (Mentzer, Min, and Zacharia 2000). Thus, one should expect to see a variety of relationship types exhibited by a firm, but some companies will have relationships weighted more toward one end of the continuum than other companies.

Comparison of Literature to Findings

As anticipated by the literature, the three firms in this research approached inter-firm relationships with their logistics suppliers differently. The two firms that have a number of exchange relationships with third-party logistics suppliers also exhibited differences in approach between individual logistics suppliers. Figure 5-5 illustrates the range of relationships found in the research and places them along the relationship continuum developed in Chapter One.

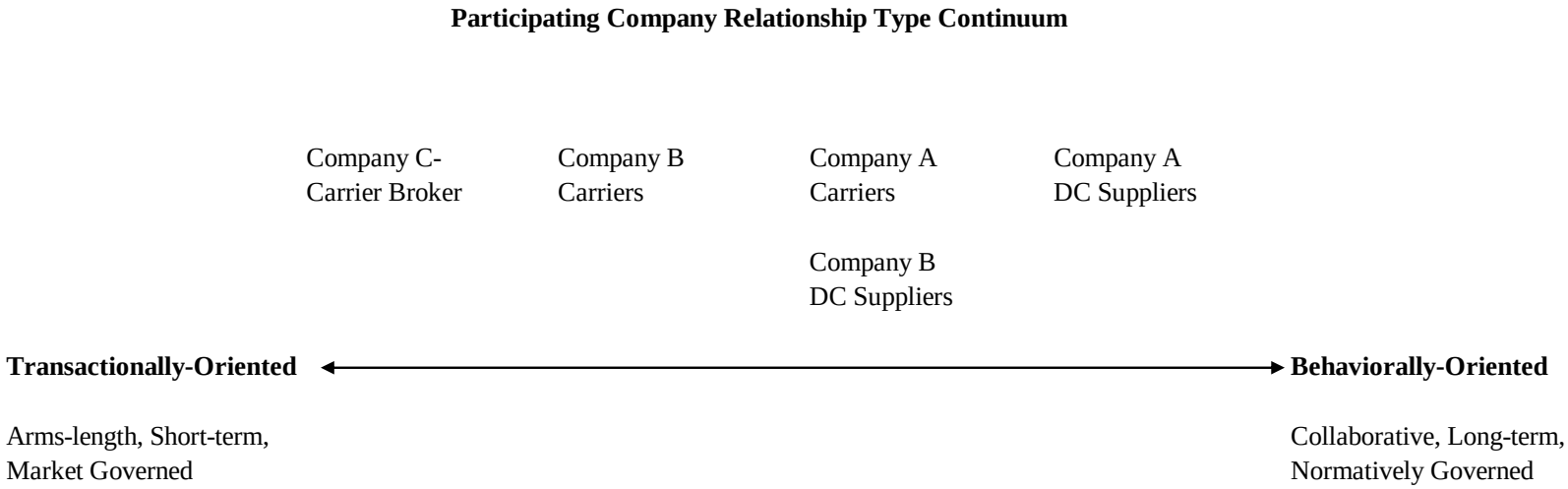


Figure 5-5. Participating Company Relationship Type Continuum

Company A's relationship with its two DC providers is placed toward the behaviorally-oriented end of the spectrum for several reasons. First, significant investment in assets specific to exchange between the firms was expended both by suppliers and Company A. Second, significant coordination and cooperation transpires between the suppliers and Company A on a daily basis, including information exchange and problem solving activities. Third, a good deal of trust and affinity have developed over the years in the relationships, to the point where the DC employees seem like their own employees to Company A personnel, and a visit to a DC is like "visiting family." Additionally, a "win-win" approach is taken with the DCs, as evidenced by the gain-sharing program started by Company A.

Relationships between Company A and its carriers are placed in the middle of the continuum. These relationships are contractual, and the contracts are reviewed yearly. No asset specific expenditures with carriers were discussed by participants at Company A. There is less coordination occurring with carriers than with DCs, but the carriers are monitored daily, and problem solving occurs on a regular basis. Therefore, relationships with carriers are far from arms-length. Participants discussed the need to develop closer relations with the carriers; this appears to be coming from the relationally-oriented culture within Company A and steps are being taken with some of the more important carriers to make this adjustment.

A similar pattern can be found with Company B and its logistics suppliers, although in all cases Company B tends toward less relationally-oriented exchange. The one DC that Company B contracts a third-party to operate is in Canada. Company B has not invested in asset specific expenditures with this DC, nor does it expend much effort in

monitoring its activities. However, the expectation is that the relationship is long-term, and the contract is extended year-to-year without competitive bid. Therefore, trust and commitment is exhibited by this relationship. On the other hand, relationships with carriers are treated in a less relational manner. There is little discussion of a "win/win" strategy with carriers. Additionally, little trust is exhibited by Company B toward its carriers. Company Bs relationships with carriers are therefore placed toward the transactionally-oriented end of the continuum.

The one relationship that Company C has with a third-party logistics supplier is placed on the transactionally-oriented end of the continuum. This relationship is based on a contract, and therefore it is not on a transaction-by-transaction basis. The only assets specific to transactions between the companies is transportation management software owned by Company C and operated by the supplier. This software will revert to Company C in the event the relationship is ended. Trust and commitment have not developed between the companies. Indeed, Company C has become very distrustful of the provider's ability to perform, and plans to terminate the relationship at the end of the contract were openly discussed.

The following observations were noted concerning the inter-firm relationships of the participating companies with their logistics suppliers:

O8a: Company A has traditionally had a relational-orientation toward logistics suppliers. Due to this orientation, close relationships have developed with DC providers, but carrier relationships are less close. This orientation is presently influencing the company to reassess its relationships with carriers. In the future the company will probably continue to maintain close relationships with DC providers and move toward more behaviorally-oriented relationships with core carriers.

O8b: Company B has a transactional orientation toward logistics suppliers. Due to this orientation, relationships have been and continue to be arms-length, win-lose, and short-term with the majority of its logistics suppliers. There is no indication that this orientation will change. Therefore, future relationships with logistics suppliers will likely continue to exhibit characteristics of transactionally-oriented exchange.

O8c: Company C has a transactional orientation with its one logistics supplier. Trust and commitment that could have influenced the company toward a more relational orientation have never developed between the two companies. This orientation is not likely to change due to the poor relationship and lack of trust between the two companies. Therefore, in the future if Company C outsources logistics functions its relationships should exhibit characteristics of transactional exchange.

Based on a comparison of the literature to the findings of the research, the following propositions concerning inter-firm relationships are offered:

P8a: Relationships with logistics suppliers vary across a relationship continuum ranging from transactionally-oriented to behaviorally-oriented exchange.

P8b: Firms with a behavioral orientation tend to develop relationships with logistics suppliers that are long-term, collaborative, and normatively governed.

P8c: Firms with a transactional orientation tend to develop relationships with logistics suppliers that are short-term, arms-length, and market governed.

Conditions Impacting Inter-Firm Relationships

A common topic in marketing and logistics literature concerns conditions that influence a firm's approach toward inter-firm relationships. Mentzer et al. (2001) state that inter-firm relationships vary on their levels of trust, commitment, mutual dependence, and organizational compatibility. Knemeyer, Corsi, and Murphy (2003, p. 79) found "trust, commitment, investment, dependence, communication, attachment,

reciprocity, and shared benefits" as some of the more important aspects of inter-firm relationships. Trust is considered an important building block of close relationships between companies (Dwyer, Schurr, and Oh 1987; Wilson 1995). Morgan and Hunt (1994, p. 23) define trust as one party's "confidence in an exchange partner's reliability and integrity," and propose that trust has a positive impact on relationship commitment. Commitment has also been demonstrated to be a key variable in successful logistics outsourcing relationships (Rutner and Gibson 1998), and other buyer-seller relationships (Keep, Hollander, and Dickenson 1998; Morgan and Hunt 1994). Commitment is defined as an "implicit or explicit pledge of relational continuity between exchange partners" (Dwyer, Schurr, and OH 1987, p.19).

The concept of investment is concerned with "relationship-specific investments (capital investments, training, and equipment) which cannot be recovered if the relationship terminates" (Knemeyer, Corsi, and Murphy (2003, p. 80). Termination of relationships becomes more difficult as relationship-specific investments increase in value (Wilson 1995). Mutual dependence involves the recognition by both firms in an exchange relationship that the outcome of the relationship is more beneficial than one that could be obtained from alternatives (Mohr and Spekman 1994). Communication is posited as an antecedent to trust and commitment (Morgan and Hunt 1994), and as an important component of relationship continuity (Anderson and Weitz 1989). It is defined as "the formal and informal sharing of meaningful and timely information between firms" (Anderson and Narus 1990, p. 44). Attachment is "characterized by genuine feelings toward the other company or the people who work for the other company (Knemeyer, Corsi, and Murphy (2003, p. 81). Attachment develops from strong personal

relationships, and these personal relationships tend to hold inter-firm relationships together (Wilson 1995).

Reciprocity is based on mutually beneficial goals or interests and is grounded in exchange theory; it involves cooperation, collaboration, and coordination between companies (Cooper and Gardner 1993). An example of reciprocity in logistics is the frequent use of cost-sharing between buying firms and third-party logistics suppliers (Langley, Allen, and Tyndall 2001). Shared benefits involve the distribution of gains accruing from the relationship between two companies (Knemeyer, Corsi, and Murphy 2003). An example of shared benefits is when performance enhancements such as logistics cost reductions yield improved profits, and the profits are distributed between the logistics provider(s) and the buying firm.

Corporate and inter-firm cultures have also been posited as conditions affecting inter-firm relationships. The notion of "organizational fit" between companies, including understanding and bridging differences in culture, is recognized as important to long-term relationships (Anderson and Weitz 1989; Cooper et al. 1997; Zinn and Parasuraman 1997), and to successful outsourcing (Greco 1997). Shared values between companies have been shown to positively influence trust and commitment (Morgan and Hunt 1994). Agreement between firms on social norms such as maintaining "solidarity and mutuality of interests, harmonious conflict resolution, and the flexibility to adapt to changing environments" can serve as a governance mechanism regulating conduct between firms (Gundlach, Achrol, and Mentzer 1995, p.p. 78-79). Congruence of attitudes, goals, and intentions may allow firms to develop inter-firm norms and interaction styles that

enhance communication and lay a foundation for trust and commitment (Weitz and Jap 1995).

Various orientations that can be considered an aspect of a company's culture are seen as influencing a company's approach toward inter-firm relations. Mentzer et al. (2001) use the concept of a supply chain orientation to identify implementation by a firm of activities involved in systemically and strategically managing the various flows in a supply chain. Mentzer et al. (2001) also proposed that a supply chain oriented firm builds and maintains internal behavioral elements to develop relations with its supply chain partners. The elements of a supply chain orientation include trust, commitment, cooperative norms, organizational compatibility, and top management support. While Mentzer et al. (2001) see supply chain orientation as a management philosophy, Mello and Stank (2005) argue that if the behaviors identified as elements of a supply chain orientation, such as trust, commitment, and cooperative norms, are exhibited in a consistent manner throughout the organization, supply chain orientation becomes part of the organization's culture.

McAfee, Glassman, and Honeycutt (2002) identify two additional types of orientations in a firm. The first is what they term a "relationship-orientation," in which companies desire a win-win outcome with other firms, treat other firms as partners, and demonstrate commitment to relationships over an extended period of time. The second orientation is what they term a "transactional-orientation," in which companies find a win-lose outcome acceptable (as long as they win), share little information with other firms, have little control over other supply chain members (low monitoring), and expect transactions to be of short duration. The behaviors of firms exhibiting either a relational

or transactional orientation are based on how they value such aspects of relationships as trust, commitment, communication, attachment, reciprocity, and shared benefits. Thus, the concept of firms having orientations that can influence their behavior in inter-firm relationships is well supported by the literature.

Comparison of Literature to Findings

Most of the main conditions affecting inter-firm relationships in the literature are discussed by participants in this research. Consistent with the literature, the best example of trust is displayed by Company A in its relationships with DC providers. All of the business is in the hands of only two firms, and these firms are responsible for handling four billion dollars worth of annual business with no direct oversight. Company A does maintain control through monitoring activities, but these are performed at a central location – no Company A employees are on-site at the DCs. Sensitive data such as sales forecasts and new product introductions are freely shared between firms. New product introduction information is currently being shared with core carriers. Thus, an apparent Company A assumption is that other firms can be trusted with important company data. These are all elements of a behaviorally-oriented relationship.

On the other end of the spectrum is the lack of trust displayed by Company C toward its carrier broker. Participants discussed the company's distrust in the provider's ability to perform, and openly discussed plans to terminate the relationship. Another participant discussed the general distrust between exchange partners in the food service business. These conditions are consistent with transactionally-oriented relationships, and appear to reflect the cultural assumption that other firms cannot be trusted. Company B

also exhibited lack of trust in its carriers, as evidenced by the actions of the transportation manager who periodically checks up on carriers as they make deliveries. The following observations can be made concerning the association between trust and logistics supplier relationships in this research:

O9a: A cultural assumption shared by members of Company A is that suppliers can be trusted. This assumption has allowed Company A to pursue close, behaviorally-oriented relationships with DC providers in the past. Current movement toward closer relationships with core carriers is enabled by this cultural assumption. Future relationships with key logistics providers will likely be based on trust and therefore will trend toward close, behaviorally-oriented exchange.

O9b: A cultural assumption shared by members of Company B is that suppliers cannot be trusted. This assumption has historically led to transactionally-oriented relationships with logistics providers, with considerable oversight by Company B and little sharing of sensitive information. Current relationship strategies are based on lack of trust; this condition perpetuates the transactionally-oriented types of relationships Company B maintains with logistics providers. Future relationship strategies will be based on this cultural assumption, and will therefore trend toward arms-length, transactionally-oriented exchange with logistics providers.

O9c: A cultural assumption shared by members of Company C is that suppliers cannot be trusted. This assumption led to a transactionally-oriented, adversarial relationship with its lone logistic provider. The current relationship strategy with this supplier is based on lack of trust and is influencing the company to consider bringing the outsourced function back under in-house management. Future relationships with logistics providers will be predicated on lack of trust and will therefore exhibit characteristics of arms-length, transactionally-oriented exchange.

The findings of the research and the literature on inter-firm relationship types lead to the next propositions:

P9a: A firm's cultural assumption that exchange partners can be trusted is likely to influence a firm toward adopting a relational orientation toward logistics supplier relationships.

P9b: A firm's cultural assumption that exchange partners cannot be trusted is likely to influence a firm toward adopting a transactional orientation toward logistic supplier relationships.

Company A exhibits similar behavior with its DC providers regarding commitment. Relationships with the two third-party companies have been in existence for over a decade. This commitment is also demonstrated by the level of investment in such areas as information technology, training, and safety. Commitment with carriers is not nearly as strong, but the director of distribution discussed plans to change Company A's approach toward core carrier relationships in the future. Company B has also shown commitment with its DC provider in Canada through a long-term business arrangement; however, appreciable monetary investments in the relationship are not being made. Carriers are required to re-bid business every year on a competitive business. Neither commitment nor investments are discussed by Company C with regard to its third-party provider.

Dependence between Company A and its DC providers is high due to asset specificity. Significant investment in facilities located in five logistically important areas creates dependence on both sides of the dyad. Switching costs for Company A are prohibitive, and loss of business to the third-party providers would be significant. Company B has some dependence on the Canadian DC, mainly in the area of expertise. However, lack of investment in the facility makes switching costs significantly lower than in the case of Company A. Dependence is not a significant factor in any other relationships the three participating companies engage in. Carriers are fairly easily

switched, and Company C sees no issues with bringing the carrier load tendering function in-house.

Reciprocity and shared benefits are characteristic of the relationship between Company A and its DC providers. Cooperation, collaboration, and coordination between the companies are exhibited to a high degree. Long-term agreements between the companies, restriction of DC providers to two companies, and mutual expenditures in such areas as information technology, facilities, and training indicates that the relationships are based on mutually beneficial interests. Shared benefits are present in the "gain-sharing" program established by Company A. However, Company A does not appear to have as high a level of reciprocity or shared benefits with its carriers as with its DC providers. Nor are elements of reciprocity or shared benefits apparent in either Company B's or Company C's relationships with its logistics suppliers. The presence of multiple carriers that can service shippers in a particular lane creates a condition of competition in the transportation business that makes it possible for a shipper to change carriers with relative ease. The higher level of asset specificity and switching costs associated with DC providers appears to provide an incentive for a company to maintain long-term relationships with this type of provider. This suggests the following observations:

O10a: Asset specificity and high switching costs are present in Company A's relationships with DC providers. These conditions have motivated Company A to maintain long-term business arrangements with these suppliers. Mutual dependence, commitment, reciprocity, and shared benefits between Company A and its DC providers have resulted from these long-term relationships. The conditions of asset specificity and high switching costs currently exist with the DC providers, and are expected to continue in the future. Therefore, Company A's strategy will be to continue long-term relationships with its DCs, and these relationships will

be characterized by dependence, commitment, reciprocity, and shared benefits.

O10b: Asset specificity and high switching costs are not present in Company B or Company C's relationships with their logistics providers. The lack of these conditions has allowed short-term business arrangements with these providers to prevail. As a result, mutual dependence, commitment, reciprocity, and shared benefits have not resulted from these relationships. There are no indications that these conditions are changing, or will change in the future. Therefore, current and future relationships between the participating companies and these logistics providers will not be characterized by mutual dependence, commitment, reciprocity, and shared benefits.

Based on the literature concerning inter-firm relationships and these observations this leads to the following proposition:

P10: Asset specificity and high switching costs are likely to influence firms to establish long-term relationships with logistics suppliers.

The data in this research is consistent with the concept of firm orientations in several areas. The idea that a firm can develop a supply chain orientation is supported by the approach Company A takes toward its DC providers. Trust, commitment, cooperative norms, organizational compatibility, and top management support are all in evidence in these relationships. Additionally, Company A appears to recognize the value of its approach to the DCs and plans on extending this approach to its carriers. A company that values win-win outcomes with other firms, treats other firms as partners, and demonstrates commitment to relationships over an extended period of time may be said to be behaviorally-oriented. These values are demonstrated by Company D in relationships with its DC providers through long-term relationships, gain-sharing programs, and joint problem solving. Opposite of a behavioral orientation is a transactional orientation encompassing a win-lose approach, little information sharing

with other firms, little control over other supply chain members, and an expectation that exchange between firms will be of short duration. Company B exhibits this orientation in its relationships with carriers, and Company C also takes this approach with its carrier broker. Thus, the concept of firms having an orientation toward inter-firm relationships is supported by the data in the research.

The values that comprise a company's orientations are part of its culture. The literature on cultures and subcultures discusses how shared values influence behavior within organizations (e.g., Deshpande and Webster 1989; Gregory 1983; Lebas and Weigenstein 1986). The literature on culture research perspectives argues for the existence of integrated, differentiated, and fragmented cultures based on the level of agreement within an organization on such cultural aspects as norms and values (Denison 1990; Martin 1992; Frost et al. 1991; Martin, Sitkin, and Boehm 1985). In an integrated culture a "strong" or dominant culture exerts the most influence on its members; this is termed an "integration" perspective. In other organizations, the culture may be "weak", leading to the dominance of subcultures (a "differentiation" perspective), or the lack of any dominant culture (a "fragmentation" perspective). In a differentiated culture, the assumptions, values, and norms of subcultures have the most influence on the behavior of organizational members.

This research revealed the presence of what appears to be a subculture within the logistics function in Company A. The values that most of the unit's employees discuss or exhibit appear to be those of a behaviorally-oriented and supply chain oriented company. Yet these values are in opposition that that of Company D, the parent company. Company D's apparent cultural assumptions regarding the nature of human relations (the

proper use of power) such as the "One Company D" approach in negotiating with suppliers, has influenced Company A's negotiation methods. However, in its daily approach with suppliers Company A practices forbearance in the use of its power advantage. This approach can be seen in the way Company A allows carriers time to fix problems, provides help with problem resolution, and does not force procedures onto its DC providers.

Changes in logistics management over many years have not changed Company A's approach toward dealing with logistics suppliers. Indeed, former members of Company F, which follows the transactional approach of Company D, have been persuaded by members of Company A that a behavioral approach toward logistics suppliers is the most effective way to meet company goals. Additionally, recent preparation for the upcoming merger with the foods division has included announcements that Company A managers will lead the combined logistics staff of the merged companies. This leads to the following observation:

> *O11: Company A's logistics personnel represent a subculture holding assumptions and values that have developed into orientations toward inter-firm relationships differing from those of the parent company. The orientations of this subculture dominate the company's approach toward logistics providers, and have historically influenced the company's relationships with its logistics suppliers. These orientations currently guide the company's strategy toward relationally-oriented exchange with third-party logistics providers. In the future, these orientations will likely override the orientations of the parent company, and Company A's strategy will be to continue to trend toward relationally-oriented exchange.*

The literature on subcultures and the observations of subcultural behavior in this research lead to the following proposition:

P11: Depending on contextual conditions, a subculture's orientations concerning inter-firm relationships with logistics suppliers may have greater influence on relationship type than the cultural orientations of the parent company.

Chapter Summary

This chapter reviews relevant literature from the research areas of corporate culture, social psychology, marketing, and logistics. By comparing the research findings to the literature, areas of agreement between extant theory and data in the research have been identified. Additionally, the synthesis of literature and research findings has culminated in twelve propositions that may further theory building and testing in the areas of logistics outsourcing and inter-firm relationships. This chapter has thus illustrated that the research supports previous findings in the literature as well as making its own unique contributions. The next and final chapter presents a tentative causal model of the phenomenon under investigation, describes limitations of the study, and discusses managerial and research implications.

Chapter 6- Conclusions and Future Research Directions

Chapter Outline

This chapter begins with a summary of research findings and discussion of a proposed casual model based on those findings. Following this summary, limitations of the research are discussed. Managerial implications of research findings from both the buying and selling firm perspective are offered in the next section. Next, research implications and a program of future research are offered. The chapter concludes with summary remarks.

Summary of Research Findings

Based on interpretations of data in this research, Figure 6-1 presents a model of logistics outsourcing processes that may be used by firms participating in the research. The model suggests interrelationships between among phenomena identified in the research and the strategies participating firms use when outsourcing logistics activities and maintaining relationships with third-party logistics providers.

Central to this model is a proposed five-stage logistics outsourcing process that describes the stages participating companies moved through when deciding to outsource logistics functions (Proposition One). The process that appeared to emerge from the research consists of five stages, including: 1) recognition of third parties as a viable alternative to in-house performance of logistics activities, 2) motivation to outsource,

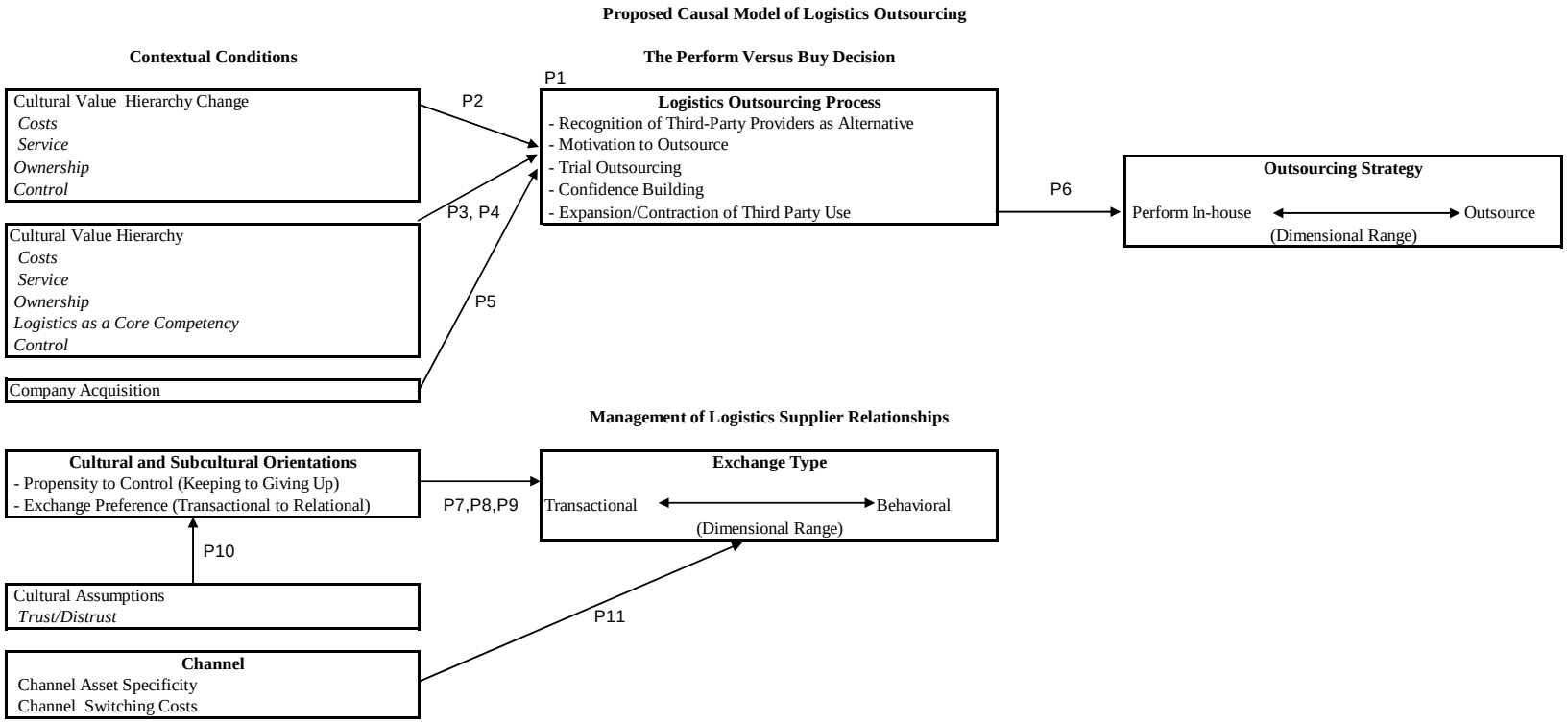


Figure 6-1. Proposed Causal Model of Logistics Outsourcing

3) trial outsourcing, 4) confidence building in third part providers, and 5) expansion/contraction of third party use. Firms may move back and forth between stages depending on contextual conditions that influence the process. The outcome of this process is the firm's outsourcing strategy, which can range from total in-house performance of logistics activities to complete outsourcing of those activities.

The first of these contextual conditions is change in company values regarding costs, customer service, control, and ownership of logistics facilities and equipment (Proposition Two). Cost considerations appear to act as a motivator for firms to consider using third parties to perform logistics functions. Firms experiencing pressure to place a higher emphasis on costs appear to be motivated to consider using third-party logistics providers as a means to perform logistics operations more efficiently. An opposite effect appears to occur when firms become more concerned with customer service – participating companies regard in-house performance of logistics activities as a more effective means for delivering service to their customers than outsourcing. Changes in how firms value control is a third condition affecting motivation to outsource logistics functions. Companies in the research that increased their value of control were motivated to maintain or increase the level of in-house performance of logistics activities, while firms experiencing change toward lessening the value of control appeared to be motivated to outsource those activities. Likewise, firms in the study became motivated to consider outsourcing logistics functions as the value of owning facilities and equipment became less important.

The second contextual condition affecting the logistics outsourcing process is the value a company places on logistics as a core competency (Proposition Three). Changes

affecting logistics operations such as company growth and new markets required response from participating companies. In companies that place a high value on logistics as a core competency, change was responded to with growth in company-owned logistics facilities and equipment. In firms placing a low value on logistics as a core competency, change motivated companies to seek third-party providers as a solution. Thus, the value of logistics as a core competency affected whether participating firms moved beyond stage two of the logistics outsourcing process.

A third condition influencing the logistics outsourcing process is a company's value hierarchy (Proposition Four). Specifically, how companies value ownership of facilities, cost, and customer service appears to be related to logistics outsourcing strategies. Firms placing their highest value on non-ownership of facilities continuously expanded logistics outsourcing regardless of other considerations. Companies giving highest value to customer service never got beyond the trial outsourcing stage of the logistics outsourcing process. A high value placed on cost influenced firms to consider outsourcing as a viable alternative to in-house performance of logistics activities, and appeared to contribute to the expansion of logistics outsourcing. The influence of cultural values on the behavior of organizational members is well established in the corporate culture literature, and this relationship is demonstrated in this research. In the participating companies cultural values thus emerged as having an important relationship to how companies approach logistics outsourcing decisions.

The final condition related to the logistics outsourcing process concerns acquisition of a company as a motivator to outsource logistics functions (Proposition

Five). The purchase of one company in the research by another firm triggered the participating company to reassess its approach toward performing logistics activities in-house. In this case, the parent company's strategy of outsourcing all non-core competency functions was the driving force behind the participating company's motivation to start the logistics outsourcing process. The influence of the parent company was also the main factor in expansion of outsourcing by the participating company due to gradual adoption of the parent company's policies toward outsourcing. Acquisition of companies thus appears to act as a potential motivator in the logistics outsourcing process.

The outcome of a firm's logistics outsourcing process is an outsourcing strategy that can range from total performance of logistics activities in-house to complete outsourcing of those activities to a third party provider (Proposition Six). Depending on contextual conditions, a firm's strategy may include outsourcing certain activities and performing others in-house. For example, a firm may place an equal value on cost and service and decide to outsource activities that do not directly affect service while performing activities in-house that directly affect customer service. Additionally, as values change a firm may adjust its outsourcing strategy to accommodate those changes.

Cultural and subcultural orientations toward control and inter-firm exchange emerged as important to the management of logistics supplier relationships. In the research we found that the value a company places on control influences its orientation toward control of logistics operations, and that this orientation is related to the specific outsourcing relationship form it develops and maintains with its logistics suppliers (Proposition Seven). One of four control strategies (hierarchical, high, low, or clan) can

be used in managing relationships with logistics suppliers depending on the firm's orientation toward control. Depending on the firm's control strategy, varying formal and informal control mechanisms will be applied to govern inter-firm relationships with logistics providers which will have an effect on the type of relationships that develop between buying and selling firms.

In addition to control orientations, the orientations of a firm toward exchange type appear to influence the management of logistics supplier relationships (Proposition Eight). The findings indicate that relationships with logistics suppliers vary across a relationship continuum ranging from transactionally-oriented to behaviorally-oriented exchange. Firms in the research with a behavioral orientation appeared to develop relationships with logistics suppliers that tended to be long-term, collaborative, and normatively governed. Firms with a transactional orientation appeared to develop relationships with logistics suppliers that tended to be short-term, arms-length, and market governed. The concept of firm orientation thus emerged from the research as an important aspect in determining how inter-firm relationships develop and are maintained.

An important influence on a firm's exchange preference orientation noted in the research findings involves a firm's cultural assumption concerning trust (Proposition Nine). A firm's cultural assumption that exchange partners can be trusted appeared to be an important input to a company having a relational orientation toward logistics supplier relationships. Trust in suppliers needed to be present for behaviorally-oriented activities such as information sharing, collaboration, "win-win" negotiation, and joint problem solving to occur. On the other hand, companies assuming that suppliers cannot be trusted tended to have a transactional orientation toward logistics suppliers characterized by

short-term, adversarial, and market-governed relationships with logistics suppliers. The findings therefore indicate that a cultural assumption of trust is associated with a relational orientation toward logistics suppliers.

Another important relationship emerging from the research is between asset specificity, switching costs, and exchange types (Proposition Ten). A pattern was observed in the type of relationships that developed between participating firms and logistics suppliers indicating that when asset specificity and high switching costs are present in exchange, the relationships that develop tend to be toward the relational end of the exchange type continuum. For example, relationships involving DCs were characterized by greater asset specificity and higher switching costs than those with carriers, and the DC relationships were uniformly more relationally-oriented than carrier relationships. DC relationships were characterized by higher levels of mutual dependence, commitment, reciprocity, and shared benefits, and tended to be longer-term than those with carriers. Therefore it would appear that asset specificity and high switching costs influence firms to establish relationally-oriented exchange with logistics suppliers.

Lastly, subcultural orientations toward control and exchange type preference appeared to be related to the type of relationships one of the firms has with its logistics suppliers (Proposition Eleven). In this firm the logistics personnel represent a subculture with assumptions and values that have developed into orientations toward inter-firm relationships differing from those of its parent company. This orientation currently guides the company's strategy toward relationally-oriented exchange with third-party logistics providers. This strategy contrasts with that of the parent company, which

prefers arms-length relationships with suppliers. Thus, a potentially significant finding in the research is that the orientations of subcultures concerning inter-firm relationships with logistics suppliers may have greater influence on relationship types than the cultural orientations of parent companies.

Limitations of the Research

There is no perfect process for doing research, because each research strategy has strengths and weaknesses (McGrath 1982). This research's limitations include its inductive approach to data analysis, data collection procedures, sampling, context, and lack of longitudinal data.

The research was inductive in nature, designed with the purpose of building theory in an area that has not received much attention in the literature. The research primarily drew data from twenty-eight depth interviews and five days of passive observation of people in their work settings. One of the strengths of the research is the level of detail captured with these data collection methods, leading to conceptually rich interpretations and complex theoretical relationships; however, the interpretations are basically those of the researcher. Although the researcher obtained theoretical sensitivity through many years of business experience in logistics, and through literature reviews in corporate culture and inter-firm relationships, potential bias is always a threat to the validity of interpretive findings. Thus, while theoretical propositions concerning the phenomenon are offered, no validation of theoretical concepts and relationships is

claimed by the researcher. This must be accomplished through empirical investigation using different methodologies.

The use of one-on-one, depth interviews as the primary source of data also creates limitations for the research. There exists the potential for interviewers to guide participants in a specific direction through the kind of questions asked, how probes are used, and through subtle visual and audio cues. Leading the participant can be intentional or unintentional. While it is necessary for the interviewer to keep a participant focused on the researcher's phenomenon of interest, there is always the risk that the interviewer may overly influence participants' stories and responses to questions. This is due to the nature of depth interviews: they are interpretively active, involving meaning-making practices on the part of both interviewers and respondents (Holstein and Gubrium 1995). This creates the need to validate the findings using quantitative methods to ensure that results are not due to the actions and biases of the interviewer.

Another limitation of the research regarding data collection is reliance on interviews as the main source of data. Ethnographic research develops an interpretation of cultures by combining observational, archival, quantitative, and verbal data to account for variation between sources of information. This researcher was unable to obtain permission to observe behavior over an extended period of time, and had limited access to sensitive documents such as contracts. While observational and archival data were collected and used to verify information gathered from interviews, the researcher primarily used thematic analysis to interpret what interviewees were saying about their company's culture. Deeper insights might have been possible if more observational and documentary data had been collected.

Sampling procedures also limit this research. Company participants were selected using purposive sampling based on the characteristics of the firm's logistics outsourcing strategy. Theoretical sampling guided selection of participants within the companies. Participants were selected expressly for the purpose of elaborating and following-up on emerging themes. The sample therefore mainly consists of a few carefully chosen logistics management professionals within three corporations, although theoretical sampling also led the researcher to sample in other functional areas of these companies as well. Since statistical sampling techniques were not used, all population members within the business community, or even a single company, did not have equal probability of being selected as study participants. Therefore, the findings elucidated in this research cannot be generalized beyond the participating firms.

Dealing with change was one of the main categories emerging from the research, but because this research was non-longitudinal, change was neither observed nor documented as taking place. Participants often discussed events and compared current conditions to those in the recent or distant past. Participants described events as they remember them, possibly interjecting their own interpretations and biases on these occurrences. The models developed in this research were built in part on participants' descriptions of change that occurred in their working lives. Thus, one limitation is that these changes may have occurred differently than described by participants. While care was taken by the researcher to corroborate what one participant said with the recollections of other participants, there is a possibility that the researcher missed verifying the interpretation of some event or events key to the phenomenon.

Another potential limitation is in the possible reluctance for participants to discuss issues involving higher level managers in their company, particularly their immediate supervisor. While participants were well informed concerning the confidentiality of the interviews, there remains the possibility of interviewees withholding criticism of their boss, or of not discussing potentially embarrassing things they might have done. Most participants appeared to be candid, but it is impossible for the researcher to know what information might have been withheld. There were also instances when participants clearly were venting their anger over events that had transpired, and while much valuable information was garnered during this type of interview, biases against the company and its management for past actions affecting the participants may have entered into some of the passages.

Finally, this research is limited by the possibility that other interpretations of the data could be made. The use of four research team members to check the fit of the data to the researcher's interpretations, as well as the use of synopses sent to participants for the purpose of verification of the research findings should reduce the likelihood of this to some extent. However, in dealing with complex social phenomena there are many ways of approaching data analysis. Researchers with different backgrounds and interests could investigate and interpret the same set of data in different ways. While interpretive methods can uncover many of the underlying aspects of a phenomenon, they also can be subject to researcher bias in the way data is collected, analyzed, and interpreted.

While recognizing the limitations cited above, significant syntheses of results emerged from the research. The managerial and theoretical implications resulting from the synthesis are highlighted below.

Managerial Implications

The research findings suggest a number of managerial implications for both firms involved in logistics outsourcing decisions and firms selling logistics services. The following sections are divided into those implications relevant to buying companies and those of relevant to companies selling logistics services.

Buying Company Implications

Emerging from the research are several aspects of logistics outsourcing decisions that have potential implications for buying firms. The first aspect is the possible existence of company subcultures holding assumptions, values, and goals differing from those of the company as a whole. This finding is well supported in the corporate culture literature, but is not typically discussed in a logistics outsourcing or inter-firm relationship context. When such a subculture is involved in decision making activities with regard to logistics outsourcing, the motivation to outsource may differ from that of the main firm, or of the firm's parent company. Such differences may lead decision making in directions contrary to the company's or parent company's preferences. Senior managers who are unaware of the potential for subcultures to exist and to make logistics outsourcing decisions contrary to their wishes may find that their strategies regarding logistics are not being put into effect.

A second finding having potential importance to buying firms that is also supported by the literature is that unintended consequences may arise from a decision to outsource logistic functions. Loss of expertise is one such outcome that impacted a participating company. Another possible unintended consequence of logistics

outsourcing is loss of more operational control than desired. While willingness to give up control is part of the outsourcing decision, a firm should be aware that in making the decision to let an outside company run some or all of its logistics operations it will be relinquishing direct management of such critical activities as servicing customers. If the firm wants to retain some oversight over functions it deems important, it may need to develop different management procedures, skills, and information technology than those used to directly run operations. Thus, the research findings in this area have implications to managers who will be held responsible for the performance of logistics activities even if such activities are carried out by third parties.

A third aspect of the research having managerial implications, and one not dsicussed in the logistics outsourcing literature, involves the concepts of company values and value change. The findings suggest that a company's values regarding costs, service, and control can influence its approach toward outsourcing. Additionally, the value a company places on these aspects of supply chain management appears to influence the selection of third-party providers. The criteria that firms use to select suppliers are likely to be based on a value hierarchy. Management should be aware of the relative values the company places on these inputs, how these values impact the thought processes involved in outsourcing decision making and supplier selection, and the potential for value changes occurring that may alter such thought processes. Changes in the ranking of values could trigger a reassessment of a company's logistics outsourcing strategy and supplier selection criteria. Failure to recognize value changes could result in a logistics outsourcing strategy that sub-optimizes important aspects of a company's business.

If a firm decides to outsource some or all of its logistics functions, it also must consider what type of relationships it wants to have with suppliers. Control preference emerged from the research as an important condition that a company may consider when dealing with logistics providers. A firm that prefers to take a "hands off" approach needs to select suppliers requiring little direction and monitoring. Additionally, suppliers will need to be able to satisfy customer requirements without need for investments in equipment, technology, or facilities from the buying firm. Selection criteria for third-party logistics providers will need to include the supplier's capability to handle operational issues and problem solving independently of the buying company. Firms that prefer to keep some operational control should consider seeking suppliers willing to be monitored on a regular basis and welcoming the involvement of the buying firm in such activities as joint problem solving, value and goal matching, procedure and rule establishment, and investment in equipment, IT capabilities, and facilities. Along with exchange type orientation, control preference is one of two orientations in the research that appear to have a significant impact on a firm's relationships with logistics suppliers and thus represents a potentially important component of managerial decision making with regard to logistics outsourcing.

Another aspect of control that should be considered by the management of a firm that is outsourcing logistics functions are the kinds of control mechanisms to be put in place to achieve the level of control it seeks over its suppliers. The research indicates that a combination of formal and informal control systems can be applied to logistics providers, and that depending on the level of logistics operational control desired and the relationship orientation of the firm, one of four control systems could be applied to match

these characteristics. Managers should be aware of how these control systems could impact the performance of logistics activities by third-party providers. Managers should also consider the effort required to maintain high levels of either formal or informal controls. Managers who are able to match control strategies with the goals of their companies may be able to achieve more efficient and effective performance of logistics activities.

Thus, from the perspective of the buying firm, the research identifies aspects of a firm's culture and orientations that are important for managers to be aware of and consider when deciding to outsource logistics functions and manage third-party logistics providers.

Selling Company Implications

Interpretation of this data has suggested a number of potential managerial implications for selling companies that want to engage in marketing activities with potential customers and relationship marketing efforts with current customers. One finding of interest to selling firms is the incremental approach companies appear to take in transitioning from in-house performance to outsourcing of logistics functions. The research describes a logistics outsourcing process, the first stage of which is recognition of third-party logistics providers as a viable alternative to company management of logistics activities. Not all logistics managers appear to be aware of the option to outsource, or if they are aware of the option they may not be cognizant of potential improvements in cost and service that may result from outsourcing. Identification of

such managers for the purpose of directing marketing efforts toward helping them recognize third party logistics providers as viable alternatives to in-house performance of logistics activities may prove to be worthwhile. Opportunities to seek out logistics managers of firms performing their own logistics functions at venues such as conferences and trade shows may be rewarded by new business. Other marketing efforts aimed at senior level management of such firms could help circumvent those managers who consider third-party providers a threat to their livelihood.

Motivation to outsource is suggested as stage two in the logistics outsourcing process. Several motivations to outsource logistics activities discovered in the research may have implications for third-party logistics provider marketing strategies. The conditions of company growth and lack of expertise emerged as important in influencing companies in the direction of outsourcing. Selling companies should be aware of these motivators and target marketing efforts toward firms that are moving into new geographical areas or that are growing rapidly through acquisition of other companies. Cultural value change with regard to control also emerged from the research as a motivator. While such change is likely to be difficult to detect, management and sales personal should be made aware of this condition in order to be in the position to ask the right questions of potential or existing customers. Companies moving toward a willingness to give up control of logistics operations may be prime candidates for marketing efforts from logistics providers. Value changes in how companies regard cost and service may also be a motivator to outsource. Selling company boundary-spanners such as sales personnel should be attuned to such changes so that they can be taken advantage of when recognized.

Confidence building emerged as stage three of the logistics outsourcing process. The two firms in the research that outsource some or all logistics activities did so in increments, not all at once. It could be important to selling firms to understand that further outsourcing decisions by client firms probably hinge on the performance of current providers. Those providers willing to put extra effort in instilling confidence in their current and future performance may be able to influence the buying firm to expand its outsourcing strategy, and would be in a unique position to take advantage of such expansion.

An important potential implication coming out of the research for selling companies is that companies differ regarding their core assumptions, values, and norms. For some companies, the concept of "cultural fit" is important in selecting suppliers. There are a number of third-party logistics suppliers, and in order to differentiate itself a selling firm must make a compelling value proposition to buying firms. A logistics supplier that understands some of the fundamental aspects of a potential customer's culture, and can demonstrate that its own values and goals match those of the buying firm, may have an advantage over other firms that are not aware of the importance of cultural fit. The opportunities to understand the culture of a potential customer should therefore be considered by boundary-spanners whenever possible.

Selling firms should also be aware of the potential for the existence of subcultures within companies. Often subcultures develop along functional lines, but they can also arise in geographic locations, strategic business units, and so on. While a company may have a reputation for a certain culture, there can also be clusters of employees with assumptions, values, and goals differing from the main company or its subsidiaries.

Selling companies should be attuned to this possibility and not assume that a company's culture extends throughout the organization. Efforts to understand the values and goals of such functional areas as logistics may provide information that can be beneficial to relationship marketing.

Another aspect of a company's culture that selling firms should be aware of is the orientation of a buying company toward control. For example, a third-party logistics provider may not wish to do business with a company that exerts high control mechanisms on its suppliers. Such a supplier may prefer to run its operations without imposed procedures, oversight, joint problem solving, and other facets of a high control strategy. This type of supplier may be better served by seeking business from companies that take a "hands-off" approach toward its logistics providers. Awareness of control orientations could assist selling companies in finding the right match with companies looking to outsource logistics functions.

A final implication for selling firms is the concept of cultural assumptions concerning the use of power. For some companies, the acquisition and exertion of power over other companies is assumed to be the proper course of action. This assumption can lead to actions that are detrimental to the selling company, as exemplified by the strategy employed by one company in the research that occasionally hires a carrier knowing that it will probably fire that carrier as an example to others. Selling companies should be aware of the strategies used by buying companies to gain power so that they may counteract such tactics, or avoid doing business with such companies altogether.

This section has presented a number of managerial implications for both companies buying and selling logistics services that emerged from the research. In the

next section, implications for future research and a suggested program of research are offered.

Future Research Implications

The objective of this research was to generate substantive theory concerning the relationships between corporate culture and logistics outsourcing decisions. Due to the theory building nature of the research no attempt was made to empirically validate any of its findings. Additionally, while the research attempted to delve into the experience of the participants, and to theoretically sample participants within organizations until theoretical saturation was reached, theoretical sampling was not used to select further company samples from which to interview logistics employees. Thus, the small company sample size (three) and the methods used in the research prevent any sort of generalization of the findings beyond the participating firms. These issues suggest opportunities for future research projects that can be organized into a research program. These opportunities include further inductive research to expand the variation among participating companies and explore concepts under different conditions, and validation studies to test theory once a more comprehensive understanding of the phenomenon has been achieved.

Inductive Research

A proposed causal model has also been constructed attempting to link the strategies, actions, and outcomes taking place in the phenomenon to the various

conditions that may influence them. However, due to the limited number and type of firms participating in the research a number of questions remain concerning the research findings. Among the questions that require further exploration are the following:

- Beyond people, cost, service, and third-party logistics providers, are there other aspects of business that firms seek to control which may impact logistics outsourcing?
- Are there any external or internal conditions beyond those identified in the research that influence logistics outsourcing decisions?
- Are there any industry specific conditions beyond those identified in the research that influence logistics outsourcing decisions?
- Are there other stages in the logistics outsourcing process that companies go through that were not identified in the research?
- Are there additional cultural assumptions, values, and norms influencing logistics outsourcing decisions that were not identified in the research?
- Are there other formal and informal control mechanisms in use in logistics outsourcing relationships that were not identified in the research?
- Beyond propensity to control and relationship preferences are there additional cultural orientations influencing logistics outsourcing decisions?
- Are there other relationship strategies in use in logistics outsourcing relationships that were not identified in the research?

These questions are best explored by a continuation of grounded theory methods since they require in-depth exploration and the use of theoretical sampling to ensure that saturation of categories and their properties has been achieved. A logical way to approach this process is expansion of the research using grounded theory methodology.

Expansion Research

Future research should expand the models and contexts within which the models may apply. Model expansion studies would seek to identify additional conditions under which firms seek to outsource logistics functions and apply strategies to manage relationships with logistics suppliers. Additionally, conditions and cultural orientations beyond those identified in the research that are related to logistics outsourcing decisions

would be investigated. To that end, firms with different cultures, in different industries, and possibly in different countries from those in the current research would be sought to participate in future research. In this manner, the generality of the models can be determined, or the models can be modified as new data is analyzed and compared to the current research.

In addition to expanding the context of the research, different perspectives from those of just the buying firms should be obtained. Third-party logistics companies may be able to provide unique perspectives on the strategies companies use to manage relationships with logistics suppliers. These perspectives would allow for verification of buying company assertions, and potentially add data concerning the influence selling companies have on inter-company governance strategies. If possible, research using dyads as participants would give insight into the effects the strategies of buying and selling companies have on inter-firm relationships. The effects of cultural fit, control mechanism types, relational norm development, power/dependence balances, and propensities to control could be investigated in such an inter-firm context.

The research identified cultural change as a potential trigger event that may cause a company to reassess its outsourcing strategy. While participants discussed events occurring over time that influenced logistics outsourcing in their organizations, the research was not designed to capture longitudinal data. Follow-up research involving the three participating firms focusing on changes in conditions, cultural assumptions, and cultural values should be conducted to ascertain the impact of cultural change on perceptions of logistics providers, propensities to control, exchange type preferences, and outsourcing strategies.

Ultimately the models developed from such expansion research could be applied to a larger context. The conditions, strategies, actions, and outcomes of a logistics outsourcing model could be applied to other outsourcing contexts such as manufacturing. Extension of inter-firm relationship strategies beyond logistics suppliers to other types of suppliers would also be a logical follow-up to the research. Such extensions beyond the contexts of the current research would potentially move in the direction of more far-reaching models beyond the narrow contexts of the current research.

Validation Research

The methods used in grounded theory do not lend themselves well to sampling broad populations due to the lengthy nature of data collection, interpretation, and analysis. However, models developed within grounded theory research can be used in other types of research to validate and broaden the contexts of the concepts that emerge. Such validation is necessary to provide confidence in the theory, and in order for the theory to be used normatively in business applications (Flint 1996). Specifically, validation of the research should be driven by the following questions:

- Can the models developed within this research be validated across firms of the same industries, and of different industries? Specifically,
    - Do companies with similar cultural orientations develop similar outsourcing strategies?
    - Do companies with similar cultural orientations develop similar control strategies?
    - Do companies with similar cultural orientations develop similar inter-firm relationships?
    - Does the logistics outsourcing process that emerged from this research hold up?

Survey research conducted with statistical sampling and analyzed with quantitative methods would likely be the best approach to answer these questions, since these methods are designed to allow for large sample frames and include sophisticated theory-testing techniques such as structural equation modeling.

Several constructs emerging from the research should be empirically tested to ascertain the generalizability of the proposed models. Control was identified as key to the outsourcing and relationship strategies of buying firms. The research suggests that control is a cultural value with properties of controlling people, cost, service, and third-party logistics providers. The research also proposes that where a firm places importance on control in a value hierarchy influences its propensity to control. Cultural assumptions involving trust, the proper focus of an organization (on tasks or relationships), the nature of group boundaries, and the use of power are proposed as leading to a company's exchange preference. Valid scales for propensity to control and exchange preference, antecedents of these orientations, and the outcomes of control strategies and outsourcing strategies need to be developed or adapted from other research. Exchange type could be used as a dependent variable to test the overall validity of the proposed causal model.

The research suggests that a five-stage logistics outsourcing process takes place when firms make decisions concerning performing in-house or outsourcing logistics functions. This process can be broadly tested utilizing survey methods to ascertain how well the model holds up under various conditions such as industry type, company size, company growth, cost pressures, and in-house logistics expertise. Surveys can also be used to test the relationship between cultural assumptions/values and relationship

strategies identified in the research. Scales could be adapted from existing culture and inter-firm relationship research, or new scales could be developed if current scales are inadequate. Survey research thus would provide the broad scale validation that is lacking in the methodology used in this research.

Proposed Program of Research

The previous sections discussed follow-up research that should occur. There needs to be a logical flow of future projects to form a program of research that will best utilize the findings of this research. The first step in such a directed program should be to expand the current inductive research beyond the three participating firms. This will also allow for categories and their properties to be compared to new data for the purpose of reaching theoretical saturation across a broader set of participants. Such expansion would remain within the context of firms involved in the "perform versus buy" decision regarding logistics outsourcing.

Once theoretical saturation across companies has been reached, validation of the current theory should be attempted prior to expansion of the theory into additional contexts such as dyads or other types of suppliers. Survey research using constructs and models verified or modified by the expansion of participants should be used to validate the theory across many industries and types of firms. Hypotheses developed from models resulting from such follow-up research would be tested with a large data set, using quantitative analysis tools. Such empirical testing may allow for generalization to a

much larger population, and possibly lead to application of the theory to different contexts.

Following initial validation work, the research could be expanded to include investigation of relationships from the perspective of the third-party logistics provider, dyadic relationships, and investigation of multiple-tier supply chains. Such research would begin with inductive methods, followed up by empirical research after theoretical saturation is achieved. Cultural implications for extended supply chains such as control mechanisms and cultural fit between three or more firms based on concepts derived from the research is another potential direction for the research to take. In summary, the following prioritization is offered for future research:

1. Expanded inductive research following theoretical sampling techniques.
2. Survey-based validation studies.
3. Seller-side research.
4. Contextual expansion studies involving inductive and empirical methods, including dyadic and multi-tiered relationship research.

Following such a program should enable systematic development of knowledge concerning the relationship of corporate culture to a variety of supply chain contexts and activities.

Conclusion

This research has endeavored to investigate the relationships between corporate culture and logistics outsourcing decisions. This is an area of research receiving scant attention in the literature. Due to the lack of theory regarding this phenomenon, a grounded theory approach was taken in the research in order to develop theory where no

extant theory exists. This approach has its strengths and weaknesses. The main strength is that grounded theory allows for theory to emerge from the data, rather than from *a priori* concepts that may or may not fit the phenomenon. In this manner, in-depth investigation into previously unexplored areas can be conducted with the purpose of developing models that help explain behavior in a substantive area of research. As discussed in the limitations section, the main weakness of this approach is an inability to generalize the findings to a broader context. Therefore, while the current research may be able to stand on its own with regard to participating firms, it must be regarded as exploratory in nature. However, while the research is not extendable in its current form, it does offer several models pertaining to the phenomenon that may be useful in guiding future research.

One finding of the research with potential for furthering understanding of the relationship between corporate culture and logistics outsourcing is the interrelationship of cultural orientations toward control and exchange type preferences to logistics outsourcing and inter-firm control strategies. This finding links aspects of corporate culture such as core assumptions and values to logistics outsourcing behavior. Such linkages have not been made in past research and may lead to further understanding of why some firms outsource logistics activities and others prefer to manage them in-house, and in identifying some of the firm characteristics influencing how companies approach relationships with their logistics suppliers.

Another finding that may bring insight into the research area of logistics outsourcing is the emergence of a logistics outsourcing process differing from current models. The model proposes that firms approach logistics outsourcing in incremental

stages, and may move back and forth between stages as conditions change. The model incorporates the aspects of the processes labeled *initial outsourcing* and *confidence building* that do not appear in other outsourcing models. While requiring future validation, this view of the outsourcing process offers potentially valuable insights for researchers and selling firms.

A third finding with implications for furthering knowledge of inter-firm relationships is the influence of firm propensity to control and exchange preference on the governance of supplier relationships. The research proposes that these two cultural orientations work together to determine the type of control strategy a buying firm will apply to logistics suppliers. To the researcher's knowledge the combination of these two factors working in tandem has not been presented in any model of inter-firm relationship governance in the literature. This finding helps identify additional linkages between corporate culture and logistics outsourcing, and may offer new avenues of research into governance strategies.

It is hoped that this research may generate interest in a currently overlooked area. It brings together the rich literature on corporate culture, logistics outsourcing, and inter-firm relationships and provides many potential insights into how firm culture may influence and be influenced by logistics outsourcing. These insights offer opportunities for future research directions that may lead to enhanced understanding of the logistics outsourcing phenomenon.

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Appendix

Appendix A- Researcher Background and Assumptions

The author is a Ph.D. candidate whose main research interest is in corporate culture. He spent 28 years in the consumer packaged goods industry, mainly in manufacturing and supply chain jobs, before starting his Ph.D. degree program. He also has worked for a year in retail as an assistant store manager. While he has experience in purchasing raw material and packaging items, and some experience with third-party manufacturing purchases, he has not worked with 3PL services providers in any capacity. Having experienced several different corporate cultures and their influence on how things are done in organizations, he is expecting to see some influence on inter-firm relationships from the culture of the companies studied. He is coming into the research having done an extensive literature review of corporate culture. He expects to see some companies with a single dominant culture (integrated culture), some companies with dominant subcultures (differentiated cultures), and possibly some companies with no dominant culture (fragmented cultures). It is expected that companies with different cultures will approach inter-firm relationships in different manners.

Additionally, this researcher expects to encounter differences in values between the companies studied, and that these values will play a part in determining how the company approaches selecting, reviewing, and maintaining relationships with its logistics providers. It is expected that these values will be influenced by the core assumptions of the companies studied, and that these assumptions will take on at least five forms: 1) relationships to environment- how the firm's members view the organization's relationship to its environment; e.g., can it be dominated and changed, or must the organization accept its circumstances and subjugate itself to the environment; 2) the

nature of reality- the most important assumptions being about group boundaries and assumptions concerning in-groups and out-groups; 3) the nature of human nature- assumptions about whether people are basically “good” or “evil”(i.e. can they be trusted?); 4) the nature of human activity- assumptions regarding whether activity should be focused on tasks, or on building relationships; and 5) the nature of human relationships- assumptions concerning the use of power, influence, and peer relationships; for example, whether people are naturally aggressive or inherently cooperative (Schein 1985). Thus, the author expects to encounter incidents where cultural forms, assumptions, and values will influence inter-firm relationships.

Appendix B- Initial Interview Guide

Interview Opening Statement

I'm a third-year Ph. D. student doing a study of the relationship between corporate culture and logistics outsourcing decision-making. As the _____ you are in a unique position to describe both the way your company approaches logistics outsourcing and your company's culture. That's what this interview is about: your experiences with logistics outsourcing decision-making and your thoughts about how your company's culture.

This interview will be part of my doctoral dissertation, and may also be included in further academic work such as journal articles. However, nothing you say to me will ever be identified with you personally, or your company. During the interview, if you have any questions about why I am asking you something, please feel free to ask. Or, if there is something that you don't want to answer, just let me know.

Any questions before we start?

Personal Questions:

1) Name:

2) Occupation:

3) Age:

4) Years with company:

5) Years in job:

General Questions:

1) Describe to me what kind of business _____ is.

2) Tell me about your job.

Grand Tour and Specific Questions:

Tell me about a time when your company considered outsourcing a logistics function.
Probes: Tell me about the background of this experience. Was this an important decision, and if so, why? Who got involved? How were they involved? What caused your company to consider outsourcing? What aspects of the situation promoted its resolution? What obstacles were in the way of successfully resolving this issue? How was the issue resolved? How should it have been resolved?

Tell me about a time when you had dealings with a logistics supplier.
Probes: Tell me about the background of this experience. Was this an important decision, and if so, why? Who got involved? How were they involved? What caused your company to consider outsourcing? What aspects of the situation promoted its resolution? What obstacles were in the way of successfully resolving this issue? How was the issue resolved? How should it have been resolved?

Pretend I am a new employee. What would you tell me about this company that would help me get acquainted with the way things are around here?
Probes: What is considered "acceptable" behavior? What are examples of "unacceptable" behavior? How do people treat each other? Stories that illustrate what the company is like?

If I were to ask people in your company what is important to (company name), what do you think they would say?
Probes: Why is it important? Are there any values that the company espouses that employees may not agree with? Where might I find disagreement on what is important? On what?

Tell me about an issue you recently had concerning logistics operations.
Probes: Tell me about the background of this issue. Why was this issue important? Who got involved? How were they involved? What caused this to be an issue? What aspects of the situation promoted its resolution? What aspects of the situation presented obstacles to resolving this issue? How was this issue resolved? How should it have been resolved?

Final question:

That covers the things I wanted to ask. Anything you'd care to add?

When finished, say: "This is the end of the interview with ____?

Appendix C- Model Components by Participants

	Control				Dealing with Change		Dealing with Third-Party Providers	
Participant (pseudonym)	Cost	Service	People	3PLs	External Change	Internal Change	Outsourcing Strategies	Relationship Strategies
Adam	X	X	X		X	X	X	
Brian	X			X			X	X
Chris	X	X	X	X	X		X	X
Cliff	X	X		X	X	X	X	X
Dan	X	X	X	X	X	X	X	X
Arlene	X	X	X	X	X	X		X
Frank	X	X	X			X		
Grant	X	X				X		
Harold	X	X	X		X	X		X
Jerry	X	X	X	X	X		X	
Kerry			X	X		X	X	
Lem	X	X	X	X		X	X	X
Manny		X	X		X	X	X	X
Abby	X	X		X	X	X	X	X
Nate					X			X
Katie			X			X		X
Omar	X	X						X
Pete		X	X		X	X	X	X
Beth				X		X	X	X
Candice	X			X		X	X	X
Randy	X	X		X		X		X
Sandy		X	X	X		X		X
Sam		X	X	X		X	X	X
Ted	X	X			X	X	X	X
Shanna	X	X	X	X	X	X		X
Vernon			X			X		
Warren			X		X	X	X	X
Mark		X					X	X
Chuck		X		X				X
Virginia		X		X				X
Tony		X		X				X

Vita

John Mello is an Assistant Professor of Marketing at Arkansas State University. He will receive a Ph.D. in Logistics in August, 2006 from The University of Tennessee. Mr. Mello earned a Master of Management from Wilmington College in 2001, and a Master of Public Administration from the University of New Haven in 1985. He is also certified in production and inventory management by the American Production and Inventory Control Society. His business experience includes production supervision, inventory management, production planning, operations planning, materials management, and systems implementation. His research interests are supply chain management, organizational culture, and sales forecasting. He has published in the *Journal of Business Forecasting, The International Journal of Physical Distribution and Logistics Management* and *Foresight: The International Journal of Applied Forecasting*.