



Trust and contract effects on the efficiency of the supplier- manufacturer relationships

A dyadic perspective

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Background: The current global situation leads to a tightening of the supply chains. Since supply chain management is primarily about managing relationships, developing an efficient relationship appears to be the best way to stay competitive. Trust and contracts are elements that influence the efficiency of the relationships, but there is a debate concerning the way they impact efficiency. The focus has been made on the supplier-manufacturer relationships.

Purpose: The purpose of this paper is to investigate the supplier-manufacturer relationships of Ferrero France, in order to increase the understanding of trust in relation to different types of contracts, while providing a managerial contribution by describing their impact on efficiency.

Method: Interviews have been run among Ferrero France, manufacturer of confectionery products, and two of its suppliers. The empirical findings have been analyzed and compared to the existing theory in order to draw relevant conclusions. The results and conclusions also give rise to a broader strategic reflection about the impact of trust and contract on the whole supply chain, and not only on the supplier-manufacturer relationship.

Results, conclusions: The results of this research point out some similarities and differences compared to the existing theory. The dyadic perspective provides a broader point of view, and results in stating that trust is the most important factor leading to efficiency. Moreover, several types of contracts exist. Formal contracts and trust are substitutes and can work together to improve the efficiency, even if the legal framework may limit the increase of efficiency. Informal contracts and trust have a much more

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important relationship, and are key elements to achieve greater efficiency and long-term success of the supplier-manufacturer relationship, as well as the whole supply chain. This study provides managers with a better understanding of the role of trust and contract to improve the competitiveness of the whole supply chain, while contributing to enrich the existing theory with new perspectives.

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1. INTRODUCTION

1.1 RESEARCH BACKGROUND

1.1.1 EFFICIENT SUPPLY CHAIN AS A COMPETITIVE ADVANTAGE

The globalization and the changes in the global economy over the past few years have highlighted new challenges for the companies (Cerrato & Depperu, 2011). They have now to cope with different regulations, customs, languages, customer requirements, and so on. As a result, it has become even more important for companies to find a way to stay competitive.

Due to shortened product life-cycles, tougher competition and a faster obsolescence phenomenon, more and more firms understood that moving to a tighter supply chain was a way to stay competitive (Fandela & Stammen, 2004; Lejeune & Yakova, 2005). At the same time, some authors argued that only efficient supply chains were able to gain a competitive advantage (Li & O'Brien, 1999). It then appears that the main motivation to tighten supply chains was to increase their efficiency, which is “*the achievement of goal in an economic way*” (The Ultimate Business Dictionary, 2003, p.111). According to Lo et al. (2009), the efficiency of the supply chain appears to be nowadays one of the most important performance factor for manufacturing companies. The supply chain efficiency refers to the overall supply chain cost, lead-time performance (Yeung et al., 2008), delivery precision (Li & O'Brien, 1999), and inventory level (Kojima et al., 2008). When referring to the definition of Borgström (2005), it is a cost-related advantage, meaning that efficiency increases through the improvement of the production process like Just-in-Time production for example, or the management of the supply chain. In other words, efficiency is about finding the balance between resources and achievement of goals and objectives. Consequently, an efficient supply chain is a supply chain that manages to attain its goals and better manage its resources at the same time, like optimizing its costs, lead-time, delivery precision, or inventory level in an economic way.

According to Jonsson (2008), supply chain management can be defined as “*the planning and management of all activities involved in sourcing and procurement,*

conversion, and all logistics management activities” (p.5). It appears that supply chain management’s main purpose is to achieve an efficient management of the supply chain assets, goods, cash and information flows, in order to increase the difference between the price paid by the customer and all the costs that add up throughout the supply chain (Sunil Chopra & Meindl, 2007). In addition, since the competition in the market is not between companies anymore, but between supply chains (Taylor, 2003), it becomes obvious that, in order to gain a competitive advantage, a company must nowadays be member of an efficient supply chain (Elkafi, 2008).

1.1.2 THE SUPPLIER-MANUFACTURER RELATIONSHIP

According to Golicic et al. (2002), supply chain management is mainly about managing the relationships and activities among the members of the supply chain. Moreover, the goal of supply chain management, from the member firms’ perspective, is to work together in close and long-term relationship to increase the competitive advantage of the entire supply chain (Mentzer et al., 2001).

The term of relationship has been defined by Hoopes et al. (2003) as a resource for companies. Indeed, the authors argue that in order to create a competitive advantage and ensure the sustainability of a supply chain, the members of the supply chain have to use a set of resources helping them to develop their capabilities. These resources include intangible resources as skills, knowledge, relationships, culture, reputation and competence. According to Szwejczewski et al. (2005), a business relationship exists “*as soon as two or more parties (i.e. organizations) associate themselves in order to fulfill a mutual business purpose*” (p.877). This collaborative environment includes open communication, resources and experience sharing, in order to expose the underlying risks of a project between two or more companies. However, the term “relationship” seems quite abstract and varies, depending of the type of company in which it is implemented (Szwejczewski et al., 2005). Hence, the authors of this paper decided to put a focus on a particular relationship, the supplier-manufacturer relationship.

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Supplier-manufacturer relationships are the relationships between manufacturers and their suppliers (Goffin et al., 2006)¹. In other words, and as stated above, relationships are resources for the supplier and the manufacturer which help them to develop their capabilities, in order to achieve a competitive advantage and ensure the sustainability of the supply chain. Indeed, according to Monczka et al., (1993) and Primo & Amundson (2002), an efficient supplier-manufacturer relationship can drastically improve the manufacturer's performance, by cutting costs, improving the quality standards, and creating new products design. The importance of the relationships has been acknowledged in the 1990s. Traditionally, the main concern of a manufacturer towards its suppliers was mostly about costs, quality and delivery. The supplier-manufacturer relationships at that time have been qualified as "transactional" and "adversarial" by Goffin *et al.*, (2006). However, in the 1990s, manufacturers realized that suppliers could make significant long-term contributions, and the way in which manufacturers deal with their suppliers has been transformed (Lamming, 1993). More and more authors started to promote and encourage the development of what is today called the supplier-manufacturer relationship (Metcalf et al., 1992). Nowadays, it is broadly acknowledged that suppliers have a strong impact on the manufacturer's performance when it comes to quality, delivery, cost containment and new product development (NPD). Hence, the importance of implementing an efficient supplier-manufacturer relationship management has become more and more important for operations managers, and the traditional way of handling relationships is not considered as a source of competitive advantage anymore (Szwejcjewski et al., 2005). According to Goffin et al., (1997) the new main purpose of supplier relationship management is "*organizing the optimal flow of high-quality, value-for-money materials or components to manufacturing companies from a suitable set of innovative suppliers*" (p.422). Hence, the manufacturers now need to have a clear overview of how to manage their suppliers in a strategic and effective way.

¹ Later in this paper, since the focus is given to manufacturers, the term of supplier-manufacturer relationships can be replaced by the following synonyms: "relationships", "supplier relationships" or "business relationships"

According to Ziropli & Caputo (2002), business relationships can be built through the identification of the factors that can benefit to both parties. One of these critical factors is the establishment of long-term contract agreements, aiming at reducing uncertainty and support investments. According to Tsay et al. (2003) a contract is an agreement between two parties, which aims at sharing risks and easing long term relationships. One necessary condition for establishing a contract is that both parties take advantage of it. Luo (2002) agrees on this latest point when he states that an effective contract prescribes what is the appropriate behavior for partners and how the outcomes are distributed among the relationship partners. According to him, contract is the establishment of “*the process of exchange*” (Luo, 2002, p.903), avoids “*moral hazards*” (Luo, 2002, p.903), and reduces the risk of opportunism. In other words, contract is the structure of exchange. Appart from the formal and legal aspect, some authors support the existence of informal contracts between business partners, which regulate the operations without any legal framework (Frankel et al., 1996). According to Jonsson (2008), during the procurement process, four types of formal contracts can be involved, depending on the criticality of purchased products and the depth of the relationship with the supplier. This notion, as well as the informal contracts, will be deeply investigated later, in order to describe how contracts are made, or what are their purpose for example.

The existing literature also proved that developing and maintaining a high level of trust within organizations is a critical factor in relationships (Scott & Westbrook, 1991; Webster, 1992). According to Bladvingottir et al. (2011), in the business area, several definitions of trust coexist. However, their study shows that one definition is more often used. This is the definition of Tomkins (2001), which states that trust is the “*adoption of a belief by one party in a relationship that the other party will not act against his or her interests, where this belief is held without doubt or suspicion and in the absence of detailed information about the actions of that other party*” (p.165). Strutton et al. (1996) agree with this point of view. According to them, trust is the “*willingness to rely on*” (p.153) a business partner. Within business relationships, trust is also a multifaceted concept (Laequddin et al., 2010), as it is “*an important factor since people manage the business*

activities” (Svensson, 2004, p.472). According to Medlin (2002), trust is a psychological item within social structures such as firms and relationships which is the interpretation of past events. According to Zineldin & Jonsson (2000), a high level of trust is a foundation of a long term business relationship, as so far as trust reduces uncertainty (Chandra & Kumar, 2000; Monczka et al., 1998; Peter & Hogensen, 1999). In this perspective, Johnston et al. (2004) argue that *“trust is not simply an input to a relationship; it is both a prerequisite and an outcome of relationship development”* (p.26).

The concept of trust within business relationships emerged in the 1990’s. As a matter of fact, this one is closely related to collaboration or information sharing, since people and organization are led to exchange sensitive information. Sahay (2003) argues that trust naturally emerges and is a prerequisite for long term relationships, as it creates stronger links between parts and allows partners to obtain greater benefits. However, he recommends leading further studies on the link between trust and supplier-manufacturer relationships. This study will investigate the supplier-manufacturer relationships of Ferrero France², which is part of Ferrero group, and manufactures confectionery products. As a part of a multinational group, Ferrero has developed relationships with many suppliers, which need to be managed in an efficient way. Moreover, with a turnover of 1.065 billion € in 2010, managing the relationships have become of a crucial importance for the company.

1.2 PROBLEM DISCUSSION

1.2.1 CHANGES IN SUPPLIER-MANUFACTURER RELATIONSHIPS

According to Crotts & Turner (1999), the competitive strategies of confrontation (Kotler & Singh, 1981; Porter, 1985) are being replaced by more cooperative dealings between manufacturers and suppliers. This transition gave rise to new terms to describe the supplier-manufacturer relationships like “alliances” (Heide and John, 1990; Spekman, 1988), “partnerships” (Anderson and Narus, 1990; Johnston and Lawrence, 1988), and “boundaryless organizations” (Ashkenas, 1990). Carlisle & Parker (1989, p. 5) argued that *“if customer and supplier firms can recognize their common ground in a shared interest in*

² Later in this research, the name *Ferrero* will refer to *Ferrero France*.

capturing the consumer sale which actually nourishes them both, it should be possible for them to work creatively and effectively together to capture that sale for their product.”

1.2.2 THE INFLUENCE OF TRUST AND CONTRACT IN RELATIONSHIP EFFICIENCY

This new way of working together raises the question of how trust and contract interact together in this new context. While trust seems to increase with the relationship proximity, one can wonder what the consequences for the use of contracts are. Which one between trust or contract is the more important? Can they work together or do the trade rules change with this new kind of relationship?

Even if the term of trust is known by everyone, it becomes more difficult to describe where does the trust comes from, how it is maintained over time and renewed, especially in a business environment. The concept of trust has been studied in many researches. However, there are still some gaps in the literature. Adobor (2005) argues that the mechanisms that build trust are not well known, and there is a real need to better explore this concept. As trust is closely related to people (Svensson, 2004), one can wonder if trust also vary according to the activity in the relationship. In other words, one can assume that the importance of trust depends on the distance from the partner, i.e. the closer to the partner the manager is, the more important the trust will be at stake in the business relations. Moreover, trust seems to be important from a managerial perspective. Since trust is between individuals, it seems to be interesting to investigate how a change of individuals modify the relationship and the level of trust, and how the company manages this change. Then, the question is to determine if trust can influence the sustainability of relationships (Lee & Billington, 1992; Zineldin & Jonsson, 2000) and of organization, in an economical perspective (Bladvinsgottir et al., 2011). Since the efficiency is about maximizing the profits of a company, one can wonder how does the trust impact the efficiency of a relationship, and if the building of trust is necessarily synonym of higher profits.

Maira et al. (2010) stated that contracts are the basis of business relationships (either dyadic, or external, or network chains are concerned). They define a contract as an institutional-based mechanism for the formulation of expectations in the pre-commencement phase of a relationship. Since business interactions are more or less related

to social interactions, the authors recommends to put more attention to trust within business relations and especially through the scope of contract.

The relation between trust and contract has been investigated by the literature. However, it appears that no consensus emerged. Indeed, some authors argue that trust and contract interact or are substitutes (Dyer & Singh, 1998; Flaukner, 2000; Gulati, 1995); whereas according to Luo (2002) trust and contract are complementary, i.e. contractual agreement is the framework to build a relationship. Moreover, he argues that contract affects the trust building in the supplier-manufacturer relationship. In the same way, Taylor & Plambeck (2007) argue that contract and trust are related through anticipation of repeated business in the future. According to them, from this anticipation, organizations move from formal agreements to “relation contracts” (or informal agreement) which sustainability relies on the future value of trusting and the cooperative relationship within the partnership. On the other hand, according to Wang et al. (2011), trust and contract are two mechanisms which both aim at maintaining cooperation between the two parties. In the same way, Frankel et al. (1996) support the existence of several types of contracts, more or less formal.

Thus, one can wonder where do trust and contract start and end. Are these two concepts really compatible? Can trust take the place of contract? Is there only one type of contract? Can a supplier-manufacturer relationship be based only on trust or contract? What are their impact on the relationship’s efficiency? Maira et al. (2010) state that the more explicit the contract is, the less trust in the relationship is. Indeed, contracts are used not only at the beginning of a relationship, but also when the relation is well established. The point would be to determine how trust and contract interact as catalysts of the supplier-manufacturer relationship’s efficiency.

1.3 RESEARCH QUESTIONS

In the above stated environment, that is to say an increasing importance of relationships between suppliers and manufacturers, the importance of trust is generally agreed by the literature. On the other hand, contracts are a way to regulate trading operations between two companies. However, no previous study has explored the relative

importance of trust and contract in a supplier-manufacturer relationship, and especially how each one of these two concepts affects the efficiency of the relationship. The previous discussion also led to the following research questions:

- ***How do contract and trust interact in a supplier-manufacturer relationship?***
- ***What is the importance of the relationship between trust and the different types of contracts ?***
- ***How do contract and trust affect the efficiency of a supplier-manufacturer relationship from a dyadic perspective?***

1.4 PURPOSE

This paper aims at investigating the supplier-manufacturer relationships of Ferrero France, in order to increase the understanding of trust in relation to different types of contract, while providing a managerial contribution by describing their impact on efficiency. It then seems interesting to explore, in this context, how trust and contract interact with each other, the different types of contracts and their consequence on the trust/contract relationship, and how trust and contracts can affect the efficiency of the relationships. This will be done by:

- Exploring how trust and contracts interact with each other in a supplier-manufacturer relationship;
- Exploring what are the different types of contracts and the consequences on the importance of the trust/contract relationship;
- Describing how contracts and trust affect the efficiency of the supplier-manufacturer relationship.

1.5 LIMITATIONS

As a very specific study, this paper counts several limitations. Firstly, the nature of the relationship can be mentioned. Indeed, the authors decided to focus on supplier-manufacturer relationships, which obscures the term “buyer–supplier relationships”. The difference between these two concepts is highlighted by Goffin et al., (2006), who state that the supplier-buyer relationship “*is broader in that it can also be used to refer to relationships between companies in the service sector*” (p.190). Since the authors focus on the manufacturing companies, the conclusions of this study cannot be generalized to service companies.

Another limitation of this study is the unique empirical focus on the informal relationships between a supplier and a manufacturer. The choice of the authors was to focus the empirical research more deeply the informal context in relation to trust, and their impact on the efficiency. Since the sampling of the suppliers only include relationship without legal contract, the proof of the impact of formal contract on the efficiency of the relationship has been drawn for the existing literature and does not have any empirical evidence on this study. Hence, this study greatly relies on the existing literature to ensure the validity of the results.

Moreover, this paper focuses on the efficiency of the relationship and voluntarily occults the effectiveness. Indeed, efficiency is about cost-related advantage, while effectiveness is a customer responsiveness advantage (Borgström, 2005). Since effectiveness is achieved through customer orientation (Möller & Törrönen, 2003), it does not fit the supplier-manufacturer perspective adopted before. Hence, this study focuses on the impact of trust and contract on the efficiency, but does not tackle the implications for the customers.

Finally, as regards the intrinsic nature of the chosen approach of the study, it appears that the generalization of the findings may be difficult, all the more that the focus will be made on one manufacturer (Ferrero France) and two of its suppliers (Palettes Derou and Saicapack).

2. METHODOLOGY

2.1 SCIENTIFIC PERSPECTIVE

When one decides to conduct a study, the first step is to determine which perspective will be adopted. Thus, two main currents of thought prevail: positivism and or relativism (Gray, 2009; Walliman, 2011).

Positivism was the main trend between the 1930's and the 1960's. According to Gray (2009), positivism states that "*the world exists externally to the researcher, and its properties can be measured directly through observation*" (p. 29). This theory argues that the world exists through the senses, researches rely on empirical studies and natural and human sciences are based on fact and not on value. According to Walliman (2011), positivism aims at developing "*a unique and elegant description of any chosen aspect of the world*" (p.21).

On the other hand, **relativism** states that the world is a creation of the mind (Gray, 2009; Walliman, 2011). In other words, there are several possible interpretations of the environment. Moreover, since nature and society are different, they have to be studied through different perspectives. The Table 1 sums up main characteristics of both positivist and relativist perspectives. Even if the two perspectives are radically opposed, they are not exclusive (Walliman, 2011).

In this research, the relativist perspective will be adopted. Indeed, the field of the study, i.e. trust in supply relationships, requires catching interpretation of informants about the area. In other words, information given by respondents will refer to their beliefs and perceptions of trust and efficiency of the relationship. Indeed, the research will not provide any measurement of trust within the supplier-manufacturer relationship, nor will it focus on the economic aspect of efficiency.

Issue	Positivism	Relativism
Philosophical basis	The world exists and is knowable as it really is.	The world exists but different people construe it in very different ways.
The role of research	To discover universal laws and generalizations.	To reveal different interpretations of the world as made by people.
Role of researcher	Neutral observer.	Part of the research process.
Theoretical approach	Rational, using inductive and scientific methods and value free data.	Subjective, using inductive methods and value laden data.
Methods	Experiments or mathematical models and quantitative analysis to validate, reject or refine hypotheses.	Surveys and observations with qualitative analysis to seek meaningful relationships and the consequences of their interactions. Analysis of language and meaning.
Analysis of society	Search for order. Society is governed by a uniform set of values and made possible only by acceptance of these values.	Search for dynamics. Multitude of values leading to complex interactions. Society made possible by negotiation.

TABLE 1 – COMPARISON BETWEEN POSITIVIST AND RELATIVIST APPROACHES (WALLIMAN, 2011)

2.2 SCIENTIFIC APPROACH

There are two possible approaches when conducting a research. These approaches are based either on deduction or induction. These two approaches can be used separately or mixed (see Figure 1). This section will present the two perspectives and introduce the one chosen to carry out this thesis.

Deduction is “*the rationalist’s approach*” (Walliman, 2011, p.18). Through the deductive approach, the researcher goes from theory to empirical findings (Gray, 2009). The reasoning is blazed by three steps:

- 1st step: building the theoretical fundamentals of the research;
- 2nd step: operationalizing concepts to make them be measurable;
- 3rd step: testing theory through observations and/or experimentations.

On the other hand, **induction** is “*the empiricist’s approach*” (Walliman, 2011, p.17). Contrary to the deductive approach, induction does not aim at corroborating or falsifying theories (Gray, 2009). While approaching the study through induction, the researcher will start to collect data in order to generalize, establish relationships or even come up with theories. One prerequisite to an inductive approach is to have multiple cases or examples in order to assess the reliability of findings. About this point, Walliman (2011) states that one problem with induction is to determine from how many observations findings could be reliably generalized.

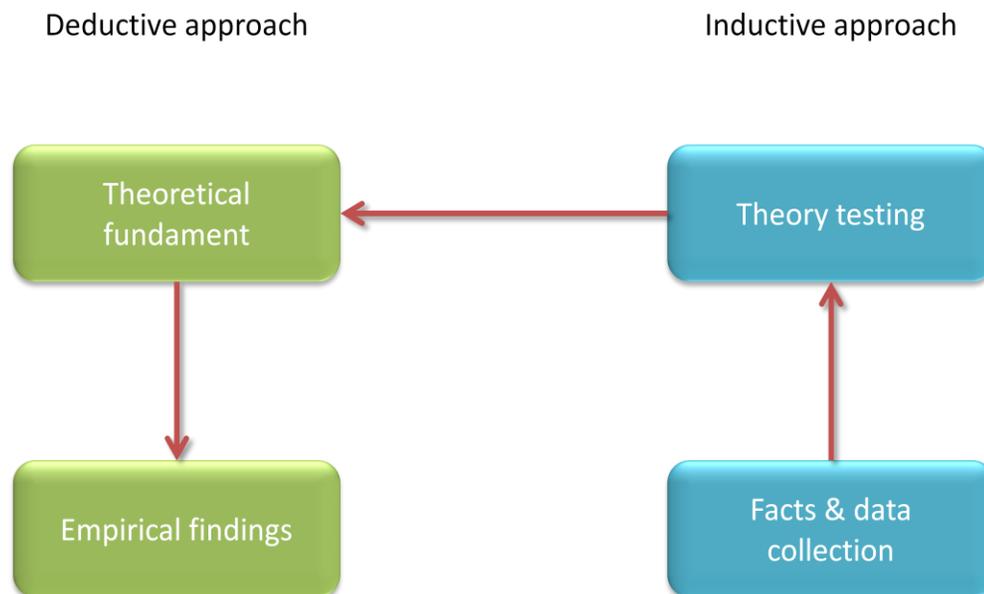


FIGURE 1 – HOW DEDUCTIVE AND INDUCTIVE APPROACHES CAN BE COMBINED (GRAY, 2009)

This research follows mainly a deductive approach. Indeed, the researcher will first base the study on theoretical fundamentals, in order to define concepts and to build a

framework for the empirical research. However, the fact that some uncertainties exist in the literature concerning the concepts of trust and contracts led the authors to adopt an inductive approach as well, in order to explore and describe how these two concepts work together. The final step of this paper will be to compare the theoretical basis discussed by the authors.

2.3 RESEARCH METHOD, PURPOSE AND DESIGN

2.3.1 RESEARCH METHOD

According to Yin (2003), in order to conduct a research, one can choose between five different approaches: the case study, the experiment, the survey, the historical research or the analysis of archives. Each type of methodology fits one or more conclusion the researcher wants to reach. In this section, a focus will be made on the **case study** approach, as so far as it is the plan that is the closest to the approach of this paper's analysis.

Indeed, through a case study, it is possible to understand a complex phenomenon and to investigate into “*meaningful characteristics of real-life events*” (Yin, 2003, p.2). Since this paper is investigating the implication of trust in supply relationships, it seemed difficult to envisage a method which prevents from collecting insightful data (this point will be discussed in 2.4.). Moreover, such an approach will allow the research to explore and describe trust and its consequences within the study context, that is to say the supplier-manufacturer relationships. Finally, according to Yin (2003), a case study is relevant when the researcher has no control on studied event(s) and when the focus of the study is on contemporary phenomena; which is the case of this paper. However, he stated that such a method is limited in the way that it could be difficult to generalize findings, as so far as the focus of the study will be on a single company. In other words, this paper will be based on a case study approach, but since the researchers will focus on three companies (one manufacturer and two suppliers) and two relationships between the manufacturer and the two suppliers the study will not literally be a case study, as so far as the research area is not one company or one relationship.

2.3.2 RESEARCH PURPOSE

According to Gray (2009), there are three types of purposes when carrying out a research, no matter which methodology has been chosen. These three approaches are: exploratory, descriptive and explanatory.

The usefulness of an **exploratory** study lies in the lack of knowledge about the subject. In order to conduct such a research, it is relevant to look for theoretical literature, to talk to experts in the study field or to conduct focus group interviews. A **descriptive** research consists in providing a picture of a phenomenon. It could be purely descriptive or a comparison with standards. In this case, the research would be a normative study. Even if a descriptive study provides an accurate explanation of the phenomenon, it does not explain why the event happens (Blumberg et al., 2005). Thus, if the researcher wants to understand the causes of the studied occurrence, he should conduct an **explanatory** study.

In this paper, the study will be exploratory and descriptive. Indeed, in order to investigate properly trust and contracts in purpose of the research, first it will be necessary to clearly define the concept of trust and to describe deeply contracts in a relationship environment, and second, through the empirical approach, the paper will provide a description of the phenomenon. Moreover, the research will try to figure out how contract and trust interact in the supplier-manufacturer relationship as well as how their interactions affect the efficiency of the relationship.

2.3.3 RESEARCH DESIGN

Since the research method, a case study, and the approach, both exploratory and descriptive, have been decided, the next step is to determine the research design, either quantitative, or qualitative, or mixed (Gray, 2009). Gray (2009) explains that the purpose of a research design is to collect, measure, and analyze data. In order to achieve it, the researcher can use quantitative or qualitative methods. **Quantitative methods** are “systematic and mathematical techniques” which aim is to provide objective, valid, and replicable results. Such methods require selecting items from a population like organizations or individuals for example, in order to gather a large amount of data. Then these data are statically analyzed. On the other hand, **qualitative methods** provide a deep

and intense overview for the study. These methods are suitable if the researcher wants to understand the studied phenomenon in its context. Moreover, such methods allow the researcher to be flexible in the way he/she collects data. For instance, it is possible to change contents of interviews if one realized some questions do not match the core subject, if some findings require to be deeper investigated. Doing it during quantitative researches is not recommended, since information could be biased if some data are removed or added.

For the reasons mentioned above, qualitative methods will be preferred to carry out this research. The concept of trust requires to be investigated in a context, which will be determined through qualitative data. Indeed, it would be difficult to catch an accurate image on the study environment only through quantitative data. Moreover, as one part of the research will deal with subjective information and belief from actors in the supplier-manufacturer relationship quantitative methods will not allow catching a deep insight of the studied relationships. However, quantitative methods may be used to analyze some data which could help to define and better understand the context of the research.

2.4 DATA COLLECTION

2.4.1 PRIMARY DATA

According to Walliman (2011), **primary data** are “*sources from which researchers can gain data by direct detached observation or measurement of phenomena in the real world, undisturbed by any intermediary interpreter*” (p.175). Gathering these sources is time consuming and could be costly if the researcher wants to carry out a large survey. He distinguishes four types of primary sources: measurement, observations, interrogation and participation. Here, the focus will be made on interrogation, or interview, since it will be the main tool to gather primary data. With this method, data are gained by asking questions and proving assumptions. There are three types of interviews: structured, unstructured, and semi-structured.

A structured interview is based on standardized questions which are asked according to an interview schedule (Walliman, 2011). According to Yin (2003), this kind of interview is very close to a survey. In contrast, unstructured interviews follow an interview guide but questions are not standardized, which allows the interviewee digressing

(Walliman, 2011). According to Yin (2003), unstructured interviews are more guided conversations rather than structured queries, which result in “open-ended” answers, that is to say the research will be provided with facts and opinions from informants. Withal, such interviews are time consuming. The last type of interview is the semi-structured one. Walliman (2011) defines it as a mix of standardized and unstructured sections, which provide closed and opened answers. According to Yin (2003), focused interviews, as he calls them, are motivated by the limited time to conduct interrogations.

Yin (2003) highlights some strengths and weaknesses of conducting interviews to collect primary data. On the one hand, such data collecting tool allows a direct focus on the topic of the study and an insightful description of the context. On the other hand, the study could be biased and inaccurate if the questions are poorly constructed. Consequently, if transcriptions are incomplete, a recall will be needed. As well, the study can be jeopardized by interviewees if their responses are biased, but also because they could want to give the interviewer what he wants to hear.

In this research, primary data will be collected in two steps. First, the authors will ask respondents to answer several questions about the relationship with suppliers or manufacturer, depending on the respondent. Then, in a second time, and after a first analysis of responses, the author will contact respondent to go deeper into some particular aspects of the study (interview guides can be found in Appendixes). The aim of this two-step primary data approach is to get an insightful and accurate perspective on the studied relationships. The following Table 2 presents the sampling of the research:

Respondant	Company	Position
Ludovic Belloncle	Ferrero France	Upstream Supply Chain Manager
Ingrid Poras	Ferrero France	Purchaser
Laurence Bartelloni	Saicapack	French customer responsible
Biago Modugno	Palettes Derou	Sales manager

TABLE 2 – SAMPLING OF RESPONDENTS

The authors decided to pick up Ferrero because of the market shares held by the company: Ferrero is the third manufacturer of confectionery products in France. The suppliers have been chosen because they are considered as strategic suppliers by Ferrero. This point will be developed later. The four respondents are top managers in their companies. All these factors will set up the reliability of the study.

2.4.2 SECONDARY DATA

Walliman (2011) defines **secondary data** as “*sources of information that have been subject to interpretation by others, usually in the form of publication*” (p.177). They are the background of the study. The first use of primary data in this paper will aim to create a theoretical background for the research, as, according to Yin (2003), theory is essential in case study since the purpose of such a work is “to develop or test theory”. Moreover, secondary data allow comparison with primary data, to set up standards if the researcher wants to carry out a normative study. However, a problem can arise. Indeed, the purpose of data collection in secondary sources may differ from the purpose of the study. Then it could be difficult to match information from the different works. Yin (2003) identified two types of secondary data, which may be used in this paper: documentation and archival records. The Table 3 gathers characteristics, strengths and weaknesses for the two of them.

	Documentation	Archival records
Characteristics / Purpose	Corroboration of information from other sources: <ul style="list-style-type: none"> - Exactness of spellings - Detailed information - Possibility to make conclusion 	The relevance of information can vary from a case study to another Before being used, it is required to verify under which conditions data have been produced and how accurate they are
Strengths	No data distortion over the time Unobtrusive Precise information Long-term and broad coverage	Data can be used several times without any distortion Unobtrusive Precise information Long-term and broad coverage Data are precise and quantitative
Weaknesses	Accessibility may be low or blocked (cf. privacy policies) Biased if the data collection is incomplete Reporting can be biased	Accessibility may be low or blocked (cf. privacy policies) Biased if the data collection is incomplete Reporting can be biased

TABLE 3 – DOCUMENTATION & ARCHIVAL RECORDS CHARACTERISTICS (YIN, 2003)

2.5 SCIENTIFIC CREDIBILITY

2.5.1 VALIDITY

According to Walliman (2011), the **validity** of a research is its “*property to correctly draw conclusions from premises according to the rules of logic*” (p.178). In order to assess the validity of a paper, three steps have to be followed (Walliman, 2011; Yin, 2003): validity construction, internal validity and external validity.

Constructing the validity refers to “*establishing correct operational measures for the concept being studied*” (Yin, 2003, p.34). There are several ways to ensure the validity

of a research: the researcher can multiply sources of evidence, and/or maintaining the chain of evidence, and/or have the study reviewed by informants. Then, the researcher should assess the **external validity** of his/her work, that is to say, to what extent the study can be generalized. Finally, the researcher should assess the **internal validity** of the paper. In other words the aim of internal validity is to establish a causal relationship between phenomena. According to Yin (2003), the internal validity is not relevant in this paper, since the study is descriptive and exploratory, and not explanatory.

The validity of the paper will assure both on the theoretical and empirical basis. Indeed, the literature review will be based on scientific publications. Moreover, the two authors will conduct the interviews, which aim at gathering information related to the subject area. In addition to that, respondents to the interviews (see Table 2) are top managers of their companies, and therefore are able to provide trustworthy information. Finally, the validity of the study will not be weakened by the type of contract (formal or informal) involved in the relationships. As a matter of fact, the type of contract will help to answer the research questions.

2.5.2 RELIABILITY

Walliman (2011) defines the **reliability** of a study as “*the power of memory and reasoning to organize data and ideas in order to promote understanding*” (p.176). In other words, a research will be reliable as soon as it will be possible to repeat the study (i.e. in the same context, and with the same informants) and to find the same results (Yin, 2003). In order to make sure the thesis is reliable, it will be valuable to document the procedures followed during the study conduct. To manage it, Yin (2003) recommends following three principles: the use of multiple sources of evidence, the creation of a study database and the maintaining of a chain of evidence. The aim of this latest point is to increase the reliability of information and to allow an external observer to follow the study from the initial question to the conclusion.

The reliability of this paper will be supported first by its structure. Indeed, the authors wanted to make it as clear as possible, in order for the reader to be able to follow the red thread of this paper. In addition to that, the authors will provide a transcription of

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interviews. Finally, for confidentiality matters, the contract to be implemented will not be available, even if the authors studied it in order to provide the more accurate picture as possible.

3. THEORETICAL FRAMEWORK

This chapter will provide an overview of the different concepts which make up the core of the research. By investigating trust, contracts and how they are related to efficiency, this chapter aims at providing theoretical fundamentals to analyze empirical findings which will be recorded in the next chapter. The section 3.2 will provide a review of contracts, while trust will be explored in the section 3.3. The relationships between the two concepts will be tackled in the point 3.4. Finally, the last section will provide a scope of how trust and contracts are involved in order to reach efficiency within the supplier-manufacturer relationship.

3.1 AN ANALYTICAL MODEL

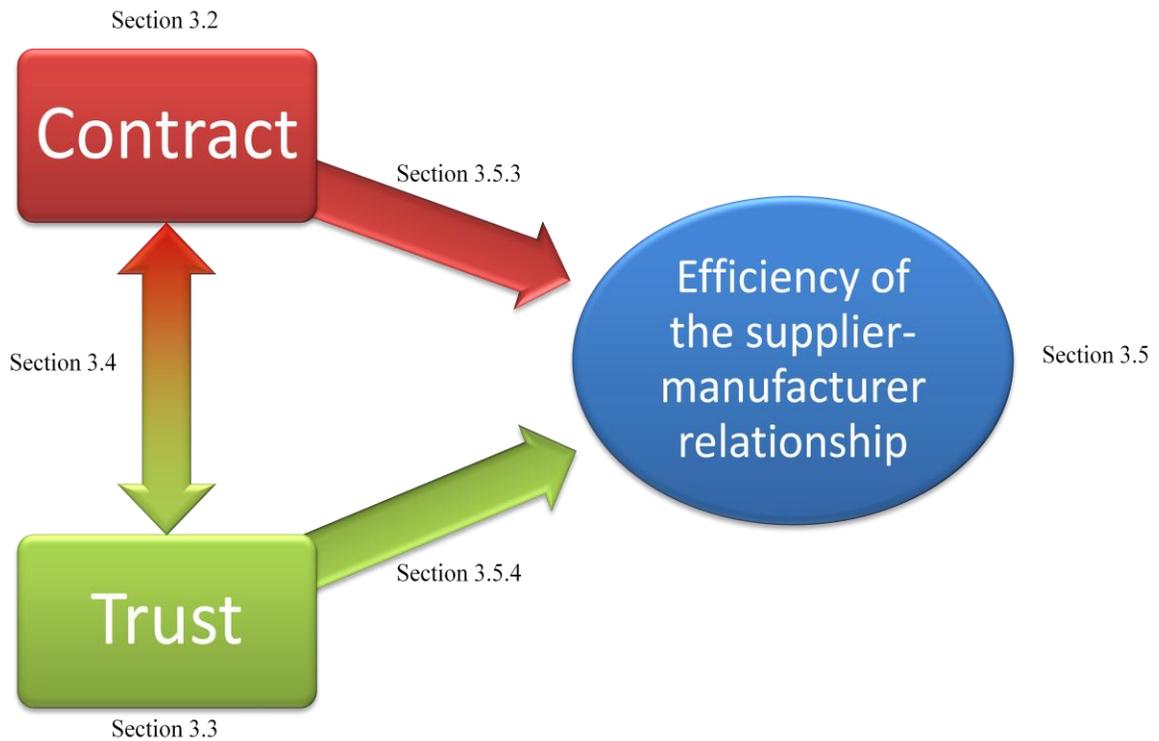


FIGURE 2 – THEORY ANALYSIS MODEL OF THE PAPER

In this chapter, the authors will investigate characteristics of contracts and trust, in a supplier-manufacturer perspective. Then, a focus will be made on how these two

mechanisms affect the efficiency of a supplier-manufacturer relationship, while interacting with each other. This perspective will also be used in the following chapters.

3.2 CONTRACTS IN THE SUPPLIER-MANUFACTURER RELATIONSHIP

3.2.1 GENERALITIES ABOUT CONTRACTS

According to Cachon (2003), contract is about coordinating the buyer's and manufacturer's action in the relationship. It sets terms on which both parties agreed and their commitments. A contract also specifies termination clauses. These clauses are more and more standardized but remain different from a contract to another. They are linked to contractual obligations of each party and they express how parties can breach the contract. A breach of contract can have different origins: nullity or voidability, effect of a condition subsequent, mutual agreement, performance of a contractual obligation, firm impossibility to perform, default of one contractor, expiration of the contract in the case of a fixed term contract, notification by one party in the case of an indeterminate term contract, systemic issue of one party (i.e. end-of-business, or bankruptcy for example) (Fontaine & De Ly, 2009).

A contract sets how profits are shared between the supplier and the buyer (who could be a retailer, a wholesaler or a manufacturer). This study however focuses on the supplier-manufacturer relationship. A contract takes place in a context determined by the depth of the relationship but also by the nature of purchased materials. In this perspective, Jonsson (2008) distinguishes four types of supply relationships:

- Procurement in direct competition: each time the manufacturer needs to purchase an item, suppliers are put in competition. In this situation, there is no contract and no agreement between supplier and manufacturer.
- Procurement through contracts in direct competition: in this context, the contract sets prices and delivery conditions. Even if an agreement has been made between the two actors, the manufacturer does not have to buy from the same supplier every time.
- Procurement through operative contracts: these contracts are set when the relationships between the supplier and the manufacturer is deeper. It is based on a

medium-term perspective, and so, regular negotiations generally happen without competitive pressure.

- Procurement through strategic contracts: in this context, contracts regulate procurement but also involve quality and/or product development perspectives. They are also based on long-terms commitments.

The following Figure 3 shows how suppliers and purchasing value are shared among relationship types.

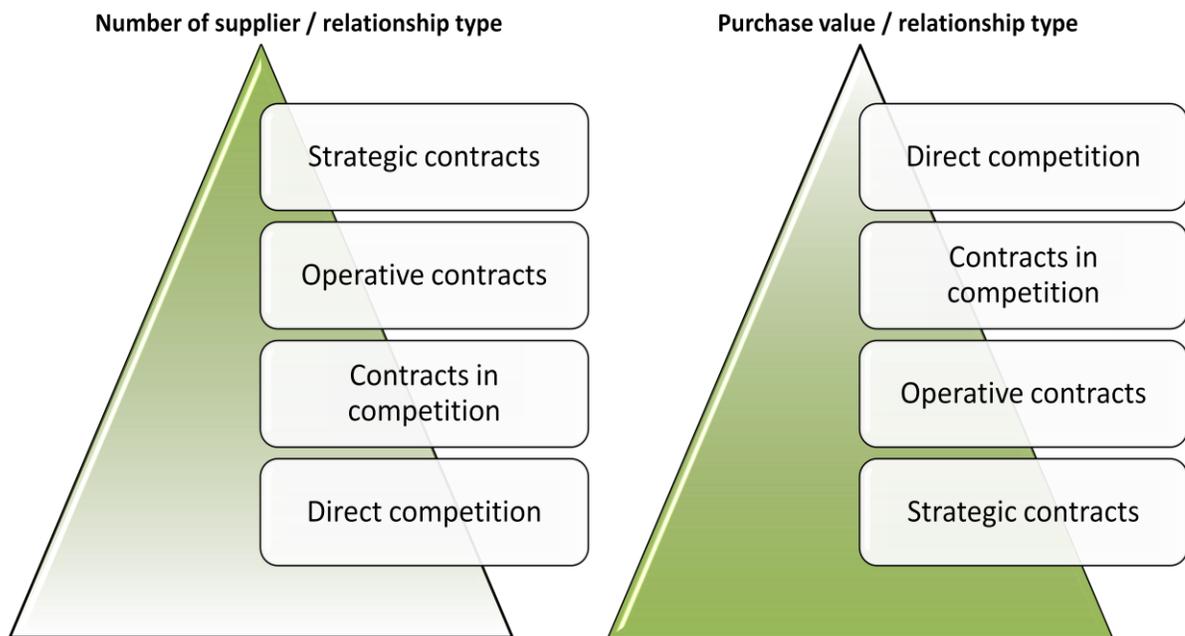


FIGURE 3 – NUMBER OF SUPPLIERS AND PURCHASING VALUE ACCORDING TO RELATIONSHIP TYPES (JONSSON, 2008)

3.2.2 DIFFERENT TYPES OF FORMAL CONTRACTS

Through a review of literatures, it is possible to overview different types of formal contracts. The following section draws a scope of existing contracts³. However, this is not an exhaustive review, since particular contracts could exist to set specific agreements between a manufacturer and his/her supplier.

³ In this section, the manufacturer can also be called buyer.

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A first type of contract is determined by a **fixed price plus incentive fees**. When such a contract is implemented, a fixed price is agreed and the supplier is rewarded, if he/she performs above agreed standards (Jonsson, 2008). According to van Weele (2005), standards are not mandatorily cost related, but can also be related to delivery conditions or quality requirements.

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Jonsson (2008) and van Weele (2005) both describe another type of contract, even if they call it differently. The first calls it **cost-related contract**, while for the second it is a **cost-plus contract**. In this contract, there is no predetermined fixed price, but the price is related to supplier's costs of production. The manufacturer can set incentive fees or penalties in order to make the supplier focus on costs and customer service. Fees can be fixed in the case of a cost-reimbursable contract, or a percentage of the purchasing price. Such contracts are more expensive for the manufacturer than other contracts, since he has to pay a higher total price. These agreements take place when the risk is too high for both parties to fix a price.

Van Weele (2005) goes deeper in this perspective. Indeed, he describes another type of contract (**cost-reimbursable**) which aims at reimbursing the supplier for his/her costs of production. Then, the price is based on fixed hourly rates related to costs and capital. However, the manufacturer should offer an additional clause to this contract, in order to motivate the supplier to decrease labor hours and/or costs, and thus to decrease his/her selling price. When both parties agreed on such a contract, the manufacturer should pay attention to the way the supplier administrates his/her costs: the maximum price should be written in the contract, and costs that are not reimbursed by purchases have to be invoiced separately.

There are also contracts related to quantity instead of costs and prices. The simplest one is the **quantity discount contract** (Jonsson, 2008). In this case, the manufacturer is charged with a decreasing price when the ordered quantity increases.

Another one is **quantity flexibility contract**. Cachon (2003) and Jonsson (2008) explain that such a contract is determined by a fixed price related to a certain purchased quantity. Then, up- and downward adjustments are possible. According to adjustments

made, the price will increase (if the quantity is decreased) or decrease (Lariviere, 1999). In this type of contracts, the manufacturer commits to buy an agreed quantity, if he/she does not, then fees will be charged. On the other hand, the supplier commits to back up additional units or production quantity. By doing so, he/she accepts to support an increasing risk, but he/she also determined a limited back-up quantity (Eppen & Iyer, 1997), as well as a possible higher price and higher delivery times.

In the case of a **sales-rebate contract** (Cachon, 2005; Jonsson, 2008), the manufacturer is charged with a predetermined price. However, if he/she decides to buy more items and passes a fixed threshold, then the supplier will apply a rebate per purchased unit. When negotiating such an agreement, the two parties determine the threshold for a certain period of time. Over that period, all orders placed for concerned item(s) will be concerned by the contract. Thus, the manufacturer is motivated to sell more in order to decrease the purchasing price, while the supplier will also increase his/her sales.

Another quantity related contract is the **buy-back contract** (Cachon, 2003; Jonsson, 2008). When agreed, this contract makes the manufacturer be charged with a predetermined price. In a second time, at the end of a previously agreed period of time, the buyer is going to be paid a fixed price for each remaining item. Since the obsolescence risk is minimized for the buyer, he/she is motivated to buy larger quantities and then to reduce the purchasing price. However, if the contract states that the supplier has to take back items, which is not mandatory, the manufacturer needs to have an efficient reverse logistics. Moreover, the supplier should be able to verify information about remaining items. Finally, during the negotiation, parties have to adjust the wholesale price and the buy-back rate at the same time.

The **revenue-sharing contract** (Cachon, 2003; Jonsson, 2008) aims at sharing the revenue generated by the relationship activities among actors. In such a contract, the manufacturer is charged with a predetermined price and then shares a percentage of his/her revenues with the supplier. Here, the manufacturer accepts to have a higher stock level; in return, he/she reduces the shortage risk. This contract also makes the manufacturer's net

margin decrease, and is interesting for the supplier only if the manufacturer manages to increase sales.

In addition to contracts, and in long-term agreement, supplier and buyer can agree on specific clauses. One of them is the **price protection clause** (Jonsson, 2008). Thanks to this clause, the manufacturer is allowed to source from another supplier if the price is lower, or he/she can force the supplier to sell items at the lowest market price. Finally, another clause is the escalation *clause* (Jonsson, 2008) or the **agreement with price adjustment** (van Weele, 2005). In the case of market sensitive materials where future costs are very uncertain, the supplier and the manufacturer can agree on increasing or decreasing price when costs evolve.

3.2.3 ASSESSING THE STRATEGIC IMPORTANCE OF A SUPPLIER

One way to assess how important a supplier is for a manufacturer is to analyze the latter's purchasing portfolio. This analysis can be based on the Kraljic Model (www.12manage.com, 2012). Following this method, the purchasing portfolio is analyzed through two dimensions. The first one is the profitability impact, which is the value added by the purchased item, the share of purchasing cost compared to the total cost, and the impact of purchasing costs on the profitability. The second one is the supply risk which represents the shortage risk, the existence of substitute products or technologies and the market structure, (i.e. is it a monopoly, an oligopoly? what are the entry costs?). This method is interesting, since it first analyzes the purchasing portfolio in order to identify the most important items, then it allows the manufacturer to adapt its approach to suppliers.

When the variable impacting the two dimensions are determined, the manufacturer is able to categorize the purchased items into 4 categories: the leverage, strategic, non-critical and bottleneck products. The following Figure 4 maps items according to their profitability impact and their supply risk:

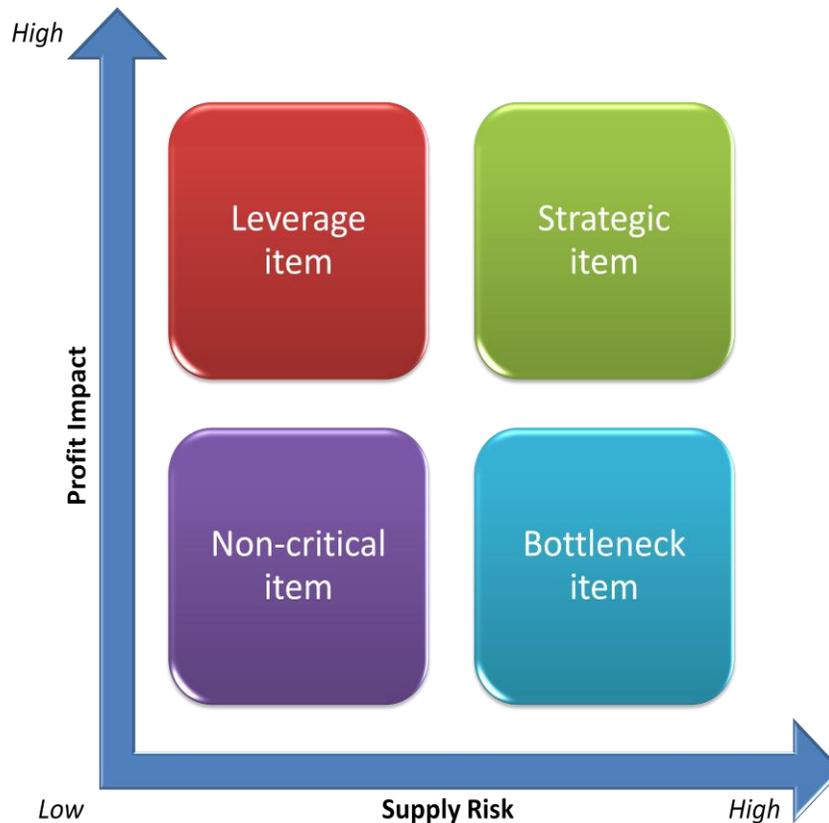


FIGURE 4 – KRALJIC MATRIX (WWW.12MANAGE.COM, 2012)

A leverage item is highly profitable and can be purchased from a lot of suppliers. Moreover, it is easy to switch from a supplier to another, as so far as the quality of the product is standardized. When such an item is at stake in the process, the bargaining power is held by the manufacturer and both parties are moderately interdependent. In this situation, the manufacturer can set agreements with several suppliers, and thus the order is an administrative formality.

Regarding strategic items, both supply risk and profitability impacts are high. Then such items are very important for the manufacturer. The negotiation process is characterized by equilibrium in terms of bargaining power. In addition, there is a high interdependency of parties involved, and thus, the relationship turns toward a close relationship, strategic alliance, or even the integration of the supplier into the process.

A non-critical item is an easy-to-purchase item, with a low impact on profitability and a standardized quality. As for a strategic item, the bargaining power of the supplier and

the manufacturer is equilibrated. However, in contrast to it, the two parties are independent from each other. Finally, the manufacturer can deal with these items by standardizing products in order to reduce costs and time consumption.

A bottleneck item is related to a monopoly market, where the supply risk is high for the manufacturer, whereas the impact on profitability is low. In such a situation, the supplier holds most of the power in the relationship, while both parties are moderately interdependent. Such items are generally dealt through VMI (vendor-managed inventory) organization. In order to reduce the supply risk, the manufacturer can look for new suppliers.

3.2.4 THE ROLE OF CONTRACT IN A SUPPLIER-MANUFACTURER RELATIONSHIP

In order to lower the risks incurred by the supplier concerning the manufacturer's withdrawal or other potential threats, the formal contract appears as a way to set formal structure to the transaction between a supplier and a manufacturer, and allows financial recourse in case of problem (Yu et al., 2006). Indeed, companies tend to be more confident into the relationship when they have the guarantee to control the activities of their business partners. In this sense, the formal contracts' role in a relationship is to create safeguards that seek at minimizing the potential supplier's losses implied by the uncertainty of the transaction, by clearly defining the recourse to undertake in case of trouble. This contract's role in the supplier-manufacturer relationship has been defined by the Transaction Cost Economics (TCE) theory developed by Williamson (1985), which describes what are the economic reasons leading companies to vertical integration. Yu et al. (2006) illustrate this definition by giving the example that suppliers may demand a guaranteed volume or a fixed price before investing in the transaction. Hence, the contract is from the supplier initiative, which requires from the manufacturer a guarantee when he judges the level risk or uncertainty of the transaction too important. This guarantee takes the form of legal contract, which lowers the risks implied by transactional uncertainty while providing economic weapons aiming at eliminating the opportunistic behavior of the manufacturer (Williamson, 1985; Zaheer & Venkatraman, 1995).

The purpose of the contract comes from the TCE assumption that the actors involved in the relationship act mostly in their own interest, and may behave in an opportunistic way. Indeed, the relationships are not created between firms, but between individuals working in each company, and sharing the same willingness to build a long term business relationship between two entities. Because of these assumptions about the potential opportunistic human nature, and because of the inherent uncertainty of each transaction, the manufacturing firm is required to provide a legal contract aiming at protecting the supplier's interests in case of trouble (Yu et al., 2006). In doing so, the supplier in ensured that the manufacturer will not break the relationship unilaterally, in their own self-interest. In this sense, the contract can be considered as a formal governance mechanism (Yu et al., 2006) to monitor and control transaction within the supplier-manufacturer relationship, and attain a win-win situation for the two partner companies. As stated by Williamson (1985), an appropriate legal framework for the transactions lowers the adversarial behavior between a supplier and a manufacturer.

3.2.5 THE INFORMAL CONTRACT

It appears that the traditional business practice relies for the most part on formal contracts in order to establish and maintain long-term commitment between business partners (Williamson (1975, 1985)). However, another form of contract, called social contracts, or “handshake agreements” has also been used for a long time between companies (Macaulay (1963), MacNeil (1980), Dore (1986)), and can take the shape of purchasing orders for example.

It is acknowledged that business relationships require a certain amount of agreement in order to exchange goods and information, and these agreements can use either formal or informal mechanisms. While the formal mechanisms clearly state the required degree of involvement, commitment and integration between companies by using written documents or agreements, informal mechanisms take the historical and social context of a relationship into consideration (Frankel et al., 1996). At the same time, informal mechanisms consider that the performance and the enforcement of commitment are outcomes that benefit to each one of the business partners (Macaulay (1963), MacNeil (1980), MacNeil (1978)). The informal mechanisms, like implicit contracts, are defined as “*unwritten agreements*”

between firms which are enforced not by formal authority and power but rather by the desire to create and maintain a positive reputation for integrity and fairness and build trust” (Frankel et al., 1996, p.49). In other words, these informal mechanisms can have a significant advantage towards written contracts, since it encourages mutual interest without the legal commitments which can be source of conflicts. Indeed, Young & Wilkinson (1989) stated that written agreements create more conflicts than unwritten ones. It hence appears that an alternative to formal contracts exists, that can lead to long-term commitment of companies without the use of legal safeguards.

3.3 TRUST IN SUPPLIER-MANUFACTURER RELATIONSHIPS

3.3.1 THE CONCEPT OF TRUST

In spite of the existence of a broad literature dealing with trust, there is still no clear definition or understanding of trust when it comes to supplier-manufacturer relationship (Laequddin et al., 2012). According to Halliday (2003), neither a simple nor a complicated definition of trust can help building it. However, the literature broadly acknowledges that trust is a complex issue, and a lot of factors have an influence on trust in relationships (Khalfan et al., 2007).

Trust has been identified as an important factor to ensure the success of a relationship (Krishnan et al., 2006). According to Chen et al. (2011), “*trust is defined as a willingness to rely on an exchange partner* (Moorman et al., 1993), *and characterized by the belief that the partner will not indulge in opportunistic behavior* (Noteboom et al., 1997)” (p.263). Morgan & Hunt (1994) argue that the building of trust implies that the party which receives trust is reliable and honest. Moreover, reliability and integrity appear to be related to some other behavioral concepts like honesty, benevolence, and competence (Dyer & Chu (2000), Joshi & Stump (1999), Kumar et al. (1995), Mayer et al. (1995)). As a result, trusting equals believing that the partner organization’s actions will provide positive outcomes for the trusting companies, while avoiding risks that could result in negative outcomes (Anderson & Narus, 1990).

The benefits implied by trust building have been largely discussed among the literature. Chen et al. (2011) argue that, among others, “*trust reduces the perception of risk associated with opportunistic behavior* (Krishnan et al., 2006; Moore, 1998), *diminishes the fear of information disclosure* (Li & Lin, 2006), *encourages information flow and strengthens the belief in the content of the information that is received*” (p.263). Moreover, it has been proved that trust has an important impact on a business relationship’s success (Nyaga et al., 2010), stability (Handfield & Bechtel, 2002), and performance (Zaheer et al., 1998).

3.3.2 THE TRUST MECHANISMS

The existing literature about trust highlights that trust relation involves at least two parts: the trustor, and the trustee (Laequddin et al., 2012). The trustor is the one which allows his trust to another part, putting himself in a vulnerable position and dealing with a high degree of uncertainty. On the other side, the trustee is the one which receives trust, and which can take advantage of the situation to abuse the trustor. Given this definition, two different ways of considering trust are developed in the literature.

The first way of tackling trust is to consider that trust only exists from the trustor perspective, as a set of feeling, cognition and emotions, but not from the trustee perspective. To support this stream of thoughts, the authors quote several definitions of trust, from different fields. In psychology, a largely used definition by Rotter (1967) states that trust is an idea, an expectation, or a conviction which is inside every individual and which origins comes from self psychological development. Sociology defines trust as the conviction that the other party will respect its commitment in order to attain a social wellbeing though the reliance on common agreements (Soroka et al., 2003). In the management field, trust is seen as a phenomenon which progressively reinforces itself (Zand & Dale, 1972). For Mc Allister (1995), trust is the personal assessment of another person’s reliability or capability, and highlights the emotional aspect of trust as a link between two individuals by defining it as “*affect-based trust*”. Authors also refer to trust as the fact that someone can rely or be confident on some aspects of the other part when doing business (Small & Dickie, 1999). All these different definitions have in common to argue that trust only depends on the trustor’s willingness to trust the trustee. Hence, this first

stream of arguments does not consider trust as viable, if the trustor is not ready to put his trust in the trustee.

The second way of thinking presents trust from a different perspective, arguing that the trust is part of the trustee. In this framework, the trustee is not necessarily another person, but can also be a competence, a piece of equipment, or a technology for instance. The trust is then not an emotional phenomenon anymore, but becomes a calculated and rational indicator, aiming at assessing the ability of the trustee to act as expected (Rousseau et al., 1998). The more the trust is, the more the trustee is supposed to give the expected results. Doney & Cannon (1997) argue that this concept of trust requires that one party assesses the other party. By doing this, the first party is able to build its own perceived probabilities of having the expected results. There is hence a need for the first party to collect historical data about the other one, to draw relevant conclusions about the level of trust of this second party. Many authors support this rational theory of trust, like Coleman (1990), who states that, before the decision of trusting someone else is actually taken, every individual calculates the benefits that can result from this decision. To summarize this second way of tackling trust, the concept of trust is here seen as an entire part of the trustee, and trust cannot exist if the trustee does not worth it. Moreover, it also depends on the ability of the trustor to gather relevant information about the trustee, and to calculate accurate statistics about the trustworthiness of the trustee.

Whether relying on the first or the second stream of arguments, one can notice that in both cases, the decision of trusting is always the trustor's one. However, the decision of trusting has two different origins. According to Deutsch (1958) trust is a non-rational choice made by someone facing an uncertain event, and who judges that the negative outcomes are more probable than the positive outcomes. On the other hand, for Zand & Dale (1972), trust is a rational and optimistic decision taken by one party, showing its reliance on another party when facing an uncertain situation on which the second party has not much control. Moreover, trust can in both cases be seen as a voluntary attitude of an individual to put himself in a vulnerable position because he expects a greater return than the risks he takes (Michalos, 1990). In that sense, the literature explicitly describes trust as a risky commitment (Luhmann, 1979).

According to Khalfan et al. (2007), trust is not created by incident. Trust appears when people have the possibility to build a relationship with other people, and develops all along the working project. The literature review showed that many authors have developed trust building models, in order to better define this process (Mayer et al., 1995; Doney & Cannon, 1997; Tan & Thoen, 2001; Sheppard & Sherman, 1998; Crotts & Turner, 1999). They have been working on these models considering the fact that trust building depends of three key elements supposed to be perceived positively by the trustor. These elements have been highlighted by Laeequddin et al. (2012), who describe them as following:

- The trustee's characteristics (ability, benevolence, integrity, credibility, ...)
- Rational (calculations, cost benefit, technology, ...)
- Institutions (contracts, agreements, control mechanisms, security, ...)

All these different models have in common to highlight two crucial factors when it comes to trust building.

First, information has a central importance in trust. If the companies involved in a relationship are totally aware of their partner's reliability, calculations, and so on, and when they are sure that the relationship is free of any risk, then there is no point to build trust (Laequddin et al., 2012). On the other hand, if the partners have no information about each other, and when they cannot forecast how the relationship will evaluate, they have no reason to build trust, since the risk incurred is bigger than the benefits they can get from trust. Hence, a certain level of uncertainty is necessary to build trust (Dasgupta, 1988).

Second, building trust does not imply that a company must have to risk something, but it clearly has to take a risk to start a trust relationship (Laequddin et al., 2012). If the trustor judges that his level of trust is higher than the level of risk incurred, he will engage in the trust relationship. However, if he judges that the risks are higher than the trust he puts on the trustee, he will not engage in the relationship (Mayer et al., 1995). Tan & Thoen (2001) reinforce this statement by arguing that individuals agree on a transaction only if their level of trust exceeds their level of risk incurred.

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Once all the parties have engaged in a trust relationship, they allow it to grow. According to Khalfan et al. (2007), many individuals start from a basic level of trust, and some factors act as trust enhancers and allow the relationship partners to work more efficiently:

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- Experience: Working with people on a day-to-day basis and evaluating the outcomes of the relationship creates trust. Indeed, if people prove they can be trusted, they will be trusted.
- Problem solving. Trust is not only about working together in a favorable environment, but also how they can work in an unfavorable one. The more the partners are able to solve problems together, the more the trust grows.
- Shared goals. It creates joint understanding of the roles and aims of project work, and everyone feels involved in the realization of one common project.
- Reciprocity. Team members have to support and reward each other's trusting behavior. A lack of reciprocity can critically damage the trust relationship.
- Reasonable behavior. Working fairly and professionally with the people in the project team.

3.3.4 THE ROLE OF TRUST IN SUPPLIER-MANUFACTURER RELATIONSHIP

As previously stated, contracts often appear to be the principal way to secure transactions between a supplier and a manufacturer. However, several authors, like Macneil (1980), argue that relationships rely for a great part on social elements like trust. Indeed, trust is perceived as a mean to facilitate the transactions within a supplier-manufacturer relationship, by decreasing the need of monitoring and bargaining from both parties (Barney & Hansen, 1994). As a matter of fact, increasing the level of trust within a relationship leads to an increased level of commitment of both companies (Holm et al., 1996), and facilitates the elaboration of joint strategies, the transactions, and the resolution of conflicts (Claro et al., 2003).

The presence of trust is also a way for both the supplier and the manufacturer to improve the production process from both perspectives, as pointed out by Narasimhan & Nair (2005), by the increase of JIT capabilities for example. This is due to the fact that a

higher level of trust creates proximity between the two entities of a relationship, which enables them to coordinate their operation in a more efficient way. Panayides & Venus Lun (2009) support this vision by stating that trust has a critical role in a supplier-manufacturer relationship, since most of the processes established between the two companies would not have worked as efficiently without the presence of trust.

3.4 CONTRACT AND TRUST RELATIONSHIP

When referring to Williamson (1985), the transactional risks ran by the supplier require the use of legal contracts. That is why manufacturers often need to provide explicit legal contracts to suppliers, as a proof of their commitment, and to allow supplier financial recourse. Indeed, Yu et al. (2006) argue that business partners are more confident in a transactional operation when they have the feeling to have a high level of control on the actions of the other party, and a way of recourse in case of problem. However, according to Dyer & Singh (1998) and Poppo & Zenger (2002), this vision of transactional operations within a supplier-manufacturer relationship relies too much on contracts to avoid uncertainty. When the relational aspect is taken into consideration, it appears that another type of mechanism, less explicit, can regulate the transactions between partners, and play the same uncertainty reducing role than legal contracts. This is notably the case of trust which, increasing the reliance of the supplier on the manufacturer, encourages the supplier to embark on transactions more freely. Indeed, and as stated before, the presence of trust is an important prerequisite for efficient supplier-manufacturer relationship (Krishnan et al., 2006).

It is acknowledged in the literature that a lack of trust in a supplier-manufacturer relationship is a major cause of failure of the relationship, as stated by Su et al. (2008). Indeed, according to Chen et al. (2011), a lack of trust in a relationship leads to a situation where every transaction between partners has to be analyzed and controlled, which drastically increases the cost of the transaction. These increased costs often come from the need to create detailed and complex contracts to avoid the uncertainty implied by the lack of trust. These contracts, encompassing detailed agreements on confidentiality, exclusivity, or even continuous improvement clauses as pointed out by Fawcett & Magnan (2004),

need a special attention, and it appears that the less trust it is, the more complex the contract is. That is why it can be observed that if there is not a sufficient level of trust within the supplier-manufacturer relationship, both involved companies seek at setting a clearly defined legal context to the cooperation.

Yu et al. (2006) have explored these interrelations between what they call “relational governance mechanisms”, such as trust, and “formal governance mechanisms”, such as contracts. According to them, the presence of trust sends a signal to the supplier that the manufacturer is reliable, which leads to the undertaking of transactions without any need to create explicit contracts. Moreover, the presence of trust reduces the perceived uncertainty of the transaction. In that sense, trust and contracts would act as substitutes to each other. Some early studies ran in Japan (Dore (1986); Fruin (1992); Nishiguchi (1995)), Silicon Valley, USA, (Saxenian, 1994) or Europe (Piore & Sabel (1984); Best (1990); Harrison (1994)) have as a matter of fact already pointed out that relying on trust in a relationship worked as a substitute to formal contractual safeguards. This is supported by Ring & Van de Ven (1994), who highlight this substitutive relationship between trust and contracts. They also argue that informal contracts, or handshake contracts, based on trust, can serve as substitute for formal contracts when there is the presence of trust. Indeed, Dyer & Singh (1998) argue that, since the presence of trust reduces the transactional costs and need of control, both partner companies benefit from replacing the formal legal contracts by trust. These authors also state that the marginal costs implied by the creation of a formal legal structure to transactions are higher than the costs implied by the creation of a trusting structure, since contractual recourses often imply equity expenses or other types of compensations, like bonds.

As a conclusion, trust is acting in a supplier-manufacturer relationship as an investment incentive and uncertainty inhibitor, while clearly decreasing the transactional costs. In that sense it is acknowledged that trust is a highly efficient substitute to legal contracts (Yu et al., 2006).

3.5 EFFICIENCY IN THE SUPPLIER-MANUFACTURER RELATIONSHIP

3.5.1 THE EFFICIENCY CONCEPT

Relationship efficiency is nowadays seen as a one of the most important performance aspect in a supplier-manufacturer relationship (Lo et al., 2009). Contrary to a general belief, relationship efficiency is not only about the costs involved by the relationship operations, but also about lead-time performance (Yeung et al., 2008), delivery times (Li & O'Brien, 1999) and inventory level (Kojima et al., 2008). For manufacturing firms, the accuracy of delivery or manufacturing lead time is called time-based efficiency (Yeung et al., 2004; Yeung et al., 2005). An efficient relationship is a relationship that coordinates the flows of products and services, meaning that it minimizes the inventories and maximizes the efficiency of the companies which are part of this relationship (Fisher, 1997). According to Iyer et al. (2009), a predictable demand for functional products enables the companies to optimize the capacity utilization and minimize the inventories for both partner companies, while decreasing the costs for the end customer. Hence, the efficiency seeks at maximizing the ratio between both financial and non-financial inputs and outputs of the relationship. The efficiency can also be seen as a part of the relationship performance, since its purpose is to draw the best of the supplier-manufacturer relationship (Lo et al., 2009).

3.5.2 EFFICIENCY MEASUREMENT IN THE SUPPLIER-MANUFACTURER RELATIONSHIP

The literature traditionally refers to relationship management as the monitoring of several simple and clearly separated business functions (Wong & Wong, 2007). In this traditional framework, Stewart (1997) argued that the relationship was driven by manufacturers, which were controlling and managing the development, production and distribution rhythm of the products. In these conditions, the efficiency measurement of a relationship could be done easily due to the clear compartmentalization of the processes. The formula below used to be used to calculate the efficiency:

Traditionally, the efficiency was measured by dividing the revenue by the total relationship operation costs:

$$efficiency = \frac{total\ revenue}{total\ relations\ hip\ operatio\ n\ costs}$$

However, the changes that occurred in the past few years have forced the managers to find a new way of measuring efficiency. Indeed, the new customer's requirements on quick order fulfillment and fast delivery have made the efficiency of the relationship difficult to calculate (Stewart, 1997). It appeared that new factors had now to be taken into consideration, especially non-financial factors like delivery rate or percentage of order fulfillment for example (Wong & Wong, 2007). Multiple performance measurement tools were created, which as a consequence, made the measurement of efficiency more difficult. Given this fact, several authors argued that more sophisticated tools were required to measure the relationship efficiency, to face its increased complexity (Yee & Tan (2004), Rao (2006), Takala et al. (2006)). In order to reflect accurately the efficiency of a supplier-manufacturer relationship, these measurement tools should not only take into consideration financial data, but also qualitative information concerning the relationship.

Later, several tools to measure the relationship efficiency have been created. Among the most common tools to measure efficiency can be found the "spider diagram" and the "Z chart". However, even if the graphical aspect makes them easy to read and understand, the drawback of these tools is that it is not possible to measure efficiency when there are too many metrics. It is important for the efficiency measurement to be multidimensional, since the more accurate the result is, the more the companies are able to take relevant strategic decisions in a complex and competitive market (Helo (2005), Wagner et al. (2002), Charnes & Cooper (1978)). Wong & Wong (2007) support this stream of arguments, arguing that the overall efficiency of a supplier-manufacturer relationship cannot be calculated only via financial ratios like return on sales or return on investment. Hence, the efficiency measurement model presented above, which does not allow multiple inputs and outputs, are not in a position to provide a relevant and accurate measure of the relationship efficiency, and is also not taken into consideration in this research.

Wong & Wong (2007) point out the fact that an efficient supplier-manufacturer relationship is achieved through the performance evaluation of the whole operations of the relationship. In other words, the authors argue that the resources of the partners should be put in common in an efficient way, in order to propose competitive and cost-effective products and services. They also define the overall relationship efficiency as a metric which

encompasses many performance indicators of both partners, as well as the coordination and integration performances of these partners. Hence, it appears that managing the whole relationship efficiency is a complex task, which requires multidimensional measures from both partner companies involved in the relationship.

3.5.3 CONTRACT AND EFFICIENCY

3.5.3.1 FORMAL CONTRACTS

Even if contracts structure the supplier-manufacturer relationship, it appears that they do not necessarily solve all issues. While designing their model, Cachon & Lariviere (2001) pointed out the impact of information sharing on the efficiency of the supplier-manufacturer relationship. They discussed two perspectives: a full information context, that is to say, forecasts are known by both members of the relationship; and an asymmetric information context, where the manufacturer has more information than the supplier. The following review will adopt their points of view, i.e. under forced and voluntary compliance.

In a full information context and under forced compliance, the supplier has to implement enough production capacity to cover the largest final possible order and he/she can only choose to accept or not the contract offered by the manufacturer. He/she “*is left with [the] minimally acceptable return*” (Cachon & Lariviere, 2001, p.634). On the other hand, the manufacturer can choose contract’s characteristics and is motivated to multiply contracts, as so far as it maximizes his/her objective. In this context, the optimal efficiency is not reached, since the manufacturer earns all profits from the exchange.

If the supplier voluntarily complies, then he/she can choose whether he/she accepts the contract or not, but he/she also can determine what production capacity should be dedicated to the contract after it has been accepted. The manufacturer has no other choice than to offer a price only contract, where the relevant parameter is the wholesale price. Once again, the efficiency can be questioned, since the supplier holds most of the power in the relationship.

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In an information asymmetry context and under a forced compliance regime, the supplier does not have to believe the manufacturer when he/she offers a contract. However, the contract is always credible and the manufacturer decides what capacity the supplier has to build to fulfill the agreement. Moreover, the supplier does not earn anything for realizing the demand. Then, in this context, the efficiency of the relationship is also questionable.

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Finally, when the supplier voluntarily complies, he/she is the only one who can decide what capacity should be allocated to the agreed terms of the contract. The contract offered by the manufacturer has to convince the supplier about forecast accuracy but also about what is the adequate capacity to build in order to fulfill commitments. In this case, the optimal efficiency is reachable if the relationship between the two parties overcomes lack of information or asymmetric information. It is in this context that trust is deeply involved in the relationship.

3.5.3.2 INFORMAL CONTRACTS

Frankel et al. (1996) ran a case study among four manufacturing companies and their supplies, through a dyadic study. The aim of the study was to evaluate the role and impact of contracts in the relationships between the manufacturer and the suppliers. This study revealed some interesting points about the impact of contracts on efficiency. In two of the business relationships, formal contracts did not exist. Instead, the manufacturer gives purchase orders to the supplier, and the prices were agreed between parties based on volumes. In case of need, adjustments were made to match the price/volume gaps. In the questionnaires, the manufacturers which were using informal contracts indicated that an efficient relationship did not have to be supported by a written contract. On the other hand, the manufacturers which used legal contracts strongly agreed that a written contract was required for an efficient relationship (see figure 5 below).

Informant	Contract status in the alliance	Mean response "written contract is required for an effective alliance"	Agreement with actual alliance behaviour
Manufacturer A	Yes	4.50 – strongly agree	Yes
Manufacturer B	Yes	4.50 – strongly agree	Yes
Manufacturer C	No	2.50 – disagree	Yes
Manufacturer D	No	2.00 – disagree	Yes
Material supplier A	Yes	2.00 – disagree	No
Material supplier B	Yes	5.00 – strongly agree	Yes
Material supplier C	No	2.50 – disagree	Yes
Material supplier D	No	4.50 – strongly agree	No

Note: Scale: 1 = strongly disagree; 5 = strongly agree

FIGURE 5 - CONTRACT IMPORTANCE IN SUPPLIER-MANUFACTURER RELATIONSHIP (FRANKEL ET AL., 1996)

This study pointed out the role of contracts with regard to achieving and maintaining a successful supplier-manufacturer relationship. As can be seen in the table 6 below, it appeared that the written contract is clearly seen as a low priority, both from the supplier and the manufacturer’s perspective. While legal contracts were ranked in the last important aspects of relationship success, this study clearly highlights the fact that the elements of informal contracts, like trust, were perceived by both manufacturers and suppliers as much more important elements of relationships success.

Logistical alliance success factors	Importance to manufacturers (<i>N</i> = 9)	Importance to material suppliers (<i>N</i> = 7)
Trust	4.89	5.00
Senior management support	4.44	4.86
Willingness to be flexible	4.33	4.86
Partner compatibility	4.33	4.57
Sharing of critical information	4.22	4.57
Ability to meet performance expectations	4.22	4.71
Consistent goals	4.11	4.71
Clear goals	4.00	4.71
Accomplishment of original objectives	4.00	4.14
Leadership on our part	3.67	4.71
Equivalent physical resource commitment	3.44	4.00
Equivalent human resource commitment	3.44	3.71
Compatible information systems	3.44	3.14
Written agreement or contract	3.11	3.14
Lack of individual financial constraints	2.89	3.43

Note: Scale: 1 = not important; 5 = extremely important

FIGURE 6 - KEY SUCCESS FACTORS OF A SUPPLIER-MANUFACTURER RELATIONSHIP (FRANKEL ET AL., 1996)

This article proved that informal contracts can be perceived as much more important than formal contracts to ensure the efficiency of a relationship, both from the suppliers' and the manufacturers' perspectives. According to the authors, informal social contracts, shaped by the context of the relationship (i.e. soft skills, historical), more accurately reflect the true nature of long-term commitment to the relationship.

3.5.4 TRUST AND EFFICIENCY

Trust often appears in the literature as a critical factor to ensure the success of a supplier-manufacturer relationship (Laequddin et al., 2012). According to Spekman & Davis (2004), trust is a prerequisite to build a relationship, and is a key element to manage risks within this relationship (Kasperson et al., 2003). At the same time, Sinha et al. (2004) argued that a lack of trust was the main element that enhances the relationship's risks. Chen et al. (2011) add that insufficient trust among the relationship creates a situation where every transaction has to be analyzed and verified, which drastically increases the transaction costs. Hence, trust is broadly perceived as a tool which enables the managers to fulfill the organizational goals and increase the competitiveness of the company, while reducing uncertainty and vulnerability (Mollering, 2004)

Reciprocal trust appears to be of a crucial importance to increase performance (Gbadamosi et al., 2007). In a supplier-manufacturer context, the literature has proved that trust is a factor that influences positively many performance indicators. Among others, trust is related to cycle time reduction (Handfield et al., 1998) and increased flexibility (Handfield (1993), Hult et al.(2000)) which are key elements of efficiency, and improved customer satisfaction (Handfield & Nichols, 2002), which is more related to effectiveness. Moreover, according to Handfield & Betchel (2002), the building of trust enables to increase the supplier responsiveness. The factors highlighted by Khalfan et al. (2007), like experience, problem solving, or reciprocity, then appear to be clearly related to relationship efficiency improvements. As stated by Panayides & Venus Lun (2009), it can be concluded from this literature that a supplier-manufacturer relationship that includes high level of trust will positively influence the relationship performance, and hence its efficiency.

3.6 OPERATIONALIZING THE THEORETICAL FRAMEWORK

In order to go further in the research and to get empirical evidences, it is necessary to outline what information the interview guide is supposed to provide. The theoretical research pointed out some key elements of the different concepts that will be operationalized in order to run a relevant empirical study.

First of all, it appears that the way trust and contract interact is not decided randomly. The building of formal or informal relationships comes from a complex and long process between companies, taking its origins from the history of the relationship, and the soft skills of the people building the relationship. Indeed, the literature review proved that trust is built between individuals sharing the same will to create a long term relationship. Hence, the interactions between trust and contract originate from the context of the relationship, and the motivations and behavior of the people building this relationship.

Whether relying more on contract or trust for transactions, it is then the relationship itself, the operations and communication that link contract and trust. It appears that formal and informal contracts do not have the same relationship with trust. Formal contract and trust can coexist but do not apply to the same level of operations. Indeed, the contract is mostly used at the company level, when the structure is so big that it is difficult to find a

trustworthy representative. But it is also clear that they are substitute to each other. The more the trust is, the less space is left for formal contracts and vice versa. On the other hand, the trust is at an individual level, when two or more managers of the supplying and manufacturing companies work together to ease the transactions. Informal contracts are hence much more compatible with trust and contribute to attain the relationship's goals more effectively.

Finally, it can be stated that both formal and informal contracts, associated to trust, influence the efficiency of the supplier-manufacturer relationship. The formal contract provides a framework which ensures protection to the supplier, and recourse in case of conflict. In that sense it enables the relationship to work on a formal way, clear for each partner, and enables to avoid malfunctioning, which is a way to increase efficiency. On the other hand, this requires a heavy elaboration procedure, where every transaction has to be analyzed and monitored, in order to ensure the transactional safeguards. Informal contracts influence the relationship by the degree of closeness that it brings to the relationship. Indeed, people build trust on a long term basis in order to make the relationship durable. The transactions are hence easier and more fluent, since an informal agreement is sufficient to undertake a transaction. In this sense, it is also easier to invest in a relationship when one part is convinced that the other part will respect its commitment. Informal contracts are hence less heavy than formal contracts and are much more able to influence the efficiency of a relationship when coupled with trust in a relationship.

This operationalization of the concepts of the literature review has been modeled in the following graph, in order to draw a theory analyzing model:

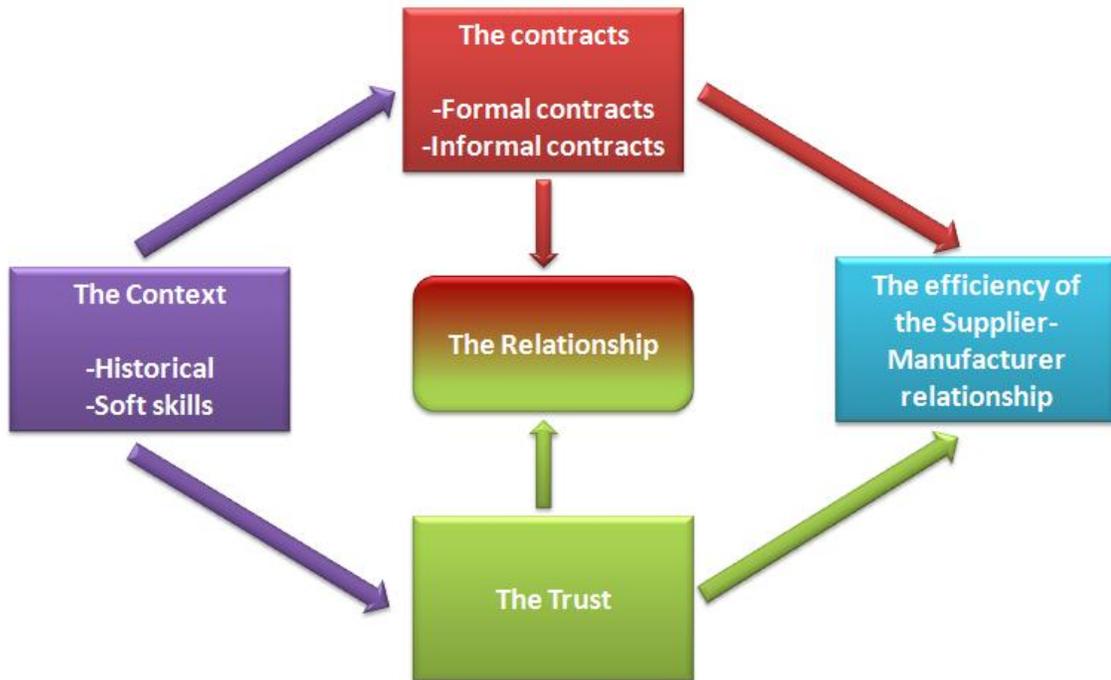


FIGURE 7 – THEORY ANALYZING MODEL (SOURCE: OWN)

4. EMPIRICAL FINDINGS

In this chapter, the authors will provide the study with empirical findings. First, a presentation of the studied companies, the context of the relationships and the relationships themselves will be made. Then, the manufacturer's point of view and the suppliers' perspectives will be introduced. Finally, a summary of findings will be presented in order to ease the reading.

4.1 THE SUPPLIER-MANUFACTURER RELATIONSHIP

Ferrero France's organization is characterized by a separation of business unit's activities and operations' activities. While, the first buys and sells products, the later is responsible for producing. Thus, the business unit gathers all commercial, marketing, human resources and most of supply chain activities like demand planning, deliveries or repacking, whereas operations are in charge of related-to-production activities like raw materials or factory planning. This study will focus on business unit's activities and more especially on supplier-manufacturer relationships in the framework of copacking activities, which are located in two warehouses: one in Grand Quevilly, the other in Satolas et Bonce.

Copacking is the process of transforming finished goods in order to fit customers' requirements. It encompasses activities such as changing (increasing or decreasing) size lot, mixing products, or repackaging products. Most of products which goes out of copacking activities are ready-to-sell products, that is to say these products are ready to be put on shelves or to be included into island displays.

4.1.1 COMPANIES PRESENTATION

The two relationships that will be investigated in this paper are about products that are consumed during the copacking process. Thus, the two sampled suppliers are: Palettes Derou. and Saicapack. The two of them are considered as strategic suppliers by Ferrero, according to profitability and supply risk (cf. Kraljic matrix), but also according to the amount of purchases made by the manufacturer from these suppliers.

Palettes Derou is a SME (Small and Medium Enterprise) that supplies quarter-pallets, which are standardized items, used in most of copacking activities (except box-sized packaging). Goods provided by Palettes Derou have an impact on profitability of Ferrero since there are used in most of copacking production and allow Ferrero to fulfill commitments towards customers. A supply risk can occur if Ferrero needs to meet an increased demand, or if the supplier faces a shortage in raw material replenishment.

The other supplier, which the investigation will focus on, is Saicapack. Goods provided by this supplier are cardboard cases which are used to repack products (for instance, inputs are ten-unit cases and outputs are twenty-two-unit cases). Saicapack goods are only involved for three types of product (Kinder Maxi, Kinder Country/Cereali and Kinder Surprise), which are highly profitable for Ferrero. Moreover, the supplier provides an international aspect to the analysis, since the plant is located in Spain. The distance between the two parties increase the supply risk for goods provided by Saicapack. Indeed, deliveries are highly reliable on transportation means. Thus, if a transportation problem occurs, there is a risk of shortage at Ferrero facilities.

4.1.2 THE CONTEXT

The procurement process in which the supplier-manufacturer relationships are investigated in this research takes place in an informal context, according to Ferrero's Purchaser. Indeed, so far, Ferrero has not implemented supply contracts with suppliers. Thus, the only formal agreements between companies are purchase orders. It means that the transactions between Ferrero and its suppliers are currently not formalized, even if the relationships are successful. However, Ferrero is now looking for implementing contracts with these suppliers. This has been motivated by a willing to improve, optimize the relationships. The explanation given is that the company is moving from a family business to a big company very fast and the implementation of new processes is slower than changes that Ferrero has to face (Ferrero's Purchaser).

From Ferrero point of view, the procurement process can be divided into two steps. The first one is handled by purchasing department, the second by the packaging manager (the Figure 8 represents the flows between the manufacturer and the suppliers). In the first

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step, new packagings are developed. The quality, prices, and lead-times are negotiated between Ferrero's purchasing manager and the suppliers as well during this step. Then, purchase orders are finally placed according to the demand forecasts of Ferrero. From this point, the packaging manager takes over from the purchaser. He is responsible for handling weekly deliveries according to copacking planning and inventories. Once the orders are placed, the warehouses are in charge of checking nonconformity of deliveries. In case of post-transaction dispute, the purchasing department is responsible for dealing with invoicing issues. Both supplier and manufacturer agree that on a general basis the more they communicate the better the transactions are.

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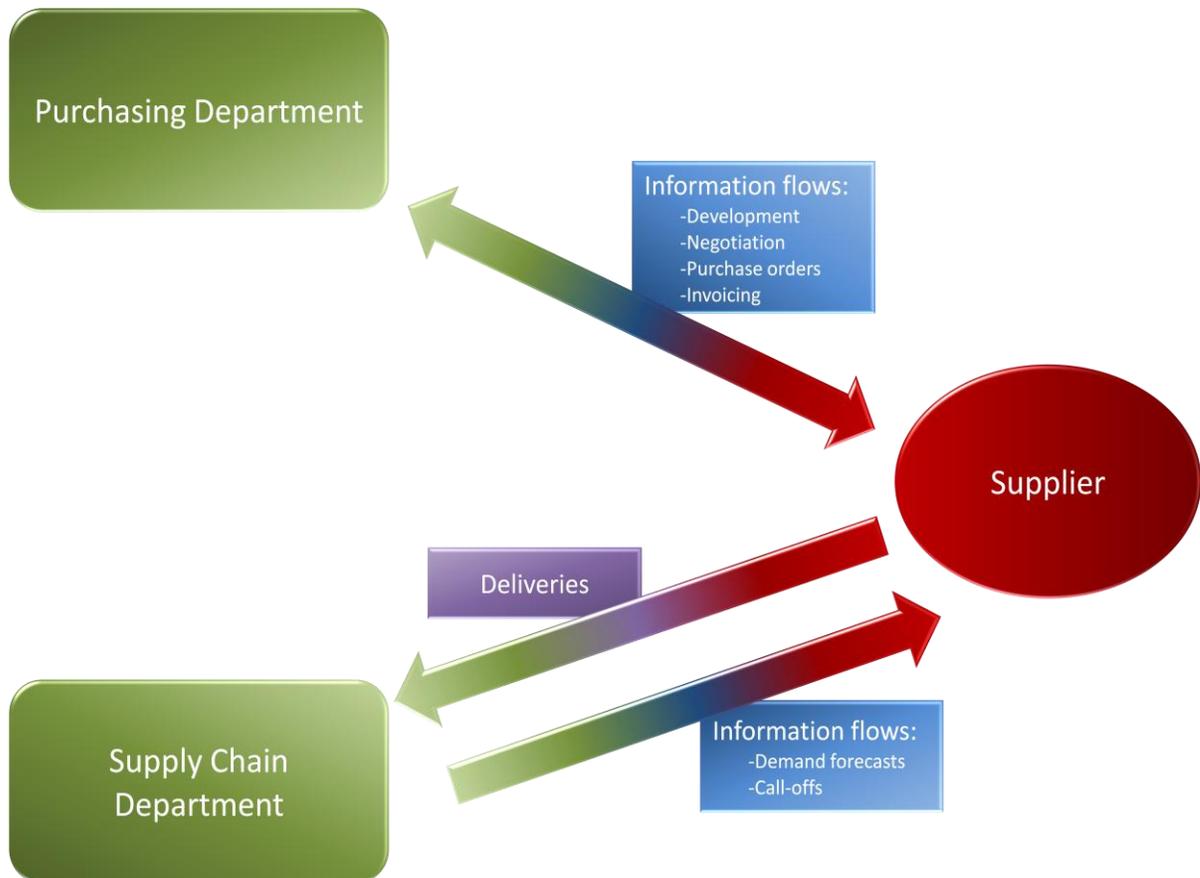


FIGURE 8 – SCHEME OF FLOWS BETWEEN FERRERO FRANCE AND THE SUPPLIERS

Besides this process, which common to all the copacking suppliers, some specificity can arise, depending on the supplier involved in the relationship (Ferrero's Upstream Supply Chain Manager). The relationship between Ferrero and its suppliers sometimes

creates a proximity that leads to specific situations. For example, Palettes Derou is the only supplier of $\frac{1}{4}$ pallets used by Ferrero. As a strategic supplier, it is of a crucial importance for Ferrero that Palettes Derou delivers the right product at the right time. However, in the historic of the relationship, the research has found that Palettes Derou faced some financial difficulties some years ago. Ferrero, aware of the strategic importance of its supplier, decided to back it by easing the administrative procedures and reinforcing their commitment with them. One can find specificity with Saicapack, since the company provides wood pulp. Indeed, due to the growing important on a global base of sustainable development, both companies decided to work together on the implementation of a FSC (Forest Stewardship Council) Certification (See Appendix 8.6). This certification aims at proving to the final consumer that Ferrero is environmentally friendly, which will be beneficial for Ferrero as for its supplier.

The empirical research however pointed out a difficulty for Ferrero to identify key events in the relationship's history. In the opinion of Ferrero's Upstream Supply Chain Manager, it is inadequate to try to point special events that could characterize the relationships, since they are meant to last. According to him, these are privileged relationships, allowing companies to grow together. He also stated that supply relationships are considered as long term collaborations. Therefore, according to him, there are no major events that made the relationships evolve, but a control of quality and service quality over long term. He explains this vision of quality business through the corporate culture of Ferrero, which gives priority to a family business management.

4.1.3 THE RELATIONSHIP BETWEEN FERRERO AND PALETTES DEROU

The relationship between Ferrero and Palettes Derou has begun in 1993, when Ferrero's supply chain department was created. According to Palettes Derou Sales Manager, the two companies work together and understand each other thanks to the contribution of Mr. Del Vecchio, who is the former head of Ferrero France Supply Chain department. Indeed, over the relationship, he has shown a strong willing to get to know all range of services that Palettes Derou could provide. This involvement and interest in the partner company brought mutual trust into the relationship, and this trust is still lasting in today's relationship.

The relationship between the two companies, where the supplier is the single sourcing of Ferrero regarding ¼ pallets, is thus structured by the existing trust, and not by any formal contract. However, there are open orders that formalized exchanges between the supplier and the manufacturer. When running the interviews within Ferrero and Palettes Derou, it has been noticed that the watchword of the relationship was to avoid supply shortage. This accuracy in supply is indeed enabled by a high flexibility of the supplier, which can provide quickly the right amount of products needed by Ferrero. In return, and to spin out the relationship, Ferrero has proved its commitment in the relationships by accompanying Palettes Derou while facing financial problems, by easing the administrative procedures and not looking for another supplier.

4.1.4 THE RELATIONSHIP BETWEEN FERRERO AND SAICAPACK

Over the last ten years, several things have made the relationship between Ferrero and Saicapack evolve. First, in 2005, the family business Cartonajes Rakosnik has been bought by Saicapack Group. Following this operation, three purchasing managers have succeeded one to another at the head of Saicapack purchasing department. According to Saicapack these have impacted the way the two companies now work together. Changes are about different expertise fields within Saicapack. Mrs. Bartelloni mentioned specific changes in the following fields:

- The technology watch, meaning that Saicapack was more willing to inform and/or offer Ferrero technological innovations,
- The creation watch , aiming at sharing experiences about how to protect products and make them be ready to sell
- The economic watch, in order to ensure the price competitiveness and flexibility required by Ferrero.

Ferrero and Saicapack have managed to build such a relationship thanks to the adaptability of the two companies. Indeed, even if there are standard lead-times and processes, both of them are flexible enough to ease each other's business. According to the type of product (standard or promotional) concerned by the replenishment, supplier's lead-time varies from about two weeks to five weeks (see Appendix 8.6). However, this lead-

time can be reduced, by adjusting some production times or transportation times. Despite this good relationship, one can however notice that Ferrero regularly confronts Saicapack with its competitors. The lack of formal agreements between them enables such situations, which encourages innovativeness within Saicapack while increasing the bargaining power of Ferrero.

4.2 FERRERO'S PERSPECTIVE

4.2.1 WHAT MAKES A GOOD RELATIONSHIP?

According to Ferrero Purchaser, in order to have a good relationship with partners, it is important to be transparent, to respect each other, and to be open-minded. Moreover, a good relationship is also based on reactivity, to be able to face any change in supplier's lead-time or to be able to respond to anticipated need. Finally, a good relationship is related to a match of two parties, regarding price, quality, lead-time and corporate social responsibility. In other words, a good relationship is related to close corporate values and to trust between parties. From the Upstream Supply Chain Manager's perspective, a good relationship is based on fair prices, on fair service level, and on straightforwardness. A good relationship also implies confidentiality and transparency. This transparency holds on problem. In his mind, it is important for a good relationship to communicate on problems that can happen, and so both companies can work on solving it. A relation is good when both parties work on solutions. Finally, he thinks that, if a relationship is meant to last, the manufacturer should be treated in a specific way, that is to say, according to its needs and expectations.

4.2.2 WHY THE RELATIONSHIP WORKS

Sometimes, technical, organizational or people-related issues can occur, for several reasons. According to Ferrero Purchaser, employees who are in charge of the case are the most important factor, when solving the problem. If there is a good relationship between the supplier and the manufacturer, then there is a good communication, which allows issues to be anticipated and thus consequences to be minimized. If there is no way to anticipate the problem, then people in charge should handle it as quickly as possible and implement solutions in order to prevent the problem happening again. Therefore, the relationship is

highly relying on trust, transparency, and respect between the supplier and the manufacturer. The relational and social aspect is also really important, since the success of the operations depends on the ability of the employees to work together and find a consensus. According to Upstream Supply Chain Manager, the relationships between Ferrero and its suppliers work because all parties are reliable partners, which all respect what they committed to perform. Moreover, Ferrero wants to implement a win-win policy with not only its suppliers but all its stakeholders (it is part of Ferrero Group's *Code of Business Conduct*). Therefore, there is a will from Ferrero to share advantages with its suppliers. In other words, the relationship works because there is mutual respect involved in. Finally, communication is an important factor to make the relationship works. Thanks to it, projects are anticipated so it is possible to avoid problems.

4.2.3 THE IMPACT OF TRUST AND CONTRACT ON THE EFFICIENCY

According to Ferrero Purchaser, an efficient supplier-manufacturer relationship should be based on trust, transparency, respect, and the will to improve existing things. Regarding that, relationships with suppliers are considered as very efficient with Saicapack and efficient with Palettes Derou. These appreciations are confirmed by the Upstream Supply Chain Manager. According to him, an efficient relationship is related to the quality-price ratio, which should be competitive, to service level and to reactivity. Moreover, he expects suppliers to be proactive and to inform Ferrero about new tooling and new raw material opportunities but also about any improvement that would be profitable to discuss and maybe implement. According to Ferrero purchasing manager, the relationship cannot be efficient without any contract. However, it can be efficient without any written contract. If there is no written contract involved in the relationship, orders, negotiated price agreements and supply process should clearly stated and defined. A contract makes these aspects be formal. According to Upstream Supply Chain Manager, a real trust between parties allows the relationship working and being efficient, even if there is no contract. He considers contract as an administrative formality, a legal requirement in the form of an order or a more formal agreement but not necessary to make the relationship to be efficient.

4.2.4 THE IMPORTANCE OF TRUST AND CONTRACT

According to Ferrero purchasing manager, both trust and contract are important in an efficient supplier-manufacturer relationship. Indeed, a contract as a written agreement is important but not necessary, while discernible and real trust is essential. According to Upstream Supply Chain Manager, trust, without hesitation, is the most important to make the supplier-manufacturer relationship be efficient. The contract is a virtual thing in the operational aspect of business.

4.3 PALETTES DEROU'S PERSPECTIVE

4.3.1 WHAT MAKES A GOOD RELATIONSHIP?

According to Palettes Derou, a good relationship is based on a good contact between people, which leads to an efficient partnership. The social aspect is seen as much more important than the legal framework of the relationship. According to the Sales Manager, a good relationship is only possible if parties know each other well but also are able to recognize each other.

4.3.2 WHY THE RELATIONSHIP WORKS

From Palettes Derou's perspective, a good relationship depends most on people in charge. Since relationships are created between people and not between organizations, the social skills of the people in charge of the relationship, and their ability to develop and maintain a good relationship are the keys to a sustainable relationship. Another factor that makes the relationship successful is the flexibility of the supplier. The fact that palettes Derou has a great flexibility enables Ferrero to place or modify their orders quickly, which creates a good trade dynamic and allows to find a quick solution when problems occur.

4.3.3 THE IMPACT OF TRUST AND CONTRACT ON THE EFFICIENCY

In Palettes Derou Sales Manager's perspective, the relationship with Ferrero is efficient in all areas, but price negotiations. In Palettes Derou Sales Manager's opinion, trust suits better than contract within the relationship with Ferrero, and increases the efficiency of the relationship. He explains it through family roots of Ferrero, its economic weight and its image, and this relationship is judged as efficient by Palettes Derou.

4.3.4 THE IMPORTANCE OF TRUST AND CONTRACT

According to Palettes Derou, the trust has the greater impact on efficiency. The context of the relationship (i.e. the historic and the skills of the managers who created the relationship) makes it totally oriented towards trust. The Sales Manager states that a contract does not suit the way the business is run and infringes flexibility.

4.4 SAICAPACK'S PERSPECTIVE

4.4.1 WHAT MAKES A GOOD RELATIONSHIP?

In the supplier's perspective, as so far as Saicapack is concerned, a good relationship takes place when both parties try to understand and trust each other. Indeed, the supplier should be able to adapt to any problem, looks for a zero default objective, given that this objective is not always reachable in Saicapack industry (cardboard packaging). Then, a good relationship also relies on the manufacturer, which should be able reassess itself regularly and to realize that the supplier is competitive. Finally, a good relationship is related to how both parties interact, that is to say the supplier should be flexible, and the manufacturer should be able to prioritize items, in order to take into account supplier's lead-times.

4.4.2 WHY THE RELATIONSHIP WORKS

According to Saicapack, there are three factors that make the relationship with Ferrero work. First are the human interactions, i.e. companies are in touch through people who are able to communicate and to share information. Then, Ferrero is said to be professional in the way of working, regarding ordering, open-mindedness and the quality of supply management. Finally, the relationship between Ferrero and Saicapack also works thanks to flexibility of the supplier and its ability to face emergencies.

4.4.3 THE IMPACT OF TRUST AND CONTRACT ON THE EFFICIENCY

According to Saicapack, an efficient relationship is based on trust, respect and open-mindedness. Thus, the relationship is judged as efficient. This is mainly due to human relations, since it is said that Ferrero, according to Saicapack, looks for suppliers that match some requirements like good quality, high flexibility and very competitive prices.

Trust and contract effects on the efficiency of the supplier-manufacturer relationships

4.4.4 THE IMPORTANCE OF TRUST AND CONTRACT

According to Saicapack, in efficient supplier-manufacturer relationships, the trust is the most important. A contract is necessary as specifications of each part’s responsibilities; it is a framework for inventory levels or delivery specifications for example. It is not the formalization of trust within the relationship

4.5 SUMMARY OF THE EMPIRICAL DATA

4.5.1 WHAT MAKES A GOOD RELATIONSHIP?

The answers from the different respondents have been summarized in the following table. It shows that three factors are shared by the supplier and the manufacturer, when it comes to qualifying a good relationship: the trust between partners, the reactivity and flexibility of the other part, and a closeness of the business partners. These results tend to prove that suppliers as manufacturer rely more on informal mechanisms when undertaking a business relationship, and they are convinced that these are the key elements to attain a good relationship. According to Saicapack, trust and contract allow the relation being healthy and long-standing, where both the supplier and the manufacturer will evolve in a win-win situation.

	Manufacturer	Supplier
Individual Factors	Transparency Respect Open mind Good communication Consideration from the Supplier	Involvement of the partners in the relationship Consideration from the manufacturer
Common Factors	Trust between partners Reactivity/flexibility Closeness of partners	

TABLE 4 – FACTORS INFLUENCING THE RELATIONSHIP

4.5.2 WHY THE RELATIONSHIP WORKS

Here, the social aspect is clearly pointed out as a success factor for the relationship. Both manufacturer and supplier highlighted the employees' skills and human interactions as critical when it comes to business relationship. Indeed, since trust and closeness have been identified as factors to describe a good relationship, it is in the nature of things that social interactions are the tools to attain this good relationship since trust and closeness arise between individuals.

	Manufacturer	Supplier
Individual Factors	Trust Transparency Mutual respect	Flexibility of the supplier
Common Factors	Human interaction Employees' skills	

TABLE 5 – WHY THE RELATIONSHIPS BETWEEN FERRERO AND THE SUPPLIER WORK

4.5.3 THE IMPACT OF TRUST AND CONTRACT ON THE EFFICIENCY

Regarding the impact of trust and contract on the efficiency of the relationship, it can be noticed that the manufacturer and the supplier share the same vision. Indeed, they both identified contract and trust as tools for the relationship to be efficient. However, their points of view differ when it comes to choose which one of these concepts is the most important in their opinion. While Ferrero states that trust and contract have an equal importance to attain efficiency, the suppliers agree that trust is the best way to increase the efficiency of a relationship.

	Manufacturer	Supplier
Common Factors	Contract Trust	
Main factor	Contract & Trust	Trust

TABLE 6 – THE IMPORTANCE OF CONTRACT AND TRUST IN THE RELATIONSHIP

4.6 THE CONTRACT TO BE IMPLEMENTED

In order to optimize supply processes, Ferrero decided to implement supply contracts with suppliers. These contracts are meant to be entered into between Ferrero and its suppliers. In parallel, it can be noticed that contracts to be implemented with suppliers are drafted up at the Ferrero Group level. The contract is drafted up in a way that it is covering all aspects needed to protect Ferrero's interests: validity of the contract, intellectual and industrial properties, and transfer of properties.

Regarding the validity of the contract, it can be noticed that the contract does not contain any validity time clause. However, several clauses are related to termination of contract. The scope of these clauses covers aspects such as notice time, prejudice elements, termination for specific defaults like payment suspension or disability to carry out obligations, and change in supplier's organization. The contract also states that termination should not be prejudicial for any of parties. Clauses are also included in anticipation of *Force Majeure* events and of remedies between parties.

The contract also states conditions under which the contract can be modified. Thus, if a clause of the contract cannot be fulfilled, it does not jeopardize the validity of remaining clauses. Moreover, once signed by parties, the contract is meant to rule over other previous agreements and cannot be altered, but both parties agree on a written and signed endorsement.

In order to protect the brand image and the competitive advantage of Ferrero, the contract also specifies supplier's engagements. Therefore the supplier is forbidden to use neither intellectual property, nor trademarks belonging to Ferrero and agrees that any developed product for Ferrero also belongs to Ferrero. However, it is also stated that the agreed trading price takes into account this provision, in other words, the supplier gets compensation for its contribution to Ferrero intellectual property. Thus the contract is partly a cost-reimbursable contract. Finally the supplier is bounded by confidentiality and therefore shall not disclose any information to public nor third parties.

Trust and contract effects on the efficiency of the supplier-manufacturer relationships

Then the supply agreement formulates what the supply process should be. It states how orders and call-offs, deliveries and invoicing should be managed. First, one can mentioned that the contract being implemented is a quantity related contract, as so far as it refers to “one off” quantities and program quantities as the basis of pricing. Therefore the contract is partly a quantity discount contract. In addition to that, it is written that volumes are not guaranteed, and so the contract is also partly a quantity flexibility contract. In addition to that, the contract specifies how deliveries should take place. Indeed, it states that the supplier is supposed to notify Ferrero about any delays. Moreover, according to the supply agreement, Ferrero may require the delivery of the remainder of the call-off, or to procure the missing quantity elsewhere, without risking terminate the contract. Last, the supply agreement stipulates that suppliers shall maintain a safety stock, in order to minimize shortage and delivery failure risks. Finally, the contract specifies pricing and invoicing rules, i.e. how prices should be established and their time validity, what should be attached to invoices, or when payment should occur for example. The contract also states that transfer of property and risks relies on Incoterms.

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Other clauses of the contract are dedicated to products. First, it is specified that the supplier has to guarantee the product quality, in term of defaults, fitting its purpose, specification compliance and safety. By contracting, the supplier also commits itself to assure the best quality and safety manufacturing process, consistently with regulations and by employing people in agreement with existing laws. Moreover, the supplier assures to Ferrero that he shall not modify the product, except on Ferrero’s request and that he shall inform Ferrero about any new technological improvement or innovation which could lead to modify the product or the manufacturing process. Finally the supplier warrants the product over a predetermined time period and shall provide any technical documentation to Ferrero over this time period.

Over the predetermined period, which is the product warranty period, the supplier agrees to indemnify Ferrero all costs related to a default with the product. For that reason, the supplier is meant to prove that an insurance company is able to cover such damages , as well as the costs related to recall products.

Trust and contract effects on the efficiency of the supplier-manufacturer relationships

According to Ferrero Purchaser, this contract is implemented in order to follow the growth of the company. This is a process that takes time, but which will lead to an improved relationship with suppliers. From the operational perspective of the Upstream Supply Chain Manager, a contract is a concept that only makes sense for the purchasing department. According to him, a contract is not needed at the operational level of the supply chain.

In this chapter, the authors confront the existing literature with the empirical data in order to answer the research questions. First, the analysis studies the contractual and trust perspectives in the relationships, and how they interact in a supplier-manufacturer relationship. Then, an analysis of the impact of trust and contract on the efficiency of the relationship is provided in order to draw relevant conclusions to this thesis.

5.1 THE CONTRACTUAL PERSPECTIVE IN THE RELATIONSHIPS

5.1.1 THE CURRENT CONTEXT

This study gave a particular focus to Ferrero France and two of its suppliers. The specificity of the sampling was that no formal contract had been implemented between Ferrero and these two suppliers. However, when referring to Frankel et al.'s theory (1996), the agreements regulating exchanges between business partners are not necessarily formal. According to them, informal mechanisms take the historical and social context of a relationship into consideration. The empirical data have pointed out the fact that the relationships between Ferrero and its suppliers were mainly based on trust. Indeed, the social and interpersonal skills of the managers who created, maintained and continue to develop these relationships have created a real trust that enables the companies to exchange goods without any need of legal safeguards. These “handshake agreements”, or implicit contracts, confirm the case study ran by Frankel et al. (1996), in which the studied business relationships did not all use formal contracts. Instead, purchase orders were used by the manufacturer. In the same way, in this study, purchase orders are the only formal agreement between Ferrero and its suppliers.

The studied relationships take place into an informal framework. As a matter of fact, relationships are not structured by any supply contract and the only written agreements between Ferrero and the suppliers are purchase orders. However, this does not hinder the coordination between the manufacturer and the suppliers, as Cachon stated (2003), when he claims that contract is about coordinating the buyer's and manufacturer's action in the relationship. Indeed, empirical findings show that both parties work closely together for

more than a decade now: the relationship started in 1993 with Palettes Derou, and in the early 2000's with Saicapack. For instance, Ferrero backs Palettes Derou, while facing financial problems. On the other hand, Ferrero and Saicapack are working together on implementing a FSC certification for production and procurement processes of the two companies, as so far as products supplied by Saicapack are concerned. However, sometimes, Ferrero makes Saicapack compete with other cardboard suppliers. Finally, one can notice that quality and quality of service are the keywords of the relationships. For instance, Palettes Derou is able to make extra deliveries in very short times in order to avoid shortages, or Saicapack can reduce lead-times when Ferrero's planning changes in case of a delivery problem from the factory for example. Regarding all these facts, one can say that, as Ferrero assessed (cf. Kraljic Model), Palettes Derou and Saicapack are strategic suppliers (Jonsson, 2008, p.184).

Regarding the contract perspective in the Transaction Cost Economics (TCE) theory, empirical findings assert and weaken theoretical assumption at the time. On the one hand, the TCE theory is proved when it claims that the relationship between two parties is built by individuals. Indeed, the existing relationship between Ferrero and Palettes Derou was made possible thanks to Mr. Del Vecchio, who looked for understanding how the supplier works and what he is able to provide. In the same way, Saicapack's Sales Manager states that the relationship with Ferrero was influenced by the change of Purchasing Department managers over the past ten years. On the other hand, empirical findings show that individuals do not act in their own interests, but try to ease business for each other. Thus, according to Ferrero respondents, the Upstream Supply Chain Manager and Purchaser, the relationships with suppliers are driven by a willingness to make the two parties grow together and to help solving each other's problems. According to Palettes Derou's Sales Manager, the relationship with Ferrero is possible thanks to mutual understanding of needs and ways of working and thanks to acknowledgement of each other. Finally, according to Saicapack, the relationship is working because the two parties are able to adapt themselves according to situations each company can face at a given time. In other words, the relationships are driven by a pursuit of finding a Pareto optimum for each

situation. This shows that individuals involved in the relationships are not acting in their own interests.

The fact that all suppliers provide strategic products contributed to build close and long-term relationships between Ferrero and the suppliers, which has been proved by the length of the relationships. Moreover, all respondents pointed out the strong impact of the flexibility on the success of the relationship. Since flexibility cannot exist without coordination, the empirical study proved that even if the legal contract is a source of coordination between partners, it is not a prerequisite.

5.1.2 TOWARDS A FORMAL CONTRACTUAL RELATIONSHIP

Currently, Ferrero is looking for implementing a contract with packaging suppliers. Ferrero Purchaser explains this by the growth Ferrero has been facing for some times now, but also by a will to optimize processes between Ferrero and suppliers. Even if the relationship is being to be contractual, the TCE theory is weakened again. Indeed, the theory asserts the contract emerges from the supplier's will. Yet, in this case, the contract is wanted by Ferrero. This shows that, even if Ferrero claims the relationships to be fair, the bargaining power is held by the manufacturer and not by the suppliers. This finding is reinforced by the statements of the Palettes Derou's Sales Manager, who states that economic negotiations are not fair enough for the supplier. Such a statement is relevant, as so far as the relationship with Ferrero takes place in a single sourcing context. Indeed, Jonsson (2008) claims that the bargaining power is supposed to be held by the supplier when the supply market is an oligopoly or monopoly. Moreover, the contract itself shows that Ferrero holds the bargaining power in the relationships, since the contract makes the suppliers bound to have safety stocks.

Regarding the contract itself, it is now possible to better define the procurement context. Indeed, based on statements of Ferrero's Purchaser about the suppliers and regarding clauses of the contract, one can tell that the context is procurement through strategic contract (Jonsson, 2008). Indeed, some clauses of the contract involve co-operation between the manufacturer and suppliers about quality, quality of service or product development. Moreover, there is no term for the contract, so it implies a long-term

relationship. Finally, the contract states what should be the processes, regarding information sharing for instance.

By analyzing clauses in the contract, it is also possible to determine what the types of contract that are merged in the contract to be implemented are. Three types of contract were identified: cost-reimbursable, quantity discount and quantity flexibility contract (Cachon, 2003; van Weele, 2005; Jonsson, 2008). If the supply contract is implemented between Ferrero and the suppliers, then it is written that the supplier will get compensation for costs related to product developments that imply intellectual property of Ferrero. This is the cost-reimbursable clause of the contract. The quantity discount clause states that the purchasing price will be negotiated on a quantity basis, and it is supposed to decrease when the quantity increase. Finally, the supply agreement encompasses a quantity flexibility clause, which states that the ordered quantity are not guaranteed by Ferrero, that is to say, the manufacturer can increase or decrease quantity, in agreement with the supplier, in order to face planning changes. As a result, the flexibility and commitment between parties may increase. Indeed, the supplier may be willing to invest more in product development, since he has a guarantee that costs will be partly, or wholly, reimbursed by Ferrero. Moreover, the flexibility may be increased by the fact that an ordered quantity is not guaranteed. Thus both Ferrero and suppliers may make their processes more flexible, in order to face increasing or decreasing demand.

The implementation of the supply contract will more or less change the relationships, according to Ferrero's Purchaser and Upstream Supply Chain Manager. Indeed, on the one hand, this contract will lead to standardized processes among all suppliers involved with Ferrero. For instance, all suppliers will have the same obligations towards Ferrero, in terms of warranty or technical documentation for example, and Ferrero will have to act in the same way within all supply relationships, in terms of ordering or call-off for example. This contract will also lead to decreasing risks, as Yu et al. (2006) states. Indeed, the relationships will not be based on only trust and orders as a framework and the contract will state each party's rights and obligations. For instance, the contract states about the quality of products or how the relationship can be terminated. According to Ferrero's Purchaser, the contract is supposed to lead to an improved relationship with suppliers. On

the other hand, the Upstream Supply Chain Manager does not think that the contract will change the way companies are working together. According to him, delivery processes and care for quality are already established in the relationships. Moreover, because of Ferrero's corporate culture, the win-win situation that the contract is meant to formalize already exists between the manufacturer and the suppliers. For instance, Ferrero is backing Palettes Derou, and both parties are already involved when the matter is solving each other's problems. Yu et al.'s theory (2006) stated that formalizing the supplier-manufacturer relationships via contracts was a way to attain a win-win situation for the partner companies. In this case, one can state that the win-win situation, which is already reached without the use of contracts, will be improved and will then lead to an improvement of the relationship as well. Moreover, the contract will be source of another improvement according to the Upstream Supply Chain Manager, since technological watch will now be written in the contract: it will oblige suppliers to communicate about innovation and possible improvement.

5.2 THE TRUST PERSPECTIVE IN THE RELATIONSHIPS

According to the Kraljic Model, the negotiation process for strategic products is characterized by a good balance of bargaining power, and there is a high interdependency of the business partners. As a consequence, the relationship turns toward a close relationship, strategic alliance, or even the integration of the supplier into the process. As stated above, the relationships between Ferrero and the suppliers are characterized by a low formal structure. Indeed, the relationships are mainly based on trust, which is the prerequisite to build a relationship according to Spekman & Davis (2004). This omnipresent trust within the relationships can also explain why they are efficient, even without formal contracts. Indeed, Laeequddin et al. (2012) state that the trust is crucial regarding information sharing. This is asserted by respondents who claim that thanks to the existing trust between parties, communication about problem that can occur is eased. As a consequence, it is possible to solve these problem faster, and even to anticipate them.

This last point shows that there is a mutual trust between parties, and this fact is confirmed by the empirical findings. Indeed, all respondents claim that the relationships

work thanks to the existing trust between partners. Contrary to theories, stating that trust relies exclusively on the trustor, who is willing to trust somebody (Rotter, 1967; Zand & Dale, 1972; Mc Allister, 1995; Small & Dickie, 1999; Soroka et al., 2003) or who assesses the ability of the trustee to act as expected (Coleman, 1990; Doney & Cannon, 1997; Rousseau et al., 1998; Delgado-Ballester et al., 2003; Laeequddin et al., 2012), empirical findings show that respondents perceive trust in both ways. In other words, respondents are aware that the relationships between Ferrero and the suppliers work because they are both trustor and trustee.

In addition to that, empirical findings support Khalfan et al.'s theory (2007). Indeed, all respondents point out the trust enhancers determined by Khalfan et al.: experience, problem solving, shared goals, reciprocity and reasonable behavior. In fact, the relationships now last over at least ten years, since 1993 concerning Ferrero and Palettes Derou and since the early 2000's for Ferrero and Saicapack. Then, Ferrero's Upstream Supply Chain Manager points out that, thanks to communication with suppliers, both parties are able to solve the problems that may occur and to anticipate the others. Moreover, the empirical findings show that both parties share common goals: Ferrero and Saicapack are involved in implementing a FSC certification, and Palettes Derou is backed by Ferrero to solve their financial problem. In addition to that, responses show that reciprocity is deeply established in the relationships between the manufacturer and its suppliers. Indeed, both parties are willing to carry out as many solutions as possible in order to ease each other's situation. It is the case when there is a change in Ferrero's planning or delays in raw material delivery for Saicapack or Palettes Derou for instance. Finally, both parties show reasonable behavior, for instance when Saicapack's Sales Manager states that Ferrero prioritize products and orders in order to ease the supplier's work, when the manufacturer could only send orders without any explanation.

As stated above, the relationships can be characterized by mutual trust between the manufacturer and the suppliers. This mutual trust allows companies to communicate and share information. Finally, trust sparks off a virtuous circle that enhances trust in the relationships. As a result, and according to respondents, trust has a positive impact on the supplier-manufacturer relationships studied in this paper. From the suppliers' perspective,

thanks to trust, the relationship with Ferrero is based on a mutual knowledge and recognition, a care for quality and quality of service. For all respondents, trust also brings to the relationship a concern for adaptability and reactivity, in order to make the relationship as efficient as possible. Finally, in Ferrero's point of view, through trust, the relationship with suppliers is defined by transparency, mutual respect and price competitiveness.

5.3 HOW CONTRACT AND TRUST INTERACT IN THE RELATIONSHIPS

As stated by the existing literature, trust and formal contract act as substitutes to each other (Yu et al., 2006). Indeed, it appears that the more detailed the contract is, the less space is left for trust within the relationship. On contrary, the more trust, the less precise the contract is. This theory has actually been confirmed by the empirical findings of this research. Working with Palettes Derou since 1993 and with Saicapack since 2000, Ferrero and its suppliers have been working together in a highly trustful environment, where there was no space for legal contracts.

The empirical findings pointed out that suppliers and manufacturer identified contracts and trust as elements influencing the efficiency. Hence, even if they did not implement any formal contract yet, they consider that trust and contract can coexist in a relationship. However, Ferrero expressed the will to implement legal contracts with its suppliers. The company justifies its choice by the fact that it is currently facing a fast growth which requires a formalization of the process in order to stay under control. This move towards an increased place of contracts confirms the theory of Khalfan et al. (2007), who state that trust appears when people have the possibility to build a relationship with other people. Indeed, since Ferrero is growing fast, the number of employees will inevitably grow as well, which makes it even more difficult to bind a trust relationship between two managers. This phenomenon is even more obvious in big companies, where the staff turnover is more frequent, and where managers have less breathing space to create trust. Since the structure grows and there is less space for trust, the legal contract has to take over from trust. This is, according to (Yu et al., 2006), a way for companies to stay

confident in the relationship, by having the feeling to control the actions of the other party, and by having a possibility of recourse in case of disagreement.

Trust and formal contract interact, theoretically as empirically, as substitute to each other. A high level of trust and highly detailed contracts cannot coexist, since trust would be useless. Indeed, as stated by Chen et al. (2011), the existence of detailed and complex contracts comes from the uncertainty implied by the lack of trust. If a high level of trust already exists, implementing legal contracts is meaningless and counterproductive. At the same time, a low level of trust and a low level of contract cannot exist since the risk incurred would be too important. Indeed, according to Chen et al. (2011), trust is created when the first part believes that the other part will not adopt an opportunistic behavior. A low level of trust also means that there is a suspicion of opportunism within the relationship. In this situation of low trust, Williamson (1985) stated that the transactional risks require the use of legal contracts, as a proof of commitment, and to allow financial recourse. Hence, if a low level of trust exists, implementing legal contracts is mandatory for the company to face all the risks implied by this relationship.

On the other hand, the relationship between informal contracts and trust is much more obvious. Since informal contracts are based on trust, these two concepts are totally compatible with each other. Opposite to formal contracts, informal contract increase when trust increase. Indeed the more trust, the less legal safeguards are needed, and hence the more informal the relationship can be.

As a conclusion, it can be said that trust and legal contract can actually coexist in a supplier-manufacturer relationship. However, they are complementary, which means that when one grows, the other one declines. This aspect proves that these two concepts are substitutes, and it is up to the companies involved in the relationship to determine if they want to give priority to trust or contracts in their transactional operations. It also appears that contracts are not necessary, while developing trust is crucial for a relationship. Indeed, all respondents identified trust as a proof of a good relationship, while no one identified contracts. That is why the studied relationships are based on informal contracts rather than on formal for now: the context has privileged trust over legal safeguards. Hence, even if

contracts and trust can coexist in a good relationship, the existence of trust is mandatory, while formal contract is optional.

5.4 THE EFFICIENCY OF THE RELATIONSHIPS AFFECTED BY CONTRACT AND TRUST

It has already been proved in the literature that the different types of contracts, formal or informal, had different impacts on the efficiency of the relationship. According to Lo et al. (2009), an efficient relationship is characterized by a reduction of the costs, and an increased performance of lead-time (Yeung et al., 2008), delivery precision (Li & O'Brien, 1999), and inventory level (Kojima et al., 2008). The empirical data proved that the trust increases the efficiency by decreasing the costs, the stocks, and eases the transaction (delivery precision, low lead-time) due to the high flexibility of the relationships. The previous analysis highlighted that informal contracts and trust work together to increase efficiency, while trust and formal contracts are substitutes: when one concept increases, the other one decreases. According to Chen et al. (2011), a lack of trust in a relationship, which means a reliance on detailed and complex contracts, leads to a situation where every transaction between partners has to be analyzed and controlled, which drastically increases the cost of the transaction, and hence decreases the efficiency. On the other hand, the informal contracts, related to a high level of trust, imply a sporadic or inexistent use of legal contracts, and lead to cycle time reduction (Handfield et al., 1998) and increased flexibility (Handfield (1993), Hult et al.(2000)), which finally increases the efficiency of the relationship. Beside this theoretical framework, the empirical findings proved that the suppliers and the manufacturer have different points of view concerning the impact of trust and contract on efficiency. While they all agree in stating that trust and contract affect positively the efficiency, their opinion differ when they have to choose the most important factor. Ferrero states that legal contract and trust affect equally the efficiency, while the suppliers clearly identify trust and informal contracts as the main factor to increase the efficiency.

In the current situation of Ferrero and its suppliers, the relationships are based exclusively on informal contracts. The trust is hence omnipresent in the relationship. There is no use of formal contract and, referring to what has been stated before, it means that this

way of handling the relationship has a positive impact on the efficiency of the relationship from the supplier as for the manufacturer. It confirms the theory of Frankel et al. (1996). In their case study among four manufacturers and their suppliers, the conclusions pointed out that while legal contracts were ranked in the last important aspects of relationship success, this study clearly highlights the fact that the elements of informal contracts, like trust, were perceived by both manufacturers and suppliers as a much more important element to relationships success. This literature perceived informal contracts as much more important than formal contracts to ensure the efficiency of a relationship, both from the suppliers' and the manufacturers' perspectives, and more accurately reflect the true nature of long-term commitment to the relationship.

However, Ferrero is currently planning to implement legal contracts in order to face the growth of the company, and to optimize the relationships with its suppliers. The aim for the company is at least to maintain the same level of efficiency, or even to increase it. Ferrero considers that the formalization of the procedures implied by the implementation of legal contracts will counterbalance the fast growth of the company and reduce the risks for the whole structure. However, compared to what has been stated before, one can wonder if this decision will really impact positively the efficiency of the relationships or, on the contrary and as argued in the literature, it will decrease the efficiency.

Indeed, the implementation of legal contract implies a heaviness of procedures for Ferrero as for the suppliers. They will have to strictly follow the terms of the contract. At the same time, this implies more costs for Ferrero, since the company has to create new and detailed contracts, adapted to each one of its suppliers. Finally, it will reduce the breathing space of managers in charge of the relationship from the supplier and manufacturer sides, which will theoretically reduce the possibility of initiative and also the flexibility. However, flexibility has been pointed out by Ferrero, as by its manufacturers, as a key element of the success of the relationships. As stated before, a sporadic or inexistent use of legal contracts is a source of cycle time reduction (Handfield et al., 1998) and increased flexibility (Handfield (1993), Hult et al.(2000)). Increasing the use of contracts would then obviously mean a loss of all these assets, which are very important to increase the efficiency of a relationship, according to Lo et al.'s theory (2009). If the flexibility is lost,

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the efficiency of the relationship will strongly decrease, since supply problems will occur between the supplier and the manufacturer. Also, the strategic aspect of the products delivered by the suppliers does not allow any approximations, and the supply of these products has to be ensured. By formalizing the transactions and losing its flexibility, Ferrero risks to face a decrease of the efficiency of the relationships.

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The question is now to determine to which extent the formal contract will be used. Indeed, as substitute and complementary concepts, the impact on efficiency will not be the same, given the relative importance of trust and contract in the relationship. If Ferrero implements formal contracts but keeps a relatively low level of details, the space left to trust will probably be sufficient to allow the required flexibility to ensure an efficient relationship, and most of the operations will still be handled by informal contracts. On the contrary, if Ferrero takes the decision to implement detailed contracts to counterbalance the risks implied by its growth, the trust will drastically decrease, and will not allow the necessary flexibility. As a conclusion, the impact of the implementation of legal contracts on the efficiency of the relationships will only depend on the ability of Ferrero to set the right balance between legal framework and trust, in order to formalize the transactional processes without losing the flexibility, which is the main efficiency factor in these sample supplier-manufacturer relationships. This interrogation also gives rise to more strategic perspective within the relationship. Indeed, while protecting its own interests by implementing contracts, Ferrero takes at the same time the risk to damage the relationship and decrease its efficiency. One can also wonder if there is a contradiction between the interests of individual companies and the efficiency of a relationship, and then the whole supply chain.

6. CONCLUSION

6.1 CONCLUSIONS OF THE STUDY

The purpose of this thesis is to investigate supplier-manufacturer relationships. The authors made the choice to lead the research through the scope of contract and trust and through their impact on the efficiency of the relationship. A dyadic perspective, i.e. from both the manufacturer's and the suppliers' point of view, was chosen for this investigation. As a manufacturer, Ferrero France was preferred because the company faces a significant growth over the last decade and more than 500 people are employed; while, as suppliers, Saicapack and Palettes Derou were chosen because they are strategic suppliers for Ferrero France, also because the companies are of different sizes, and finally because of their location, i.e. France for Palettes Derou, which is located less than 50 km away from Ferrero France's main facilities, and Spain for Saicapack.

The following part aims at answering the three questions set in the introduction. In order to achieve this, theory and empirical findings will be presented and confronted.

How do contract and trust interact in a supplier-manufacturer relationship?

To conclude, since there is no supply contract involved in the relationships so far, one can state that formal agreement is not a prerequisite for building a supplier-manufacturer relationships. It also appears that, while informal contracts allow a high level of trust, formal contracts decrease the level of trust between the manufacturer and its suppliers. However, it can be noticed that simple written agreements, called informal contracts, such as purchase orders, should be involved in the supplier-manufacturer relationships, in order to set commitments in terms of quantity, prices or delivery conditions. The dyadic perspective of the study also pointed out the fact that trust and contracts were substitutes and complementary, and that they could work together in a relationship.

What is the importance of the relationship between trust and the different types of contract?

The two types of contracts described in this study are formal and informal contracts. It appears that, while informal contracts are created and work with the trust, the informal contracts are substitutes to trust. Hence, the relationship between informal contract and trust much more reflects the true nature of long-term commitment to the relationship, and is also more important to achieve long-term objectives and sustainability. However, one can notice that the impact of the relationship between formal contracts and trust may differ according to the distance of the respondent from operational level (in the manufacturer's perspective), and according to the size of the company (in the supplier's perspective). In addition to that, the study showed that, from both manufacturer's and suppliers' perspectives, the formal contract is not held for a prerequisite to coordination between parties.

How do contract and trust affect the efficiency of a supplier-manufacturer relationship from a dyadic perspective?

To answer this question, it can be stated that trust, theoretically and empirically, is a critical factor in an efficient supplier-manufacturer relationship. However, depending on the type of contract, the relationship trust/contract does not have the same effect on the supplier-manufacturer relationship. Indeed, legal contracts seem to limit the breathing space of trust, while informal contracts are more compatible with trust and enable to reach higher performance from both supplier and manufacturer perspective. Even though formal contracts can play an important role in the business relationship, by specifying the roles and commitments of each firm, informal contracts represented by the company's actions are more likely to positively influence the efficiency of a supplier-manufacturer relationship.

6.2 IMPLICATIONS AND FURTHER RESEARCH

6.2.1 MANAGERIAL IMPLICATIONS

Managerial implications derived from this study can be divided into categories: trust- and contract-related. Thus, one can state that trust is a strong basis for building a

supplier-manufacturer relationship, and can exist alone, without contract. In this context, the study showed that coordination is possible without contract. Given this, one implication is the possibility for managers to start a supplier-manufacturer relationship in an informal framework, where trust is the main governance tool. In addition to that, the study showed that omnipresent trust in the relationship leads to efficiency of the relationship and to a trust virtuous circle. In that perspective, managers should be aware that a relationship based only on trust can be efficient, and does not necessarily need any formal agreement. Thus, trust is a long-term agreement which enables to create mutual commitment between companies and eases the transactions. In that sense, the findings of this study have shown that trust is most efficient if individuals involved in the relationship consider themselves both trustor and trustee. It is important to tackle the sociological aspect of trust. In the theory as in the empirics, it was shown that trust is created and maintained between individuals, this means that the managers trusting each other create trust between their companies. The importance of trust itself depends greatly on soft skills. Hence, the impact of trust on efficiency is directly related to the people in charge of creating and maintaining this trust. The managers chosen for this job should have good communication and negotiation skills, in order to create strong links with the partner company and increase significantly the efficiency.

On the other hand, managerial implications can be related to formal contracts. First, it has been proved that if trust is involved in the relationship, the implementation of a formal supply contract can be profitable. Indeed, the main disadvantage of formal contracts is the difficulty of sharing information, which makes the relationship harder to monitor. However, when contracts include clauses about information sharing, the existence of trust can erase these clauses and hence ease the information sharing between companies and increase the efficiency. In addition to that, contracts acts as a safeguard for the investor. The presence of legal recourse is a way to secure the investments, and the supplier may be willing to invest in product development, if the contract states something about cost reimbursement. Another implication is the importance paid to contract. Indeed, the study showed that a formal contract is meaningful only for purchasers and big suppliers. For operational managers and SMEs (Small and Medium Enterprises) the contract will not impact the way of doing business. Managers should also be aware that implementing a

contract in a SME would not lead to high efficiency, since the costs implied by the elaboration of contract would not be covered by any advantage. Finally, one implication derived from this study is related to the impact of contract implementation on efficiency. Indeed, implementing contract in an informal, trustfully relationship may complicate ways of doing business, by increasing costs or processes for instance, and therefore, managers will have to monitor efficiency and find the right balance between trust and formal contract in the relationship, as it is the case for Ferrero.

In a more global perspective, and to draw a parallel with the introduction chapter, this study contributes to better understand how trust and contract can impact the opportunities of development of the supply chains. The introduction has shown that due to the changing global economy and the tougher competitions, companies seek at being part of an efficient supply chain, and also do not act only on their own interest, but on the interest of the whole supply chain. When it comes to competition, it seems important that managers perceive the crucial role of trust and contract in building strong competitiveness. Indeed, by orienting towards a formal or informal relationship, two companies have the lever to influence the efficiency of their relationship. The efficiency of this relationship will then have consequences on the whole supply chain, since the global efficiency will be increased as well in the end. At that point, managers should understand that this increase of efficiency due to trust and contracts has two consequences on the supply chain:

First, it increases the competitiveness of the whole supply chain. It can also be stated that trust and contract actually contribute to modify the supply chain efficiency. In that sense, it is crucial that managers understand that the decisions and action they take at the micro level of their relationship will have an impact on the macro level of the supply chain, affect its performance and its competitiveness.

Secondly, it is crucial to notice that, by influencing the efficiency of supply chain through trust and contracts, managers indirectly act in their own interest. Indeed, by contributing to the competitiveness of the supply chain, single companies decrease the threat of competitive supply chain, increase their reactivity and innovativeness, while

decreasing their costs. It can also be stated that, by helping the whole supply chain, each individual company helps itself, through the positive repercussions on single companies.

As a conclusion, managers should understand that trust and contract do not only have an impact on the micro level of the relationship and individual company, but also on the macro level of the supply chain. Trust and contracts then appear to be critical factors that influence the strategy of single company, as well as the strategy of supply chains. They influence the possibilities of development and give new strategic perspectives to the members of the supply chain, which represent a key competitive asset for all companies nowadays.

6.2.2 THEORETICAL IMPLICATIONS

This study has been investigating the impact of trust and different types of contract on the efficiency of a relationship from a dyadic perspective. This dyadic point of view highlighted some new elements that was not present in the literature, and that hence contribute to enriching the theory.

First, the existing literature has been considering trust as being at the initiative of the trustor only, which was the supplier in a supplier-manufacturer relationship. However, the empirical findings highlighted that trust was also present on the manufacturer side. Indeed, Ferrero has developed with its suppliers long term relationships, where no contracts were implemented. Due to the specific type of supply, i.e. co-packing products, Ferrero needs its suppliers to adopt a high flexibility and reactivity towards the orders that can arise. Both suppliers and manufacturer agreed in stating that a mutual trust exists in their relationship, and that this mutual trust considerably contributes to increasing the efficiency of the relationship. Hence, trust is not a unilateral process, contrary to what is stated in the literature. It is a bilateral process, where the supplier and the manufacturer seek at creating long term relationship, and trust each other to attain a win-win situation.

Secondly, no consensus had been found in the existing literature concerning the trust and formal contract interactions. Indeed, authors mentioned trust and contract sometimes as substitute, meaning that they cannot work together, and sometimes as complementary, meaning that they act together to increase the efficiency. This research has

proved that in practice, formal contracts and trust are substitutes and complementary. They are substitute because when one factor grows, the other one decrease, since they do not have the same role in the relationship. Moreover, they are complementary because they can coexist and work together in order to increase the efficiency. Indeed, the implementation of one concept fills the gaps existing in the other concept. However, these complementary features are perceived differently depending on the size of the company involved. While Ferrero, a multinational group, considers that trust and formal contracts are necessary to increase the efficiency, by providing both closeness and legal protection, its suppliers, which are SMEs, consider that trust is the most important factor, since they give priority to closeness, communication and mutual respect. This research provides a new perspective to the interactions between trust and formal contract, which appear to be more compatible than what is stated in the existing literature.

Finally, this study pointed out the existence of two different types of contracts: the formal and informal ones. The existence of these two types of contracts implies different consequences for the efficiency and the sustainability of a relationship. It appears that, formal and informal contract do not have the same relationship with trust, and hence the impact of the trust/contract relationship on the efficiency is different given the type of contract implemented. The analysis of the literature and the empirical data has proved that even if formal contract can have a positive impact on the efficiency by defining the roles and commitments of the actors for example, it is a substitute to trust. It means that, even if they can work together, a higher level of formalization will imply a lower level of trust. Since it has been proved that trust is a critical factor to increase of efficiency, the presence of formal contracts is more likely limit this increase. On the contrary, the informal contracts allow to keep a higher level of trust, and then create a strong trust/contract relationship, more likely to strongly increase the efficiency of the supplier-manufacturer relationship. In this perspective, it then appears that informal contracts, related to trust, are the best way to achieve efficient and long-term relationship. This theoretical contribution also has an impact on a larger framework, when broadening these conclusions to the entire supply chain. The consequences of these findings can hence be generalized to the supply chain,

where trust and informal contracts should be seen as key factors to achieve efficiency and sustainability in a supply chain.

6.2.3 FURTHER RESEARCH

According to the authors' point of view, it would be relevant for further studies to continue the research on contract and trust effects on efficiency. Indeed, this research aims at identifying how trust and contract influence the efficiency of a relationship. An interesting path for further researches would be to run an explanatory study about the subject, and explain why trust and contract influence the efficiency of a relationship. In other words, the aim would be to identify the mechanisms that make contract and trust affect the efficiency, through concrete and quantifiable data. This would give a more scientific approach to the subject, and help managers to determine which one of trust or contract suits better to the situation of their company.

Moreover, one should keep in mind that the sampling of this study took into consideration only relationships without any formal contract. In order to confirm these conclusions and go even further in the study, it would be interesting to run a study among companies trading within a formal legal framework. While this study empirically focuses on the informal contracts, the further studies would put the focus and study more deeply the impacts of formal contracts on efficiency, in relation to trust.

Another track for further researches would be to include other types of buyers in their researches. Since the authors focused only on manufacturers, an interesting contribution would be to tackle the implications of contract and trust on the efficiency on service companies for example, who are in direct contact with the end customer, and who need an even higher level of accuracy in their products in order to keep their credibility and their customers.

Finally, this research aimed primarily at exploring how contract and trust influence the efficiency of a relationship, and then more generally the efficiency of the whole supply chain. As stated in the introduction, the global market and regulations are becoming always more complicated, and companies face always tougher regulations that may prevent them from undertaking the actions they would like to. An interesting perspective would be to run

a longitudinal study over the time, in order to understand how the impact of contract and trust on efficiency has changed over time. Since the competition today is more between supply chains than between individual companies, one can wonder what have been the implications for the importance of trust and contract within a relationship. The study of this evolution would give a significant managerial contribution to determine which one of trust or contract is really critical nowadays for companies, and which one they should give priority to, in this supply chain environment where acting in the supply chain interest equals acting in the self interest of each company.

6.3 DISCUSSION ABOUT THE THESIS

Even if the authors tried to give a relevant managerial and theoretical contribution to this contract/trust/efficiency nexus, some limitations can be observed, that can limit the generalization of the study.

First, the sampled companies can be seen as a controversial issue. Indeed, Ferrero has not implemented any formal contract with its suppliers. The choice of the authors was to focus the empirical study more deeply on the informal context in relation to trust, and their impact on the efficiency. Hence, the conclusions of this study do not have any empirical proof concerning the impact of formal contract on the efficiency of a supplier-manufacturer relationship. The proof of the impact of formal contract on the efficiency of the relationship has been drawn for the existing literature and that is why this study greatly relies on the existing literature to ensure the validity of the results. However, even if the focus is put on informal contracts in this study, the existing literature is considered reliable since several sources have been confronted. Study the empirical evidence of the impact of formal contract on the efficiency of a supplier-manufacturer relationship could then be an interesting path for further research.

Moreover, the authors chose to lead this study by focusing on a supplier-manufacturer relationship. This perspective occults the other actors of the general supplier-buyer relationship, as retailing or service companies. These types of companies do not face the same type of issues than a manufacturing company, especially because they do not have any production process, and hence have different imperatives than a manufacturing

company. Since the study of the impact of contracts and trust on efficiency aims in a more general point at increasing the efficiency of the whole supply chain, it is difficult to generalize these findings to all supply chains, as not all supply chains include manufacturing companies. However, the sampling of respondents and of the company brings credibility and reliability to the findings. Indeed, the authors sampled top managers from Ferrero France and from some of its suppliers, and the origins of respondents allow the study to give a broader picture of the contract/trust/efficiency nexus: Ferrero France is a major player on the confectionery industry, Saicapack is an international supplier and Palettes Derou is a SME.

Then, the concepts involved themselves are subject to discussion. The theory has shown many different points of view concerning trust and contracts, and their implications on efficiency. Moreover, the literature review pointed out that no consensus had been made about the role of trust and contract on efficiency. The authors chose to adopt a specific point of view drawn from the theory, but other researchers may have adopted another perspective, and have taken other references as basis for their work. Hence, due to the ambiguous aspect of the subjects tackled, the findings of this research may differ from the findings of other researches which would take other theories as references for the study.

Moreover, the concept of trust studied in this research is quantifiable with difficulty. This is primarily a sociological concept that is really hard for managers to assess and determine inside their company. Apart from the obvious need of trust pointed out by the respondent of the interviews, it is not possible now to determine or quantify a level of trust today. Indeed, it seems difficult, when comparing two companies, which one has developed the most trustful relationship, since trust is highly related to individuals and depends on the context and the history of the relationship. Since each company has its own specificities and its own way of trading with its partners, it is difficult to assess what is the level of trust within the relationship, if it is sufficient or if it should be improved.

Finally, even though the authors tried to give this research a wide use potential, one have to take into consideration that this study focuses on only one manufacturer and two suppliers. The conclusions of this research come from a narrow study and may be difficult

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to generalize to other companies, depending on the context in which they evolve. The conclusions of the research may indeed have been different if the focal manufacturing company had been a small enterprise or a big corporation. The number of interviews may also be a limitation. Since the study focuses on only two suppliers, the results of this research may be hedged because of the chosen sample supplier companies.

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8. APPENDIXES

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8.1 FERRERO FRANCE



Ferrero France is part of Ferrero Group, one of the main competitor on the world confectionery market. The group was born in Italy in **1946**, more precisely in Alba, Piedmont, when its founder, Pietro Ferrero decided to replace chocolate by Piedmont hazelnut, in order to keep on producing competitive patisserie. The tale says that a few years later, during a really warm summer, one of Pietro Ferrero's best sales, the "Grandujot", melted and from it he gave birth to the famous chocolaty hazelnut spread Nutella (in the very beginning, it was named Supercrema).

In **1959**, a subsidiary of Ferrero Spa (the Italian firm), Dulcea S.A., established itself in Villers-Ecales, Normandy. One year later, the company was responsible for the production of a new product Mon Cheri. In **1961**, the production of *La Tartinoise* (the first French name of Nutella) began. The production was hand made on one single line. In **1966**, *La Tartinoise* is called *Nutella*. In **1981**, Ferrero France expand the Villers-Ecales factory and built a new warehouse in order to face the growth of the company. In **1987**, a milestone is reached, that is to say for the first time, Ferrero France turnover exceed **1 billion Franc (152,5 million €)**. In **1995**, Ferrero Group entrusted Ferrero France with the production of

Kinder Bueno (launched in 1992). Since that time, Ferrero France has become the first manufacturer of Nutella and Kinder Bueno of the Group and had to build a fourth Nutella production line to face the growth (2005). A new step is made in **2004**, when Ferrero France has sold over **1 000 000 quintals** since the company was founded. In **2008**, the firm reach a new point by selling for over **1 billion € of products**.

Today, Ferrero France sells a wide range of products (shared among 10 brands: *Nutella, Kinder, Rocher, Mon Chéri* ...) and makes around 16% of the turnover of the entire Group (**1.065 billion € in 2010**, while the Group turnover was 6.55 billion €). After the Italian and the German subsidiaries, Ferrero France is the third leading company in the Ferrero Group. The company is still located in Normandy: the factory in Villers-Ecales and the headquarters in Mont Saint-Aignan (near Rouen). The company's vision is "Ensemble le bon est notre exigence". It could be translated by "Together the good is our hisghest standard" and it means that the company wants to provide the best quality products but also wants to do business in the right, corporate responsible way.

8.2 FERRERO INTERVIEW GUIDE (ENGLISH VERSION)

- 1) Name and Surname
- 2) What is your position? How long have you occupied this position for?
- 3) When did the relationship with the supplier begin?
 - a. Saicapack :
 - b. Palettes Derou :
 - c. Smurfit :
- 4) Can you tell about particular events that made the relationship evolve?
 - a. Saicapack :
 - b. Palettes Derou :
 - c. Smurfit :
- 5) How would you categorize each supplier? (cf. Kraljic model)
 - a. Saicapack
 - Leverage supplier (highly profitable products and low supply risk)
 - Strategic supplier (highly profitable products and high supply risk)
 - Non-critical supplier (low profitable products and low supply risk)
 - Bottleneck supplier (low profitable product and high supply risk)
 - b. Palettes Derou
 - Leverage supplier (highly profitable products and low supply risk)
 - Strategic supplier (highly profitable products and high supply risk)

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Non-critical supplier (low profitable products and low supply risk)

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Bottleneck supplier (low profitable product and high supply risk)

c. Smurfit

Leverage supplier (highly profitable products and low supply risk)

Strategic supplier (highly profitable products and high supply risk)

Non-critical supplier (low profitable products and low supply risk)

Bottleneck supplier (low profitable product and high supply risk)

6) How is the relationship structured by the contract? Can you describe what the supply process should be?

- a. Saicapack :
- b. Palettes Derou :
- c. Smurfit :

7) How is the relationship actually structured? How do you concretely work with your supplier?

- a. Saicapack :
- b. Palettes Derou :
- c. Smurfit :

8) What is the communication means that you can use to get in touch with your supplier?

- a. Saicapack :
- b. Palettes Derou :

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- c. Smurfit :
- 9) According to you, which one is the most efficient?
- a. Saicapack :
- b. Palettes Derou :
- c. Smurfit :
- 10) According to you, what are the reasons that make things go well or wrong?
- a. Saicapack :
- b. Palettes Derou :
- c. Smurfit :
- 11) How do you solve problems that can happen?
- a. Saicapack :
- b. Palettes Derou :
- c. Smurfit :
- 12) How would you define an efficient supplier-manufacturer relationship?
- 13) How would you judge the efficiency of your relationship with your supplier?
- a. Saicapack :
- b. Palettes Derou :
- c. Smurfit :
- 14) How would you define “trust” in a supplier-manufacturer relationship?
- 15) According to you, what is the impact of trust and contract on the efficiency of the relationship?
- a. Saicapack :
- b. Palettes Derou :
- c. Smurfit :
- 16) Regarding a supplier-manufacturer relationship, what is, between trust and contract, the most important? Why?

8.3 FERRERO INTERVIEW GUIDE (FRENCH VERSION)

- 1) Nom, Prénom
- 2) Quel est votre poste et depuis quand l'occupez-vous ?
- 3) Quand a débuté la relation avec le fournisseur?
 - a. Saicapack :
 - b. Palettes Derou :
 - c. Smurfit :
- 4) Pouvez-vous nous faire part d'évènements marquant et qui ont fait évoluer la relation entre vos deux sociétés ?
 - a. Saicapack :
 - b. Palettes Derou :
 - c. Smurfit :
- 5) Comment classeriez-vous le fournisseur ? (cf. modèle de Kraljic)
 - a. Saicapack
 - Fournisseur à effet de levier (les produits ont un fort impact sur la rentabilité et représente un faible risque d'approvisionnement)
 - Fournisseur stratégique (les produits ont un fort impact sur la rentabilité et représente un fort risque d'approvisionnement)
 - Fournisseur non-critique (les produits ont un impact limité sur la rentabilité et représente un faible risque d'approvisionnement)
 - Fournisseur « goulot d'étranglement » (les produits ont un impact limité sur la rentabilité et représente un fort risque d'approvisionnement)
 - b. Palettes Derou

Fournisseur à effet de levier (les produits ont un fort impact sur la rentabilité et représente un faible risque d'approvisionnement)

Fournisseur stratégique (les produits ont un fort impact sur la rentabilité et représente un fort risque d'approvisionnement)

Fournisseur non-critique (les produits ont un impact limité sur la rentabilité et représente un faible risque d'approvisionnement)

Fournisseur « goulot d'étranglement » (les produits ont un impact limité sur la rentabilité et représente un fort risque d'approvisionnement)

c. Smurfit

Fournisseur à effet de levier (les produits ont un fort impact sur la rentabilité et représente un faible risque d'approvisionnement)

Fournisseur stratégique (les produits ont un fort impact sur la rentabilité et représente un fort risque d'approvisionnement)

Fournisseur non-critique (les produits ont un impact limité sur la rentabilité et représente un faible risque d'approvisionnement)

Fournisseur « goulot d'étranglement » (les produits ont un impact limité sur la rentabilité et représente un fort risque d'approvisionnement)

6) Comment le contrat structure-t-il la relation ? Pouvez-vous décrire quel doit/devrait être le process d'approvisionnement ?

a. Saicapack :

b. Palettes Derou :

c. Smurfit :

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7) Comment est structurée la relation dans les faits ? Comment travaillez-vous concrètement avec votre fournisseur/client ?

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- a. Saicapack :
- b. Palettes Derou :
- c. Smurfit :

8) Quels sont les moyens de communication à votre disposition pour être en contact avec votre fournisseur/client ?

- a. Saicapack :
- b. Palettes Derou :
- c. Smurfit :

9) Selon vous, quel est le plus efficace ?

- a. Saicapack :
- b. Palettes Derou :
- c. Smurfit :

10) Selon vous, quelles sont les raisons qui font que les choses se passent bien ou mal ?

- a. Saicapack :
- b. Palettes Derou :
- c. Smurfit :

11) Comment résolvez-vous les problèmes qui peuvent survenir ?

- a. Saicapack :
- b. Palettes Derou :
- c. Smurfit :

12) Comment définiriez-vous une relation fournisseur/client efficace ?

13) Comment jugez-vous l'efficacité de votre relation avec votre fournisseur/client ?

- a. Saicapack :
- b. Palettes Derou :
- c. Smurfit :

14) Comment définiriez-vous la « confiance » dans une relation fournisseur/client ?

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15) Selon vous, quel est l'impact de la confiance et du contrat sur l'efficacité de la relation ?

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- a. Saicapack :
- b. Palettes Derou :
- c. Smurfit :

16) Quel est le plus important : la confiance ou le contrat ? pourquoi ?

8.4 SUPPLIER INTERVIEW GUIDE (ENGLISH VERSION)

- 1) Name and Surname
- 2) What is your position? How long have you occupied this position for?
- 3) When did the relationship with Ferrero begin?
- 4) Can you tell about particular events that made the relationship evolve?
- 5) How is the relationship structured by the contract? Can you describe what the supply process should be?
- 6) How is the relationship actually structured? How do you concretely work with Ferrero?
- 7) What are the communication means that you can use to get in touch with Ferrero?
- 8) According to you, which one is the most efficient?
- 9) According to you, what are the reasons that make things go well or wrong?
- 10) How do you solve problems that can happen?
- 11) How would you define an efficient supplier-manufacturer relationship?
- 12) How would you judge the efficiency of your relationship with Ferrero?
- 13) How would you define “trust” in a supplier-manufacturer relationship?
- 14) According to you, what is the impact of trust and contract on the efficiency of the relationship?
- 15) Regarding a supplier-manufacturer relationship, what is, between trust and contract, the most important? Why?

8.5 SUPPLIER INTERVIEW GUIDE (FRENCH VERSION)

- 1) Nom, Prénom
- 2) Quel est votre poste et depuis quand l'occupez-vous ?
- 3) Quand a débuté la relation avec Ferrero?
- 4) Pouvez-vous nous faire part d'évènements marquant et qui ont fait évoluer la relation entre vos deux sociétés ?
- 5) Comment le contrat structure-t-il la relation ? Pouvez-vous décrire quel doit/devrait être le process d'approvisionnement ?
- 6) Comment est structurée la relation dans les faits ? Comment travaillez-vous concrètement avec Ferrero ?
- 7) Quels sont les moyens de communication à votre disposition pour être en contact avec Ferrero ?
- 8) Selon vous, quel est le plus efficace ?
- 9) Selon vous, quelles sont les raisons qui font que les choses se passent bien ou mal ?
- 10) Comment résolvez-vous les problèmes qui peuvent survenir ?
- 11) Comment définiriez-vous une relation fournisseur/client efficace ?
- 12) Comment jugez-vous l'efficacité de votre relation avec Ferrero ?
- 13) Comment définiriez-vous la « confiance » dans une relation fournisseur/client ?
- 14) Selon vous, quel est l'impact de la confiance et du contrat sur l'efficacité de la relation avec Ferrero ?
- 15) Quel est le plus important : la confiance ou le contrat ? pourquoi ?



The Forest Stewardship Council (FSC) is a NGO (non-governmental organization) created in 1993, right after the Rio Earth Summit (1992). This NGO was funded by wood industry actors, social stakeholders and ecologic organizations (FSC, 2012).

The objective of the FSC is to assure forest management, which should be ecologically adapted, socially beneficial and economically sustainable.

The governance of the council is assured by three chairs representing the three dimensions promoted by the FSC: ecologic chair, social chair and economic chair.

The FSC offers to types of certifications. The first one is related to forest management, while the second one aims to certify the entire traceability chain, i.e. from the certified forest to the final customer, through all production stages and recycling stages.

8.7 SAICAPACK'S LEAD-TIMES



FIGURE 10 – STANDARD PRODUCTS LEAD-TIME

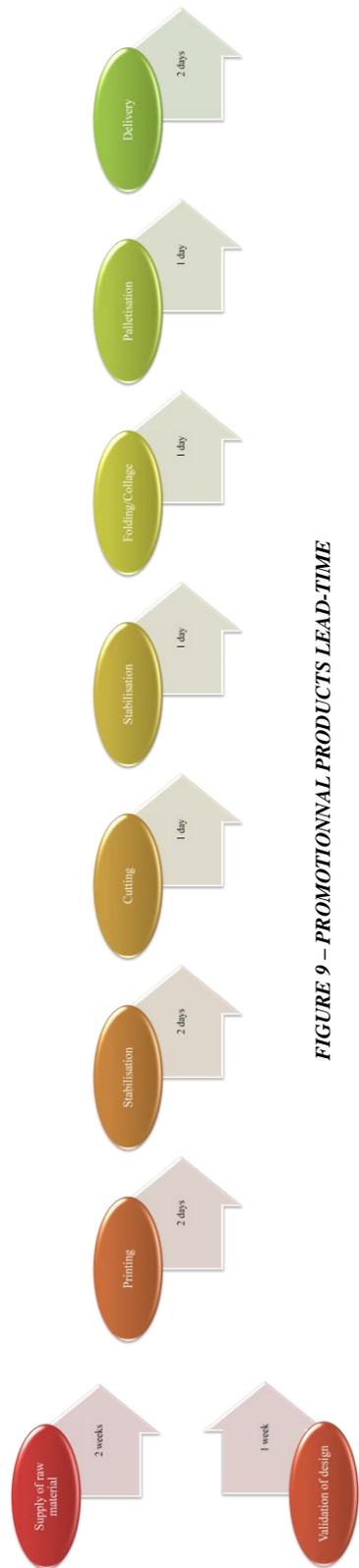


FIGURE 9 – PROMOTIONAL PRODUCTS LEAD-TIME

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8.8 INTERVIEW OF INGRID PORAS (FERRERO'S PURCHASER)

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1) Name and Surname

Poras Ingrid

2) What is your position? How long have you occupied this position for?

Purchaser since 2007

3) When did the relationship with the supplier begin?

Saicapack and Palettes Derou were already doing business with Ferrero when I got the position. I think they started working with us around 1992

4) Can you tell about particular events that made the relationship evolve?

a. Saicapack : We are currently implementing a FSC certification together

b. Palettes Derou : It is a single supplier that Ferrero backs in its financial problems

5) How would you categorize each supplier? (cf. Kraljic model)

a. Saicapack

Leverage supplier (highly profitable products and low supply risk)

Strategic supplier (highly profitable products and high supply risk)

Non-critical supplier (low profitable products and low supply risk)

Bottleneck supplier (low profitable product and high supply risk)

b. Palettes Derou

Leverage supplier (highly profitable products and low supply risk)

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Strategic supplier (highly profitable products and high supply risk)

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Non-critical supplier (low profitable products and low supply risk)

Bottleneck supplier (low profitable product and high supply risk)

6) How is the relationship structured by the contract? Can you describe what the supply process should be?

We have implemented a process of open orders and suppliers keep safety stocks. A supply contract is going to be implemented with these suppliers

7) How is the relationship actually structured? How do you concretely work with your supplier?

Purchasing department develops new packagings, negotiates quality, prices and lead-times, and places open purchase orders based on demand forecasts. Supply chain department is responsible for call-offs according to co-packing planning. Purchasing department handles invoicing disputes and warehouse clerks manage quality control.

8) What is the communication means that you can use to get in touch with your supplier?

We use phone, emails, meetings, ERP

9) According to you, which one is the most efficient?

The more we communicate the better. It is a daily work

10) According to you, what are the reasons that make things go well or wrong?

Technical, organizational or people-related issues can occur. Origins of these problems can be numerous. People who are in charge of the case are the most

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important factor. If the relationship is good, communication is easy and then problem can be anticipated and consequences may be limited. A trusty, transparent and mutually respectful relationship is the most important

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11) How do you solve problems that can happen?

It depends on the problem. It is important to solve it fast, to try to anticipate it and then to implement a solution that prevent the problem from happening again.

12) How would you define an efficient supplier-manufacturer relationship?

The relationship should be based on trust, transparency, respect, willingness to improve things and motivation.

13) How would you judge the efficiency of your relationship with your supplier?

a. Saicapack : Very efficient

b. Palettes Derou : Efficient

14) How would you define “trust” in a supplier-manufacturer relationship?

Transparency, respect, reactivity, open-mindedness, continuous improvement and a good price/quality/lead-time.CSR ratio

15) According to you, what is the impact of trust and contract on the efficiency of the relationship?

The relationship can't be efficient without contract. However, it can be efficient without written contract. Even if there is no contract, orders have to be placed, prices have to be negotiated and a processes have to be clearly defined. A contract states all these necessary aspects.

16) Regarding a supplier-manufacturer relationship, what is, between trust and contract, the most important? Why?

Both are important. Contract as a written document is important but not necessary, while a trust agreement perceived and real is mandatory

8.9 INTERVIEW OF LUDOVIC BELLONCLE (FERRERO'S UPSTREAM SUPPLY CHAIN MANAGER)

123

- 1) Name and Surname

Belloncle Ludovic

- 2) What is your position? How long have you occupied this position for?

Upstream Supply Chain Manager since 2005

- 3) When did the relationship with the supplier begin?

The relationship with Saicapack began in the early 2000's and with Palettes Derou in 1993

- 4) Can you tell about particular events that made the relationship evolve?

The relationships are meant to be long-term, then there is no specific event to point. Companies grow together, on the long-term and share a long-term vision. There is no major problem. Quality and quality of service are seen on the long-term.

- 5) According to you, what are the reasons that make things go well or wrong?

Both parties are reliable partners, who respect commitments. The relationship is based on a win-win policy. Ferrero wants to share advantages with its suppliers. Partners respect each other. CRS wanted by Ferrero Group makes companies work in a profitable framework.

- 6) How do you solve problems that can happen?

Communication!!! We try to anticipate project in order to avoid problems. The long-term relationship and knowledge of Ferrero may make suppliers dealing with Ferrero as privileged partner.

- 7) How would you define an efficient supplier-manufacturer relationship?

- 8) How would you judge the efficiency of your relationship with your supplier?

a. Saicapack : Very efficient

b. Palettes Derou : Efficient

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9) How would you define “trust” in a supplier-manufacturer relationship?

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Fair prices, fair service level and honesty. Confidentiality is also involved. Transparency is important too, in order to communicate about problem that may occur, and then parties can work together on a solution.

Through communication, we will always find a solution.

One requirement: if the relationship is meant to last, customer should be treated as privileged

10) According to you, what is the impact of trust and contract on the efficiency of the relationship?

A real trust allows working without contract at the beginning.

11) Regarding a supplier-manufacturer relationship, what is, between trust and contract, the most important? Why?

Trust is the most important. The question is not to be asked. Contract is a mandatory formalization but it is virtual in the way of working.

12) What are the changes the contract will bring?

The contract is for purchaser, we don't use it in operations. Moreover, Ferrero's way of doing business is not common because of its familial culture. Relationships are privileged. Growth of suppliers accompany growth of Ferrero

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8.10 INTERVIEW OF BIAGO MODUGNO (PALETTES DEROU'S SALES MANAGER)

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- 1) Name and Surname

Modugno Biago

- 2) What is your position? How long have you occupied this position for?

Sales manager since 1975

- 3) When did the relationship with Ferrero begin?

Ferrero is our customer since 1993

- 4) Can you tell about particular events that made the relationship evolve?

The partnership with Mr. Del Vecchio, who look for knowing our range of services, which has brought a mutual trust that has lasted.

- 5) How is the relationship structured by the contract? Can you describe what the supply process should be?

There is no formal contract but open orders

- 6) How is the relationship actually structured? How do you concretely work with Ferrero?

The main car is to avoid shortages. Our high flexibility allows that.

- 7) What are the communication means that you can use to get in touch with Ferrero?

Phone, emails and fax

- 8) According to you, which one is the most efficient?

The phone

- 9) According to you, what are the reasons that make things go well or wrong?

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The relationships between individuals

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10) How do you solve problems that can happen?

By listening to our customer we try to find a solution to every issue

11) How would you define an efficient supplier-manufacturer relationship?

Good contact between people which allows an efficient partnership

12) How would you judge the efficiency of your relationship with Ferrero?

Very efficient except regarding price negotiations

13) How would you define “trust” in a supplier-manufacturer relationship?

A good knowledge and recognition between parties

14) According to you, what is the impact of trust and contract on the efficiency of the relationship?

To our mind, Ferrero’s policy is very typical due to familial roots, economic weight and image of the company. Trust is not a useless concept

15) Regarding a supplier-manufacturer relationship, what is, between trust and contract, the most important? Why?

Trust, since there is no contract implemented

8.11 INTERVIEW OF LAURENCE BARTELLONI (SAICAPACK'S FRENCH CUSTOMERS RESPONSIBLE)

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1) Name and Surname

Bartelloni Laurence

2) What is your position? How long have you occupied this position for?

French customer responsible for Saicapack since 2002

3) When did the relationship with Ferrero begin?

In 2002

4) Can you tell about particular events that made the relationship evolve?

- Cartonajes Rakosnik was bought by Saicapack in 2005
- 3 purchasing managers since 2002

These facts have probably strengthened our relationship. Indeed, as strategic supplier, we have to maintain technological watch, to inform and offer technical innovation; creative watch to help Ferrero with our experience of display products and product protection; economic watch for price competitiveness and flexibility required by Ferrero.

5) How is the relationship structured by the contract? Can you describe what the supply process should be?

There is no formal contract but a trust relationship, where we are put into competition regularly. There is several supply processes according to product type and needs. Lead-times are standardized, but can be reduced to match Ferrero's needs.

6) What are the communication means that you can use to get in touch with Ferrero?

Phone and emails

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7) According to you, which one is the most efficient?

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Both

8) According to you, what are the reasons that make things go well or wrong?

According to me, things go very well thank to 3 main reasons:

- Quality of human interactions
- Ferrero's professionalism (cf. order placement, open-mindedness and quality of replenishment)
- Saicapack's flexibility and ability to match "emergencies"

9) How do you solve problems that can happen?

Cf. last argument

10) How would you define an efficient supplier-manufacturer relationship?

Trust, respect and listening

11) How would you judge the efficiency of your relationship with Ferrero?

It is mainly related to human interactions. Indeed Ferrero's perspective is that a supplier has the following characteristics:

- Quality
- High flexibility
- Highly competitive prices

12) How would you define "trust" in a supplier-manufacturer relationship?

Trust comes from experiences. A good supplier is judged according to his ability to react to a problem. Indeed, a supplier tends to reach a zero-defect objective, even if it is not necessary reachable.

Then, trust comes from regular questioning, where the customer realize that the supplier match market prices.

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Finally, trust comes from supplier's flexibility and from customer's capability to prioritize (respect of standard lead-times when no rush, and then show to the supplier that the customer is aware of processes)

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13) According to you, what is the impact of trust and contract on the efficiency of the relationship?

A long-term relationship where both parties are winning.

14) Regarding a supplier-manufacturer relationship, what is, between trust and contract, the most important? Why?

Trust in commercial relationships.

A contract is necessary to give a framework and to set each party's responsibilities. It is not the formalization of trust.



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