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Chains, holes, and links: Organisation of activities in supplier relationships in the Russian transition economy

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Abstract

In the context of the transition to market economy as a way to accommodate new ways of managing supply, the paper analyses the chain of activities performed in four supplier relationships in the wood-processing industry in Russia. In contrast to what might be expected, the chains of activities in the cases demonstrate different orders of activities, implying that firms tend to organise their chains differently, depending on the character of the relationship. Moreover, the four cases also indicate that activities usually performed by the supplier in Western market economies are still carried out by the customer in Russia. It also seems that the interfaces in the chains are seldom characterised by mutually adapted activities and that the few mutual adaptations observed are to be found at the customer level. Consequently, the activity link between the supplier and the customer tends to be weak; payment and quality control are the only activities that have been adapted to the relationship as such. The paper concludes with a discussion of three strategies for supply management in transition economies.

Keywords: Activity; Chain; Holes; Links; Relationships; Transition economy; Russia

1. Introduction

Securing supply was perceived by Soviet managers as the biggest problem during the planned economy (Berliner, 1957). The shortage economy meant that establishing and maintaining control over supply was essential for Soviet firms. Despite the fact that the planned economy was replaced by an embryonic market economy (Eliasson, 1998; Fischer and Gelb, 1991; Peng and Heath, 1996), shortage of materials and supply management are still major constraints for Russian firms (Blanchard and Kremer, 1997; Buck et al., 1998; Filatotchev et al., 1996; Gurkov, 1996; McCarthy and Puffer, 1995; Shama, 1992), but so far there is limited knowledge about how firms manage their supply in the transition economy. Johanson (2004), Peng and Heath (1996) and Salmi (1996) argue that the firms should shift from an *intra*-organisational to an *inter*-organisational strategy. Consequently, a relationship perspective seems appropriate for the purpose of this paper, as it supports how Russian firms, 5 years after the so-called transition was introduced, perform activities in relationships with their suppliers.

The literature on inter-organisational relationships has evolved as one of the major research streams in supply management over the past few years. Partnership (Johnson and Lawrence, 1988), outsourcing (Mullin, 1996; Venkatesan, 1992), and supply chain relationships (Christopher and Jüttner, 2000) are some of the research traditions that focus on the relationship between customer and supplier in a supply perspective. This paper draws on the research tradition, initiated by the Industrial Marketing and Purchasing (IMP) group (Ford, 1997; Håkansson, 1982), and on the studies within that tradition, which have their focus

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on the interaction and organisation of the activities in supplier relationships (Araujo et al., 1999; Gadde and Håkansson, 1993; Gadde and Snehota, 2000). Common to these studies is their treatment of the activities the firms perform by using either the relationship or the network as the unit of analysis.

Three critical issues follow from this point of departure:

(1) How is the chain of activity in the relationship constructed, that is, what is the order of the activities in the relationship?
(2) Who is doing what? In other words, is the customer or the supplier performing the activity?
(3) How are the interfaces built between the activities in the chain?

The paper is organised as follows. The first section discusses supply management in the planned economy and attempts to argue that a specific activity structure evolved as a result of plan governance. The next section defines the activity concept, and then presents the organisation of activities in supplier relationships in the transition economy. The method section follows. Four case studies are then presented and analysed in two steps, first giving the background to the relationships and secondly presenting a cross-case analysis. The paper ends with a discussion on the theoretical contribution to the development of the activity concept and how firms can manage activity chains in Russia.

2. Supply management in the planned economy

The Soviet economy offered two main ways of managing supply. The first was through the official, planned distribution system, and the second was through the unofficial channels characterised by strong relations between specific people.

Probably the most fundamental feature in the Soviet economy was the idea of replacing the market with an administrative and central planning system. The firms regularly received quantitative plans from the plan authorities. The plan specified from whom the firm would receive its products and in what quantities. But the products were seldom distributed according to plan (Berliner, 1957). The shortage economy forced the firms to keep big stocks, and the firms learned not to trust the official distribution system (Berliner, 1957). In the faceless market (Salmi, 1996) the distribution system was not business-driven but production-driven, which meant the customer had the responsibility for the exchange. The supplier was not rewarded for satisfying the customer, which meant that activities like quality control, transportation, service, production of spare parts, training, etc., were usually performed by the customer. Owing to the high importance that securing supplies had for plan fulfilment, top management was more involved in purchasing compared to firms in market economies (Banting et al., 1991).

The "taut planning" system also meant that an unofficial distribution system emerged (Berliner, 1957; Nove, 1984). The non-flexible planning system, owing to its tautness (Ericson, 1991), was vulnerable to any kind of disturbance, and when disturbances did occur they had severe consequences and caused shortages, which, in turn, spread throughout the system. At the firm level, this meant that when a firm received insufficient quantities, it had the option of contacting the ministry and negotiating for additional resources. Regardless, trade between firms was forbidden, and if it took place, the companies involved risked heavy penalties. A second reason for firms being penalised was not fulfilling the plan. It was vital to have a close relationship with individuals at the Ministry, because that made additional resources, faster deliveries, and penalty reductions possible. Owing to the constant shortages, firms were often forced to secure supplies outside the boundaries of the official distribution system (Berliner, 1957; Grossman, 1977; Ledeneva, 1998; Nove, 1984; Puffer and McCarthy, 1995). The black economy, where gifts and bribes were accepted and where *blat* (string-pulling, favouritism) and *tolkachi* (instigators) existed, operated as an additional system.

3. Organisation of activities in relationship

Interaction between several people and on several levels between customer and supplier was one of the main observations made in the first study of the IMP group (Håkansson, 1982). The concept of interaction today also incorporates how activities are organised in relationships between customers and suppliers (Håkansson and Snehota, 1995). Thereby, the notion of interaction implies not only that firms in a relationship act and react, but that they adapt and link the activities they perform to each other. As Dubois (1998) suggests, production can be viewed as a chain of activities and the relationship between customer and supplier as a link in that chain. Snehota (1990, p. 42) defines the firm as "a pattern of activities that link together a set of actors and resources with the purpose of exploiting exchange in a market". The pattern implies that the performance of the activities is crucial to the conduct of the exchange. Activities performed by a customer are more or less related to its supplier. Performance of an activity gives control over the activity because it is through performing an activity that an actor develops specific knowledge and skills (Ford et al., 1993), which enable the actor to claim its share of the economic benefits of the activities