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Unpacking The Impact of
Relationships

# Unpacking The Impact of Relationships

## A Comparison of Good vs Typical Suppliers in the Oil & Gas Business

**A Report By Kate Vitasek**

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## EXECUTIVE SUMMARY

Trust is essential for all strong partnerships. Intuitively, business partners understand the importance of trust in commercial relationships – especially for strategic business relationships.

Researchers from the University of Tennessee (UT), Georgia College & State University and the University of Texas Health Science Center have been teaming for over a decade to study compatibility and trust in trading partner relationships. Our work to provide a simple yet powerful ***Compatibility and Trust*** (CaT) assessment has been featured in Harvard Business Review and has been used to help hundreds of companies improve their trading partner relationships.

This white paper – in collaboration with SAP – is the latest wave of UT's research which does a deep dive into trading partner trust within the oil and gas industry comparing the differences in compatibility and trust between an organization's "Good" suppliers and their "Typical" suppliers.

The results? Trust matters. But just how much? Our research shows compelling evidence there is a significant difference in trust levels between a buying organizations Good suppliers and the Typical suppliers.

- Good supplier relationships outperform Typical supplier relationships by a combined average of 15.5%.
- Buyers perceive their Typical supplier's performance across each of the five compatibility and trust dimensions much worse than Supplier's view their own performance. The perception gap size is three times higher than the gap size of Good suppliers.
- A deeper dive into why shows that lack of team orientation and innovation are causing the biggest frustration with Typical suppliers.
- When asked to describe the relationships using adjectives, the difference is even more striking; team members use positive words to describe Typical Supplier relationship only 57.8% of the time (vs 82.2%) for Good Suppliers.
- The contrast is even more emphasized when you consider team members used negative words to describe Typical Supplier relationships 19.1% of the time versus only 4.4% of the time for Good Supplier relationships.

In addition to measuring trading partner trust, our research wanted to explore if technology had a positive or negative impact on trust. Overwhelmingly respondents had positive statements to share about the use of technology, with 85% of responses being positive, 14% being neutral and less than 1% being negative in nature. In addition, respondents are encouraged about the efficiencies technology can bring. However, they believe technology has reduced their face-to-face interaction and view this as a negative aspect of technology.

We trust you will find this research both insightful and practical. If you found this paper valuable, please share it with your colleagues and trading partners. We hope what is next for you is a quest to improve trust with your trading partners.

# INTRODUCTION

Over the years, there has been significant research into the benefits of trust in business relationships. However, little research has been done to help trading partners measure their trust levels and provide insights into how to improve trust. To close this much-needed gap in research, University of Tennessee (UT) researchers collaborated with researchers from Georgia College & State University and the University of Texas Health Science Center to provide a simple yet powerful ***Compatibility and Trust*** (CaT) assessment. The goal? To not only measure trust from the perspectives of business partners but to provide essential insights to help trading partners have tangible insights to help them increase their trust in their relationship.

The result was a white paper titled ***Unpacking Trading Partner Trust: Research and Insights into the Building Blocks for Boosting Compatibility and Trust in Trading Partner Relationships*** which was followed by a *Harvard Business Review* article.

This white paper represents the next crucial wave of UT's research to do a deep dive look at trading partner trust within the oil and gas industry.

## Overview of the Research

We have studied 13 relationships in the Oil & Gas industry worldwide. Companies that purchase services (referred to as Buyers) were asked to identify two companies that provide services to them (referred to as Suppliers). Each Buyer was asked to provide a supplier with whom they had a Good Relationship, and one that embodied a more Typical Relationship. We then compared Good vs Typical on an aggregate scale.

Each pair of Buyers and Suppliers then completed our Compatibility and Trust (CaT) Survey. For detailed information on the CaT Survey, and the research behind it, please reference our White Paper titled "Unpacking Trading Partner Trust." This is available in our Vested Library at www.vestedway.com/vested-library/. Also, to learn more about the Compatibility and Trust assessment, please visit the University of Tennessee's dedicated website at www.vestedway.com/CaTAssessment.

## Overview of the Insights Shared

The detailed CaT reports for each Buyer-Supplier relationship consist of seven analyses with five analyses being quantitative in nature and two being qualitative in nature, as shown in **Figure 1**

**Figure 1 – CaT Analyses**

| Quantitative Insights | Qualitative Insights |
|---|---|
| 1. Self-Grades<br>***2. Self-view vs. Perception***<br>***3. CaT Index Score***<br>4. Absolute Gap Size<br>5. CaT Alignment Map | ***6. Adjectives to Describe the Relationship***<br>7. ***Open-Ended Questions*** |

This industry benchmark report provides insights from four of the analyses: self-views vs perception, CaT Index score, adjectives and open-ended questions (noted in ***bold italics*** above). In addition to the overall industry analysis, we provide a deep dive case study from one Buyer sharing insights in comparing their Good and Typical Supplier and the impacts on their business relationship.

The CaT Survey looks at five dimensions of a relationship between Buyer and Supplier. These dimensions are detailed in **Figure 1**.

**Figure 2: An Overview of Each Dimension**

| |
|---|
| • ***Trust*** is the consistency of performing to promise and meeting commitments. Without performance, trust cannot exist. |
| • ***Focus*** is the ability to combine individual roles into a corporate direction to benefit all stakeholders. There is a common purpose and direction and clarity around that direction. |
| • ***Communication*** is the efficient and effective transfer of meaning through words and actions to achieve and grow mutually beneficial outcomes. It includes open and timely sharing of relevant information to a partner's decision-making ability. |
| • ***Team Orientation*** is the ability to focus and direct individual goals and objectives into a cohesive group strategy. Team orientation is a key indicator of how well trading partners work together. |
| • ***Innovation*** is an organization's ability to dynamically deal with change and its tolerance for risk and trying out new ideas and solutions. Strong and trusting relationships allow the parties to share risks and rewards, invest in each other's capabilities, and embrace continuous improvement and transformation efforts. |

The CaT is designed to help organizations understand their current levels of compatibility and trust and identify areas of opportunity to improve their relationship. It does this by providing an overall "raw score" and highlighting "perception gaps" between the parties and then interweaving the qualitative information from the respondents to provide additional insight. Once organizations know where they have gaps, they can use the information to consciously close the gaps and proactively work to build a stronger relationship. Understanding and closing gaps across each of the five dimensions of compatibility and trust is essential for a healthy relationship.

# INSIGHTS FROM THE ANALYSIS

Our research provides excellent insight into the compatibility and trust levels between "Good" and "Typical" suppliers in the Oil and Gas industry. Below we share several insights from the study

## Analysis: Self-View vs. Perception

A key analysis of a CaT assessment is a comparison of the partner's "self-view" compared to the perception of one's partner. Here the CaT uses quantitative questions to help the parties realize their biases revealed in the self-score.

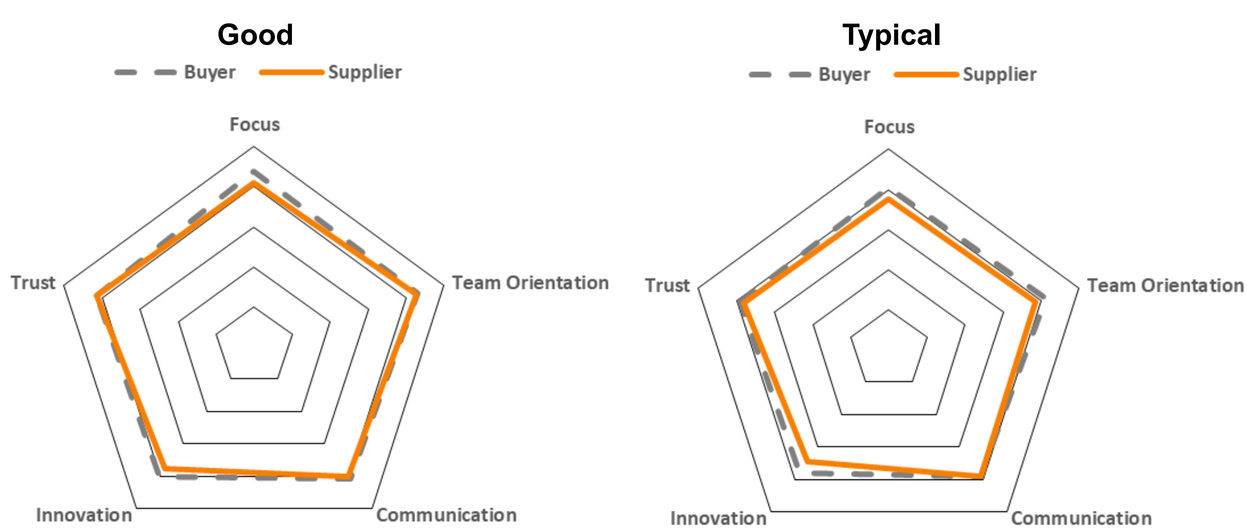
The CaT looks at the collective data across four views:

- The Buyer's self-view
- The Buyer's perception of the Supplier
- The Supplier's self-view
- The Supplier's perception of the Buyer

These views are presented using common visual tools. Spider charts make it easy to compare an organization's self-view with its partner's perceived view. Stoplight charts help organizations understand whether they should be concerned (e.g., do any gaps fall into yellow or red stoplights due to large gaps)? Bar charts compare and contract CaT scores by dimension. For this Case Study, we will focus on the spider charts.

In **Figure 3** below, we will first look at the Buyers' self-assessments and the Suppliers' assessment of the Buyers. Please note, the results shown are an aggregate of the results from all relationships surveyed, separated in Good Supplier and Typical Supplier.

**Figure 3: Buyer Self-Assessment & Supplier Perception of Buyer**



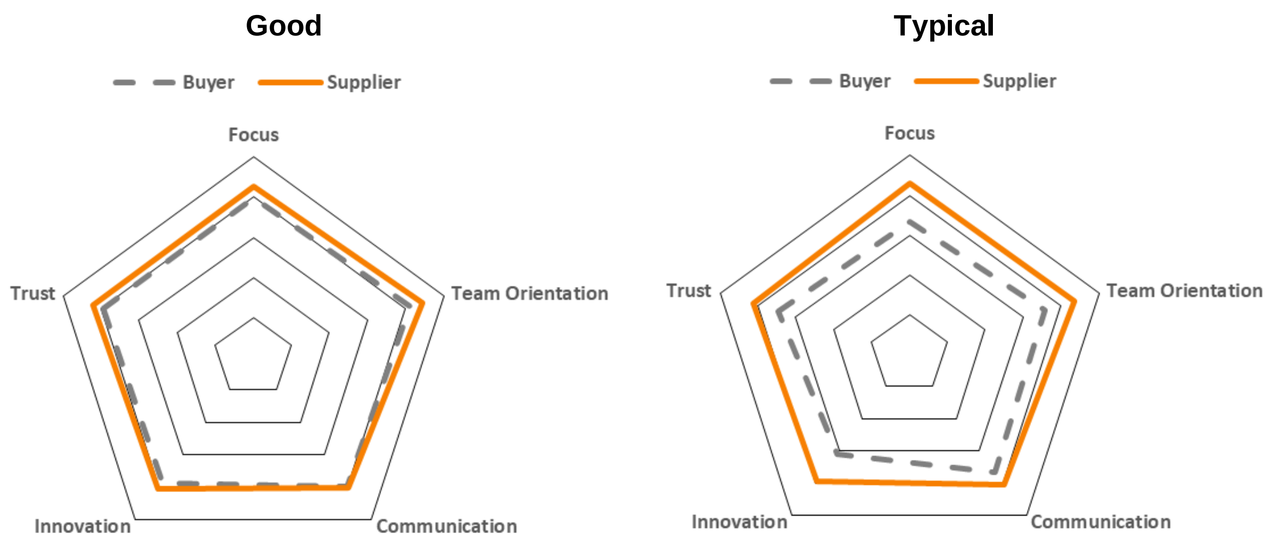

As you can see, the differences between Good and Typical are minor. This conclusion? Both Buyer and Suppliers – regardless of whether they are Good or Typical – view themselves fairly positively. This makes sense when you think about the vast psychological research on what is known as the self-serving bias which states that most individuals see themselves as being fairly good. The reason? It's hard for people (or organizations) to view themselves as not being good. Simply put the tendency is to view yourself through rose-colored glasses.

***Finding:***

***Organizations view their own organization relatively positively regardless of if they are Buyer, Good Supplier or Typical Supplier.***

Next, we will look at the aggregate of Suppliers' self-assessments and the Buyers' assessment of the Suppliers. These results are shown in **Figure 4**. As you can see, the differences between Good and Typical are more significant. The Suppliers' self-assessments are nearly the same between Good and Typical, but the Buyers' views of these Suppliers are significantly lower for the Typical Suppliers than for the Good Suppliers – the gap is over three times larger for the Typical Suppliers. Looking at the difference between self-view and perception lets the CaT assessment highlight potential friction points in the relationship.

**Figure 4: Supplier Self-Assessment & Buyer Perception of Supplier**



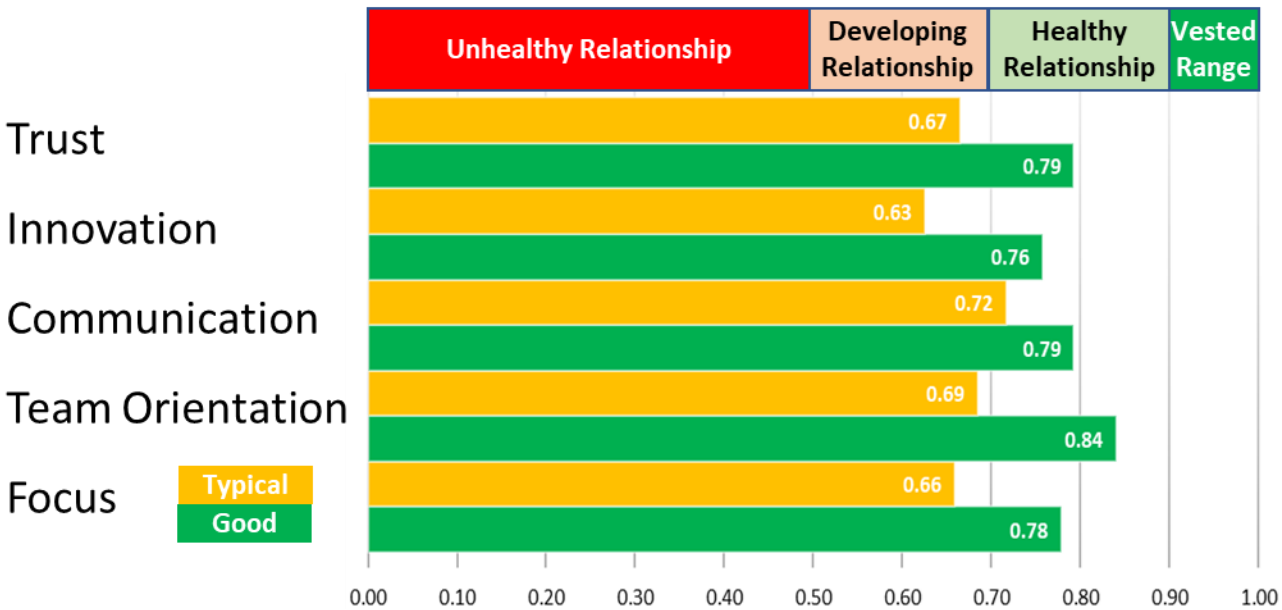

***Finding:***

***Buyers perceive their Typical supplier's performance across each of the five dimensions much worse than Suppliers view their own performance. The perception gap size is three times higher than the gap size of Good suppliers***

## Analysis: CaT Index Score

A key diagnostic of the CaT assessment is the CaT Index score. Each of the five dimensions has a CaT Index score. The CaT Index is calculated by penalizing large perception gaps between the participants. In essence, the larger the perception gap, the more the CaT Index score is reduced. **Figure 5** (following page) is the CaT Index scores separated by Good vs. Typical across each of the five dimensions. The green bar represents the CaT Index for Good supplier relationships and the yellow bar represents the CaT Index of the Typical supplier relationship.

**Figure 5 – CaT Index Scores**




As you can see, there is a significant difference between Good and Typical relationships. The aggregate scores for Good relationships all fall into the Healthy Range, whereas 4 of the 5 dimensions for Typical Relationships are in the Developing Range. Communication is the only one in the Healthy Range, which would be expected between companies that do business on a regular basis.

In addition to the spider charts, the CaT report presents the results between the self-views and perceptions in a table format using color-coded "stoplight" indicators. A set of typical stoplight charts is shown in **Figure 6** below (please note that this is an example, not based on aggregate data).

**Figure 6: Stoplight Charts**

**Good**

| COMPATIBILITY and TRUST DIMENSIONS | Buyer | Buyer perception of Supplier | Supplier | Supplier perception of Buyer | CAT INDEX by Dimension | Average Score |
|---|---|---|---|---|---|---|
| | Percentage Score | Percentage Score | Percentage Score | Percentage Score | Index 0.00 to 1.00 | Percentage Score |
| FOCUS | 97% | 85% | 89% | 84% | 0.81 | 89% |
| TEAM ORIENTATION | 93% | 89% | 91% | 85% | 0.9 | 90% |
| COMMUNICATION | 83% | 85% | 76% | 74% | 0.7 | 80% |
| INNOVATION | 86% | 85% | 83% | 72% | 0.74 | 82% |
| TRUST | 96% | 92% | 89% | 89% | 0.9 | 92% |

**Typical**

| COMPATIBILITY and TRUST DIMENSIONS | Buyer | Buyer perception of Supplier | Supplier | Supplier perception of Buyer | CAT INDEX by Dimension | Average Score |
|---|---|---|---|---|---|---|
| | Percentage Score | Percentage Score | Percentage Score | Percentage Score | Index 0.00 to 1.00 | Percentage Score |
| FOCUS | 86% | 77% | 85% | 71% | 0.66 | 80% |
| TEAM ORIENTATION | 85% | 81% | 86% | 77% | 0.75 | 82% |
| COMMUNICATION | 81% | 83% | 80% | 75% | 0.78 | 80% |
| INNOVATION | 82% | 80% | 80% | 60% | 0.63 | 76% |
| TRUST | 86% | 85% | 82% | 71% | 0.74 | 81% |

The stoplight chart allows team members involved in the trading partner relationship to readily see how large their perception gaps are. The raw percentage scores are presented for each view across the five dimensions. In addition, you can see the average score for each dimension and the CaT Index score. The stoplight chart shows the difference between the average score and the CaT Index. The CaT Index is calculated by penalizing parties for having large perception gaps.

The Good Relationship is mostly green, with just a couple areas in yellow, noting Caution, and pointing the team to these areas to improve the relationship. On the other hand, the Typical Relationship contains several Caution areas, and one Warning, suggesting a relationship that will need more work to improve it.

***Findings:***

***Good Suppliers outperform Typical Suppliers across every dimension in compatibility and trust by an average of 15.5%.***

***Good Suppliers score in the "Healthy" range across all five dimensions while Typical Suppliers score in the "Developing" range in 4 of the 5 dimensions.***

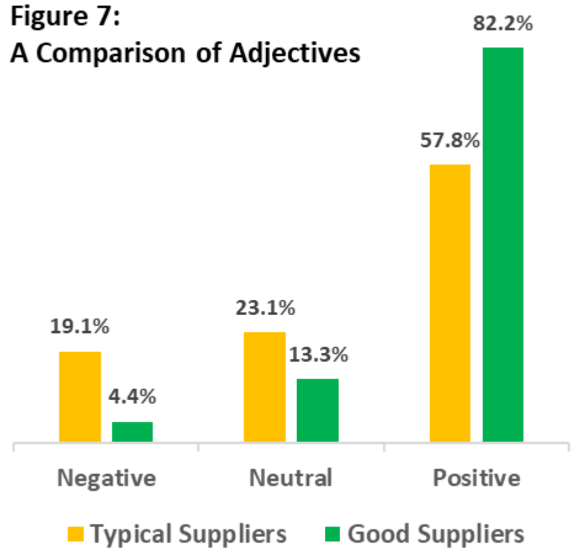
***Team Orientation and Innovation have the highest gaps (15% and 13%) which is an indication of a lack of collaboration and lack of ability to drive continuous improvement, innovation and overall flexibility in the relationship.***

## Analysis: Adjectives

One of the most revealing analyses of the CaT is the use of adjectives describing the relationship. Each respondent is asked to pick three adjectives to describe the relationship. They are also asked to assign a value to their adjectives that segments each adjective into positive, negative and neutral.

In **Figure 7** at right, we have compared the adjectives from relationships with Good Suppliers to Typical Suppliers. One can easily see a definite difference between the two aggregations, with Good Relationships trending much more positive.

**Figure 7:**
**A Comparison of Adjectives**




The numbers are compelling, showing Typical Supplier relationships have a significant more amount of negativity (19.1% of the adjectives are negative versus only 4.4% negative adjectives for Good Suppliers).

***Finding:***

***There is a significant difference in the positive (and negative) nature of Good Supplier relationships and Typical Supplier Relationships. Team members use positive words to describe a Typical Supplier relationship have only 57.8% of the time (vs 82.2%) for Good Suppliers. More strikingly, team members use negative words to describe Typical Supplier relationships 19.1% of the time versus only 4.4% of the time for Good Supplier relationships.***

## Analysis: Open-Ended Questions

Open-ended questions provide additional insight for the parties to see how behaviors are supporting or eroding trust. The survey included nine open-ended questions falling into two broad categories.

The first category of open-ended questions focused on what organizations were doing to either strengthen or weaken trust and asked respondents to provide examples from their specific relationship. The second category included three questions focusing on the impact of technology on the Buyer and Supplier's relationships. Below we share insights from each of the open-ended questions.

### Questions Related to What Buyers and Suppliers do to Strengthen or Weaken Trust

The CaT Assessment included six open-ended questions individuals at both the Buyer and Supplier answered regarding to actions that were either strengthening or weakening the relationship. These six questions are asked as part of all CaT Assessments and include the following questions.

- What does your company do to improve the relationship?
- What does your company do that weakens the relationship?
- What does your partner do to improve the relationship?
- What does your partner do to weaken the relationship?
- What would you like to see your partner do to build a more compatible, trust-based relationship?
- Do you have any other comments or suggestions about the relationship?

Below we share more detailed insights from the open-ended questions by showing example comments. For each question, we provide typical example comments from a Buyer and Supplier,

*What does your company do to improve the relationship?*

| | | |
|---|---|---|
| Good Supplier | Buyer | We think of ways we can strengthen the relationship and recently suggested spot bonuses on top of the contractual corporate bonuses. |
| | Supplier | Invests time, resources, and support above and beyond standard business partners in support of Buyer. |
| Typical Supplier | Buyer | Offer support, keep people employed through low prices, offer people/training |
| | Supplier | Try to constantly get what is asked of us on a day-to-day basis from safety expectations and work done efficiently. |

*What does your company do that weakens the relationship?*

| | | |
|---|---|---|
| Good Supplier | Buyer | We might micromanage a bit too much if Supplier doesn't solve problems in a timely manner. |
| | Supplier | Lack of resources can make it difficult to make changes at the rate we would like |
| Typical Supplier | Buyer | Not fully trusting of Supplier to follow through with actions |
| | Supplier | We don't communicate great and we feel that Buyer doesn't trust what we tell them. |

*What does your partner do to improve the relationship?*

| | | |
|---|---|---|
| Good Supplier | Buyer | They do everything we ask and make time for us more than a traditional customer would justify. |
| Good Supplier | Supplier | Clear communication on current goals and flexibility of incentivizing personnel. |
| Typical Supplier | Buyer | Work together to improve safety and efficiency of operations. |
| Typical Supplier | Supplier | They try to get our management to the field in the form of audits. |

*What does your partner do to weaken the relationship?*

| | | |
|---|---|---|
| Good Supplier | Buyer | Internal alignment seems difficult / slow |
| Good Supplier | Supplier | There can be a disconnect between the goals from the office and goals in the field |
| Typical Supplier | Buyer | They can get defensive if problems persist and we point them out. |
| Typical Supplier | Supplier | Micromanage – load up on action items - forces our company to be reactionary (always behind) & segregates lines of communication |

*What would you like to see your partner do to build a more compatible, trust-based relationship?*

| | | |
|---|---|---|
| Good Supplier | Buyer | Collaborate on objectives and incentives.  Deliver innovative ways of working and solutions to labor challenges. |
| Good Supplier | Supplier | Increase communication, and check ins to ensure we are continually improving and supporting each other. |
| Typical Supplier | Buyer | I think both parties need to be more open and honest with one another and set true expectations based on that reality. |
| Typical Supplier | Supplier | Transparency, open and honest communication. Focus on the what not the how. Give us the opportunity to do our jobs. |

*Do you have any other comments or suggestions about the relationship?*

| | | |
|---|---|---|
| Good Supplier | Buyer | Both organizations need to lean into this realization and maximize the opportunity in front of us. |
| Good Supplier | Supplier | Section bonuses for the crews, or pad bonuses vs AFE or planned time. |
| Typical Supplier | Buyer | Needs to be more trust – both working toward the same goal |
| Typical Supplier | Supplier | Both sides need to meet at an offsite place to voice concerns that both companies have about each other. |

***Finding:***

***Both Good and Typical partners are seeking to improve the relationship. However, in Typical relationships the wants and needs are more basic in nature versus aspirational improvements. For example, "maximize the opportunities" vs. "voice concerns that both companies have about each other"***

## Open-Ended Questions Related to Technology

SAP – being a leader in technology – was keen to understand if technology affected trust levels between Buyers and Suppliers. For this particular study, we added three questions focused on the impact of technology on their relationships.

- How does technology improve the relationship?
- How does technology weaken the relationship?
- How could technology improve the way you interact with your partner?

In analyzing the technology-focused open-ended questions we focused on exploring causes organizations cited for why technology either strengthens or weakens a trading partner relationship. In analyzing these open-ended questions, we separated the responses according to the five dimensions of a CaT Assessment.

*Trust (*the consistency of performing to promise and meeting commitments. Without performance, trust cannot exist)

*Innovation (*an organization's ability to dynamically deal with change and its tolerance for risk and trying out new ideas and solutions. Strong and trusting relationships allow the parties to share risks and rewards, invest in each other's capabilities, and embrace continuous improvement and transformation efforts.)

*Communication* (the efficient and effective transfer of meaning through words and actions to achieve and grow mutually beneficial outcomes. It includes open and timely sharing of relevant information to a partner's decision-making ability.)

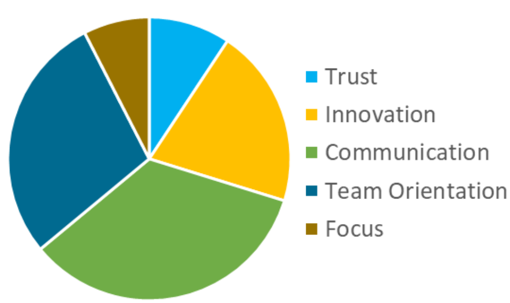
*Team Orientation (*the ability to focus and direct individual goals and objectives into a cohesive group strategy. Team orientation is a key indicator of how well trading partners work together.)

*Focus (*the ability to combine individual roles into a corporate direction to benefit all stakeholders. There is a common purpose and direction and clarity around that direction).

**Figure 8** shows how these open-ended questions related to the Five Dimensions of Vested.

Team Orientation was the leading theme, followed by Innovation and Communication.

Figure 8: Five Dimensions of Compatibility & Trust




### *How does technology improve the relationship?*

Respondents were overwhelmingly positive about how technology benefits relationships with eighty-four percent of respondents indicating that technology improves their trading partner relationship.  Most comments cited efficiency-related causes for how technology improves their relationship. A caution to keep in mind was that technology can negatively affect communications and teaming because technology often replaces face-to-face opportunities to connect.

Next we share insights from the open-ended questions. Typical comments included things like:

- Effective and efficient sharing of (operational) data helps us to better understand each other's needs and how we can support to improve the business
- Using technology creates a big advantage and is a proof point of the strong relationship between Buyer and Supplier.
- Technology allows for much easier cross-border communication as supplier is present across the whole buyer group in several countries.
- Automation at the transactional level provides mutual benefit for Opex reduction and improved quality.
- Use of data to improve fact-based decision making and automate processes to improve TCO (Total Cost of Ownership).
- Technology has helped improve the relationship by maximizing efficiency and value for both companies.
- Become more data driven and apply data integration/innovation in IT solutions in front line execution.
- Communication: the use of a good digital system (one truth) will help including a digital twin
- Technology frees up more manual work time and helps to foster better relationship between parties by allowing more face time and communication time. Also, as experienced during pandemic time, video conferencing helps to get face time with partners which is better than email communication.
- E-system connection between the two companies facilitates immediate data sharing, and live stock monitoring helps improve the work efficiency.

### *How does technology weaken the relationship?*

The responses to how technology weakens their relationship were far more mixed. Once again we segmented the comments into "positive," "negative," and "neutral." When analyzing responses, 35% of responses were neutral in nature (neither positive or negative). However, 18% of responses shared that technology had a negative impact on their trading partner relationship.

The majority of reasons cited for why technology weakened their relationship focused around the fact that technology reduces their face-to-face interactions. While this may drive efficiencies (viewed as a positive), the lack of face-to-face human interaction was seen as a negative.

The following open-ended responses provided good insight into the reasons respondents shared: Virtual meetings have limited the relationship development, and in some recent cases have allowed either party to avoid/defer some of the more difficult discussions that need to occur.

- The relationship through technological means causes the loss of aspects present in face-to-face relationships. Sometimes technology causes us to concentrate on a task and not think about a specific aspect that impacts us.
- It can seem some information is held back and it can weaken communication.
- Can be a Black Box where people are getting lost and disconnected from each other.

- Human factors can be overlooked.
- I think that the technology could have a negative impact on the relationship by being a big distraction for each of the parties.
- Less face-to-face interaction.
- Human relationships are lost.
- Chilling human relations.
- Takes focus away from the issues at hand.

***How could technology improve the way you interact with your partner?***

The last technology question was "How could technology improve the way you interact with your partner?" Overwhelmingly respondents had positive statements to share, with 85% of responses being positive, and 14% being negative and less than 1% being negative in nature.

The responses were broken down by the Five Dimensions with Communication and Team Orientation comprising over 70% of the comments. Key themes included further ways to improve efficiency and transparency. Typical responses included comments such as the ones below:

- If the technology can improve field adoption and honest communication between the different portions of the organizations, it will lead to better understanding of needs.
- Technology promotes innovation and creative problem-solving while aiding in optimization. It offers a chance to share knowledge and open channels of communication with our partner.
- Digitization and connectivity will tremendously strengthen the value chain and make the value chain much more transparent and efficient for all parties involved.
- Improve data transparency and exchange between the two companies.
- Working with the same information, sharing data.
- Focus on automation of supply chain processes.
- Improve efficiencies in order submitting, reduction of errors and transparency of business.
- Reduce manual data collation and reporting.
- Faster information exchange.
- By having more transparent systems (e.g., use of API) and sharing real time data, this could improve overall SC visibility.
- Using technology can make data sharing more transparent and improve accuracy of data sharing and transfer to reduce unnecessary time spent on numbers debate, especially related to custody transfer.
- E2E gates allow to streaming the exchange of information required to carry on operations more efficiently.
- Clearly we could advance with technology on the transactional processes to create efficiencies.
- Remote access should be used more.

***Finding:***

***Overall Respondents are encouraged about the efficiencies technology can have. However, they believe technology has reduced their face-to-face interaction and view this as a negative aspect of technology.***

## Deep Dive Case Study

We will now take a look at one Buyer, and its relationship with a Good Supplier and a Typical Supplier – exploring how a positive relationship can positively affect business outcomes.

For this case study we'll refer to the Buyer as Oil&GasCo. Oil&GasCo is an integrated energy company. Oil&GasCo carries out exploration, development and production of natural gas, crude oil, and liquefied petroleum gas (LPG). A key part of Oil&GasCo's operations is drilling oil. As with most energy companies that rely on drilling for oil, Oil&GasCo works with highly specialized service providers to support their drilling needs. In the case of Oil&GasCo they work primarily with two drilling suppliers – what we will call "Primary Supplier" and "Secondary Supplier". Both Primary Supplier and Secondary Supplier are direct competitors who vie for a share of Oil&GasCo's business – both providing drilling, pulling, maintenance and repair services for Oil&GasCo.

A deep dive into the trust and performance of Oil&GasCo's relationships with these suppliers shed light into the link between trust and performance.

### The Journey Begins

Oil&GasCo had worked with Primary Supplier for over 20 years and had what team members would classify as a good relationship. While the relationship was not perfect, overall team members worked well together. The one consistent complaint was Primary Supplier never seemed to be "innovative" enough. In addition, a lack of competition meant that Oil&GasCo's procurement leaders were always second guessing if Primary Supplier was cost-competitive.

When a new Procurement Executive came to Oil&GasCo, he brought with him procurement practices that had grown in popularity over the years such as using category management practices and adopting more rigorous procurement practices such as using competitive bids on a regular basis.

Operations team members were resistant, but the Procurement Executive put in a team of Category Managers to lead the bid processes. In addition, Commercial Managers were brought in to do professional negotiations, tighten up contracts and manage the supplier on an ongoing basis.

One of the tactics deployed was to use time tested "gold standard" strategy introduced by McKinsey consultant by Peter Kraljic in his Harvard Business Review article1. Kraljic's preferred strategy for dealing was if you have a powerful supplier you should try to bring in competitors – what Kraljic called a "diversify" strategy. Specifically, Kraljic suggested that organizations should not rely on just one supplier; instead, they should "go on the defensive" and proactively seek alternative suppliers to improve their buying power.

In addition, a buying organization who had power with multiple suppliers should use their buyer power to create leverage and an "upper hand" over the supplier. In fact, the Kraljic's preferred strategy was coined "Leverage".

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[1] Peter Kraljic, "Purchasing Must Become Supply Management," Harvard Business Review (Sept 1983)

Oil&GasCo's executive team liked the new competitive and power-based tools Procurement Executive brought to the table. The idea of having two suppliers seemed like a perfect choice to test the market and ultimately drive down costs. And – once the second supplier had grown in volume Oil&GasCo could use this to their advantage with leverage tactics.

The new Category Manager introduced a highly competitive bid process with a goal to commoditize services offerings and compare the supplier's prices on an apples-to-apples comparison. Secondary Supplier was ecstatic as the opportunity finally got a chance to bid for Oil&GasCo's business. The Category Manager liked how Secondary Supplier was going to market. Secondary Supplier's revenue with Oil&GasCo steadily increased over the years as Oil&GasCo tendered more work which Secondary Supplier won. By 2018 Oil&GasCo's spend with Primary Supplier at $36m and spend with Secondary Supplier at $34m – making Primary Supplier and Secondary Supplier roughly equal in size regarding Oil&GasCo's spend.

While the early bids of Secondary Supplier were originally significantly less than Primary Supplier – over time Secondary Supplier raised their prices. While Oil&GasCo was disappointed with the price increases, their strategy was still viewed a success because it was viewed as a "win" as it achieved substantial initial price reductions for the work that transferred to Secondary Supplier as well as reduced the power of the Primary Supplier – something seen as a risk since Oil&GasCo has "all of their eggs in one basket."

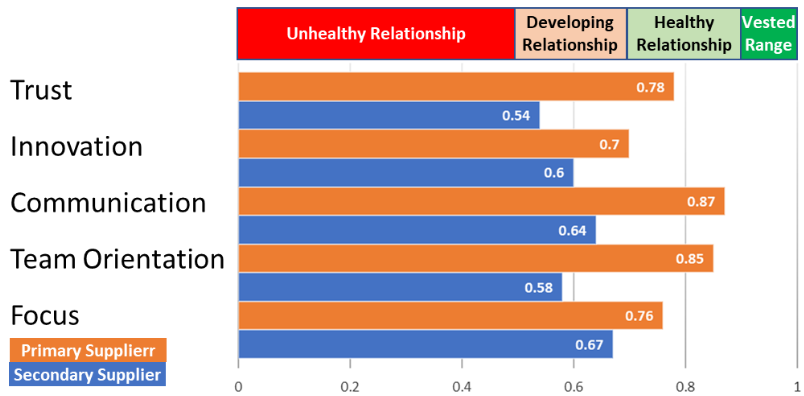
With the link between spend, trust and overall happiness with the above as context, we'll now explore the link between spend, trust and overall happiness of Oil&GasCo.

A key learning is that increased (or decreased) spend with a supplier is not always indicative of happiness with a supplier. In fact, the more Oil&GasCo grew dependent on Secondary Supplier, the more frustrated they became. This frustration led to Oil&GasCo decreasing their spend with Secondary Supplier over the next several years. By 2021, Secondary Supplier's revenue decreased steadily to just above $6m. Due to business changes by Oil&GasCo in work mix and location needs, Secondary Supplier's spend was increased to $12m in 2022. The sentiment among Oil&GasCo was one where they felt they ***had*** to work with Secondary Supplier – but not one of ***wanting*** to work with them.

Oil&GasCo decided to use the University of Tennessee's Compatibility and Trust Assessment to see if they could put some data around their trust levels with Primary and Secondary Supplier. Secondary Supplier was the "Typical Supplier" for the UT research and Primary Supplier was the "Good Supplier" for the research. The results of the CaT Assessment helped Oil&GasCo put both quantitative and qualitative data around how they were working with each supplier.

## Using the CaT Assessment To Better Understand Supplier Relationship Health

**Figure 9 – CaT Assessment Results**



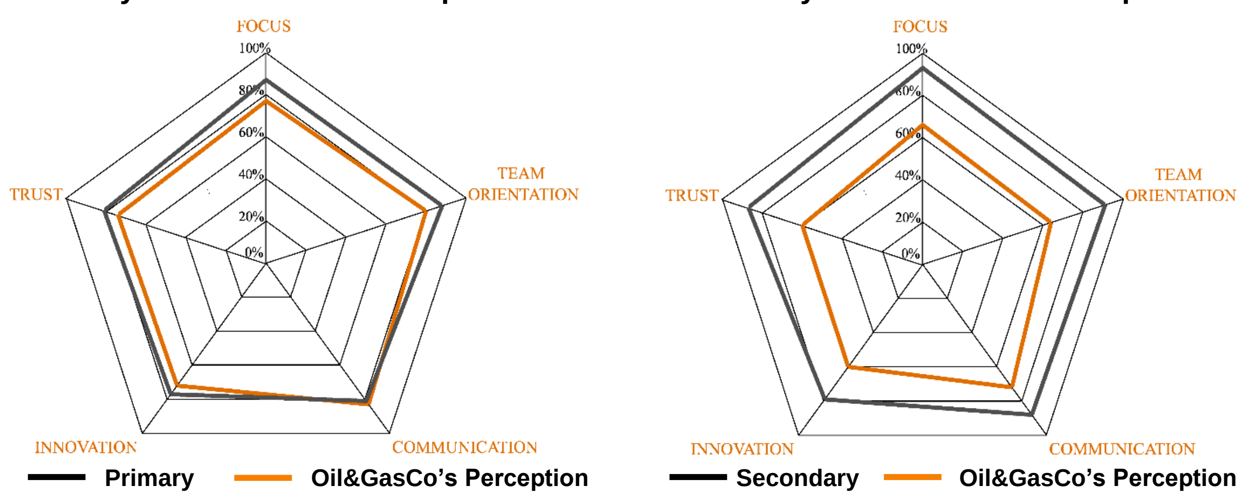

Using the Compatibility and Trust (CaT) Assessment helps companies like Oil&GasCo quantify the trust levels between them and their suppliers. **Figure 9** shows a high-level comparison of Oil&GasCo's relationship these two critical suppliers with a clear distinction between their ***Developing Relationship*** with Secondary (Typical) Supplier, and their ***Healthy Relationship* –** with Primary (Good) Supplier scoring higher across all five dimensions of the CaT assessment.

It is interesting to note that while Oil&GasCo has had a longer relationship with the Primary (Good) Supplier (31 years), Secondary (Typical) Supplier would still be considered a long-term supplier having worked with Oil&GasCo for 11 years.

Another clear indicator of the difference in the relationship is a view of the perception gaps between each supplier and Oil&GasCo's across each of the five dimensions of the CaT assessment. The supplier's view of their own performance (the black lines) shows that in both the case of the Primary Supplier and Secondary Supplier, the suppliers view themselves as performing higher than Oil&GasCo views the supplier is performing (Oil&GasCo's view is represented by the orange line). In the Primary Supplier relationship (represented in the **Figure 10** on the left) the gaps are fairly small, especially as compared to Oil&GasCo-Secondary Supplier relationship (**Figure 10** on the right).

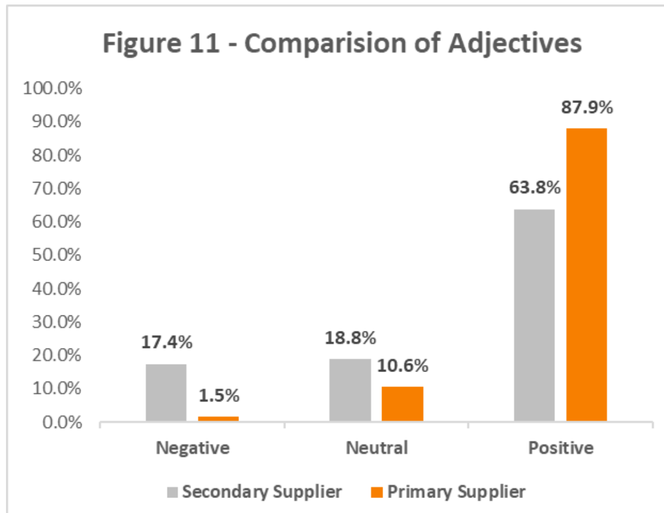
**Figure 10 – Oil&GasCo's Perception of Primary Supplier & Secondary Supplier**

**Primary & Oil&GasCo's Perception** **Secondary & Oil&GasCo's Perception**

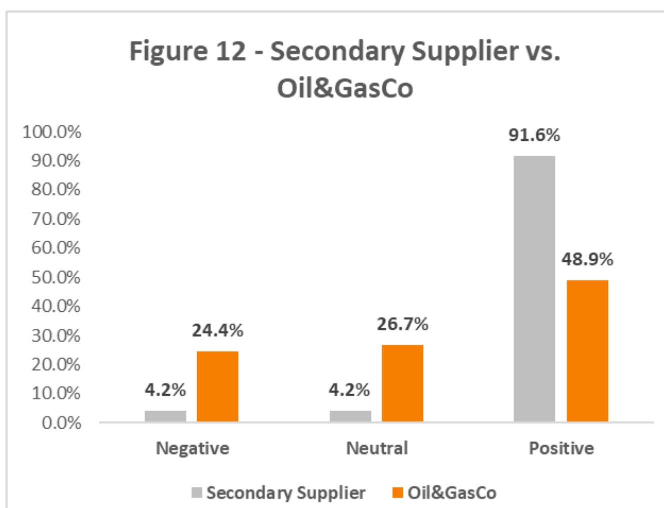


The University of Tennessee's research into buyer-supplier trust levels shows that the larger the perception gaps the more likely the organizations (and the people working in them) fall into the trap of what Harvard University's Oliver Hart – a Nobel Laureate in Economic Sciences) refers to as shading behavior. Shading is a non-collaborative or even punishing behavior from a party in a contract when disappointed with the business party. A classic example of shading is buyer micro-management of a supplier for non-performance. The logic is that because the supplier is not performing the best action is to increase the "management" of the supplier activities. The supplier team members often become resentful to being constantly watched over, and often leave for a better job – which in turn causes further frustration from the buying company. Shading leads to what Hart calls a vicious cycle of negative tit-for-tat behavior that causes frustration and increase transaction costs due to lost trust.

The result of shading behavior is frustration - which is easy to spot in a CaT assessment. One question team members from both the buying organization and the supplier organization are asked is to use three adjectives to describe the relationship. **Figure 11** analyzes the adjectives showing the percentage of positive, neutral and negative adjectives team members used. On the surface it is easy to see that overall sentiments of the Primary Supplier relationship are much more positive than for the Secondary Supplier relationship, with team members using positive adjectives **87.9%** of the time to describe the Primary Supplier relationship versus only **63.8%** of time for the Secondary Supplier relationship. The CaT survey indicated team members used words such collaborative, confidence, reliable, and good to describe the relationship versus words such as integrated, cordial and necessary to describe the Secondary Supplier relationship.




However, further digging into the adjectives for the Typical Supplier relationship shows there is a lopsided view of the relationship – similar to how the spider chart in **Figure 10** indicated a perception gap. **Figure 12** compares Oil&GasCo's adjectives and the Secondary Supplier adjectives – showing **91.6%** of Typical Supplier's adjectives are positive, but less than half (**48.9%**) of Oil&GasCo's adjectives are positive. While the Secondary Supplier used words to describe the relationship as reliable and efficient, Oil&GasCo used adjectives such as transactional, inflexible and opportunistic.

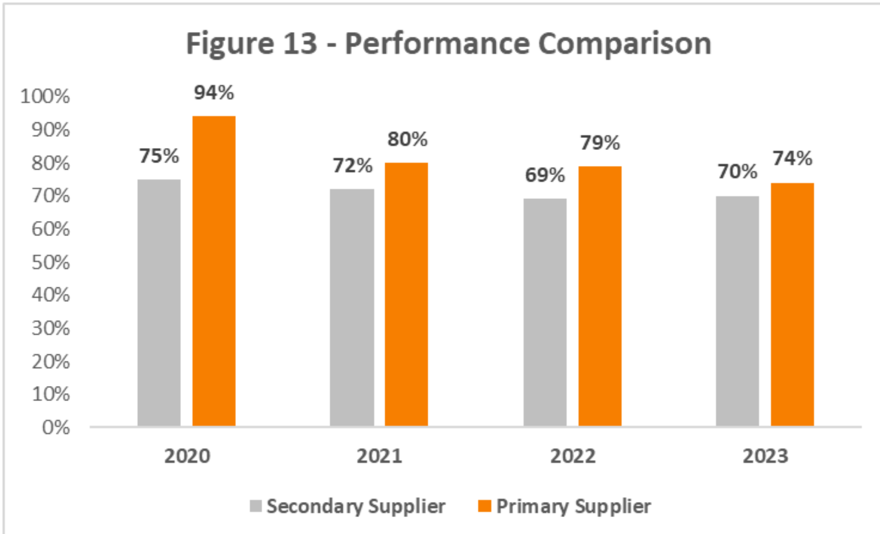


## Impact of Trust on Performance

So how does trust impact the performance of a relationship. For this white paper we did a deeper dive with Oil&GasCo to explore this question. While the CaT Assessment does not correlate the data from the CaT with performance, there is a general sentiment from the companies participating in our research that supplier relationships with lower CaT scores also have lower performance. An analysis of supplier performance for Oil&GasCo aligns with the overall sentiment.

**Figure 13** shows a comparison of the Primary (Good) Supplier and Secondary (Typical) Supplier's performance using a Key Performance Index Oil&GasCo refer to as QHSE.

QHSE is a measure combining operational performance, incident/ accident rate and the company's proactivity regarding safety and processes. Various factors can cause the overall value of the QHSE KPI to fluctuate over time, but the comparison between companies remains consistent.




As you can see in **Figure 13**, the relationship with Primary (Good) Supplier consistently outperforms the relationship with Secondary (Typical) Supplier over the last four years.

Could Oil&GasCo's frustration with Secondary Supplier have been avoided? Could they have known that by ramping up "competition" by spending more money with Secondary Supplier would not pay off as much as they had hoped?

One indicator UT researchers believe could be an early warning sign is the cultural fit between a buyer and supplier. The CaT Assessment helps identify cultural fit between trading partners by comparing a buyer and a supplier's *self-view* across each of the five CaT dimensions. The more the organizations view themselves as similar – the more they have what UT researchers refer to as "cultural fit". Looking at **Figures 14 and 15** on the next page, it is easy to see that Oil&GasCo-Primary (Good) Supplier (Figure 14) have a tightly aligned cultural fit because team members view themselves as having similar behaviors across each of the five dimensions while the Oil&GasCo-Secondary (Typical) Supplier relationship (Figure 15) has gaps in behaviors across four of the five CaT dimensions.

**Figure 14**
Cultural Fit Self-View Comparison
Oil&GasCo and Primary Supplier

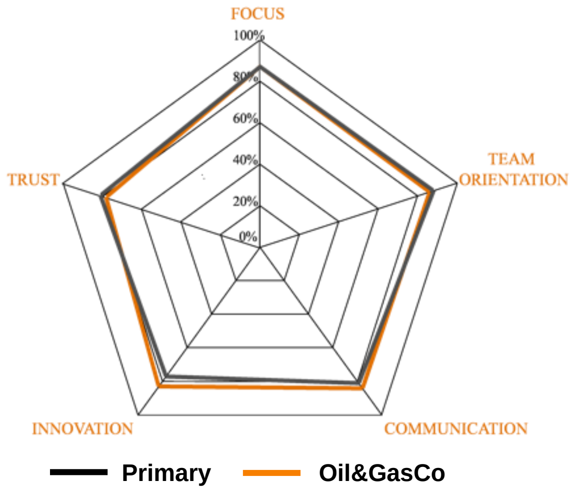
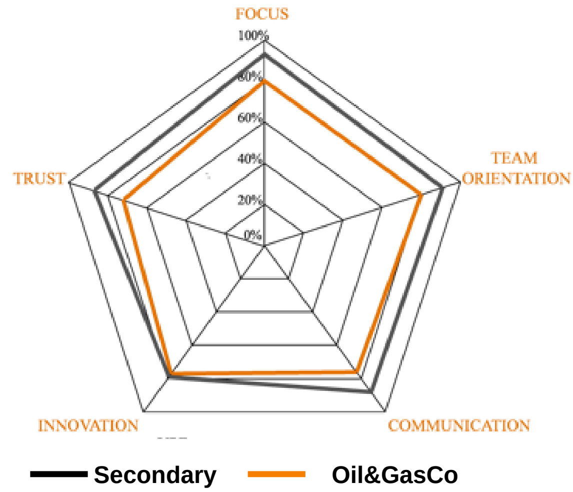



**Figure 15**
Cultural Fit Self-View Comparison
Oil&GasCo and Secondary Supplier




## Learning from the Survey

A key learning for the Oil&GasCo was seeing both the quantitative and qualitative assessment of trust in these two key relationships. One of the commercial leaders shared "We could sense we had trust issues with the Secondary Supplier, but the CaT Assessment brought it to life in a very tangible and tactical way."

What was next for Oil&GasCo?

A key next step coming out of the CaT Assessment report was to reflect how they could use this data. An interesting outcome was the Primary (Good) Supplier proactively contacted the Oil&GasCo team members to discuss how they could take the information and further improve the relationships. The Oil&GasCo team member reflected, "Not surprisingly, the Secondary (Typical) Supplier has remained silent."

Oil&GasCo commercial leaders are also intrigued with learning more about cultural fit with their suppliers. One commercial leader reflected, "Often we are in a position where there is limited supply sources – especially when dealing with very specialized services. The CaT assessment has really got us thinking about how we can change our sourcing approach to avoid frustrations."

## CONCLUSION AND NEXT STEPS

A little over a decade ago, a trio of academics from the University of Tennessee, Georgia College & State University and the University of Texas Health Science Center set out to develop the Compatibility and Trust (CaT) assessment to ***measure*** trust levels within business relationships.

This latest phase of our research set out to do a deep dive into the Oil and Gas industry to determine if there are gaps in compatibility and trust between an organization's "Good" suppliers and their "Typical" suppliers. Key findings include:

- Organizations view their own organization relatively positively regardless of if they are Buyer, Good Supplier or Typical Supplier.
- Buyers perceive their Typical supplier's performance across each of the five compatibility and trust dimensions much worse than Supplier view their own performance. The perception gap size is three times higher than the gap size of Good suppliers.
- Good Suppliers outperform Typical Suppliers across every dimension in compatibility and trust by a combined average of 15.5%
- Good Suppliers score in the "Healthy" range across all five dimensions while Typical Suppliers score in the "Developing" range in 4 of the 5 dimensions.
- Team Orientation and Innovation have the highest gaps (15% and 13%) which is an indication of a lack of collaboration and lack of ability to drive continuous improvement, innovation and overall flexibility in the relationship.
- There is a significant difference in the positive (and negative) nature of Good Supplier relationships Typical Supplier Relationships. Team members use positive words to describe a Typical Supplier relationship only 57.8% of the time (vs 82.2%) for Good Suppliers. More strikingly, team members use negative words to describe Typical Supplier relationships 19.1% of the time versus only 4.4% of the time for Good Supplier relationships.
- Across the board in both Good and Typical supplier relationships there is a desire to improve the relationship. However, in Typical relationships the wants and needs seem more basic versus aspirational improvements. For example "maximizing the opportunities" for a Good relationship vs "Voice concerns that both companies have about each other" for a Typical relationship.
- Overwhelmingly respondents had positive statements to share about the use of technology, with 85% of responses being positive, 14% being negative and less than 1% being negative in nature.
- Overall respondents are encouraged about the efficiencies technology can bring. However, they believe technology has reduced their face-to-face interaction and view this as a negative aspect of technology.

The bottom line? It is your bottom line.

Our research shows compelling evidence there is a significant difference in trust levels between a buying organizations best suppliers and the typical suppliers. The gaps in trust create frustration which increases friction and leads to significant negative energy and friction in the relationship. Lastly, while technology can provide significant efficiencies, it is important to maintain healthy interpersonal relationships between a Buyer and Supplier.

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## ABOUT SAP

Supplier relationships have never been as important as they are today. Forward-thinking organizations have always seen the need to improve supplier relationships to gain access to innovation, to share costs, and to potentially open new markets and increase competition. But lack of supply, inflation, and disruption are prompting organizations to work even harder, to become the customer of choice just to get supplies.

SAP helps bring simplicity and clarity to all types of spending from across a company. With spend management and business network solutions from SAP, companies can guide employees to smart spending decisions, partner with the rest of the organization and work closely with suppliers to make sure every transaction is a strategic investment. Visit http://sap.com/spend to learn more.

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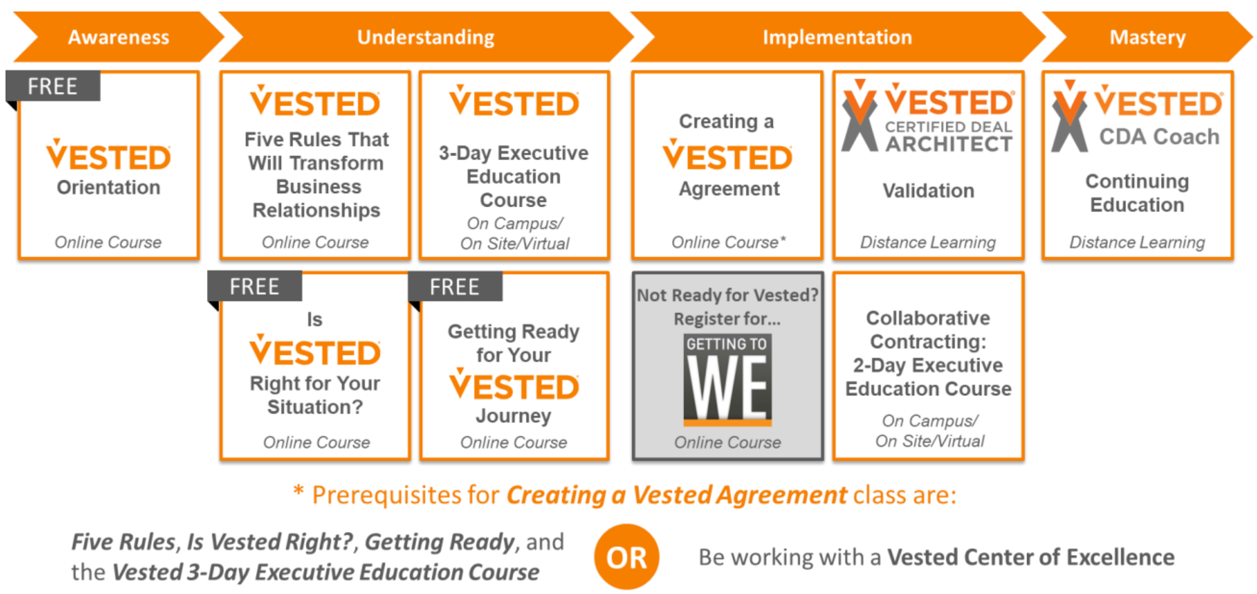
***Kate Vitasek*** is one of the world's authorities on highly collaborative win-win relationships for her award-winning research and Vested® business model. Author of seven books and a Graduate and Executive Education faculty member at the University of Tennessee Haslam College of Business, she has been lauded by World Trade Magazine as one of the “Fabulous 50+1” most influential people affecting global commerce. Vitasek is a contributor for Forbes magazine and has been featured on CNN International, Bloomberg, NPR and Fox Business News. You can reach her at kvitasek@utk.edu

## FOR MORE INFORMATION

***The University of Tennessee*** is highly regarded for its Graduate and Executive Education programs. Ranked #1 in the world in supply chain management research, researchers have authored seven books on the Vested business model and its application in strategic sourcing.


We encourage you to read the books on Vested, which can be found at most online book retailers (e.g., Amazon, Barnes and Noble) or at [www.vestedway.com/books.](http://www.vestedway.com/books)

For those wanting to dig deeper, visit the University of Tennessee's website dedicated to the Vested business model at [http://www.vestedway.com/](http://www.vestedway.com/) where you can learn more about our Executive Education courses in the Certified Deal Architect program. You can also visit our research library and download case studies, white papers and resources. For more information, contact [kvitasek@utk.edu](mailto:kvitasek@utk.edu).




### *Ask a Faculty Member About How to Conduct a CaT Assessment*

Learn first-hand the value of a CaT Assessments with one or more of your suppliers. CaT assessments cost $2500 per supplier relationship and costs are typically split between the buyer and supplier. For more information, contact [kvitasek@utk.edu](mailto:kvitasek@utk.edu).

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