Decision trees to support wholesale relationships: a concept paper

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Disclaimer:

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Executive Summary

Purpose of the project

One of the recommendations from the DPI review (2008) was to introduce a collaborative delivery model for DPI services. The collaborative delivery model, often termed wholesaling, involves DPI programs working with external providers to deliver services to farmers. While DPI has some experience in wholesale relationships, introducing "branded" wholesaling as a routine mechanism for delivering programs presents challenges.

The outsourcing and alliance literature (Hunter 2004, Kaine and Keeble 2007, Howden 2008) shows that although sharing services with other organisations to implement programs can work well, there are risks that need to be managed to protect service quality and the achievement of organisational objectives. Consequently, providing DPI managers with tools to help them establish wholesale relationships and manage the associated risks is essential.

To this end "State of the Art - Action 1.2 under Future Farming Statement" funded Practice Change Research to prepare this concept paper to describe a tool managers could use to evaluate current and proposed wholesale relationships.

Project findings

We adapted Hunter's (2004) approach for outsourcing relationships to develop a set of decision trees that could help DPI managers evaluate wholesale relationships.

The decision trees cover three dimensions of branded wholesaling: governance, strategy and human resource management. Each tree contains a set of questions that are worked through systematically to identify the nature and severity of risks that may arise for a wholesale relationship. The trees also guide managers to choices they can make to mitigate these risks.

The benefit of using the decision trees to evaluate current or proposed wholesale relationships is that they provide a method for systematically identifying these risks. Furthermore, the assessment of wholesale relationships is more holistic because three dimensions are used. Whilst holistic, there may be other dimensions managers wish to consider. The trees are designed to complement manager's own experience.

The decision trees offer DPI a way to begin to think about the effort and resources that are required to make wholesale relationships work and so ensure that DPI objectives continue to be achieved using the new service model.

Further development

The concept paper and the research approach have the potential to inform the following areas in the implementation of BSTF (DPI 2009):

- Service development function: organisational implementation issues point 7(p. 9).
- Service delivery function “branded wholesaling” deployment points 7 and 11 (p 13).
- Retail service delivery support: deployment point 5 maximising retail and wholesale activity (p. 15).

The trees presented in this paper were tested with a small representative group within DPI which included investors, program managers, capacity development staff and fellow researchers. There was consensus that the decision trees offered a useful way to consider wholesale relationships.

Options to develop the trees further include:

- Considering how the decision trees could be adapted to support training programs for DPI staff.
- Testing and documenting the decisions trees using examples drawn from DPI programs.
- Developing scales to assist managers to answer the questions in the trees.

As the paper stands it provides a preliminary decision guide appropriate for use by DPI to consider aspects of their wholesale decisions. Care should be taken to ensure decisions made are done so understanding the limitations of the study.

Introduction

New service model for DPI

Farm Services Victoria (FSV), a division of the Department of Primary Industries (DPI) provides public services to Victorian farmers. FSV has over 800 employees throughout Victoria who deliver these services (DPI June 2009a).

Following a review of DPI services (2008), the Department publicly launched "Better Services to Farmers (BSTF)" in April 2009. BSTF highlighted DPI's role in the State's Future Farming Strategy which aims to support Victorian farmers to achieve a sustainable future.

One of the recommendations from the DPI review was to introduce a collaborative delivery model for DPI services. The collaborative delivery model, often termed wholesaling, involves DPI programs working with external providers to deliver services to farmers. It is intended that programs identify where they can effectively utilise private commercial or community intermediaries to deliver services, such as information packages, to farmers (DPI 2009b). This service model is also intended to build capability in the agricultural sector.

The BSTF principles offer guidance as to how the new service model can be considered by DPI programs (DPI 2008):

- Target DPI services to achieve greatest benefit.
- Focus on public good with industry funding supporting industry benefits.
- Determine if DPI is best to deliver the service or should it seek delivery through other parties.
- Avoid competing with private providers or community groups.
- Grow the overall capability across the sectors and service deliverers.
- Address risks identified in the review.

The implementation of these principles by program managers requires considerable time and effort to implement (Higson, Kaine and Keeble 2009).

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Implementing the new service model

While DPI has experience in wholesale relationships, introducing branded wholesale relationships as an essential delivery mechanism for programs may present challenges for implementation.

The outsourcing and alliance literature (Hunter 2004, Kaine and Keeble 2007, Howden 2008) shows that although the sharing of services with other organisations to implement programs can work well, there are serious risks that need to be managed to protect service quality and the achievement of organisational objectives. Challenges in delivering services together can include:

- Different and sometimes competing priorities among partners for the delivery of a service;
- compromised service quality and timeliness;
- confusion for partners because responsibilities overlap; and
- competitive rather than collaborative behaviour between partners because resources are limited.

Given these risks, identifying ways to support DPI managers to establish and operate within wholesale relationships will be essential for DPI objectives to be achieved.

To this end "State of the Art services to farm businesses" funded the Practice Change Research Team to consider what support tools could be developed to assist managers to consider both their both current and proposed wholesale relationships.

Supporting implementation of wholesale relationships

Organisational Research Approaches

Over four years Practice Change Research has developed an organisational research program to support public sector organisations to implement policy. To this end we have developed frameworks and conducted research to identify organisational issues that present barriers to policy implementation.

Specifically, Practice Change Research has investigated the issues that arise when organisations implement policy together (Keeble and Kaine 2008, Kaine and Keeble 2007). Given wholesale relationships involve DPI working with external organisations; we believe this research could provide a useful resource for DPI to develop tools for DPI managers.

Our research has shown it can be helpful for program managers to have a systematic way to reveal the types of organisational issues they may face when they work with external organisations. Thus for this project we developed a set of decision trees that can be used to consider current or potential wholesale relationships.

Purpose of this paper

The purpose of this concept paper is to demonstrate to DPI managers and investors the type of tool Practice Change Research could develop to support decisions about wholesale relationships.

The body of the paper is devoted to illustrating the three decision trees that can be used to assess wholesale relationships. This includes diagrams, explanations and desktop examples relevant to DPI. We hope by working through the trees, managers can see the types of issues that may arise when sharing services with an external partner, and that they can make informed choices about how they manage any risks that arise.

Being a concept paper, we present the way an approach could be constructed with an emphasis on the theoretical basis for the approach. To create a practical tool for managers from the decision trees we would need to develop scales to assist managers to use the decision trees, and develop practical examples for managers to work through.

As the paper stands it provides a preliminary guide for DPI to consider aspects of their wholesale relationships. Care should be taken to ensure decisions made are done so understanding the limitations of the study.

In the next section we introduce the approach and the decision trees to illustrate how they could support DPI program managers to consider how sharing services with a commercial or community partner may affect the delivery of the service.

Decision Trees for considering wholesale relationships

Basis for the decision trees

Hunter (2004), Kaine and Keeble (2007), Keeble and Kaine (2008) demonstrated that understanding relationships between organisations from three dimensions gives a more holistic understanding of risks that can arise when organisations work together. These dimensions are strategy, governance and human resource management. We have used these dimensions to construct decision trees for considering wholesaling (see figure 1).

The decision trees are designed as a starting point for assessing a potential service relationship; they are not intended to cover every aspect of a service relationship. They also do not provide a definitive assessment as to whether the prospective service relationship should be established. The trees are designed to *complement* managers own skills and knowledge about relationships.

How to work through the decision trees

The trees are designed to be worked through independently of each other. For each tree we have included a diagram and an explanation for each question in the tree to assist you to answer them for your prospective service relationship.

Start at the top of a tree and follow the sequence of questions (answering yes/no) until you reach the end of a branch. The result at the end of the branch will indicate whether you are likely to have risks to manage related to that dimension. Once you have completed each tree you can assess the overall value of the prospective relationship and, if you proceed, consider whether you need to employ management responses to mitigate any risks you have identified. Examples of management responses are provided in the appendices.

Figure 1: Four step process for considering wholesale relationships

Step 1: Strategy tree

Identify strategic risks that need to be managed

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Step 2: Governance tree

Determine the nature of the service and use this to guide choosing the governance type that will support your wholesale relationship

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Step 3: Human resource tree

Determine whether the HR management style will promote staff performance

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Step 4: Assessment list for taking action

Assess if there are risks and prepare management responses to support your wholesale relationship

Decision trees for considering wholesale relationships

Step 1: Strategy tree

Are there strategic risks I need to manage for this relationship?

By working through the strategy tree you will be prompted to consider if a wholesale relationship will create strategic risks, in particular:

- If the quality or timeliness of service will be hampered;
- if your objectives for the service are likely to be compromised because your partner has different priorities; and
- if it is more difficult for you to create value for farmers because you share service delivery.

Porter (1985) proposed that managers can use *management responses* to deal with these risks. Examples of management responses are the development of appropriate organisational structures (i.e. inter-divisional taskforces); systems (i.e. joint strategic planning), human resource management (i.e. sharing staff) and conflict resolution mechanisms (leadership resolution). For a detailed list of management responses see Appendix 1 or refer to Porter (1985) and Keeble and Kaine (2008).

The strategy tree is illustrated in figure 2. You will see there are four questions to work through sequentially. Once you answer the questions you will have identified a risk rating*:* low, moderate or high. Examples of management responses are provided in the diagram for moderate and high risk ratings. The new wholesale relationship risk rating table is provided in section four of this paper to record your assessment for each tree. This can be used to help make an overall assessment of the relationship and may help you to develop a plan of action.

Question 1: Is the activity you plan to wholesale a core activity in achieving the strategic objectives of DPI?

The purpose of this question is to determine whether you will share activities with your wholesale partner that are critical to achieving your program and DPI objectives and, if so, the risks you need to manage.

Strategy theory proposes that an organisation's purpose is to create value for their customer. The purpose of public sector organisations like DPI is to create value for their customer (the Minister representing the public) by changing the behaviour of certain members of the community (farmers in this instance).

Hence, managers must consider the needs of both the public and farmers when implementing services (Keeble and Kaine 2008). With this in mind consider what activities in your program are essential to changing the behaviour of farmers to meet your program objectives and thus create public value.

Identifying whether you share core activities that are critical to your organisation's survival is important for you to be able to assess if sharing services creates risks. Porter (1985) states that to achieve their objectives organisations must focus their effort on activities that are critical to their creation of value. In order to work out what activities are critical Porter (1985) recommends grouping activities into three types: core, essential and non core.

Core activities are the main priority for organisations because they are the source of value the organisation creates for customers (Porter 1996). For example, hospitals create value by treating the medical conditions of patients; hence treating patients is a core activity.

Essential activities are activities which are an *indispensable* input to a core activity. These activities are considered *as* important as core activities because without them core activities could not be achieved (Hitt etal 1996; Hunter 2004). For example, recruiting doctors to treat patients is an essential activity for a hospital.

Non-core activities are those activities which are not a priority because they are not critical to achieving an organisation's purpose. The supply of bed linen may be regarded as an important activity, but not a core or essential activity in the treating of hospital patients.

In summary, by assessing what activities are core, essential and non-core you can determine the potential risks associated with sharing activities with a wholesale partner.

Action: Determine if you share core essential activities with your potential partner.

If you share <u>core or essential</u> activities with a wholesale partner there will be risks that need to be managed to ensure service quality is maintained.
→ Move to question 2.

If services are non-core the risk to service quality and your objectives is likely to be low. Thus management responses are not essential.

→ No further assessment is necessary.

Action: Do you and your potential partner agree that they are core or essential activities?

Kaine and Keeble (2008) note if you disagree on how important the activities are, service quality may be at risk, particularly if they are core or essential activities for your program. If your wholesale partner considers the activities to be non-core they are likely to treat them as a low priority and the quality or timeliness of service delivery may be compromised. We classify this circumstance as *high risk* and an example of a management response to manage this risk is included in the Figure 2.

Question 2: Do our objectives for implementing the activities align?

It is important to consider if your wholesale partner's strategic objectives align with your strategic objectives. If they do not align the quality of the activity may be at risk.
For example, George is a private consultant who runs a commercial farm planning and design business. His strategic objective is to provide a planning service to farmers at least cost and to ensure the farmer's business objectives are met. Henry runs an extension program promoting sustainable farming for DPI. Henry provides farm planning advice that accounts for farmer's business objectives but also incorporates planning for environmental benefits like vegetation buffer zones and retainment of nutrient on farms; which can increase costs to farmers.

Henry is considering partnering with George to deliver the extension program by contracting George to incorporate planning for environmental benefits in his preparation of farm plans for farmers. Henry will need to ensure the planning advice offered by George properly accounts for environmental benefits to be comfortable that wholesaling the activity will not put the achievement of DPI objectives at risk.

Action: Consider how you both view the service objectives and whether they align.

When objectives for the service *differ*, the risk that the delivery of the activity will not meet with your objectives is *higher*. Thus you will need management responses to foster alignment of your objectives to ensure delivery of the activity meets DPI objectives e.g. joint planning.

If you share <u>core or essential</u> activities and your objectives do align
→ move to question 3.

Question 3: Is our access to farmers restricted because we wholesale the activity?

Access to farmers is essential because they determine whether an activity continues to be of use to them (Wishart *et al* 1996). For DPI to continue to create value for farmers managers need to monitor changes in the needs and preferences of farmers. If farmer's preferences change, activities may need to be adapted to reflect these changes. For example, the agricultural technologies and farm practices that are of most interest to dairy farmers in northern Victoria have changed substantially in recent years as weather patterns have changed and the modernisation of irrigation infrastructure has proceeded. DPI has, accordingly, modified the content of the services offered to dairy farmers in northern Victoria.

When a commercial or community service provider undertakes an activity with farmers on behalf of DPI they have primary access to farmer preferences. Risks can arise for DPI program managers if changes in farmer's preferences change are not conveyed to the DPI manager. This is particularly important if changes in preferences mean core activities for DPI need to be adapted. If your partner has primary access to farmer preferences and other relevant changes in the business environment you need management systems to ensure your partner transfers this knowledge to you e.g. regular meetings to share intelligence.

Action: Consider if your wholesale partner retains primary access to farmer preferences.

If you share core or essential activities with your partner that result in your access being restricted, consider management responses to transfer intelligence about farmer preferences.

→ move to question 4.

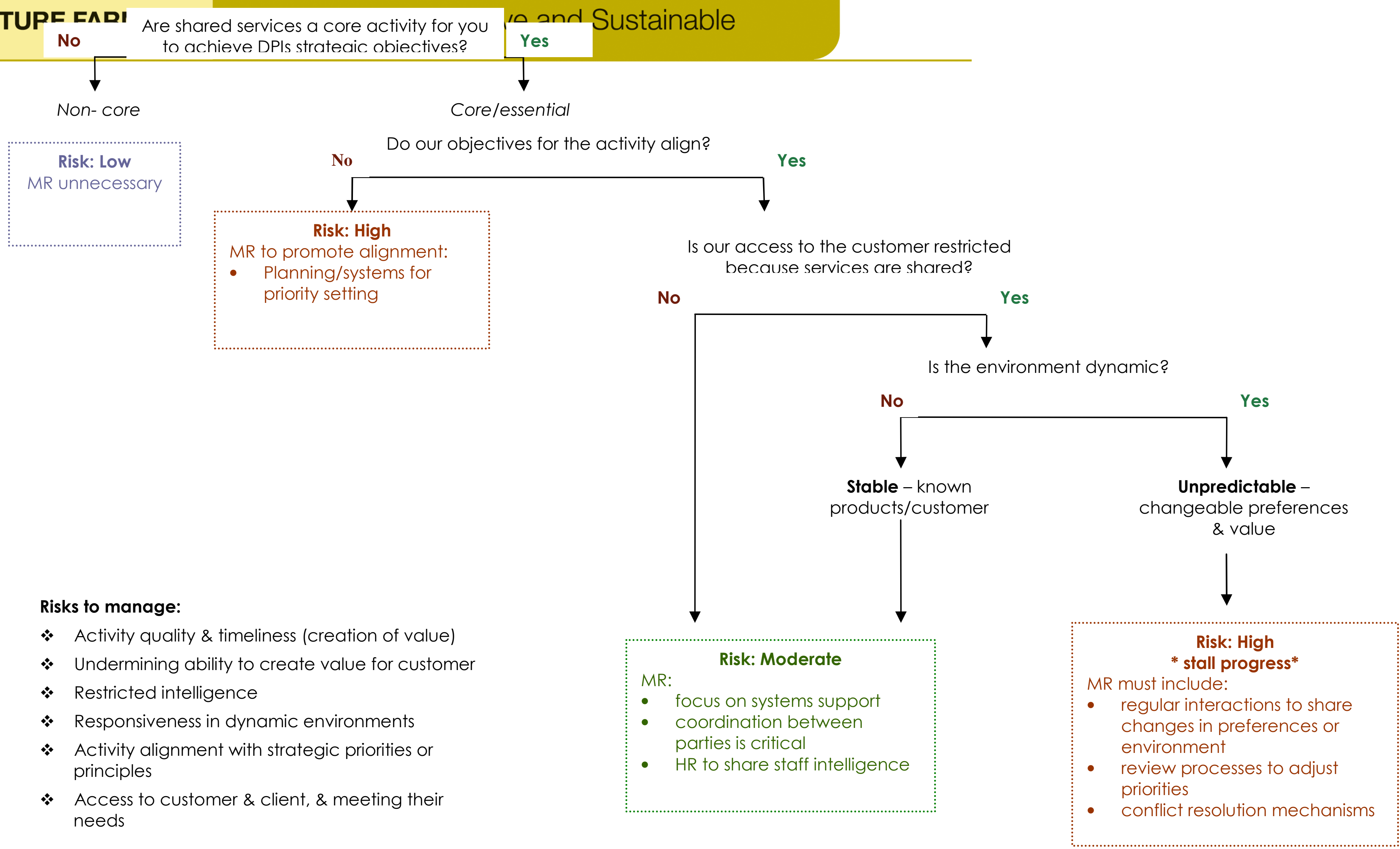
Question 4: Is the business environment of farmers dynamic?

For organisations like DPI the degree of risk associated with restricted access to farmers, depends on the *predictability* of relevant change in the business environment of farmers and the *frequency* with which significant changes occur. In a stable environment, change is infrequent and predictable and farmers' preferences are more likely to be stable and predictable. This means organisations can anticipate the changes and adjust their activities accordingly. Consequently, the risk associated with restricted intelligence is *low* to *moderate*.

In a dynamic environment change in farmer preferences is likely to be more frequent and unpredictable. In these circumstances DPI cannot easily anticipate changes in farmers' preferences and adjust activities accordingly in a timely manner. Consequently, the risk associated with restricted access to farmers is *high* and management responses that promote the transfer of this intelligence are essential. For example, the business environment of farmers in Victoria has been particularly turbulent in recent years with changes in weather patterns, the modernisation of irrigation infrastructure, the global financial crisis and the introduction of a carbon emissions policy. This means farmers are operating in a dynamic environment and their service preferences can be expected to change frequently and, sometimes, unpredictably.

Action: Consider how dynamic the environment and farmer preferences are for the activity you are wholesaling. Consider management responses if risks are high.

Finally, consider your overall strategic risk assessment. If there are any risks that were rated moderate or high reconsider wholesaling. If you decide to proceed, the management responses in appendix 1 will help you develop a plan of action to address the risks.



Risks to manage:

- Activity quality & timeliness (creation of value)
- Undermining ability to create value for customer
- Restricted intelligence
- Responsiveness in dynamic environments
- Activity alignment with strategic priorities or principles
- Access to customer & client, & meeting their needs

MR = Management Response

Figure 2: Strategy tree

Step 2: Governance tree

What types of activities do we share? Can this guide the governance type that will best serve us?

The governance tree enables you to choose the most appropriate type of governance for your wholesale relationship based on the transaction characteristics of the activities you plan to share. Choosing the appropriate type of governance can reduce risks including:

- Stranded assets: wasted investment in resources to produce an activity if your partner reneges on completing the activity.
- The threat of opportunism: partners inflating the cost of undertaking an activity because they know you are dependent on them.
- Producing activities that are irrelevant for farmers because of restricted access to changes in their preferences.

Williamson (1996) identified three transaction characteristics to classify activities. These characteristics are asset investment, frequency and uncertainty. Once you classify your activities using these characteristics you can predict which governance type will best support your wholesale relationship. There are four types of governance – market, trilateral, bilateral and unified. Governance in this instance refers to the rules that govern the *behaviours* between the two organisations to exchange services or activities (Keeble and Kaine 2008). These are explained in detail in Appendix 2 and in Keeble and Kaine 2008.

The governance tree is illustrated in figure 3. There are four questions to work through sequentially. Explanations for each question are provided below to help you work through the tree. Once you answer the questions you will have identified a preferred governance type.

The first transaction characteristic Williamson (1996) identified is the kind of investment an organisation must make to perform an activity.

Question 1: Are the assets you invest in to produce the activity customised?

The purpose of this question is to assess whether wholesaling the activity will create risks in terms of opportunism and sunk costs. These can be managed by using a relational type of governance (e.g. bilateral).

Asset investment can include investment in human assets such as staff or physical assets such as plant and equipment. For example, a winegrower invests in vines to create wine. A grower will also pay staff to harvest grapes.

Naturally, asset investments create a cost for the organisation, and the aim is to keep costs to a minimum. Williamson (1979) argued the real cost of an activity depends on whether the assets used in that activity can be used in the production of *other transactions.* For example, once a grower has planted one variety of vines to produce one style of wine, they can only grow grapes of that variety. They would need to make additional investments in other vines to be able to grow other grape varieties and produce other styles of wine. The investment in one variety of vines is *customised* because the winegrower can only recoup their investment through transactions involving the sale of wine of a particular style. The grower cannot easily use the investment to produce other styles of wine and recoup their investment through transactions involving the sale of a range of wine styles.

In contrast, the grower can use staff to contribute to a number of tasks. Staff can pick grapes, irrigate vines, prune vines, treat pests and diseases, sell wine at the cellar door etc. This investment is a *non-specific* investment because the same staff can engage in a variety of tasks. Hence the grower can recoup their investment in staff more easily by having them perform a range of tasks.

The extent to which assets need to be *customised* for an activity is particularly important when organisations produce activities together. The primary risk when one partner has to invest in a customised asset to deliver on the activity is that their partner reneges on the transaction before it is completed. This is called the risk of *stranded assets or sunk costs*. If the partner reneges there may be no way to recoup the cost of the investment. So if the winery cancels orders for merlot grapes for example, the grower may be unable to recoup their investment in the merlot vines.

Also if an organisation that invests in customised staff in the partner organisation they become vulnerable because they are dependent on these staff and cannot substitute them easily or recoup investment in them if they leave the partner organisation.

This means that organisations will need governance types that protect their sunk costs when wholesaling activities involve customised investments, A governance type that commit partners to complete the transaction, or compensate accordingly, will be required.

Because non-specific assets can be used for other activities the risk of investing in such assets is *low* and partner commitment is unnecessary. Buyers and sellers can act relatively independently because they can substitute one buyer for another. For example, a grape grower can switch between contractors supplying grape pickers. Market governance is suitable in this instance because the risks are low. The incentive for the contractor to renege is low and the chances of finding an alternative supplier are high.

Action: Consider what type of asset investments you and your partner need to make to deliver the activity.

If asset investments are <u>customised</u>, market governance will be inappropriate.

→ go to question 2

If asset investments are <u>non-specific</u>, risk is low and market governance may be appropriate.

Question 2: Is the activity produced regularly?

There are cost efficiencies if an activity is undertaken repeatedly because the asset is constantly in use. Knowing the regularity of an activity can inform decisions about wholesaling and governance that will support your relationship.

Consequently, the second transaction characteristic to consider is how often the activity occurs. Williamson (1996) refers to two types of frequency – regular and occasional. Activities undertaken regularly are considered cost effective because the assets used to produce them are used repeatedly.

To illustrate, the development of a plan for river health may only occur occasionally, say once every 5 years. A Catchment Management Authority might engage a consultant to produce the plan because the requisite planning skills are only needed once every five years. In this instance a *trilateral governance* type is appropriate. This involves the Authority and the consultant entering a once-off contract when a plan is needed, for the period it takes to produce the plan. The relationship ceases once the plan is completed. This means the partners are semi-dependent for a period of time and this is embodied in the contract. A third party is responsible for resolving disputes between the partners.

In contrast, the quality of water in a river may need to be reported on monthly by the Authority. Hence, measurement of water quality may be considered a regular activity. Whether such a regular activity should be undertaken internally by the Authority, or could be contracted out is considered in the next question.

Action: Consider how regularly the activity you share is undertaken.

If the service is an occasional, consider using trilateral governance to manage the wholesale relationship.

If the service is produced regularly

→ move to question 3

Question 3: Is what the service consists of uncertain at the outset?

Uncertainty is an important characteristic because uncertainty increases the need to review an activity to ensure it is suitable. Thus you will need regular contact with your wholesale partner to adjust the activity.

The third transaction characteristic is the level of uncertainty associated with the nature of the activity's purpose. If organisations must constantly review their investment in activities or the tasks required to complete an activity, they will accrue costs in terms of time and resources.

For example, the recent floods in Queensland caused extensive damage to community facilities and infrastructure. The government and their partners needed to assess the nature and extent of flood damage and work with partners to design activities to repair that damage for the subsequent flood recovery program. These activities will require modification as they proceed and new information on the precise nature and severity of damage comes to light. Successful modification of the flood recovery program requires the partners to be in regular contact to exchange information and be prepared to revise investments, activities and roles. This requires a type of governance that permits a *flexible* relationship between the organisations.

Williamson (1996) proposes that when uncertainty about the nature of an activity is *high;* you will need a *bilateral governance* type to produce activities together. With bilateral governance partners guarantee to cooperate for the long-term and acknowledge that their relationship is necessary to perform the activity. This type of governance involves partners agreeing to regular interaction, fostering the flexibility to adjust activities as new circumstances and information emerge, and procedures for dispute resolution. This reduces the risk of producing inappropriate services and protects against opportunism. The administrative costs of a bilateral relationship are high. However because transactions are regular, these costs can be worthwhile.

If activities are customised and uncertain*,* Williamson (1996) recommends that you should undertake them within your own organisation because the risks of wholesaling are too difficult to be managed. This is known as *unilateral governance*. We realise in some instances this may not be an option so a bilateral relationship is the next best option.

Action: Consider the degree of uncertainty and customisation in any shared services.

Is the nature of the activity you plan to wholesale uncertain and difficult to specify? If so, consider *bilateral governance*

Is the nature of the activity uncertain, difficult to specify and customised? If so, consider *unilateral governance*
Please note if activities fall into more than one governance category ensure governance type addresses the greatest risks.

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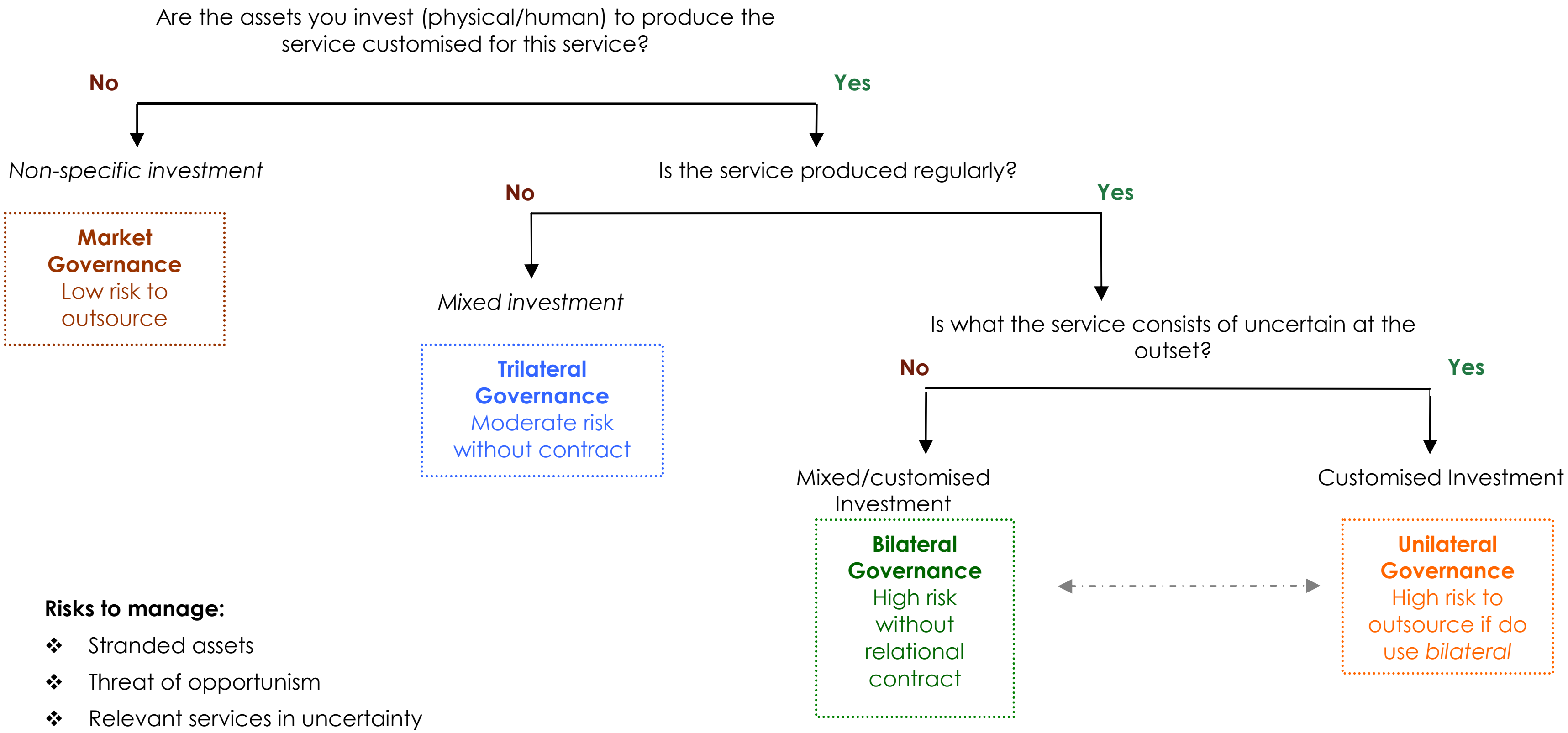
Figure 3: Governance Tree



Risks to manage:

- Stranded assets
- Threat of opportunism
- Relevant services in uncertainty

MR = Management Response

Step 3: Human Resources Tree

How do we manage staff to promote performance?

When organisations conduct activities together they effectively share staff and must manage them together. Legge (2005) states human resource management (HRM) styles affect staff performance. Depending on the *type* of role staff have, and the skills required to perform the role, different HRM strategies will support staff performance. It is important for managers to consider if specific HRM responses are necessary in each partner organisation to enable staff to implement shared activities.

The following risks to performance can arise without a properly considered HRM style:

- Diminished organisational capability and performance.
- Inconsistency in staff management leading to inequity in the treatment of staff.

Legge (2005) goes on to list a number of management styles and present a flexible firm model for supporting staff. We adapted Legge's (2005) HRM styles and the flexible firm model (Volberda 1998; Kaine and Keeble, 2007) to develop a set of questions managers can use to reveal which HRM styles will support staff to perform when organisations are delivering activities together. It is important to consider HR styles within *and* between partner organisations

Legge (2005) showed that, in choosing a HRM, it is extremely important to understand how fundamental its staff are to achieving organisational objectives. How fundamental they are depends on:

- The degree to which staff themselves create the organisation's value; and
- The degree staff competencies underpin the organisation's value.

If staff are fundamental to success and have specialist competencies a *soft* HRM style will be essential for promoting performance. This means staff will expect to be treated like an asset, be involved in decision-making and offered benefits such as contracts or work flexibility.

In contrast, a *hard* HRM style may be more appropriate where staff competencies are not specialised and the value of the organisation arises from other sources such as its technology. The hard HRM style treats staff as a production input and that staff productivity can be improved through the use of monetary incentives. Legge (2005) states these styles are the ends of a continuum. In Appendix 3 there is a more detailed explanation of the HRM styles.

The human resource tree is outlined in figure 4. Each question is designed to determine if there are risks associated with sharing staff and whether specific HRM styles are needed. To help you work through the question tree, an explanation of each question is presented below.

Question 1: Are staff the primary asset?

If staff are the primary asset an organisation relies on to achieve their activities and services, staff are considered the primary source of value for the organisation. For example, a research leader's main asset will be in a team of skilled researchers to implement a research program. In comparison, a car manufacturing company may invest primarily in machinery to build the cars and staff are hired to operate the machines.

If staff are the primary asset, it is important to consider HRM styles that will support their performance otherwise organisational performance may be at risk.

Action: Consider if staff are the organisations primary asset.

If people are not the primary asset a specific HRM response may not be as critical for your wholesale relationship.

If people are the primary investment

→ *move to question 2.*

Question 2: Are staff competencies to undertake the services specialised?

The more specialised staff competencies are the more dependent your organisation is on their competencies to create value in delivering an activity. This is because it takes time for new staff to develop these competencies. Returning to our previous example of the research team, it takes time to develop competencies in a researcher and they are not easily replaced. In contrast, in the car manufacturing company the competencies on the production line may be standardised and easily acquired. Consequently, staff can be inter-changed on production line tasks and may be relatively easily replaced. Maintaining the interest and productivity of staff in these circumstances can be difficult.

Risks to performance are higher if inappropriate HRM styles are used for specialist staff in a wholesale relationship.

If you wholesale an activity that requires specialist competencies, then a dependency is created in regard to HRM style that may lead to risks that need to be managed. These risks include opportunism as the partner organisation may displace you in the long term as their capacity to perform the activity grows.

Also, if the shared activities are core then your success depends on how well they manage their staff. Protection against this risk may mean having an appropriate HRM style to support performance both within *and* between the organisations

In addition, O'Donohue (2007) terms staff with specialist competencies 'knowledge' workers. Typically knowledge workers respond best to a soft HRM style. Including this in your relationship discussions will be imperative to ensure staff are adequately supported. Keeble and Kaine (2008) provide case study examples of soft HRM styles within and between organisations.

In the context of wholesaling, the propensity to regard the staff of other organisations simply as a production input can undermine their performance and so put the wholesaling of the activity at risk. Also, organisations must be careful about potential inequities and tensions arising from creating different rules around engagement of staff.

Action: Consider if staff competencies are specialised.

If competencies are not specialised a HRM style toward the hard style in the partner organisation may be considered acceptable. There is a moderate human resource risk associated with wholesaling the activity.

If competencies are specialised and activities are core or essential the partner organisation should probably have a *soft* style to HRM. There is a high human resource risk associated with wholesaling the activity.

→ *go to question 3*

Question 3: Are the activities recurring?

One of the goals in the flexible firm model is to consider when it is appropriate to use external staff to achieve your objectives. Legge (2005) describes four groups within a workforce. Within your organisation are the internal primary (skilled) and internal secondary (semi-skilled) groups. The workforce in your partner organisation are external primary (skilled) and external secondary (semi-skilled). When organisations possess different workforce groups, they must be careful about creating different rules of engagement for those groups.

The flexible firm model indicates that if activities are continual or recurrent it may be in your best interests to retain these activities internally to build your own organisations capability rather than that of another organisation. The obvious risks are developing a competitor or creating too strong a dependency on your external workforce particularly if they have specialist competencies.

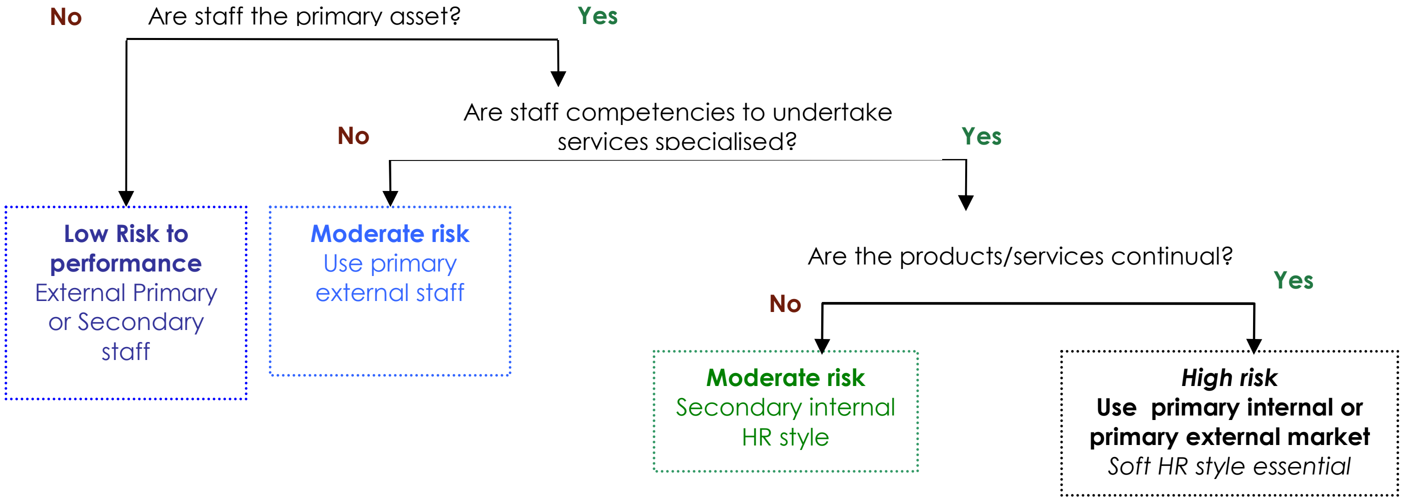
If the service is not recurrent and you require specialist competencies, partnering with a trusted organisation that has these skills presents moderate risks. This may be a good time to revisit your governance tree and consider what governance type will encourage a sustainable relationship.

Action: Consider if the activities are recurrent.

If activities are not recurrent an external group may be appropriate (with governance protection, particularly if these are core or essential activities). Wholesaling would represent a moderate risk.

If activities are continual or recurrent, performing core or essential activities using your primary internal market is preferred. The risk of wholesaling the activity is high without appropriate HRM styles. Otherwise, a primary external market would be the next option. Use governance measures to protect performance.

Figure 4: Human resource management tree



Risks to manage:

- Undermining staff capability and organisational performance
- Inconsistency in staff management leading to inequities
- Human resource approaches that compromise staff performance
- Propensity to regard staff of other organisations as an input and undermine their performance.

New Partner Checklist

The new partner checklist is designed to be used as you work through the decision trees. This checklist can help to summarise the types of risks present for sharing activities and identify if management responses are required. If management responses are required a summary of the types of responses that could be useful is presented in appendices 1 and 2. Also Keeble and Kaine (2008) provide more detail on how management responses can be considered.

Strategy Assessment

Sharing core/essential activities?	**Yes** □ **No** □
Aligned priorities with partner?	**Yes** □ **No** □
Restricted access to customer?	**Yes** □ **No** □
Dynamic Environment?	**Yes** □ **No** □
Management Responses necessary	**Yes** □ **No** □

Governance Assessment

Are assets to produce the service customised?	**Yes** □ **No** □
Is the service produced regularly?	**Yes** □ **No** □
Is the service uncertain?	**Yes** □ **No** □

The most suitable governance: Market □ Trilateral □ Bilateral Unified □

Human Resource Assessment

Are staff fundamental to our performance?	**Yes** □ **No** □
Are skills to undertake products/services specialised?	**Yes** □ **No** □
Are skills available from internal labour market?	**Yes** □ **No** □
HR Management Style necessary	**Yes** □ **No** □

Conclusion

Usefulness of decision trees to support wholesale relationships

In this report we have drawn on Hunter's (2004) approach to outsourcing to develop a set of decision trees to support DPI managers in considering wholesale relationships. The decision trees cover three dimensions: governance, strategy and human resource management. Within each tree is a set of questions that are worked through systematically to determine the risks that may arise in wholesale relationships. The trees also highlight choices about how wholesale relationships can be managed to mitigate these risks.

The benefits of using these decision trees to evaluate prospective branded wholesale relationships is that they provide a method for systematically identifying risks that need to be managed to ensure service quality is maintained and DPI objectives are still achieved.

Furthermore, because the trees view wholesale relationships from three dimensions, a more holistic assessment of the risks involved in wholesaling is possible. There are likely to be other relevant dimensions to consider however, those highlighted here not intended to be definitive. The trees are designed to complement managers' experience.

The decision trees offer DPI a way to begin to think about the effort and resources that are required to make wholesale partnerships to work and so ensure that DPI objectives continue to be achieved using the new service model.

Further development

The concept paper and the research approach have the potential to inform the following areas in the implementation of BSTF (DPI 2009):

- Service development function: organisational implementation issues point 7(p. 9).
- Service delivery function "branded wholesaling" deployment points 7 and 11 (p 13).
- Retail service delivery support: deployment point 5 maximising retail and wholesale activity (p. 15).

The concepts presented here were tested with a small representative group within DPI which included investors, program managers, capacity development staff and fellow researchers. There was consensus that the decision trees offered a useful way to consider branded wholesale relationships.

Suggestions from this group for further work included:

- Developing a method to support managers to answer the questions in the trees.
- Considering how the decision trees could be adapted to support training programs for DPI staff.

As the paper stands it provides a preliminary decision guide appropriate for use by DPI to consider aspects of their wholesale decisions. Care should be taken to ensure decisions made are done so understanding the limitations of the study

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Appendix 1: Management responses for strategic risks

The following are range of potential management responses adapted from Porter (1985) for managing the risks associated with sharing core and essential activities:

MANAGEMENT RESPONSES
Structures
Inter–divisional taskforces/focus committees
Group business units significant to competitive advantage
Inter-organisational committees with a focus on client & product information
Group executive chief strategic role for area to foster inter-relationships
Systems
Joint strategic planning
Coordinate management systems with cross business unit dimension like planning, control, budgeting
Coordinate strategy delivery (activities)
Appoint relationship champions to manage interrelationships
Communication strategy
Temporary taskforces to transfer information
HR Practices
Staff rotation to share knowledge and develop skill acquisition
Cross unit management forums & meetings
Promotion from within
Education on interrelationship concepts
Collective training across organisations
Conflict resolution
Unifying theme, senior support

Appendix 2: Matching services to governance types to support wholesale relationships

Governance Type	Governance Characteristics	Transaction (service) characteristics
Market Governance e.g. share market	Market is the institutional framework for trading between buyers and sellers Market price is the signal of costs and benefits of a transaction Buyers and sellers act independently therefore a relationship between the organisations is unnecessary Market provides a legal framework for protection against opportunism and disputes Bureaucratic costs are minimal	Non specific transactions that are recurrent Benefits: Promotes efficient low transaction cost exchanges
Trilateral Governance e.g. medium-term contracting, reciprocal trading, franchising	An agreed contract between two organisations for a defined period of time Features a third party to regulate the relationship (arbitration) Relationship is semi-dependent, as a partner is selected & acknowledged Bureaucratic costs moderate	Occasional transactions that have mixed-customised properties Benefits: Contracts can be adapted in unpredictable situations (tolerance for misalignments) promotes flexibility to adjust transactions
Bilateral Governance e.g. Service level agreement, memorandum	Long term contract Organisations are equally dependent on each other, this is acknowledged The relationship is critical to achieving the transaction Contract guarantees greater co-	Recurring transactions that are mixed Benefits: Promotes flexibility, protects against risk (sunk costs, opportunism)

of understanding	operation between organisations and protection from risk of opportunism with customised investments Agreement for transactions is flexible to accommodate uncertain transactions Exchange costs are high due to administration of the relationship	for uncertain customised transactions
Unified Governance e.g. intra-organisation transaction	Vertical integration of the transaction, removed from the market and produced by a group within the organisation saves costly contract adjustments Disputes dealt with in house	Recurring transactions that are highly customised Benefits Most flexible form of governance which is important when the transaction is unpredictable and highly customised. Especially when threat of opportunism is high

Adapted from Williamson (1979)

Appendix 3: Human Resource Management Styles

Table of Human Resource Management Styles

Competency Characteristics	HR management style	Management Style characteristics
• Skills require the application of knowledge and expertise that is non substitutable • Competencies are critical and specific to the organisation	Soft style (high commitment to staff because they underpin creation of value)	• Treat workforce with inclusiveness and trust • Offer job security, responsibility over design and productivity • Staff development (training and learning opportunities) • Commitment and reciprocity, staff satisfaction is important • Staff have autonomy and responsibility for their own productivity
• Skills standardised, semi to low skilled • Tasks routine, possibilities for substitution • Competencies are important but not critical to the organisation	Hard style (high commitment to financial performance in which staff are an input)	• Treat workforce as a factor of production to be rationally managed, skills at the right price • Incentives to encourage staff productivity (bonuses) • De-emphasise job security, short term contracts • Use internal labour markets

Based on Legge (2005) and O'Donohue (2007)