SUPPLY CHAIN RELATIONSHIP AND ORGANIZATIONAL INNOVATION, A STUDY OF THE OIL AND GAS INDUSTRY IN RIVERS STATE

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ABSTRACT

The purpose of this research is to investigate the relationships between supply chain relationships, and organizational innovation. The study adopts the Relational View Theory and Social Capital Theory to assess relationships between supply chain relationships and organizational innovation. The study reviewed extant literature to ascertain the relationship between supply chain relationships and organizational innovation (administrative, process, and product innovation). The study found that supply chain relationships relate positively to both administrative and process innovative capabilities. The findings should into the relationships organizations build with their customers and how it encourages them to develop new innovative capabilities. These new capabilities, in turn, have enabled them to reap the benefits of improved performance. **KEYWORDS**: Task Performance, Leadership Development Strategies, Coaching, Training, Integration

1. INTRODUCTION

Global entrepreneurship, innovation, and competitive mechanisms have lowered barriers to corporate venturing, and organizations have to allocate resources appropriately to maintain competitiveness (Maritz, & Salaran, 2010). Curtis and Corsi (2003) stated that prominent competition among businesses is among supply chains, and organizational innovation is one of the keys to bringing the whole superiority of the supply chain into full play. When practicing supply chain management, corporations are supposed to transform the traditional organizational structure to one with market orientation. Organizational innovation is a learning process that causes changes to the organizational structure and functions to face the constant changes in the market.

An organization is the assembly of a certain number of the mission systems such as the marketing system, the production system, and the logistics system. The function of each system is part of achieving market value and can adapt to the profound changes of the external market. McAdam and McCormack (2001) thought organizational innovation under the environment of supply chains is to comprehensively and systematically resolve not only the problems of the organizational structure and operation of a corporate but also those of the connection among corporations to adapt the corporations to the needs of supply chain relationship.

According to Rudberg & Olhager (2003), different types of supply chain relationships have been discussed in the literature, which is classified as, vertical integration vs. horizontal integration. The authors stated that vertical integration is the degree to which an organization owns the network of processes. This type of integration involves the coordination between businesses located at different stages of the supply chain. Customer integration and supplier integration are major instances of vertical integration (Vallespir & Kleinhans, 2001). On the other side, horizontal integration is the coordination between businesses located at the same stage of the supply chain. Horizontal integration aims to identify some organizational and managerial synergies enhancing inter-functional and inter-organizational coordination.

The management of supply chains, particularly within the context of outsourcing, implies the need and ability to manage relationships within the supply chain network (Chen and Fung 2013). Within the supply chain literature, a great deal of emphasis has been placed on supplier relationships and integration. According to Tsai and Hung (2016) and Lee, Kwon, and Severance (2007), supply chain performance can be improved by developing a well-integrated supply chain and the greater emphasis on supplier relationships and integration could be as a result of the important input role that suppliers play in a manufacturing operation (Hornibrook, Fearne,

and Lazzarin 2009; Huang, Yen, and Liu 2014). Therefore, it is interesting for us to further investigate relations between supply chain relationships and organizational innovation.

1.2 Aim and Objectives of Study

The study seeks to:

- i. Evaluate the relationship between supply chain relationship and administrative innovation.
- ii. Identify the relationship between supply chain management and product innovation.
- iii. Investigate the relationship between the supply chain relationship and process innovation.

2. CONCEPTUAL FRAMEWORK

2.1 Literature Review

2.1.1 Supply Chain Relationship

Supply chain relationship is one of the tools used by the management of organizations to improve their business performance as well as to retain their competitive advantage since competition is among supply chains and not between individual organizations (Li et al., 2006; Ou et al., 2010; Attia, 2015; Attia, 2016a; Attia, 2016b). In addition, for organizations to improve their corporate performance and survive in a competitive environment, they have to collaborate and build long-term relationships with upstream and downstream partners in the supply chain (Huo, 2012; Xu et al., 2014). Supply chain members are expected to achieve mutual benefits through collaboration, mutual trust, long-term commitment, partnership, frequent communication, relationship, information sharing and among others (Rashed et al., 2010; Prajogo & Olhager 2012).

According to Frohlich & Westbrook (2001), the concept of supply chain integration is the flow of materials, goods, information, and resources within a company, as well as across organization from suppliers to organizational users and thereafter to customers in ways that increases the long-term performance of the companies within the supply chain. The Council of Supply Chain Management Professionals (CSCMP, 2011) defined supply chain integration as compassing the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third Running heads: party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across companies (Njoku & Kalu, 2015).

2.1.2 Vertical Relationship

Vertical relationship refers to the process of interaction and collaboration between an organization and its suppliers to ensure an effective flow of supplies (Zhao et al., 2011). Vertical supply chains are supply chain management strategies adopted by companies to take advantage of synergies in their value chain to achieve more profits and competitive advantage (Naslund & Willamson, 2010). Effective supply chains are critical to the success of organizations operating in global multifaceted environments as well as organizations seeking to achieve optimal efficiency and customer satisfaction (Lambert, 2008). Vertical relationship is a coordination strategy in which a company owns its supply chain by incorporating supplier and/or distributor supply chains in its operations strategy or by expanding its operations to perform activities traditionally performed by suppliers and distributors (Hill & Jones, 2012). This strategy helps organizations to ensure high levels of control and to avoid the "hold up" problem, a situation in which an organization's contract with another party in its supply chain results in delays and loss of profit due to delays, non-performance of contract or imbalance of bargaining power between the to parties (Hill & Jones, 2012).

A vertical-related supply chain can be implemented to varying degrees, broadly classified into three categories: Backward vertical relationship, in which a company owns subsidiaries that produce the inputs/components used in production. For example, the Ford River Rouge Factory with its timberland and glass-making companies (Slywotzky, 1996). Forward vertical relationship in which a company owns or controls its distribution centers and/or retailers, thereby having direct contact with customers at the bottom of the value chain. For example, airlines perform the traditional roles of travel agents (Hill & Jones, 2012). Balanced vertical relationship in which a company implements both backward and forward integration by owning/controlling its supply, production, marketing, and/or retail centers. Apple is a good example of a company implementing a balanced vertical relationship by owning its data centers, manufacturing equipment to produce its chips and other proprietary components, as well as its marketing and retail stores, content platforms, and support centers (Hill & Jones, 2012). As a strategic tool, a vertically integrated supply chain can provide companies with solutions to mitigate or remove the threat of powerful suppliers, decrease the bargaining powers of suppliers, distributors, and customers as well as reduce transaction costs. When properly implemented, a vertically integrated supply chain can help companies achieve a competitive advantage and higher profits through economies of scale and scope (Fresard et al., 2014).

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2.1.3 Horizontal Relationship

Horizontal Integration is a single-industry supply chain relationship strategy whereby companies seek to achieve competitive advantage and profitable growth through value-creation activities that are focused on a single business or industry (Hill & Jones, 2012). A horizontally related supply chain is a business model whereby companies acquire or merge with industry competitors to achieve competitive advantage through economies of scale and scope (Fresard et al., 2014). This supply chain relationship structure provides the advantage of focus and scope, particularly in fast-growing, dynamic industries where companies are required to focus substantial resources and capabilities on competing in one area to achieve long-term competitive advantage (Lambert, 2008). Technological advancements, changing customer needs, fierce competition, and low levels of entry barriers are common features of horizontally integrated supply chains. Due to changing customer needs, new competition, and the pace of change in such industries, companies often find it difficult to sustain competitive advantage without changing/adapting their business model (Juttner et al., 2010).

A successfully implemented horizontal relationship strategy can increase a company's profitability due to reduction in cost structures as a result of (Hill & Jones, 2012): Economies of scale, particularly in industries with high fixed cost structures; Increased product differentiation due to the combined product lines from merger or acquisition which enables the company to be able to offer product bundles and innovative new products to customers at different price points; Replication of the business model due to the ability to leverage the increased product differentiation and lower cost structure achieved through horizontal integration to replicate the business model in new market segment, Reduced industry rivalry, as excess capacity is eliminated in the industry through acquisition or merging of competitors which results in more stable price environments and the elimination/reduction of price wars; Increased bargaining power due to the consolidation of the industry resulting in companies that are a much larger buyer and hence wield a level of leverage or "buyer power" which can be used to drive down the price it pays to suppliers.

The horizontal relationship has limitations that are worth noting and guarding against. Similar to a vertical relationship, the horizontal relationship is a complex and difficult strategy to implement. For example, it is difficult to successfully merge companies with very different corporate cultures, and where the merger/acquisition is a hostile takeover, it often results in high staff turnover and loss of much-needed talent and expertise hence resulting in suboptimal benefits or downright failure. There is also the risk of failure or penalty due to antitrust laws when companies attempt to use the horizontal relationship to become a dominant industry player as these laws exist to ensure fair trading and prevent companies from using their market powers to prevent competition.

2.1.2 Organizational Innovation

The essential nature of the present-day world underlies a very fast and competitive society where the ability to dictate changes and transformation adds the utmost value. A competitive advantage in managing innovation and creativity is the key to this ability (Drucker, 1985; Woodman et al., 1993). Hence, leading organizations particularly efficient managers are giving top priority to developing ways and mechanisms for greater organizational innovation and creativity. Their attribution of innovation as central to competitiveness has been largely driven by technological advancement, the emerging knowledge economy, and high scale non-price competition in the industrial and service companies. Organizations, particularly driven technologically require being more innovative and pioneering than before to lead, grow, compete, and endure (Jung et al., 2003). What organizational innovation constitutes and how managers lead, shape, and manage organizational innovation has been a major research area in the organizational management literature.

Innovation revolves around change, but it is not all change is innovative in nature; the change must be beneficial to stakeholders. Organizational innovation encourages employees or organizations to think constructively about the firm's changes and also seek a solution that will help to satisfy their customers and in turn achieve their marketing performance. Organizations, irrespective of their size, need to innovate to promptly respond to changing customer needs and market conditions and capitalize on emerging opportunities (Baregheh et al., 2009). The authors noted further that the scope of organizational innovation is broad and includes products, services, processes, operations, and people. Meeting changing needs and preferences of consumers in the fastchanging competitive business environment requires improved innovativeness from managers and business owners. Innovation is characterized by the creation of new markets or continuous improvement of the existing market. Keeping pace with the trend of events amidst increased firm competitiveness requires innovative dynamism from entrepreneurs. To possess a proactive orientation, therefore, every entrepreneurial marketer must imbibe the culture of dynamic innovativeness to meet future needs as opposed to the incremental innovation used within traditional marketing (Morris et al., 2002). In entrepreneurial competencies, entrepreneurs tend to be innovation-oriented (that is driven by ideas and intuition) rather than customer-oriented (driven by assessments of market needs) and tend to use informal networking rather than formalized research and intelligence systems (Morrish et al., 2010).

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2.1.3 Administrative Innovation

Lowson & Samson (2001) provided a model of administrative innovation comprising seven elements: vision and strategy, harnessing the competence base, organizational intelligence, creativity and idea management, organizational structures and systems, culture and climate, and management of technology. Firstly, vision and strategy which is a significant steps in the process of institutionalizing innovation. The articulation of a common vision and successful strategy formulation determine the length of innovativeness. A strategy to prevent the dispersion of attention and interest, and realization of innovation strategies by new ways of doing things can increase organizational attention which is critical to innovation strategy. More innovative behaviors are displayed by the firms that adopt an offensive strategy with the intent to create the future. This makes them a dominant player able to break their common industrial rules and create new markets by stimulating newer patterns of demand (Markides, 1998).

Secondly, harnessing the competence base that involves organizational competence to manage and allocate resources appropriately in the required areas that is fundamental to ensure innovative output (Burgelman & Maidique, 1988). To nurture a competence-base efficiently, organizations should develop three key aspects of organizational innovation: a) encourage risk-taking and entrepreneurship by mobilizing resources to employ a variety of funding channels at various stages of the innovation process; b) stimulate innovation potential and increase the number of innovation initiatives by investing and combining resources and knowledge into disparate markets, technologies and products; c) create new innovative practices and models and diffuse local innovation globally using the electronic platform of business operation.

Thirdly, organizational intelligence is, as defined by Glynn (1996), "the capability to process, interpret, encode, manipulate and access information in a purposeful, goal-directed manner, so it can increase its adaptive potential in the environment in which it operates". For the innovation process to be facilitated and integrated properly, it is a prerequisite that firms lessen the potential ambiguity and uncertainty of innovation by employing effective intelligence surveillance. At least three factors are important to make organizational intelligence function effectively: a) learning about competitors and learning from customers b) competitive analysis, technological forecasting, and environment scanning proactively, and c) eliminating unprofitable options and identifying new avenues for investigation by communicating and using most relevant, up-to-date information available (Burgelman & Maidique, 1988; Saleh & Wang, 1993).

Fourthly, creativity and idea management, by allowing untested, unrealized, and divergent thinking and by accommodating radical ideas capable of creating new businesses or transforming existing business strategies, could harness long-term organizational innovation. Being either vision-driven or knowledge-driven, idea management could improve the success of the implementation of innovative ventures. Fifthly, favorable organizational structures and systems conducive to innovation system should be developed by the managers to increase the scope of innovation within the organizational sphere. Innovative firms permit employees to break down rigid barriers by establishing organic and permeable business boundaries (Maira & Thomas, 1998). In this connection, reward structure is most important. While idea generation and radical administrative innovations are influenced by individual rewards, incremental innovations and innovation implementation depend on group rewards. According to Saleh and Wang (1993), an innovative firm creates a motivating reward structure that provides public recognition and financial bonuses, suggestion schemes, a "dual ladder" system, and so on. Sixthly, administrative innovation success is vitally conditioned by the organizational culture and climate.

2.1.4 Product Innovation

Product innovation has the potential to excite customers and deliver new streams of income (Kleinschmidt and Cooper 1991; Teece 2010). However, Martínez-Ros and Labeaga (2009) and Ballot et al. (2015) stressed that product and process innovation have a complementary relationship and could lead to each other. Linton (2015) went further to suggest that product innovation tends to lead to process innovation when assembled products are considered. The key driver of product innovative capabilities is the need to be competitive. Product innovation is the one that allows a better product to be offered than the ones currently on the market, in the sense that it offers more functions or performs better (Meeus, 2006). Through product innovation, the company can gain a competitive advantage by differentiating its production and increasing the quality and variety of goods that allow it to grow demand and open new growth opportunities (Maier, 2013; Vadastreanu, 2015)

Product innovation refers to the development of goods or services with characteristics or intentions of use that differ significantly from previous products made by the enterprise (Meeus, 2006; Maier, 2012; Olaru, et al., 2013; Maier, 2014 a-b; Olaru, et al., 2016). One of the four strategic options when planning their product or market development strategies is to develop a new product (Maier, 2014a). This option is adopted by the enterprise due to the following: - existing products no longer meet consumers' needs, their tastes change; - the environment is changing, new needs are created within the market; - accelerating the decline of existing products due to the development of new products and technologies by competition; - due to the total size of the market or the intensity of competition, the growth potential is limited; - in the life cycle maturity stage a firm has a product portfolio that

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generates a lot of liquid money; - Production capacity is under-utilized due to a seasonal variation in demand; competition is intensified in a certain market.

2.1.5 Process Innovation

Despite its widely acknowledged economic importance, process innovation has received much less attention than product innovation in the literature on the sources and determinants of technological change. Process innovation, however, remains a central element in the main theories of innovation and economic development, such as the Product Life Cycle (PLC). Process innovation can be defined as new elements introduced into an organization's production or service operations (input materials, task specifications, work, information flow mechanisms, and equipment) used to produce a product or render a service to achieve lower costs and/or higher product quality. In this respect, process innovation has often been considered a second-order innovative activity, a rather dull and unchallenging cousin of the more glamorous product innovation. Rosenberg (1982) once described process innovation as the 'grubby and pedestrian' side of the innovation process, involving little of the great events that characterize product innovation. Process innovation is internally concentrated and focused mainly on the market. It is an improved new way of the production or manufacturing process. Baer & Frese (2003), define process innovation as an intentional new attempt by the organization to change its production and service processes.

Understanding the sources of process innovations is important for at least three reasons. First, process innovations are an important source of increased productivity, and understanding the different factors that cause firms to innovate may lead to greater knowledge about the sources of economic development (Utterback, 1994). Second, process innovation can enable firms to gain a competitive advantage; thus, a better understanding of process innovation allows a greater appreciation of how firms gain and sustain competitive advantage. Third, process innovation is an important element in government innovation policy, and exploring the different circumstances that evoke process innovations reveals the mechanisms that support increased private sector innovation (Reichstein & Salter, 2006).

2.2 Theoretical Framework

2.2.1 Relational View Theory

The Relational View Theory (RVT) was propounded by Dyer & Singh (1998). According to the scholar, the exchange in networks of inter-organizational relations will result in a higher value that explains a higher firm performance. This research understands that firm heterogeneity is an important element in achieving differentiated performance. However, the RBV was incapable of explaining how firms develop competitive advantage in networked environments where groups of firms maintain frequent and multiple collaborative relationships with alliance partners (Lavie, 2006). The increasing demand for value has led buyers to closely work with strategic suppliers to achieve these standards. Their joint efforts to increase efficiency and pursue high-quality management goals resulted in the strengthening of this relationship and what emerged was a unique, non-imitable, exchange of resources and knowledge (Dollinger, Li & Mooney, 2019). This development offered new prospects and a shift in focus in the academic literature on the buyer-supplier relationship.

The RVT by Dyer and Singh was one of these theories that emerged in this period due to the popularity of alliance relationships. By changing the unit of analysis from the resource-based theory from individual firms to the network of firms, their findings appealed to a wide range of industries. The RV emerged due to increasing for value by customers and other key stakeholders within the supply chain. Therefore, joint efforts among stakeholders are strategically combined to increase efficiency and enhance supply chain performance (Dyer & Singh, 1998). The connectedness and increased tendency to collaborate among logistical firms gave birth to the RV theory. Dollinger, Li & Mooney (2019) in their view of RVT, argued that when internal strategic resources are strategically combined with collaborative alliances with suppliers, distributors, financiers, customer groups, etc; then the magnitude of the overall performance of individual stakeholders may be unimaginable.

In addition, RVT proposes that the resources that are found at the interface of the relationship between firms and that are created and shared can also have these effects. Given the emergence and increasing importance of the resource-based view, the relational view proposal was of great appeal to academics who study the relationship between firms and who, until then, had been restricted to other dominant theoretical approaches that focused on minimizing costs. The new theoretical view enabled this advance when it explained value creation (Zajac & Olsen, 1993) and made a connection in this context between relationships and the competitive advantage of the firms involved in them (Kozlenkova, Samaha, & Palmatier, 2014). Currently, the emphasis on value creation is also a consistent approach with the management of relational transactions embedded in the sharing economy, which are not directly monetized. Value, therefore, becomes a relevant variable vis-à-vis the traditional performance-based approach.

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2.2.2 Social Capital Theory (SCT)

The history of social capital traces a long way back to classical economists, such as Adam Smith and John Stuart Mill, and sociologists, such as Max Weber, who provided a cultural explanation of economic phenomena (Guiso et al., 2006). The concept of social capital as a topical issue, however, came into the spotlight only in the late 1980s and attracted growing research interest thereafter. The scientific study of social capital is relatively new, but the growth of literature on the topic is enormous. Despite voluminous literature, there is no single, universal definition of social capital. It is often defined and measured in a pragmatic and unsystematic fashion (van Schaik, 2002). Social capital is a complex multidimensional concept encompassing a repertoire of cultural and social value systems. Recently, it has become a very popular and appealing concept among social scientists.

A growing number of sociologists, anthropologists, political scientists, and economists have employed the concept to explain various economic and social outcomes. The fundamental notion of social capital is to incorporate socio-cultural factors to explain development outcomes. It has emerged as a prominent topic of discussion among academics, development specialists, and policymakers. The theory of social capital is particularly rooted in the notion of trusts, norms, and informal networks and it believes that 'social relations are valuable resources. Social capital is broadly defined to be a multidimensional phenomenon encompassing a stock of social norms, values, beliefs, trusts, obligations, relationships, networks, friends, memberships, civic engagement, information flows, and institutions that foster cooperation and collective actions for mutual benefits and contributes to economic and social development.

The proposition of Social Capital Theory is rooted in the opportunity connectedness of firms in the competitive advantage equation. The theory is based on the premise that a network of social relations characterized by trust, reciprocity, and cohesiveness is necessary in facilitating cooperation and competitive advantage (Tolstoy & Agndal, 2010). Most organizations connect themselves with certain networks to gain competitiveness by obtaining relevant information, skills, and other resources needed for their business success.

2.3 Relationship between Leadership Development Strategies and Employee Task Performance

Williams et al. (2002) stated organizational innovation would drive the changes in the whole organizational framework and that of employees, which further affects the operation of the whole supply chain. The increasing requirements for cooperation and the connection between buyers and suppliers would cause strong effects on organizational innovation (Lee, 1995). AtuaheneGime (1996 a/b) also stated that supply chain management mainly concentrates on the advantage and quality of product innovation. As for the service industry, the advantages of innovation in both service and quality are subject to good supply chain management.

Chow et al. (2008) conducted a comparative study to investigate the relationship between supply chain management components (including competencies, practices, and concerns) and organizational performance. The data was collected through an empirical survey of middle-line managers in the USA and Taiwan. They measured supply chain management practices using Tan's (2002) 25 survey items. The results showed that supply chain management practices have a direct and positive impact on organizational performance in Taiwan, but no direct relation in the USA. In addition, they found that the most important practices in Taiwan are supply chain features, supply chain integration, and customer service management. It was concluded that the supply chain management practices-performance link depends on each country's situation and is influenced by cultural differences among countries, i.e. "one size doesn't fit all".

Cook et al., (2011) provided evidence that the impact of the supply chain relationships on organizational performance differs according to the position of the organization within its supply chain, i.e. not all practices are equally effective and important for all supply chain members. They examined the supply chain role of a company (whether manufacturer, distributor, retailer, or service provider) as a moderator between supply chain relationship management (including, information sharing, long-term relationships, advanced planning systems, leveraging the internet, supply network structure, and distribution network structure) and organizational performance. They found that all supply chain relationship management practices have a significant direct impact on organizational performance; however, information sharing and distribution network structure resulted in the highest positive correlation with organizational performance.

Sundram et al., (2011) showed that efficient supply chain management practices enhance supply chain performance. This study used a convenience sampling of 125 firms in the electronics industry in Malaysia. They used supply chain management practices based on the work of Li et al., (2006) and Min and Mentzer (2004) including strategic supplier partnership, strategic customer relationship, information sharing, information quality, postponement, agreed-on vision and goals, and risk and reward sharing. The results showed that all supply chain management practices have a significant positive effect except strategic customer relationships and that agreed vision and goals have the superior impact on supply chain performance.

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3. CONCLUSION AND RECOMMENDATION

The study concludes that carrying out supply chain relationships and organizational innovation can help maximize organizational value and competence in the market. Corporations practicing supply chain relationships must set up an organizational structure with innovation to face the internal and external challenges for advancing competence. Based on the results of the study, the following recommendations were proposed:

- The acquirement of competence of an innovative organization relies largely on the development of creativeness of all staff. Therefore, such an organization should emphasize that each member or team must be able to set into action independently the operation strategies, take responsibility for management, and link together to form an intact value chain.
- Rapid changes in the environment under competition require a corporation to show its ability to quickly respond. How fast an enterprise can react to the changes in the environment becomes the decisive factor for its survival from the competition. Therefore, each member of the supply chain needs to rely on the Internet to carry out all activities of information exchange
- The organizational innovation of the corporation which practices supply chain relationship management is different from the internal process structuring of a single corporation. Except for the internal process structuring, the corporation must transform the joint business, such as a business tie-up with suppliers and distributors. Thus, the organizational innovation of such a corporation is supposed to start with the whole system for better coordination, support, and cooperation with partners.

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