Examining the Situational Factors Influencing the Selection of Monitoring Type Between Customer and Supplier: A Case Study of Condor Household Electronics Company

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Summary:

This study aims to analyze the monitoring process implemented by the enterprise (as a customer) on its suppliers, taking into consideration the specific purchasing environmental variables. The goal is to highlight the role that the environment may play in influencing the choices of the enterprise when determining the type of monitoring to be applied to its suppliers. The field study was conducted at one of the active institutions in the household appliances manufacturing sector in Algeria (Condor Company) and concluded with the following results:

- The specificity of the Algerian context has a significant impact on the nature of the customer-supplier relationship.
- Condor Company relies on bureaucratic monitoring mechanisms, but as the relationship gradually evolves with its suppliers, it shifts towards trust-based monitoring mechanisms.
- The nature of the relationship between monitoring and trust at Condor is interactive rather than differentiating.

Keywords: Monitoring; Inter-Organizational Relationship; Bureaucracy; Market; Trust.

Jel Classification Codes : D23; L14 ; D73 ; L22 ; D82

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I- Introduction :

The topic of developing inter-organizational relationships has garnered significant attention from researchers, resulting in numerous research works across various management disciplines, including marketing, strategy, organization, and organizational monitoring. Researchers in the field of monitoring did not delve into the concept of inter-organizational relationships until the late 1990s. It was defined as "a process that occurs between at least two institutions, forming over time strong and extended links of a social, economic, and even technical and service nature. This process aims to reduce costs and/or increase the obtained value, in addition to achieving mutual profit through these relationships" (Lefaix-Durand et al, 2006, p. 206).

Inter-organizational relationships are diverse and multifaceted, not confined to a single type or specific party. Currently, we observe that most industrial sectors heavily rely on a collaboration strategy with their suppliers, entrusting them with the design and construction of strategic subgroups. This explains the presence of vertical or horizontal cooperation at the core of the current competitive industrial dynamics. Researchers found that monitoring the customer (institution) / supplier relationship is a process aimed at integrating all mechanisms that influence and guide the supplier towards customer expectations. For the institution to influence its suppliers, it must choose the optimal and most suitable method of monitoring. It is evident that there are numerous factors, variables, and constraints determining the institution's behavior and the type of monitoring it applies to its suppliers. These factors and variables can be found in the public or private institutional environment.

I.1 Research Problem:

The problem of the study arises from the necessity of the institution to choose the most suitable method for monitoring its suppliers, based on the factors highlighted in the purchasing environment that significantly impact it. We will focus specifically on situational factors as among the most crucial variables affecting the institution when choosing the most suitable type of customer/supplier relationship monitoring. This leads us to address the following research question:

- What types of monitoring does "Condor" institution apply as a customer in its relationship with its suppliers?

I.2 Study Objectives:

This study aims to achieve several objectives, including:

- Analyzing theoretical and applied approaches that define the customer-supplier relationship.
- Selecting the appropriate and effective type of monitoring in the institution.

I.3 Research Methodology:

The study utilized a descriptive methodology, encompassing various theoretical and practical approaches suitable for analyzing and interpreting types of monitoring between institutions. The study also explained the extent to which situational factors influence the selection and determination of the most appropriate monitoring type. The second part of the study focused on field research at the Condor institution, a leading player in the household appliances industry in Algeria. It considered the dynamics of its relationship with key suppliers and the type of monitoring applied to them within the current situational factors of the Algerian context.

II. Conceptual Framework Analyzing Inter-organizational Relationships:

The study utilized a descriptive methodology, encompassing various theoretical and practical approaches suitable for analyzing and interpreting types of monitoring between institutions. The study also explained the extent to which situational factors influence the selection and determination of the most appropriate monitoring type. The second part of the study focused on field research at the Condor institution, a leading player in the household appliances industry in Algeria. It considered the dynamics of its relationship with key suppliers and the type of monitoring applied to them within the current situational factors of the Algerian context.

II.1 Transaction Cost Economics (TCE):

The Transaction Cost Economics approach originated from the Theory of Transaction Costs. In this approach, the institution is viewed as a specific system of contractual relationships between individuals. The institution is defined as a "bundle of contracts" (Weinsteir, 2012, p. 8). TCE analyzes institutions based on "transactions," with prices serving as a source of information (Phan & Sommer, 1997, p. 114).

Coase was the first to introduce Transaction Cost Economics in his 1930 article, posing a fundamental question: Why do firms exist? He attributed the existence of firms to the failure of the market, suggesting that resorting to the market leads to significant costs. To avoid these high costs, Coase proposed that firms conduct their transactions within the organization, considering the institution as an alternative to the market (Weinsteir, 2012, p. 8). This laid the foundation for the comparison between market coordination (price mechanism) and firm coordination (hierarchical sequence), with transaction costs being the basis for the choice between them.

Williamson later expanded on Coase's ideas, incorporating Simon's concepts of bounded rationality. Williamson also added behavioral assumptions and transaction-specific characteristics, providing further depth to the analysis. Williamson's first assumption, bounded rationality, posits that individuals' skills and knowledge are limited. They operate in an uncertain and complex environment, making it impossible for agents to formulate complete contracts. This limitation is due to the asymmetry of information, leading to opportunistic behavior (Phan & Sommer, 1997, p. 114).

For Williamson, the protection against opportunistic behavior, accentuated by incomplete contract information, is central to organizational choices. The risk of opportunistic behavior increases, particularly when agents must make specific investments (specific asset specificity). Specific asset specificity refers to the permanent investments made to support a particular transaction, yielding lower value in alternative uses (Mayrhofer, 2007, p. 84). Here, the more difficult and improbable the alternative uses of an asset are, the higher its specificity and, therefore, the more crucial it becomes in choosing the governance structure within the organization.

Additionally, two essential properties in understanding transactions are uncertainty and the degree of repetition. Uncertainty reflects the difficulty of predicting the future, related to market developments, environmental changes, or future behavior of contractual parties (Quélin, 1997, p. 79). The degree of repetition indicates the number of deals between two or more institutions (Ben Sassi & Fihaa Kheir, Year not specified).

In conclusion, Transaction Cost Economics, originating from Coase's foundational work, provides a framework for understanding institutions as responses to market failures, emphasizing the role of transaction costs in determining organizational structures.

Based on behavioral assumptions (bounded rationality and opportunism) and transaction characteristics (asset specificity, transaction frequency, uncertainty), Williamson identified four types of governance structures. For each structure, he proposed a specific contract. The chosen governance structure determines the organizational form of the transaction, either market or hierarchical sequencing, which Coase previously discussed. Williamson added a new type of governance structure called hybrid governance, divided into two types: bilateral and trilateral (Rachrl & Gwenaëlle, 2004, p. 04).

❖ **Market Governance Structure:**

This model is suitable for transactions with low specificity, allowing adaptation to environmental variables. Alternative solutions act as safeguards against opportunistic behavior. The classic contract provides necessary guarantees for both parties.

❖ **Hierarchical Sequencing Governance Structure:**

This model is appropriate when transactions have high specificity and high frequency. Williamson recommends vertical integration, where control is achieved through hierarchical mechanisms and internal incentive structures.

❖ **Hybrid Governance Structure:**

This model is suitable for mixed transactions with medium asset specificity and uncertain environments. In cases where all situational factors cannot be considered in the initial classic contract (bilateral governance), Williamson suggests resorting to a neoclassical contract. Each party accepts the assistance of a third party (arbitration) in conflict resolution and performance evaluation.

The proposed governance structures aim to reduce uncertainty for each party and protect against potential opportunism through different types of contracts used in each governance structure (Nogatchewsky, 2009, p. 3).

The Agency Theory is another crucial theory in transaction analysis, alongside the Transaction Cost Theory discussed earlier. It contributes to the analysis of the relationship between the customer and the supplier. It was first introduced by Berle & Means in 1932 and later developed by Jensen & Meckling in 1976. The theory addresses the principal-agent conflict arising primarily from the separation between ownership (shareholders) and management (managers) in the firm (Belhadi, 2018-2019, p. 29). The Agency Theory describes the firm as a "set of contractual relationships, and the existence of the firm is based on a contract or a set of contractual agreements. Employment contracts are tools for resource allocation and describing the purpose of the activity. The behavior of the firm can be studied by analyzing the general characteristics of its employment contracts" (Bouhadda, Zargahta, & Shnaffa, 2020, p. 417).

Among the regulatory measures that the institution employs to protect itself from the opportunism of the supplier is the use of two types of contracts: (Chanson, 2003, p. 44)

- **Behavior-based contracts:** In which the agent commits to the procedures carried out on behalf of the manager.
- **Results-based contracts:** In which the agent commits to the outcomes of the procedures carried out on behalf of the principal, not on the means to achieve them.

The more complex the product, and the higher the uncertainty in the environment, coupled with the difficulty of replacing the supplier, the more the customer prefers using behavior control over results control. (Nogatchewsky, 2009, p. 3)

II.2 Relational Approach:

The relational perspective is essential for researching vertical alliances. Its proponents place personal relationships at the core of exchanges and give significant importance to the gradual development of collaboration. (Gwenaëlle & Carole, 2005, p. 07) Additionally, this perspective takes into account both the historical and social context in which the relationship occurs, in contrast to the transactional approach. This perspective emerged and evolved through the work of researchers such as Blau in 1964, Thibayt & Kelley in 1959, who addressed non-contractual relationships, followed by Macaulay in 1963, discussing social exchange theory. Later in 1980, Macneil introduced the relational exchange theory and the relational contract theory. Dwyer et al. outlined the stages of the relationship in the late '80s.

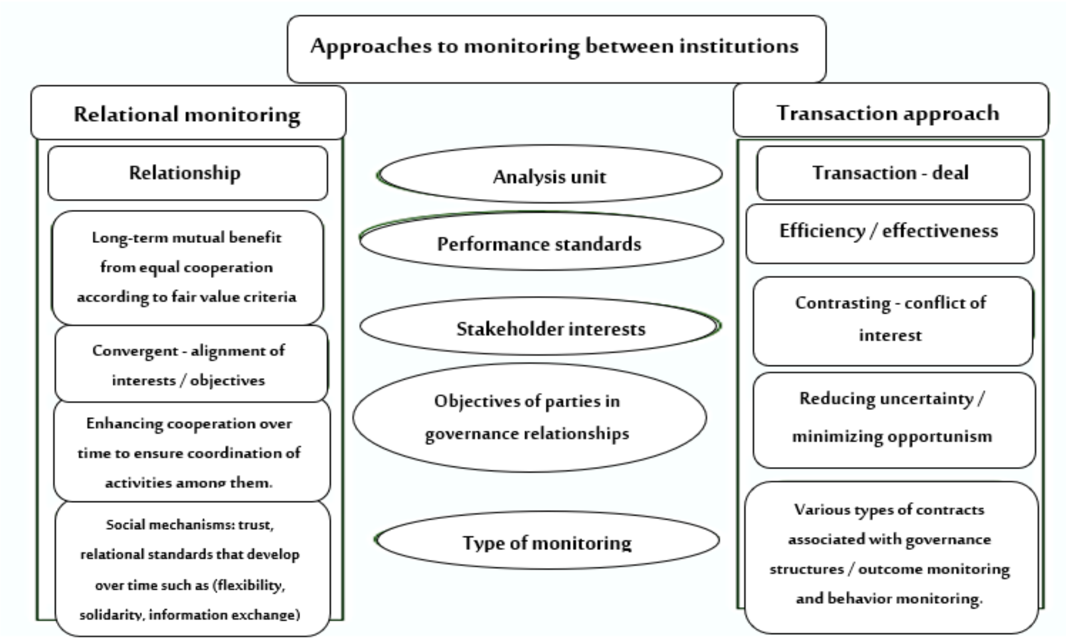
Social exchange theory emphasizes the necessity of economic motives but also highlights emotional variables that should be considered in exchanges, such as respect, appreciation, and trust. (Lepers, 2003, p. 8)

As for the relational exchange theory developed by Macneil in 1980, it aimed to distinguish between discrete exchange and relational exchange. The former aligns with the basic assumptions of neoclassical economic theory, viewing individual transactions as independent of prior and future relationships between contracting parties. They seek only their self-interest, relying on legal and contractual systems to fulfill contractual obligations. On the other hand, relational exchange considers the historical and social context in which the transaction occurs. Contractual goals arise from shared interests between the parties, applying self-regulation based on their shared values and long-term mutual benefits. (Lepers, 2003, pp. 7-8)

Macneil's theories differentiate between the transactional and relational approaches through contract type and exchange. Dwyer et al. clarify their theory, outlining the stages of the relationship: acquaintance, discovery, expansion, commitment, and dissolution. (Nogatchewsky, 2009, p. 3)

Repeated interactions between institutions lead to the establishment of explicit and implicit rules (communication procedures, information exchange rules). These rules contribute to enhancing cooperation between parties. (Gwenaelle, 2005, p. 5) These rules represent relational standards, and analyzing compliance or deviation from them, as well as studying their impact on the parties' behavior, aids in understanding the transition of the relationship through its life cycle. Any deviation poses a threat to the cohesion and quality of the relationship, making it a potential factor in its deterioration or dissolution. (Ambroise, Maque, & Prim-Allaz, 2009, pp. 3-4)

Figure 1: Comparison between the Transactional and Relational Approaches



Source: Prepared by the researchers based on (Nogatchewsky, 2009, p. 4).

II. 3 Types of Control between Institutions:

The Researchers integrating the field of inter-organizational control in their work draw from contributions of transactional and relational approaches as well as those specific to intra-organizational theories, such as Ouchi's work in 1980. This integration allows them to propose various types of control suitable for different exchange situations, resulting in the identification of three types of control: market control, bureaucratic control, and trust-based control.

II. 3.1 Market Control

Relies on free competition, involving a transaction between two parties regulated by price mechanisms, where prices serve as a source of information available for the customer to choose their supplier (Boujnouni, 2018, p. 134). Interaction is limited between the customer and the supplier, and deals may not be recurrent. Each party works to achieve its personal interest, focusing on gaining benefits, even if it leads to a loss for the other party (Amro, 2020, p. 487).

- ❖ **Selection Stage:** Suppliers are selected for each project through competitive tenders. The contract predefines the basic rules for collaboration. The contract is not highly detailed. The customer pays the supplier based on activities or standard results but does not interfere in supplier management. Thus, market control translates into results-based control. This type of control is possible only when the customer precisely knows their goals for the supplier, allowing them to measure the supplier's performance accurately, objectively, and subjectively (Rachrl & Gwenaëlle, 2004, p. 07).
- ❖ **Execution Stage:** Market control is organized cyclically, and this is achieved by establishing mechanisms both prior (pre) and subsequent (post) (Benjelloun & Balambo, 2016, p. 128). Pre-mechanisms involve defining goals for developing the incentive structure. Post-mechanisms consist of establishing a performance evaluation system with penalties and rewards, often leading either to contract renewal or non-renewal. Thus, competition is periodic and temporary (Rachrl & Gwenaëlle, 2004, p. 7).

II. 3 .2 Bureaucratic Control

According to Ouchi (1979), bureaucratic control manifests through reliance on rules, standards, and relationships of legitimate authority (Dumoulin, 1997, p. 51). This form of control relies on official oversight and hierarchical sequencing, extending daily support that can span the entire supplier's institution (Boujnouni, 2018, p. 134).

- **Selection Stage:** Partners are chosen based on detailed criteria, such as specific skills (Benjelloun & Balambo, 2016, p. 128). Inaccurate goal setting leads to incomplete information (shared information subject to change with the evolution of the collaborative project). Therefore, the contract is less complete than in market control, being detailed but including performance goals, used for supplier evaluation (Gwenaëlle N., 2006, p. 93).
- **Execution Stage:** Control tools are used to ensure direct and recurring supervision of the supplier. This is achieved either through inputs (bureaucratic mechanisms through the process or direct behavior) or output control (results control allowing a comparison of achieved results with expected ones) (Boujnouni, 2018, p. 134). These behaviors and results are predefined in the contract. Direct and recurring supervision requires regular information exchange between parties, based on a shared information system between institutions as a monitoring and control device for partners (Benjelloun & Balambo, 2016, p. 128).

II. 3.3 Trust-Based Control

The concept of trust has been widely developed by researchers in the relational approach. They emphasized that good personal relationships and trust-based collaboration provide the necessary control and coordination to improve the efficiency of relationships between institutions (Rachrl & Gwenaëlle, 2004, p. 7). Many authors, including Barney et Hansen (1994), Ring et Van (1994), and Gulati (1998), define trust as a "mutual belief or conviction by different parties that neither partner will act opportunistically or unfairly, and neither will try to exploit the other's weaknesses for personal gain" (Christophe & Franck, 2006, p. 65).

Trust manifests in various ways and has different origins. Soko (1992) distinguished between three types of trust: (Rachrl & Gwenaëlle, 2004, pp. 8-9):

- **Contractual Trust:** Based on ethical standards of honesty and respect for what is stated in the contract.
- **Competence Trust:** Linked to ensuring that the other party has the required skills and competencies to fulfill the contract.
- **Goodwill Trust:** Expects the other party to act for the benefit of the relationship rather than for personal gain.

- **Selection Stage:** This stage is crucial, and suppliers are selected based on their reputation, possibly qualifications (according to specific criteria), and on their previous experiences where they have proven to be trustworthy (Boujnouni, 2018, p. 134). A formal touch can be added in this type of control with a framework contract with few details, and this contract is adjustable (Gwenaëlle N., 2006, p. 93).
- **Execution Stage:** Control mechanisms in the execution stage aim to deepen trust in competence and goodwill. Each partner must demonstrate their commitment through joint work, information exchange, comprehensive and recurring communication (Nogatchewsky, 2009, p. 7). This type of control is only possible when there is alignment in goals between individuals in a collaborative relationship. The continuity of the relationship requires it to be based on trust and relational standards, evolving with the accumulation of successful experiences and the effective management of potential conflicts. Non-formal mechanisms gradually replace formal ones. (Rachrl & Gwenaëlle, 2004, p. 9)

Table 01: Types of Inter-organizational Control

Type of Control	Market Control	Bureaucratic Control	Trust-Based Control
Control Mechanisms	The dominant market mechanisms: Competitive tenders based on prices A comprehensive contract but not overly detailed	Direct customer involvement: Monitoring is based on authority and predefined rules Detailed selection criteria, direct supervision, official references Contracts are not comprehensive but detailed.	This pattern of monitoring evolves over time: Monitoring relies on reputation and previous experience, and regular communication, intensive interaction, and collaborative work then build trust. Contracts are incomplete, not overly detailed, and adjustable.
Control Objectives	The results (mostly price, quality, deadlines)	The results and behaviors of the work procedures primarily.	Competencies and behaviors of the relationship.

Source: (Beaujolin-bellet & Nogatchewsky, 2010, p. 5)

II.4 Relationship between Control and Trust: Complementary or Alternative?

Various researchers have explored the relationship between trust and control in inter-organizational contexts, yielding conflicting perspectives. Some view trust as an alternative to control, while others see control as a complementary mechanism, contributing to building trust. There's also the perspective that they are interactive, with the potential for mutual influence.

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II.4.1 Assumption: Trust and Control are Contradictory Alternatives

- Macaulay (1963) proposes that trust and control are contradictory alternatives. Control is manifested through formal procedures and pre-defined rules in contracts, while trust relies on respecting commitments, loyalty, and supplier flexibility regarding official obligations (Chaouch & Zghal, 2013, p. 11). According to this perspective, formal control negatively affects the creation of a climate of trust between partners, as it may reflect a lack of trust. The negative impact of formal control on trust and the efficiency of coordination between institutions can be categorized into three factors (Christophe & Franck, 2006, pp. 69-70):
- **The Control as Distrust Factor:** Formal control is presented as generating mistrust and doubt between partners, reflecting a lack of trust.
- **The Socialization and Integration Impact:** Establishing control systems can hinder the process of socialization and integration, limiting the freedom of interaction.
- **Formalization of Responsibilities:** Imparting an official character to each party's responsibilities through highlighting behaviors and procedures not covered by the contract. This formal view may lead to shortcomings or incomplete contracts, giving rise to opportunistic behavior by one of the parties.

Supporters of this perspective argue that replacing control with trust is sometimes necessary, especially when the customer does not know how to evaluate the supplier's performance (Beaujolin-bellet & Nogatchewsky, 2010, p. 7).

II.4 .2 Control as a Complementary Mechanism for Building Trust

Researchers adopting this perspective assert that formal control and trust are integrated elements in creating a "climate of trust." Becheikh and Cu highlight that "through the guarantees applied between partners, formal control mechanisms can enhance trust among them" (Christophe

& Franck, 2006, p. 71). This view not only considers the integration of trust and control but also emphasizes reciprocity. It suggests that contracts are not just supplements to trust; they provide an opportunity to generate trust. In situations where institutions from different sectors or countries lack prior experience and knowledge of each other, collaboration development over time and contract adherence can build trust among partners. Similarly, in contexts of uncertainty and dynamism, where designing detailed collaboration contracts predicting all possible scenarios is challenging, simplifying contracts signals a reliable mutual desire to cooperate, fostering trust between partners (Chaouch & Zghal, 2013, p. 12) (8).

This perspective doesn't see control merely as a tool for verification and penalty assessment. Instead, it views control as a motivational element producing information. Over-reliance on control is considered detrimental due to its heaviness, cost, and inhibitory effect on preventive behaviors. Simultaneously, the absence of control may lead to a decline in trust. Trust without the use of formal tools can result in opportunistic behavior between parties. Additionally, building and developing personal relationships and social networks negatively impact the overall performance of the institution (Christophe & Franck, 2006, p. 72).

II.5 Motivational Factors:

Motivational factors are fundamentally associated with transaction characteristics (asset specificity, transaction repetition, task scheduling, and result measurability); transaction environment characteristics (market risks, knowledge of future motivational factors, and institutional factors); and party characteristics (reputation, risk-sharing attitude, negotiation power, and network type). Through these factors, it is evident that they are derived from the approaches and theories related to inter-organizational control, as discussed earlier. Consequently, there are some factors that have not been previously explained, including institutional factors, which refer to the social and political aspects of the institution. Institutional factors can be categorized into official and unofficial factors (Ben Hussein, 2006-2007, page 44):

- ❖ **Official Factors:** Encompass political and legal rules that govern the general governance and regulate individuals' roles in their relationships with the state (constitution, legal framework, etc.).
- ❖ **Unofficial Factors:** These institutions derive their legitimacy from culture, ideology, traditions, religion, and other non-legal aspects.

Table 02: Situational Factors for Each Type According to Relationship Stages

Inter-organizational Control Type	Control Stages	Situational Factors
Market Control	**Selection stage:** Adjusting competition based on results Classic contract, not overly detailed **Execution stage:** Periodic competition Performance monitoring and rewards	**Transaction characteristics:** - Low asset privacy - High transaction recurrence rate - Well-organized task structure - High measurability of results **Transaction environment:** - Many potential stakeholders - All information available in market prices - Institutional factors and social inclusion do not impact **Parties involved:** - Dynamic networks
Bureaucratic Control	**Selection stage:** Initial selection of potential partners, formal selection	**Transaction characteristics:** - Moderate asset privacy - Low to moderate transaction recurrence

	procedures based on detailed criteria Incomplete but detailed contract **Execution stage:** Direct supervision, monitoring, and evaluation of behavior and results according to predefined and detailed rules.	- Well-organized task structure - High measurability of results **Transaction environment:** - Moderate market risks - Future situational factors are known - Institutional factors influence **contractual rules** **Parties involved:** - Reputation based on competencies - Appropriate negotiating power - Balanced risk-sharing approach Stable networks
Trust-Based Control	**Selection stage:** Contractual trust, competence derived from reputation within social networks, and previous experiences. The contract is framed and updated over time. **Execution stage:** Developing trust (contractual, competence, and goodwill) and relational standards. Enhancing performance through updated and comprehensive criteria.	**Transaction characteristics:** - Strong asset privacy (highly specific assets) -Low transaction recurrence - Tasks are not programmable - Low measurability of results **Transaction environment:** - High market risks - Future situational factors are unknown - Institutional factors and social inclusion impact **Parties involved:** - Reputation based on competencies -Shared previous experiences - High risk-sharing involvement - Stable networks

Source: (Nogatchewsky, 2009, p. 9)

II.5.1 Market Surveillance

An organization employs this type of surveillance when transaction characteristics involve asset specificity, lack of specificity, frequent transactions, and programmable tasks, where the quantity and quality of results can be easily measured. This type relies on formal mechanisms, and among these mechanisms is results-based surveillance. Regarding the transaction environment, if one partner acts opportunistically, the other party can choose another partner without transfer costs since there is no asset specificity on either side. In such cases, institutional factors are not relevant, even if market changes occur; the market price contains all necessary information for the transaction (Nogatchewsky, 2009, pp. 9-10).

II.5.2Bureaucratic Surveillance

This type is utilized when asset specificity is moderately defined, transactions are repetitive, tasks are programmable, and the quality and quantity of results are measurable. Detailed contractual rules are essential for proper operations in this scenario. The environment features moderate market risks, and future situational factors are well-known. These conditions align with strict surveillance, where predefined results and behaviors are established. Institutional factors impact contractual rules, requiring prior knowledge of the other party's skills. This surveillance method is suitable for cases where imposing authority from one party to another is more appropriate, allowing the former to stipulate direct supervision to mitigate risks unilaterally.

In uncertain environments with some difficulty in replacing suppliers, the likelihood of non-compliance with contract terms increases. In such cases, the buyer intensifies focus on monitoring behavior through prescribed procedures and detailed supplier reports (Nogatchewsky, 2009, p. 10). This type relies on formal mechanisms, particularly behavior and results monitoring, due to environmental complexity. The network is stable, contrasting with the first type, as inter-organizational links are crucial.

II.5.3Trust-Based Surveillance

Organizations adopt this type when assets have extremely specific characteristics, are non-repetitive, non-programmable tasks, and results are unmeasurable. With very few potential suppliers and consequently very high market risks, both parties are reliant on each other. Surveillance through trust provides protection for exchanges within a strong institutional and social framework. Prior knowledge of the other is essential to ensure their cooperative skills and attitude. Contractual trust, competence, and goodwill are all necessary for exchanges where parties share high risks (Nogatchewsky, 2009, p. 10).

Through the theoretical exploration of various approaches and theories analyzing inter-organizational relationship surveillance and the nature of the relationship between surveillance and trust, we observed a divergence in ideological currents, with some advocating integration and others opposing differentiation in the surveillance and trust relationship. We aimed to test the validity of these ideas and determine the most suitable perspective for Algerian institutions in the household electronics industry, using the applied aspect conducted in Condor Electronic, the focus of our study.

III. Condor's Relationship with Suppliers

This axis delves into a field survey regarding the types of surveillance between institutions and their situational factors. We applied theoretical perspectives to the reality of Condor Electronic in the household electronics industry. This sector was chosen due to its intense competition and the selected product, an air conditioner, consisting of 300 components, with 30% produced in-house and 70% purchased. Purchasing, therefore, becomes a strategic function creating a competitive advantage for the company.

III.1 Supplier Monitoring Stages

Condor undergoes several stages when monitoring its suppliers, divided into supplier selection and execution phases. In this axis, we'll focus on the crucial steps the company takes to monitor its suppliers.

III.2 Supplier Selection Stage

The supplier selection stage is pivotal for effective surveillance. Condor follows multiple steps in choosing its suppliers:

- **Identification of Potential Suppliers:** After defining the product specifications, the company researches potential suppliers, relying on sources such as prior experience, trade directories, exhibitions, and markets. Personal visits, initiated by either the supplier or the company, are instrumental. For instance, expert teams visit China to assess supplier capabilities.
- **Evaluation of Suppliers:** Supplier selection is a highly strategic process for gaining a competitive advantage and reducing costs. Condor evaluates potential suppliers based on various criteria, varying in importance depending on the nature and complexity of purchased products. The company's strategy, focusing on quality/price, emphasizes selecting a supplier that offers the lowest total cost, considering different aspects of supply such as quality, reliability, delivery, and supplier conditions.

Through an interview with the purchasing manager responsible for buying air conditioners, we identified key criteria for supplier selection at Condor:

- **Geographical Location:** Despite most suppliers being from China and other Asian countries, geographical location is considered due to transportation costs, the reliability of delivery, and the impact of agreements on customs taxes with Arab and European countries.
- **Price:** Given Condor's strategy of price/quality, the company seeks a supplier offering the required product at a lower cost. Payment conditions, cash discounts, and price guarantees also factor into this criterion.

- **Quality and Supplier Surveillance System Strength:** The supplier is chosen based on whether the product is intended for the local (Algerian) or international market. Some suppliers can meet Algeria's market specifications but cannot export, while others can provide the required quality for both markets. The choice between these suppliers depends on the company's goal.

The supplier selection stage is critical for effective surveillance, aligning with Condor's strategy of achieving the best value considering various aspects of the supply chain.

- **Financial Capability of the Supplier:** The financial capacity of a supplier holds significant importance due to the specificity of the Algerian economy and the regulations set by the state. Suppliers need strong financial capabilities to understand and accommodate Algerian laws, especially the requirement to pay supplier dues upon goods' arrival in Algeria (FOB terms). The stronger the financial capacity, the more time Condor allows for payment.
- **Technology and Production Methods:** Condor occasionally requests technology and production methods from its suppliers, particularly for air conditioner components. This aligns with Algerian laws that mandate at least a 40% integration of locally manufactured products to consider them Algerian. Consequently, Condor produces some air conditioner spare parts in-house.
- **After-Sales Services and Warranties:** In cases where Condor signs a contract for a product with specific features, the supplier must provide spare parts. For instance, an agreement with a supplier mandated them to supply spare parts for five years.
- **Quantity and Volume:** Most suppliers in this sector, predominantly from China, have large volumes. While they can meet any quantity requirement, Condor seeks to reduce dependence on such powerful suppliers. The company looks for local suppliers in China that haven't reached the export stage, aiming for smaller volumes and reducing dependency.
- **Offering New Designs:**

The more creative a supplier, the more Condor relies on them. This ensures that Condor remains ahead in introducing new designs compared to local competitors.

- **Technical Skills and Managerial Competencies:**

Ensuring the availability of technical skills and managerial competencies in a supplier guarantees product quality for Condor.

- **Services Provided by the Supplier:** Condor emphasizes the services offered by suppliers, considering factors like meeting deadlines, flexibility in accepting purchase modifications, and dispute resolution. The evaluation of suppliers during the COVID-19 crisis led Condor to reassess suppliers based on their conduct during the crisis.
- **Reputation and Commitment:** The mental impression of a supplier in the market, considering their commitment to deadlines, product quality, customer treatment, and relationships with other institutions, plays a crucial role in supplier selection.

The table below summarizes the criteria Condor considers when choosing its suppliers:

Table No. 03: Supplier Selection Criteria for Condor Corporation

Supplier Criteria	Subcriteria
Traditional Criteria (Basic)	- Price - Deadlines - Quality - Quantity

Supplier capabilities	- Supplier's Capabilities - Supplier's Volume - Technological Capabilities - Supplier's Financial Capability - Advanced Production Methods - Logistics (Transportation) - After-Sales Services - Services Offered by the Supplier - Offering New Designs
Organizational alignment	- International Presence (Geographic Spread) - Geographic Location - Market Share Availability - Availability of Technical Skills and Managerial Competencies
Relational Criteria	- Reputation - Sales Representatives' Behavior and Capabilities - Commitment to Promises - Handling Past Disputes - Long-Term Relationships

Source: Prepared by the researchers

These criteria highlight the interplay between Condor's strategic goals and the specificity of the Algerian market. The emphasis on technology, local integration, and financial capability aligns with Algeria's economic landscape.

III.2.1 Negotiating Power:

After selecting the best suppliers, the organization engages in negotiation processes with them. According to the procurement manager, the negotiation power of their institution varies from one supplier to another and depends on the circumstances. Often, the specificity of the Algerian reality significantly influences the negotiating power of the institution due to the state laws governing the sector. Key factors include:

- ❖ **Supplier Size and Geographic Spread:** In the industry where Condor operates, companies are classified as Class A or Class B based on their global presence. As Condor's size is relatively small for global players, it tends to collaborate with Chinese companies operating locally. This strategic choice allows Condor to balance power dynamics, negotiate effectively, and establish long-term relationships with suppliers.
- ❖ **Cash System in Algeria:** Algeria mandates that institutions importing raw materials pay through local banks. However, an issue arises as the institution cannot pay before receiving the goods. Some suppliers may not accept these conditions unless there is trust between the parties or the institution (customer) holds a good reputation, often classified as Class A. To mitigate risks, the institution may secure a bank loan to cover transaction costs.
- ❖ **Transportation:** Occasionally, suppliers may impose their own transportation methods. However, Algerian ports pose challenges, especially for large Chinese ships unable to enter Algerian ports directly. This forces the institution to reroute shipments through larger ports in France or Spain, causing delays and potential issues for Condor.
- ❖ **Exchange Rate:** As the institution deals with foreign suppliers, it faces challenges due to currency fluctuations. In negotiations, Condor focuses on determining which party will bear the risk of exchange rate fluctuations, either shared, solely by the institution, or through entering forward exchange contracts.
- ❖ **Technology Transfer:** Algerian industry regulations necessitate a minimum 40% integration of the institution. Therefore, Condor requests technology and production methods from

suppliers to produce specific items locally. The decision to accept or reject this condition depends on the supplier's trust and the longevity of the relationship.

- **Contract Type:** After negotiations, Condor chooses the contract type. In its complex and competitive environment, the institution opts for detailed yet non-traditional contracts. These contracts, more like detailed invoices, include price, quantity, deadlines, payment methods, required quality, transportation methods, monitoring procedures, and exchange rate risk clauses.

III.2.2 Implementation Stage:

After finalizing the contract, the implementation stage is divided into three key phases: pre-contract, during order preparation, and after order receipt.

- **Pre-Contract:** Condor evaluates the supplier's products and assesses their quality, production processes, internal control systems, production capacity, and research and development capabilities. This thorough assessment is particularly crucial when dealing with a new supplier.
- **During Order Preparation:** Condor maintains constant communication with suppliers, either directly or remotely, 24/7. This continuous interaction becomes a significant criterion for supplier evaluation. Some suppliers even share a common information system, enabling seamless transactions and information sharing between Condor and the supplier.
- **After Order Receipt:** Upon receiving the ordered products, Condor evaluates them based on agreed-upon contract terms. Quality checks, sample examinations, inspection of damaged products, and monitoring of delivery schedules are conducted. The institution compares achieved objectives with planned ones, using result monitoring tools to measure success.

Table 04: Monitoring Mechanisms and Objectives Used by Condor

Type of Monitoring	Objective	Monitoring Tools
Results-based Monitoring	Product quality	- Rate of defective products
		- Sample taking and examination
	Price	- competitiveness
		- Analysis of competition
		- Cost analysis through previous purchase prices
	Deadlines	- Weekly and monthly reports
Process Monitoring	Supplier Organizational Quality	- Quality of organization at the supplier External certification
	Process Quality	- Audit and review of the workflow
Behavioral Monitoring	Transparency	- Information exchange and participation
	Number of suggestions	- Interaction
	Response time to requests	- Interactive time

Source: Prepared by the researchers

III.3. Inhibiting Factors:

In this axis, we will analyze and describe inhibiting factors specific to the procurement function.

III.3.1 Transaction Characteristics:

We identified factors specific to the transaction itself and the intensity of each factor's impact on the type of monitoring.

- **Asset Specificity:** Components of the air conditioner are characterized by high asset specificity, making it challenging to use these assets in other areas. They are solely used in air conditioner production.
- **Transaction Repetition:** Purchasing occurs after a three-month estimated planning, resulting in two or more purchases annually. Changes in the environment can increase the frequency of purchases, enhancing Condor's dependence on suppliers.

- **Task Organization:** All tasks are well-organized, with clear objectives facilitating product monitoring. Even though the institution doesn't produce these products, its engineers have sufficient information about the products.
- **Results Measurement:** Despite the high technological requirements of purchased products, Condor's ability to measure results is good due to knowledgeable engineers.

III.3.1 Transaction Environment:

This point identifies all factors specific to the purchasing environment in the household electrical sector at Condor, and the impact of each factor on monitoring between the customer and the supplier.

- **Market Risks:** Condor deals with seven Chinese suppliers in the market, totaling around 20 global suppliers. The institution adopts strategies to mitigate risks, including sourcing from multiple suppliers simultaneously, building strong relationships with potential suppliers, and establishing long-term relationships, as seen in the 8-year connection with one supplier.
- **Future Situational Factors:** There are known and unknown situational factors. While information related to suppliers, products, and prices is known, unforeseeable changes in state-imposed laws in Algeria are unpredictable and can impact the sector.
- **Institutional Factors:** This factor significantly influences the type of monitoring applied to the foreign suppliers of Condor Corporation. This is because the Algerian government imposes several laws to regulate this sector, aiming to develop local industries, encourage domestic production, and prevent the outflow of hard currency. Among these laws is the requirement that suppliers only receive their dues after the order enters Algerian territory.

Additionally, high customs duties are imposed on imported products to encourage institutions to purchase from Algerian companies. However, in this sector, it is challenging to find Algerian companies that provide high-tech products. Consequently, Condor Corporation is compelled to procure from external sources. Another pertinent law concerns energy conservation. In this context, Condor requested its suppliers to provide an air conditioner with a capacity of 12,000 watts that consumes less energy. Consequently, the supplier is urged to research and enhance the product, leading to a 5% increase in the price. This places the corporation in a dilemma between accepting the higher cost or seeking an alternative supplier.

III.3.2 About the Parties:

In this section, we discuss various factors related to both customer and supplier parties, focusing on the nature of the relationship.

- **Negotiating Power:** As mentioned earlier, several factors determine Condor's negotiating power, which is considered weak due to Algerian laws and the corporation's size in comparison to its suppliers.
- **Reputation:** Condor evaluates the reputation of its suppliers through past experiences and inquiries within the market. The corporation relies on a key Algerian institution, CAGEKS, to assess the credibility of foreign institutions dealing with Algerian companies.
- **Risk Sharing:** Mitigating risks is crucial for Condor in determining its relationship with suppliers, given the rapidly changing environment leading to high risks. To minimize these risks, both parties must share responsibilities. For instance, one procurement manager shared an incident involving the shipment of 18 containers. Due to environmental conditions, nine containers deviated, damaging the shipped goods. Although the shipment was uninsured, the supplier re-shipped the goods without any financial obligation, strengthening the relationship.

In contrast, another supplier did not respond when goods were damaged and raised prices due to currency fluctuations, leading Condor to seek an alternative supplier.

- **Network Type:** Condor operates within a stable network due to its relationships with suppliers, distributors, and other entities. This stability is essential in a dynamic environment with significant risks, prompting the involved parties to build stable relationships and share risks and outcomes.

Table 05: Inhibitory Factors and Monitoring Stages for Condor Corporation

Axis One: Monitoring Stages	**Stage of Selection:** The choice of suppliers is based on specific criteria, considering reputation, experience, and trust among the parties. The contract is incomplete and detailed, covering aspects such as price and quality. It is updated in case of unforeseen circumstances or force majeure incidents. **Execution Stage:** Direct supervision and reliance on formal mechanisms in monitoring. The choice of the mechanism depends on the monitoring time: before monitoring work procedures, during monitoring work behavior, and after monitoring results. These mechanisms are specified in the contract. Emphasis on transparency, relationship development, and trust between the parties.
Axis Two: Inhibitory Factors	**Transaction Characteristics:** Strong privacy of assets (highly specific assets). Transaction repeatability. Well-organized tasks. Measurability of results. **Transaction Environment:** High market risks (few suppliers). Known future inhibitory factors. Institutional factors affecting contractual rules. **About the Parties:** Reputation based on competencies. Shared previous experiences. Weak negotiating power. Balanced risk-sharing approach. Stable networks.

Source: Prepared by the researcher.

Through the table, we observe that regarding the stages of supplier selection, they rely on specific criteria, particularly those related to price, quality, and costs, as well as some relational criteria such as reputation, previous experience with the supplier, and trust between the parties. As for the concluded contract between the parties, it is incomplete but detailed, attributed to the lack of complete information and the difficulty of predicting future events. It contains all the information related to the transaction and the monitoring method. In the execution stage, the organization relies on formal tools such as result monitoring and monitoring of work procedures and behavior. It also employs informal mechanisms such as information exchange and communication. Flexibility anticipates the continuity of the relationship between them and other mechanisms. In general, through the analysis of the first axis, we observe that Condor initially uses formal mechanisms with transaction repetition, and its evolution also depends on informal mechanisms.

As for the second axis, we notice that the transaction has strong asset specificity, and the number of transaction repetitions is high, but results can be measured, and tasks can be organized. Regarding the transaction environment, market risks are high due to a few large suppliers compared to Condor. Also, future situational factors are unknown, and institutional factors have a significant impact on contractual rules. All these factors tend to weaken the negotiating power of the customer. The relationship between the parties is in stable networks due to reliance on long-term relationships rather than a one-time transaction. Through these situational factors, the organization is obliged to use formal mechanisms to protect itself from potential risks. However, formal mechanisms alone are not sufficient, and reliance on informal mechanisms such as trust, information exchange, and others is necessary to build a good relationship with the supplier and ensure alignment of goals between them.

IV. Conclusion:

The relationship between institutions, especially the buyer-supplier relationship, has become crucial due to the high percentage of purchases, reaching 70% of the institution's products. The purchasing process has evolved into a strategic operation, involving a large number of suppliers simultaneously. To ensure that suppliers act in line with the customer's goals and avoid opportunistic behavior, the customer must choose an effective monitoring type. The case study demonstrates how the customer selects the type of control applied to its suppliers based on the situational factors related to the air-conditioning product for Condor.

Key findings from the empirical study include:

- The competitive strategy of the institution plays a role in the degree of influence of criteria for selecting suppliers, including price, quality, deadlines, reputation, technology exchange, and production.
- The specificity of the Algerian context has a significant impact on the buyer-supplier relationship, especially in terms of negotiating power. This is attributed to the state's strategy for sector development and the laws regulating the sector.
- The type of control applied by Condor to its suppliers depends on the mechanisms and situational factors related to the environmental purchasing of the air-conditioning product. It can be stated that bureaucratic control is employed based on the mechanisms and specific situational factors.
- Suppliers are evaluated not only based on results (quality, price, deadlines) but also on their internal behavior and reputation in the market.
- The supervisory relationship between Condor and its suppliers goes through stages. Initially, it involves formal mechanisms, but as transactions are repeated and satisfaction grows, trust gradually develops, leading the institution to use informal mechanisms with its suppliers. The relationship between trust and control is interactive and complementary, not differential.

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