

# **Old-fashioned friendliness trumps incentives among supply chain partners**

November 21 2008

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Cordiality and mutually beneficial arrangements can be more important than hard-negotiated deals when it comes to cementing strong working relationships among supply chain partners, according to the Management Insights feature in the current issue of Management Science, the flagship journal of the Institute for Operations Research and the Management Sciences (INFORMS).

Management Insights, a regular feature of the journal, is a digest of important research in business, management, operations research, and management science. It appears in every issue of the monthly journal.

"Social Preferences and Supply Chain Performance: An Experimental Study" is by Christoph H. Loch of INSEAD and Yaozhong Wu of the National University of Singapore Business School.

In their study, the authors observe that people's actions in economic transactions are motivated by more than incentives.

Incentives, say the authors, can cause people to be calculating rather than oriented toward a win-win. Behavior is also influenced emotionally by social preferences. In particular, people care about status ("how much do I have relative to you?") and reciprocity ("if you were nice to me, I want to reciprocate; if you were not nice, I want to retaliate").

In their paper, the authors report results from an experiment in which human subjects repeatedly interact in a supply chain situation facing

price-sensitive demand. They find that social preferences have a significant impact on the decisions of supply chain partners: When status considerations matter, the partners act more competitively, trying to out-do the other side, even at times damaging their own profits. If reciprocity considerations are important, the partners can start a "virtuous cycle" of establishing a pattern of win-win actions, sustained over time.

From a practice perspective, write the authors, their results imply that managers should not rely solely on financial incentives. Formal incentives for collaboration become more robust when emotionally supported by relationships.

The current issue of Management Insights is available at [mansci.journal.informs.org/cgi/reprint/54/11/iv](https://mansci.journal.informs.org/cgi/reprint/54/11/iv)

Source: Institute for Operations Research and the Management Sciences

Citation: Old-fashioned friendliness trumps incentives among supply chain partners (2008, November 21) retrieved 23 April 2024 from <https://phys.org/news/2008-11-old-fashioned-friendliness-trumps-incentives-chain.html>

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