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Dynamic Changes within a Supply Network

Sara Åhman

The Swedish School of Economics and Business Administration
CERS-Center for Relationship Marketing and Service Management

P.O.Box 287

FIN-65101 Vasa, Finland

phone: +358 6 353 3757

fax. +358 6 353 3702

e-mail: sara.ahman@wasa.shh.fi

ABSTRACT

Every company is surrounded by other companies, and has different kinds of relationships to these companies. The relationships evolve and change over time and at a specific point of time one relationship can be very productive for both parties, whereas another relationship might not be satisfying. A company should be concerned with the way relationships develop and to manage this development is a key factor in a company's success. The purpose of this paper is to describe and analyse the different dynamic changes that takes place within a supply network. This work-in-progress-paper is purely conceptual.

INTRODUCTION

A company should see its market as a network of relationships, and Ford (1990) states that the whole market cannot be treated in an overall way. The networks surrounding companies are of increasing importance, and how this network is managed becomes a critical issue for every company. Every company has relationships to other companies, and a company cannot choose whether or not to have relationships. The issue that companies, instead, are facing is what kind of relationships they should have and how to handle them, based on the particular circumstances. (Blois, 1998; Ford, Gadde, Håkansson, Lundgren, Snehota, Turnbull and Wilson, 1998)

Gadde and Håkansson (2001) state that "the impact of a specific supplier relationship depends on how it fits into the operations and the strategy of the buying company and

how other supplier and customer relationships are affected.” Each supplier relationship implies certain benefits as well as costs. Gadde and Snehota (2000) mean that one of the most critical elements of supply strategy is a company’s capacity to handle various types of supplier relationships. Buying companies should thus be able to make purchases in different ways, depending on what is purchased and which source the purchase is stemming from (Dubois and Pedersen, 2001). It is not, however, only an issue for the buyers, as Ford et al (1998) state that it takes effort from both the buyer and supplier to get the relationships to work.

A relationship between a buyer and a supplier can also be viewed to develop “as a process through time” (Ford, 1980). This process starts with the evolving of a relationship between a buyer and a supplier, and may end with the termination of the relationship. A relationship can also be perceived as “sleeping” if there is no exchange within the relationship at present, but have been in the past and might be in the future. The relationship between a buyer and a supplier may thus be different during these different stages, and the managing within a relationship may vary depending on where in the process the relationship is. At one point a specific relationship might, for example, be considered to be more productive, and at another point less productive, which means that the involvement between the buyer and the supplier also varies.

Purpose

The purpose of this paper is to describe and analyse the different dynamic changes that takes place within a supply network. Relationships between buyers and suppliers evolve

and change over time, and at a specific point of time one relationship can be very productive for both parties, whereas another relationship might not be satisfying. A company should be concerned with the way relationships develop and to manage this development is a key factor in a company's success. At this point the work-in-progress-paper is conceptual. Later, empirical material will be collected through interviews with both people representing the buyer as well as suppliers within a large international supply network within the metal industry.

STABILITY AND CHANGE

The structure of a business network, or a supply network, contains both of elements of stability as well as change and it can be viewed as inherently dynamic. Changes in a network can be generated by any actor, and affects the company and the relationships, and thus also the performance within a network. The major issue that the management of a company is facing is how to assess and interpret the changes and how to handle them for ones own advantage. (Håkansson and Snehota, 1995) Johanson and Mattson (1992) discuss strategic action, which aims at influencing actors, relationships and network structures, in order to achieve some kind of change.

Halinen, Salmi and Havila (1999) state that there are always tensions and forces of change present in a network, due to the interaction between the actors. Each relationship is connected to other relationships and "because of this connectedness a relationship is part of a larger whole" (Håkansson and Snehota, 1995, p. 19). Ritter (2000) means that the interconnectedness of relationships makes the task of managing relationships even

more complex. Relationships can thus very seldom be regarded as stable, and these changes may either have a minor or a greater effect in every relationship in a supply network

DIFFERENT KINDS OF RELATIONSHIPS

The total pattern of business relationships in for example a supply network may appear relatively constant and stable, with new relationships developing and old relationships decaying over time. However, within the existing relationships between companies change often occurs in both content and strength. (Håkansson and Snehota, 1995) It is this change in whatever way it occurs that can be seen as the dynamism within supply networks.

One way to describe the dynamic changes within a supply network is to discuss the notion that a buyer has different kinds of relationships with different kinds of suppliers, and that this also may vary over time to each supplier. Recent research (among others Araujo, Dubois and Gadde, 1999, Bensaou, 1999, Gadde and Snehota, 2000) suggests that companies should have different kinds of relationships with different kinds of suppliers. Every supplier has different kinds of capabilities to offer and also different motivation towards growth and development, and should thus be used for different purpose as well as treated in a different way by the buyer.

Gadde and Snehota (2000) state that companies can make use of a variety of supplier relationships and that these should be characterized by different degrees of involvement.

They continue by stating that “companies need both high-and low-involvement relationships, in part because differing degrees of involvement leads to different costs and benefits, in part because the resources that can be dedicated to management of supplier relationships are limited” (Gadde and Snehota, 2000, p. 310). The buyers could in an attempt to achieve more effective sourcing and well-functioning supplier networks, choose which suppliers to have high-involvement relationships with, and which to have low-involvement relationship with. A relationship can also be perceived as sleeping if there is no current activities taking place between the companies, but have been in the past and probably will be in the future. At this point the involvement is very low between the two actors.

During the last decades a large amount of models and portfolios describing buyer-supplier relationships have been developed. All these different models have their benefits as well as shortcomings, but one benefit they have in common is that they offer guidance to decision makers and provide managers with analytical tools, which might help them to develop more effective sourcing systems. Ford et al. (1998, p. 39) suggest that a “company must consider each relationship as part of an interrelated portfolio of relationships and develop separate expectations of the contribution of each one to that.”

One of the first models was developed by Kraljic (1983), and this model divides the suppliers into four different kinds, which are leverage, strategic, non-critical and bottleneck suppliers. Other similar models have been developed by among others Krapfel, Salmond and Spekman (1991) and more recently Bensaou (1999). The Krapfel

et al. (1991) model describes four types of relationships, which are partner, friend, rival and acquaintance. Bensaou (1999) has created a portfolio of buyer-supplier relationships based on the specific investments made by the buyer as well as the supplier. The four different relationships are strategic partnership, market exchange, captive buyer and captive supplier. Firstly, companies have to find the optimal type of relationships regarding different conditions, and secondly they need to manage the relationship in the best appropriate way.

There are several other similar models of buyer-supplier relationships and how they can be characterized (see for example Blenker and Christensen, 1995; Spekman, Kamauff and Spear, 1999) except for the models presented here. Some of these models have been criticized, among other things because they do not take the interconnectedness between relationships into consideration and thereby merely analyse the relationships in isolation from each other, although their impact is always related to connected relationships (Ritter, 2000; Dubois and Pedersen, 2001). Dubois and Pedersen (2001, p. 313) further argue that the starting point is not given, which is assumed in portfolio models, as “the object of exchange...when firms interact...is subject to constant changes and development.”

These models can, however, be used as an analytical tool for the buying company, which start by assessing the actual situation. If there is a need for changes due to different circumstances, the buyer decides that a supplier, which for example has been characterized as a leverage supplier (using the Kraljic model as an example) now can be

developed to become a strategic supplier because of a rising demand for its products. When the relationship between this supplier and the buyer changes, as the involvement increases, it will thus cause changes in other relationships as well due to the interconnectedness of relationships.

Another way to discuss and to describe dynamic changes within a supply network is to look at different models of buyer-supplier development. According to Ford (1980) a buyer-seller relationship contains of five different stages, which are pre-relationships stage, early stage, development stage, long-term stage and final stage. Some researchers also suggest that a termination or dissolution stage should be included (among others Dwyer, Schurr and Oh, 1987; Ping and Dwyer (1992), Tähtinen and Halinen-Kaila (1997), Stewart (1998), Tähtinen (1998, 1999), Alajoutsijärvi, Möller and Tähtinen (2000), Laine and Åhman (2000, 2001)).

Tähtinen and Halinen-Kaila (1997, p. 560) state that “a relationship is dissolved when all activity links are broken and no resource ties and actor bonds exist between the companies”. According to Havila (1996), some personal relationships might still exist between individuals after the dissolution of the relationship. The dissolution phase begins when at least one of the partners does not view the relationship to be continuing or when the interdependency has greatly decreased. (Tähtinen 1998)

There are, however, researchers that contradict this life-cycle view. According to Hedaa (1993) the life-cycle approach with distinct stages is misleading, because it is more likely

that the relationship is affected by wigwag movements of strengthening and weakening forces. Halinen (1995) states that relationships are not developed intrinsically, but consciously or unconsciously by the exchange parties. It is thus not about moving relationships in a linear direction through some specific phases, it is more about coping with “different circumstances at different times”. (Ford et al. 1998:26)

CONCLUSIONS

Relationships within a supply network can evolve and change over time, which means that inter-organisational relationships are dynamic in nature (Cheung and Turnbull, 1998). The changes taking place in relationships between different actors can be of many different kinds, but the dynamism within a supply network is a result of them. The purpose of this paper was to describe and analyse the different dynamic changes that takes place within a supply network. This was accomplished through a discussion around stability and change, as well as a description and short analyse of different kinds of relationships. Dynamic change takes place whenever an actor in a network changes its position in any way, which always influence the other actors in a supply network, due to the interconnectedness of relationships.

The portfolio models and the development models have, however, in common that they show that a buyer cannot treat every supplier in the same standardised way. These models also show that a buyer needs to have different kinds of relationships with its suppliers, to be able to acquire the external resources and capabilities that are needed. Buyers have to more and more rely on suppliers delivering larger systems, and it is in the interest of the

suppliers as well as the buyer that this process is well managed. The critical issue is to modify the supplier relationship in accordance with the changes that take place, and also to "shift the buyer outlook toward managing the desired output rather than the operations of the suppliers" (Gadde and Snehota, 2000, p. 314). Buyers have a lot to gain if they try to make something more out of the suppliers, because "suppliers can do much more than delivering reasonably priced items on request" (Gadde and Snehota, 2000, p. 315). The suppliers can be viewed as the buying firm's most valuable assets and should thus be treated as investments (Gadde and Snehota, 2000). It is usually more efficient to try to develop the existing suppliers than to look for new, alternative sources (Krause and Ellram, 1997).

Further research will be done within this subject as empirical material will be collected through interviews with both people representing the buyer as well as suppliers within a large international supply network within the metal industry. A model will also be made that describe the different dynamic changes that can occur in buyer-supplier relationships in a supply network.

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