

WHY DO THEY ADAPT?

- A discussion of motives, power, benefits and drawbacks of adaptation among suppliers in
the metal industry

Work-in-Progress

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Abstract

The article discusses adaptive behaviour among suppliers in the metal industry. The results of the empirical study show that smaller companies seem to more passively adapt in their daily business routines, whereas the bigger ones seem to more actively invest in the relationship. This can also be seen as a more defensive versus a more offensive approach to adaptation.

INTRODUCTION

Why should suppliers adapt? Do they benefit from it? Different markets have been analysed in terms of adaptations (see more in Brennan and Turnbull 1995, 1996, 1998 and 1999, Håkansson, 1982, Johansson and Mattsson, 1987, Halinen, 1994, Erbisman, Kock and Strandvik, 1998), but there are still areas, which are white on the map. Understanding and managing adaptations in business networks is important for both managers and academic researchers.

Adaptations are a necessity for maintaining or developing a relationship (Dubois and Håkansson, 1997). Adaptation is a continuous process (Easton, 1992).

The adaptive behaviour can be conscious or unconscious. It can also be formal or informal, and be an important indicator of commitment (Håkansson, 1982). When analysing adaptation

one can conclude that there is a wide range of adaptive behaviour. What are then the similarities? Can one see the same motives in these relationships?

Aim

The article analyses motives of supplier adaptation towards a buyer in a supply network in the metal industry. The power, benefits and drawbacks of adaptation are also discussed. The empirical material is based on personal interviews with suppliers as well as the buyer in a network in the metal industry. The theoretical aim of the paper is to increase the understanding of adaptive behaviour in business relationships and at the empirical level the study aims to present data, which increases the knowledge of the supplier side of adaptations.

ADAPTATION

During the last years the business relationships between a buyer and a seller has more and more been characterized by closeness. When companies interact and cooperate vertically or horizontally with other actors in a supply network they adapt to a larger or lesser degree. By analysing the motives for adaptation both practitioners and academic researchers can learn more about activities in business networks. Which consequences will the chosen behaviour have for the involved companies? And which consequences will it have when the companies choose not to adapt?

Organizations respond to the demands placed upon them by other organisations and formulate their own actions (Pfeffer and Salancik, 1978). The suppliers are dependent on the buyer, its wishes and demands. One of the choices the suppliers have to make is the level of adaptation. This implies a chosen level of adaptation in their product and production process, in logistics as well as administration, quality or R&D. They can also choose not to adapt at all. After adaptations are made the bonds between the companies will be tighter and have different consequences for the involved companies. Adaptation by the supplier usually implies more dependence of the buyer, but not always. Traditionally the buyer-seller relationship has been characterized by power. According to Thorelli (1986) power is one of the central concepts of network analysis. The company with more power has the ability to influence the behaviour of the other. The base for collaboration is assumptions, trust and planning (Dwyer, Schurr and Oh, 1987).

Halinen, (1994) discusses in her thesis the difference between adapting and investing in a relationship. According to her, to adapt is to passively respond to the requirements of the other party or to the demands of a contextual setting or the changes in it. If a company invests in a buyer-seller relationship, then it can be seen as actively making the relationship more beneficial as the resources are adapted or changed. (Halinen, 1994) Adapting or investing in a buyer-seller relationship shows the level of commitment of the active party. One can see the level and choice of activity in these processes as signals of different motivation levels of the acting company. When the company chooses to invest, the motivation level is higher than when it just adapts, as this can be seen as something the company is forced to do and not actively and independently chooses to do on its own (Halinen, 1994).

Motives, drawbacks and benefits of adaptation

The motive for adaptive behaviour is according to Gadde and Håkansson (1993) more significant if the difference between the parties is large, i.e. the adaptation will be in a direct proportion to the differences that exist between the parties. Adaptation to demanding customers can strengthen the suppliers' competitive position since the result is superior products or production systems (Hallén, Johansson and Seyed-Mohamed, 1991). The supplier can reach higher profits by maintaining long-term relationships (Kalwani and Narayandas, 1995). Adaptations make companies more dependent on each other and they strengthen the bonds between the companies (Johansson and Mattsson, 1987).

Then, what about the risks and drawbacks connected with adaptation? There are large risks connected with adaptation. The dependence of the buyer increases to a large extent. The possibilities of finding new counterparts decrease if a company invests extensively in adaptations (Erbismann, Kock and Strandvik, 1998). From the buyer's point of view, it is not recommendable to control the supplier too tightly. Binding up a supplier too much, limits both creativity and innovation (Gadde and Snehota, 2000). The investments connected to adaptations can be considerable and they cannot be transferred (Hallén, Johansson and Seyed-Mohamed, 1991).

METHODOLOGY

The study is based on 17 personal interviews with suppliers of a large multinational buyer as well as 8 personal interviews with the buyer. The study is a part of a larger project, where different aspects of the relationship between a large multinational buyer and its suppliers are studied. The interviews with the suppliers were done as a pilot study in 1999 and the interviews with the respondents representing the buyer were done in 2000.

The suppliers were asked about their adaptation towards the buyer, their resources and competencies, power and dependence, cooperation with the buyer and other companies, as well as general basic questions concerning the companies. The respondents in the supplier companies were the owner or vice president of the company, or both. Each of the interviews with the suppliers lasted about one and a half-hour. All the interviews were taped, notes were taken and the interviews were all later written down. The respondents representing the buyer were chosen because of the fact that they are all in key positions at the procurement and technology department. They all had continuous contact with the suppliers.

The respondents representing the buyer company were asked questions concerning adaptations, cooperation, power, and what is expected from the suppliers. A semi-structured interview guide was used in all interviews and allowed the interviewer to make relevant follow-up questions as well as to ask more specific questions of the respondents. The interviews lasted 1,5-2 hours and they were all taped and written down.

EMPIRICAL STUDY

The supplier companies in the study are quite small. A total of 29% had 1-5 employees (micro), 59% had between 6-50 employees (small), and the rest (12%) of the companies had 51-250 employees (medium-sized). All of the companies were located within a distance of 100 kilometres from the city of Vaasa in Finland. In the present study the companies were divided into two groups, companies with less than 15 employees and companies with more than 15 employees.

Usually one company is more dependent on the other (Johansson and Mattsson, 1987). The respondents were asked about who is the stronger party in the relationship they had with the buyer. A total of 57% answered that the buyer is stronger and 28,5% answered that the buyer is not the stronger part. The rest did not want to answer the question. When the respondents of the buyer were asked the same question, six of the respondent agreed on it and two did not. However, they also discussed the fact that this factor is dependent on how big the buyer is as a customer. If the buyer is a small customer, then it is usually not the stronger party. It depends on the volumes. One of the respondents of the buyer company did also mention the fact that you cannot command your supplier if you have a partner relationship.

The respondents of the buyer were also asked to discuss the buyers' relationship with its suppliers. All of the respondents representing the buyer reported that the relationship to the suppliers was good. The relationship to the suppliers was described as open, honest with regular meetings where problems were openly discussed. One of the respondents described the relationship to the suppliers as "a little bit too dominating". This was a case with a supplier, which delivers a majority of the turnover to this buyer. The buyer wishes that the suppliers would deliver to other customers as well, even to competitors of the buyer. If the suppliers deliver to other customers as well, then the buyer benefits from the suppliers

increased experience. However, the supplier should keep the prices of the products sold to the competitor a bit higher.

When the degree of adaptation and size of the company was studied there was a link between these two factors. When the studied companies were divided into two groups of equal size (more or less than 15 employees), some characteristics seemed to appear. Relative to the other group, the companies with less than 15 employees seemed to adapt to a greater extent in terms of “administration routines” and “payment routines”, whereas the companies with more than 15 employees adapted more strongly in terms of “quality systems”, “information exchange” and personnel training” (Table 1). Thus, the companies with less than 15 employees seem to more passively adapt in their daily business routines, whereas the bigger companies seem to more actively invest in the relationship. The smallest companies (micro) in the study, adapted generally to a lesser extent than the bigger ones. Only in terms of “product” and “delivery times”, the micro companies reached the same level as the bigger companies (Table 1).

Brennan and Turnbull (1999) studied if the age of the relationship between buyer and seller had any links to adaptive behaviour. They concluded that the age of the relationship was a poor predictor of the extent of current adaptation activity. These findings are supported by the results of the present study, showing no evidence of a link between length of relationship and level of adaptation.

CONCLUSIONS AND DISCUSSION

Adaptation and different motives for it has been discussed in this study. According to Halinen (1994) and Brennan and Turnbull (1996) you can see the adaptive behaviour of the suppliers as either active or passive. The author shares this view.

The degree of adaptation and size of the supplier company was studied and a link between these two factors could be found in this study. Relative to the other group, the companies with less than 15 employees seemed to adapt to a greater extent in terms of “administration routines” and “payment routines”, whereas the companies with more than 15 employees adapted more strongly in terms of “quality systems”, “information exchange” and personnel training”. Thus, the companies with less than 15 employees seem to more passively adapt in their daily business routines, whereas the bigger companies seem to more actively invest in the relationship to the buyer. This can also be seen as a more defensive versus a more offensive approach to adaptation. Adapting towards a buyer can make the supplier weaker, but investing towards the same makes the supplier stronger.

The adaptive behaviour of the suppliers can be seen as both a benefit and a drawback. The drawback is that the suppliers which have adapted to a large degree are more tightly connected to the buyer and they will have more difficulties in selling to another customer, if the current buyer would stop buying their products. On the other hand, the adaptation can be seen as a good thing if you see it as an investment in the business relation to the buyer. The bond is made tighter and the supplier can focus resources on more important activities than finding an alternative customer if the buyer would stop buying. Earlier studies have shown

that suppliers can reach higher profits by maintaining long-term relationships with the buyer (Kalwani and Narayandas, 1995).

The respondents were asked about who is the stronger party in the relationship they had with the buyer. A total of 57% answered that the buyer is stronger and 28,5% answered that the buyer is not the stronger part. The rest did not want to answer which company is the stronger one. After major adaptations the supplier can find that the company has become too dependent of the buyer company. However, earlier results of the pilot study (Hagberg-Andersson, Kock and Åhman, 1999) show that the majority of the suppliers are quite willing to invest in different ways in the relationship with the focal buyer. This can be seen as a sign of trust towards the buyer. The results of the interviews with the focal buyer show a willingness to keep the communication channels open with the suppliers as well. The respondents at the procurement and technology department wanted to have an open and honest relationship to the suppliers they continuously were in contact with. This mutual trust can be seen as a good base for continuous adaptations and investments. Earlier studies (Hagberg-Andersson, Kock and Åhman, 2000) show that adaptation made by the buyer towards these suppliers is mainly found in negotiating situations, agreements and sometimes in terms of technological solutions. To some of the suppliers the buyer is just a small customer and the buyer has to adapt because the customer has more power due to a competitive price or know-how. It is not always easy to say who is the more powerful in a relationship, the buyer or the supplier. The parties might be dependent on each other in different ways.

The results of the study showed no evidence of a link between length of relationship and level of adaptation. These results support earlier findings reported by Brennan and Turnbull (1999).

The smallest companies (micro) in the study, adapted generally to a lesser extent than the bigger ones. Only in terms of “product” and “delivery times”, the micro companies reached the same level as the bigger companies.

When two companies choose to cooperate they adapt in different ways and in different stages towards each other. Prior to adaptation there need to be trust and commitment. Every business relationship consists of persons acting in each company. The acting persons create the relationship, which is the base that further interaction will be based on. These passed episodes creates the atmosphere and the bond that the interactive companies adapt in. The buyer in the study does not underestimate its suppliers. It does not always expect them to adapt in every aspect to the buyer. In some cases the buyer is not the large customer, instead “just another small customer”.

The sample of this empirical study is comparatively small in order to generalize the findings, but the results illustrate the conceptual discussion. The suppliers motive for adapting towards the buyer in the study can though be seen as a will of investing for the future in the relationship. One motive for not adapting is that the dependency of the buyer increases. If the supplier does not have the resources for supplying the buyer with what it needs, then the adaptations made are just a drawback to the supplier. But the buyer is willing to keep an open communication with the suppliers. The suppliers, with enough resources and which are motivated to work towards mutual goals and more efficient production, have a good chance

of remaining a supplier to this buyer. But the chances to cope with the competition depend on the resources and competences of the supplier firm.

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