

CONCEPTUALIZING SUPPLIER RELATIONSHIP MANAGEMENT

Competitive Paper

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Abstract

Purpose of the paper and literature addressed:

This paper aims to conceptualize supplier relationship management (SRM). It provides an overview of the objectives of SRM from the perspective of a buying company and proposes the structure of the required capabilities of the firm to obtain these objectives. The paper aggregates the previous studies on buyer-supplier relationships and participates in the discussions on relational capabilities of a firm.

Research method:

Conceptual paper

Research findings:

Based on the extensive literature view it is proposed that the capability of SRM consists of five elements being: i) practices, ii) commitment, iii) trust, iv) communication, and v) ethics. The objectives of SRM are defined to be: i) minimization of transaction costs, ii) value creation through internal capabilities and resources, iii) gaining competitive advantage from cooperative relationships, iv) reducing the risks of supply dependence and availability, and v) diffusion of supplier information between business units. The firms with organizational capability to manage supplier relationships are committed to develop their supplier relationships in a collaborative way, have ability to coordinate their supply chains effectively, aim to trustful relations, communicate actively with their suppliers, and follow valid supply processes. Antecedents of capability are experience and learning. Objectives need to be aligned with the firm's strategy and effective control mechanisms has to be created in order to foster interaction with firm's external resources and achieve relational performance. These elements form the foundation of SRM.

Main contribution:

The paper strengthens the insights of the strategic role of supplier relationship management in global business and reinforces the theoretical foundations of supplier management. Moreover, a conceptual model of SRM is proposed for further research.

Keywords: supplier relationship management, SRM, strategy, capability

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Abstract

This paper aims to conceptualize supplier relationship management (SRM). It provides an overview of the objectives of SRM from the perspective of a buying company and proposes the structure of the required capabilities of the firm to obtain these objectives. The paper aggregates the previous studies on buyer-supplier relationships and participates in the discussions on relational capabilities of a firm. Based on the extensive literature view it is proposed that the capability of SRM consists of five elements being: i) practices, ii) commitment, iii) trust, iv) communication, and v) ethics. The objectives of SRM are defined to be: i) minimization of transaction costs, ii) value creation through internal capabilities and resources, iii) gaining competitive advantage from cooperative relationships, iv) reducing the risks of supply dependence and availability, and v) diffusion of supplier information between business units. The firms with organizational capability to manage supplier relationships are committed to develop their supplier relationships in a collaborative way, have ability to coordinate their supply chains effectively, aim to trustful relations, communicate actively with their suppliers, and follow valid supply processes. Antecedents of capability are experience and learning. Objectives need to be aligned with the firm's strategy and effective control mechanisms has to be created in order to foster interaction with firm's external resources and achieve relational performance. These elements form the foundation of SRM. The paper strengthens the insights of the strategic role of supplier relationship management in global business and reinforces the theoretical foundations of supplier management. Moreover, a conceptual model of SRM is proposed for further research.

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INTRODUCTION

Supplier relationships have become one of the key interest areas of strategic supply management. The focus has changed from transactional and short-term relationships to collaborative and long-term relations, where the mutual intention is to increase flexibility and create value through cooperation. Therefore, there is a growing need to monitor firm's position in a supply net continually, recognize the interactive nature of buyer-supplier relationships and understand how to influence the relationship atmosphere (Gadde and Snehota, 2000). Hence, buying firms need to define what are their objectives concerning supplier relationships and utilize fully the relational capabilities of the firm in order to gain best possible benefit from their supplier base.

Many researchers have made extensive reviews on buyer-supplier relationship literature. According to Olsen and Ellram (1997a), three different research themes have been taken in the articles concerning buyer-supplier relationships: i) characteristics and benefits of buyer-supplier relationships, ii) establishment and development of buyer-supplier relationships and iii) managing buyer-supplier relationships. Cousins (2002) has listed the perspectives and contributions from supplier relationship studies. According to him, the main focus in the relationship studies can be divided into behavioral and economic schools of thought. The behavioral (or humanistic) school of thought sees b-to-b relationships on the same basis as personal relationships, which are based on trust, understanding and cooperation. The economic perspective presents that inter-firm relations are based on the economic power in

the market. Recently, Pagano (2009) has presented a review concerning studies on relational capabilities as emerging theme in the fields of strategic management, supply management and international business.

In the field of supply management the importance of the firm's relational capability is clearly recognized. However, the role of the firm's internal capability of managing supplier relationships has been a neglected issue all though capability view is applied widely in strategy and marketing research (Quintens et al., 2006; Johnsen and Ford, 2006; Ivens et al., 2009). Previous research has developed several models and tools how to manage and classify different supplier relationship types (Kraljic, 1983; Olsen and Ellram, 1997b; Cousins, 2002; Johnsen and Ford, 2008). However, research on the role and impact of capability in the supply management context is still limited to the listing of personal supply management skills. In most cases, supply management skills are viewed as personal traits (e.g. Giunipero and Percy, 2000; Faes et al., 2001) and technical knowledge (Carr and Smeltzer, 2000). As Pagano (2009) has put it, the research concerning relational capabilities is fragmented and limited. Especially, there is a lack of studies focusing on intra-organizational mechanisms supporting global supplier management activities. Moreover, research on human resource management policies and practices is needed given the fact that interaction and strong relationships between buyers and suppliers have ever increasing role in the global supply management strategies. Therefore, the aim of this paper is to participate to the discussion on buyer-supplier relationships and relational capabilities. Based on the extensive literature review and theories of strategic management the conceptual model of SRM is proposed. The overall objective of this study is to strengthen the insights of the strategic role of supplier relationships and their management in global business and reinforce the theoretical foundations of SRM.

THEORETICAL FOUNDATION

Several studies have examined supplier relationships from different theoretical perspectives. The early studies of business relations examined the boundaries of a firm and aimed to explain why organizations exist. Originating from the thoughts of Coase (1937) transaction cost economics theory (TCE) bases its arguments on economics stating that when running a firm there are always some transaction costs involved. Transaction costs are the costs that arise from contracting *ex ante*, e.g. negotiating, and *ex post*, e.g. executing the contract and settling disputes (Williamson, 1979, 1986). It is said that transaction costs are optimized if the relationship management is optimized according to the relationship type (Krapfel et al., 1991). Therefore, TCE theory can shed light on the circumstances that cause the development of a closer relationship between the buyers and suppliers (Heide and John, 1990; Cox, 1996). Furthermore, it is stated that studies concerning efficiency and performance metrics within the supply chain can benefit the principles of TCE (Grover and Malhotra, 2003).

However, there has been some criticism against TCE as well. For example, Heide and John, (1992) have pointed out that TCE does not recognize power or dependency in the interaction between the firms. Furthermore, TCE does not tell under which circumstances and conditions contractual relationships achieve the lowest transaction costs, and it does not take into account the potential benefits that can arise out of a collaborative relationship with suppliers, or how the costs and gains are combined within the decision-making framework (Cox, 2005). Moreover, Ghoshal and Moran (1996) have criticized TCE because it fails to explain the influences of internal management and social relations between the people in firms. It is

difficult to measure, too variable, difficult to use in public sector, it does not deal the issue of mutuality and do not allow cross-cultural comparisons of social capita and cultural constructs (Chikán et al., 2007). Therefore, in some studies focusing on supplier relationships resource dependency perspective (RDP) is used as a complementary element besides TCE to explain the risk of dependency and describe the nature of the dyadic relationship (Krapfel et al., 1991). According to principles of RDP to acquire resources, organizations must interact with others who control these resources. The survival of the organization can be partially explained by its ability to ensure the continuity of the needed resources. Power is determined by the definition of social reality created by the actors and their control over the resources. Organizations seek to avoid dependencies and external control and try to retain their autonomy for independent action (Pfeffer and Salancik, 1978).

The research of business relationship and its impact on firm's performance have applied relational view (Dyer and Singh, 1998) proposing that the relationship between firms can be a unit of analysis of competitive advantage. Relation-specific assets, knowledge-sharing routines, complementary resources and capabilities and effective governance are potential sources of interorganizational competitive advantage. Specifically, relational view focused on dyadic relationships between the firms whereas the interaction approach (IMP, Industrial Marketing and Purchasing) emphasized networking and interaction between firms suggesting that firms do not have strategic autonomy, and therefore, firms must act with others (Gadde and Håkansson, 1994; Gadde and Snehota, 2000; Baraldi et al., 2007). This interaction approach bases its arguments on the fact that in general, firms have only limited number of ongoing business relationships and strategic actions are efforts of firms which aim at influence their positions in supply networks (Gadde et al., 2003).

Recently, the value creation view has emerged into the discussion on supplier relationships (Ehret, 2004). Value creation through collaboration and networking has become new objective of relationship management. As Möller and Törrönen (2003) have put it: every supply chain relationship strives for value creation opportunities. Moreover, it is found that the value co-creation between buyers and suppliers have positive influence on supplier's service capability, meaning that focusing on value creation together may provide new ways to obtain competitive advantage (Zhang and Chen, 2008). Furthermore, value creation through entire supply network has gained attention in relationship studies. A value net (Bovet and Martha, 2000) connects customers, captures their preferences, and transmits the customer knowledge other value net participants. It is composed of the relationships between its customers and their suppliers. The drivers of value creation in a value net are collaboration and combination of actors' resources and capabilities. Thus, the value discussion is strongly linked within the insights that firm's internal capability and resources are the sources of competitive advantage. These arguments are based on the resource-based view (RBV).

The RBV assumes that firms are bundles of resources (Penrose, 1959; Wernerfelt, 1984; Rumelt, 1987; Barney, 1991). Resources are defined to be specific physical, human and organizational assets that can be used to implement value-creating strategies. The more these resources are the basis for the firm's success, the more the firm depends upon them. The characteristics of the firm's resources and capabilities, which may generate economic rents, form the strategic assets of the firm (Amit and Schoemaker, 1993). Priem and Butler (2001) have presented criticism towards the static nature of the RBV because it does not take into account product markets and stated that there is still need for conceptual work before it meets the requirements of a theoretical structure. Barney (2001) has replied to this criticism by stating that the value of resources must be analyzed in the context of each market conditions

and by that dynamism is achieved. These views have awoken business relationship research focusing on relational capabilities (Heimeriks and Duysters 2007, Lintukangas 2009, Pagano, 2009). Figure 1 presents the theoretical foundation of discussion on relational capabilities.

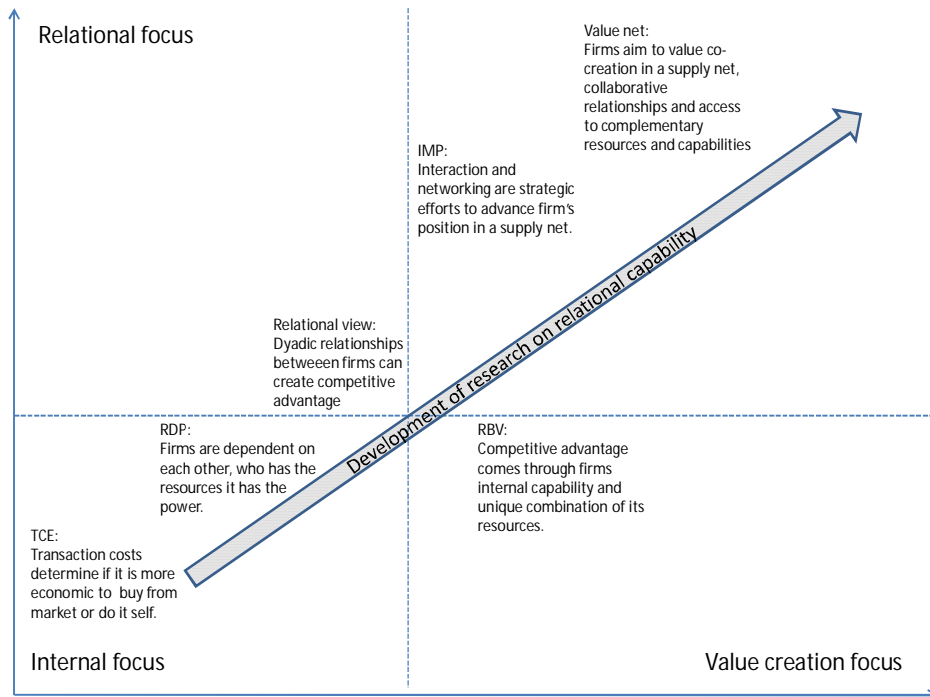


Figure 1. Theoretical foundation of discussion on relational capabilities.

SUPPLIER RELATIONSHIP MANAGEMENT CAPABILITIES

Supplier relationships are part of the firm’s business system where the economic impact of a specific type of supplier relationship depends on the way how this relation is managed and the degree of involvement in the relationship (Gadde and Snehota, 2000). The more important it is for a firm to manage its suppliers, the more capability to maintain relations is required (Cox, 2007; Esposito and Passaro, 2009). Hence, to handle these relationships relational capabilities are required for controlling and assessing the economic consequences, understanding the interactive nature of the relationship and perceiving the forces driving the change.

Generally, capabilities are defined to be “information-based, tangible or intangible processes, which are firm specific and developed over time through complex interactions among the firm resources” (Amit and Schoemaker, 1993, p. 35). Thus, it can be said that capability is firm’s ability to utilize its resources to achieve its goals (Makadok, 2001; Helfat and Peteraf, 2003) and capability grows from the experience, knowledge and skills of individuals (Eisenhardt and Martin, 2000). According to Kale et al. (2002), capabilities are highly related to the accumulation and development of competencies through the path of learning and innovations. Moreover, capabilities are developed through a process that involves organizational experience based on present and future actions and, thus, capabilities are a result of recombining and integrating knowledge within the organization.

The existence of SRM capability in a firm can be difficult to observe. Generally, the visibility of capability comes through the actions of a firm. The skills, competences and knowledge of individuals inside a firm accumulate to the level of organizational capability. Therefore, the capability is structured on several dimensions and elements covering various work tasks of individuals. To be able to develop SRM capability further, the construct of SRM capability needs to be identified in firms. Research on relationships between buyers and suppliers has proposed that in general, good relations are influenced on several factors such as communication, commitment, practices, ethical behavior and trust (e.g. Dwyer, Schurr and Oh, 1987; Mohr and Spekman, 1994; Cooper, Frank and Kemp, 1997). These insights have been widely studied. For example, the study of Blomqvist and Levy (2006) proposed that the components of collaboration capability are trust, commitment and communication. Powers and Reagan (2007) have examined that mutual goals, cooperation, satisfaction on supplier performance, trust, product adaptation, structural bonds and commitment have been significant factors in buyer-supplier relationships. According to Nyaga, Whipple and Lynch (2010) factors promoting successful collaboration from the perspectives of both buyer and supplier are information sharing, joint relationship efforts and dedicated investments. All these factors form the elements of SRM capability which can be categorized to be practices to maintain and manage buyer–supplier relationships, commitment to the relationship, deepening of mutual trust, active communication and ethical behavior (Lintukangas, 2009). Table 1 summarizes the literature concerning relationship factors, which form the foundation of SRM capability.

Authors	Relationship factors
Giunipero and Percy, 2000 Powers and Reagan, 2007	Practice
Heide and John, 1990 Narasimhan et al., 2001 Blomqvist and Levy, 2007 Powers and Reagan, 2007	Commitment
Mohr and Spekman, 1994 Giunipero and Percy, 2000 Blomqvist and Levy, 2007 Powers and Reagan, 2007	Trust
Mohr and Spekman, 1994 Zhao et al., 2002 Carr and Kaynak, 2007 Zhou and Benton, 2007 Blomqvist and Levy, 2007	Communication
Turner et al., 1994 Cooper et al., 1997 Fisher, 2007 Pettijohn et al., 2007	Ethics

Table 1. Summary of the literature defining relationship factors forming SRM capability.

By identifying and developing their supplier relationship management capability firms can create value and improve their performance within a value net. If appropriate capabilities are recognized and developed further, changes in the firm's performance can be expected (Ellonen, Wikström and Jantunen, 2009; Lawless, Bergh and Wilstedt, 1989). To increase the

firm's SRM capability, managers should focus on the elements of SRM capability and thoroughly examine the improvement possibilities. Furthermore, Autry and Golicic (2010) have showed that there is a clear connection between the buyer-supplier relationship and firm's performance. They argue that relationships between buyers and suppliers are dynamic and the strength of the relationship increase and decrease cyclically in time. Performance is an outcome of relationship strength. Increase in performance results stronger relationships. Therefore, the efforts to build and maintain strong relationships result higher levels performance of suppliers and the investments of buyers into supplier relationships can result increasing return.

OBJECTIVES OF SUPPLIER RELATIONSHIP MANAGEMENT

Suppliers are one of the most crucial interest groups of a firm. Therefore, they often are referred to be firm's external resources (Cox, 1997; van Weele, 2002; Day and Lichtenstein, 2006). Hence, SRM is management of these firm's external resources and it connects the firm's internal supply organization with the global supply market. Despite the fact that defining the different types of the supplier relationships forms the basis of the firm's supplier relationship management system, it is the most difficult barrier to overcome in linking supply management to the corporate level strategy (Watts et al., 1995).

According to Croxton et al. (2001), SRM is a mirror image of customer relationship management (CRM). In the marketing literature it has been clearly pointed out that maintaining the existing long-term customer relations is more profitable than to seek new customers (e.g. Kalwani and Narayandas, 1995). Moreover, it has been stated that customers are not alike in terms of profitability (e.g. Storbacka, 1997; van Raaij et al., 2003). Thus, firms aim to identify their strategically important customers, maintain and enhance good business relations with them, and increase firm competitiveness by exploiting the synergy of mutual business activities. It can be said that SRM aims to put into practice these principles of CRM from the perspective of the buying company. Effective SRM takes a long-term view on mutual business activities, establishes joint goals with suppliers, and maintains a win-win approach in business negotiations (Wilson, 1996; Croxton et al., 2001). Therefore, supplier selection, categorization and management of existing supplier relations should follow the strategic goals of the firm.

The management strategies and categorizing of supplier relationships are often done with the help of different portfolio models. The supply management portfolio model of Kraljic (1983) was the first comprehensive portfolio approach presented in the field of supply management. Kraljic underlined the importance of supply management in the firm's business. He pointed out that firms must recognize what kind of supply risk and profit impact is involved in their supply base. Based on the model of Kraljic, portfolio ideas have been frequently applied in supplier relationship studies. For example, Ollsen and Ellram (1997b) have developed a three-step portfolio to assist in managing different kinds of supplier relationships. According to Bensaou (1999), the supplier relationship type is determined based on the amount of investments by the buyer and/or supplier. Caniels and Gelderman (2005, 2007) have studied supply management strategies from the perspective of power and dependence in supplier relations. Moreover, Gelderman and Semeijn (2006) have fitted global supply base management to the Kraljic's portfolio model.

There are, however, studies (e.g. Dubois and Pedersen, 2002; Gelderman and Van Weele, 2003; 2005) that have raised some questions about the applicability of the simple portfolio model to the complex strategy formulation situations concerning supplier relationships. In general, the decisions based on a portfolio are sensitive to the choice of dimensions, factors and weights. Therefore, additional information is needed: such as the overall strategy of the firm, knowledge on the supply market and capacity of the suppliers (Gelderman and Van Weele, 2003). Moreover, in many cases, the ways to interact with suppliers have changed from adversarial relationships towards collaborative interdependence between firms. Products are often jointly developed by buyers and suppliers, and evolve during the relationship. In these cases, important factors such as alternative governance forms, pressures to reduce the supply base, and increased concern for sustainable competitive advantage through supplier relationships are not included in the portfolio models (Wagner and Johnson, 2004). According to Wagner and Johnson (2004), a strategic supplier portfolio should consist of a set of supplier relationships where management activities involve not just individual supplier relationships but the entire supplier portfolio as a group. Firms should map the strategic role of the various relationships, where dependencies and interdependencies are created, the alternative governance mechanisms, and where the firm will invest in and leverage relational capital.

These different theoretical views and portfolio models provide the foundation for the concept of SRM. The minimization of transaction costs and growth of efficiency are the fundamental issues in the integration tendencies of firms in global business. Social relations, power distribution and the level of dependency on external counterparts raise questions on risks related to supplier relations and how to reduce dependency by increasing the negotiation power of the firm. Relational view and interaction approach emphasize the dyadic or networked relationships as units of analysis and as sources of competitive advantage. Firm's ability to value creation through its internal and external resources and capabilities stresses their impact on the competitiveness of the firm. Moreover, portfolio models present examples of dimensions, which firms can use and modify according to their needs in their strategy development. The classifying dimensions could be categorized to be e.g. economic efficiency (profit impact, level of investment), susceptibility to risk (availability, strategic importance, network structure, exchange criticality, power and interdependence) value creativity (attractiveness, nature of integration, surplus value, value of relationship) and social interactivity (difficulty of management, time horizon of the relationship). In sum, it is proposed that the main objectives of SRM are i) minimization of transaction costs ii) value creation through internal capabilities and resources iii) gaining competitive advantage from cooperative relationships iv) reducing the risks of supply dependence and availability, and v) diffusion of supplier information between business units. Table 2 summarizes the literature concerning supplier relationships and theoretical aspects related to the development of research on relational capability.

Authors	Theoretical approach	View on buyer-supplier relationship
Kraljic (1983) Spekman and Johnston (1986) Heide and John (1990; 1992)	Strategic management, Portfolio model Transaction cost economics Transaction cost economics Resource dependency perspective	Profit impact / Supply risk Level of vulnerability / Extent of control Joint action / Expected continuity
Krapfel et al. (1991)	Transaction cost economics Resource dependency perspective	Interest communality / Relationship value
Heide and Miner (1992)	Game theory	Extendedness of relationship / frequency of contact/ Performance ambiguity/ increase vs.decrease cooperative behaviour
Gadde and Håkansson (1994) Olsen and Ellram (1997)	Interaction approach (IMP) Strategic management, Portfolio model	Networking Strategic importance of supply mgmt / difficulty of relationship management /attractiveness of supplier
Dyer and Singh (1998)	Relational view	Relational specific assets / Knowledge sharing routines, complementary resources and capabilities, effective governance
Bensaou (1999) Gadde and Snehota (2000) Kaufmann et al. (2000) Cousins (2002)	Strategic management, Portfolio model Interaction approach (IMP) Transaction cost economics Game theory	Level of buyer / supplier specific investments Networking Technology / Collaboration Dependency / Certainty /Opportunistic behaviour / Strategic collaboration
Masella and Rangone (2000) Cox (1996; 2003) Grover and Malhotra (2003)	Strategic management, Portfolio model Power imbalance, Portfolio model Transaction cost economics	Time horizon / Buyer-supplier integration Share of surplus value / interdependence vs dominance Efficiency / Performance metrics
Hallikas et al. (2005) Caniëls and Gelderman (2005; 2007)	Risk management, Portfolio model Power imbalance, Portfolio model	Network related risk / Collaborative risk management Relative power / Interdependence
Gelderman and Semeijn (2006) Heimeriks and Duysters (2007) Saccani and Perona (2007) Baraldi et al. (2007)	Strategic management, Portfolio model Resource based view Strategic management, Portfolio model Interaction approach (IMP)	Value of purchase / Number of suppliers Experience / learning /capability exchange criticality / operational impact Networking
Williamson (2008) Esposito and Passaro (2009) Autry and Golicic (2010)	Transaction cost economics Value creation, relational capability Performance and strength of relationships	Bilateral dependency / preserving continuity Relationship development Cyclical pattern

Table 2. Summary of theoretical approaches and views concerning supplier relationships.

SYNTHESIS AND CONCEPTUAL MODEL

The purpose of this paper was to conceptualize SRM. The paper has provided an overview of the objectives of supplier relationship management from the perspective of a buying company and presented the structure of the required capabilities of the firm to obtain these objectives. Based on the extensive literature view it is argued that the firms with SRM capability are committed to develop their supplier relationships in a collaborative way, have ability to coordinate their supply chains effectively, aim to trustful relations, communicate actively with their suppliers, and follow valid supply processes. However, the ultimate goal of SRM is to influence positively on firm's relational performance.

It has been stated that the antecedents of capability are experience and learning (Heimeriks and Duysters, 2007; Kale et al., 2002), and therefore, they need to be included to the SRM model. Furthermore, objectives need to be aligned with the firm's strategy and effective control mechanisms has to be created (Hartmann et al., 2008) in order to foster interaction with firm's external resources and achieve relational performance. Figure 2 presents a conceptual framework of SRM.

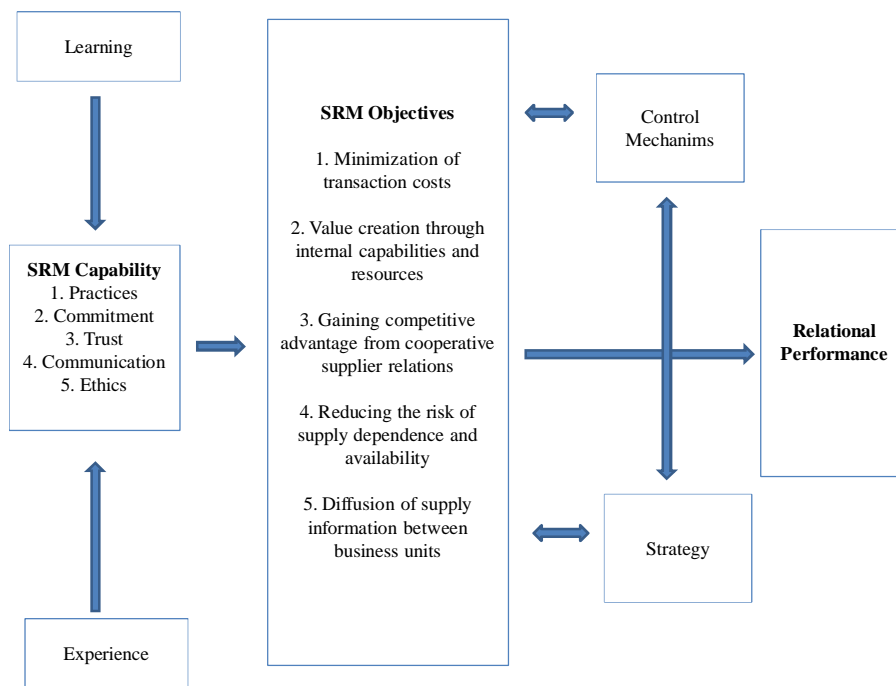


Figure 2. The conceptual model of SRM

The role of capability has been a clearly neglected issue in the business relationship management studies and related research has been fragmented and limited on managerial issues (Pagano, 2009). This conceptual paper aggregated the previous studies on buyer-supplier relationships and aimed to participate in the discussions on relational capabilities of a firm. Moreover, the overall target of the paper was to strengthen the insights of the strategic role of supplier relationship management in global business and reinforce the theoretical foundations of SRM. Therefore, a conceptual model of SRM was proposed for further research.

The capability studies in the field of supply management have mostly been conceptual and based on case studies, but the examination of the causal paths requires a large scale survey and utilization of statistical methods e.g. structural equation modelling. Because of the lack of sound measurement instruments for the concepts more research is needed to develop appropriate measures and operationalizing of the concepts to be able to advance theories with quantitative methods. Moreover, there are still some unanswered questions, such as how to measure capability, how to find the gaps in capability and which elements of capability are most relevant in different contexts. There is no doubt that the importance of the relational capabilities needs to be highlighted also in the future studies.

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