

# Changing supplier selection and relationship practices: a contagion process

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## Abstract

Purchasing managers offer different opinions when asked which are the driving forces from the situational environment that determine the organisation of the purchasing function. Their opinions of the supplier selection process and criteria to be used also differ. All these are explained by differences in (1) their personal past trajectory through various networks, determining their personal interpretation of the real world; (2) their position in the present company, described as the negotiated social order; (3) the company's world-view on 'how things have to be done, including purchasing': the socially negotiated order. These aspects are part of a process of contagion and determine the nature of the actual supplier relations.

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## 1. Introduction

Companies operate in different industries, in different markets, on different segments with different customer requirements. Taken from a network perspective, they belong to different industrial and territorially embedded networks following different paradigms (Camagni, 1991; Kamann, 1998). They tend to show different strategies and internal settings, assumed to be best fitted with the particular type of environment they operate in. This supports both the contingency theory (Lawrence and Lorsch, 1967) and the congruency theory (Nadler and Tushman, 1979). All these differences affect the way purchasing activities are organised, which corresponds with findings that firms display different purchasing behaviour in different circumstances, including their selection criteria and supplier management. To get a better understanding of this process and its underlying logic, a long-term research project was started on the external determinants of the purchasing function. In the project, the strategy of the company on a particular

market segment is assumed to determine the purchasing function. Put differently: the purchasing function is considered as a means to 'use' suppliers to meet customer demand. This also means that the overall views of the total company on 'how to do things' are a starting point for the question 'how are we doing things in purchasing'. Given this approach, the research question was "which external factors influence the type of choices made that—at the end—result in a particular type of purchasing function". Elsewhere (Kamann et al., 2001), we present the first results of this project. Literature study and interviews with consultants and managers showed that complexity of the environment and products, dynamics or volatility of the environment, the degree of innovativeness of the company together with the choice of technology (process and discrete production versus project production) were the major discriminating factors. Even while the outcome of the first project was interesting, two other observations were made. First of all, that purchasing managers and consultants (a) did not agree on the importance and role of external factors and (b) did not describe the resulting actions in identical operational terms. In other words, both *what* managers perceived as important and how they *acted* upon that perception differed. The differences between opinions, actions taken and

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terminology were not a simple reflection of differences in external factors. Even within a single company, differences were found. A second observation was that only 2 out of 10 cases studied fitted the typology used, which was based on theoretical assumptions and expert views. While some of the purchasing managers in the other companies did agree with what the purchasing policy *should* be, they did not act accordingly.

This made us wonder what (purchasing) managers actually (1) *perceive* as “influencing factors” of the purchasing function; (2) *do* as a result of what they perceived. One of the areas where they seem to differ in their actions is the supplier selection and the consequent relationship with (potential and existing) suppliers. In order to deal with these two questions, we start with the question how managers—or people in general—perceive their environment and ‘decode’ signals from that environment. We continue with a description of the factors that influence this perception process. This will be put in a broader perspective by looking at the interdependence between perception and context. The model presented identifies the factors that play a role in selection and supply relation behaviour. Differences in these factors can explain managerial differences in behaviour towards suppliers and the related supplier selection criteria.

## 2. Perception and knowledge base

Fig. 1 depicts the process how a purchasing manager comes to a certain choice of actions (derived from Kamann, 1993). A purchasing manager ‘PM’ looks at the Real World at a certain moment.

What he actually is looking for—the type of signals he is expecting or will be able to identify as such—depends of the situational context and his knowledge of signals to be expected: his frame of reference. Or, in broader terms, the type of signals he will look for and actually will notice are determined by the structured experiences

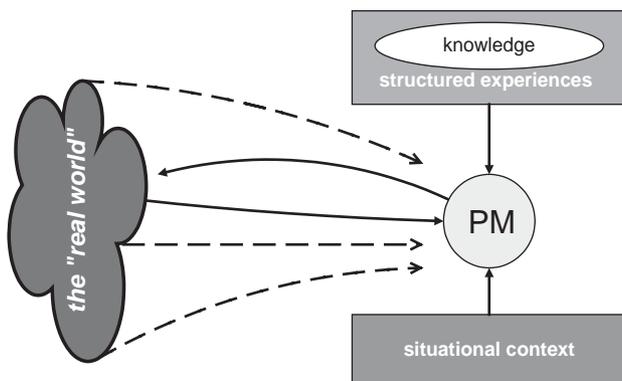


Fig. 1. The role of structured experiences in the perception of purchasing managers of the real world

of the past, which result in his knowledge about signals. Signals he is not familiar with—that ‘do not ring a bell’—simply are not noticed. Or, even when they are noticed, are not registered as relevant information. Hence, both the type of signals looked for *and* the type of signals filtered out from all data that come to him are determined by his experience of the type of signals that *in his experience and to his knowledge* exist and are relevant in that particular situation and context. He “only sees what he believes”. Actions are guided by thought and thought is influenced by signals people perceive (Kelley, 1979). Besides the fact that his knowledge base determines which signals to look for and recognise at all, his *actions* taken as a result of a signal noticed *also* are determined by his structured experiences and his knowledge base.

### 2.1. Example: two archetypes of purchasers

Purchaser  $P_1$  is a so-called ‘traditional’ purchaser. He has an active purchasing past of 20 years, is a shark type negotiator who likes to play with his ‘opponents’. To him purchasing is about playing a hard bargain to get his goods at the lowest price. He will look for competing suppliers who are cheaper in price. He spends most of his day on the telephone asking for prices and ordering goods and will receive the suppliers at his office. “Why should I go to them?”. He likes to shop around and frequently switches between suppliers. Purchaser  $P_2$  has only 2 years working experience, but has a recent academic purchasing degree. His knowledge base will make him focus at the total cost of ownership, extended services and he will restrict shark type behaviour to only some of the leverage suppliers. He spends a significant amount of time on visiting suppliers to find better ways to streamline processes and/or pick up new ideas for new processes or products. He uses portfolio analysis to differentiate between categories of suppliers and never orders goods himself; users do this. In this extreme example, it is obvious that the two archetypes of purchasers look for different things and will take different actions. A late delivery of goods from a supplier will be punished by  $P_1$  with a penalty, threats or stop of future transactions.  $P_2$  will try to find the cause of the delay and discuss improvements in the ordering and/or logistical process.

Differences in knowledge and its related structured experiences and built-up routines result in different things to look for and different actions to be taken. The use of the portfolio analysis for instance (Kraljic, 1983) has led to a differentiation between various categories of products and their associated suppliers. It implied new ways of looking at supplier relationships. New additions and refinements to portfolio analysis (cf. Olsen and Ellram, 1997) implied even more refinement in the differentiation of supplier relations. Among professional

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