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Developing cost management in customer–supplier relationships: three case studies

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Abstract

This study describes cost management development projects in three customer–supplier relationships and analyzes these projects from the perspective of relationships. Differences in suppliers' objectives, actions taken, and results gained in the projects were found in the explorative study, although the customer's objective was the same in all cases. The use of cost information depended on the balance of power between firms, on the trust between personnel, and on the volume of the firms' mutual business.

Keywords: Cost accounting; Cost management; Customer–supplier relationship; Network; Purchasing

1. Introduction

Purchasing literature of the last decade emphasizes analyzing customer–supplier relationships (CSRs) because of their significant role in the success of individual firms (Mohr and Spekman, 1994; Lambert and Cooper, 2000). Interorganizational practices have become important in the manufacturing industry, partly due to the cost pressure caused by decreasing price levels and partly due to firms' concentration on their core competencies. "*[O]rganizational buying is dramatically shifting from the transaction oriented to the relational oriented philosophy, and will shift from a buying process to a supplier relationship process*" (Sheth and Sharma, 1997, p. 91). Because of this shift, much of the past research on buying behavior will become obsolete (Sheth and Sharma, 1997, p. 92). One of the trends in purchasing research has been the classification of CSRs in order to illustrate the structure of the supply base (Krapfel et al., 1991; Olsen and Ellram, 1997; Kapoor and Gupta, 1997; Matikainen, 1998; Handfield et al., 2000). Efficient management of the supply base has become a challenge (Trent and Monczka, 1998, pp. 6–7), in part because the supply base is turning into a tiered network in which the number of direct CSRs per firm decreases (Hines, 1996; Gumbleton, 1999; Kulmala et al., 2002). From the network perspective arises also critical aspects on the applicability of CSR classifications (Dubois and Pedersen, 2002).

Outsourcing and supply chain development are often motivated by cost, which is one reason why firms have paid attention to efficient management of CSRs (Virolainen, 1998; Matikainen, 1998). Some studies of cost information[1] and its use in CSRs exist (Munday, 1992a,b; Anderson et al., 1994; Carr and Ng, 1995; Ellram, 1996; Christopher, 1998; Cooper and Slagmulder, 1997 and 1999b; Seal et al., 1999; Dekker, 2000; Cokins, 2001; Mouritsen et al., 2001; Tomkins, 2001; Kulmala, 2002). Some of the studies describe and analyze interorganizational cost management (IOCM) practices (see e.g. Cooper & Slagmulder, 1999b; Mouritsen et al., 2001; Kulmala et al., 2002), but lack the analysis of empirical cost management development from the point of view of CSRs.

The state of affairs highlights the need for knowledge: *"How does the nature of a CSR influence interorganizational cost management development?"* The objectives of this study *are to describe cost management development*

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[1] In this study cost accounting refers to principles, calculation rules, and information systems that are used to produce cost information. Cost management refers to utilizing cost information in controlling and coordinating the occurrence of cost.

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projects in three CSRs (the projects increase empirical knowledge of cost management development carried out across the boundaries of a single firm), and to *analyze these three projects from the CSR perspective* (empirical evidence is provided on differences between the CSRs in which the cost management development projects were conducted). The research method is the case study. Three cost management development projects (CMDPs) in a firm network are analyzed from the CSR point of view.

2. Theoretical background

2.1. Classifying CSRs

The scientific research of consumer buying behavior began in the 1960s and was soon expanded to include also industrial purchasing (Baily, 1963; Sheth, 1973; Sheth and Sharma, 1997). Competitive strategy and organizational relationships have been of special interest in business literature since the 1980s (Porter, 1980; Håkansson, 1982). Hence, the power of buyers and suppliers is a well-known phenomenon. In purchasing, the balance of power is also addressed by portfolio thinking (Henderson, 1970; Fiocca, 1982; Kraljic, 1983; Campbell, 1985; Turnbull, 1990; Olsen and Ellram, 1997; Krapfel et al., 1991; Kapoor and Gupta, 1997; Matikainen, 1998; Bensaou, 1999; Handfield et al., 2000; Donaldson and O'Toole, 2000; Nellore and Taylor, 2000; Dubois and Pedersen, 2002). The old wisdom of not putting all one's eggs in the same basket is known as the portfolio theory, which dates back to financial investment analysis in the 1950s (Markowitz, 1952).

The well-known portfolio of Kraljic (1983) has been almost like a platform for later discussion. The dimensions for classifications are typically not defined in exact figures, except the classification of Kapoor and Gupta (1997). An explanation could be the industry-specificity: industries have a different structure and therefore it is impossible to give numeric and generic recommendations. A firm using any of the models should decide whether a certain volume is high or low, how important a certain purchase is, etc. A product or a supplier may get the same label, "strategic" for example, regardless of which portfolio is used, even if the definitions for the labels are different. It would be essential to define the situations and rules for the use of portfolios when they are applied as management tools.

A major difference exists in the classifications: they are based either on products (Henderson, 1970; Kraljic, 1983; Olsen and Ellram, 1997, p. 105; Kapoor and Gupta, 1997; Handfield et al., 2000) or CSR characteristics (Campbell, 1985, 1988; Krapfel et al., 1991; Olsen and Ellram, 1997, p. 107; Matikainen, 1998; Bensaou, 1999; Donaldson and O'Toole, 2000). Dubois and Pedersen (2002) state that product perspective is too narrow for analyzing CSRs. They also mention that analyzing CSRs separately from the network of such relationships is misleading. Latest development in purchasing has taken place through the application of portfolio-like classification tools in CSR management. Major problems in this development are that the measurement of the dimensions in portfolios is not universal but rather particular, the purposes for using portfolios are different, and no single portfolio can describe the many sides of a CSR in network context.

2.2. Cost management in CSRs

According to Munday (1992a) and McIvor (2000) cost management and cost accounting could have a strong effect on CSRs in supporting the development of relationships. As Kakabadse and Kakabadse (2000, p. 673) understand purchasing: "*whatever the reason for strategic sourcing, a prime purpose still remains, reduction of costs*". In literature, costs have been analyzed from the perspectives of cost analysis techniques (Ellram, 1996; Axelsson et al., 2002), cost reductions (Munday, 1992b; Carr and Ng, 1995; Cooper and Slagmulder, 1997 and 1999b), and interorganizational cost information use (Munday, 1992a; Berry et al., 1997; Cooper and Slagmulder, 1998; Spina and Zotteri, 2000; Dekker and van Goor, 2000; Cokins, 2001; Mouritsen et al., 2001). The car industry has been a pioneer in applying modern cost management techniques interorganizationally, and the cost savings gained have been outstanding (Tanaka, 1993; Carr and Ng, 1995; Dyer, 1996; Cooper and Slagmulder, 1999a).

The importance of interorganizational cost management development is underlined by several recent studies (Cooper and Slagmulder, 1999b; Spina and Zotteri, 2000, p. 1174; Handfield et al., 2000, p. 42; Cokins, 2001, p. 25; Tomkins, 2001, p. 163). However, "*literature offers little empirical evidence on the role of management accounting in such relationships and theory development is still at an early stage*" (Dekker and van Goor, 2000, pp. 44–45). Furthermore, the network approach to CSRs is almost forgotten in cost management (Hopwood, 1996; Kulmala et al., 2002).

One of the requirements for any CSR development is that information between the firms is shared (Munday, 1992a; Stuart et al., 1998; Tomkins, 2001). From the management point of view, information on activities and cost structures is important when analyzing and developing a firm's operations. Interorganizational information sharing should therefore include something about activities and costs. Cost management in which firms reveal part or all of their cost accounting system or cost information to business partners is called open-book accounting (Seal et al., 1999; Mouritsen et al., 2001; Kulmala, 2002). Shared cost information could be