

Formation and evolution of buyer–supplier relationships: Conceiving dynamism in actor composition of business networks

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Abstract

This study investigates the tenability of the position that business networks are relatively stable, based on long-lasting inter-firm relationships with limited substitutions of incumbent actors. This is done via a longitudinal analysis on the actor composition evolution with regard to the supplier networks around two car assembly plants. Based on the overall empirical findings, the study concludes that the phenomenon of supplier substitution may be a more widespread reality. Consequently, the article finishes with a series of business implications and recommendations on how to investigate and conceive this matter more thoroughly.

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1. Introduction

Although network theory is less wedded to stability than neoclassical economic theories are (Johanson & Mattson, 1991), network theorists perceive and conceive evolutions in actor composition of business networks as relatively stable, based on long-lasting inter-firm relationships (Forsgren, 1989; Forsgren, Hägg, Håkansson, Johanson, & Mattsson, 1995; Håkansson & Shehota, 1995; Johanson & Vahlne, 1990; Rugman & D’Cruz, 2000). Several scholars have conceptually questioned the viewpoint of assuming stability to be a basic structural feature of networks (Easton, Wilkinson, & Georgieva, 1997; Halinen, Salmi, & Havila, 1999). However, empirical proof of substantial turnover of actor involvement in business networks is scarce, with Hertz (1993) being an interesting exception to this rule.

In this paper, we want to explore the tenability of this *stability thesis*.

The empirical material for this explorative research comes from two “one buyer-multiple suppliers” networks operating in the automotive industry. The automotive industry can be considered as a relevant setting for the analysis of business

networks, as it is a prominent example of a sector where one encounters inter-firm networks on a large scale (Castells, 1996; Dyer, 1996; Fine & Whitney, 1996). Therefore, and also to put our own primary research into an adequate perspective, after a review of relevant conceptual literature on actor changes in business networks in general, we discuss empirical literature on composition logics in automotive business networks.

Afterwards, we present the methods and materials applied to the two automotive cases of buyer–supplier networks in question. With regard to both networks, we assess the supplier changes that occur over a period of ± 10 years, based on evolutions in the respective networks in terms of the subsequent suppliers that are responsible for the delivery of a sample of automotive components.

The applied assessment methods for exploring actor composition stability are both of a quantitative and qualitative nature. The choice for this triangulation of methods was made to be able to provide sufficient nuances to the outcomes of either kind of analytical tools.

The empirical findings demonstrate that one case indeed shows a rather high degree of instability, whereas the other one does less so. Based on the overall research findings, the article concludes that the phenomenon of supplier substitu-

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tion may be a more widespread empirical reality. Based on that outcome, the paper ends by highlighting a set of research and business implications.

2. Theorizing (in)stability in actor composition of business networks

Business networks can be viewed as inter-firm exchange relationships or as interactions between autonomous business units, whereby both parties recognize their mutual dependence and interest in each other's resources (Cunningham, 1980). Implicit in this characterization is the assumption that the involved parties are free to enter into, maintain or dissolve these relationships and networks. In this respect, the following statement is highly indicative. "..., although network relationships tend to be relatively stable and recurring; new network ties can also be formed. Over time these new ties can change old network patterns considerably" (Nohria, 1992, p. 7). As a consequence, networks are as much structure as process, being continually shaped and adapted by the actions of actors who are in turn constrained by their structural or evolving network positions. In a similar vein, McKiernan (1992, p. 106) argues that: "The network is in constant flux as suppliers, buyers and customers may enter and exit."

Network theorists also acknowledge that certain relationships – vital to the parties involved – may be disrupted, that their content may be changed or that the entire relationship may be traded in for another over time. In this light, Gadde and Mattsson (1987) found – through analyses of individual dyadic relationships and of "one buyer" – "several suppliers" relations – that apparently stable relationships are subject to clear changes in the long run. Also Hertz (1992) and Lundgren (1993) report on significant changes in industrial networks.

Such findings are conceptually underpinned by the fact that network theory offers space to reason that actor substitution and other drastic changes in business networks do occur. For instance, the often-used time perspective in network studies enables to view business-to-business (b2b) relationships from a dynamic angle. One can argue, therefore, that adaptations in inter-firm relationships can take place over time (Håkansson, 1987; Håkansson & Henders, 1995; Håkansson & Shehota, 1995; Mattsson & Hultén, 1994). Also, Laage-Hellman's (1997) position that actors are moved by the desire to improve their network position provides room for assuming that rival suppliers may try to oust each other.

Nevertheless, research findings suggest that change is mainly incremental with radical change being rare (Easton et al., 1997, p. 275). In general, the main stream of conceptual network theory argues that most b2b relationships tend to show a striking continuity. Also, substantial changes in a network structure are counteracted by the durability and stability of many of the network's business relationships (Hägg & Johansson, 1982). Moreover, the network approach

(Johanson & Mattson, 1991, 1993) postulates that the longevity of relationships and the specificity of each relationship, lead to a preference for business partners to use voice instead of exit (Helper, 1987; Hirschmann, 1970), and thus contribute to the durability of b2b relationships. Consequently, business networks are characterized by a relative stability (Forsgren, 1989; Forsgren et al., 1995; Håkansson & Shehota, 1995; Johanson & Vahlne, 1990).

The claim for longevity and even dedicated b2b relationships is also the leading thought in another conceptual framework for understanding the functioning of business networks, i.e. the Flagship/Five Partners model of Rugman (1999) and Rugman and D'Cruz (2000).

All in all, it seems that conceptual network theories view *actors in networks to a large extent as a fixed group of pieces on a chessboard that can change their positions and their mutual strategies, but where few or no new chess pieces enter the game*. Therefore, it considers above all the evolutionary character of existing relationships.

The former suggests that competitive processes between rival buyers and suppliers are underestimated (Montgomery, 1995). A similar message comes from Easton et al. (1997) and from Halinen et al. (1999). They advocate for more attention to changes of relationships, including the substitution of relationships or partners. Also from literature on embeddedness it can be reasoned that firms may consciously choose to substitute business partners. From Grabher's (1993, p. 24) and Uzzi's (1997) observation that firms risk "lock-in" if they become too embedded in their alliances with other firms, it follows that entrepreneurial instincts and inter-firm competition also make firms consider partner substitutions in order to regulate lock-in effects of, over-embeddedness in and path dependencies on long-standing relations.

Moreover, organizational learning theories (Levitt & March, 1988; Nooteboom, 2002) lead us to think that, whilst companies gather experience and knowledge regarding inter-firm collaborations as such, they may become less "aversive" to enter into wholly new relationships. Thus, it can be argued that also a firm's accumulation of b2b experience can urge firms to consider changing network partners from time to time.

Finally, it seems relevant not to disregard the fact that buyer firms in networks aim at sustained competitiveness for the network as a whole (Rugman and D'Cruz, 2000; Rutherford, 2000). It is this aim that may induce them also to reconsider the ongoing participation of suppliers in the network they manage.

3. Empirical lessons in actor composition from automotive business networks

Lagendijk (1994) observes that, in spite of efforts to unlock this situation, the European automobile industry is still dominated by a small number of national champions with their own nationally focused supply chains.

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