



Reconfiguring supplier relationships between local and global: History matters

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ABSTRACT

Small and medium-sized companies are increasingly facing international markets as part of their processes of growth and development. A great deal of literature deals with different patterns of growth and international development that are specific to SMEs with respect to large companies. Fewer studies have been conducted on the reconfiguration of company supplier relationships involved in these processes. This paper focuses on the role played by the consolidated set of company supplier relationships when the firm faces some critical stages in its process of development, i.e., growth from small to mid-sized and the implementation of new ventures abroad accessing new business relationships with international suppliers. A multiple and longitudinal case study shows how the local set of supplier relationships of four mid-sized Italian mechanical companies acting in industrial districts has played an important role in shaping the emerging set of supplier relationships and addressing companies' actions in their growth and internationalization processes.

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1. Introduction

This article deals with the purchasing behaviour and the structure and dynamics of the upstream supply networks of small and medium-sized industrial firms in Italy. In particular, it discusses the changes occurring in a company's supply side as the company implements strategies of growth and international development.

Small and mid-sized companies are increasingly facing international markets, implementing new commercial strategies and experiencing new production strategies, de-localizing production processes and developing international supplier's chain relationships that can contribute to the reduction of production costs and to the improvement of product differentiation and innovation (Zahra, 2003; Bradley, Meyer, & Gao, 2006; Camuffo et al., 2006; Knudsen & Servais, 2007; Susman, 2007; Jansson & Sandberg, 2008).

Small and mid-sized companies are of course not new to coping with numerous and varied supplier relationships. This is particularly evident in the case of Italian small and mid sized companies. For these companies, consolidated sets of supplier relationships have always played a very important role in their competitiveness (Lorenzoni & Baden-Fuller, 1995). SMEs have always relied on numerous business exchange relationships with different market actors – suppliers in particular, and especially those located close by (Lorenzoni & Lipparini, 1999). As many studies have illustrated, spatial proximity between the company and its suppliers has produced great advantages for many companies, especially those operating in industrial districts, by enhancing their growth and innovation (Furlan, Grandinetti, & Camuffo, 2007).

Both scholars and companies question how long the division of labour among SMEs and their physical closeness can continue to be advantageous for companies acting in industrial districts (Humphrey & Schmitz, 2002; Steinle & Schiele, 2008). These were certainly advantages in the past, when low costs and product quality were the main sources of differential advantage for many Italian companies because of their flexible specialization. Studies showed that these traditional advantages are dwindling nowadays because of increasing competition from the emerging countries. This competition is characterized by lower costs of labour and increasing rates of product imitation. In this situation, many Italian small and mid-sized companies are growing internationally adopting new business models open to a set of varies business relationships and characterized by a continuous mismatching between local and global supplier relationships.

Our research questions therefore concern the following points:

- What are the main constraints and opportunities generated by the local set of supplier relationships in relation to a company's development and internationalization processes?
- Which are the main variables that can influence a company's decisions regarding the internationalization of its supplier relationships?
- Can we define a sort of linear development of supplier relationships in connection to company growth and international development?

Our analysis shows that a company's long-term set of relationships with local suppliers acts both as a resource and as a burden (constraint) when the company develops new ventures abroad and new business relationships with international suppliers are formed.

The paper develops a longitudinal analysis, from the 1990's to today, of four mid-sized Italian companies operating in industrial districts in the mechanical industry and debates some possible future scenarios for these

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companies. The paper is organized as follows: the theoretical background supporting the empirical analysis is explained in [Section 2](#) followed by an explanation of research methodology ([Section 3](#)). The empirical analysis is divided into two parts. In the first part, the processes of growth and development that have characterized the four companies are explained and interpreted according to a unitary key of reading. The second part focuses on the different combination of the firms' local and global sourcing strategies in relation to the ways each company has made use of and has been influenced by local relationships – either as opportunities or constraints – in the implementation of its own strategy ([Section 4](#)). [Section 5](#) summarizes an interpretative analysis of the dynamics affecting a company supply network. Final reflections and future research directions are reported in the conclusions.

2. Theoretical background

2.1. Industrial districts and the firm between local and global

The relevance of industry specialization within local contexts and the importance of the interconnections among different and complementary economic activities as well as the social ties within the same “industrial atmosphere” have been object of many studies ([Becattini, 1990](#); [Porter, 1990](#); [Piore & Sabel, 1984](#)).

While a certain number of scholars has focused on the characteristics and the dynamics affecting districts (as well as clusters) on the whole ([Porter, 1998](#); [Becattini, 2003](#); [Belussi, 2006](#)), a part of literature has looked at the single company acting within the district ([Varaldo & Ferrucci, 1996](#); [Boari & Lipparini, 1999](#); [Lazerson & Lorenzoni, 1999](#)). These scholars have favoured analysis of the strategic behaviour of the single firm, especially when the firm in question began to act as a “leader” in specific geographical contexts, becoming both guide and point of reference for many other smaller and interconnected companies.

These leading companies were, in most cases, small entrepreneurial companies that have been able to set up innovative business models through effective and efficient investments and innovation that lead them to a successful positioning in the international market. Many studies show how these mid-sized companies contribute a large part of the value added generated in the Italian economy, have high profit margins and register higher than average growth rates in their sectors ([Mediobanca-Unioncamere, 2008](#)). From these data, some scholars suggest that they are a pillar of Italian industry ([Fortis, 2004](#); [Colli, 2005](#)).

Today, these mid-sized international companies play a critical role for the future of many smaller companies and local business contexts. They can be primary sources of business for many companies, especially if they manage to develop internationally and broaden their market share and the variety of their customers. These expanding mid-sized companies, however, can also seriously compromise the business and the survival of smaller interconnected companies, especially when they open their business models to global value chains ([Chiarvesio & Micelli, 2007](#)).

In the new competitive environment, continuous innovation and marketing capabilities accompany high product quality as main sources of comparative advantage, demanding the best suppliers from all over the world. Moreover, cost advantages can be more easily obtained by accessing new suppliers in countries where the cost of labour is much lower than in Italy. All this forces many companies to question how long to continue relations with local suppliers in general and, more specifically, to which ones.

Companies constantly face the problem of renewing their supplier relationships. They also face, however, the problem of preserving as much as possible the value of the existing set of business supplier relationships.

2.2. Change and stability in supplier networks

It is well known and widely studied that a company acting in business-to-business markets does not have total and final control over all the processes creating value for customers: they operate in different

supply networks ([Cox & Hines, 1997](#); [Gadde & Håkansson, 2001](#); [Huemer, 2002](#); [Christopher, 2005](#)). Any company depends on a set of differentiated relationships with suppliers and other market actors to create and deliver value to final customers ([Cox & Lamming, 1997](#); [Monczka & Morgan, 1997](#); [Walters & Lancaster, 1999, 2000](#); [Ford et al., 2003](#)).

Much has been written on supplier relationships, according to different perspectives and goals. The literature has focused on the increase of outsourcing strategic activities and professional services, the rationalization of the supply base, the shift from adversarial to partnership relationships, the growing technological integration and strategic integration with selected suppliers, the search for world class suppliers, and the increasing development of international supply chain relationships ([Hines, 1994](#); [Trent & Monczka, 1999](#); [Hines et al., 2000](#)).

Particularly relevant for our research, are the *changes* affecting supplier relationships and a company's network of suppliers. In this respect, the literature on business markets shows how business relationships between two actors – customer and supplier – are characterized by an intrinsic dynamism due to the two companies' action, re-action, interaction as well as by changes due to the influence of the interconnections with other actors and relationships in the market ([Håkansson & Snehota, 1995](#); [Håkansson & Ford, 2002](#)).

On the supply side of a company, there is a restricted number of suppliers that make up a company's supply base and play a more important role in the companies' business than others ([Gadde & Håkansson, 2001](#); [Axelsson, Rozemeijer, & Wynstra, 2005](#)). The company's relationships with these suppliers are specific in their content, durability, power-dependence relationships, mutual adaptation and mutual orientation, degree of integration and so on. Each supplier relationship therefore has its own specific history, influencing and being influenced by dynamics affecting the other supplier relationships as well as other business relationships in the market. In this respect, the literature increasingly deals with the company's supplier relationships in terms of network of suppliers as well as underlining the tight interconnection between customer relationships and supplier relationships – requiring a joint study of marketing and supply chain management ([Christopher & Payne, 2002](#); [Martin & Grbac, 2003](#); [Jüttner, Christopher, & Baker, 2007](#)).

Further investigation into the changes in supplier relationships and supply network dynamics reveals that they can ultimately be connected to:

- company actions: the company formulates strategies that impact directly or indirectly on its relationships with suppliers;
- relationship interaction: each supplier relationship evolves according to its own characteristics due to the specific dyadic context in which the purchasing company and the supplier are involved in, in terms of length, reciprocal investments, power-dependence relations, resources interdependence, activities carried out;
- the interconnectedness and the interdependency of the different supplier relationships. Each company's supplier relationship is embedded in a significant number of other supplier relationships in terms of shared resources and interconnected activities. Each relationship thus evolves according to the changes occurring in each one of those “third party” relationships.

In summary, continuous change affects the supply side of the company. It is also characterized, however, by relative stability, due to the numerous sets of interconnections among the actors involved that generate both value and constraints. As value generators, in the long run relationships are maintained by the companies involved, at least in so far as they can benefit from them. As burdens, business relationships are difficult to dismantle and abandon because of interdependencies and specific investments, at least in the short and medium time perspective ([Håkansson & Snehota, 1995](#); [Ford et al., 2003](#)). All this generates a

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