



Market-driving strategy implementation through global supplier relationships

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ABSTRACT

The global supplier network is becoming an increasingly important asset for many firms. If successfully managed, supplier relationships may support the firm's strategic orientation and become a sustainable advantage on the global market. A key question is thus how the firm can develop and maintain such relationships. The market-driving strategy has recently been advanced as a more pro-active type of market orientation that aims to reconfigure the supply chain, change the nature of competition and the values of the customers. We especially investigate how market-driving firms can develop their supplier relationships so that they actively support this strategy. We present a set of propositions that specify factors critical for the development of the market-driving firm's supplier relationships and develop a theoretical framework that specifies how these different factors interact in order to strengthen the market-driving orientation of a supplier relationship. The results are generated from an in-depth case study of IKEA's corporate supplier strategy and of supplier relationships in the Russian and Polish markets.

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1. Introduction

The firm's global supplier network is playing an increasingly important part in generating sustainable competitive advantages and as a support for the market positioning (Pagano, 2009; Trent & Monczka, 2003; Wu, Steward, & Hartley, 2010). Product quality, innovativeness, reputation and brand image often depend on the reliability and commitment of the firm's supplier base. Consequently, suppliers should be made more aware of and supportive to the market strategy and the specific values that the focal firm attempts to offer to customers. A key question is thus how the firm can develop and maintain this kind of supplier relationship. While there may be some general factors, it is reasonable to assume that this will also depend on the type of market strategy and positioning the firm aims for.

Market orientation has become a fundamental question in business. It was originally anchored to the broader theme of the marketing concept (Kohli & Jaworski, 1990; Narver & Slater, 1990; Webster, 1988). A market oriented firm is one that is driven by downstream players, typically offering incremental adaptations and rarely any innovative or radically new products (Christensen & Bower, 1996; Narver, Slater, & MacLachlan, 2004). In order to develop a long term sustainable competitive position, a market-driving orientation has been touted as a promising alternative (Carrillat, Jaramillo, &

Locander, 2004; Ghauri, Tarnovskaya, & Elg, 2008; Harris & Cai, 2002; Hills & Sarin, 2003; Jaworski, Kohli, & Sahay, 2000; Kumar, Scheer, & Kotler, 2000; Schindehutte, Morris, & Kocak, 2008). It suggests that firms can proactively address the market conditions, based upon an ability to develop unique internal business processes, shape the market structure, lead and influence customers, and offer completely new value propositions.

The way that the market-driving strategy is characterized in the literature highlights external business relationships. Jaworski et al. (2000) and Harris and Cai (2002) explicitly discuss supply chain reconfiguration and the relationships with suppliers. It is argued that the transformation rests on “de-integration” of the current value chain so that the relationships to different types of actors providing critical resources can be either “modified” or reconfigured for a unique strategic orientation (Jaworski et al., 2000). Such a proactive approach, aimed at strongly influencing the structure of the supply chain in order to generate value for downstream relationships, can be achieved by means of establishing effective network structures (Ghauri, Hadjikhani, & Johanson, 2005; Håkansson & Snehota, 1995). However, while earlier studies thus suggest that the market-driving strategy requires support from suppliers, we know less about how this can be achieved. Tuominen, Rajala, and Möller (2004) show how a firm's business relationships and market orientation activities are linked more generally. Considering that the market-driving strategy aims at restructuring the environment and influencing the minds of market players, gaining the support from suppliers may be quite a demanding and complex task. Even though the supply chain management (SCM) function has been increasingly stressed as

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strategically important for global firms, there is a need for an additional understanding of how a focal firm can interact with individual suppliers in achieving this (Andersen & Christensen, 2005; Fernie, Sparks, & McKinnon, 2010).

We aim to identify critical factors that explain how market-driving firms can develop their global supplier relationships in order for them to become a support for this strategy. We position our work primarily within the industrial network literature (Axelsson & Easton, 1992; Ford & Mouzas, 2010; Ghauri et al., 2005; Håkansson & Snehota, 1995). While anchored in a network perspective, however, our main focus is thus on the individual relationship level and on how it can be proactively managed in order to become a part of the firm's global market-driving supplier network. One contribution will thus be that we present a set of propositions that specify factors expected to be critical for the development of the market-driving firm's supplier relationships. These propositions can be a basis for further empirical work and hypothesis testing. Additionally, we develop a theoretical framework that specifies how these different factors interact in order to strengthen the market-driving orientation of the supplier relationships. By this approach, we also extend the concept of a market-driving strategy from a single focal firm to the relationship between the firm and its suppliers, thereby broadening the research domain in which the strategy has been examined. From a managerial point of view, our research will provide insights into how specific practices related to the management of global supplier relationships can support a market-driving strategy.

Based on the network perspective, the proposed framework is grounded on a three-tier model – the actors, activities, and resources – well established and developed through earlier research (Anderson, Håkansson, & Johanson, 1994; Elg, Ghauri, & Tarnovskaya, 2008; Håkansson & Johanson, 1992). We show how these dimensions all contribute to a market-driving orientation within supplier relationships. The model and the critical factors are based on a qualitative, in-depth study of IKEA that includes the firm's overall supplier strategy as well as activities in the Polish and Russian markets and particular investigation of five supplier relationships.

2. Theoretical background

Our theoretical approach draws upon several areas in order to create a relevant pre-understanding of the studied phenomenon. Below, we first discuss earlier studies on market driving firms, and especially focus upon the supportive role of external relationships implied here. Thereafter, we explain how this study is related to more general literature on network relationships and the firm's internationalization. Finally, we discuss relevant insights from previous research on the development of global supply chains and the implications from the perspective of a focal firm.

2.1. The market driving strategy and the role of relationships

The market-driving approach refers to a proactive strategic posture (Narver et al., 2004; Schindehutte et al., 2008), which aligns upper stream with downstream needs so that a new value proposition emerges (Harris & Cai, 2002; Jaworski et al., 2000; Kumar et al., 2000). As such, it views market orientation more broadly, and also includes meeting latent needs and creating new ones. It draws from the firm's internal as well as external activities and is a strategic posture that redefines the rules of the business so that a new set of appropriate benefits emerge. Kumar et al. (2000) discuss how successful market-driving firms develop a unique internal business system that offers customers better value in, say, new price points or a superior service level. Jaworski et al. (2000) posit that a market-driving company can reshape the industry value chain through the elimination (deconstruction or, addition of players (construction), or by changing the players' functions (re-construction). Such a strategic

orientation involves modifying incentives in transforming the behavior and preferences of key actors such as customers, supply chain, or competitors. Tuominen et al. (2004) and Crespín-Mazet and Ghauri (2007) further adjure that a market-driving approach requires collaborative learning and close partnership with important customers, suppliers and other business actors.

Authors point at different dimensions in the market-driving approach but the key features are, nevertheless, similar. For example, a firm is expected to educate and lead the consumer and supplier, and change the conditions for the competitors within the industry. Ghauri et al. (2008) also stress that a market-driving firm's ability to develop unique alliances and relationships with suppliers leverages performance. Kumar et al. (2000) argue that market-driving firms have introduced innovative distribution and channel management practices in their industries. In one related example of De Beers in China, Harris and Cai (2002) demonstrate that strong vertical relationships are important in implementing market-driving strategies. They find that reliable, cooperative relationships with retailers and suppliers are a key element in De Beers' success. Jaworski et al. (2000) argue at length that market-driven and market-driving orientations are complementary but not interchangeable choices. This characterization is partly accurate since both orientations have overlapping elements. However, considering the detailed content, implementation, and outcomes, these two are different strategic orientations (Narver et al., 2004; Schindehutte et al., 2008). In fact, in the investment community, market-driving and market-driven firms are referred to by practitioners as 'rule breakers' and 'followers'.

A basic dissimilarity is that a traditional market orientation approach is based upon the notion that the environment is given and that the firm has to adapt to existing conditions, whereas the market-driving strategy is based upon the assumption that environmental conditions can be changed in favor of the firm. Furthermore, the market-driving strategy has a broader focus in terms of the different external stakeholders that need to be considered. Firms can also be market-driving from their inception, or they may develop from a market-driven to a market-driving firm as they grow in size and power. For example, IKEA can be regarded as being market-driving from the start, due to the fact that the original business idea was completely different from that of other furniture retailers. The same can be said for technology born globals that base their strategy on an innovation that offers completely new solutions to customers worldwide (Hills & Sarin, 2003). On the other hand, a firm may change strategic orientation due to new opportunities. As exemplified by Jaworski et al. (2000), the traditional book retailer Barnes and Noble adopted an aggressive web strategy in order to find new customers and offer new values, with implications for the whole value chain structure. Our ambition is thus to increase the understanding of how a firm may incorporate supplier relationships as an active support of the market-driving strategy. We view the market-driving strategy as contributing to a firm's competitiveness as it internationalizes.

2.2. Internationalization through network relationships

Earlier research shows that the internationalization process can be explained using a network perspective (Chetty & Blankenburg Holm, 2000; Fletcher, 2008; Ghauri & Prasad, 1995; Johanson & Mattson, 1988). The approach professes that all unique resources cannot be accumulated in one single organization and highlights firms' interdependency with mostly business actors but also social actors in the environment (Hadjikhani, Lee, & Ghauri, 2008).

Nohria and Eccles (1992) view the network organization as a way of avoiding hierarchical structures or depending on pure market transactions, while increasing flexibility and the firm's access to knowledge. Larsson, Brousseau, Driver, Homqvist, and Tarnovskaya (2003) especially describe how IKEA has been able to develop a

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