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The conceptual locus and functionality of key supplier management: A multi-dyadic qualitative study

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ABSTRACT

In response to a growing interest in key supplier management (KSM) among business practitioners and academics, this study aims to identify the conceptual locus and the functionality of KSM with reference to the components of a business relationship. A multi-dyadic case study was carried out focusing on KSM in relationships between a multinational electricity-distribution company and its nine key suppliers. The KSM system turned out to be a component of the technical setting of the relationship structuring the interaction, but also more widely guided the joint developmental means for improving value creation. It acts as a channel through which the buyer's and the supplier's goals are implemented in building an infrastructure for effective performance within and outside the key supplier relationship. Further qualitative research would enhance understanding of KSM in its organizational and inter-organizational contexts in terms of defining constructs and their interrelations to be tested in quantitative research.

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1. Introduction

The notion of "key supplier management" (KSM) seldom appears in the literature (see e.g., Pardo, Missirilian, Portier, & Salle, 2011), although the management of suppliers and supplier relationships has been in focus in different subject areas. KSM could be considered part of supply chain management (SCM), which nowadays is an umbrella concept embracing various broad streams of research (Hunt & Davis, 2008; Sheth, Sharma, & Iyer, 2009) dealing with the optimization of the combined efforts of many upstream and downstream organizations, and of organizational functions and processes (Christopher, 1998; Mentzer, Stank, & Esper, 2008; Stock, Boyer, & Harmon, 2010). In a narrow sense SCM could refer to the buyer's purchasing activities, and more broadly to the whole chain of actors converting natural raw materials into value for end users (see Harland, 1996; New, 1997; Tan, 2001). There have been tremendous changes in the business landscape since the advent of SCM, and recent decades have imposed new demands on the concept both as a *business practice* and as an *academic discipline*. The managerial focus on core competences (see Prahalad & Hamel, 1990) has increased the need for companies to source complementary activities from outside their borders, and has made the supply side increasingly important (Reitzig & Wagner, 2010). Along with this development, purchasing has evolved from a *clerical function* to a *strategic orientation* in *supplier relationship management* (SRM) (Axelsson & Wynstra, 2002; Cousins & Spekman, 2003; Gadde & Håkansson, 1994; Kraljic, 1983).

The current literature refers to SRM as the setting up, development, stabilization and dissolution of relationships with in-suppliers, as well as the monitoring of out-suppliers, all with a view to creating and enhancing value (see Moeller, Fassnacht, & Klose, 2006). SRM builds on the idea that suppliers vary in importance to the buyer. Some of them are key suppliers with whom to integrate and adapt activities, build and maintain complementary competences, and deepen the relationship in the direction of truly collaborative value co-creation (see Ivens, Pardo, Salle, & Cova, 2009; Vargo & Lusch, 2004). Bulk suppliers constitute another category, the interaction and relationships being kept more distant in order to create and maintain optimum rivalry among them and keep up the pressure (see Dyer, Cho, & Chu, 1998; Gadde & Snehota, 2000).

Despite the strong strategic orientation inherent in SRM, previous research has almost exclusively treated it as a mirror image of customer relationship management (CRM) (Sheth et al., 2009). The vast numbers of studies on buyer–seller relationships do not specifically take the management of suppliers into account. SRM-specific studies are scattered and focus mainly on the operational issues of time, cost, quality, and the measurement of supplier performance, and on the technical tools that facilitate interaction between buyers and suppliers (e.g., Axelsson & Wynstra, 2002; Gadde & Snehota, 2000; Ryals & Humphries, 2007). The research thus far does not facilitate the understanding and conceptualization of SRM as intentional behavior or managerial activity (see Moeller et al., 2006). Much of the literature presents static purchasing portfolios classifying purchases and suppliers (see Gelderman & van Weele, 2002; Kraljic, 1983; Olsen & Ellram, 1997; Persson & Håkansson, 2007), but the comprehensive perspective is missing in terms of investigating SRM as an aspect of organizational behavior and value creation that strongly

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affects organizational performance (see Emberson & Storey, 2006; Pardo et al., 2011). Nor does the current literature shed any light on issues such as how to manage supplier relationships over time, or how to balance a short-term price-decreasing attitude through arms-length relationships with an orientation to build collaborative partnerships that fully involve suppliers in product development and design, and make full use of their skills, expertise and capabilities (Cousins & Spekman, 2003). This deficit in the comprehensive, strategic-level understanding of SRM inhibits companies from appropriately managing and unlocking the potential residing in suppliers as part of their business.

Two premium journals have recently targeted the above-mentioned gap in the literature. In 2009 Industrial Marketing Management published a special issue on "Organizing and Integrating Marketing and Purchasing in Business Markets" (see Ivens, Pardo, & Tunisini, 2009), and similarly in 2010 the Journal of the Academy of Marketing Science published a special issue "exploring the relationship between marketing and supply chain management" (Mentzer & Gundlach, 2010). Both of these special issues are devoted to supply-side-related strategic issues and activities. The implication is that the management focus in this area is moving from the buyer–supplier interface towards strategic supply–demand networks of interrelated relationships.

Thus, in response to recent developments in business practice and academic research, this study focuses on key supplier management (KSM), which is a specific area of supply and supplier-relationship management. The aim is to illustrate, by means of an empirical case study, the challenging nature of the KSM phenomenon emanating from the various components of contextually embedded business relationships, and thus to reveal its conceptual locus and functionality. We use the term *KSM system* in the empirical study to refer to all the defined activities and procedures that are intentionally used as techniques for managing the content and context of value creation within the key supplier relationship (cf. Pardo et al., 2011) between the case companies — the European Electricity Distribution Company (EEDC) and its nine key suppliers. The KSM system thus represents an empirical account of the KSM phenomenon.

In setting out the theoretical background below we build up a theoretical framework based on the interaction and network approach as applied to the KSM context. The interaction and network approach provides a system-level account of the dynamics among various interlinked actors, and facilitates understanding of the structural and processual elements of the relationships as well as of the behavior of single actors within the relationships and networks (see e.g., Anderson, Håkansson, & Johanson, 1994; Håkansson & Snehota, 1995). The approach thus supports the construction of a framework for the empirical study of KSM in terms of identifying the conceptual locus and revealing the key functionality aspects. The framework, building on the conceptually well-established interaction and network approach, describes the conceptual landscape of KSM in a relatively simple but nonetheless comprehensive manner, thus facilitating the combination of theory-driven deductive and data-driven inductive analysis. The third section describes the methodological underpinnings of the study, and the pathway from the theory via empirical implementation to the results. The fourth section presents the empirical case and its results. The conclusion and managerial implications are discussed in the final section.

2. Theoretical background

2.1. The interaction and network approach as the theoretical backbone of the study

The interaction and network approach builds on the interaction between buyer and seller (see Campbell, 1985; Håkansson, 1982; Håkansson et al., 2009). This interaction comprises the flow of mutual acts that are frequent or infrequent, regular or irregular, explicit or implicit, conscious or unconscious, but as a result constitute a relationship between two reciprocally committed organizations (Ford, Håkansson, & Johansson, 1986; Håkansson & Snehota, 1995). Thus, each delivery of a product, price negotiation or business meeting is part of this flow constituting the relationship and taking place within it. Hence, the exchange between buyer and seller is a relational exchange involving continual interaction between the organizations in a relationship, rather than discrete transactional exchanges of specified content and duration governed by market forces (Möller, 1994).

These interlinked dyadic relationships form networks. Networks are temporally and socially embedded structures that mediate the influence of the activities of different actors, both directly and indirectly, on other network actors, and simultaneously emerge and re-form with the passage of time as a result of these activities (Anderson et al., 1994; Easton, 1992). In this sense within the interaction and network approach the environment is not perceived as a faceless or deterministic context: the actors are in interaction with identifiable counterparts, and managers perceive and interpret the environmental structures, learn about them and may have the ability to influence and manipulate them through their actions (Anderson et al., 1994; Möller, 1994). The conceptual framework of the study presented below builds on the interaction and network approach. It defines the conceptual elements of a key supplier relationship that reflect the KSM phenomenon in the empirical study.

2.2. Towards a conceptual framework

KSM refers to the actions and the structures and processes that are present in interaction between the buyer and the key supplier (cf. Pardo et al., 2011). In terms of the conceptual landscape comprising the KSM phenomenon, the elements of the framework (Fig. 1) include customer and supplier organizations, their goals, value-creation processes and value nets, the networks and macro-environmental forces that form the wider context for the actors and their business, and the focal key supplier relationship and its outcomes.

The model depicted in Fig. 1 builds on the fundamental cycle between an organization and its environment (see Thompson, 1967). Organizations are assumed to comprise complementary resources, competences and capabilities that form the basis of inter-organizational business exchange/value creation. Both the buyer and the supplier are engaged in continuous business exchange with various actors that comprise their *value nets*, which in turn belong to wide, far-reaching *business networks surrounded by macro-environmental forces* (see Håkansson et al., 2009). The key supplier relationship links the customer's and the supplier's value-creation processes in the focal service production, and in this context integrates the whole set of the supplier's suppliers and the customer's customers into a network (Easton, 1992; Håkansson & Ford, 2002). Thus the buyer's and the supplier's value nets overlap and the boundary between them in the context of the service production taking place in the mutual KSM relationship becomes blurred. However, both the buyer and the supplier have other relationships and value-creation processes that do not concern the mutual KSM relationship. The supplier may have other customers and the buyer other suppliers (see Persson & Håkansson, 2007). For analytical purposes the model distinguishes between the supplier's and the buyer's value nets, and separates the value creation taking place within the dyadic relationship (the dotted arrows flowing through the key supplier relationship) from that taking place within other actor relationships (the circular flow of arrows between the buyer/supplier organization and value nets.

The model splits the key supplier relationship into structural elements (the *technical and the social setting*) and interaction elements (*business exchange*, *adaptation*, and *coordination*). The social setting refers to the emotional-cognitive structures affected by history, as well as expectations of the relationship with regard to atmosphere, trust, and commitment (Håkansson & Ford, 2002; Halinen, 1997). The technical setting, in turn, includes activity links and resource ties (Håkansson & Snehota, 1995), which may be technological (information systems), procedural (pre-determined communication practices) or legal (contracts)

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