



Developing strategic supplier networks: An institutional perspective

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ABSTRACT

This study examines the exposure of the members of supplier networks to two layers of social influences. First, as the network connects an actor to a foreign constellation, the actor faces influences of a global character. Second, each individual actor experiences different forces emanating from its indigenous institutional environment. The exposure to two institutional practices presents a conundrum for each network member. In this duality they alter their behavior in order to resolve the contrast and clashes of layered forces. By drawing upon institutional theory and in-depth study of a global retailer, IKEA, this study shows how the retailer handles this duality. The study increases understanding of how a supplier network can be socially transformed into an idiosyncratic asset which is costly to imitate for rivals and thus offers a unique competitive advantage to the firm. The framing which is used for IKEA's strategy under institutional theory in this article underscores the regulative, cognitive, and normative socialization as part of a company's strategic process to align relationships with its partners.

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1. Introduction

Many studies stress the role of inter-firm relationships and sourcing networks in global competition (Andersen & Christensen, 2005; Buckley & Ghauri, 2004). With the increased importance of an international supplier base, global suppliers play a critical role in the internal institutional system (indigenous system) embedded in a foreign one (international system). Such a role requires special relationships that are based upon commitment and in-depth understanding of the duality in practice. In this respect, legal requirements and the economic environment influence the nature of relationships in the local setting, parallel to the consideration of actors and forces in the international setting (Dacin, Kostova, & Roth, 2008).

This study focuses on how a global supply chain can manage these multi-tier forces to institute a balance by using social transformation as a strategic lever. The balance is particularly curious given the conclusion by Garud, Jain, and Kumaraswamy (2002, p. 210) that institutionalization is "messy, manipulative, instrumental, conscious, and devious." In this article, the institutional perspective is deliberately chosen and further developed to allow us to analyze the mechanisms and forces that shape the mutual understanding and commitment to relationships for all members in the IKEA's network.

At the global scale, a supply chain network connects a player to foreign constellations outside of its indigenous institutional environment. The exposure to two institutional contexts – familiar and

unfamiliar – presents a compliance challenge for each network member (Spekman, Isabella, & MacAvoy, 2000). Each actor in the network operates with other's rules, while subjected to rules of its own. The duality of expediency to two sets of requirements creates power struggles and clashes of accepted practices (Brito, 2001) and often strains the relationship in a network. At the face of this complexity, the key question is how a firm aligns its global supplier network in an integrated and consistent strategy. By focusing on social adaptation as a unique competitive asset, this study examines how such transformation can be proactively built and maintained on an institutional infrastructure while the company marshals its suppliers in a particular direction. IKEA provides a rigorous working laboratory to this end as an integrated home products company which sells flat pack furniture and accessories around the world (e.g., Baraldi, 2008; Baraldi & Waluszewski, 2007; Torekull, 1996).

Previous research on distribution channels (Coughlan, El-Ansary, Anderson, & Stern, 2006; Frazier, 1999; Gaski, 1984; Pelton, Stratton, & Lupkin, 1997) and the network perspective (Ford, 1998; Hadjikhani, Lee, & Ghauri, 2008) discuss the operational performance of inter-firm relationships regarding norms, power and social exchange. Furthermore, Barney (1986) discusses how a firm creates a competitive advantage through control of its strategic factor markets. However, lacking in this stream of research are investigations of structure and processes where norms and values come to fruition to actively support a company's strategy for bridging the social and cultural inconsistencies. An institutional approach can serve this purpose by offering a framework that an integrated supply chain balances various institutional forces and turns them into a powerful asset to sustain competitive advantage, which is difficult for rivals to imitate (Oliver, 1997).

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The present study contributes to existing literature by applying a unique perspective in explaining how supplier relationships can support a firm's global strategy. With the institutional approach, this study fills the gap in earlier works that emphasize the functional and operational aspects and thereby downplay the role of supplier constellation in institutional compatibility. Specifically, scholars tend to emphasize supplier relationship under purchasing strategies and not under competitive strategies (Crespin-Mazet & Ghauri, 2007). With the exclusion of the strategic perspective, the institutional forces often vanish or at best become stylized to a simple problem of control in operational context. Instead, this study presents a model where the supplier network engages in both development and sustainability of competitive strategy under challenges that are beyond the operational level. The operational control structures address efficiency issues but as Grewal and Dharwadkar (2002) state they miss the significance of socio-political processes, conflicts and commitments in influencing partner attitudes. Especially worthy of note is that these authors underscore the incomplete examination in alternative streams of research, where the analysis is typically limited to a relational economy with decision-analytic focus. In contrast, our investigation, by bringing a social developmental view, frames IKEA's strategy and market positioning as not only an economic issue, but also a social orientation with long term commitments.

This study shows how supplier relationships develop in order to provide a sustainable strategic advantage. The discussion here identifies a set of critical factors that explain this process and present a theoretical framework (Greenwood & Hinings, 1996; Kraatz & Zajac, 1996; Scott, 2001). In addition to an in-depth study of IKEA and its supplier relationships with selected companies in Poland and Russia, our presentation, utilizing IKEA, looks into a hub-and-spoke framework of relationships where two organizational fields – domestic and international – are coordinated at the hub (IKEA's headquarters). IKEA is an appropriate firm to study as it is widely considered a successful global benchmark with its unique integration and successful adaptation of its internal market to external players over the firm's unique business system (Elg, Ghauri, & Tarnovskaya, 2008; Jaworski, Ajay, & Sahay, 2000; Kumar, 1997).

For this study we conducted face-to-face interviews with IKEA executives and with suppliers in Russia and Poland. The choice of IKEA is deliberate since the firm represents one unique case of successful social transformation examples in the global network scene. By selecting IKEA and putting its strategic supplier network under a qualitative lens, this article addresses IKEA's special business practice and delves its useful idiosyncratic details that are important for its success.

1.1. Theoretical background

Institutional theory directs attention to forces that emanate from the domain of social processes (e.g. Scott, 2001). A firm's strategic actions may not be free possibilities determined solely by economic arrangements, but can be regarded as a choice among a narrowly defined set of legitimate options determined socially within the organizational field (cf. Scott, 2001). According to DiMaggio and Powell (1983), an organizational field is a set of actors and practices that constitute an area of institutional venue. The venue may include key suppliers, consumers and regulatory agencies. Organizational fields are quite often deeply established and highly structured (Ranson, Hinings, & Greenwood, 1980) under norms and behavior of organizational actors with different roles.

With the rooting of the organizational field, boundaries are formed and players are exposed to new actors as well as to societal norms as an alternative to the prevailing ones (Cavusgil, Knight, & Riesenberger, 2008). The shaping of a particular organizational field is to a large extent based upon the focal firm's key values and core strategy. An investigation into this process and how it can be managed can further our understanding of how to build a strong position in foreign markets.

The perspective of generating pressures toward similar practices is an important tenet in institutional theory. Additionally, institutional forces act on firms and compel them to seek legitimacy. According to Suchman (1995), a field can offer three types of legitimacy; pragmatic legitimacy results when the firm's behavior corresponds to a self-interest calculation of its most immediate audience in the field; moral legitimacy refers to the normative evaluation of the firm and whether it is considered to do the right things by the wider public; cognitive legitimacy concerns whether its activities are comprehensible and correspond with the larger belief system and the experienced reality within the field. In line with theoretical expectation, empirical studies have typically affirmed the increase of homogeneity of organizational fields under institutional development (Kraatz & Zajac, 1996). At IKEA too, the process of isomorphing (homogenization with mimetic, normative, and coercive forms) and legitimization are exploited for the benefit of the entire system, both upstream and downstream, by attempting to diffuse the necessary conditions that will promote the firm's strategic intentions (Yeniyurt, Townsend, Cavusgil, & Ghauri, 2009).

Institutional influences on organizational behavior take three forms. In Scott's (2001) words, these three pillars stand on the regulative, the normative, and the cognitive influences. Jointly, the three pillars are critical in answering three questions. The regulatory influences establish the norms for self-interest and resulting clashes; normative influences structure the expectations from the members of the organizational field; and cognitive influences address the interpretational integrity to tune up the behavior in the organizational field. These three pillars affect the firm's actions by shaping, endorsing, mediating, and channeling the institutional environment.

According to Barringer and Harrison (2000), inter-organizational research applies institutional theory by discussing how external relationships are useful as a response to environmental pressures and as a vehicle for increasing a firm's legitimacy and for governing relationships. Hitt, Ahlstrom, Dacin, Levitas, and Svobodina (2004) discuss alliances and institutional theory with a focus upon how the external, institutional environment affects the choice of a firm's alliance partners in Russia and China. They conclude that a more stable external environment makes it possible for Chinese firms to have a long term perspective on their alliances and the benefits they can generate. Dacin, Oliver, and Roy (2007) show how alliances can provide organizations with legitimacy as a specific benefit. According to Dacin et al. (2007) legitimacy ensures economic and competitive goals as well as effective governance, and it provides the rationale for firms to enter into alliances. Noorderhaven (1995) points to institutionalization and without empirical support recognizes its function in developing discrete market transactions into long-term buyer–seller relationships based upon commitment and a restraint from opportunism. McDermott and Corredoira (2010) show that suppliers from emerging markets can upgrade their products and processes and increase their competitiveness through in-depth, institutionalized relationships with foreign MNEs.

Brito (2001) develops an institutional approach for analyzing collective actions in industrial networks. The main focus is on how a group of actors develop institutional relationships that can support their own interests within the broader network. Andersen, Christensen, and Damgaard (2009) apply Scott's (2001) three institutional pillars and discuss how their institutional environments influence firms from different parts of the world and how this influence shapes their expectations within inter-firm relationships. They argue that the legal, regulative and cognitive pillars in society can influence norms and expectations within buyer–seller relationships. While these studies substantially contribute to our understanding of how institutional theory may be applied to supplier relationships, they devote a limited interest to the institutionalization process taking place within single alliances and how it can shape shared norms and interpretations.

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