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A supplier development program: Rational process or institutional image construction?

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Abstract

Drawing on arguments from institutional theory, we examine the implementation and use of a supplier development program by a major North American automotive manufacturer. While all suppliers adopted the program as an apparent response to coercive institutional pressures from their customer, the study focuses on the effects of such pressures on internal information processing and the behavior of the actors involved. The study therefore addresses a significant gap in the institutional theory literature concerning the question of how managers reconcile potential conflicts between externally imposed institutional demands and internal operational efficiency constraints. Specifically, the supplier development process is conceptualized using two different approaches: one based on assumptions of rational efficiency, the other based on assumptions of institutional image construction. Five propositions were tested using quantitative data from the customer and interview data from the suppliers. Overall, the two propositions based on image construction were supported while only one proposition of the three for the rational decision making approach was partially supported. The results are discussed in terms of their implications for understanding how a firm's institutional context influences the implementation and use of operation management strategies.

Keywords: Supply management; Organizational issues; Institutional theory; Case/field study/interviews

1. Introduction

The institutional perspective has emerged as a dominant theoretical paradigm in organizational theory (OT) over the last two decades but has so far had relatively little impact on operations management (OM) research (Ketokivi and Schroeder, 2004). Institutional theory emphasizes social rather than economic influences on organizational structure and practice, and suggests that much organizational action can be explained in terms of symbolic attempts to influence and maintain legitimacy perceptions among key organizational stakeholders, rather than as rational efforts to operate efficiently (Meyer and Rowan, 1977; Scott, 2001; Suchman, 1995). Most prominent among institutional arguments is the hypothesis of institutional isomorphism, which predicts that firms operating in similar fields are likely to adopt similar, or homogeneous, organizational forms and practices since they experience similar social pressures and stakeholder expectations (DiMaggio and Powell, 1983). Homogeneity pressures can be coercive as in the case of regulatory constraints that essentially force firms to adapt and behave in similar ways, normative in the sense that social expectations may encourage the use of

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a particular practice, or mimetic whereby firms imitate the strategies of others as a hedge against uncertainty about their relative efficiency (DiMaggio and Powell, 1983; Haunschild and Miner, 1997). Recent research argues that homogeneity pressures also influence actors' cognitive frameworks (Palmer and Biggart, 2002; Scott, 2001) resulting in a ''shared definition of social reality'' (Scott, 1987, p. 496). Under this view, a practice is said to be institutionalized when it becomes habitual (Grewal and Dharwadkar, 2002) and its appropriateness is taken for granted within a given field (Berger and Luckmann, 1966), whether or not objective observers would regard it as efficient.

Organizational researchers have used institutional arguments to explain patterns of innovation diffusion (Cole, 1989; Davis and Greve, 1997; Palmer et al., 1993), the professionalization of managerial practice (Dobbin et al., 1993; Espeland and Hirsch, 1990), preferences for functional backgrounds of CEO candidates (Ocasio and Kim, 1999), effects of the state on organizational form (Dobbin et al., 1988; Ingram and Simmons, 2000), patterns of industry evolution (Biggart and Guillén, 1999; Haveman and Rao, 1997), and other effects. With respect to applications relevant to OM, a few researchers have examined institutional influences on the adoption of total quality management (TQM; Bates and Hollingworth, 2004; Westphal et al., 1997; Zbaracki, 1998), quality circles (Abrahamson, 1996), and supply chain business continuity planning (Zsidisin et al., 2005). Ketokivi and Schroeder (2004) found that institutional legitimacy explanations accounted for considerably more variance in the adoption of certain OM techniques than strategic or structural contingency theories in a survey of 164 firms.

This work shows that institutional factors can influence the adoption of organizational and OM practices, but important issues relevant to OM remain relatively unexplored. First, researchers by and large have examined institutional effects at the firm level of analysis, ignoring the relationship between macro-institutional pressures and internal operations (Elsbach, 2002). For example, research has considered the influence of institutional factors on the initial adoption of organizational forms and practices, but not the ongoing internal use of techniques adopted in response to institutional pressures. The reasons may be both theoretical and empirical: influential early statements of institutional theory emphasized interactions between firms and the institutional fields in which they operated (DiMaggio and Powell, 1983; Meyer and Rowan, 1977), and firm-level archival or survey data on the adoption of institutionalized practices are usually easier to obtain than interview or observational data on the implementation and day-to-day use of such practices (although the latter methods are becoming more prevalent in both OT and OM). Nonetheless, OM practices concern an organization's ongoing operations, so it is important to understand how pressures to maintain external legitimacy are dealt with internally by operations managers. If a new operational practice with uncertain efficiency consequences is adopted mainly as a symbolic response to external legitimacy pressures, how do managers reconcile the new practice with their substantive concerns for operational efficiency? It is unlikely that even boundedly rational managers (Simon, 1955) would permit symbolism to over-ride efficiency concerns for long, since this would jeopardize firm performance and survival (Perrow, 1985). It is more likely that new practices initially adopted in response to institutional pressures also appeal to managers' efficiency concerns to at least some extent, such that both symbolic and efficiency outcomes are perceived to be associated with the same innovation.

A second closely related concern deals with the conceptual structure of many OM innovations. Though many OM practices are quite concrete in nature, they often coalesce in more ambiguously defined bundles, such as TQM or lean manufacturing, each of which refers to a rather diverse collection of operational techniques. However, the predominant use of firm level data in institutional analyses makes it difficult to disaggregate the use of specific techniques from their collective labeling as part of a more general bundle. Westphal et al. (1997) found that different firms adopted widely different versions of TQM depending on the specific techniques subsumed under the label. This loose coupling, between concrete practices and the ambiguous labels used to represent them in organizational information, suggests the possibility of firms responding only symbolically to new institutional demands, while substantively maintaining the status quo or downplaying conflicting efficiency concerns that affect how they enact institutionalized practices in specific situations (Palmer and Biggart, 2002). Zbaracki (1998) reports that TQM implementers filtered information about implementation difficulties to create a rhetoric of success that diverged from operational practice. Similar symbolic responses to institutional pressures have been observed in schools adopting formalized procedures (Meyer and Rowan, 1977) and businesses adopting CEO long-term incentive plans (Zajac and Westphal, 1995). Such findings imply that biased information processing through the selective use of ambiguous labels can play a significant role in the