



## Supplier development efforts: The suppliers' point of view

Haithem Nagati <sup>a</sup>, Claudia Rebolledo <sup>b,\*</sup>

<sup>a</sup> ICD Institut International du Commerce et du Développement-Laboratoire LARA, 12 rue Alexandre Parodi, 75010 Paris, France

<sup>b</sup> HEC Montréal, 3000, chemin de la Côte-Sainte-Catherine, Montreal, Canada H3T 2A7

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### ABSTRACT

Reliance on few competent suppliers has driven companies to be more involved in their suppliers' activities. Supplier development (SD) is a supplier management practice implemented with strategic suppliers. Whereas research adopting the customer's standpoint indicates that SD activities have a positive impact on supplier performance, few studies have examined the supplier's perspective. We explore the conditions favoring suppliers' participation in SD activities using survey data from a sample of Canadian manufacturers. The empirical results of this study suggest that trust and preferred customer status are key antecedents of supplier participation in SD activities, and confirm the positive impact of this participation on the suppliers' operational performance. The results indicate that a dynamic environment also motivates suppliers to participate in SD activities.

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### 1. Introduction

Developing and maintaining supplier relationships has been identified in the literature as an essential component of firm competitiveness (Carr & Pearson, 1999; Sheth & Sharma, 1997). Over the past decade, there has been a growing consensus concerning the strategic importance of collaborative relationships between customers and suppliers (Spekman & Carraway, 2006). Several academic studies have pointed out the benefits of cooperation with suppliers (Gadde & Snehota, 2000; Harland, Lammings, & Cousins, 1999). A growing number of firms have rationalized their supply base; this lets them cooperate more closely with a limited number of key strategic suppliers. Concomitantly, more and more customers recognize that strong involvement in their suppliers' activities gives them a competitive advantage. Supplier development (SD) initiatives are usually needed when managing key supplier relationships (Gadde & Snehota, 2000; Monczka, Trent, & Callahan, 1993; Olsen & Ellram, 1997; Wagner & Johnson, 2004). SD is defined as a long-term cooperative effort by a company to upgrade its suppliers' technical capabilities, quality delivery, and costs in view of continuous improvement (Hahn, Watts, & Kim, 1990). Research on SD has mostly taken the buying firm point of view to explore the antecedents and consequences of SD initiatives. Less is known about the supplier's perspective of SD. However, the success of SD initiatives depends on both, buyer and supplier. In order to better plan and implement their SD initiatives, buyers need to understand suppliers' motivations and worries in participating in these improvement efforts (Krause, Ragatz, & Hughley, 1999).

The objective of this study is to explore SD activities from the supplier's standpoint. The specific goal is to identify factors that motivate suppliers to participate in their customers' SD initiatives, and to analyze the impact of SD activities on suppliers' operational performance. Two research questions will be answered: 1) What conditions encourage suppliers to participate in their customers' SD activities? and 2) How does participation in SD activities affect suppliers' performance. Survey data from a sample of Canadian manufacturers unveil the relevance of trust and preferred customer status in favoring suppliers' participation in SD activities and the role of the environment in motivating supplier's participation. The empirical results also reveal the positive impact of this participation on the suppliers' operational performance.

The remainder of the article is structured as follows. First, the literature on SD activities is summarized and integrated. A model of relationships between the variables examined is proposed, followed by a description of the research methodology used to test the model. Lastly, the empirical results are presented, along with the discussion of results and the conclusion.

### 2. Literature review

Because of the growing externalization of strategic activities, firm performance is increasingly dependent on and linked to supplier performance. To improve supplier performance, a growing number of customers are implementing SD programs (Handfield, Krause, Scannell, & Monczka, 2000). The literature maintains that SD programs fall into two broad approaches, depending on the level of investment that customers are willing to make to enhance their suppliers' capabilities. The steady approach consists in making only limited, minimal, and specific investments in resources or time to improve suppliers' capabilities (Monczka et al., 1993). Customers may exert competitive pressure by splitting contracts

\* Corresponding author. Tel.: +1 514 340 6928; fax: +1 514 340 6834.

E-mail addresses: hnagati@groupe-igs.fr (H. Nagati), claudia.rebolledo@hec.ca (C. Rebolledo).

among multiple suppliers and signing short-term agreements (Krause, 1997). This pressure compels suppliers to improve their capabilities in terms of price, quality, and lead times. Customers may constantly assess their suppliers' capabilities in terms of quality, technical competency, and lead times, and give their suppliers feedback on the results (Prahinski & Benton, 2004). This practice raises suppliers' awareness of the problems encountered by their customers, and prompts them to take corrective actions and better comply with customers' requirements. Firms can also use incentive mechanisms to enhance their suppliers' performance (De Toni & Nassimbeni, 2000). These mechanisms include financial incentives and rewards for the best suppliers, such as increasing business volumes or designating them as preferred suppliers.

Customers can opt for heavy involvement in relationships with their suppliers to improve the suppliers' capabilities (Krause, Scannell, & Calantone, 2000). This "aggressive" collaborative approach rests on frequent customer–supplier exchanges and on specific investments intended to improve supplier quality and productivity. Exchanges of personnel are often used in SD programs, and are intended to disseminate knowledge of the tools, methodology, and practices used in production (Krause, 1999; Prahinski & Benton, 2004; Wagner & Krause, 2009). These transfers aim to replicate the best practices used internally in suppliers' plants (MacDuffie & Helper, 1997). Customers can also decide to invest in training and education of a supplier's personnel, and in installation of tools and equipment for production and logistics processes (Dyer & Hatch, 2006; Sánchez-Rodríguez, Hemsforth, & Martínez-Lorente, 2005). Given the investments in resources and time required from customers, these programs can be implemented with a limited number of strategic suppliers. This study examines this type of SD activity exclusively.

Supplier development has attracted considerable attention from researchers in the last decades. Table 1 summarizes the most relevant contributions of recent empirical research in SD. We looked for published papers in operations, supply chain management and marketing journals in the last fifteen years (i.e. since 1998). Our review focuses exclusively on survey research to facilitate the comparison with the present study. Nearly all of the studies in Table 1 take the customer perspective. Customer's focused studies explore the consequences of SD initiatives, in particular the links with supplier or customer performance (Carr, Kaynak, Hartley, & Ross, 2008; De Toni & Nassimbeni, 2000; Krause et al., 2000, 2007; Li, Humphreys, Yeung, & Cheng, 2007; Mahapatra, Das, & Narasimhan, 2012; Modi & Mabert, 2007; Sánchez-Rodríguez, 2009; Sánchez-Rodríguez et al., 2005; Wagner & Krause, 2009). Results show that SD activities are generally associated with improved supplier and buyer performance, at least from the buyer standpoint. Empirical research on SD has also studied the SD practices implemented by firms in different industries (Krause, Handfield, & Scannell, 1998; Krause & Scannell, 2002), in different phases of the relationship life-cycle (Wagner, 2011) and in different competitive environments (Mahapatra et al., 2012). These studies report that product based firms implement more proactive SD activities than service-based firms and that supplier development is more effective in mature relationships and more competitive environments. Moreover, research has shed light on customers' decisions to become involved in supplier development (Carr et al., 2008; Krause, 1999; Krause et al., 2000; Wagner, 2006). Relational variables such as trust, commitment and dependence have been linked to SD initiatives. If the literature covers the customers' point-of-view thoroughly, it has mostly ignored the suppliers' perspective. Three studies in Table 1 investigate SD initiatives from the supplier standpoint. Krause et al. (1999) explore the perceptions of minority-owned suppliers participating in an SD program of a large U.S. manufacturing firm. They found that larger suppliers and high percentage suppliers were more positive about the benefits of the SD program. Prahinski and Benton (2004) assess the impact of customers' communication strategies on the relationship and the supplier's performance. Finally, Ghijssen, Semeijn, and Ernstson

(2010) explore the links between SD initiatives and supplier's trust and commitment.

Empirical research on SD has not yet explored factors encouraging the participation of the supplier on SD activities. The literature shows that trust is an important factor in encouraging suppliers to participate in SD activities. Suppliers may be reticent to open their plants to customers for visits intended to identify improvement possibilities (Hartley & Choi, 1996). To enhance their internal operations and solve problems, suppliers must make sensitive information available and transparent. However, suppliers may refuse to participate in such a process out of fear that the customers may use the information exchanged opportunistically (MacDuffie & Helper, 1997). This information, which has strategic importance for suppliers, could make them vulnerable to their customers during commercial negotiations. Supplier's participation is also encouraged if the customer is sufficiently attractive to the supplier (Krause et al., 1999). A supplier would not deploy the investments required for SD initiatives unless the customer has a special status compared to other competitive buyers in its customer portfolio (Ellegaard & Ritter, 2006). A preferred customer obtains a preferential allocation of resources and time by the supplier, guaranties its attention and ensures the open exchange of information essential for SD initiatives (Christiansen & Maltz, 2002; Schiele, Veldman, & Hüttinger, 2011; Steinle & Schiele, 2008). Research on preferred customer status is still in its infancy and not much is known about its antecedents and consequences (Schiele, Veldman, & Hüttinger, 2010).

### 3. Conceptual model and hypotheses

This study investigates the role of trust, preferred customer status and dynamism of the environment on suppliers' participation in SD activities and their impact on suppliers' operational performance improvement. This section presents the research model (Fig. 1) and formulates the research hypotheses. The conceptual model clarifies and underpins the analysis of relationships between the variables under study.

#### 3.1. Trust and SD activities

Trust in customers is a key factor in suppliers' involvement and participation in customer-initiated SD activities. Suppliers may refrain from participating in their customers' SD activities if they doubt that their customers will systematically act in their interests. In SD activities, suppliers exchange confidential information related to processes and products, and tend to make specific investments to solve problems and improve their capabilities (Handfield et al., 2000). Suppliers engaging in SD activities therefore expose themselves to risks and customer opportunism. They willingly participate in SD activities only if they are convinced of the customers' capacity to contribute significantly to the common purpose. In customer–supplier relationships, trust is known to reduce the perception of risk associated with opportunistic behavior by the other partner (Zaheer, McEvily, & Perrone, 1998). A climate of trust that guarantees customer loyalty will ensure the continuity of long-term relationships and the appropriation of a portion of the productivity gains derived from learning new capabilities (Li et al., 2007; Sako, 2004). The following hypothesis ensues from the literature:

**H1.** The supplier's trust has a positive impact on its participation in SD activities.

#### 3.2. Preferred customer status and SD activities

SD activities require suppliers to commit to the relationship with their customers. A supplier will not be willing to allot human resources and considerably expand the scope of their competencies to attain SD objectives for all of its customers but only for the ones having a preferential status (Schiele et al., 2011). Suppliers manifest their will to cooperate

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