



# An investigation of the cross-border supplier development process: Problems and implications in an emerging economy



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## ABSTRACT

This paper is concerned with supplier development in an emerging-market. The context of the study is the interaction between Pakistani suppliers and Japanese automotive manufacturers in equity joint ventures operating in Pakistan. Using a novel approach, drawing data from buyers 'and' suppliers, the paper presents a three-stage (evaluation, exploration and interactive) teleological process theory that highlights the key relational, knowledge transfer, and operational factors that signify each stage. Key conclusions are drawn as to the importance of relational ties, and the early importance of absorptive capacity. Notions of stasis implied by predominantly cross-sectional research into supplier development are challenged and the findings reveal many factors that demonstrate temporal dynamics. The paper also highlights CSR dilemmas for developed-country investors who are establishing supplier development programmes in developing economies.

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## 1. Introduction

The process of globalisation has made it easier for the multinational corporations (MNCs) to fine-slice their value-chain activities across the globe and focus on core activities (Grant & Baden-Fuller, 2004; Quinn, 1992). This model of fine slicing has concomitantly made the MNCs–buyer relationship more interdependent. When such arrangements cross international borders, this interdependency becomes significantly more complex than in a domestic setting. However, a surprisingly small proportion of buyer–supplier research has focussed specifically on programmes that have an international dimension (a point alluded to by Seppanen, Blomqvist, & Sundqvist, 2007). A further deficiency in this literature is the lack of investigations examining interplay in developed/emerging country dyads and networks. The focus of this paper is on one aspect of buyer–supplier interaction where these deficiencies are particularly marked: supplier development programmes (SDPs).

Due to the under-development of suppliers in developing economies, and also due to the unique institutional set-up, managers in MNC buying firms from developed economies face a reality that, in local outsourcing in an emerging economy, a supplier's capabilities may not meet the future needs and expectations of the MNC buying firm. Under these circumstances, SDPs should take on greater strategic significance than in developed markets. However, due to resource asymmetry, a dependent, rather than interdependent, dynamic can initially be manifest whilst local suppliers catch-up technologically (Chang & Gotcher, 2007; Jean, Sinkovics, & Kim, 2010). The dependency of local suppliers is particularly marked where local content requirement regulations are removed. These asymmetries therefore complicate SDPs in emerging economies and present both strategic and corporate social responsibility (CSR) based dilemmas for developed-country MNCs operating in emerging-countries. The dynamics of SDPs are explored in the findings section of this paper through the lenses of Japanese automotive manufacturers operating through joint ventures in Pakistan with local Pakistani suppliers. This paper marks the first study of SDPs in Pakistan and the findings contribute to only a small body of literature specifically studying SDPs in developing economies. Furthermore, the findings add to a very limited body of research considering foreign direct investment (FDI) related SDPs between partners from developed and emerging countries.

As well as identifying gaps in the existing literature, in this paper, a further attempt is made to make contributions to

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knowledge through problematisation (Alvesson & Sandberg, 2011; Sandberg & Alvesson, 2011). Problematisation is approached here by thinking counter-institutively, making a break with the quantitative dominance of SDP research (Makkonen & Oikkonen, 2013) and instead applying a qualitative, dyadic and diachronic lens to the study of SDPs. Through this approach, the processes through which SDPs evolve over time are exposed and the distinct stages through which such arrangements move isolated. The subsequent theory contributes to the strategy as process tradition (Johnson, 1987). Exposing such temporal dynamics counters notions of stasis in SDPs implied by a predominantly cross-sectional investigation of such arrangements evident in the current literature (Knoppen & Christianne, 2007; Krause, Handfield, & Tyler, 2007). The paper marks an early contribution to understanding the process in international SDPs. The aim of this paper is therefore to provide a comprehensive understanding about foreign initiated SDPs in the automotive industry of Pakistan. To achieve this aim and based on the above observations, the following research questions are addressed: what is the process of SDP formation and development under an FDI-led developmental strategy in an emerging economy? How do such SDPs evolve over time? What are the relational and operational factors which facilitate or hinder supplier development? The rest of the paper is organised as follows. In the next section, the conceptual background of the paper is discussed. In Section 3, the methodology of the study is outlined and findings explored in Section 4 and the paper concludes by discussing the methodological, theoretical and managerial implications of these findings.

## 2. Conceptual background

### 2.1. Supplier development programmes

Supplier development (SD) pertains to any planned programme initiated by the buyer to improve the short- or long-term performance of its suppliers (Krause, Handfield, & Scannell, 1998; Krause et al., 2007; Krause, Scannell, & Calantone, 2000) within dyads or within a broader network of suppliers (Govindan, Kannan, & Haq, 2010). SDPs have been studied in the USA (Carr, Kaynak, Hartley, & Ross, 2008; Krause et al., 2007; Modi & Malbert, 2007; Prahinski & Benton, 2004; Wagner & Krause, 2009), Hong Kong (Li, Humphreys, Yeung, & Cheng, 2007), Japan (Sako, 2004) and Germany (Ghijssen, Semeijn, & Ernstson, 2010; Wagner, 2011) – and in emerging economies such as Mexico (Arroyo-Lopez, Holmen, & Boer, 2012), Brazil (Lakshman & Parente, 2008), India (Govindan et al., 2010), and China (Humphreys, Li, & Chan, 2004). The context of this study is the automotive industry, which marks the most common industry context for SDP research. However, an examination of the SDP literature reveals that the majority of studies have been conducted within a single country and there is limited evidence of a study that moves to examine the dynamics between a foreign (investor) buyer and domestic suppliers in cross-border arrangements. An exception is the recent study of cross-border SDPs in the Turkish context by Inemek and Mathyseens (2012). They state that “although the increased globalization of supply chains has created profound interfirm relationships across national borders, existing literature provides little evidence about how these relationships contribute to supplier innovativeness”. This lacuna in respect of emerging market SDPs exists even when, due to the greater dynamism of the environment and more pronounced levels of resource asymmetry, supplier-focussed development is more likely in a emerging economy, than in a developed economy (Hitt, Dacin, Levitas, Arregle, & Borza, 2000; Jean & Sinkovics, 2010; Jean et al., 2010; Lakshman & Parente, 2008). This power asymmetry has led further authors to examine SDPs as a facet of a foreign investor’s corporate social

responsibility, rather than only being a matter of strategic concern (Lu, Lee, & Cheng, 2012).

Several significant contextual and theoretical opportunities for research in respect of SDPs in emerging economies are therefore apparent. To address these gaps, and opportunities, the first study of SDPs in Pakistan is presented, but more significantly, an attempt is made to bring SDP research into the domain of international business by providing a rare study into FDI-related SDPs between developed (Japanese) and emerging (Pakistan) country joint venture partners and Pakistani suppliers. A turn is next made from context to the content of current SDP and related literature.

#### 2.1.1. Communication and knowledge transfer in supplier development programmes

The focus in most SDP studies has been on the impact of extant variables on the effectiveness of supplier-initiated activity towards a buyer, with a smaller body of work studying these cause-and-effect associations of such arrangements from the supplier’s perspective (Nagati & Rebolledo, 2013; Prahinski & Benton, 2004). In addition, some authors note that very few SDP studies have considered perspectives from both sides of the buyer–supplier dyad (Lu et al., 2012; Praxmarer-Carus, Sucky, & Durst, 2013) and that many of the constructs in this limited body of literature have not been consistently defined (Carr et al., 2008). By also stepping outside a focussed review of SDP literature and additionally making a slightly broader trawl of research examining knowledge transfer in buyer–supplier interaction in the context of the automotive industry and emerging markets, it is possible to juxtapositionally highlight further weaknesses in SDP literature.

Prominent amongst the variables examined in SDP research is knowledge transfer (Arroyo-Lopez et al., 2012; Wagner, 2006; Wagner & Krause, 2009) and information sharing (Krause et al., 2007; Lakshman & Parente, 2008). However, the concept of knowledge transfer is difficult to capture. Scholars have equated knowledge transfer with knowledge creation and application of knowledge (Collins & Hitt, 2006; Grant, 1996; Nonaka, 1994; Nonaka & Takeuchi, 1995; Spender, 1996; Spender & Grant, 1996). Hence, a study of knowledge exchange should consider both the context of transmission as well as the dyadic receipt of knowledge (Argote & Ingram, 2000) – exposing a potential deficiency in SDP literature which has been studied substantially from only one side (mostly the buyer’s side) of a dyad (Lu et al., 2012; Praxmarer-Carus et al., 2013).

Knowledge transfer is recognised as one of the most important factors for the development of supply-chain competitive advantage (Cheng, Yeh, & Tu, 2008; Crone & Roper, 2001) and therefore it is unsurprising that it emerges as prominent in SDP research. Krause et al. (2007, p. 533) propose that research should consider how SDP activities vary across different performance-related goals (and therefore generate competitive advantages) and caution that “knowledge sharing activities necessary for lowering the buying firm’s costs, are arguably not the same as might be required to transfer tacit knowledge to improve quality, delivery and flexibility performance”. In developing a theory of SDPs, there is therefore need to expose the strategic purpose of SDP initiatives designed to transfer knowledge relative to certain outcomes.

A further discernable strategic aspect of SDP research and practice is the gap between strategic intent and actual impact – a perspective that arguably can only be considered dyadically. For instance, recipients of knowledge need to be motivated to learn new knowledge and, indeed, the sender of the knowledge must have knowledge that the receiver deems valuable. Suppliers therefore may choose not to participate in supplier development programmes if they are unable to see enhancements to their overall competitiveness from doing so (Krause et al., 2007). Additionally, matters of asymmetry may also affect the knowledge-transfer

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