Interacting with large customers: Resource development in small b2b suppliers

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A B S T R A C T

Small and medium enterprises (SMEs) are struggling competing in their respective markets while handling relationships with their main - often larger - customers. This paper argues that these new market challenges require the exploration of resource development patterns implemented in small suppliers, as they are engaged in upgrading key processes as required by large customers. To achieve this goal this paper i) develops a longitudinal single-case study of Gamma - a small Italian supplier in the mechanical sector - focusing on the analysis of the evolution of the interactions with its three key customers; ii) adopts the IMP approach on resource interaction to understand the variety and complexity of small supplier-large firm relationships. Findings show that resource development in small supplier-large customer relationships is related to interaction processes among “organizational unit” resources belonging to the supplier and the customer, in combination with specific standardized and joint coordination mechanisms acting as “resource interfaces” among technical and organizational resources. The paper shows the usefulness of SMEs as a research context for advances in IMP resource-related studies examining in more depth and detail resource evolution and interaction processes.

1. Introduction

Small and medium enterprises (SMEs) are struggling competing in their respective markets, which have been highly affected by the economic crisis, leading to increasing variety and uncertainty in market demand and fierce competition brought by competitors (European Commission, 2014; OECD, 2009).

It is well known that SMEs deal with scarcity of resources (Gilmore, Carson, & Grant, 2001; Merrilees, Rundle-Thiele, & Lye, 2011), that pushes them to leverage on networks to mobilize relationships with a plurality of actors in the market (Macpherson, Herbane, & Jones, 2015; O’Donnell, 2004). In particular, also in the light of the ongoing economic crisis, researchers’ concerns focus on understanding how smaller suppliers face the market challenges while handling the relationships with their main - often larger - customers. There is a consensus that new and different resources are required for small suppliers to sustain large customers' expectations and thus survive. Suppliers are pushed to undertake the upgrading of key functions - such as production, logistics, R & D - through the mobilization and development of adequate resources, in order to strengthen the positioning with regard to the key customers. Some authors introduce relational-type capabilities to examine the small supplier-large customer relationship in the new market setting (Johnsen & Ford, 2006; Ngugi, Johnsen, & Erdelyi, 2010).

However, in our view, these contributions do not clearly uncover these patterns on two main inter-related grounds: firstly, they tend to use interchangeably capabilities and resources without a clear conceptual distinction and they remain focused on the intra-organizational level; secondly, they ultimately provide a static view of this theme, without giving insights on the dynamic contextualized process through which these relational-type capabilities might emerge, as a result of the mobilization and development of SMEs' resources also within an inter-organizational setting.

This paper argues that the new market challenges described above require a more comprehensive and deep analysis at the resources level in the first place, exploring the dynamic processes and relevant factors underpinning the resource development patterns implemented in small suppliers, as they are engaged in upgrading key processes as required by large customers.

Therefore the aim of the paper is to answer the following research question: how do B2B SMEs' resources change and develop within the upgrading of key business processes as required by large customers?

We claim that the upgrading of the main business processes by SMEs in B2B markets could be conceived as resource development processes embedded in a network-based evolutionary pattern, which is characterized by openness and interaction with key customers and business partners.
We posit that the IMP approach - and in particular its perspective on resource interaction - is particularly suited to understand the variety and complexity of small supplier-large firm relationships, and that this perspective - partially adopted in existing studies (Johnsen & Ford, 2006) - should be pursued further in more depth. In IMP thinking resources play a key role and the concepts of resource and resources interaction have been developed highlighting their dynamic nature and embeddedness within inter-organizational networks. According to the IMP perspective, resource development is the result of changes in resource interaction processes, which might be affected by new resource combinations and resource interfaces (Baraldi & Bocconcelli, 2001; Håkansson, Ford, Gadde, Snehta, & Waluszewski, 2009; Håkansson & Snehta, 1995; Håkansson & Waluszewski, 2002). Recently there has been a call for analyzing more in depth resource interaction processes (Baraldi, Gressetvold, & Harrison, 2012). The adoption of the IMP conceptual framework is in line also with recent calls for studying entrepreneurship/ small firm processes using alternative theories and concepts (Blackburn & Kovalainen, 2009).

Given the exploratory nature of the research objective we develop a longitudinal single-case study of Gamma, which is a small Italian supplier in the mechanical sector, focusing on the analysis of the evolution over time of the interactions with its three key customers. This case-study represents a significant example of a small supplier where resource development processes have been implemented to maintain and strengthen its position as supplier of large key customers.

Findings show that change and innovation - in terms of resource development in small supplier-large customer relationships - is related to interaction processes among “organizational unit” resources - in terms of structures, positions or individuals - belonging to the supplier and the customer - and among “organizational unit” resources within the small supplier firm, in combination with specific standardized and joint coordination mechanisms acting as “resource interfaces” among technical and organizational resources.

In this respect this paper contributes both to the existing literature on B2B SMEs’ relationships with large customers and to the IMP approach on resources. In particular, the IMP perspective on resources provides a more effective conceptual framework to explore the upgrading of business processes in SMEs while interacting with key large customers. Moreover the paper shows the usefulness of SMEs as a promising research context for advances in IMP resource-related studies examining in more depth and detail resource evolution and interaction processes with respect to the “organizational unit” resource and to the “resource interface” concepts.

The paper is structured as follows. In the second section the background literature is discussed, analyzing in depth existing contributions on SMEs operating in business markets and the main theoretical basis of IMP perspective on resources and resources interaction. Section 3 addresses the research methodology. Section 4 provides the empirical analysis based on the chosen case-study, focusing on the evolution of resources’ interactions in the network of Gamma and its main customers’ relationships. The following section provides a synthesis of results and discusses them. The final section outlines conclusive remarks, highlighting research limitations, future research directions and the main managerial implications.

2. Background literature

2.1. SMEs in business markets

Developing and keeping relationships with large customers is often the major challenge especially in a context of economic downturn. The smaller suppliers’ perspective and their deployment of marketing capabilities is thus receiving increasing attention in the academic literature (Bocconcelli, Grandinetti, & Tunisini, 2015; Carrizo Moreira, 2009; Johnsen & Ford, 2006; Jones, Knotts, & Udell, 2008; Perez, Whitelock, & Florin, 2013; Stjernstrom & Bengtsson, 2004).

Buyer companies in B2B markets have increasingly tightened selection criteria, pushing for higher performance in terms of efficiency, delivery, service, technological contribution, quality level (Johnsen & Ford, 2006; Tunisini, Bocconcelli, & Pagano, 2011). Large firms tend to re-organize their supply network in different tiers, developing intense relationships with a restricted group of selected suppliers, often involved in knowledge transfer projects (Cubillo-Pinilla, 2008). Therefore for SMEs, business relationships with this type of customers are difficult to start and maintain.

A number of studies attempt to examine how SMEs face these new requirements, placing emphasis on the development of specific relational-type capabilities. Johnsen and Ford (2006) propose to conceive small suppliers’ capabilities within a “relationship-specific theory of capability”, leading to the articulation of four interaction capabilities: human interaction capability, technological interaction capability, managerial systems interaction capability, cultural interaction capability. Ngugi et al. (2010) adopt this conceptual framework to analyze more in-depth the impact of such interaction capabilities on value creation and innovation. Carrizo Moreira (2009) investigates knowledge flows among small suppliers and large multinational customers, highlighting their absorptive capacity and the interaction-oriented capability. Lastly, McGrath and O’Toole (2013) propose a more dynamic construct of network capability conceived as an additional resource to be exploited by entrepreneurial firms while facing market relationships, pointing out enabling and inhibiting factors.

These contributions, even providing stimulating perspectives on changes undertaken by SMEs engaged in challenging market relationships, miss to actually explain the main features and the dynamic evolutionary patterns leading to the development, change and use of specific combinations of resources - of various types - underpinning them. Their analyses tend to remain mainly static and often do not distinguish conceptually and empirically capabilities and resources. Therefore we argue that the new challenges deserve to be examined in more depth exploring the dynamic resource development processes implemented in small suppliers, as they are engaged in upgrading key processes as required by large customers, often experiencing difficulties in implementing such innovative projects (Möller & Törnroos, 2003).

It is widely acknowledged that one of the main obstacles for SMEs is the scarcity of resources. SMEs suffer from not sufficient financial resources, which undermine investments in new projects as required in the market. Moreover, they might face limited technological expertise in order to keep the pace of current innovation paths. More frequently SMEs lack organizational structures and processes to align available resources to new requirements by customers (Gilmore et al., 2001; Merrilees et al., 2011). Various studies - mainly in the entrepreneurial marketing literature - emphasize networks and relationships as the main means adopted by SMEs to overcome hurdles due to limited size, knowledge and resources (Gilmore, Carson, & Rocks, 2006; O'Donnell, 2004). However in these studies the concepts of networks and relationships remain unclear and strongly related to the ability of the owner-entrepreneur or manager to do “networking” exploiting his/her own skills.

It could thus be argued that the IMP approach could provide a fruitful perspective in the light of its view of the business environment as a complex net of relationships where the firm is involved in. The next section examines more in-depth the theme of resources’ development within inter-organizational relationships and networks as the privileged theoretical perspective to answer our research question.

2.2. Content and relevance of the IMP perspective on resources

We address the research question through the adoption of the Industrial Marketing and Purchasing (IMP) framework. In particular we argue that the IMP approach could provide useful guidance for the objective of the study, given its long-standing research on buyer-supplier relationships and its focus on resources.
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