

# Supply Management

## *Value Creation, Coordination and Positioning in Supply Relationships*

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Value creation in the supply literature commonly builds on the value chain model. This results in a focus on sequential interdependencies, an emphasis on coordination by planning and a restricted view of possible positioning options. This article contributes an original approach to the supply management debate, based on value configuration analysis. Value configuration analysis acknowledges the value chain logic, but finds it constraining in certain business systems, and also includes recognition of the value network model as representing the layered supply relationships typically associated with a mediating presence. Central issues in this article's view of supply management are value logic interaction, coordination of multiple interdependencies and the simultaneous presence of both over-and undercurrent relationships as well as traditionally-recognized up-and down stream dependencies. The complexity thus revealed identifies novel positioning options for firms in supply relationships. These arguments are illustrated with help of a case study and related to previous work on supply chains and networks.

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### Introduction

Managing supply relationships is a strategic task that can contribute to the competitiveness and profitability of both individual firms and entire chains.<sup>1</sup> But despite the acknowledged importance of supply relationships, little is known about the determinants of success and failure.<sup>2</sup> Reports that the U.S. food industry alone is estimated to waste \$30 billion annually through poor supply coordination illustrate a significant potential for improvement.<sup>3</sup>

Porter's well-known *value chain model* and the corresponding notion of *value systems* have profoundly influenced the perception of how supply relationships work.<sup>4</sup> These models have shaped

managerial thinking about such strategic issues as value creation, coordination and positioning. However, while the value chain logic is seen as representing a strong and valid analytical tool for such areas as corporate strategy, it is also believed to limit fuller understanding of how knowledge- and service-based business systems function.<sup>5</sup>

*Value configuration analysis* is a recent contribution to strategic management theory by Stabell and Fjeldstad, which both incorporates the well-known value chain model and also introduces an interesting alternative in the *value network model*.<sup>6</sup> It deals with firm level differences in terms of value creation, and offers an alternative understanding of the knowledge- and service-based activities which are central to well functioning supply relationships. Value configuration analysis has never been systematically applied to understand either supply chains or supply networks, two important representations of supply relationships, although its basic arguments suggests that the value chain/value systems line of reasoning alone can provide only partial understandings of supply relationships. The research question is therefore *to investigate the consequences of a value configuration approach to the management of supply relationships, focusing on value creation, supply structures, interdependencies, coordination and positioning*.

This study is thus part of a recent stream of research on value creation and business development in interorganizational relationships and network settings.<sup>7</sup> In particular it relates to previous work on supply chain management (SCM), industrial networks and strategic supplier networks.<sup>8</sup> It shares the concern expressed in the supply literature (and noted above) that the simple linearity of the traditional supply logic may conceal levels of complexity that have to be addressed in managing supply relationships.<sup>9</sup>

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*value creation occurs between, as well as within, firms in supply relationships.*

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In general terms, this article contributes in two ways: by revealing some of this complexity, and by looking at how supply relationships function in the face of this complexity. In particular, it offers an alternative view of how value creation occurs *between*, as well as *within*, firms in supply relationships. It reveals how more complex sets of interdependencies exist in supply relationships than in 'simple' chains, and that these require managing by a variety of coordination mechanisms to achieve efficient working. Finally, it proposes a novel approach to defining a firm's position beyond that covered by the traditional up-stream/down-stream terminology.

The following section presents the concept of value configuration analysis and relates it to previous work on supply chains and networks. The study's research methodology and case follows. Theoretical and managerial implications are then discussed, with central supply management issues presented in a number of propositions. The article ends with conclusions and suggestions for future research.

## **Value configuration analysis and supply chain management**

The two models incorporated in value configuration analysis both explain value creation based on the activities that *individual* firms perform. On an *interorganizational* level of analysis, Porter defined a number interlinked value chains as a *value system*. In the supply relationship context, these are referred to as *supply chains*, while in the terminology of value configuration analysis, interorganizational relationships are expressed in the notion of *business value systems*. The supply network illustrated in this article's case study is an example of such a business value system based on differing activity logics.

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