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Toward a conceptualization of supplier-switching processes in business relationships

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ABSTRACT

This paper employs a practice perspective to study and conceptualize supplier-switching processes in business relationships. It is based on case study research of a company in the international marine industry, which intended to switch one of its key suppliers for a new one as a result of cost-cutting strategies and dissatisfaction with the old supplier. The case study describes the process, which ended with the old supplier being only partially switched. The findings show how (partial) switching from one supplier to another happened via three key sub-processes and associated practices, which the involved actors in the case drew upon in the switching process: (1) initiation – a process enabled by legitimizing and search practices; (2) substitution – a process enabled by transfer, translation, and transformation practices; and (3a) stabilization – a process enabled by institutionalizing practices; and (3b) restoration – a process whereby the old supplier is retained as a result of new conditions, this retention being enabled by certain repair practices. By identifying the processes and practices that enable switching to happen, the findings offer an initial conceptualization of supplier-switching processes, which comprises an important and heretofore underexplored aspect of supplier switching. The research highlights the importance of recognizing how relationships embedded in interorganizational routines are produced and reproduced in the switching process through the actions and interactions of the actors involved.

1. Introduction

The formation and development processes of business relationships have received considerable interest in the supply management and marketing literature over the years (Håkansson, 1982; Dwyer et al., 1987; Ring and Van de Ven, 1994). More recently, the ending-processes of supplier relationships have also received attention, both in the business-to-business (e.g. Alajoutsijärvi et al., 2000; Halinen and Tähtinen, 2002) and business-to-consumer relationships (e.g. Roos, 1999). This paper investigates the switching aspect of the ending of business-to-business relationships, which refers to “such endings where the supplier (or the customer) is substituted for another alternative. The emphasis of the term is on one actor’s decisions and actions related to relationship ending as well as the actor’s formation (or strengthening) of another relationship” (Tähtinen and Halinen, 2002, p. 183).

Although research on relationship termination has increased in recent years (see, for an overview, Pick, 2010), supplier-switching remains largely unexplored (Wagner and Friedl, 2007). Previous studies of supplier-switching have focused primarily on the switching decision. Key driving forces for switching suppliers reported by researchers include a desire to reduce purchasing costs (Friedl and Wagner, 2012), the desire for independence from a particular supplier (Geiger et al., 2012), and dissatisfaction (Ferguson and Johnston, 2011). However, the perceived costs of switching and the value of established relationships often preclude a buyer from switching (Geiger et al., 2012). Switching costs can be attributed to the following factors: information asymmetry (Wagner and Friedl, 2007); partner-specific investments and asset specificity (Heide and Weiss, 1995; Wathne et al., 2001); previous adaptations and the creation of actor bonds, activity links, and resource ties (Håkansson and Snehota, 1995); and the embedded nature of relationships and existence of personal relationships (Granovetter, 1985).

While the literature has offered important insights into the determining factors for supplier-switching decisions, critics have claimed that these studies primarily present snapshots of the decision rather than capturing the dynamics of supplier-switching (Pfeiffer, 2010). As Tähtinen and Havila (2013) observed, studies of termination tend to focus on the decision to end the relationship and not on the choice of initiating a new relationship to replace the first; it leaves the initiation of the new relationship “in its shadow” (p.12). Therefore, we lack knowledge of important aspects

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of the supplier-switching process. This paper addresses such gaps by providing insight into the processes of supplier-switching. It aims to answer the following research question: How do supplier-switching processes occur, and what actions and interactions do actors actually perform in this process?

To answer this question, the paper draws empirically on longitudinal case study research of a company and the involved actors' efforts to switch one of the company's key suppliers for another. It illustrates both the ending of the old relationship and the initiation of the new relationship. Theoretically, the research is built on a practice perspective (e.g. Schatzki et al., 2001), meaning a focus on what the involved actors actually do when they engage in the switching process, as well as the practices upon which they draw. One central assumption within the practice perspective is that social life is an ongoing production that emerges through people's recurrent actions and interactions (Feldman and Orlikowski, 2011). Rather than focusing merely on the process itself, this perspective argues for delving into the everyday activities of people involved, and how these influence organizational processes and outcomes (Johnson et al., 2003). Another central assumption is that these everyday actions and the social order (structures, institutions, routines, etc.) in which they take place are mutually constitutive, meaning that social regularities are always 'in the making' (Feldman and Orlikowski, 2011). Therefore, focusing on practices means focusing on both structures and agency, not either or.

Applying a practice perspective in this research on supplier-switching processes entails paying attention to what the actors involved actually do in the switching process, and how their everyday activities and the practices they draw upon influence the process and the resulting outcomes. As such, the research contributes to opening the black box of supplier-switching processes, and in doing so, extends existing research on supplier-switching, which has predominantly focused on identifying the variables that affect the supplier-switching decision and the different costs preventing the switch from taking place. The practice perspective also supports a deeper understanding of how supplier relationships are enacted by the people involved. Switching of supplier relationships involves a (re) enactment of structural conditions and day-to-day activities, such as the various interorganizational routines that make up relationships. In line with Whittington (2003) observation of organizational studies in general, studying what people really do in these relationships and how they engage in these routines, as well as how they go about the switching process, is an important step toward creating practical wisdom of supplier-switching processes.

The remainder of the paper is structured as follows. Section 2 reviews the literature on supplier-switching, and presents a theoretical basis for understanding switching processes based on a practice perspective. Section 3 describes the research design and Section 4 presents and analyzes findings from the case study. Section 5 discusses the findings in relation to the theoretical basis, and combines the insights into a conceptual framework for understanding supplier-switching processes in business relationships. The Section 6 includes conclusions, key managerial implications of the study, and also presents study limitations and directions for future research.

2. Theoretical background

2.1. Supplier-switching in business relationships

Business relationships develop as the partners engage in interaction processes in which they establish contact patterns and implement adaptations in the elements and processes of exchange (Håkansson, 1982). These adaptations produce something unique by interlocking activities and resources of the two involved partners, and this uniqueness cannot be produced by either of the two actors alone, nor easily duplicated (Håkansson and Snehota, 1995). However, relationships are not static, but change over time. These developmental processes have been captured in several frameworks. For example, Dwyer et al. (1987) described the relationship development process through a linear model involving five distinct stages (awareness, exploration, expansion, commitment, and dissolution). Ring and Van de Ven (1994), on the other hand, conceptualized this as a cyclical process, suggesting that difficulties in a relationship might just as well lead to reconciliation and new development as to dissolution (Vanpoucke et al., 2014).

While the overall developmental processes have been conceptualized through different multi-stage and lifecycle models, the dissolution stage and termination of relationships have also been the subject of various models, even though empirical research in this field remains sparse (Pick, 2010). In a conceptual paper, Halinen and Tähtinen (2002) identified the different stages in the business relationship-ending process: an assessment stage, in which the parties start to evaluate the relationship; a decision-making stage, during which the parties execute either a voice strategy – to restore the relationship – or an exit strategy, to terminate it; and a dyadic communication stage, in which the parties use different strategies to communicate the potential ending. After this stage, if the parties have elected not to restore the relationship, it moves into a disengagement stage, during which business exchange starts to decline, and a network communication stage, at which the decision is communicated to other network actors. Finally, the ending reaches the aftermath stage, in which the parties jointly develop a narrative of the relationship to explain the dissolution within their respective companies and their networks. While this model explains how relationships end, it does not explain the process by which the ending of one relationship takes place at the same time as it is replaced with a new one; in other words, the switching process. Most of the research on dissolution of business relationships still focuses on the ending processes of the old relationship, and largely ignores the establishment of the new relationship (Tähtinen and Havila, 2013). However, switching refers not only to the conclusion of an existing relationship, but also to the establishment of a new one.

In recent years, supplier-switching in business relationships has received increasing attention in different fields: these include marketing (Heide and Weiss, 1995; Wathne et al., 2001; Ferguson and Johnston, 2011; Geiger et al., 2012); purchasing and supply management (Demski et al., 1987; Gadde and Mattson, 1987); and operations research (Wagner and Friedl, 2007; Friedl and Wagner, 2012). Most of this literature has focused on the supplier-switching decision, and whether a buying firm should switch an existing supplier for a new one or instead choose to develop further the relationship with the old supplier (for example, Friedl and Wagner, 2012). It is acknowledged that buyers are reluctant to switch suppliers, and that firms tend to maintain previous practices and decisions. Factors that have been found to influence the switching decision include a salesperson's customer orientation (Jones et al., 2003), relationship equity (Low and Johnston, 2006), customer dissatisfaction (Ferguson and Johnston, 2011), and perceived relationship value (Geiger et al., 2012). Another factor is information asymmetry (Wagner and Friedl, 2007), which relates to an assumption of bounded rationality and the notion that even when actors attempt to behave rationally, they will encounter cognitive limitations. A lack of information about a potential new entrant's hidden characteristics (Wagner and Friedl, 2007) and uncertainty about the cost structures of both the incumbent supplier and the alternative supplier are likely to induce the buyer to retain an existing supplier (Friedl and Wagner, 2012).

According to the literature, switching costs – which typically refer to a customer's perceived costs in switching suppliers