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The status of purchasing and supply management in Finland and Russia

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ABSTRACT

Previous studies have shown that long-term planning, collaborative supplier relationships and supply management capabilities reflect the strategic role and importance of purchasing and supply management (PSM) in firms, regardless of the nature of the business. This study examines how these elements behave in different business environments, such as in Western countries and emerging economies. Finland and Russia were chosen to represent two extremes in terms of international economic competitiveness and the business environment. A survey was conducted in both countries. Regression analyses were run from both samples to examine the effects of long-term planning, collaborative supplier relationships and supply management capabilities on the status of PSM by using data from 100 Finnish firms and 208 Russian firms. The results showed that these elements positively influence the status of PSM in both countries.

1. Introduction

The growing importance and strategic role of purchasing and supply management (PSM) is frequently mentioned in supply management research. First, supply management has recently assumed higher significance due to the strong reliance on outsourcing. Companies have increasingly concentrated on their core capabilities in order to become more specialised, and have thus focused on a limited set of activities (Gadde and Håkansson, 2001). Second, buying firms need to construct and manage strategic supplier portfolios and set up strategic supplier management systems in order to tap the potential and capabilities of the supply base and individual suppliers (Wagner and Johnson, 2004). Third, it has been shown that the buying firm's buyer–supplier relationship management practices support the attainment of the buying firm's competitive strategy through supplier firm improvements (Wagner, 2006). A well-known example of this is the Finnish ICT company Nokia, where suppliers have become an essential part of their technology strategy aimed at improving the competitiveness of the buying company (Virolainen, 1998).

Several studies have suggested that long-term planning, collaborative supplier relationships and supply management capabilities are the factors that reflect the importance and strategic status of PSM (Carter and Narasimhan, 1996; Carr and Smeltzer, 1997, 2000; Carr and Pearson, 1999). However, there is not much research on how these factors behave in different business environments, such as in Western countries and emerging economies (Ghauri et al., 2008; Lorentz, 2008). In this study Finland and Russia are chosen to represent two extremes in terms of international economic competitiveness and the business environment. Finland represents a traditional Western business environment, whereas Russia is an example of a fast-growing emerging economy. A survey is conducted in both countries and possible differences concerning strategic PSM are examined. The focus of the study is to find out whether long-term planning, collaborative supplier relationships and supply management capabilities have positive impacts on the status of strategic PSM in these two different samples. In this context a further aim of the study is to identify the most influential elements of strategic PSM.

The paper begins with a short review of the main differences between the Finnish and Russian business environments and behaviour. The theoretical underpinnings of the study and the main variables included in the research model are presented next. Hypotheses are formed and the explanatory power of each element is examined by means of regression analysis. Finally, the results and managerial implications of the study are discussed and further research directions proposed.

2. Main differences between the Finnish and Russian business environments

Businesses and business managers have a relatively short operational history in Russia in comparison with Finland. The

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business environment in Finland could be characterised as stabilised, whereas in Russia entrepreneurial conditions are in a constant process of change. Similar differences are visible when the two countries are compared in terms of foreign direct investment (FDI): even though Russia has multiplied its FDI stock in recent years, it is still modest when measured per capita. From a foreign investor's viewpoint, the Russian business environment, as an emerging economy, is still uncertain. This hampers wider investment flows, despite the fact that the Russian GDP has been growing by 7% annually for the past five years, whereas in Finland economic growth has been 2–3%. Productivity is, however, the keyword that has been associated with Finnish performance in international competitiveness rankings. (Statistics Finland, 2006; UNCTAD, 2006; Rosstat, 2006, 2007)

Russians have not grown up in an environment that constantly offers choices, encourages the taking of responsibility, or focuses on the satisfaction of individual needs (Czinkota, 1997). Furthermore, Russian business practices and the Russian labour force matured late, during the past 15 years (Kets de Vries et al., 2004). Nowadays there are more individuals with a Western business education and experience, and even those with no international experience have often been exposed to Western business concepts, which are included in the curricula at Russian universities.

Finnish companies have a rather long experience of PSM and of managing buyer–supplier relationships. In this respect Russia provides an interesting basis for comparison—not only in terms of differences in current enterprise structures but also in taking into account the pace of development. In order to survive in the rapidly changing transitional business environment at the beginning of the 1990s, Russian firms suddenly had to establish reliable supply chains and to pay attention to their existing customer base, both of which were new to them (Hill, 1998). In addition, as foreign investors started to appear with modern organisational ideas, Russian companies had to find new ways in which to improve their competitiveness.

Tretyak and Sheresheva (2005) have concluded from their research on Russian retail chains that most local companies in Russian retailing still regarded the selling firms as adversaries rather than collaborators, and therefore preferred to optimise single transactions instead of building long-term connections. Few managers really understand the role of intangible assets, and relational assets in particular, as an essential factor of their competitiveness and profit-generating capacity. Moreover, Russian companies have to struggle with foreign competitors, and thus Russian chains have to commit themselves to building long-term exchange relationships with their customers and suppliers. Critical questions concern where to find strategic business partners and how to establish relations with them, given the fact that suppliers demonstrate much less readiness to engage in long-term win–win collaboration.

Lorentz (2007) have studied Finnish companies' supply networks in Russia and found that in terms of cooperation there was more activity with customers than with suppliers. Key areas of cooperation included sales administration, distribution and customer-relationship management, while IT systems implementation was notably lacking in integration efforts. Furthermore, the respondents were cautious in hailing great performance improvements from supply-network cooperation—only minor positive effects were reported. In the following section the theoretical view points of this study are described and applied to this context.

3. Theoretical underpinnings

The theoretical starting point of this paper is two-fold: transaction cost economics (TCE) and the resource-based view (RBV), which are widely adopted in PSM research (Wagner, 2006). Both TCE (Coase, 1937; Williamson, 1979, 1981, 1986) and RBV (Penrose, 1959; Wernerfelt, 1984; Barney, 1991) are organisational theories aiming to explain why firms exist and how they are able to achieve competitive advantage.

Transaction costs are the costs that arise from negotiating and executing a contract and settling disputes between companies. They affect the firm's decisions in terms of how it organises its activities—whether to move towards vertical integration, i.e. doing things itself, or market exchange, i.e. buying and outsourcing. A high level of transaction costs, environmental uncertainty and asset specificity guide firms towards vertical integration. However, a high degree of transaction frequency, mutual dependency and the opportunity to share risks and information point in the direction of market exchange and cooperation (Blomqvist et al., 2002).

The RBV stresses the internal aspects of a firm and that the parameters of its competitive strategy are critically influenced by its accumulated resources. Resource heterogeneity may be a source of competitive advantage. If the resources and their related activity systems have complementarities, together they have the potential to create sustainable competitive advantage (Barney, 1991; Eisenhardt and Martin, 2000). Moreover, according to Cox (1997), sustainable competitive business success is achieved, for individuals or companies, through the flexible ownership and/or control of critical value-net assets, which cannot be replicated or replaced by existing or potential competitors.

The principles of TCE and RBV emphasise the interaction between a buying company and its suppliers to be a way in which a company could improve its competitiveness and meet environmental trends and challenges. Long-term cooperation with suppliers enables buying firms to integrate certain resources with a view to coordinate and align the business processes to support joint value creation. Thus, internal and external resources are combined to increase the effectiveness of purchasing and supply management and enhance firms' ability to face challenges from competition and the external environment.

3.1. *Strategic supply management*

The evolution from purchasing to strategic supply management has been well documented over many years (see e.g., Cousins and Spekman, 2003). The supply management portfolio model of Kraljic (1983) was the first comprehensive portfolio approach presented in the field of supply management. Kraljic underlined the importance of supply management in the firm's business. He pointed out that firms must recognise what kind of supply risk and profit impact is involved in their supply base. Strategic supply management has been defined as "the process of planning, implementing, evaluating, and controlling strategic and operating purchasing decisions for directing all activities of the purchasing function toward opportunities consistent with the firm's capabilities to achieve its long-term goals" (Carr and Smeltzer, 1997, p. 201).

Narasimhan and Das (1999) have widened the concept to cover supplier relationships. They argue that using supplier networks gives firms manufacturing capabilities without having to make capital investments, referring to strategic make-or-buy choices and outsourcing decisions. Carr and Pearson (1999) take a parallel approach. They describe strategic supply management as an investment by a buying firm in the transaction-specific assets that could lead to benefits from vertical integration without the costs of actual ownership. Moreover, Ellram and Carr (1994) have argued that there are three different approaches to the formation of a supply management strategy: (1) the company may define