



LUT School of Business and Management

Bachelor's Thesis, Business Administration

Supply Management

Supplier development initiatives effects on the buying firm's performance

Toimittajien kehittämisaloitteiden vaikutus ostavan yrityksen suorituskykyyn

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ABSTRACT

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The aim of this bachelor's thesis is to investigate the supplier development initiatives that are affecting the buying firm's performance. Furthermore, the goal is to identify to which factors of the buying firm's business those initiatives are affecting based on the Triple Bottom line -model. The study is conducted as a qualitative case study with two case companies. The empirical part of the study is based on the interviews conducted with the representatives of the case companies.

Supply chain management plays a huge role in today's business as ever-increasing competition has made the buying firms to outsource their operations. In supply chain management, supplier development has an important role, and the identification of the suppliers' deficiencies has become more critical. Successful supplier development can increase the performance of the supplier, which is further affecting the buying firm's performance. For that reason, it is necessary to recognize those initiatives that have effects on different factors of the buying firms' business.

The study showed that the supplier development initiatives do have direct and indirect effects on the buying firm's performance. Initiatives that emerged during the interviews were audits, site visits, training and education, feedback, bidding, evaluation, direct investments, relationship management, and supplier recognition. These initiatives are affecting the buying firm's social, economic, and environmental performances.

TIIVISTELMÄ

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Hakusanat	Toimittajien kehittäminen, Triple Bottom line, toimittajavalinta, toimittajasuhteiden hallinta, ostava yritys, toimitusketjun hallinta

Tämän kandidaatintutkielman tarkoituksena oli tutkia toimittajien kehittämisen keinoja, jotka vaikuttavat ostavan yrityksen suorituskykyyn. Lisäksi tavoitteena oli tunnistaa, mihin osa-alueeseen ostavan yrityksen suorituskyvyssä nämä toimittajien kehittämisen keinot vaikuttavat, perustuen Triple Bottom line -malliin. Tutkielma toteutettiin kvalitatiivisena tapaustutkimuksena, kahden tapausyrityksen otoksella. Tutkielman empiirinen osa perustuu tapausyritysten edustajien kanssa toteutettuihin haastatteluihin.

Toimitusketjun hallinnalla on suuri rooli nykypäivän liiketoiminnassa, sillä jatkuvasti kiristynvä kilpailu on pakottanut yritykset ulkoistamaan toimintojaan. Toimitusketjun hallinnassa toimittajien kehittämisellä on tärkeä rooli, ja toimittajien puutteiden tunnistaminen on noussut entistä kriittisemmäksi. Onnistunut toimittajien kehittäminen voi parantaa toimittajien suorituskykyä, mikä edelleen vaikuttaa ostavan yrityksen suorituskykyyn. Tästä syystä on tärkeää tunnistaa ne toimittajien kehittämiskeinot, jotka vaikuttavat eri osa-alueisiin ostavan yrityksen liiketoiminnassa.

Tutkielma osoitti, että toimittajien kehittämisen keinoilla on sekä epäsuoria, että suoria vaikutuksia ostavan yrityksen suorituskykyyn. Keinot, jotka nousivat esiin haastattelujen aikana ovat auditoinnit, paikan päällä käynnit, toimittajan henkilöstön harjoituttaminen ja kouluttaminen, palautteen antaminen, kilpailutus, arviointi, suorat investoinnit, toimittajasuhteiden hallinta,

tunnukset toimittajalle. Nämä keinot vaikuttavat ostavan yrityksen sosiaaliseen, taloudelliseen ja ympäristölliseen suorituskykyyn.

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1. Introduction

Today's business is getting more competitive and global, and the competing firms have realized that by outsourcing their non-core competencies, they are able to make their business more flexible and allocate resources there, where it is most profitable. By doing this, the firms are able to focus on their core competencies and reduce costs and gain a competitive advantage. However, increasing outsourcing makes firms more dependent on their suppliers and they need to increasingly rely on them. This leads to a situation, where it is critical that suppliers are able to meet the buying firm's supply needs for example in terms of product quality, delivery time, and cost-effectiveness (Krause, Handfield & Scannell 1998). If the supplier is unable to fulfill the buying firm's demands, there are several options for the buying firm: switch the existing supplier to the alternative, work with the existing supplier, and invest time and money to develop its performance or manufacture the product itself. Due to the high costs of switching suppliers and the uncertainty of looking for a better source of supply, the buying firm could decide to work with the supplier and start a supplier development process. This make-or-buy decision making is much dependent on both, the buying firm's capabilities and the nature of the product. (Krause & Ellram 1997; Krause et al. 1998) Due to increasing outsourcing, supply chain management plays an important role in today's business and the buying firms need to continuously manage and develop their supply chains to gain a competitive advantage. The effectiveness of the supply chain is dependent on the performance of the suppliers, which can be increased via supplier development. However, buying firms have reported supplier deficiencies in areas of quality, delivery, cost reduction, financial health, new technology adaption, and product design. (Krause et al. 1998)

A lot of research has been done on supply chain management. However, less attention has been paid to supplier development initiatives and how these initiatives affect the purchasing company when the development activities are successfully implemented. The identified research gap is broadly discussed in the literature review. This study aims to examine and describe the effects of supplier development initiatives on the buying firm's economic, social, and environmental performance. In addition, the goal of this study is to find the linkage between the particular initiative and the factor of the performance.

The remainder of the study is organized as follows: In the second section, the study takes a brief look at the relevant literature on supplier development and the most well-known initiatives of supplier development and Elkington's (1994) triple bottom line, which includes the examination of the firm's economic, social, and environmental performance. Besides, in the second section, the make-or-buy decision making, which supplier should be developed, and the buyer-supplier relationships will be examined. The third section includes the basics of qualitative research and the methodology of data collection and data analysis. Next, the findings of the study will be examined, and the study closes with the conclusions. For this study, the main research question was set as follows:

How does the supplier development initiatives effect on the buying firm's performance?

And three sub-questions were set as follows:

Which initiatives effects on the buying firm's economic performance?

Which initiatives effects on the buying firm's social performance?

Which initiatives effects on the buying firm's environmental performance?

In section four, the answers for the set research questions will be presented according to empirical analysis. In the final section, the limitation of the study will be discussed, and future research proposal will be addressed.

2. Literature review

The literature review represents the existing literature, which is relevant for this study. The literature review is based on academic literature on supplier development and its initiatives, supply chain management, buying firm's performance, supplier relationship management, and supplier selection. There are many various studies dealing with supplier development and its effects on the supplier's performance in the last ten years. However, a few studies dealing with supplier development and the buying firm's performance have been found. According to Scopus (20.10.2020), there are over 10 000 studies dealing with supplier development and almost 2 500 studies dealing with supplier development and supplier performance between the years 2010 and 2020. However, in the same time span, there are over 1 600 studies which are dealing with supplier development practices, and 31 studies which topic includes supplier development and buying firm performance. These results have been found by searching

studies on which topics include the words supplier development, supplier development supplier performance, supplier development practices, and supplier development buying firm performance. The summary of the searched studies sorted by the year is available in appendix 1. Humphreys, Li & Chan (2004) mentioned that the nature of supplier development has been studied a lot when the linkage between the supplier development and the performance outcomes has received less attention and this study is aiming to fill the identified research gap.

Increasing outsourcing has made firms more dependent on their suppliers and they need to rely on and trust their suppliers. In addition, the product life cycles have shortened, by the globalizing markets and the increasing pace of development. Hence, the buying firms are requiring more from their suppliers in terms of product quality, flexibility, reliability, and innovation. (Routroy & Pradhan 2013) Developing and cooperating with suppliers could help the buying firms to ensure that they get their products from the suppliers on time and the product's quality is the best possible. Additionally, via supplier development, it is possible to gain a competitive advantage in competitive and globalized markets. Supplier development has been described in various ways by many various authors. In this study, supplier development is defined as Krause (1997) defined it:

“Any effort of a firm to increase performance and/or capabilities to meet the firm's short- and/or long-term supply needs.”

Other definitions of supplier development sorted by the authors are listed in Table 1. The table is created according to the literature used in this study and it does not represent every well-known definition of supplier development. However, it represents those definitions that have been cited in various articles that have been used when conducting this study.

Table 1 The definitions of supplier development

Authors	Definitions
Krause, D. & Ellram, L. (1997)	Any effort of a buying firm with its supplier to increase the performance and/or capabilities of the supplier and meet the buying firm's supply needs
Krause, D. (1997)	Any effort of a firm to increase performance and/or capabilities to meet the firm's short- and/or long-term supply needs
Krause, D., Handfield, R. & Scannell, T. (1998)	Any set of activities undertaken by a buying firm to identify, measure and improve supplier performance and facilitate the continuous improvement of the overall value of goods and services supplied to the buying company's business unit
Park, J., Shin, K., Chang, T. & Park, J. (2010)	Supplier development is a process that improves the supplier's performance
Routroy, S. & Pradhan, S. (2013)	Manufacturing companies are putting resources and efforts to improve the supplier capability if it is not up to the expectations. SD may be a short-term effort or long-term effort undertaken jointly by both the supplier and manufacturer

Supplier development as a concept is quite broad and there are many different definitions. However, the main idea is to cooperate with the supplier and thereby gain an advantage over competitors by using various activities which are aimed to improve the supplier's business practices. There are different strategies to implement the supplier development activities and every firm is implementing its strategy for supplier development based on the supplier evaluation. It is difficult to say, whether the supplier development program produces the desired outcome, but when it does, it is possible to gain significant performance changes in the supply chain, depending on how much does the developed supplier affects the supply chain's performance. Hence it is important to evaluate and identify the most critical suppliers of the supply chain and allocate supplier development resources there.

As the suppliers are part of the buying firm's supply chain, the management of the supply chain is important for ensuring the continuous supply flow and future supply needs. Via management and evaluation, it is possible to locate possible deficiencies of the supplier and thus begin the supplier development program. Supply chain management has an enormous role in this process.

2.1 Supply chain management

Supply chain management is in today's business an important factor to consider and it has been seen as a source of competitive advantage. Requirements from the customers and increased transparency have made supply chains more visible for anyone, which has increased the importance of the supply chain's social performance. The supply chain could be described

as a sequence of events, that is ensuring the products' way from conception to consumption and are covering the whole life cycle of the product, and supply chain management could be described as strategic coordination of business functions within the supply chain for the performance improvements of the supply chain. (Blanchard 2010; Yawar & Seuring 2018)

Due to the dynamic nature of the markets, the members of the firm's supply chain cannot be independent actors and it is important that there is a close relationship between the buyer and the suppliers. Additionally, supply chains have become more prone to disruptions due to increasing outsourcing, globalization, and supply base reduction. (Yusuf, Gunasekaran, Musa, Dauda, El-Berishy & Cang 2014) Any deficiencies in the supply chain may harm the firm's economic performance or cause major damage to the firm's reputation, which may have a huge effect on the firm's capabilities to continue its business. For this reason, to ensure the continuous on-time supply flow and business continuity, the buying firm must take into account the supply chain management and the performance of the suppliers that need to be managed and developed (Krause et al. 1998). The management of the supply chain includes many key processes, which are adding value for stakeholders and customers of the firm, and it could be seen as an integrative philosophy to manage supply flow from the supplier to the customer. (Cooper, Lambert & Pagh 1997; Cooper & Ellram 1993)

2.2 The relationship between the buying firm and the supplier

The relationship between the buying firm and the supplier has an effect on the performance outcome of the supplier development process. The more strategic way to manage those relationships is collaboration with suppliers, which could be characterized by long-term contracts, and cooperation with the supplier for joint benefits. In contrast, the reactive way to manage the relationship between the buying firm and the supplier is called a transactional relationship, which could be characterized by using multiple suppliers for one purchased item to create competition and use of competitive bidding for the lowest possible price. (Krause et al. 1998) The longer relationship between the buying firm and the supplier seems to be related to the proactive approach of supplier development and one of the most critical elements of the successful buyer-supplier relationship is the effective communication between the parties.

The buyer-supplier relationship is evolving more and more into a partnership, and old habits of competition to maintain low purchasing prices and supplier switching are changing due to

the high costs of searching for alternative suppliers. (Krause & Ellram 1997) The implementation of the collaborative relationship management approach has led to the increased joint problem-solving and strategic supplier integration thus the competitive advantage and success consist of the strength of the whole supply chain. (Stuart, Verville & Taskin 2012) Managing and developing the strength of the supply chain could be challenging, as the supply chains are becoming longer and more complex due to increasing outsourcing and globalization. To achieve the benefits of the collaborative and strategic relationship, both parties must establish trust and avoid opportunistic behavior (Stuart et al. 2012). The supplier development initiatives are requiring mutual trust to succeed and according to Li, Humphreys, Yeung & Cheng (2007), trust and joint actions are the most critical factors of supplier development for increasing the buying firm's performance. The next section is taking a brief look at those initiatives, and how they can be categorized according to the involvement of the buying firm.

2.3 Supplier development initiatives

For developing suppliers, there are many actions that a buying firm could use. These supplier development initiatives vary on how complex the implementation is and how much does that initiative need the buying firm to involve. The initiatives can be sorted into three categories: basic, moderate, and advanced supplier development initiatives. The basic supplier development practices are those which require the most limited buying firm involvement, and these practices are most likely to be implemented first when the need for supplier development exists. Moderate supplier development practices require moderate buying firm involvement and implementation complexity. The advanced supplier development practices could be described as a high-level implementation complexity and buying firm involvement. The advanced supplier development requires greater use of the buying firm's resources than basic or moderate supplier development practices. (Sanchez-Rodriguez, Hemsworth & Martinez-Lorente 2005)

According to Krause et al. (1998), supplier development could be divided into strategic and reactive processes. In the strategic supplier development process, the buying firm should allocate the resources to the supplier to develop its performance and avoid any deficiencies, while a more reactive way to act is to develop suppliers when the deficient of the supplier threatens the buying firm's abilities. Additionally, Krause (1997), argues that the firms who

are implementing the strategic supplier development process, are more willing to use time and resources for identifying the key suppliers and cooperating with suppliers for cost reductions. Furthermore, supplier development initiatives could be sorted to limited and extensive activities by the involvement of the buying firm. By cooperating with the supplier and allocating more time and resources to the supplier development process, the buying firm is able to achieve better results than not implementing that supplier development strategy. (Krause 1997; Krause & Ellram 1997). Next, there will be initiatives examined and described and they will be categorized by the criterion mentioned in this section.

2.3.1 Bidding process

Depending on the nature of the sourced product, it is possible to use one or multiple suppliers to ensure continuous supply flow and on-time deliveries. Based on Kraljic's (1983) portfolio model (Table 2), the leverage items are those for which multiple suppliers can be used. Additionally, Gelderman & Van Weele (2003) are arguing that the buying firm should exploit its buying power for leverage items. Using multiple suppliers includes the usage of four or more suppliers and there is no need for a commitment to the buying firm. For that reason, this particular supplier development initiative could be categorized into a limited supplier development activity. The use of multiple suppliers has been considered as a traditional approach, where creating competition among the suppliers leads to the increased price performance of suppliers. However, the increasing price performance may cause deficiencies in the quality of sourced products among the suppliers. (Krause 1997) Using multiple suppliers is categorized into a basic supplier development practice and there is strong evidence that the basic supplier development practices are affecting strongly positively the buying firm's purchasing performance (Sanchez-Rodriquez et al. 2005).

2.3.2 Providing feedback

The buying firm could provide feedback to the supplier about its performance if the supplier is not able to meet the buying firm's requirements. The provided feedback is an important part of the supplier assessment process, and it may include the improvement target set by the buying firm (Wagner & Krause 2009). According to the feedback provided, the supplier is able to recognize its deficiencies and could develop its performance. Providing feedback could be seen as a part of the collaborative supplier development process and those firms whose

supplier development results exceeded, are more willing to provide feedback and thus further develop its suppliers (Krause & Ellram 1997). Providing suppliers with feedback about their performance or future performance targets is categorized as a basic level of supplier development activity (Sanchez-Rodriguez et al. 2005). Additionally, providing feedback could be seen as a limited supplier development activity (Krause 1997). However, without providing feedback, it could be challenging to identify any deficiencies and the need for the supplier development process, which could be a barrier to the buying firm's performance increase.

2.3.3 Site visits

Visiting the supplier's site is one way to improve the supplier's performance and increase supplier's awareness of the product they are producing for example via process assessments (Sanchez-Rodriguez et al. 2005). Compared to the first described initiative, using multiple suppliers, site visits require more involvement from the buying firm. Hence, Krause (1997) has categorized the site visits in between the limited and extensive supplier development practices. Furthermore, the site visits require the commitment of the buying firm in the form of resource and time investments. Sanchez-Rodriguez et al. (2005) have categorized the site visits into a moderate supplier development practice and there is evidence that the moderate supplier development initiatives are affecting positively to the buying firm's purchasing performance. Due to the nature of the practice, the implementation could be challenging especially for the small and medium-sized enterprises.

2.3.4 Training or education of supplier's personnel

Training and education of supplier's personnel are, compared to the first two, more hands-on and cooperative practice, and it requires direct firm involvement. These kinds of practices are involving the buying firm expending its resources to increase the supplier's performance. For that reason, training or education supplier's personnel is categorized into extensive supplier development practices. (Krause 1997) Based on the nature of the practice, it is possible to say that it requires much more time and resources from the buying firm, and it may take a lot of time to achieve the desired benefit. Furthermore, direct involvement practices include a risk to the buying firm. For example, the benefits of direct investments are unrecoverable for the buying firm if the relationship between the buying firm and the supplier is dissolved. (Krause, Scannell & Calantone 2000) However, Sanchez-Rodriguez et al. (2005) have shown that the

advanced supplier development practices, which includes training or education of supplier's personnel, are affecting positively the buying firm's purchasing performance.

2.4 The buying firm performance – Triple Bottom Line

This study aims to find the linkage between supplier development initiatives and the buying firm's performance. Elkington's (1994) sustainability framework, which includes social, economic, and environmental sectors known as the triple bottom line, serves as a framework for the buying firm's performance. However, this study does not examine the sustainability of the buying firm, but the effects of the initiatives on these three factors. Figure 1 presents the conceptual framework of this study, which is based on the triple bottom line.

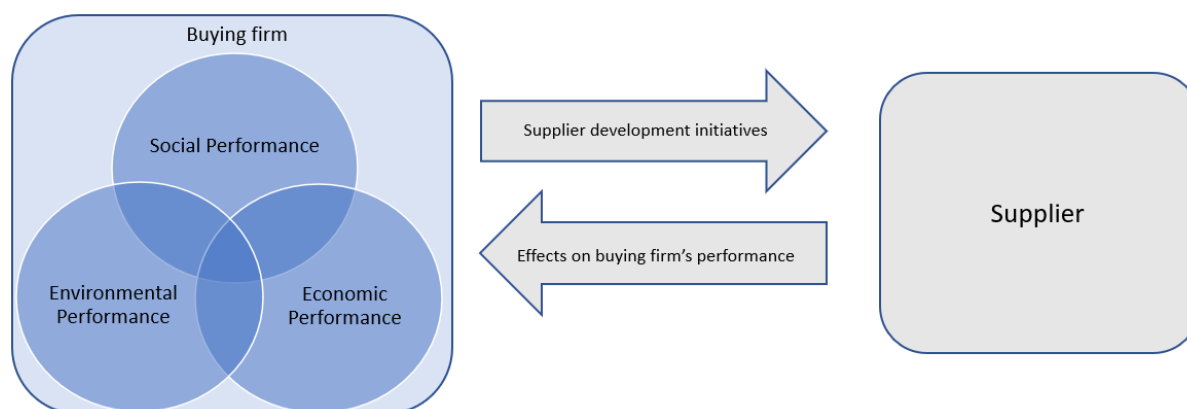


Figure 1 The conceptual framework (Elkington 1994)

According to Elkington (2018), the idea of the triple bottom line was to encourage firms to track and manage economic, social, and environmental value and to provoke deeper thinking about the future. Sustainability has increasingly affected many firms and on their way to do business. Especially social and environmental factors, and corporate social responsibility have had more and more attention in recent years. Hence it is justified to use the triple bottom line as a framework for the measurement of the buying firm's performance. Based on the factors of the Triple Bottom Line, there will be a couple of financial ratios described next. These financial ratios are used to measure the supplier development initiatives' effects on the firm's performance. Additionally, with these ratios, it is possible to measure that, how much the effects of the initiative on the economic performance is. After the economic part, the two last factors of Elkington's triple bottom line, social and environmental, will be discussed.

2.4.1 Economic

The firm's economic performance is measured via different financial ratios which are made based on the firm's financial statement. The financial statement offers a lot of information about the firm's economic performance. In this study, economic performance is described in terms of cost reduction and profit growth. The cost of sales consists of all costs incurred during the accounting period and in this study, profit is described as earnings before interests and taxes (Leppiniemi & Kykkänen 2019). Hence, for this study, the most important part of the financial statement is an income statement. The income statement offers the firm's total transactions that have occurred in the accounting period. The main target of the income statement is to show how profitable the firm has been during the accounting period. (Bertonéche & Knight 2001) Procurement could cover on average 50-70% of the firm's turnover, which means that it has a notable impact on the firm's business. Therefore, it is possible to gain notable savings by reducing procurement costs. Krause & Ellram (1997) showed that those firms, whose results of supplier development activities exceeded, was more willing to put more intense effort into those activities and gained superior increases in quality levels.

2.4.2. Social

The second factor of the buying firm's performance in this study is social performance. Nowadays customers' increasing awareness of the product requires firms to be more transparent while the customers are requiring more specific product information than earlier. According to Carroll (1979), social issues include four sections, which are legal, economic, ethical, and discretionary responsibilities. These responsibilities together create the firm's total social responsibility and the firm's social performance requires that any of these issues are assessed and identified. Social responsibilities are increasingly discussed, and any neglect of social responsibility is a risk for the firm. Hence, the social performance of the firm does not only affect a firm's internal factors such as employees and management but also external stakeholders and for that reason, it is possible to say that the firm's social performance causes external effects. In addition, that is the reason why the firm's social performance could be linked to the firm's economic performance. (Schreck 2009)

2.4.3 Environmental

The environmental performance could be hard to define, because it includes a lot of various factors, such as water usage, recycling, and hazardous waste management. The firm's environmental performance depends on the firm's capabilities and resources to meet environmental requirements. Zhu, Sarkis & Lai (2008) argues that the environmental performance consists of such factors as reduction of air emissions, reduction of wastewater, reduction of solid wastes, a decrease of consumption for hazardous/harmful/toxic materials, decrease of frequency for environmental accidents, and improvement of an enterprise's environmental situation. In this study, this definition of environmental performance is used.

The sustainable performance of the buying firm has raised to highly important factor to be assessed and according to Kähkönen, Lintukangas & Hallikas (2018), the firm's sustainable supplier development practices are shaping that how the firm is managing and implementing sustainability in their supply management. Additionally, the buying firm relies on its suppliers and the entire supply chain, so one can say that the buying firm's total environmental performance consists of the sum of the efforts of its suppliers and the firm itself (Grosvold, Hoejmose & Roehrich 2014). This finding shows that the environmental performance of the buying firm consists of both internal and external factors.

In today's business, when the awareness of the customers has increased and the transparency of the business is demanded, the buying firms must take into consideration the impact of the sustainability of their business's profitability. Tate, Ellram & Dooley (2012) found out that the firms are noticing this effect and are increasingly engaging in environmental practices based on its possibility to increase revenue or minimize costs. In addition, Green, Zelbst, Meacham & Bhaduria (2012) showed that the firm's environmental performance is positively associated with the firm's economic performance.

2.4.4 The linkage between economic, social, and environmental performances

As mentioned earlier, firms' social and environmental issues have been increasingly discussed in recent years. Due to the increased awareness and demands of the consumers, these issues should be taken into account in business. Hence it could be said that these issues have affected many firms' ways to do business and further their economic performances. Schaltegger & Wagner (2006) showed that the social issues have affected firms' businesses and it has been

reported that such social issues as purchasing from a supplier involving child labor have reduced the sales of the firms. The effect of social and environmental factors on the economic performance could additionally be positive as environmental and social activities together with the firm's core competencies could gain a competitive advantage and have a direct influence on a firm's economy for example via reduced costs (Schaltegger & Wagner 2006). The economic performance of the firm has often been described via the profitability of the firm. In addition to profitability, the economic performance consists of the value that the firm is creating for its stakeholders. For that reason, paying salaries and taxes could be additionally seen as a factor of economic performance when talking about the aspect of social sustainability. (Niskala, Pajunen & Tarna-Mani 2015) A firm's social reputation can also affect the cost of labor as a good reputation can reduce the recruitment costs, and people who are proud of the firm for which they are working are enhancing the goodwill of the firm (Ambec & Lanoie 2008). Additionally, Ambec & Lanoie (2008) argued, that increasing environmental performance firms could be able to gain an increase in their revenue while they get better access in certain markets and are able to differentiate their products. Increased environmental performance can also lead to cost reduction in terms of material, energy, and labor. Furthermore, increased environmental performance affects external stakeholders and reduce the risk associated with these relationships. (Ambec & Lanoie 2008)

2.5 Supplier selection for future development

From an economic point of view, it is not profitable to develop every one of the existing suppliers. There are many various criteria, such as supplier past performance, length of the buyer-supplier relationship, the potential of the supplier, and strategic benefits, which should be considered when selecting suppliers for the supplier development program because lack of cooperation and poor improvement in performance can lead to the failure of supplier development activity (Dalvi & Kant 2015). One of the most common tools for recognizing the potential supplier to develop is Kraljic's (1983) portfolio model, which includes leverage items, noncritical items, bottleneck items, and strategic items. The basics of the portfolio model are shown in Table 2.

Table 2 The basics of portfolio model (Kraljic 1983; Gelderman & Van Weele 2003; Friedl & Wagner 2012)

Importance of purchasing / the value of procurement	Leverage items -Multiple suppliers -Exploit purchasing power -Develop a strategic partnership	Strategic items -Supplier development -Vendor control -Maintain strategic partnership
	Noncritical items -Individual ordering -Product standardization -E-procurement solutions	Bottleneck items -Vendor control -Volume insurance -Reduce dependence and risk

Complexity of markets / difficulty of procurement

According to the portfolio model and Friedl & Wagner (2012), those suppliers who are providing strategic or critical products are requiring supplier development. Buying firms could have many various supply strategies and the number of suppliers in the firm's supply base vary according to the industry and the size of the business. Supplier selection is important for ensuring continuous supply flow and efficient purchasing. The supplier selection process is complicated as the suppliers can be evaluated in many different ways and every supplier has its own specialty. (Park, Shin, Chang & Park 2010)

2.5.1 Make-or-buy

Ever-increasing competition has led to the situation, where buying firms are outsourcing their non-core competencies and focusing on their core competencies. Hence the firms are dependent on their suppliers and it is crucial to make the right outsourcing decisions. Poor decision-making can lead to a situation, where the supplier is not able to meet the buying firm's criteria in the context of product quality, timing, or price. To avoid that situation, supplier evaluation and selection are crucial factors. However, it is possible that the selected supplier faces unexpected challenges and is not able to meet the buying firm's criteria which leads to situation where the buying firm needs to either search for an alternative supplier or cooperate with the existing one to develop its performance.

According to McIvor, Humphreys & McAleer (1997), the reason for the increasing outsourcing trend seems to be the disadvantages of, such as lack of flexibility and rapid market changes, with the “make” option. The supplier selection and the make-or-buy decision-making, for that reason, have become more important and the buying firms must consider that what they should outsource and what they should produce internally. The buying firms should only focus on their core competencies and outsource those activities that are not vital for the firm’s business. Additionally, if the activity does not have a lot of effect on the total value of the firm’s business, it should be outsourced and purchased on the open market. If the firm chooses to outsource the activity, the supplier evaluation and selection processes will follow. Firms, that are competing in global markets, must search for the most appropriate supplier worldwide and they are facing fierce competition. (Nikolarakos, & Georgopoulos 2001) However, it is argued that outsource decision are made in the context of short-term cost savings, despite the fact that it may not be the best option for the long-term business (McIvor et al. 1997).

3. Methodology

This study was conducted as qualitative research and more precisely as a case study. The qualitative method is well suited when the researcher aims to find the causal relationship between two actors (Metsämuuronen 2008). This study aims to find a causal relationship between the supplier development initiatives and the buying firm’s performance and for this reason, the qualitative method was chosen. Data collection is conducted via theme interviews as according to Metsämuuronen (2008), an interview is a suitable method when the aim is to get descriptive answers and the theme interview is a suitable method when interview questions are giving the framework within the interview is conducted. The aim of the interviews is to get an in-depth conversation with the interviewee about two themes set by the author: supplier development and effects on performance. The interview was possible to conduct in Finnish or in English. If the interview language was Finnish, the answers were translated into English and sent back to the interviewee for approval. After approval, the answers were transcribed and coded. The data was coded by highlighting the received answers with the same color, based on the linkage to economic, social, or environmental performance. With these coded answers, it was possible to make factors and create a linkage

between the initiative, mentioned by the interviewee, and its effect on the performance of their business. Interview questions are available in appendix 1.

The goal of the coding is to find a linkage between the supplier development initiatives that the buying firm conducts and the effect of these initiatives on the buying firm's performance itself. For that reason, a case study was chosen for this study as it has the ability to examine and describe complex, real-life business issues. Furthermore, the case study is the preferred approach, when the investigator does not have much control over the events and the study focuses on the real-life phenomenon. In addition, the case study is a valid method when the aim is to find answers to the questions with "how" and "why". It could be said, that a case study is closer to qualitative than quantitative research method, but the case study itself should be rather considered as a research approach than a study method, and both, qualitative and quantitative data could be used during the research. However, the case study has been criticized for its lack of scientific rigour. (Eriksson & Kovalainen 2008; Yin 2014) The qualitative research method can be divided into the deductive and inductive analysis. The inductive analysis aims to create a theoretical whole from the collected data and previous theories should have no effect on the empirical results. (Tuomi & Sarajärvi 2018) The inductive analysis was chosen for this study, as the study proceeds from empirical findings of the supplier development initiatives from the theoretical results of the effects on the performance of buying firm, and the study is not based directly on any exact existing theory.

3.1 Data collection

Data was collected via theme interviews, which were conducted remotely. The interviews started with a short brief and a description of the interviews' structure and specifications of the interviews were reviewed. Additionally, issues related to anonymization and data processing after the interviews were discussed. The planned duration of the interview was a maximum of 45 minutes, and the real duration stayed within the set framework in the case of both interviews as the average length of the interviews was 27 minutes. The interviews were conducted in Finnish and received answers were transcribed and translated into English. After the interviewees approved the answers and translations, the answers were coded according to factors of the buying firm's performance.

After the short brief, the interviews addressed the interviewees' backgrounds. This topic included questions about the interviewees' position, main responsibilities, work experience, and role in the organization's supplier development. The second part of the interviews was about the organization's supplier development, which was the first set theme of the interviews. Originally, the first theme included three questions about supplier development, but more questions arose during the interviews, and eight questions dealing with supplier development were discussed in both interviews. Third, and the last part addressed supplier development's effects on the performance. This theme included both, the effects on the supplier's and the buying firm's performances. Five questions were set for this theme, but with the increased number of questions during the interviews, the first interview included nine questions, and the second 14 questions dealing with the effects on performance. The aim of the interviews was to get an in-depth conversation with the interviewees, and this was partially successful as more specific questions were asked and the conversation was started on certain topics. All in all, the data obtained from the interviews are relevant to this study, and the questioning was relevant for this study, even though there could have been more questions in general. However, as the interviews are used as a primary source of data, secondary sources are additionally used. Companies are providing interim reports and financial statements, which are used to understand the firms' financial situation and procurement activities.

3.2 Sample

Interview requests were sent via email to randomly chosen Finnish large and medium-sized enterprises. Large and medium-sized firms were chosen as they could have more supplier development activities than small and medium-sized enterprises. First, the emails were sent to the local firms, due to limited possibilities to conduct face-to-face interviews, and later, they were sent on a wider scale around Finland. The aim was to reach people who were working in management positions with logistics and procurement. The first mail included interview requests and the topic of the study. If necessary, the second mail included interview questions and research questions. If a request was received, the structure of the interview was mailed to the possible interviewee to ensure that the modus operandi of the interview was clear. Eight requests were sent, three answers and two acceptance were received.

The interviewee from Company A was currently working with procurement and logistics as a development manager and had more than five years of work experience in procurement and logistics. In the current position, the interviewee is responsible for the design and development of their organization's supplier development processes. Due to the interviewee's area of responsibility, the view of the interview was more strategic than operative, and the interviewee itself does not involve in operative supplier development activities.

The interviewee from Company B has been working for more than five years in the current position as a procurement program manager. In this position, the interviewee is responsible for the group's procurement and the main responsibilities of the interviewee are global procurement development, supplier relationships, and sustainable procurement to mention a few. Due to the current position, the interviewee has a strategic perspective on the procurement process.

The interviewees' work histories and experiences are suitable for this study as the interviewees have worked in procurement management positions for more than five years. Therefore, it is justified to say that the interviewees have both, an operational vision gained through work experience and a strategic expertise, which has accumulated via the interviewees' current position. Even though the interviewees are not involving in the supplier development at an operational level, they have an understanding of the whole process. Table 3 summarizes the backgrounds of the interviewees.

Table 3 The interviewees' backgrounds

	Position	Main responsibilities	Experience	Role in the supplier development
Interviewee 1 Company A	Development manager	Development of sourcing processes, bidding, supplier management, supplier classification	Procurement and logistics more than five years	Developing common sourcing processes, defining common approaches, and developing audit systems
Interviewee 2 Company B	Procurement program manager, responsible for the Group's procurement	Global procurement development, supplier relationships, sustainable procurement, supplier innovations, internal education, skills development, development of the know-how, talent development in the procurement globally	More than five years	In the matrix, responsible for the Company's policies, processes, way to work. Creating the guidelines and instructions for the supplier development

As the table shows, both interviewees' have strong work experience in the field of procurement. The current positions of the interviewees are both strategic, which means that the interviews had a more strategic than an operational view.

4. Findings

The findings part presents the results of the interviews and an empirical view of the topic of this study. These findings are based on the themes discussed in the interview and the public reports the companies are providing. In the first two sub-sections, the supplier development processes of both companies are discussed. The aim is to find whether the companies have implemented the strategic or reactive supplier development strategy and to describe their supplier relationship management strategies. Furthermore, after these two sub-sections, the initiatives mentioned during the interviews will be identified and summarized in table 4. At the end of the findings chapter, the answers to the set research questions will be discussed.

4.1 The supplier development in Company A

The first received acceptance came from a Finnish company, referred to as Company A, which is operating in the forest industry. The headquarters of the company is located in Finland and they employ over 9 000 workers. In addition to wood, the company procures fibers, machinery, and chemicals. In its sourcing, the company tends to favor local suppliers and most of their sourcing is from countries, where they have production facilities. (Company A)

The company has taken sustainability in its procurement into account and they are aiming to ensure the sustainability of their supply chain via continuous evaluations and supplier development activities. The ethical and environmental principles of the suppliers are serving as a supplier selection criterion and every supplier must commit to the company's code of conduct. By requiring commitment, the company is aiming to ensure that every individual can operate safely when visiting the company's sites. Additionally, the required commitment aims to eradicate the risk of child labor and corruption. (Company A) In the economic aspect, it could be said that Company A has had a steady financial development during the last few years. Additionally, it seems that the economic performance of the company is at a good level. (Company A 2019)

During the interview, it becomes clear that supplier development has an important role in Company A, and they have allocated resources to the development of their supplier development process. The interview shows that the importance of supplier development is understood in Company A and they have recognized that the relationship between buyer and supplier is affecting the performance of both parties. The sustainability and the ethical principles are taken into account in the supplier selection process, as the code of conduct is serving as a supplier acceptance criterion. Additionally, the interview shows that Company A has understood the possibilities to increase the firm's performance via supplier development in every factor of business.

The supplier development in Company A can be defined as strategic, especially with the key suppliers. They have identified the most critical suppliers for their business via evaluation and classification processes. However, the classification and segmentation processes are still in progress, and they are aiming to further develop it. They are using many various supplier

development initiatives, which include both, strategic and reactive activities. The interviewee commented on their supplier development strategy as follows:

“We have had a certain way to develop our suppliers, for example audits. We are cooperating with the suppliers in product development, but at the supplier level, there is no documented plan for example how we are going to develop one exact supplier.”

The comment shows that Company A has certain practices for supplier development in general. Additionally, it seems that they are willing to help their suppliers if necessary, for example in product development. However, the interviewee mentioned that the company has a willingness to systematize their currently used practices. They have identified and categorized their key suppliers with whom they are aiming to achieve joint benefits. However, they have had nothing common process for the development of these key suppliers and that is the topic which they have under discussion:

“That is (the development of the key suppliers), in fact, exactly what we would like to systematize. We have had nothing common model for that, but it has been entirely category specific”

With continuous evaluation it is possible to recognize the supplier's development targets and if necessary, to start a development program. When starting the supplier development process, Company A is implementing first the limited supplier development initiatives, such as providing feedback. The continuous evaluation is providing information about the supplier's development after the completed development activities, and if no change is reported, more extensive initiatives are implemented. This approach requires resources and time from the buying firm as a lot of interaction is required between the parties and if the supplier is unable to develop its production, it could affect the buying firm's performance. After the development activities, the buying firms are expecting an increase in the supplier's performance. The increased performance of suppliers could affect the quality of the products they are producing, or the certainty of supply could be increased. The interviewee commented the Company A's expectations of the supplier development as follows:

“We expect to get cost savings, better products, general solutions to make our production and services work better. Additionally, we are expecting to get joint benefits, especially with the key suppliers.”

The expectations are more likely to materialize if the relationship between the parties is at a good level as the outcome of the supplier development is linked to the relationship between the buyer and the supplier. Relationship management could be divided into strategic and reactive. The strategic way is more effective in the aspect of the outcome of the supplier development activities as the trust and the partnership between the parties is developed more efficiently. As the relationship is considered as a strategic partnership, the mutual benefits and collaboration between the buyer and the supplier could be achieved. Especially with the key suppliers, Company A is aiming to develop their relationship and they are considering the key suppliers as business partners. By managing their relationship between the key suppliers, they are aiming to achieve joint benefits and reciprocal development:

“Especially for key suppliers, we have sought to consider them more as a business partners, so that the relationship is not just a buyer-supplier. We seek mutual benefits, and through cooperation we improve the operations of both parties.”

The other theme of the interview, the effects on performance deals with supplier initiatives' effects on the suppliers, and the buying firm's performances. When the outcome of the supplier development initiatives is positively correlated with the relationship between the parties, it could be said that the better the relationship between the parties, the greater the impact on the supplier's performance. Company A has used various supplier development initiatives, and the interviewee mentioned that the effect on the suppliers' performance has been noticed. To conclude, it could be said that Company A has used the supplier development initiatives to manage their relationships between their key suppliers. When the interviewee was asked about the supplier development initiatives effects on the supplier's performance, the answer was the following:

“Yes. If speaking from aspect of audits, the deficiencies and quality deviations identified in the audits have been remedied by agreed measures. If speaking from aspect of bidding, the financial benefits and extended payment period have been obtained, which is reflected in our financial situation. So, the answer is yes.”

It can be seen from the answer that, the development of suppliers affects the performance of suppliers but also of the purchasing company when talking about Company A.

4.2 Supplier development in Company B

The second acceptance received came from a Finnish company, referred to as Company B. According to the websites of Company B, the industries they are operating in are pulp, paper, and energy and they are employing more than 5 000 workers around Finland. Additionally, the headquarters of Company B is located in Finland. (Company B)

Procurement is a big part of the company's business, as they have an extensive supply chain, which includes thousands of suppliers around the world (Company B). The interviewee commented on the role of their supplier development in its procurement as follows:

"2/3 of our turnover goes to our suppliers as a spend, which means that our suppliers play a very important role."

As the suppliers have a big effect on Company B's business, they have developed a strategy for implementing sustainability into their procurement. Via this strategy and supplier evaluation, they are aiming to ensure that the suppliers are sharing their ethical principles, which are serving as a criterion for the supplier selection. Company B has a supplier code of conduct, which is establishing sustainable, social, and environmental principles and every supplier and business partner must commit to those principles. The company is providing annual financial reports. In the economic aspect, it could be said that the company has been able to increase its turnover in the last few years. Additionally, their operation margins have been increasing, despite the increased costs of procurement and production. (Company B 2019 & 2018) It could be said that Company B has a steady economic condition.

The suppliers have a big role in Company B's business, as mentioned. They have understood that developing suppliers and supplier relationship management can lead to a win-win situation between the parties and it is not only resource spending to the supplier's performance. Especially for the key suppliers, Company B is expecting them to provide value for their organization via commitment. Additionally, they are aiming to be a preferred customer for their suppliers. The interviewee's answers clearly show an understanding of the joint benefits of supplier development:

“We consider SRM and resource allocation to supplier development as a win-win situation. So, if we commit, so will our suppliers.”

“When we are more open and active towards them, we can see that they are also committed to us.”

Company B has thousands of suppliers, which they have categorized into different groups. They have identified the key suppliers and their cooperation is seen as a strategic collaboration. It can be seen that Company B has understood the importance of key suppliers and the benefits of the collaborative approach, but they are additionally aware of the importance of strategic objectiveness when cooperating with the key suppliers. The collaborative relationship between the buyer and the supplier is, as mentioned, affecting the outcome of the supplier development, but it is possible that knowing the supplier personally affects the buying firm's business negatively. Understanding both sides of the collaborative approach seems to be taken into account in Company B, as the interviewee commented on their relationship to the key suppliers as follows:

“We have a few key suppliers, because we have willingness to invest in them and we are seeing them as a strategic partner. In that case, we are conducting a product development with them also. We are planning our business with them in more strategic and sensitive stage.”

“We are also trying to recycle our operative managers and supplier counterparts so that the personal matters do not have any effect on the business and the objectivity is maintained.”

Supplier relationship management additionally seems to be a major part of Company B's supplier development strategy and the whole supplier development process is based on the relationships between the parties. The implementation of the present strategy has been started in 2015, and their supplier development plans are supplier-specific based on the supplier's location and performance.

The interviewee mentioned during the interview that Company B has used both, strategic and reactive activities in their supplier relationship management. In general, their interaction with the supplier can be seen as a strategic process, but if necessary, reactive activities such as supplier switching, and bidding are implemented. The outcome of the supplier development

activities or supplier's lack of commitment could lead to the situation where it is more profitable to search for an alternative supplier than cooperate with the existing one.

4.3 Supplier development initiatives in case companies

During the interviews, both interviewees mentioned various supplier development initiatives they are using in their company. This sub-section summarizes those mentioned initiatives and aims to create a comprehensive picture of the initiatives the case companies have implemented.

The supplier evaluation and tracking of the key metrics of the supplier's performance are mentioned in both interviews. These two initiatives are providing information for the buying firm about the supplier's development and performance increases or decreases. Provided information should be brought to the attention of the supplier so that the development process could be started if necessary. Therefore, the case companies have implemented a supplier portal, which allows the supplier and the buying firm to track those key metrics and evaluations. The information provided via the portal allows the supplier to identify its development targets individually. Company A is aiming to further develop the supplier's abilities to track its development:

"We are providing feedback to our suppliers and we have for example a supplier portal through which supplier are able to track the key metrics. That is one area we are developing to make it easier to the suppliers to track how they are doing."

In Company B, the information provided via evaluation and tracking the key metrics is brought back to the supplier via regular meetings and the supplier portal. Additionally, the supplier portal allows Company A to track the orders and share specific information:

"In framework of the supplier relationship management, we have regular meetings with the suppliers categorized in the key and main groups. There we are going through the template, and we have additionally supplier portal via we are tracking and sharing specific operational procurements key metrics and orders."

After the information is brought to the attention of the supplier, the development process can be implemented. After this process, the changes in the supplier's performance should be measured and evaluated, which is conducted via audits in both case companies. In Company

A, supplier audits are a certain way to cooperate, and it is not dependent on the categorization of the suppliers. The company is using audits for highlighting the important aspects of their business, so the suppliers are able to develop those aspects in their own operations. According to the interview, in addition to audits, the company is organizing supplier events for its key suppliers to gather feedback from both parties. Company B is auditing annually 40-50 suppliers in terms of sustainability. The most audited suppliers have been able to increase their sustainability performance and thus get new customers after the development actions, which is highlighting the effects of the audits on the supplier's performance. Additionally, the interviewee from Company A mentioned that the audits have increased the supplier's performance in terms of product quality after the development actions have been taken. The interviewee from Company A described supplier development initiatives effects on the supplier's performance as follows:

"If speaking from aspect of audits, the deficiencies and quality deviations identified in the audits have been remedied by agreed measures."

And interviewee from the Company B:

"Most of them (audited suppliers), who have taken actions, reported that they have got new customers."

Both case companies mentioned during the interview that the education and training of the supplier personnel are used as a supplier development initiative. Company A has trained its supplier's personnel for the minimum safety regulations in their sites, and Company B mentioned that they are providing educational sessions with their suppliers. Additionally, Company A is aiming to highlight sustainability issues that need to be taken into account in the supplier's operations. Via educating and training, they are offering the supplier a solution to develop these highlighted issues in its operations independently. Additionally, the minimum safety regulations are serving as a criterion for supplier selection and Company A is requiring a supplier to commit to these regulations at the stage of drafting the supplier agreement. However, the on-site safety training is conducted for every individual of the supplier's personnel to ensure that every person is able to act safely, which is clearly seen in the answer of the interviewee:

“Education and training are continuous and even if a person is not involved in contract negotiations, he or she receives training and education.”

Company B is providing educational sessions with its suppliers, which are dealing with different themes such as sustainability, and management philosophy depending on the region. They have global and regional supplier days, where supplier education is taking place, and significant developments have been noticed. The educations are aiming to develop their supply chain, but they have additionally noticed that the development of their supplier is affecting the supplier’s other customers. Despite that, they have a willingness to invest their resources in these educations, as the benefits for their business are identified to be worth it and the educations are considered as a win-win situation for both parties.

“If talking about the 5S and lean, we have noticed significant developments. We have noticed that development in the performance of our suppliers, and the suppliers have noticed the internal development.”

Deficiencies in the supplier’s performance could be identified by visiting the supplier’s site. Additionally, it is possible to increase the supplier’s awareness of the product they are producing and thereby improve the supplier’s performance. Site visits require time and resources from the conducting company, and it could be seen as a moderate supplier development initiative. However, both case companies are using site visits as their supplier development initiative. Company A is using site visits to recognize and identify the suppliers with a high risk for future audits. They have annual plans for supplier audits, and it is important that high-risk suppliers are identified in every category. Additionally, the supplier’s personnel are visiting Company A’s sites. They are aiming to further educate and train the supplier’s personnel, especially if they are dealing for example with the new chemicals in their site, which can be seen from the interviewees answer:

“Especially in our factories, if we are dealing with new chemicals, for example, we are discussing with the supplier’s personnel and they are visiting in our sites.”

The follow-up question was about whether the site visits were reciprocal, and the interviewee answered as follows:

“Yes, for example audits are a part of our procurement’s annual planning. Next year’s annual planning is in progress right now, and it is important that every category is recognizing the risks and suppliers with high risk that should be audited.”

Company B is allocating its resources and time to the strategic, critical, and important suppliers. They are conducting site visits for example in emerging countries aiming to develop their sustainability and safety. Additionally, they are aiming to deliver a solution to the supplier’s issues by conducting site visits. However, Company B’s efforts in the aspect of site visits are depending much on the supplier’s location and category. To conclude, Company B is visiting the critical, and important supplier’s sites, aiming to deliver a solution to its issues if necessary. The interviewee from Company B commented on their site visits as follows:

“For example, we can visit in emerging countries, and help them to develop in aspect of sustainability and safety. We can deliver a solution for the quality issues with 5S or lean. The effort depends much on the supplier, category and location.”

Competitive bidding is categorized into limited supplier development initiatives, and it could be seen as an easy practice to implement, due to a large number of suppliers in the markets. However, bidding is only successful for high-volume products with many suppliers. More critical and strategic products are usually more complex to produce, which is limiting the number of available suppliers in the markets. The critical and strategic products are additionally related to the make-or-buy decision-making. The buying firms should consider whether it is profitable to make the strategic or critical product itself or buy it from the supplier. However, both case companies are using competitive bidding as a supplier development initiative, aiming to create competition in the markets and ensure the certainty of supply. The interviewee from Company A mentioned that they are using the bidding to ensure that they are not relying just for one supplier if there are alternatives available which can be seen from the answer of the interviewee:

“We are using many examples mentioned in the interview questions. For example, creating competition, and that we are not relying on just one supplier, if it is possible to get that product from several suppliers.”

Table 4 shows, that the case companies are implemented both, limited and extended supplier development initiatives. Additionally, both companies have created a supplier portal, which makes tracking the key metrics easier for the suppliers. However, it should be taken into account that table 4 is based on the conducted interviews, and it is possible that every initiative used in the case companies did not emerge from the interviews. The initiatives mentioned during the interviews are representing the perspective of the interviewees, which in both cases is more strategic than reactive. It is also possible that the case companies are using initiatives on a wider scale than the interviews revealed due to the interviewees' position. The interviewee from Company A mentioned several times that from that current position it is difficult to see every implemented initiative used in the daily supplier development. To conclude, it is possible to say that both case companies have nuances of both strategic and reactive supplier development, but they are aiming rather develop longer relationships with their suppliers than use more reactive supplier development initiatives. The effects of these initiatives on the case companies' performances are discussed next and the answer to set research questions will be given.

4.3 How do the supplier development initiatives affect the buying firm's performance?

Supplier development is a critical part of the buying firm's business and it should be considered when managing the supply chains. It has additional effects on different factors of the business, such as economic, social, and environmental. Furthermore, via efficient relationship management, it is possible to provide a better outcome of the supplier development activities, which are related to the better performance of the buying firm.

The make-or-buy decision-making is the first factor, which is creating the need for the supplier development process in that case that the buying firm is choosing the "buy" option. After the decision making, evaluation, and searching for the potential supplier should be started. In this part, the first indicators about the supplier's performance are provided via the evaluation criterion set by the buying firm. Common strategic and operative goals should additionally be evaluated to ensure that the supplier and the buying firm have incentives to cooperate in the future. Cooperation should be started with the most relevant supplier based on the evaluation

process. The evaluation and providing feedback should continue after the cooperation has started to ensure that the supplier is still able to fulfill the buying firm's supply needs and to provide a competitive advantage for the buying firm. If the evaluation process has been successful, the chosen supplier should be able to strengthen the buying firm's supply chain and provide advantages in different stages of the buying firm's business.

Evaluation and feedback could help the buying firm to identify the development targets of the supplier and if any deficiencies are identified, the supplier development process could be started. The identified deficiencies can decrease the buying firm's performance in every mentioned factor of the business. For example, poor quality of the product may affect the sales of the buying firm, or neglect in waste management may affect environmental performance. However, the development of suppliers can also have a negative effect on the buying firm's performance, especially if future cooperation cannot be ensured. The resources allocated to the supplier development activities are sunk costs if the supplier is not able to develop its performance to the required level. For that reason, the buying firm has an incentive to allocate resources into the supplier evaluation and selection process especially when they are aiming to cooperate with the selected supplier in the future. The interviewee from Company B commented on their supplier selection as follows:

"Of course, care must be taken in choosing a supplier. We believe that with the chosen suppliers, there will be cooperation in the future. It is discontinuous to start an intensive SRM program with the supplier, and after two years decide to buy the product from someone else."

The comment shows that Company B aims to cooperate with the selected suppliers in the future and the interviewee is describing the supplier switching as discontinuous. Of course, every unsuccessful supplier selection process increases the costs of the buying firm and is affecting negatively its economic performance.

Supplier development initiatives can affect the buying firm's performance positively or negatively. From the start of the supplier selection, the evaluation process is affecting the buying firm's performance by providing information about the supplier's performance. After the evaluation, it is possible to select the most relevant supplier, which is affecting the buying firm's supply chain performance. Via increased performance of the supply chain, for example,

the certainty of supply could be increased, and delivery times could be decreased which are affecting positively the buying firm's performance. Every supplier development initiative requires the buying firm to allocate its resources and time to it whether successful or not. The allocated resources are sunk costs, which are affecting negatively the performance of the buying firm if the development is not successful. Many initiatives are affecting many factors of the business and more specific discussion about these effects is taking part in the next three sub-sections.

4.4 Which initiatives affect the buying firm's economic performance?

The economic performance of the buying firm is a prerequisite for any supplier development activity and business continuity. Supply chain performance affects the determination of the buying firm's performance. An effective supply chain can improve the buying firm's economic performance by reducing its costs and delivery times, which is reflected in an improvement in the firm's financial condition. For that reason, successful supplier development could provide a competitive advantage for the buying firm by increasing its economic performance. On the other hand, the poor performance of the supply chain can decrease the buying firm's economic performance. In that case, the buying firm could aim to develop the supply chain's performance by cooperating with the suppliers or creating competition among the available suppliers with a competitive bidding process. Both options emerged in the interviews, the latter being discussed first.

By creating competition among the suppliers, it is possible to gain cost savings and get the sourced product for the lowest possible price. The bidding process, however, requires time and resources from the buying firm, which may drive the buying firm to rather develop existing supplier than to start a bidding process. Despite that, bidding as a supplier development initiative is considered to be a limited and basic practice, which does not require a lot of involvement of the buying firm. That could be the reason that both interviewees from case companies mentioned that they have used bidding as a supplier development initiative. Company A is expecting to get costs savings, better products, and in general, solutions from their developed suppliers, and bidding has clearly affected their economic performance:

"If speaking from aspect of bidding, the financial benefits and extended payment period have been obtained, which is reflected in our financial condition."

“Bidding has clearly impacted economic performance as we have had product improvement.”

Additionally, the interviewee mentioned that in general supplier development activities are affecting their economic performance by reducing costs and the price of the sourced product.

Cost reductions could be gained additionally by developing the relationship between the buyer and the supplier. The cooperative approach usually deepens the relationship and develops the trust between the parties which can help the buying firm and the supplier to benefit from their cooperation. In the aspect of economic benefits, the cooperation with the supplier could provide different savings and increase the supply certainty, which is reflected in the economic performance of the buying firm, as it is possible to see from the answers of the interviewee from Company A:

“I would like to say that for example the certainty of supply has increased via evaluation and tracking of delivery times.”

“With reference to economic performance, via cooperation with the supplier it has been possible to reduce the material usage and it has reduced our costs.”

In addition to the buying firm, the supplier development initiatives are helping the suppliers to increase their economic performance, which further has effects on the buying firms performance indirectly.

The suppliers of Company B are playing important role in the company’s business, as two parts of three of its turnover goes to the suppliers as a spend. Resources allocated to the suppliers are benefitting both, the buying firm and the supplier, which has clearly understood in Company B. Most of the resources are allocated to the key suppliers of Company B, and improvements are additionally reported. When the supplier is able to reduce its costs or increase the quality of products, it has an indirect effect on the buying firm’s performance, as the interviewee from Company B mentioned:

“Particular suppliers have been able to reduce the quality costs. It frees our resources to something else when we have no need to spend time supervising our suppliers. Customer delays have been reduced and we, or our supplier, have no need to spend time in the claiming process.”

Company B is able to use saved costs and time to improve its own economic performance and ensure that they have a sufficient financial buffer to continue and develop their business. Additionally, the suppliers could gain new customers, which further develops their financial condition, which also has an indirect effect on the buying firm's performance. The improved financial condition of the supplier is reducing any risks in their own business, which is reflected in the supply risks of the buying firm. Company B reported that increases in risk management have been noticed:

"When the risks are reducing, in terms of quality, safety, or environment, hopefully the costs cumulated to the risks are also reducing."

To conclude, both interviewees mentioned that supplier development initiatives are affecting their economic performance. The clearest causal relationship, according to the interviews, was founded between the bidding process and the economic performance of the buying firm. Additionally, indirect effects on the buying firm's economic performance were found via reduced risks and costs of the supplier. Resources allocated to the suppliers can provide development of the suppliers' business which is later reflected in the buying firm's business. The economic performance is straightforward to measure with the turnover or costs and the effects of the supplier development could be also measured. The social performance, in turn, is harder to measure, but both interviewees mentioned that the improvements have been noticed.

4.5 Which initiatives affect the buying firm's social performance?

Social performance plays an important in business. Labor rights, child labor, and low wages have been under discussion in recent years, and firms need to consider those issues. However, to increase the level of total social performance, firms need to ensure that their suppliers' social responsibilities are taken into account in addition to theirs. To ensure that, legal, ethical, and discretionary responsibilities need to be managed. Every member of the firm's supply chain must fulfill their legal responsibilities, take care of ethical responsibilities and if necessary, consider discretionary responsibilities. These can be managed by developing and educating the suppliers as well as proactively prevented in the supplier selection process. Both interviewees from case companies mentioned that they are aiming to ensure that their supply

chain is fulfilling legal and ethical responsibilities and various initiatives emerged from the interviews.

Company A considers its supply chain's ethicality as their responsibility and they are developing it by conducting audits. Additionally, their supplier development aims to ensure that every supplier fulfills the social responsibilities and supplier's personnel have the necessary knowledge of how to act safely in the sites. Company A is, in addition to audits, conducting different questionnaires and they are monitoring the implementation of the development activities. The interviewee mentioned that by conducting these practices, the supplier's performance increase will also affect their social performance which can be seen from the answers of the interviewee:

“With reference to social performance, of course, our responsibility and goal is that our whole supply chain is ethical and we are trying to ensure it with questionnaires and audits and if we are identifying areas for development, and development activities are taken, it will affect our goal of making our supply chain sustainable and thus our performance in that area”

“We are also monitoring the implementation of the requirements. These are linked to the legal and the ethical performances.”

Company A has identified the effects of the particular supplier development initiatives on their social performance, and more specifically, to the ethical part of it. The company is considering their products' quality as a part of their ethical responsibility and they are ensuring that the products sourced from their suppliers are as ethical as possible. Additionally, they are aiming to fulfill their social responsibilities by ensuring that the safety regulations are taken into account when cooperating with the suppliers. The interviewee commented on these aspects as follows:

“I would like to say that audits, and evaluations and monitoring of quality deviation in general has had particular impact on ethical performance”

“in the situation when suppliers come to our factories, there will be on-site training so that they can operate safely in our unit.”

It can be seen from these comments that the company is taking care of its ethical and legal responsibilities by ensuring product quality and labor safety. The interviewee additionally mentioned that they have a proactive approach for ensuring the social responsibilities, which is serving also as a supplier selection criterion:

“at the moment of concluding the contract we are going through the requirements and it also serves as an evaluation criterion for choosing a supplier”

Proactive evaluation during the supplier selection process can reduce the risks associated with sustainability and social issues. However, it is possible that during the cooperation some issues of the supplier need to be managed and those issues can be identified by auditing the supplier. Both interviewees mentioned that they are conducting audits and Company B is helping the supplier from emerging countries to develop sustainability and safety. Additionally, they are supporting their supplier to develop their social and environmental performances. Social responsibilities are part of their audits program and they are auditing 40-50 suppliers annually in the aspect of sustainability. With the key suppliers, Company A has conducted deeper sustainability audit program, which includes social responsibilities. In the aspect of suppliers' social responsibilities, it seems that Company B has allocated a lot of resources for conducting audits and developing its suppliers' social performance. The answers show that they have implemented many initiatives that are requiring time, resources, and personnel knowledge:

“For example, we can visit in emerging countries, and help them to develop in aspect of sustainability and safety.”

“They (social responsibilities) are a part of our sustainability audit program, which includes social responsibilities. But we have sustainability program for our key suppliers, which goes much deeper than the audits.”

Regionally Company B has identified suppliers with high sustainability risks, and they have implemented necessary development activities with them. They have instructors and auditor for these mentioned suppliers, and they are allocating time and resources for their development:

“They are conducting face-to-face educations, different trainings, and corporation-specific plans about how the supplier is able to develop its sustainability performance. These are related to the social norms and social development.”

Training, educations, and corporation-specific plans are requiring planning and resources from the buying firm, which is showing that the social performance development of the suppliers has been developed in Company B, and it seems that it has quite complex development programs for different suppliers.

Auditing and evaluating the suppliers seems been identified as an initiative that develops the social performance of the buying firm according to the interviews. These initiatives are directly affecting suppliers' social performance levels, which are further developing the case companies' social performances. In addition to these initiatives, the training and educations of the suppliers' personnel have been implemented as a part of sustainability audits, which are more resource-based initiatives than audits and evaluation questionnaires. The total social performance of the buying firm consists of the social performance of its supply chain, and for that reason, it is important to ensure that every supplier in the supply chain is fulfilling its social responsibilities.

4.6 Which initiatives affect the buying firm's environmental performance?

Environmental responsibility has been under discussion in recent years as climate change, overconsumption, and pollution have become a critical issue. Many multinational corporations have changed their businesses to reduce the pollutions of their production and to increase their waste management capabilities. However, the corporations must be taking their suppliers' environmental performances into account, as the total environmental performance of the buying firm could be seen as a sum of the whole supply chains'. The case companies have paid attention to their environmental performance, but due to the interviewees' positions, less information about the environmental performance was gained from the interviews.

Company A has cooperated with its suppliers to reduce packaging waste and aimed to use its materials efficiently. This cooperation could increase the environmental performance of the supplier, the same as the economic performance of the buying firm. As mentioned, due to the interviewee's position, little information was obtained. However, the interviewee from Company A commented on their attempts to increase their environmental performance as follows:

“With reference to the environmental performance, it is difficult to say whether there have been attempts to reduce waste from our suppliers, but I know that there has been a lot of cooperation on the packaging materials side to keep packaging waste to a minimum in our process so that we can use the materials efficiently.”

The answer shows that there has been cooperation between the buying firm and the suppliers, which indicates that the environmental issues have been taken into account. There is no particular initiative mentioned, but by cooperating with the suppliers it could be possible to increase the environmental performance. This cooperation could consist of for example developing the recycling systems or reducing material usage.

The interviewee from Company B mentioned a few more specific initiatives for the development of its suppliers' environmental performances. The development of environmental performance has been implemented into the same sustainability programs, which are additionally including the social aspects. Company B has taken more concrete activities for the environmental development of its suppliers, which are mentioned in the interviewee's answer:

“Via same sustainability, audit, and key supplier programs. For example, chemical management, disposal related instructions and development has been made. In Asian countries, solar panels have been implemented. Water recycling has been taken into account.”

In a conclusion, it could be said that cooperation with the suppliers can increase environmental performance. One way to implement that cooperation is the audits, which are mentioned in Company B's answer. Additionally, the implementation of the solar panels could be seen as a direct investment to the supplier's machinery. These initiatives are affecting indirectly the buying firm's environmental performance, as the whole supply chain's performance is increasing.

Next, table 5 is summarizing the initiatives and the effects on a particular factor of the business. Then the conclusions of the study will be given, and the limitations and future research ideas will be discussed.

Table 5 The effects of the particular initiative on the factor of the buying firm's business

	Social	Economic	Environmental
Audits and questionnaires	x		x
Site visits	x		x
Training/education	x	x	
Feedback	x	x	x
Bidding		x	
Evaluation and monitoring	x		
Direct investments	x	x	x

Table 5 shows the initiatives that emerged during the interviews and the effects that were mentioned. It should be considered that different initiatives could have more effects on the buying firm's performance. However, the bidding process seems to have the clearest effect on the economic performance of the buying firm, which is quite a relevant result. There seems additionally be the most initiatives affecting the buying firm's social performance, which approves that those issues are taken into account in the case companies. Feedback, direct investments, and certification are affecting every factor of the buying firm's business. Feedback is limited and basic supplier development initiative, which is easy to implement, and for that reason, it is understandable that it has a strong impact on the buying firm's business. Direct investments can be allocated wherever it is necessary, and that is the reason why it has effects on every factor. Certification and recognition of the supplier's development have indirect effects on the buying firm as it helps the supplier get new customers and improve its economy, which further helps it to develop its social and environmental performances. That improvement affects the buying firm's performance via the reduction of the costs and the risks associated with the social and environmental issues.

5. Conclusions

The purpose of this bachelor's thesis was to examine and describe the effects of the supplier development initiatives on the buying firm's performance and find the linkage between the particular initiative and the factor of the buying firm's business. The study was conducted as a qualitative case study with two case companies. Representatives from the case companies

were interviewed and the interview included two main themes. The answers were transcribed and coded after the interviews. The findings of the study are based on coding.

One main research question and three sub-questions were set as follows:

How does the supplier development initiatives effect on the buying firm's performance?

Which initiatives effects on the buying firm's economic performance?

Which initiatives effects on the buying firm's social performance?

Which initiatives effects on the buying firm's environmental performance?

The study showed that supplier development initiatives are affecting buying firm's performance directly and indirectly. Representatives of the case companies mentioned that supplier development has an important role in their businesses, and it has been taken into account in their future business development plans. Both case companies were using quite similar initiatives, and it seems that they were implementing initiatives from limited ones to extended ones. During the interviews, various initiatives emerged and those were consistent with the previous studies. In this study, the linkage between the initiatives and the buying firm's performance was created based on the interview questions, which aimed to created in-depth conversations with the interviewees. The interviews showed that social performance has been taken into account in both case companies and many supplier development initiatives seemed to be affecting the buying firm's social performance. Hence, social performance seems to be an important factor in both case companies and resources seems to be allocated to the development process. A bidding process and supplier relationship management did not have effects on the buying firms' social performances according to the interviews, but it needs to be considered that the study had two case companies and that result cannot be generalized to a larger population. However, the supplier relationship management can develop the trust between parties, and thus it could affect, in addition to economic and environmental, the buying firm's social performance. Additionally, the economic performance of the buying firm could be improved by educating the supplier's personnel, providing feedback, and recognizing the supplier's improvements. The development of environmental performance could be a part of a buying firm's sustainability strategy. Supplier's environmental performance could be improved by conducting audits and questionnaires, providing feedback, and with direct investments in the supplier's sustainability

development. These initiatives firstly affect the supplier's performance, and further on the buying firm's environmental performance.

5.1 Limitations

This study has limitations that need to be considered. The data was collected from two case companies, which means that results cannot be generalized to a larger sample. Many initiatives are used in supplier development, but due to limited data and time, a lot of those were left outside of the study. The study was conducted as a qualitative case study, and the findings were based on the interviews. Hence, it is possible that the linkages between the initiatives and performance development are not valid. However, the study provided information about those linkages and could help future research to examine deeper linkages and effects.

5.2 Future research suggests

Future research dealing with supplier development initiatives' effects on the buying firm's performance should be conducted with a larger sample. Additionally, the strengths of the effects could be studied. Future research should be broadened, and multinational companies should be included in the study and to confirm the findings of this study, quantitative research based on measured data could be conducted. However, this study provided a more in-depth understanding of the studied topic and gave answers to the set research questions and can possibly serve as a base for future research.

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Appendices

Appendix 1. Table of the previous studies sorted by the year.

Title	Number of documents per year										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Supplier Development	955	982	881	911	938	922	1003	1017	1169	1182	882
Supplier Development Initiatives	42	39	53	43	39	49	45	47	50	45	38
Supplier Development Buying Firm	4	7	11	5	3	8	7	6	14	6	5
Supplier Development Practices	113	109	148	146	135	138	163	144	200	182	140
Supplier Development Supplier Performance	178	177	179	232	213	236	235	243	300	254	220
Supplier Development Buying Firm Performance		1	4	3	3	5	3	2	7	2	1

Appendix 2. The interview questions

Interviewee's background

1. What is your position in the organization?
2. What are your main responsibilities?
3. How long have you been in your position?
4. What is your role in the organization's supplier development?

Supplier development

5. What is the role of the supplier development in your organization?
 - a. How you see supplier development in your organization?
 - b. How long have your organizations developed its suppliers?
 - c. Does your organization have clear short- or long-term plan for supplier development?
6. What are the motives behind the supplier development?
7. What are the initiatives that your organization is using to develop its suppliers?
 - a. Using multiple suppliers for the same item to create a competition among the suppliers
 - b. Providing supplier with a feedback about its performance
 - c. Regular audits
 - d. Training or education of supplier's personnel
 - e. Inviting supplier's personnel to your site to increase their awareness
 - f. Direct investments in the supplier's machinery or personnel

Effects on performance

8. Have these initiatives affected on the supplier's performance?
 - a. Reduced delivery time
 - b. Reduced price of the product
 - c. Deeper cooperation
 - d. Reduced costs
 - e. Certainty of supply
9. Have these initiatives developed the relationship between your organization and the suppliers?
10. Have these initiatives developed your organization's performance?
11. Are there any specific initiatives that have affected on organization's?
 - a. Financial performance?
 - b. Social performance?
 - i. Legal responsibilities
 - ii. Ethical responsibilities
 - iii. Discretionary responsibilities
 - c. Environmental performance?
 - i. Reducing waste
 - ii. Recycling
 - iii. Water usage

12. Anything to add?