

LAPPEENRANTA-LAHTI UNIVERSITY OF TECHNOLOGY LUT  
School of Business and Management  
Business Administration

*Maria Ruuskanen*

**THE ROLE OF EFFECTIVE SUPPLIER RELATIONSHIP  
MANAGEMENT IN VALUE CREATION**

Examiners: Professor Katrina Lintukangas  
Professor Anni-Kaisa Kähkönen

## **ABSTRACT**

Author:	Maria Ruuskanen
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The purpose of this research is to study value creation through effective SRM, its definition, benefits, challenges, barriers, and practices. The aim is to gain a better understanding of value creation in buyer-supplier relationships and identify the ways it occurs in different levels of the organization.

In the empirical part of this study, ten professionals were interviewed from nine different industries. The key findings of this study show that value creation occurs at all levels of the organization and therefore SRM should be emphasized throughout the organization accordingly. Value creation occurs in different interaction points between the buyer and the supplier and people in the project teams have a significant effect on the relationship due to their human nature.

Key supplier relationships are based on trust, transparency, information sharing, and continuity. In creating value through SRM, effective governance, a clear SRM framework, responsibilities, and ownership of the supplier relationships have to be in place. The focus should be on effective communication, information sharing, supplier development, and innovation to create maximum value.

## TIIVISTELMÄ

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Tämän tutkimuksen tarkoituksena on tutkia toimittajasuhteiden hallinnan roolia arvon luonnissa. Tutkimuksessa määritellään toimittajasuhteiden hallinnan edut, haasteet, esteet ja käytännöt sekä tehokkaat toimintatavat arvon luonnin mahdollistamiseksi ja edistämiseksi. Tutkielman tavoitteena on saada parempi käsitys arvonluonnista avaintoimittajasuhteissa ja tunnistaa tapoja, joilla se tapahtuu organisaation eri tasoilla.

Tämän tutkimuksen empiirisessä osassa haastateltiin kymmentä toimittajasuhteiden hallinnan ammattilaista yhdeksältä eri toimialalta. Tämän tutkimuksen keskeiset havainnot osoittavat, että arvonluonti tapahtuu organisaation kaikilla tasoilla, ja siksi toimittajasuhteiden hallintaa on korostettava koko organisaatiossa. Arvon luominen tapahtuu eri vuorovaikutuskohteissa ostajan ja toimittajan välillä, ja projektiryhmien ihmisillä on merkittävä vaikutus suhteen laatuun niiden inhimillisen luonteen vuoksi.

Avaintoimittajasuhteet perustuvat luottamukseen, läpinäkyvyyteen, tiedon jakamiseen ja jatkuvuuteen. Jotta arvonluonti toimittajasuhteiden hallinnan avulla olisi mahdollista, on oltava käytössä tehokas hallinto, selkeä SRM-viitekehys, selkeät vastuut ja selkeä toimittajasuhteiden omistajuus. Yritysten tulisi keskittyä tehokkaaseen kommunikaatioon, tiedon jakamiseen, toimittajien kehittämiseen ja innovointiin maksimaalisen arvon luonnin mahdollistamiseksi.

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In Espoo, March 7th, 2021

Maria Ruuskanen

## TABLE OF CONTENTS

<b>1. INTRODUCTION .....</b>	<b>1</b>
1.1 Research questions and objectives.....	2
1.2 Conceptual framework.....	2
1.3 Limitations .....	3
1.4 Definitions of the key concepts of the study.....	4
1.5 Structure of the study .....	5
<b>2. VALUE AND VALUE CREATION .....</b>	<b>7</b>
2.1 Value creation in SRM .....	8
2.2 Barriers and risks .....	11
2.3 Mitigating risk and sharing value .....	13
<b>3. SUPPLIER RELATIONSHIP MANAGEMENT (SRM) .....</b>	<b>13</b>
3.1 Supplier collaboration.....	15
3.2 Supplier development .....	18
3.3 Motives for SRM .....	20
3.4 Benefits of SRM .....	21
3.5 Challenges of SRM.....	25
3.6 SRM process .....	28
<b>4. METHODOLOGY .....</b>	<b>34</b>
<b>5. EMPIRICAL FINDINGS .....</b>	<b>39</b>
5.1 Collaboration with key suppliers .....	40
5.2 Key supplier development .....	42
5.3 SRM objectives.....	44
5.4 SRM benefits .....	45
5.5 SRM challenges .....	46
5.6 SRM process and activities.....	49
5.7 Value creation through SRM .....	52
5.8 SRM barriers and risks .....	55
5.9 SRM best practices .....	56
<b>6. DISCUSSION AND CONCLUSIONS.....</b>	<b>59</b>
6.1 Comparison of theoretical and empirical findings.....	59
6.2 Answering the research questions.....	62

6.3 Conclusions.....	65
6.4 Managerial implications .....	66
6.5 Future research avenues.....	67
<b>REFERENCES .....</b>	<b>68</b>

## **LIST OF FIGURES**

**Figure 1:** Thesis Framework

**Figure 2:** Structure of the Thesis

**Figure 3:** Potential Forms of Value from Customer-Supplier Collaboration (modified from Hughes, 2008)

**Figure 4:** Three dimensions of B2B relationships (modified from Hughes, 2008)

**Figure 5:** Impact of SRM on value creation (modified from PwC, 2013)

**Figure 6:** SRM as a formalized business process (modified from PwC, 2013)

**Figure 7:** SRM core processes to deliver value (modified from Deloitte, 2015a)

## **LIST OF TABLES**

**Table 1:** Benefits of SRM

**Table 2:** Challenges of SRM

**Table 3:** Interviewees

## 1. INTRODUCTION

Globalization and increased market competition have pushed companies to seek ways to create more value to their customers in order to remain competitive in the market (Hafeez, Zhang & Malak, 2002; Park, Shin & Chang, 2010; Herrmann & Hodgson, 2001; Trent, 2005). Many companies have outsourced some or all production to focus on core activities only and now more than ever companies are relying on their key suppliers to support them in delivering maximum value to their customers (Herrmann & Hodgson, 2001; Dalvi & Kant, 2015; Liker & Choi, 2004; Möller & Törrönen, 2003). Supplier relationship management has become critical due to competition shifting more from individual companies towards supply chain level; in order to succeed in the market, the supply chain needs to be responsive and serve the company's needs the best way possible (Sahay, 2003; Herrmann & Hodgson, 2001; Huemer, 2006). Therefore, achieving a great understanding on most effective supply management practices has become crucial in the company's success (Prajogo, Chowdhury, Yeung & Cheng, 2010; Möller & Törrönen, 2003). According to Hughes (2008), "companies need to reorient themselves to systematically identify and capitalize ways to create value with their suppliers".

In academic discussion of SRM the focus is shifting from competitive masculine approaches to more towards collaborative approaches where suppliers are considered as industry experts that are capable of providing added value to the company through their market knowledge and participation in product development and innovation (Kähkönen & Lintukangas, 2012). Companies are constantly seeking for ways to create competitive advantage in forms of new business models and more efficient supply in which SRM and value creation has a significant role (Cousins & Spekman, 2003; Herrmann & Hodgson, 2001; Dalvi & Kant, 2015). Due to purchasing being the largest single cost item in most companies, the ability to effectively manage the supply base and reduce costs can affect the development of valuable, non-transferable and non-imitable resources that can provide significant competitive advantage (Zsidisin, Ellram & Ogden, 2003). Ellram and Carr (1994) argue that strategically managed supply management and purchasing provide a potential value-added resource to the company.

This study focuses on value creation through supplier relationship management (SRM). Theoretical contribution of this research is to gain more understanding of the linkage between SRM and value creation that occurs in collaborative relationships.

## **1.1 Research questions and objectives**

This study focuses on supplier relationship management (SRM) and value creation. Theoretical contribution of this research is to gain more understanding of the linkage between SRM and value creation that occurs and can be created in collaborative relationships.

The main research question addressed in this thesis is:

### **How to create value through effective supplier relationship management?**

To support the main research objective, supporting objectives are defined. The secondary objectives aim to define the benefits of SRM, the challenges of SRM and the most effective SRM practices in value creation. In order to answer the main research question, the main research question is divided into three sub-questions and they are:

*What are the benefits of SRM?*

*What are the challenges of SRM?*

*What SRM practices are effective in value creation?*

In this thesis, SRM benefits are important to recognize to understand what can be achieved through effective SRM. Challenges and barriers are important to recognise in order to identify what can be preventing from succeeding in value creation. When aiming for effective SRM, best practices need to be identified for SRM process as a whole.

## **1.2 Conceptual framework**

This section presents the conceptual framework of this research, which is limited to supplier relationship management (SRM) theories and value creation.

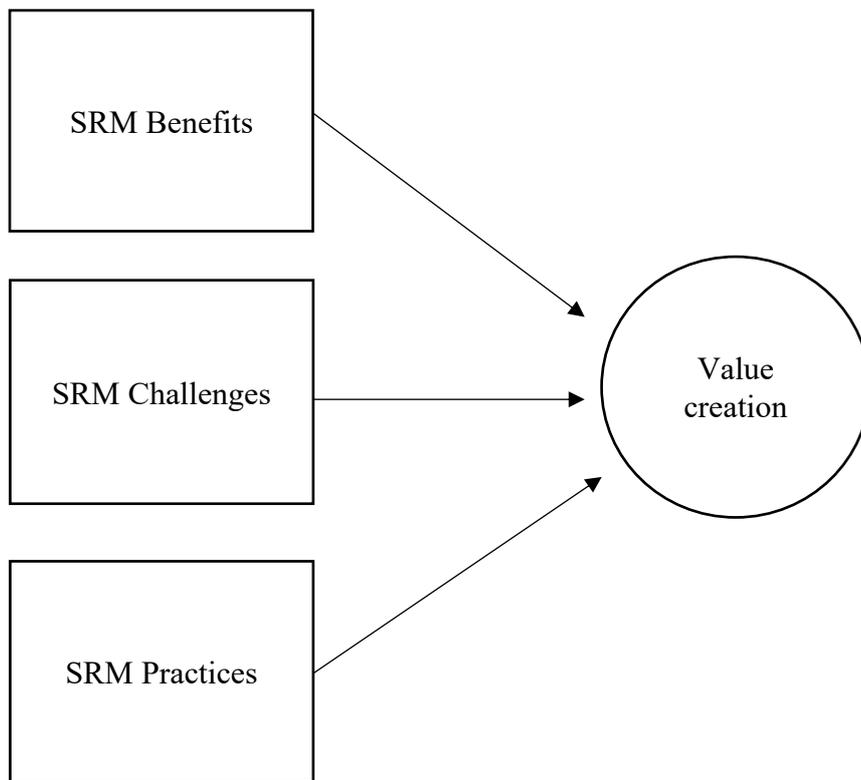


Figure 1. Thesis Framework

Thesis framework (Figure 1) includes the main theory of SRM in value creation perspective. The figure reflects how SRM benefits, challenges and practices have an effect on value creation. The research problem of this thesis is to find out how to create value through effective SRM. The aim is also present supplier development as a part of SRM, as it is crucial in developing and maintaining the value created through SRM in supplier relationships.

### 1.3 Limitations

The aim of this study is to approach the topic through existing theories, academic literature and studies and then reflect these to the empirical data and practical implications. There are limitations to this research that need to be acknowledged. The empirical data is collected from several companies from different industries and market environment. This can have impact on how SRM is considered and implemented in companies. The considerations can also vary greatly across companies depending on their position, negotiation power, size and economic cluster, historical supply base and ownership structure and therefore it can be challenging to reflect the results of this study to all companies practicing SRM.

It should also be noted that the empirical data will be collected from the company representatives only, so the results reflect the context from the company's side of view. Also, the results of this study will be valid for only the time being as the key topic of this study, supplier relationship management, is changing in its nature. Due to this reason the study might not be relevant in a few years' time as the topic evolves and new findings are made. (Kandampully, 2002)

#### **1.4 Definitions of the key concepts of the study**

This section defines the key concepts that will be used in the thesis. The main concepts are Value and Value creation, Supplier Relationship Management (SRM) and Supply Chain Collaboration.

*Supplier Relationship Management (SMR)* is a multidiscipline and proactive approach to managing supplier relationships and external resources while accumulating a broad vision in supply decision making. SRM connects the company's internal supply organization to the global market. (Lintukangas, 2010) Hughes (2008) defines SRM as "the systematic, enterprise wide assessment of suppliers' assets and capabilities with respect to overall business strategy, determination of what activities to engage in with different suppliers and the coordinated planning and execution of all interactions with suppliers in order to maximize the value realized through those interactions." SRM provides a framework for companies to manage, develop and evaluate their supplier relationships to ensure that joint efforts become successful (Herrmann & Hogson, 2001).

Walter, Ritter and Gemünden (2001, p. 366) define *value* "as a trade-off between benefits and sacrifices". *Value creation* on the other hand can be defined as "the process by which the capabilities of the partners are combined so that the competitive advantage of either the hybrid or one or more of the parties is improved" (Borys & Jemison, 1989, p. 241). According to Huemer (2006) value creation occurs "between as well as within companies in supply relationships".

*Supply Chain Collaboration*, according to Herrmann & Hodgson (2001), "provides for the efficient exchange of planning information between trading partners to ensure streamlined

and optimized management of the flow of parts and materials into the plant.”, According to many previous studies, collaboration is the key enabler in value creation as value creation does not happen in isolation (Möller & Törrönen, 2003; Lindgreen & Wynstra, 2005; Borys & Jemison, 1989).

## **1.5 Structure of the study**

The structure of this thesis is pictured in Figure 2. The thesis starts with the background of the research. Then, the research questions and objectives are presented. In this part, key concepts and conceptual framework are set out as well as limitations for this research. In the second chapter the main theory of value creation is presented and the way it occurs in supplier relationships. In fourth chapter SRM is presented including definition, motives, benefits, challenges, barriers and practices.

The empirical part starts in chapter four with the description of research methodology and data collection followed by empirical findings and results. The fifth chapter focuses on the discussion between the empirical findings and theoretical background and the research questions are answered. Finally, in the sixth chapter the comparison of theoretical and empirical findings is made, research questions are being answered, validity and reliability is being assessed, conclusions, managerial implications and future research avenues are being addressed.

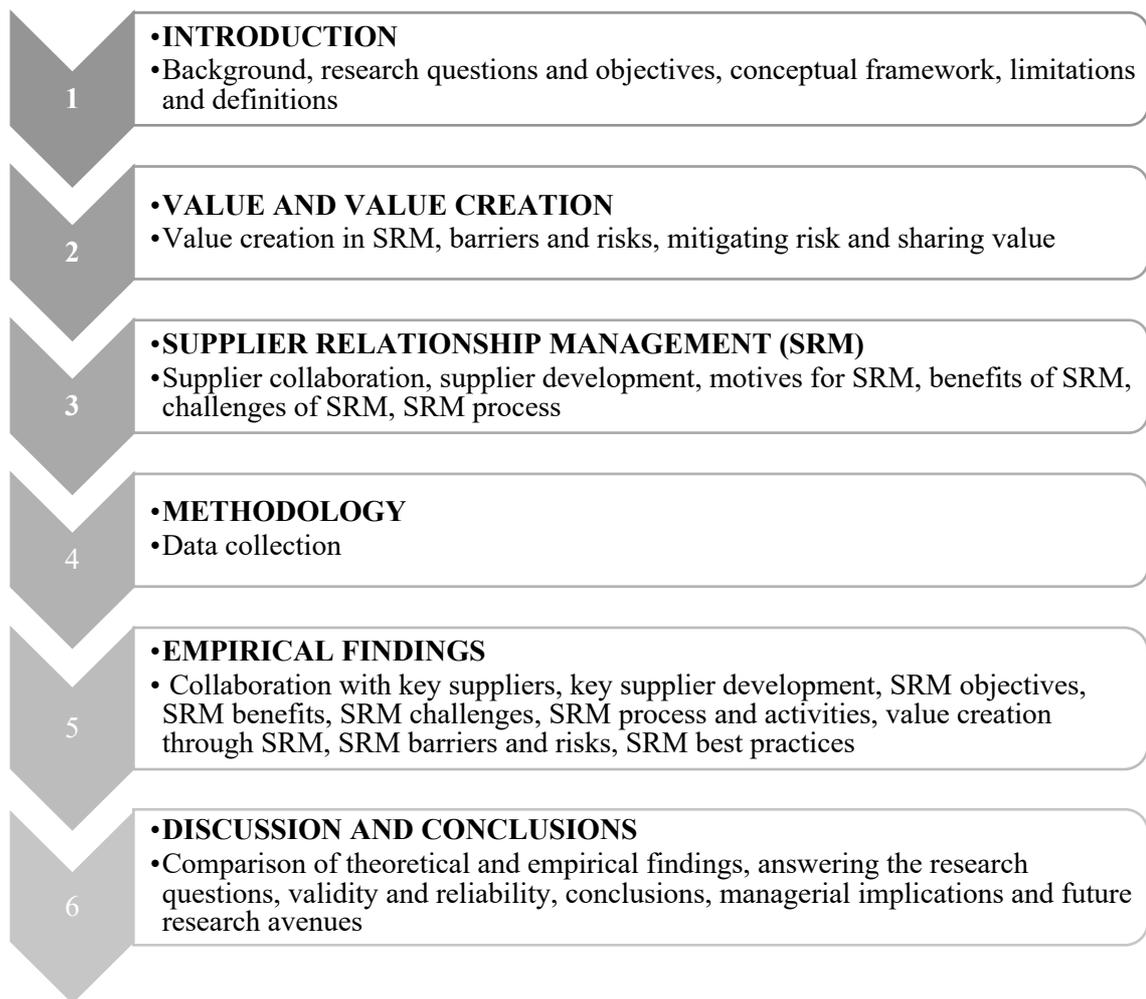


Figure 2. Structure of the Thesis

## 2. VALUE AND VALUE CREATION

The concept of value has been discussed in academic literature for a long time (Irene, Nudurupati and Tasker, 2010) and it is found, that superior customer value brings a significant source of competitive advantage (Payne and Holt, 2001; Liu, Leach, & Bernhardt, 2005; Ulaga & Eggert, 2006) Walter, Ritter and Gemünden (2001, p. 366) define the value “as a trade-off between benefits and sacrifices.” Forsström (2005) argues that the concept of value can be defined in many ways however it is important to separate the two concepts; perceived value is considered as a subjective assessment of a trade-off between benefits and sacrifices whereas value creation is the process where the parties use each other’s resources to create value. Forsström (2005) continues that there are three perspectives to analysing value, and they are (1) the value of an offering (monetary value), (2) the value of a relationship (monetary value and intangible issues), and (3) the value created in a relationship.

Möller (2006) divides the types of value into four categories; exchange value, relational value, co-created value, and proprietary value. In this thesis, the focus is on the third and fourth; relational- and co-created value, a value that is created in a relationship that emphasizes both; monetary value and intangible issues. Allee (2003, p. 70) states that one of the major shifts at the strategic level involves “rethinking value to include both monetary value and intangible value”. Value creation can be defined as “the process by which the capabilities of the partners are combined so that the competitive advantage of either the hybrid or one or more of the parties is improved” (Borys and Jemison, 1989, p. 241). From the value co-creation perspective, how value is created, distributed, paid for, and exploited is differs significantly comparing to the traditional demand vs supply model; according to the VCC model buyers and suppliers interact with each other to create value together through finding new business opportunities. (Galvagno & Dalli, 2014) It is a collaborative, concurrent, joint, and peer-like process where companies generate value through interaction (Vargo & Lusch, 2008).

According to Metters and Marucheck (2007), in terms of understanding value creation, there has been a shift towards a service-oriented perspective. This shift is due to the identification and development of core competencies for achieving competitive advantage through

relationships with key actors who can provide benefits from each other's value propositions and competencies (Vargo & Akaka, 2009). Vargo and Lusch (2004) state that benefits gained from the specialized competencies can be used by buyers and suppliers in the value-creation processes which position both parties as co-producers of value and give them an active role in the relational exchanges and coproduction. This view is referred to as service-dominant logic (SDL), which is found to have strong potential in explaining supply chain phenomenon (Chakraborty, Bhattacharya & Dobrzykowski, 2014; Caldwell 2009). SDL explains the exchange protocol as a process through which supply chain actors use specific key specialized abilities, skills, and competencies together to gain mutual benefit (Callaway and Dobrzykowski, 2009). Lambert, Garcia, Dastugue, and Croxton (2006) state that the focus has shifted from the goods-centered view to the service-centered view which relies on the identification of core competencies for achieving competitive advantage through developing relationships with key actors in the supply chain such (e.g. suppliers and customers). Möller (2006) argues that the co-creation of value ranges between the value created in the supplier-customer dyad to the value gained through the network of relationships of the supplier and the customer.

## **2.1 Value creation in SRM**

According to Huemer (2006) value creation occurs “between as well as within companies in supply relationships”. According to many previous studies, collaboration is the key enabler in value creation as it does not happen in isolation (Möller & Törrönen, 2003; Lindgreen & Wynstra, 2005; Borys & Jemison, 1989). Establishing effective governance is crucial in unlocking SRM value (Deloitte 2015a).

According to a global study conducted by Vantage Partners in 2006 and 2007 focusing on customer-supplier collaboration, customers report that they gain on average of 40 percent more value from working with their most collaborative key suppliers comparing to their least collaborative suppliers. Results from the supplier perspective are similar; supplier report delivering an average of 49 percent more value to their most collaborative customers compared to their least collaborative key customers. (Hughes, 2008) Many companies can point out occasional success stories on how collaboration with a key supplier has brought a significant amount of value, however only a few have successfully implemented

collaboration with key suppliers into their business. Companies that have succeeded, recognize that to succeed in collaboration long term requires a major shift in culture including formalizing new ways of interacting with suppliers and also systematically review existing business processes and policies to identify which ones decrease collaboration and delete them. (Hughes, 2008)

PwC (2013) states that the key value drivers for SRM value creation are innovation, sustainability, legality, and resilience. Both the buyer and the supplier must be able to develop and deploy these four capabilities continuously to create value. Trust, empathy, open communication and a win-win orientation are all elements that are crucial so that a company can benefit from the capabilities and value that can be created.

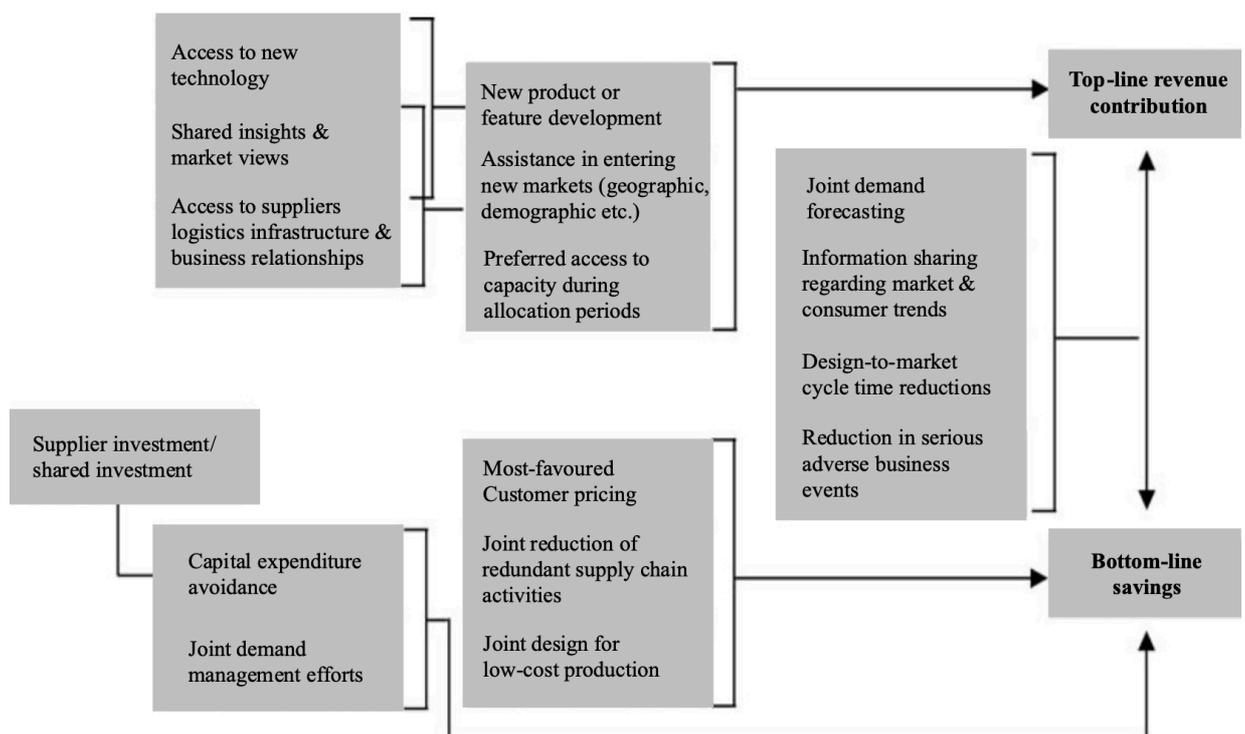


Figure 3. Potential Forms of Value from Customer-Supplier Collaboration (modified from Hughes, 2008)

Hughes (2008) presents a framework (Figure 3) within which management across the company can identify potential forms of value that can be realized through effective

collaboration and more systematic and strategic SRM. Hughes (2008) states that additional value created in supplier relationships occurs in many different forms depending on the company, industry, strategy, and market position to name a few. These forms of value can contribute to top-line revenue, bottom-line savings, or both. The forms of value all contributing to top-line revenue include access to new technology, shared market views, access to supplier's logistics infrastructure, new product development, assistance in entering new markets, preferred access to capacity during allocation periods. Forms of value that provide to bottom-line savings include supplier investment or shared investment, capital expenditure avoidance, joint demand management efforts, most favoured customer pricing, joint reduction of redundant supply chain activities and joint design for low-cost production. Forms of value affecting both include joint demand forecasting, information sharing regarding market and consumer trends, design-to-market cycle time reductions and reduction in serious adverse business events. (Hughes, 2008) Möller and Törrönen (2003) propose that the dimensions of the supplier's value creation in a customer-supplier relationship can be classified according to efficiency, effectiveness, and network functions. These three functions are interrelated but distinct conceptually. (Möller and Törrönen, 2003)

Hughes (2008) states that one of the most important things in creating value is to expand the scope of interaction between buyers and suppliers among their procurement and sales personnel to cover almost the entire organization. Promoting joint product development, reshaping business processes for improved efficiency, and sharing and aligning technology roadmaps are all opportunities for value creation through interaction and require involvement from many parts of the organization such as research and development, logistics, manufacturing, and marketing to name a few in both the buyer's and supplier's side. Also, assessing the company's long-term goals and identifying how and where would be the best to leverage supplier's capabilities and expertise require the involvement of multiple parts of the customer's organization. The need for alignment and involvement and the opportunities they create in additional value creation exist at a functional, business-unit level and across the entire organization. To facilitate an organization-wide alignment one way can be to set up a cross-business unit committee that meets quarterly to review key metrics that are defined to emphasize areas of supplier development and improvement which allows the identification of potential problems across suppliers early on and ensures the ongoing viability of preferred suppliers. It also finds new collaboration opportunities that

involve various suppliers and ensures that the best practices of SRM are shared across the organization. (Hughes, 2008)

Companies often have many suppliers who have significant value creation potential realized through collaboration. To be able to realize this value companies need (1) close integration of planning and operations between partners such as extensive information sharing, coordinated decision making, integration of processes to name a few, (2) to make financial investments as well as investments in time and effort, (3) realize that there is a high degree of risk of opportunistic behavior from the other party as well as many forms of competitive risk. (Hughes, 2008)

Even though buyer-supplier collaboration has proven to bring increased value and many companies aim to collaborate with their suppliers, many companies still keep their supplier's arm's length and treat their key suppliers in a way that is very similar to their non-strategic suppliers. This way, suppliers often align their efforts according to short term sales objectives rather than long term value delivered to key customers. (Hughes, 2008; Liker & Choi, 2004) Hughes (2008) states that building and sustaining collaborative relationships requires willingness and ability to stay away from activities that create short term benefits but undermine potential opportunities for value creation long-term.

## **2.2 Barriers and risks**

According to Hughes (2008), several customer behaviors prevent suppliers from delivering more value including a focus on short-term easily quantifiable savings, lack of transparency about needs and priorities, lack of internal alignment, unwillingness to make long-term commitments, limited access outside of procurement, not enough access to senior management, overly rigid RFP's and bidding processes, lack of respect for supplier expertise, use of one-sided contract language and customers involving suppliers too late. On the other hand types of supplier behavior that prevent suppliers from delivering more value include lack of internal coordination, supplier executive focus on short term revenue and margin, incentives encourage focusing on short term sales rather than building long-term partnerships, unwillingness to enter into "at-risk" arrangements, not offering enough transparency, track record of using information about customers as leverage in negotiations,

supplier-sided contract language, tendency to make unrealistic commitments to win contracts and unwillingness to make long term commitments to customers. Short-term focus, lack of transparency, lack of internal alignment, and unwillingness to commit long-term have been seen to have the most harmful effect on customer-supplier collaboration. (Hughes, 2008; Oghazi et al., 2016; Gunasekaran & Ngai, 2004; Faisal et al. 2007)

These types of behaviors often stem from perceived risks and fear from both the customer's and supplier's side. The fear of being extorted is a major barrier to collaboration which affects the company's willingness to share information, make investments, enter into contractual arrangements long-term and work together with suppliers in ways that create a higher level of dependency and reduce leverage. Both parties are also often afraid of opportunistic behavior due to the risk that if too much information is shared the other party can develop into a direct competitor. These risks are real and should not be discounted but they should not be the only barrier in preventing joint research and development activities with suppliers. (Hughes, 2008; Oghazi et al., 2016; Faisal et al., 2007)

The majority of companies define and employ performance metrics and incentives for their key suppliers that are very similar to the rest of their suppliers. Even companies that have implemented supplier scorecards as a part of their SMR programs usually focus on short-term objectives and indicators that are easy to measure instead of focusing on the drivers and realization of long-term value. Due to short-term incentives and metrics and incentives drive behavior and results they continuously limit collaboration and constrain the investments (e.g. capital, time, effort) which results in wasted opportunities, and therefore additional value cannot be realized. (Oghazi et al., 2016; Faisal et al., 2007; Deloitte 2015a)

Collaboration with suppliers can only happen when the degree of alignment and collaboration is high in both customer and supplier organizations. This has to exist in various parts of the business including procurement, research, and development, human resources, and marketing to name a few so that everyone is on the same length when it comes to collaboration and supplier management and everyone works in a systematic way to maximize the value of key supplier relationships. (Hughes, 2008)

## **2.3 Mitigating risk and sharing value**

Mitigating risks are important when engaging in joint research and development efforts however companies that are more focused less on avoiding loss of leverage and more on ensuring that dependence is mutual and those clear opportunities for joint value creation act as a strong disincentive to avoid opportunistic behavior. These types of companies also develop a contract that goes beyond traditional purchasing contracts to emphasize intellectual property ownership, clarify exclusivity and non-compete obligations, define supplier rights commercialize new technology in specific markets, or after a defined exclusivity period. (Hughes, 2008; Deloitte 2015a) According to Hughes (2008), best practices for mitigating risk and sharing value also include working with suppliers to map out and agree to a decreasing cost curve for new innovative solutions or products due to efficiencies gained from increased volume and experience and including risk-reward sharing and/or clear expectations and incentives for performance and service levels into agreements.

Companies that focus on creating joint value must still set prices and determine the ways to share benefits from collaborative efforts such as joint product development. (Hughes, 2008) According to Hughes (2008), companies that are most successful in collaborating with their key suppliers have realized that a significant change in mindset is required. Rather than focusing on how to gain the most value from suppliers, the focus should be on the fairest and appropriate ways on how to allocate benefits with suppliers and share jointly created value with key suppliers. Without using any adversarial or coercive tactics which often include threats about terminating or reducing the scope of the relationship, both sides should come up with a mutually acceptable solution based on objective criteria. (Hughes, 2008; Herrmann & Hodgson, 2001)

## **3. SUPPLIER RELATIONSHIP MANAGEMENT (SRM)**

Supplier relationship management is viewed as a business process that includes the managing of all contacts between a company and its suppliers (Tseng, 2014). The concept of SRM was first introduced in by Peter Kraljic in Harvard Business Review in 1983, stating that companies should shift their focus from purchasing as an operation function to supply

management as a strategic function (Kraljic, 1983). Even though SRM has received great interest in academic discussion, there is not one agreed definition (Hughes, 2008). Hughes (2008) defines SRM as “the systematic, enterprise wide assessment of suppliers’ assets and capabilities with respect to overall business strategy, determination of what activities to engage in with different suppliers and the coordinated planning and execution of all interactions with suppliers in order to maximize the value realized through those interactions.” Moeller, Fassnacht and Klose (2006) on the other hand argue that SRM is a process where a specific set of activities are executed including setting up, establishing, stabilizing and dissolving relationships with suppliers in order to create and maintain value to both parties. Johnson, Sohi and Grewal (2004) state that these formed relationships can be stabilized by ongoing discussion and adjustment. Lambert and Schwieterman (2012) view SRM as a strategic, cross-functional, process oriented and value-creating way and define it as a business process that provides the company of how to develop and manage supplier relationships to creating maximum financial performance. Herrmann and Hodgson (2001) state that the key strength of SRM is its focus on inter-enterprise and cross-department processes and all roles involved in these processes. According to Day, Magnan, Webb & Hughes (2008) strategic SRM can be defined as a “structured business process that supports value capture between customers and suppliers”.

According to Schuh et al. (2014) SRM consists of supplier selection, coordination of supplier communication, risk and performance management, development initiatives that exceed the contractual commitments and maximising value across the entire network. It drives supplier behaviour, manages the relationships between the company and its suppliers, coordinates divisions, functions and hierarchies of the company related to its supply base. (Schuh et al., 2014) SRM manages key suppliers and seeks for new ones while pooling buyer experience, reducing costs and making procurement repeatable and predictable (Herrmann & Hodgson, 2001). The aim is to identify and engage with the right stakeholders to create ownership of the relationship, drive effective communication and align strategic objectives (Deloitte, 2015b) PwC (2013) defines SMR as a “systematic approach for developing and managing partnerships. It is focused on joint growth and value creation with a limited number of key suppliers based on trust, open communication, empathy and a win-win orientation”.

Researchers define SRM from different perspectives, but all of them highlight the key elements that are effective interaction between a company and its suppliers to improve the company's performance, bring value and increase the capability to remain competitive in the market. It provides the opportunity for companies to make the best use of their supply base by working more effectively with their suppliers to achieve benefits and build competitive advantage (Schuh, Strohmer, Easton, Hales & Triplat, 2014; Herrmann & Hodgson, 2001). Schuh et al. (2014) state that SRM includes the top- and bottom-line goals that include innovation, risk, cost, quality and responsiveness. The aim is to pursue value through innovativeness and growth beyond cost optimization and to make sure that both parties achieve their goals so that success can be achieved (Schuh et al. 2014).

In practice, SRM includes a wider scope of interaction with key suppliers which goes beyond traditional purchasing and fulfilment transactions to establish activities such as joint research and development, joint demand forecasting and sharing knowledge and strategic information about market trends to name a few (Hughes, 2008; Liker & Choi, 2004). Often the aim is also to eliminate interactions that consume great amount of resources but do not bring value such as using time and energy in making specific instructions for the supplier on how to execute activities and then auditing compliance. SRM requires setting up the needed organizational capabilities in order to manage more complex interactions with the suppliers so that the relationships can be managed strategically as a part of the overall relationship rather than tactically through different organizational silos such as research and development, purchasing, manufacturing, and others that involve or affect suppliers. (Hughes, 2008) SRM is an approach to connect different interests from within the internal organization and with the extended supply chain (Deloitte. 2015b) It therefore provides a holistic set of management tools and methods that focus on the customer-supplier interaction to maximise the value of the supply base (Choy, Fan, & Lo, 2003; Herrmann & Hodgson, 2001).

### **3.1 Supplier collaboration**

In the increasing market pressure companies are systematically trying to reduce prices, introduce new products, shorten cycle times, improve quality and satisfy customers. As global competition is only getting tougher the only way to survive in the market is to

collaborate with suppliers to create as much value as possible. (Trent, 2005) Hughes (2008) defines that collaboration occurs “when two (or more) companies work together to achieve one or more common objectives, and/or when they work actively to help each other achieve their respective objectives.” Collaboration aims for an efficient information flow between the parties to ensure streamlined and optimized management of the flow of materials and parts into the manufacturing plant including material plans, performance scorecards, inventory and capacity availability and key performance indicators (Herrmann & Hodgson, 2001) Collaboration pushes companies to rethink traditional ways in handling and managing supplier relationships (Hughes, 2008). Collaborative relationships are usually formed with only a limited set of suppliers that provide products or services that are crucial for a company’s success (Trent, 2005). For collaboration to occur, companies and suppliers need to view and relate to each other as partners and commit to joint value creation and to enable each other’s success. (Trent, 2005; Hughes, 2008)

According to Trent (2005), collaborative relationships such as alliances and partnerships represent the most intensive and sophisticated relationship between a buyer and a supplier. These types of relationship include wide sharing of resources, joint strategy development sessions and a wide scope of interaction. Ideally, both parties have a joint vision and recognize that the value received is significantly higher through the collaborative relationship than if it did not exist. (Trent, 2005)

Hughes (2008) defines attributes of most and least collaborative relationships. In most collaborative relationships there is (1) a high level of trust viewed as confidence that a company’s actions are fair and take partners interests into account, (2) a high degree of transparency about plans, capabilities and priorities, (3) focus on maximising long-term value and ensuring partner’s success, (4) conflicts are resolved “on the merits”; partners seek or create and apply objective criteria aimed at producing reasonable and fair outcomes and, (5) differences among partners are respected and leveraged as a source of innovation and value creation. In least collaborative relationships (1) the level of trust is low and there is a significant fear of opportunistic behaviour by partner, (2) relatively little information is shared about priorities, plans and capabilities, (3) differences in goals, strategies and expertise undermine trust and produce friction, (4) focus is on maximising short-term, unilateral value and, (5) conflicts are resolved on the basis of who has most leverage at given

point of time. (Hughes, 2008) According to Möller and Törrönen (2003), in the development of collaborative supplier relationships both the buyer and the supplier have to make significant adoptions and commitment of resources.

To succeed and capitalize the value from collaboration two changes have to be made; (1) broadening the scope of interactions with key suppliers and determine what interactions occur in the relationship and (2) transforming the ways in which customers and their key suppliers interact. As seen in Figure 4, Hughes (2008) separates B2B relationships into three dimensions: dimension 1 including the collective set of interactions between two or multiple parties, dimension 2 which is the manner in which interactions are conducted and dimension 3 which includes the beliefs and perceptions the parties have about each other. Dimension 1 is viewed as substantive relationships and dimension 2 and 3 conduct together procedural relationships. Companies that systematically treat their key suppliers as partners rather than vendors work at both the substantive and the procedural aspects of the relationship. (Hughes, 2008)

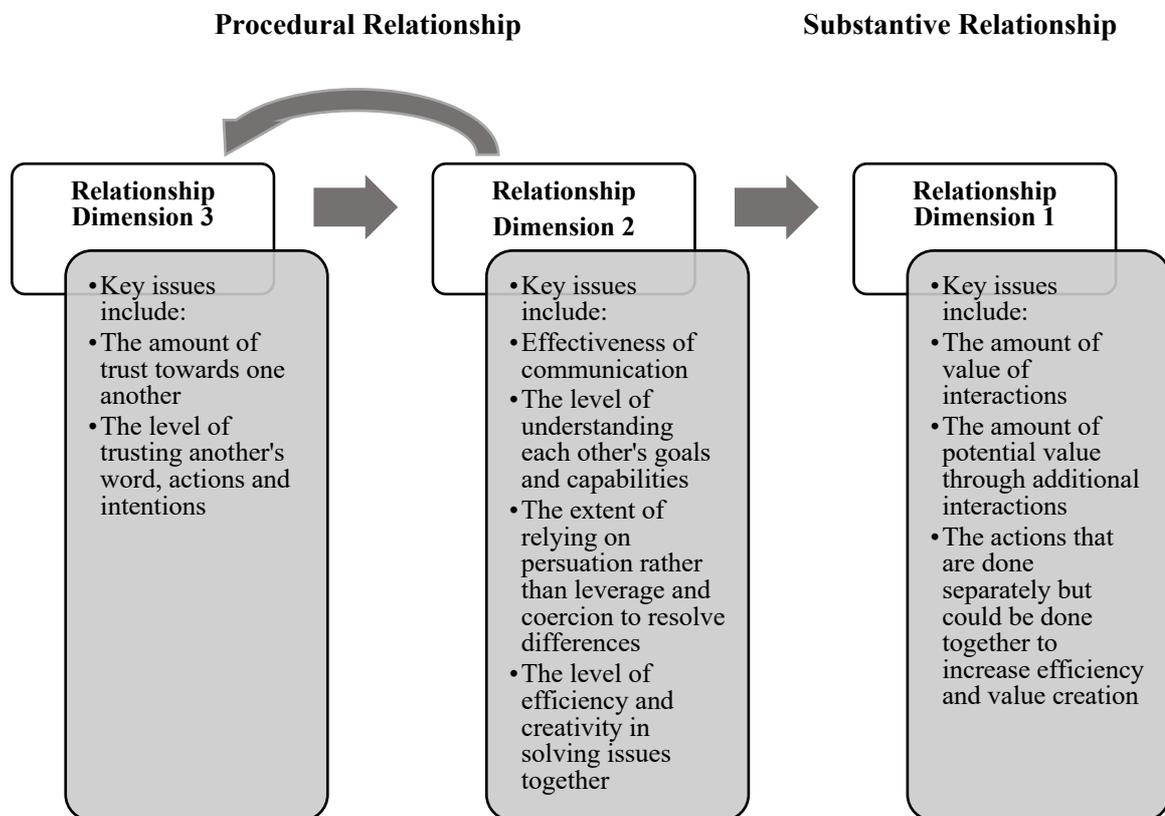


Figure 4. Three dimensions of B2B relationships (modified from Hughes, 2008)

Widening the scope of interaction between the customer and the supplier including joint innovation and product design efforts at an early stage of the process, developing more robust contracts and implementing more equitable value-sharing arrangements all present the substantive side of customer-supplier relationships. While taking the steps to develop the relationship on a substantive level to succeed, it is important to focus on transforming the procedural dimension as well. Companies that are the most successful at collaborating with their key suppliers understand what good relationships entail and what it requires to develop and sustain them. These companies spend the time and effort required to nurture and manage the procedural dimension including activities such as trust building, investing in understanding their supplier's wants and needs and helping the suppliers to understand their business on a strategic, operational and cultural level. They also ensure that the interpersonal interactions that are crucial for effective collaboration include creative joint problem solving, commitment to fairness and have mutual respect. (Hughes, 2008)

According to Hughes (2008) people often see a good business relationship as a consequence of the value it creates, however it is the procedural dimension of the company's supplier relationships that is a crucial enabler for value creation. Even though interactions and beliefs of the relationship between a buyer and a supplier influences overtime the value each side receives, the ways companies work with their key suppliers on the procedural side of the relationship has a significant effect on the value they realize. (Hughes, 2008)

### **3.2 Supplier development**

Supplier development (SD) is closely related to supplier improvement, which aims to improve the long-term profitability of a supplier (Lambert & Schwietermann, 2012) It can be defined as "as any effort by a buying organization to increase the performance and capabilities of the supplier, which leads to produce positive results for the buying organization" (Krause, Scannell & Calantone, 2000; Batson, 2008; Abdullah & Maharjan, 2008) SD requires investments from both parties, the buyer and the supplier to gain desired outcomes. Especially buying organisations can be very resourceful for supplier improvements in the areas of quality, new technology adoption, cost reduction, and delivery. (Dalvi & Kant, 2015)

Supplier development requires that the buying organization completes its supplier selection activities. According to Dalvi and Kant (2015) supplier development activities include sharing essential knowledge, experience and skills as well as direct investments in human or physical assets. These activities have a strong impact on implementation of supplier development (Li, Humphreys, Yeung & Cheng, 2007). In order to manage the development process successfully and focus activities and efforts in areas of highest need and potential for improvement the buyer should identify key areas for supplier development including specific suppliers, services, products or relationships (Krause et al., 1998).

There are also many critical elements that affect supplier development effort's success and according Krause and Ellram (1997) they include the effectiveness of two-way communication, cross-functional buying firm teams, top management involvement, emphasis on factors other than price, supplier evaluation and feedback, purchasing a relatively large percentage of supplier's annual sales, a total cost focus, supplier recognition and a long-term perspective. Dyer and Nobeoka (2002) emphasize the importance of sharing information and knowledge learning, because these activities increase the level of mutual trust among the buyer and supplier.

Krause, Handfield, and Scannell (1998) present two different approaches to SRM; a strategic approach that aims to develop the company's competitive advantage and a reactive approach that aims to detect supplier's poor performance that becomes a threat to the buying company's goals and performance. In strategic approach SRM activities are planned and they begin before a supplier contract is signed, and in reactive approach the relationships are approached when an undesired situation occurs. According to Krause et al. (1998) most of the companies emphasize one approach over the other but some use a combination of them. Many companies start their supplier development efforts in a reactive way, until they develop more towards a strategic approach in the aim of continuously improve the supplier's performance. (Krause et al., 1998)

In the long run, the strategic approach has been beneficial to the success of businesses that need suppliers to operate in the market. Suppliers can have a major impact on company's processes by driving revenue, and by maintaining and developing a reliable supply base that produces high quality consistently it affects the company's growth. (PurchaseControl, 2018)

Krause et al. (1998) argue that strategic approach can provide many benefits to companies such as improved certainty and continuity in buyer-supplier relationships, more responsibility in the supply chain and better supplier involvement in product development processes, however it is important that the rewards are in line with the investments. (Krause et al, 1998)

### **3.3 Motives for SRM**

According to Khan and Nicholson (2014) many companies have spread their value chain activities around the globe due to wanting to focus on core activities only, however the model of fine slicing increases the interdependency in the buyer-supplier relationship as well as relationships become more complex in an international setting. In today's competitive market companies are also facing more demanding and well-informed customers, shorter product lifecycles and a high price erosion which has led to higher level of outsourcing which can increase complexity and risks due to a growing supply network. (Herrman & Hodgson, 2001; Khan & Nicholson, 2014)

In traditional supplier relationships the communication between a buyer and the supplier is driven by the operation needs of the buying company which leads to relationships often lacking transparency and suppliers are struggling to see a cross-functional interface to cooperate with. In these kinds of situations both parties drive their own good and aim to take advantage of the situation. (Deloitte, 2015a) Through SRM, companies can gain more clarity and structure to the buyer-supplier relationships so that they are able to manage them at all levels, reduce the complexity and increase transparency for both parties. The aim is to develop two-way mutually beneficial relationships between the company and its suppliers which include the relationship building and collaborative activities that are targeted to the most important and strategic partners who are believed to bring most value to the company. These activities are therefore complementary additional activities that are targeted to most suppliers such as supplier performance measurement and contract management. (Deloitte, 2015a) In a global and competitive setting, supply chain processes and relationships have to be integrated and aligned with the company's strategy and the objective should always be the improvement in efficiency and effectiveness of supply chains to create maximum value for final customers. (Morash & Clinton, 1998)

According to Lintukangas (2010) there are five objectives of SRM, and they are; minimization of transaction costs, value creation through internal capabilities and resources, gaining competitive advantage from cooperative relationships, reducing the risks of supply dependence and availability, and diffusion of supplier information between business units. Lambert and Schwieterman (2012) state that the objective of SRM is to “identify key product and service components, provide criteria for segmenting suppliers, provide supplier teams with guidelines for customizing the product and service offering, develop a framework of metrics, and provide guidelines for sharing process improvement benefits with suppliers”. According to PwC (2013) the main objectives of SRM is to become the customer of choice, focus on value, leverage on supplier capabilities by involving the suppliers early on in the innovation and product and process development process and share growth, profits, risks and investments which can all bring significant benefits.

Previous research has also shown that SRM has an effect on competitive advantage (Lintukangas, 2010; Herrmann & Hodgson, 2001; Cousins & Spekman, 2003; Dalvi & Kant, 2015; Zsidisin et al., 2003; Trent, 2005) Herrmann and Hodgson (2001) argue that SRM supports competitive advantage needed to succeed in the market in three ways; (1) improved business processes throughout the supply chain, (2) a better architecture that can manage multi-enterprise processes and (3) facilitates rapid product cycles and new product introduction. To succeed in SRM, the objectives must be in line with a company’s strategy and effective control mechanisms have to be developed to allow interaction between company’s external resources and relational performance (Lintukangas, 2010).

### **3.4 Benefits of SRM**

There are many benefits and desired outcomes that can be achieved through SRM. These benefits have been identified from literature and are listed in Table 1 below.

Table 1. Benefits of SRM

<b>Benefit</b>	<b>Source</b>
Increased value creation	Kähkönen & Lintukangas, 2012; Day et al., 2008; Hughes, 2008; Huemer, 2006 Herrmann & Hodgson, 2001; Dalvi & Kant, 2015; Liker & Choi, 2004; Möller & Törrönen, 2003; Moeller et al., 2006; Lambert & Schwieterman, 2012; Enz and Lambert (2012); Deloitte, 2015b
More efficient and streamlined processes	Herrmann & Hodgson, 2001; Hughes, 2008; Liker & Choi, 2004; Deloitte, 2015b
Competitive advantage	Lintukangas, 2010; Herrmann & Hodgson, 2001; Cousins & Spekman, 2003; Dalvi & Kant, 2015; Zsidisin et al., 2003; Trent, 2005; PwC, 2013
Cost savings (incl. cost of components and materials, lower process costs)	Herrmann & Hodgson, 2001; Deloitte 2015a; Nokkentved, 2007; Liker & Choi, 2004; Lambert & Schwieterman, 2012; Deloitte, 2015b
Increased flexibility to respond to changes in customer demand	Herrmann & Hodgson, 2001; Deloitte, 2015b
Faster cycle times	Herrmann & Hodgson, 2001; Deloitte, 2015b
Higher level of coordination, increased market share	Herrmann & Hodgson, 2001; Hughes, 2008; Deloitte, 2015b
Increased customer satisfaction	Herrmann & Hodgson, 2001; Hughes, 2008
Increased supply chain performance and efficiency	Herrmann & Hodgson, 2001; Hughes, 2008; Deloitte, 2015a; Hald and Ellegaard, 2010; Lambert & Schwieterman, 2012;
Improved product development (incl. quality and design)	Dyer & Nobeoka, 2002; Liker & Choi, 2004; Yenyurt et al., 2014; Lambert & Schwieterman, 2012; Deloitte, 2015b
Reduced risks in supply chain	Deloitte, 2015a; Hughes, 2008; Lambert & Schwieterman, 2012;
Increased business development and innovation	Deloitte, 2015a; Hughes, 2008; Heide & John, 1990; Lambert & Schwieterman, 2012; Deloitte, 2015b
Increased trust in the relationship, loyalty, reduced risk in opportunistic behaviour	Martin & Grbac, 2003; Hughes, 2008; Liker & Choi, 2004; Chen et al., 2004; Danese & Romano, 2012; Deloitte, 2015b
Increased responsiveness in the supply chain	Liker & Choi, 2004; Prajogo et al., 2010; Chen et al., 2004; Herrmann & Hodgson, 2001
Improved product offering and availability	Liker & Choi, 2004; Deloitte, 2015b
Elimination of non-value adding activities	Herrmann & Hodgson, 2001
Mitigation of risks	Herrmann & Hodgson, 2001; Hughes, 2008; Deloitte, 2015a
Improved reliability and reduction of uncertainty	Liker & Choi, 2004
Improved knowledge sharing and information flow, improved information quantity, quality and speed	Herrmann & Hodgson, 2001; Dalvi & Kant, 2015; Nokkentved, 2007; Dyer & Chu, 2003
Continuous supplier evaluation and performance improvement, continuous assessment and improvement of SRM activities	Dalvi & Kant, 2015; Deloitte, 2015a; Deloitte, 2015b
Increased corporate responsibility, sustainability, environmental efficiency in products and processes	Herrmann & Hodgson, 2001; Liker & Choi, 2004; Nokkentved, 2007; Deloitte, 2015a

Most companies benefit from managing better their relationships with key suppliers (Trent, 2005; Lambert & Schwieterman, 2012). Many researchers (e.g. Day et al., 2008; Hughes, 2008 & Moeller et al., 2006) emphasize the significant opportunities that exist for maximising overall value and relationship quality through SRM with the selected key suppliers. Enz and Lambert (2012) also highlight the ability to co-create value as an additional benefit of cross-functional collaborative relationships with key suppliers. The core of SRM is to drive benefits for both parties of the relationship to create value long-term (Tseng, 2014). Increased value creation is recognised as a significant benefit of SRM (Kähkönen & Lintukangas, 2012; Day et al., 2008; Hughes, 2008; Huemer, 2006 Herrmann & Hodgson, 2001; Dalvi & Kant, 2015; Liker & Choi, 2004; Möller & Törrönen, 2003; Moeller et al., 2006; Lambert & Schwieterman, 2012; Enz and Lambert (2012); Deloitte, 2015b).

Effective SRM brings cost savings due to improved and streamlined processes, faster cycle times, improved on-time delivery, increased supply chain performance and efficiency, elimination of non-value adding activities improved knowledge sharing and information flow and increased level of innovation. (Herrmann & Hodgson, 2001; Hughes, 2008; Liker & Choi, 2004; Deloitte, 2015b; Deloitte 2015a; Nokkentved, 2007; Liker & Choi, 2004; Lambert & Schwieterman, 2012; Hald and Ellegaard, 2010) SRM also increases trust in the relationship, loyalty and reduces risk in opportunistic behaviour (Martin & Grbac, 2003; Hughes, 2008; Liker & Choi, 2004; Chen et al. 2004; Danese & Romano, 2012; Deloitte 2015b)

PwC (2013) illustrates the impact of strategic sourcing and systematic SRM on value creation in Figure 5 below. Contract management supports value creation to a certain point whereas SRM allows a breakthrough in operational and financial performance whilst supporting value creation beyond traditional cost management.

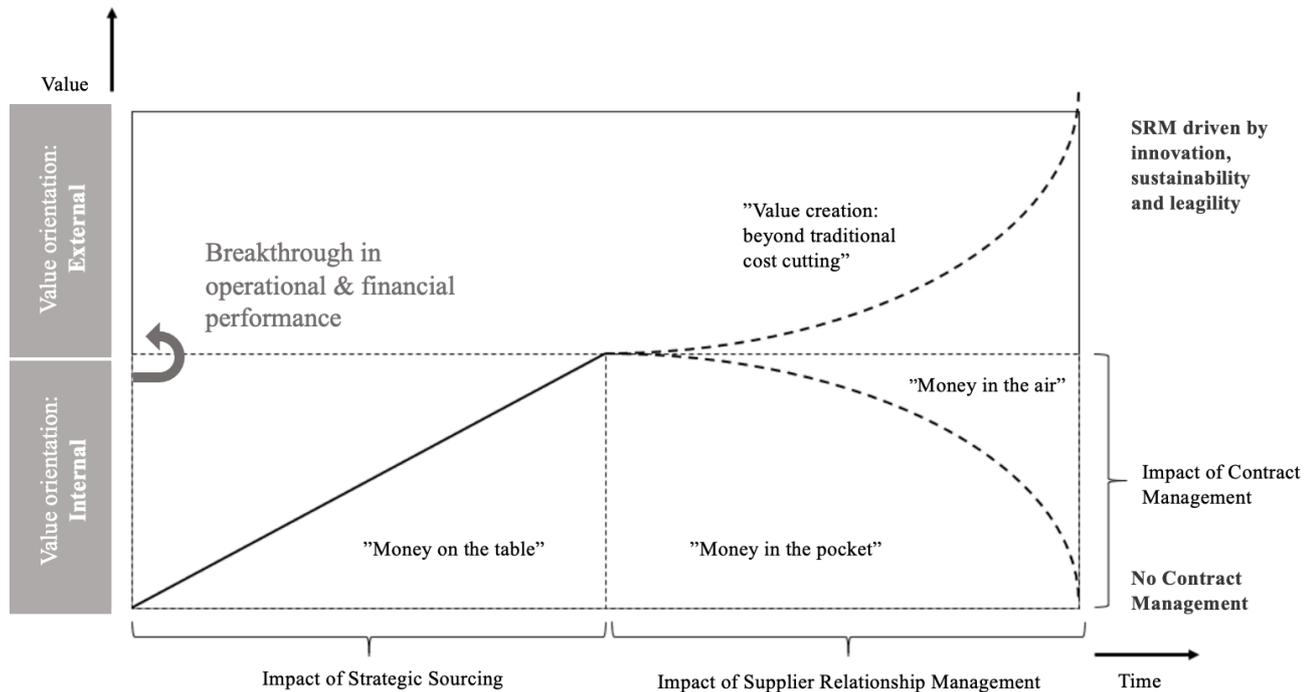


Figure 5. Impact of SRM on value creation (modified from PwC, 2013)

According to Deloitte (2015a) many benefits from successful SRM can be gained including reduced costs, driving and monitoring performance, managing risks in the supply chain, responsible sourcing, ethics and regulatory requirements and supporting business development and innovation by identifying business opportunities that benefit both organisations the buyer and the supplier and creates long-term value. Herrmann and Hodgson (2001) state that cost reductions can be achieved through better information flow and streamlined business processes due to reduced overproduction, improved efficiency through elimination of non-value-add activities and leveraging scale with key suppliers.

Collaboration is the key for lowered inventory costs as well as increased customer responsiveness and sets a foundation for a company for continuous efficiency improvements such as cost reductions, shorter go-to-market times, risk mitigation and higher potential for disruptive innovation. (Herrmann & Hodgson 2001; Deloitte, 2015b). PwC (2013) states that through SRM, companies can gain preferential treatment regarding cost, availability, access to technology, innovation and risk reduction. It can also improve market competitiveness through consideration of all relevant elements that determine stakeholder value and by supporting a growth culture including joint efforts and objectives.

SRM also increases flexibility and responsiveness due to greater visibility, communication and collaborative planning with suppliers which improves the company's ability to match production to demand and therefore supports better profitability (Herrmann & Hodgson 2001; Liker & Choi, 2004; Prajogo et al., 2010; Chen et al. 2004) SRM can speed up cycle times through more efficient and effective communication, automated replenishment, improved and streamlined processes and real-time measurement to make sure that suppliers and buyers are working with the most precise and up-to-date information available (Herrmann & Hodgson 2001). Dyer and Nobeoka (2002) also highlight that close relationships with suppliers can contribute to company performance by allowing constant improvements in quality and improved design in the new products. Martin and Grbac (2003) state that successful SRM can also increase the level of loyalty.

Many researchers such as Lintukangas (2010), Herrmann and Hodgson (2001), Cousins and Spekman (2003), Dalvi and Kant (2015), Zsidisin et al. (2003) and Trent (2005) state that SRM can have a positive effect on company's competitive advantage through cooperative relationships. According to Herrmann and Hodgson (2001), when companies recognise the value of managing their supply base as a tool for creating competitive advantage it becomes the most crucial technology investment a company can make to ensure that the supply chain transformation, they are implementing will be successful.

### **3.5 Challenges of SRM**

Even though SRM has proven to bring many benefits, developing a strategic cooperation with most important suppliers can be extremely challenging. (Liker & Choi, 2004; Hughes, 2008; Deloitte, 2015a; Deloitte, 2015b) Hughes (2008) states that there are many barriers that prevent companies from turning traditional supplier relationships with key suppliers into powerful collaborative relationships that can bring significant value to both parties. Therefore, many companies are struggling with their SRM efforts and are having poor or mixed experiences (Deloitte, 2015b). Most of the time supplier relationships are under a lot of stress and pressure and so that great results can happen, both parties need to be committed. (Deloitte, 2015a) These challenges have been identified from literature and are listed in Table 2 below.

Table 2. Challenges of SRM

Challenge	Source
SRM program implementation, cost/lack of proper integration	Liker & Choi, 2004; Hughes, 2008; Deloitte, 2015a; Deloitte, 2015b; Oghazi et al., 2016; PwC, 2013; Lee & Whang, 2000
Internal stakeholders; unwillingness to transform supplier relationships	Gunasekaran & Ngai, 2004; Oghazi et al., 2016; Faisal et al., 2007
Lack of clear internal alignment, SRM strategy and framework	Deloitte, 2015b; Oghazi et al., 2016; Hughes, 2008; PwC, 2013; Day et al., 2008; Deloitte, 2015a
Lack of communication and information sharing	Deloitte, 2015b; Oghazi et al., 2016; Hughes, 2008; PwC, 2013; Lee & Whang, 2000
Lack of business involvement	PwC, 2013; Deloitte, 2015a
Lack of commitment to relationship, initiatives and other party's success	Hughes, 2008; Oghazi et al., 2016; Deloitte, 2015b
Focus on cost-cutting & performance only	PwC, 2013
Lack of trust & willingness to make long-term commitments	Deloitte, 2015b; Oghazi et al., 2016
Lack of systematic efforts in building trust & commitment	Hughes, 2008; Deloitte, 2015b
Lack of cross-functional involvement	Hughes, 2008; Deloitte, 2015b
Stress and pressure in the relationships	Deloitte, 2015a
Change in organizational mindset	Hughes, 2008; Deloitte, 2015a
Lack of performance measurement, methods & tools	Oghazi et al., 2016; Faisal et al., 2007; Deloitte, 2015a
Lack of external alignment	Oghazi et al., 2016; Deloitte, 2015a; Deloitte, 2015b
System restrictions	Oghazi et al., 2016
Perception of risk, fear, opportunistic behaviour, chance of failure	Oghazi et al., 2016; Hughes, 2008; Faisal et al., 2007
Lack of formal supplier selection and measurement	Bemelmans et al., 2012; Deloitte, 2015a
Lack of formal SRM procedures and harmonized way of working	Deloitte, 2015a; Deloitte, 2015b; Bemelmans et al., 2012; PwC, 2013
Late supplier involvement	Hughes, 2008
Lack of mutual understanding and empathy	PwC, 2013
Lack of competencies and capabilities	PwC, 2013
Lack of transparency & high complexity in relationships	Deloitte, 2015b

Many times, a company has built a formal SRM program, but then the implementation has been completed only halfway and for some reason there has been unwillingness to truly transform the important business relationships (Hughes, 2008). According to Deloitte (2015b) the main reason for companies struggling to manage their supplier relationships systematically is the lack of clear framework including aligned guidelines on supplier

management. The challenge is that SRM and partnerships are often seen concerning only the procurement and sales functions and the involvement of business is minimal. (PwC, 2013) According to PwC (2013) procurement is still primarily seen as a contributor to cost-cutting initiatives which is often reflected in the way companies implement their SRM program; with a focus on cost reduction and performance indicators.

Value mapping can be beneficial for companies in shifting focus beyond cost cutting and allows them to incorporate value drivers that contribute to risk reduction, revenue growth and asset utilization as well. It defines the exact business objectives for SRM programme and facilitates the discussion between business and procurement. It is possible that procurement handles the process of value mapping however it is crucial that the business defines what value means and the ways SRM can contribute. Before having the value discussion, it is important to discuss about the organization's key capabilities and what expectations the organization has from partners. (PwC, 2013)

Deloitte (2015a) highlights the importance of five steps set that support companies in overcoming the common challenges and they first highlight the importance of selecting the right partners. Companies should look more than the strategic and financial fit and consider the company culture fit, business practices and operating model. The key for success in the future as well is to think which suppliers could support the company's future competitive advantage when making the decisions. The second step is to align internally and externally. There should be a clear alignment among business stakeholders at all levels so that it is ensured that they are committed to SRM, understand the requirements and existing initiatives in and outside the company. The company's focus should be towards the extended supply chain considering the cause and for the entire network of strategic suppliers instead of focusing only to effects to the own organisation. The third step is to develop relationships that are mutually beneficial. When negotiating with the strategic suppliers it is crucial to come up with a deal that is a win-win for both parties and that considers immediate actions and future engagements. To improve negotiation results, company's staff should be trained in networking skills, problem solving and conflict management. The fourth step is to select meaningful KPIs and share information. It is important to select measures that are relevant to both company's success based on the mutually agreed strategic objectives. It is also important to communicate openly in ongoing basis and ensure that information flows in both

directions seamlessly. The last step is to manage change. Any strategic relationship requires changes in every partner organisation and the communication must be planned to make sure that everyone involved are informed in the goals, scope and their role in the SRM. (Deloitte, 2015a) To be able to execute SRM successfully, a company needs to understand the most effective supply chain management practices to be able to execute and benefit from them (Prajogo, 2010).

Hughes (2008) argues that SRM programs can be a great tool for establishing collaboration, however the implementation is often lacking systematic efforts to build trust and mutual commitment and cross-functional involvement needed for identifying and executing value creation opportunities. According to Day et al. (2008), to be able to address the challenges in successful SRM implementation, clear relationship strategies and great people are needed to lead the relationships, processes and work streams forward. Each person in the in the collaboration with the supplier has a significant impact on the total quality of the supplier relationship and the overall collaboration (Sjoerdsma & van Weele, 2015). To build successful partnerships with key suppliers require a high level of coordination across several boundaries within companies as well as a fundamental change of how the entire company views and interacts with its suppliers (Hughes, 2008). The focus should also be in managing the informal relationship with the supplier to enhance the information sharing and capabilities of the suppliers (Sjoerdsma & van Weele, 2015).

### **3.6 SRM process**

Hughes (2008) argues that the key for successful collaborative customer-supplier relationships is not only what parties do together but how they interact and also what they believe of each other. SRM facilitates the efficient management of the supply base, extends the visibility to existing and potential future markets and supports selection of the best strategy for each supplier relationship and purchase category. It also provides continuous monitoring, evaluation and measurement of performance throughout the relationship and various service touchpoints and aims to empower the people who are involved in the relationship steering by transforming their roles and responsibilities. (Nokkentved, 2007) According to Deloitte (2015b) strategic supplier relationships include many, yet controlled interaction points between multiple representatives of the organization and its key suppliers.

Due to there being various interaction points and people, the supplier relationships should be clearly aligned across the organization which requires a clear governance structure within the organization and towards strategic suppliers, a clear SRM strategy and standardized performance measurements. A clear framework to manage supplier relationships at all levels and different parts of the organization reduces the complexity of the relationships and increases the transparency internally and externally. (Deloitte, 2015b)

While supplier relationships are important, they are not equal on value. A significant part of SRM is to differentiate these relationships and gain understanding of when and where to apply an appropriate relationship. This differentiation is very important as SRM is coming increasingly important part of the strategic planning process and therefore managers should be aware of their supplier's wants and needs as well as what the buyers should do to exceed to those expectations. In situations where competitive relationship would be better pursuing a collaborative relationship will likely bring no value and vice versa; pursuing a competitive relationship when collaborative would be more fit, value gets unrealized. This differentiation is one of the key parts of the value supply managers can add to an organization. (Trent, 2005)

According to Krause and Ellram (1997) there are variety of activities in SRM including: "supplier evaluation, increasing performance expectations, training supplier personnel, providing regular feedback of supplier performance, supplier recognition, placing engineering or other buyer's staff at the supplier's premises, and a capital investment in the supplier made by the buying company". Krause et al. (1998) on the other hand emphasize activities such as: "goal setting, supplier audits, performance measurement, supplier recognition, supplier training, plant visits and the effort of planting the idea of continuous improvement in the supplier".

Trent (2005) determines SRM activities to be: assigning individuals to manage relationships and to ensure executive managers are assigned to manage the most crucial relationships, providing accurate and complete feedback on supplier performance, formally assessing the supplier's perception of the buyer as a customer, emphasizing trust building actions and activities, inviting suppliers to be part of an executive buyer-supplier council, providing resources to develop supplier performance capabilities, practicing cooperative cost management approaches, involving suppliers at an early stage of product planning and

development, requesting supplier improvement suggestions with joint sharing of savings, implementing SRM information systems, meeting with supplier to understand their expectations, inviting suppliers to participate in joint improvement workshops, developing longer-term contract agreements that create mutual value.

PwC (2013) presents (Figure 6) SRM as a six-step business process including (1) supplier-segmentation, rationalisation, selection and qualification, (2) assessing partnership, (3) defining strategy and objectives, (4) building and managing partnership, (5) developing and delivering plans and (6) managing performance and risks. On-going value creation is in the middle of the process as it is created throughout the different stages of the process. To formalize this process and to ensure that the entire organization and the extended supply chain “speaks the same language” when it comes to SRM, it is crucial that the company develops a cohesive SRM business process that includes the appropriate templates and tools such as supplier segmentation tool, buyer/supplier perception surveys, supplier account plans & alliance charter, performance scorecards, improvement charters, structured meeting templates and benefits tracking tool. As a result of this process, the cost effectiveness of SRM increases whilst knowledge is being shared and collaboration is encouraged across organization. (PwC, 2013)

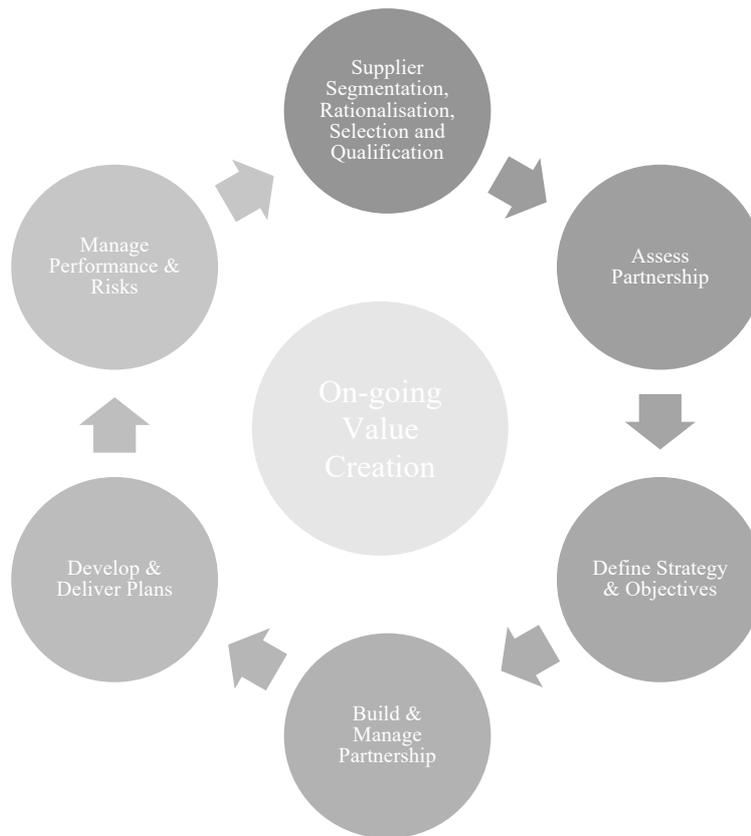


Figure 6. SRM as a formalized business process (modified from PwC, 2013)

According to Deloitte (2015a) to enable a company to drive more value through supplier relationships, SRM is based on specific set of core complementary processes. These processes are pictured in Figure 7 and include supplier segmentation, governance, performance management and supplier development. The important steps in delivering value are alignment within the organization as well as setting up internal governance processes and clearly assigned ownerships of supplier relationships. It is crucial to involve the right stakeholders from the business in the process because it is possible that the ownership of the relationship is outside the procurement organization. (Deloitte, 2015a)

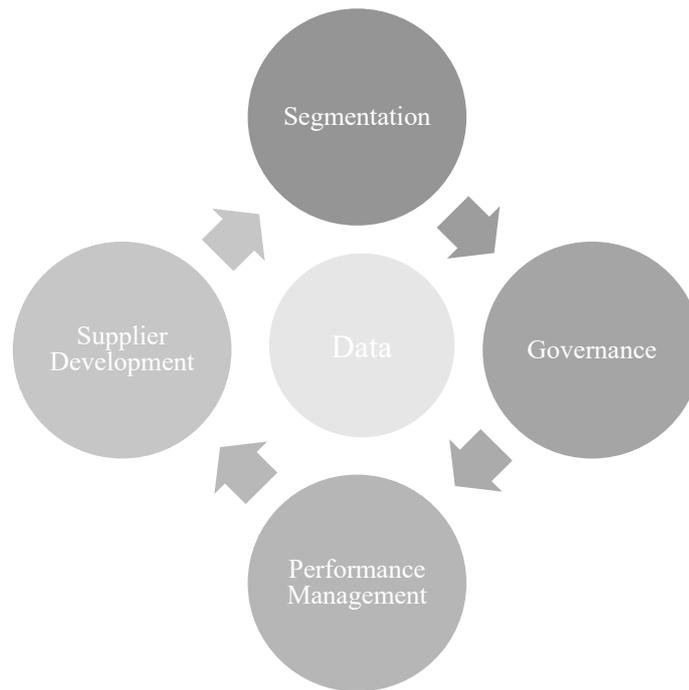


Figure 7. SRM core processes to deliver value (modified from Deloitte, 2015a)

Lambert and Schwieterman (2012) divide SRM process into strategic and operational processes. Strategic processes include strategic decision making, supplier selection and evaluation whereas operational processes include manufacturing, process development and financial decision-making. The strategic part of SRM process establishes the supplier segmentation criteria, identifies the targeted products and service components, allows suppliers to tailor their offering, determines the framework of the metrics and develops an appropriate mechanism for sharing process improvement benefits between the parties. (Lambert and Schwieterman, 2012) Lambert and Schwieterman (2012) present a seven-step operational process for successful SRM that include the following stages (1) differentiate suppliers, (2) prepare the SRM team, (3) internally review the supplier/supplier segment, (4) identify the opportunities within the supplier/suppliers, (5) develop product agreement and communication plan, (6) implement the product/service agreement and (7) measure performance and generate supplier cost/profitability reports.

The activities defined by different researchers are similar but emphasize different areas but all of them agree that the goal of the activities is to seek continuous improvement. Even though there has been a debate for years in SRM research about the approaches differing

from win-lose- to win-win approaches, Cox (2004) argues that there is not a single way of handling relationships that is always appropriate, so managers should aim to develop relationships that are appropriate to the existing circumstances in which the existing power regime has to be taken into consideration. Trent (2005) agrees; there is not a “one size fits all” type of buyer-supplier relationship, the appropriate relationship depends on the existing circumstances and potential future value.

According to Herrmann and Hodgson (2001), there are three important mechanisms to ensure SRM achieves the desired benefits including support of improved business processes which streamline execution and improve SRM, next generation architecture which can facilitate communication and synchronization across enterprises and processes to speed new product introduction.

## 4. METHODOLOGY

In this chapter, the research findings are presented and discussed. The findings and discussion are based on 10 interviews with professionals working in different positions and functions, closely with key suppliers. The methodology of this research is provided first and followed by the explanation of used data collection methods. Then, the research findings are presented in line with key themes of the thesis; SRM benefits and challenges, SRM best practices, value creation through SRM, and risks and barriers for succeeding in SRM.

This thesis is conducted as qualitative research and the research methodology is content analysis (Hsieh & Shannon, 2005). According to Alasuutari (2007), the qualitative research method enables the analysis of data from different approaches and levels allowing deeper findings to appear. Yin (2003) states that the qualitative method is suitable for research questions that require explanatory answers. Research based on interviews provides insightful background along with consequence and reason explanations based on the questions that cannot be answered with a positive or negative response which leads to a deeper understanding of the research problem (Kähkönen, 2011).

Content analysis is a widely used qualitative research method, that consists of three approaches; conventional, directed, and summative. All of them are used to interpret meaning from the content of the text data and therefore adhere to the naturalistic paradigm. The approaches differ from each other in the origins of codes, coding schemes, and threats to trustworthiness. In conventional content analysis coding categories are acquired directly from the text data whereas, in directed approach, theory or other relevant research findings are used to guide the initial coding. In summative content analysis keywords or content is counted and compared first and after the underlying context is interpreted. (Hsieh & Shannon, 2005) Content analysis is described as a flexible method for analyzing text data, but due to the lack of clear definition and procedures, a strict definition does not exist. According to Kaid (1989), all three approaches to content analysis however require an analytical seven-step process and the steps are: developing the research questions, choosing the sample for analysis from the data, defining the categories, defining the coding process, implementing the coding process, determining trustworthiness and analyzing the end results of the coding process. (Kaid, 1989) The approach to analysis in this study is theory-driven

abductive analysis, which is a combination of data-based and theory-based analysis. Based on this, the theory has been used as guidance, but the analysis is not based on it holistically. The analysis then has a significant influence on previous theory and knowledge, but in theoretical testing, the main emphasis is always on creating thought models from the phenomenon studied. The definition of the phenomenon under study is then free, previously dictated by theory, model, or body. (Tuomi and Sarajärvi 2018)

Data for this study is collected by using a semi-structured thematic interview, the purpose of which is to delve into the interviewee's thoughts and experiences of the event being discussed. According to the thematic interview, the themes to be covered in the interviews are determined in advance, but by questions, the form and order in the interviews vary according to the interviewee. (Eskola and Suoranta 1998; Hirsjärvi, Remes & Sajavaara, 2015) In a semi-structured interview, the questions are the same for all interviewees, but they are answered openly (Tuomi & Sarajärvi, 2018). The method is chosen because it allows the interviewees' experiences to be discussed more openly and possibly highlights features of the experience that would not necessarily be revealed by the ready-made alternatives. It also emphasizes the individual interpretations given by the interviewees, the meanings are given, and the factors that led to their emergence. According to the method, it is also possible to ask more specific questions based on the answers of the interviewees. (Tuomi & Sarajärvi 2018)

When analyzing the data, the aim is to systematically and objectively examine it and focus on examining the content, structure, or both (Seitamaa-Hakkarainen 2014). The data may consist of, among other things, interviews, books, discussions and diaries, as well as other documents converted to written form. The research begins with the classification of the material in general into categories, which aims to outline the main content of the interviews in terms of the phenomenon under study. In order to be able to reach a unified whole, the aim is to find both congruent and differentiating factors in the data. (Tuomi & Sarajärvi 2002)

The empirical data was collected by interviewing professionals working with key supplier relationships from different companies to gain an understanding of the value creation through SRM. The potential pool of interviewees was found through professional networks and LinkedIn. The potential interviewees were approached through email, in which 10 of 11 replied and agreed to an interview. The 10 professionals were chosen for the semi-structured thematic interview based on their role, category, and experience in years working with key suppliers. The chosen professionals work in 9 different industries to gain a wider understanding of the research problem and to allow identification of SRM benefits, challenges, processes, best practices, barriers, and risks as well as value creation across industries. The aim is to provide a more diverse and holistic insight into the research problem. In table 3, the interviewees are presented.

Table 3. Interviewees

<b>Interviewee</b>	<b>Years of SRM experience</b>	<b>Role in the organization</b>	<b>Current industry</b>
1	Over 20 years	Vice President	Cleantech
2	Over 25 years	Vice President	Groceries & Consumer Goods
3	Around 15 years	Vendor Lead	Banking & Finance
4	Around 20 years	Merchandise Manager	Retail
5	Around 5 years	Supply Chain Manager	Paper Converting
6	Around 15 years	Head of Sourcing	Logistics & Supply Chain
7	Around 20 years	Head of Sourcing	Oil & Energy
8	Around 5 years	Purchasing Manager	Electrical & Electronic Manufacturing
9	Around 5 years	Purchasing Manager	Electrical & Electronic Manufacturing
10	Around 15 years	Vendor Relationship Manager	Paper & Forest Products

The empirical data was collected during November-December 2020 in a two week-period. The interviews were conducted via Teams and the length of the interviews varied from 36

minutes to 60 minutes. The interviews were held in Finnish to minimize the risk of any misunderstandings in the questions or answers. The interview covered 28 questions, including additional or complementary questions. All questions were not asked if an answer occurred already in a previous question. The interview questions were divided into five themes: (1) general, (2) supplier collaboration and development, (3) SRM motives, (4) SRM benefits, challenges and barriers, and (5) value creation. The companies and identities of the interviewees remain confidential in this thesis and all parties were informed about this when inviting to participate in the research as well as at the beginning of the interview.

The interviews were audio-recorded and transcribed to allow reliable interpretation when working on the data analysis and conclusions. After completing the transcription, the data was classified which aimed to outline the main content of the study to find congruent and differentiating factors in the data. The data was analysed initially by aiming to find patterns in the responses to draw conclusions on the study results and also to find differences, to gain a better understanding of how value creation occurs in different companies and industries. Transcription enables the use of the translated word for word quotes in the analysis and discussion of this research. However, translation of the interview material can have an impact on the reliability of the research as during the translation can adopt the original perspective and meanings.

Reliability of the study means the variation or the similarity of the study outcomes if the study would be conducted again. Reliability stands for truthfulness and authenticity of the study, mitigating the impact or environmental factors. In cases where the study has been conducted again and the same results are achieved, the study is seen as reliable. The validity of the study means how well the study answers the research questions that were set at the beginning of the research. (Metsämuuronen, 2007; Yin, 2003).

In this research, the consistency of the study was ensured in multiple ways. Firstly, all interviews were conducted in two weeks so that the setting remained the same for every interview. The data collection method, semi-structured interviews, provided in-depth data. A list of interview questions was sent to all interviewees before the interview to mitigate the risk of misunderstandings and to allow them to prepare for the interview if they wanted to do so. Interviews were audio-recorded and transcribed and after the data was coded and

categorized. The interviews were translated from the original language to English which has an impact on the reliability.

## 5. EMPIRICAL FINDINGS

In this chapter, the findings and results are introduced based on the primary data collected through the interviews. According to Yin (2003), the reliability of the research can be improved through categorizing the data, and therefore the data was when making the analysis. This chapter is divided into eight main categories: (1) Collaboration with key suppliers (2) Key supplier development, (2) SRM objectives (3) SRM benefits (4) SRM challenges (5) SRM process and activities, (6) Value creation through SRM and (7) SRM barriers and risks, and (8) SRM best practices.

To assess the value creation through effective SRM, the differences in market environments must be taken into consideration. Market situation, negotiation power, and dependence vary greatly based on category, the scope of the business, and geographical area. A few of the interviewees work in industries that are crucial for the function of society which creates a frame in which the companies work. There are laws and regulations every company must follow but for these companies that work in these industries, there are more regulations that have to be followed which puts pressure on suppliers as well as makes effective SRM crucial for the business to succeed.

There were also differences in the size of the supply base and the number of key suppliers. The majority of the interviewees stated that they want to keep the number of key suppliers relatively small so that collaboration could be as effective as possible as the efforts should be used to the suppliers that are capable and/or have the potential to bring value. In some industries, where the services were all outsourced, every supplier is a key supplier due to the importance to the business. The majority of the interviewees managed key supplier relationships internationally and a few had domestic partners only. There were also differences in the organizational structure of supply management; some companies had an operational buying team and an SRM manager/vendor manager who focuses on the development of the supplier relationship and others had organized in a way where one person handles the entire relationship.

## 5.1 Collaboration with key suppliers

All interviewees described their relationship with their key suppliers as crucial and important for both parties and typically the relationships have lasted for many years and have long-term goals. All interviewees highlighted the importance of trust, transparency, and commitment, as they spend with key suppliers is significant and affects the business. Interviewee 1 stated that *“the relationships with our key suppliers are close, development-oriented, have a long-term mindset; a good example of this is that we have a three-year development roadmap where we map our goals, development projects, and steps to achieve these goals. We also develop new products, tools or processes together that support our business.”* Interviewee 3 described that the key supplier relationships the company has built are based on trust and the competence of a supplier, as it is the competence that has been outsourced and developed. Human resources play also a big part in these relationships when the company has to think and find ways to keep talented people in the processes. Interviewee 3 described that *“the collaboration with our key suppliers is based on the contract we have put together but then only the sky is the limit when it comes to the development on top of the contract. It depends on the people that are involved in both companies and also which areas of business we choose to develop and grow together. Usually, the basic collaboration has to work well so that growth can happen to the next stage of collaboration”*.

The majority of the interviewees identified their relationships to be on a good level however a few, including Interviewee 3 said that the relationships could be better. Interviewee 3 stated that the challenge is that the industry is used to strive on its own and in a world that is changing fast key suppliers are needed for a business to succeed and keep up with the change. The challenge is changing the mindset that key suppliers are truly partners and collaboration has to happen at every level. Collaboration with key suppliers requires the change of mindset from business and product development to realize that key suppliers are required for change and have tremendous potential for future development, especially in the IT business area. Interviewee 4 stated relationships are at a good level but especially in times of change there could be more open interaction about the challenges the business is facing due to changes in the market. Interviewee 4 described as follows; *“it is great that we look at the numbers and discuss a lot about them and the data we gather and make power points and so on but in the times of change I wish there would be a bit more discussion and fewer power points for sake*

*of doing them. We have communicated about this but sometimes change takes time and all we can do is to communicate and lead with example by being open, transparent and also take challenges to the table and talk about them even though it might be a more challenging topic to the other party to talk about. I believe all topics that are important to your business, also the challenging ones should be talked about, otherwise, nothing changes.”*

All interviewees agreed that trust, transparency, and respect are all features of a great buyer-supplier relationship. The majority of the interviewees also highlighted the importance of information sharing. Interviewee 2 said that *“we want to be open and transparent in our actions and share our strategies with our key suppliers as well as share knowledge as much as possible which allows great efforts in product development. Our mindset is to develop together but also face facts and challenges together; we want to openly give feedback and our thoughts to our suppliers and we also want them to do the same, to give us feedback in which areas we could improve.”* Interviewee 7 stated that *“all the knowledge that you can share you should share”*. Interviewee 5 along with most interviewees stated that key supplier relationships usually last for years sometimes even decades, as the aim is to develop long term.

Interviewee 1 and 2 both emphasized the importance of early supplier involvement in product development. Interviewee 2 said that *“suppliers must be involved in product development as early as possible to avoid situations where a supplier develops a product and then we for any reason can't sell it. We want to cooperate in these projects from start to finish to ensure the success of the process.”*

The level of outsourcing varied between the companies from medium to high-level outsourcing. Interviewee 7 described that the company has outsourced all their services and therefore is very dependent on its suppliers, making every supplier strategically a very important supplier. Interviewee 7 described their key supplier relationships as follows; *“we have put a lot of time and effort to build transparency with our key suppliers so that we openly discuss with each other, develop together, solve issues together and we avoid blaming each other at all times and try to listen to our suppliers as much as possible. Due to being so dependent on our suppliers we also invest time and effort into personal relationships; we communicate with us as much as possible and vice versa. We have a relatively small supplier*

*base but thinking of the international companies I have worked in before; there is just not enough time to build relationships like these with many suppliers so in those environments you have to think about which suppliers are the ones you put your effort in.*” Interviewee 8 said that the relationships with key suppliers are important for both parties, of course, however, the company avoids being in a single-sourced situation as not many suppliers are entirely irreplaceable even though they are important.

Interviewee 7 emphasized that in cases when the collaboration is simply not working and both companies are locked in a contract that does not serve either party it is important to try to quit the contract and move on. Interviewee 6 said that in situations where it can be seen that the collaboration is not going anywhere, and issues cannot be fixed it is important to quit then and not later.

## **5.2 Key supplier development**

All interviewees stated that they make development efforts their key suppliers. Interviewee 2 said that *“we aim to do supplier development with all our key suppliers, but it depends also on the capability and motivation of the supplier.”* All interviewees said that they have a structured process of supplier development which includes regular meetings with the supplier throughout the year, typically quarterly, every six months, or once a year. In practice interviewee 2 described their process as follows: *“We keep workshops twice a year where we put together product development, sales, and customer analysts and put our brains together to see where we are and where we want to go. We have our data and analyses from where the market is going but we also want the supplier to share their views where the market and the world is going so that we can share our views and we might learn something new.”* Interviewee 7 said that the process for supplier development is structured and includes regular meetings with the supplier where strategies and views on the market development are shared and even though the meetings have bureaucracy and the agenda might not seem very inspiring, the meetings are a crucial part of building a solid foundation with the supplier. Development ideas are often fostered in these meetings when discussions are ongoing systematically and regularly, first, we share our development ideas with the supplier and vice versa and then we figure out if there is an idea we can progress together.

The length of the development projects depends on the area of business and time frame. In cases when there are issues in the buying company's forecasting or supplier's delivery on-time it has to be fixed as soon as possible or at least in a month or two, whereas product development projects on the other hand can take approximately six months to two years. When aiming for innovations the horizon can be up to decades, for example when trying to develop innovation to the production of a product or a service the investment for the supplier can be up to decades which is why development processes must be managed correctly from start to finish in cooperation with the supplier.

The results companies have gained through supplier development are significant. The majority of the interviewees mentioned cost reductions through improvements in the supply chain and production. Interviewee 3 highlighted also the new technological innovations that have been made as well as better service performance to customers. Interviewee 3 stated that *"We have gained significant improvement in on-time delivery which is a top priority to us, it is crucial that our services are up and running at all times for our customers and the society as well, whenever we have issues with our products or services product development, business functions and suppliers all know that we have to fix the situation as soon as possible."* According to interviewee 7, new business ideas are usually developed in situations where the market is going through changes and someone would have to be daring enough to take a risk to try something new. Through supplier development, these situations can be identified, and the right supplier can be found to progress a new idea to see if it would work. Interviewee 2 described that the company is launching a supplier improvement appraisal system in which suppliers can share development ideas regarding product and process development and the company goes through them. Through sharing development ideas, the supplier can improve their production efficiency and gain more business from the buying company. The aim is to identify and develop win-win solutions.

All interviewees highlighted the importance of trust-building in supplier development. To succeed in supplier development the basic elements have to take place if there are issues in the everyday business it is challenging to gain and build trust which is needed for the efforts to grow to the next stage. Interviewee 7 stated that *"trust-building slow and steady; it starts from the very first interactions with a supplier. Of course, every company has information that cannot be shared but all information that can be shared should be shared and the*

*relationships should be free from politics. We also put a lot of effort into our supplier selection to make sure that our company cultures match because if the buyer and the supplier have very different company cultures or agendas it is really hard to build a solid foundation for supplier development. In my opinion, company culture has always a greater effect on collaboration than country's culture."*

### **5.3 SRM objectives**

The majority of the interviewees stated that SRM aims to gain more clarity and structure to buyer-supplier relationships so that they are manageable at all levels, reduce complexity and increase transparency for both parties. The aim is to develop mutually beneficial relationships with key suppliers which include relationship building, maintaining, and developing activities that are targeted to the most important strategic partners that can bring the most value.

All interviewees highlighted the aim of long-term cost reductions through effective SRM. Interviewee 1 said that the goal is to build confidential cooperative relationships with key suppliers which enable value creation together where both parties can share knowledge and expertise. Through SRM, the focus is on constant improvement of on-time delivery, quality, innovations, and efficiency. Interviewee 2 highlighted the aim of wanting to improve joint forecasting, which would improve product availability which is important to succeed in the competitive market with demanding customers. Interviewee 2 continued that the company has taken efforts to improve cost efficiency by shortening its supply chain by focusing more on end-to-end (E2E) processes, but it is crucial to make development in this area together with the supplier because when another party optimizes their actions to decrease costs it increases the costs of the other party which is not a feature of a long-lasting value-creating buyer-supplier relationship. Interviewee 5 said that the aim is also to look for business development opportunities with key suppliers as cooperation is the key for long-term success. Interviewee 3 stated that the SRM objectives come from the company strategy and the important factor is the aim of wanting to be a great partner that great suppliers want to cooperate with. Interviewee 3 continued that the business needs great suppliers to collaborate with as the industry is in a transformation and is changing rapidly which makes it important that the company is attractive to great suppliers as well.

All interviewees stated that an important objective of SRM is to thrive for improved quality of products and services. Through SRM and supplier development it is possible to develop business together and perform better in the market. Better quality appears through product and service innovations, fewer defects, and more satisfied customers. Interviewee 8 described as follows: *“One of our biggest motivators for SRM is a quality improvement as quality issues have big effects on the whole business; quality issues take the money and a lot of time resources in figuring out what has gone wrong and in the worst case can stop an entire production line, ours or the customers. Quality also includes on-time delivery; we want our suppliers to deliver when they promise and if not, communicate about it as soon as possible. Issues with on-time delivery can reflect directly to production. The main motivator for us is to get what we have ordered with good quality when we need it and have a good communication flow throughout the process.”*

Interviewee 10 described the company’s motives for SRM as follows; *“we don’t do SRM to gain everything from the contract as possible; key suppliers are those suppliers who understand our business needs, can bring new development ideas and solutions, can develop our services which requires that they are familiar with our business structure, the market, and the overall business environment. Our key suppliers bring solutions to the table to improve cost-effectiveness even though sometimes it does not align with their benefits, but they do it anyway because they look at our collaboration long term. With our key suppliers, we trust that they are willing and able to share risks with us with new development agendas and it will pay off. Though SRM all of this is possible, without it would not be.”*

#### **5.4 SRM benefits**

Interviewees stated that they have gained significant benefits through effective SRM. Interviewee 1 described his experiences as follows; *“in my past two companies that I have worked for, we managed to improve supplier on-time delivery significantly and through that, the productivity of our factories improved as well as our customer satisfaction. Also, the quality of our suppliers improved; defect for million-meter looked very different after our SRM efforts, we gained cost reductions, higher quality products for lower prices and increased the level of innovations.”*

All interviewees brought up cost reductions as a benefit of SRM. Through improved processes and supplier development, it is possible to increase efficiency and develop innovations that bring cost reductions to both the buyer and the supplier. Through SRM it is possible to handle and manage supplier relationships in a collaborative way instead of threatening and abusing suppliers. Many interviewees such as interviewee 6 stated that SRM allows the business to be more flexible and secure in changes in the business environment or changes in the market. Especially in the world we live in today with Covid-19 pandemic flexibility and security so that the supplier has a function plan how to work even though pandemic would hit the factory is important. Interviewee 7 highlighted that through effective SRM, the company gets what the company wanted to buy, and in best cases, cost-effectiveness improves, better quality and potential new business ideas are fostered to name a few. Interviewee 9 said effective SRM has a significant role in improving transparency and effective communication which leads to better business performance. Interviewee 10 stated that both parties understand their responsibilities better so that things are not just thrown to the supplier as demands, rather the supplier is respected and appreciated and as a partner.

All interviewees stated that effective SRM allows value creation with the supplier to the buyer, supplier, and customers. SRM aims to manage supplier relationships at all levels, increase transparency and effective communication, foster new business ideas, and aim to create a competitive advantage. All interviewees agreed that effective SRM affects competitive advantage. The effect was seen most significant in companies where the level of outsourcing is high and the larger the amount of spend on supply is from the total sales, the more important SRM is due to it affecting results, sales as well as quality, on-time delivery, and innovations. Interviewee 7 described that in businesses where over 80% of total spend goes to outsourcing, SRM is the key enabler to business development, improvement, and the needed force in moving forward. Interviewee 2 stated that SRM has a significant effect on competitive advantage.

## **5.5 SRM challenges**

The interviewees identified many challenges regarding SRM. Many interviewees stated that one of the biggest challenges to overcome is when the supplier's values and/or strategy is

very different from the buying company and they do not match. Another challenge is when long-term goals or interests do not match and both companies are locked to the cooperation due to the contract that has been made and the situation does not work for either party. Interviewee 7 said that *“biggest challenges come from contracts that are outdated and it does not serve anyone’s interests, the supplier’s strategy might have changed and they do not want to provide the service anymore and we are struggling with the fact that we are not getting what we wanted. There is no other solution really than part as friends if possible; these situations are always unpleasant but the only healthy thing to do is to part ways.”* Interviewee 10 agreed that contract negotiations can be challenging due to lack of internal commitment; people within the organization that the supplier delivers for or is linked to should be involved and understand the role of that supplier in the process but it is sometimes very hard to get internal stakeholders in line.

Multiple interviewees also highlighted the challenges that arise with international suppliers, Interviewee 9 said that in a rush, it is sometimes difficult to get a response as soon as needed due to time difference. Interviewee 9 also stated that cultural differences in communication are sometimes a challenge. Interviewee 7 on the other hand highlighted the importance of company culture and stated that it is more important for effective SRM than country’s culture. Interviewee 7 continued; *“another challenge is that if we have made a mistake in selecting a certain supplier and our company cultures do not match and we just cannot find a common ground to work with, sometimes it is extremely expensive to get out of the contract and change the supplier. In cases where it is possible to part ways that are great but if not, it is very challenging but needed to build a framework that works for both parties at least at some level but often requires changing contact persons from both sides. It is important to understand that in these situations it is not just the supplier’s fault, it is also our fault just as much”*.

Interviewee 1 stated that *“one of the biggest challenges I have faced in my career in SRM is people and relationships, sometimes we just can’t get the service level from the supplier to the level we want and need it to be even though we have tried everything we can think of. Then the only thing left to do is to ask the supplier to change the responsible account manager”*. Interviewee 3 said that it only takes one person that is not committed to the collaboration to downgrade the relationship and in extreme cases, there is no other way than

to switch people to more suitable ones. Before changing the people involved it is always important to try to fix the situation first by communicating and trying to figure out what is going wrong in the relationship but it requires trust so that people open up to you and are committed to trying to improve the relationship. Interviewee 6 highlighted also the challenge with people that are not committed and sometimes purposely make the cooperation more difficult. Internally there are many ways to address these issues and ways to fix them but in cases where the issue is on the supplier's side possibly in another country the ways to affect the situation are limited and usually end up in demands of changing the contact person from the supplier's side. It is crucial to try to handle these types of situations as well as possible so that the supplier feels respected and valued anyway due to key suppliers being very important to the business. Interviewee 10 stated that getting the internal organization committed to SRM efforts and to understand the meaning of it is probably the biggest challenge of all. Interviewee 10 described as follows *“when it comes to negotiating contracts the challenge is that business thinks that supplier management business area determines the goals for the supplier which should not be the case, the business should be just as committed to figuring out how the supplier fits our business needs and processes and what is the future potential of this supplier. Sometimes people do not understand that the supplier is not only one who should be held accountable, business should be just as much accountable as the supplier”*.

The lack of a clear framework internally was also seen as a challenge. Interviewee 1 said the following *“in the beginning we didn't have a clear framework for SRM; processes and practicalities were unclear as well as roles and responsibilities. In these types of situations, there were multiple people in contact with multiple contact people at the same supplier at the same time giving a slightly different message which led to confusion. Internal functions and cooperation of the buying company needs to be top-notch before anyone can assume the supplier cooperation could be top-notch. SRM is the key to improve this as it all comes down to clear processes, roles and responsibilities”*.

Interviewee 5 brought up the challenges that come from sudden changes in the business or the market. When a business area grows suddenly and fast, or market demand increases or decreases quickly it puts pressure on one business to adapt to these situations as soon as possible which puts pressure on the supplier relationships as well. Interviewee 6 also stated

that the current business environment has changed in a way that many customers are expecting a certain service level that has not been around in the past 20 years; today it is very normal that the customer shares a need and the partner gives an offer and if the customer accepts the offer that is great but in many cases, the customer only shares forecasts that might be changing and expects the supplier to deliver to that anyway. The market environment has become so hectic that some clients sometimes do not want to commit to anything but of course the due to them being often big clients the company aims to deliver for them anyway. It is like a lottery in many ways sometimes it goes right and sometimes it does not, in the worst-case scenario the company as raw materials that go to waste as they cannot be used after a certain period which equals large losses. There is a limit in how many risks like those can be taken but if the materials aren't ordered according to the forecast even though the client is not committed, and the forecast comes through the order cannot be fulfilled. It is challenging to build a framework and processes to develop the supplier relationships further in constantly changing situations, it is hard to know what the company wants and where the company wants key supplier relationships to progress if customers do not know what they want. The ways to improve the situation is to communicate with the sales department continuously so that they clarify to the customers that certain actions are required for successful collaboration and that has to be clarified to all 50+ people involved which often is the reality with big companies as customers.

Interviewee 2 stated that the mindset with key suppliers is always to develop and deliver products that customers enjoy so if the supplier does not deliver on time or the quality is not on the agreed level it is very disappointing. Contracts aim to protect from these types of issues however it comes down to the willingness to perform well. Another challenge is that for domestic suppliers the company is a big and important client but for international suppliers, the Finnish market is smaller, so the key factor and also a challenge is how to become an interesting partner for international markets as well.

## **5.6 SRM process and activities**

There were similarities in the SRM processes in the companies but also differences. Interviewee 6 stated that *“the amount of money we spend on supply from our turnover is significant so the role of SRM in our value chain is crucial to our business. Due to this we*

*rate our suppliers and think in 80-20 way; where we spend the most of our money there, we put our biggest efforts” Interviewee 9 described “there is the buyer-supplier setting when managing supplier relationships, but we do not want to list our needs to the supplier and just expect them to fill them. We want the process to be a two-way street; we aim to listen to our supplier's wants and needs and aim to respond to them and vice versa. Also, systematic and regular communication is very important as well as sharing our forecasts with our key suppliers so that they can plan their production better.”*

Multiple interviewees said that they collect feedback from the supplier about their cooperation so that any issues and development areas can be identified. Interviewee 2 said that the company collects feedback from its supplier every month but on top of that another company does a larger survey once a year including 6 areas; cooperation, future views, sustainability, supply chain, and two more. The suppliers can see how we rank the company comparing to other suppliers in the same product category and the company can see how we rank in the same areas with the suppliers comparing to their competitors. The rapport includes sections such as “partner’s professionalism and ability to cooperate in challenging situations” and the ratings can be seen across industries. Interviewee 1 said that the company has unofficially collected feedback from its key suppliers regularly but aims to collect feedback also more officially after the basics are working well. Interviewee 9 said that in meetings that are held quarterly, one section is about cooperation, and in that part, the company always asks the supplier if there is anything that they can improve so that sharing feedback would be a two-way street. Interviewee 9 described as follows: *“We want to hear the supplier’s feedback on us; what is working well in our cooperation and what is not. There is always something to improve and if we do not ask then we would not know how to improve.”* Interviewee 10 however said that asking for feedback is important and valuable however issues can arise that require a lot of work from the buying company so it is wise to be mindful of what to ask, there is no point in asking if the company is not ready to take actions to overcome challenges that arise. The company should ask for feedback in business areas where it is ready to tractions in developing and improving the cooperation.

All interviewees mentioned the importance of measurement as a part of activities as measurement shows how well the company and the suppliers performing in different areas of business and also identifies if any issues have to be addressed or any areas to be

developed. The measurement areas differed slightly depending on the industry and the company in general. It was addressed that nothing should be measured for the sake of measuring but rather areas that are important for the business. Most interviewees said that scorecards are filled once or twice a year and other key measurements are followed on a daily, weekly, and monthly basis. Depending on the company meetings with the suppliers are held weekly, bi-weekly, or once every three weeks. Interviewee 6 said that the company evaluates the supplier's performance in three categories; on-time-delivery, quality, and co-operation and every category has different areas that are scored. The areas of the category co-operation have been developed to serve every supplier regardless of which service or product the supplier produces. The areas are co-operation (response time, reply accuracy clear contacts willingness and feedback), flexibility (fast changes, delivery time, capacity and network), technical competence (quality, machines, and equipment, network, engineering, know-how, and business understanding), cost competence (one offer best price, payment terms, discounts, price validity), innovation and proactive actions (continuous improvement, technical and functional benefits, cost benefits, delivery benefits, outlook benefits, logistics benefits), production location and factory condition (distance, global network, quality level, lean thinking level, environmental) and additional points (additional points from significant innovation, proactive actions or support). The scorecard aims to sum up the previous year and set focus areas for the next and on the results from the measuring sheet, actions are lined accordingly. The reason there are also areas for subjective measurements in terms of the co-operation is that there have been suppliers in the past that have scored full points in every other area but still, the company has not been happy with their performance. Measuring co-operation also on a subjective level allows both parties to look at the relationship and identify what is working well in the relationship in that area and what areas would require improvement. Even though the scorecard is filled approximately once a year the different areas are followed up throughout the year in weekly or monthly meetings or another form of communication.

The interviewees identified development initiatives in their SRM processes. Interviewee 1 said that since they are at the beginning of implementing clear SRM strategy, categorization and category strategies, supplier segmentation, performance measurement through supplier scorecard and its rating, supplier frame agreement templates and implementation, contract coverage and decreasing the total number of suppliers are all on the table. Interviewee 2

stated that there is a need for a supplier scorecard that would update automatically which would improve the real-time information sharing and decrease the level of manual work. Interviewee 2 described *“at the moment the information in regarding the supplier’s key numbers is not in real-time as we have to collect the data manually from different systems. I would prefer an automated system that would show supplier scorecard including the key numbers such as supplier’s performance, how the supplier’s products are performing with customers, customer feedback, and so on and the supplier would see the same information in real-time”*. Interviewee 5 said that the SRM activities could be more systematic and attention should be given to small raw material groups and small suppliers to gain cost efficiencies and synergies through those areas as well. Interviewee 10 said that areas are needing for development starting from contract template and governance policies, SRM tools, performance measurement, and reporting which are developed throughout the year.

## **5.7 Value creation through SRM**

The value created in supplier relationships occurs in many different forms depending on many factors such as the company, industry, strategy, and market position. All interviewees agreed that collaboration is the key to maximum value creation with key suppliers. To be able to allow this maximum value creation, SRM needs to be emphasized at all levels of the organization. Interviewee 3 stated that the aim of value creation through SRM is to achieve more together than alone, *“the value creation should be mutual otherwise it won’t last for the longer term. In cases where value creation doesn’t happen, SRM is not on a sufficient level in a company.”* Interviewee 7 stated that there needs to be value created through SRM, due to it being the Return on Investment (ROI).

All interviewees stated that value occurs in different levels of the business and is created in everyday activities as well as in strategic level, however it is sometimes hard to identify all the touchpoint where it occurs. Interviewee 1 stated that *“when SRM is top-notch value creation happens in every level; at operative level (buyer-level), strategic level (category management-level) and top management-level”*. All interviewees agreed that due to value creation occurring at every level, SRM goals and practices should be present at all levels of the company.

What value meant to interviewees had similarities but also variations depending on the business and industry. Interviewee 1 stated that the aim is to perform better through improved on-time-delivery, customer satisfaction, cost reductions, better quality, improved internal processes, improved efficiency, and through all of these areas the company would get reductions in total cost. Interviewee 7 said that value creation allows the company to stay in budget or even undercut it, higher quality than determined, and insights that key suppliers can provide through the supplier's expertise and technical capabilities. All interviewees agreed that value created through knowledge sharing, innovation, and joint development efforts have a significant effect on the business.

Interviewee 4 highlighted that one of the most significant forms of value for the company is the flexibility and loyalty that can be achieved through SRM with key suppliers. In times of change such as a pandemic or any other worldwide crisis which affects the businesses in a big way, cooperation with key suppliers is crucial. Interviewee 4 said that *"in a crisis like this (Covid-19), our key suppliers have met us half-way for example in allowing us to cancel some of our orders or decrease the amount ordered which has been very valuable to us. Due to them being our key suppliers they care for us and want us to be their client in the future as well and I think this is a perfect example of what kind of value SRM can create and a great example of great cooperation that has been developed through systematic effort."* Interviewee 4 continued that due to Covid-19 being far from over it guides the company to order from key suppliers that can be flexible and share risk with the company so it's important to be flexible when possible and therefore the company aims to be flexible towards the supplier. Interviewee 5 said that a good example of value creation is that through cooperation with a key supplier a product is developed in a way that works better in the production line; often the cost structure stays the same but the production efficiency increases which leads to more business to the buyer and the supplier. Through knowledge sharing and technical capability, this kind of product development is possible. Another example is that the supplier provides warehousing or better production planning according to the market needs which increases flexibility and extra revenue.

Interviewee 3 said that the biggest effect on value creation is the people involved; even one person that is not willing to put the effort needed on either the buyer's or the supplier's side can downgrade the entire relationship. The value created is the total of the elements in the

relationship and the last layer is dependent on the people and in which positions they are in and also what kind of knowledge they have of the business and the market we are in.

Interviewee 2 stated that long term vision, transparency, and cooperation are all crucial when aiming for maximum value creation; *“obviously it would be great to have everything served to us ready to go so that we would not have to put the effort in it but it does not work like that due to in that case the supplier would not know what we want and how we see things. For example, a supplier might invest in developing a product or a model that in reality would be too expensive for the market or the margins would be too low. Maximum value creation is based on shared views, efforts, and value co-creation; the value needs to be for all parties involved so for us, the supplier, and to our clients and hopefully, the value would keep on going onwards from that”*.

Interviewee 3 and 7 highlighted the importance of trust as the most important factor in value creation. Interviewee 7 described: *“trust and open communication is everything and it comes down to supplier selection; we should already at that point know where we are heading, where the market is heading and what we might need next and try to find a partner who would have the most future potential and also would be future-oriented. If the partner is not future-oriented and they are happy where they are it is very challenging to get development ideas, whereas a partner who has a strong development-mindset or potential can inspire us as well to do better. Not every supplier is the same, so it is crucial to pay attention to these things when choosing the right partner.”* Interviewee 3 continued that the supplier, as well as the buying company, needs to have the right competence and knowledge to allow value creation to happen as well as put effort into organizing the teams and people in the best way. After all, it comes down to people and also their personalities; how innovative they are, and how well they work together. When thinking about maximum value creation it is important to also identify the right people internally but also try to find the right people at the supplier’s side so that the cooperation could be as smooth as possible and value creation could happen.

Interviewee 3, interviewee 5, and interviewee 6 all emphasized the effect of transparency and communication to value creation. In achieving maximum value creation there cannot be a needs list towards the supplier but rather a mutual understanding of each party’s needs and a willingness to fulfil them. Open communication is the core in understanding other party’s

needs as there should not be any fear to suggest development ideas and both parties should feel comfortable in challenging each other to allow development to happen. Interviewee 6 described “*there is a lot of development-talk around however to achieve real development realized in value it requires a lot of work and requires a true understanding of other party’s needs and willingness to address those needs*”. Interviewee 6 agreed that it requires the right people to allow maximum value creation to happen and also it is beneficial that the supplier understands the company’s business and market, as well as product or at least, shows motivation and interest in wanting to grow and learn about it. The more familiar the supplier is about the company’s ways of working, business environment, and products the easier it becomes to suggest development ideas and go forward with them. Interviewee 9 emphasized transparency, openness, communication, trust, and continuation as important factors for maximum value creation. SRM should not rely on overcoming a crisis here and there, it should be aligned long-term so that both parties can trust that the other party is just as committed as they are. Interviewees 7 and 9 both stated that when facing issues with the supplier the focus should not be on finding out who to blame rather the focus should be on resolving the matter together and possibly help the supplier if the matter is on their end.

## **5.8 SRM barriers and risks**

Many interviewees stated internal stakeholders can become barriers to successful SRM in case they do not understand the importance of it or if they do not understand what the company is trying to be achieved through it. To overcome this barrier SRM needs to be emphasized throughout the organization and involve all relevant stakeholders as much as possible so that internal stakeholders are committed. Many interviewees also recognized that lack of transparency about needs and priorities as well as lack of internal alignment are barriers to overcome in SRM. It is important to clarify roles and responsibilities so that it is clear what is expected which makes it easier for everyone to be in line and clear towards the supplier about the collaboration. Interviewee 6 said that unwillingness to make long-term commitments from the customer's side makes SRM challenging; due to fast changes in the market environment clients are giving estimates that might not be very accurate and are unwilling to commit to making short- or long-term commitments that mirror straight to SRM as it is hard for the company to make a long-term commitment to its suppliers when the situation in the customer’s side is unsure. Interviewee 10 said that contacts can become

barriers for value creation when they are too complex and outdated, hence they should be made understandable and the contract templates should be easy to follow and updated regularly and used as a tool in building a foundation to the collaboration.

The appropriate approach to risks in terms of value creation through SRM depends on the situation. In supplier development with new business ideas the measures depend on which party makes the larger investment, is the company the suppliers only customer currently or is there potential for more customers later on, which party invests more in the first stage, and does the other party invest more in the second stage and so on. Interviewee 1 stated that the contract needs to be clear in terms of intellectual property rights (IPR) from the beginning so that it is clear; usually the buyer/customer gets IPR and the supplier gets the business from the specific product. All interviewees highlighted that the collaboration with key suppliers is highly confidential and has been inserted in contracts and it has to be respected so that all communication and other activities such as development efforts stay confidential. Confidentiality is the key to transparency; transparency cannot exist if interactions are not protected on paper and are also respected. Interviewee 2 described *“in cases where a supplier approaches us with an idea it is always highly confidential, and we do not consider using that idea for example to our private labels. The idea is owned by the company that presents it to us and if we proceed with that idea the supplier gets the business from it and when the product hits the market, the market responds. It is very important to respect these types of contracts as they are legally binding but also every successful collaboration is based on trust; if you do not have trust you cannot have a successful collaboration.”*

## **5.9 SRM best practices**

All interviewees highlighted that there are best practices in every area of SRM, but they focused on the most important ones to value creation. All interviewees emphasized that the key factors for successful key supplier relationships are trust, openness, communication, and honesty. Interviewee 1 and 2 highlighted the importance of early supplier involvement as it is crucial to involve the suppliers in product development processes as early as possible so that they can affect the type of product will be developed, the type of materials will be used, what kind of design is used so that the product is also made to fit the production as effectively as possible which has brought a lot of benefits. Interviewee 2 added that early supplier

involvement also brings a lot of value to both parties due to knowledge sharing; it is easier to develop a great product together rather than alone as the product will be produced at the supplier's end.

Interviewee 1 also emphasized the importance of SRM practices; buyers should have operative meetings with the supplier every week where orders, deliveries, and on-time-delivery are addressed, category or sourcing managers should have meetings every month and executive-level meeting every year where leadership team from both companies meet and plan the collaboration long-term, share strategies and communicate about the direction the companies are heading. These types of practices ensure that the companies are headed in the same direction and if not, actions can be made. Interviewee 2 emphasized also top leadership involvement as well as communication and involvement on every level; it is important to keep the communication flowing on every level to review scorecards to see how everything is going and if there are any issues, to address them. In supplier development, it is crucial that the right people in terms of product development are involved in the meeting, so that the cooperation goes beyond buyers and account managers to get different views. Interviewee 5 said that the estimates given to suppliers need to be realistic so that the collaboration can be built on a solid foundation. Typically, buyer-level work is operative and the higher level the collaboration goes the more strategic it becomes; especially decisions regarding investments and development projects come from a higher level.

Interviewee 6 said that the company should try to identify as soon as possible the key suppliers that have the most potential in going forward and put the effort into them. Data and numbers bring a lot of value, but the people are equally as important, with the right people the possibilities are endless for collaboration. The roles of who is the customer and who is the supplier are important to clarify but still, the buyer needs to be humble and helpful towards the supplier as it can affect the collaboration a lot as well as the amount of business that can be gained with the supplier. Interviewee 6 continued that there must be a trusting environment at the workplace so that people can make decisions independently and are not required to ask everything in terms of interacting with key suppliers. The team members are professionals and know how the everyday work is done properly, it is a sign that something is now working if guidance at all times is needed.

Expectations management was also seen as part of best practices. Interviewee 8 said that it is wise to go through expectations at the beginning of the collaboration but also throughout. Especially at the operational level every buyer and the supplier's contact person can have different preferences in ways to communicate. When both parties know what to expect from each other it is possible to develop a relationship where collaboration runs smoothly. Many interviewees also said that to fully succeed in developing great supplier relationships internal stakeholders have to be on the same page and trust needs to be there.

## **6. DISCUSSION AND CONCLUSIONS**

In this final chapter conclusions of this study are provided. First, the empirical findings are discussed and compared with the theoretical background, then research questions are being answered and finally, ideas for further research are identified.

### **6.1 Comparison of theoretical and empirical findings**

This chapter aims to mirror the study results to existing research. The findings of this study support the existing studies and theories regarding SRM processes, activities, and best practices. In theory, SRM is viewed as a strategic process where a specific set of activities are executed including setting up, establishing, stabilizing, and dissolving relationships with suppliers to create and maintain value to both parties and these relationships can be stabilized by ongoing discussion and adjustment (Moeller et al., 2006; Johnson et al., 2004). Empirical findings emphasize the effect of SRM on key supplier relationships, SRM was seen to increase trust, loyalty, and transparency in the relationships and enables successful collaboration long-term which creates value to both parties as well as customers. In theory, the strength of SRM is its focus on inter-enterprise and cross-department processes and all roles involved in these processes (Herrmann & Hodgson, 2001) and it can be defined as a business process that supports value capture between customers and suppliers as well as aims to create a maximum financial performance (Magnan et al., 2008; Lambert & Schwieterman, 2012). Empirical findings support these views and show that SRM is viewed as a strategic process that aims to develop mutually beneficial relationships, consists of the operational and strategic levels of the organization, and aims for value creation in all levels of the organization. The aim is to increase efficiency, decrease costs and increase market performance through eliminating non-value-adding activities.

Theoretical frame emphasized the structural governance of processes and activities yet the empirical findings show that clear framework and processes need to exist to be able to perform successful SRM, also relational governance mechanisms, genuine willingness to collaborate on both sides, personal relationships, and having the right “fit” with the company and people involved in the relationships is just as crucial. SRM was seen as the tool for

technological innovations and more effective product and process development. Theoretical framework emphasized operational efficiency, risk management, and avoiding disruptions which aligned with empirical findings. Also, the empirical findings highlighted the need for systematic assessment of changes in the market environment.

According to previous research (e.g. Trent, 2005), collaboration occurs when two or more companies work together to achieve common objectives and when they actively help each other achieve their respective objectives and collaborative relationships are formed with a limited set of suppliers that are crucial for company's success. These types of relationships include wide sharing of resources, joint strategy development sessions, and a wide scope of interaction. (Trent, 2005) Empirical findings show that companies make great efforts in finding the right suppliers to partner with and emphasize that the relationship truly has to be a win-win solution for both due to when the other party tries to make production more efficient it ends up being more costly to the other hence it is crucial to work together towards common goals. According to the empirical findings in successful key supplier relationships, a solid foundation is based on trust, open communication and transparency, knowledge sharing, and respect towards one another. The majority of the interviewees highlighted the importance of knowledge and information sharing and many of them stated that all knowledge that can be shared should be shared.

Similarities were found in benefits, challenges, motives, and barriers, some of which were emphasized clearly over the others including (1) benefits of cost reduction and cost efficiency, technical innovations, improved quality, on-time delivery, flexibility, and customer satisfaction, (2) motivators of gaining clarity and structure to buyer-supplier relationships, increase transparency and reduce complexity for both parties, allow value creation to occur at all levels (operational and strategic), wanting to become a partner of choice and the aim to develop a beneficial relationship for both parties, (3) challenges with values, company cultures or long-term goals not matching with the supplier, lack of internal framework, alignment and commitment, changes in the business environment and challenges with being locked in a contract that does not serve either party. According to previous research, SRM affects competitive advantage (Lintukangas, 2010; Herrmann & Hodgson, 2001; Cousins & Spekman, 2003; Dalvi & Kant, 2015), and even though this research was

not focused on creating competitive advantage, the interviewees emphasized that SRM creates competitive advantage in the market.

According to previous research, SRM allows supplier relationships to be manageable and transparent at every level of the organization and the focus is on long-term development and the relationships should be mutually beneficial so that long-term collaboration can occur (Hughes, 2008). The empirical findings highlighted the influence of people behind the processes and the effect they have on the relationship. The empirical findings show that it is beneficial to pay attention to people both internally and on the supplier's side, to make sure that everyone is on the same page when it comes to collaboration and all stakeholders are going in the same direction. Issues should be solved through effective communication and in cases where it still does not work people should be changed or the cooperation should be terminated. Empirical findings show that affecting people internally and externally is different and affecting the supplier's side is naturally more challenging, due to it being outside the business. Empirical findings emphasize the importance of making an effort in supplier selection to not only look at the supplier now but also their future potential through analysing their development mindset and future avenues to avoid situations where the company cultures, long-term goals, and objectives would not match as the aim is to develop the collaboration long term.

According to Huemer (2006) value creation occurs “between as well as within companies in supply relationships” and collaboration is the key enabler of value creation as it does not happen in isolation (Möller & Törrönen, 2003; Lindgreen & Wynstra, 2005; Borys & Jemison, 1989). Key-value drivers for SRM value creation are innovation, sustainability, resilience, and leagality (PwC, 2013) which were emphasized in empirical findings as well. Throughout the empirical research, it was emphasized that value creation occurs at every level at the organization, internally as well as within key supplier relationships. According to previous research, companies gain more value for their customers by working with their most collaborative suppliers comparing to their least collaborative suppliers (Hughes, 2008) which also the empirical findings show; the interviewees highlighted that it is easier to create value end-customers with their key suppliers as they understand the business, strategy, market position and are open for joint development actions. Trust, empathy, open communication, and win-win orientation were all recognized as crucial elements for value

creation that aligns with the theoretical framework (PwC, 2013). According to Hughes (2008), it is crucial in value creation to expand the scope of interaction between buyers and suppliers to cover nearly the entire organization. Interviewees highlighted the importance of bringing different specialists into the negotiations so that the right knowledge is available as well as the aim of committing those business units to SRM that the supplier is delivering for so that all stakeholders are involved. Many interviewees mentioned involving internal stakeholders as much as possible one of the key best practices they aim for.

## **6.2 Answering the research questions**

To answer the research questions, it was required to familiarize with the theoretical background of SRM and value creation. After collecting and analysing data from interviewing professionals that are working with SRM, closely with key suppliers, the research questions of this study can be answered.

The main research question for this research was:

### **How to create value through effective supplier relationship management?**

A summarized answer to the main research question is provided at the end of this chapter after addressing the sub-questions that were aligned to support finding the answer for the main research question. To answer the main research question, the main research question is divided into three sub-questions and they are:

*What are the benefits of SRM?*

The benefits of SRM are linked to the company, industry, and market environment and are aligned with the strategic objectives of the company. However benefits that can be realized in most companies include increased value creation, cost reductions, and improved efficiency, technical innovations, improved quality, and on-time delivery and customer satisfaction, increased flexibility, improved transparency and decreased complexity in buyer-supplier relationships, competitive advantage, improved product offering and availability, mitigation on risks, improved knowledge sharing and information flow,

increased trust and loyalty in the relationships and elimination of non-value adding processes. SRM is utilized as a coordinated way of aligning internal and external resources with the company's key suppliers and especially key suppliers are viewed as an extension of the company who contribute to business and success long-term. Through a clear SRM strategy and systematic efforts, benefits can be gained short- and long-term.

*What are the challenges of SRM?*

Challenges of SRM are linked to a company, industry, and market environment and vary between the companies however challenges that many companies are facing regarding SRM include lack of alignment and engagement internally and externally, lack of business involvement, lack of wanting to make a long-term commitment, changes in the market environment, system restrictions, lack of competencies and capabilities and lack of proper performance measurement. One of the key challenges is values or long-term goals not matching with the supplier which puts emphasis on the importance of supplier selection and also ending cooperation in cases where it no longer serves the other or neither party. These situations often stem from changes in the buyer or supplier's strategy or lack of communication and these challenges should always be addressed rather sooner than later.

*What SRM practices are effective in value creation?*

The practices that are effective to value creation are linked to the industry and business however most practices are valid in most companies. Collaboration is the key to value creation and due to value creation occurring at multiple levels, SRM needs to be emphasized at all levels of the organization. Value creation occurs at various interaction points throughout the organization between different levels and people between the buyer and the supplier and requires a clear strategy, framework, and internal alignment from the organization. It is important to put efforts into those key suppliers that are the right fit for the company or have potential as well as end collaborations that do not bring value. Weekly, monthly and yearly meetings as well as constant communication with key suppliers are crucial in value creation as well as collecting and giving feedback to suppliers so that development can happen.

Finally, the main research question addressed in this thesis was:

### **How to create value through effective supplier relationship management?**

Value creation occurs at different interaction points at all levels of the organization and therefore a clear SRM strategy and framework are required that are aligned with the company's strategic objectives. Cooperation with key suppliers is the key for value creation as the aim is to build relationships with win-win orientations for both parties and achieve larger success together than would be possible alone. Supplier development has a significant role in value creation as it allows better information sharing, joint development efforts, access to new technology, and innovation. Trust, transparency, and open communication are all crucial in allowing value creation to happen and therefore they should be systematically built since day one with a key supplier and constantly maintained.

People in the project teams affect the relationship and can affect it for the better or the worse. To allow maximum value creation with key suppliers the aim should be in building "winning teams"; to match buyers and suppliers' representatives as well as possible to build successful cooperation. In the supplier selection phase, the focus should be on the supplier's future potential as well as company culture and values. According to the study most challenges in SRM and value creation were linked to buyers and suppliers' strategies, culture, and/or values not matching and therefore these areas should be emphasized in the selection process to mitigate these risks.

To conclude; to create value through effective SRM the company should have a clear framework, identify wanted benefits and objectives and work towards them, identify possible challenges and address them, emphasize SRM throughout the organization, and aim to find the best suppliers to a partner today but who also would have future potential going forward and part ways with suppliers where the cooperation no longer serve one or neither party. All information that can be shared should be shared to allow better information flow and knowledge sharing. The company should cherish its key suppliers and be loyal to them and avoid any opportunistic behaviour to build successful cooperation long-term.

### **6.3 Conclusions**

The purpose of this research was to study value creation through effective SRM, its definition, benefits, challenges, barriers, and practices. The aim was to gain a better understanding of value creation in buyer-supplier relationships and identify the ways it occurs in different levels of the organizations. The aim was to gain a better understanding in this area, to support companies in understanding value creation and the ways SRM can be used as a tool for value creation. The theoretical background was around SRM and value creation theories.

The key findings of this study were that value creation occurs at all levels of the organization and therefore SRM should be emphasized throughout the organization accordingly. It occurs in different interaction points between the buyer and the supplier and people have a huge effect on the relationship due to their human nature. Therefore, the focus should be on committing and engaging internal stakeholders so that the organization would “stand behind” their SRM efforts. The aim should be in building project teams, where the collaboration would run with the supplier as smoothly as possible. Companies should share information and communicate openly at the operational and strategic level of the organization and engage all the relevant stakeholders on both the buyer's and the supplier's side.

Another key finding was that effective governance is the key to unlocking SRM value. Clear SRM framework, responsibilities, and ownership of the supplier relationships give clarity to SRM and support internal alignment. Also, practices that support value creation short- and long terms are important to be in place to succeed. This was emphasized especially in companies that have a large number of contact people interacting on both sides to ensure that everyone is on the same page.

Supplier development and early supplier involvement were also seen as a crucial part of value creation with the supplier. Early supplier involvement allows the supplier to bring added value by not only sharing their market expertise but also knowledge of product and process development and innovation. When measuring the supplier performance, measuring co-operation also on a subjective level allows both parties to look at the relationship and

identify what is working well in the relationship in that area and what areas would require improvement. Feedback on both sides and also the ability to react to received feedback was seen as important for the development of the relationship.

According to study findings, key supplier relationships were seen as extremely important to the companies, and key suppliers are treated as partners, and the aim in these relationships is to build maximum value long-term. The aim with key suppliers was to develop a collaboration where the relationship would be a win-win solution for both parties and support each party's success. These relationships are development-oriented and aim for a product or process innovation to succeed even better in the market. Research findings show, that in a competitive market the company wants to be the customer of choice to attract the most suitable suppliers to work with and collaborate with suppliers that have the most long-term potential.

In today's world where the pandemic has hit hard, key supplier relationships have a huge impact on the company and its value creation. Key supplier relationships bring flexibility, support, information sharing, joint forecasting just to name a few which all support the company's ability to operate in the market where the future is very unpredictable. With collaborating with key suppliers, there's a lot of value created in being able to rely on partners in tough times like these. Value creation is certainly not easy as it requires systematic SRM effort with suppliers but has a huge impact on the company's performance and the amount of value created. Value creation aims to perform better and to be better together than alone and gain a competitive advantage to succeed in the market.

#### **6.4 Managerial implications**

Studies show that many companies can point out occasional success stories on how collaboration with a key supplier has brought a significant amount of value however only a few have successfully implemented collaboration with key suppliers into their business. The implementation of SRM practices is not easy and requires a lot of continuous effort and follow up in various areas of business however the benefits it can bring in terms of value creation can be tremendous. In this study all companies seemed to be doing well in value

creation through SRM, however there were key challenges and areas that had room for improvement. As one of the interviewees stated, the company he previously worked had put clear SRM framework and practices in place and the financial improvements and innovation efforts gained were significant and had affected the company's competitive advantage. Now, he had moved on to the next company to do the same. This is a great example of SRM bringing great benefits and by putting effort in this area it supports the company in achieving its strategic goals and competitive advantage.

To thrive in the market and especially in constantly changing market environment companies constantly need to reorient themselves to continuously identify and capitalize ways to create value to with their suppliers. To be able to do so the business has to be committed internally and in line when it comes to working with key suppliers. Since this was seen as one of the biggest challenges in SRM, companies should focus on improving and engaging internal stakeholders to improve in this area. Since people in both the buyers and suppliers side have an impact on the relationship quality, the aim should be in building "winning teams" to achieve maximum value creation. Also, one of focus areas is improving the availability of real-time information as it would increase efficiency and improve decision making due to having the most relevant information available at all times. Supplier performance measurement is also important in terms of value creation and companies should also include subjective measurements in their criteria. Measuring co-operation also on a subjective level allows both parties to look at the relationship and identify what is working well in the relationship in that area and what areas would require improvement.

## **6.5 Future research avenues**

Suggestions for future studies would be to aim to understand value creation in SRM context even better and perhaps study the phenomena as a case study in a single company, to gain a better understanding of value creation practices in a specific company or in a certain industry. Also, due to internal alignment being identified as one of the most important factors in value creation through SRM it was also identified as one of the biggest challenges and therefore it would be interesting to see studies regarding that area.

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## **APPENDICES**

### **Appendix 1. Interview questions**

#### **GENERAL**

1. Minkälainen tausta sinulla on toimittajasuhteiden hallinnasta? Kokemus vuosina? *What is your background in SRM? Experience of SRM in years?*
2. Kuinka montaa avaintoimittajasuhdetta hallinnoit? *How many key supplier relationships do you manage?*
3. Mikä sinusta on toimittajasuhteiden hallinnassa parasta/palkitsevinta? *What do you find most rewarding in SRM?*
4. Entä haastavinta? *What do you find most challenging in SRM?*

#### **SUPPLIER COLLABORATION AND DEVELOPMENT**

5. Miten kuvailisit yrityksen suhdetta avaintoimittajiin? *How would you describe your relationship with key suppliers?*
6. Kehitättekö yhteistyötä avaintoimittajien kanssa ja miten? Minkälaisia tuloksia olette saaneet? *Do you aim for supplier development and if yes, what kind of results have you received?*
7. Minkä koet tärkeänä tehokkaassa yhteistyön kehittämisessä toimittajien kanssa? *What do you think is important in effective supplier development?*

## **SRM MOTIVES**

8. Onko yrityksessä määritelty strategia toimittajasuhteiden hallinnalle? Miten sitä toteutetaan? *Have you got a clear strategy for SRM? How is it implemented?*

9. Minkälaisia tavoitteita teillä on toimittajasuhteiden hallinnalle? Mitä haluaisitte saavuttaa toimittajasuhteiden hallinnalla? *What goals do you have for SRM? What would you like to achieve through the SRM programme?*

10. Onko jotain mitä haluaisit toimittajasuhteiden hallinnassa kehittää? Entäpä suhteiden osalta? *Is there anything that you would like to develop in terms of SRM? How about in the relationships?*

## **SRM BENEFITS, CHALLENGES AND BARRIERS**

11. Mitä etuja toimittajasuhteiden hallinnalla on kokemuksesi mukaan? Minkälaisia etuja hyötyjä olet huomannut? *What benefits have you gained from SRM?*

12. Minkälaisia toimintatapoja olet huomannut menestyksekkäiksi toimittajasuhteiden hallinnan osalta? *What practices have you noticed to be successful in SRM?*

13. Minkälaisia haasteita toimittajasuhteiden hallinnassa olet kokenut? *What kind of challenges have you had in SRM?*

14. Mitä olet tehnyt päästäksesi yli haasteista? *What have you done to overcome these challenges?*

## **SRM PROCESS**

15. Minkälainen prosessi teillä on toimittajasuhteiden hallintaan? *What kind of process do you have for SRM?*

16. Mitä aktiviteetteja prosessiin kuuluu? *What kind of activities are in the process?*
17. Miten johdat toimittajasuhteita avain toimittajien kanssa? *How do you manage supplier relationships with key suppliers?*
18. Koetko prosessin toimivaksi ja onko siinä jotakin mitä haluaisit kehittää? *Do you find the process relevant and is there anything you would like to develop?*
19. Mittaatteko toimittajasuhteiden hallintaa jollakin tavoin? *In what ways do you measure your SRM efforts?*

## **VALUE CREATION**

20. Mitä arvo toimittajasuhteiden hallinnan yhteydessä teille merkitsee? *What does value mean to you/the company related to SRM?*
21. Minkälaista arvoa toivoisitte luovanne toimittajasuhdehallinnan myötä? *What kind of value would you like to create through SRM?*
22. Mitkä elementit koet tärkeiksi toimittajasuhteissa arvonluonnin kannalta? Minkälaisia elementtejä suhteessa tulisi olla, jotta arvonluonti olisi mahdollista? *What elements in the relationship with the supplier do you think are important for value creation?*
23. Minkälaisia toimittajasuhdehallinnan elementtejä koet tärkeiksi arvonluonnin kannalta? *What are that practices that you have noticed important in value creation?*
24. Minkälaisia haasteita olet kohdannut arvonluonnissa? *What challenges have you faced in value creation?*
25. Minkälaista konkreettista arvoa olette saaneet toimitajayhteistyön kautta? Entä toimittajasuhdehallinnan? *What value have you gained from collaborating with key suppliers? And through SRM?*

26. Pyrittekö hallitsemaan toimittajayhteistyöhön liittyviä riskejä jollakin tavoin? *Do you aim to mitigate risks related to supplier collaboration in some ways?*

27. Näetkö esteitä arvonluonnille? *Do you see any barriers in terms of value creation?*

28. Mitä haluaisitte arvonluonnilla saavuttaa? *What would you like to achieve through value creation?*

29. Koetko, että tehokkaalla toimittajasuhteiden hallinnalla on vaikutusta yrityksen kilpailuetuun ja jos kyllä niin miten? *Do you find that effective SRM has effective on company's competitive advantage and if yes, how?*