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School of Business and Management

Master's Programme in Supply Management (MSM)

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**BEST PRACTICES OF SUPPLIER RELATIONSHIP  
MANAGEMENT IN VALUE CREATION**

*Master's Thesis*

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## **ABSTRACT**

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Successful supplier relationship management has the potential to create value that strengthens a company's competitiveness. This value can be new innovation, reduced risk, improved productivity and quality, faster time-to-market, or increased organizational know-how. These are just rough examples of the real potential, but they do have a direct impact on the company's operations. Successful supplier relationship management consists of successful management of a supplier entity, that is complicated by its complex context with various influential factors. The organization should allocate its resources to suppliers with whom it is possible to create value. This study therefore seeks to address the best practices in supplier relationship management holistically and distinguishing value creating supplier relationships.

The data for this study has been collected from seven different procurement professionals, who work in different large organizations in Finland. They were interviewed about SRM related practices. Empirical findings showed that trust and communication play a critical role in building successful relationships. Based on theory and empiricism, a framework was created for managing the SRM entity, which consists of 1) Strategy, 2) Identification of Power-Leverage circumstances, 3) Segmentation, 4) Measurement, 5) Relationship Type, 6) Contracts and 7) Continuous Improvement.

## TIIVISTELMÄ

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Onnistuneella toimittajasuhteiden hallinnalla on mahdollista luoda arvoa, joka vahvistaa yrityksen kilpailukykyä. Tämä arvo voi olla uusi innovaatio, riskin pieneneminen, tuottavuuden tehostuminen, laadun paraneminen, tuotteiden saaminen nopeammin markkinoille tai organisaation tietotaidon lisääminen. Nämä ovat vain karkeita esimerkkejä todellisesta potentiaalista, jotka kuitenkin vaikuttavat suoraan yrityksen toimintaan. Onnistunut toimittajasuhteiden hallinta koostuu sen kokonaisuuden onnistuneesta johtamisesta, mitä hankaloittaa sen monimutkainen konteksti, jossa on monia vaikuttavia tekijöitä. Yrityksen tulee tunnistaa sellaiset toimittajat, joiden kanssa arvoa on mahdollista luoda. Tämä tutkimus pyrkiikin käsittelemään toimittajasuhteiden kokonaisuuden hallintaan liittyviä parhaita käytänteitä ja identifioimaan arvoa tuottavat toimittajasuhteet.

Aineiston data on kerätty seitsemältä eri hankinnan ammattilaiselta, jotka työskentelevät erilaisissa isokoisissa organisaatioissa Suomessa. Heille pidettiin haastattelut aiheeseen liittyvistä käytännöistä. Empiiriset havainnot osoittivat, että luottamuksella ja kommunikaatiolla on kriittinen rooli onnistuneiden suhteiden rakentamisessa. Kokonaisuuden hallintaan luotiin teoriaan ja empiriaan perustuen malli, joka koostuu 1) Strategiasta, 2) Voima-valta suhteiden tunnistamisesta, 3) Segmentoinnista, 4) Mittaamisesta, 5) Suhdetyypistä, 6) Sopimuksista ja 7) Jatkuvasta parantamisesta.

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Now, towards new and greater challenges!

At Helsinki, September 27<sup>th</sup>, 2021.

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## 1. BACKGROUND OF THE STUDY

Intensified global competition both forces and encourages companies to seek value adding activities in their operations, to fill the needs of their customers, in order to compete with their rivals. Many companies are increasingly focusing on their core competencies, which are based on their strengths and capabilities, that are determined by ones' resources (Hafeez, Zhang, Malak, 2002; Hughes, 2008). As companies focus on their core competencies, supplier relationship management becomes increasingly important, as non-core activities are outsourced and competition shifts towards one's supply chain. Companies must systematically identify and develop value adding practices in the supply chain with suppliers to keep up with the competition (Hughes, 2008; Möller & Törrönen, 2003).

To explore best practices of SRM in this thesis, a holistic perspective is taken. Holistic approach in supplier relationship management is still incoherent, even though SRM is frequently used approach, most experts in supply management recognize it and understand its value creating significance (Schuh, 2014). Exploring the concept contributes in academic perspective, creating a broader picture to the perception of supplier relationship management. Managerial input is to better understand how value is created through SRM, how to utilize it in business context and implementation of the best practices in action, to gain competitive advantage.

To understand best practices of supplier relationship management, research will go through the most significant academic findings in value creation. This is combined with a managerial view of best practices with procurement / sourcing specialists in empirics. This way holistic view can be maintained and practical perspective can also be taken into account.

There is a clear research gap for this thesis. Lintukangas & Kähkönen, (2012; 2018) emphasis on the need of SRM studies in value creation context. Carnovale, Yeniyurt, Rogers, (2017); Cox, (2004) highlight the examination of power relations significance in collaborative relationships with supplier. Nicholson and Khan, (2014) discuss the need of studies in supplier development strategies. Research seeks to fill in these gaps and finding the best practices.

## 1.1 Literature review

Supplier relationship management is a much discussed topic, but its influence to company's performance has only in recent decades really risen to closer scrutiny. However, the term SRM is still incoherent and there is no actual coherent definition of it. Literature defines it broadly as encompass for relationship between buyer and supplier and provides structure for maintenance and development of the relationship. (Schuh, 2014; Lambert & Schwieterman, 2012). Value creation is even more abstract topic and highly context dependent. Kähkönen & Lintukangas (2018) define value as "trade-off between benefits and sacrifices, meaning that value can be regarded as surplus between total benefits obtained and total sacrifices incurred". Value creation should be distinguished from value, as it means in SRM context participants utilizing each other resources to generate value and the aim is to understand how supplier's capabilities should be utilized to create it (Kähkönen & Lintukangas, 2012). Concrete value referred in this, includes innovation, product development, reduce of supply risk and improved competitiveness through supply chain network and collaboration (Kähkönen & Lintukangas, 2018).

Possibly the first scholar of supplier relationship management is Peter Kraljic, who created well-known purchasing portfolio matrix for strategic segmentation of procured goods already in year 1983. The idea behind the matrix was to provide a simple but effective tool for the purchasing organization to create supplier relationship strategy. The model specifies the profit impact and supply risk of the procured goods in addition to which the supply market for materials is analysed. It creates then simple strategies and action plans. Utilization of the model should reduce supply vulnerability and increase buying leverage. Kraljic suggestion was that not all supplier should be managed in similar way, which can be seen as origin of supplier relationship management (Kraljic, 1983).

There are different perspectives of the right way of managing supplier relationships in academic research. Others rely on transparent partnerships, that create win-win situation for both players, while the other extreme view argues for zero-sum game, which provides win-lose outcomes (Cox, 2004). However, it is widely recognized in the literature that in order to succeed in a global competitive environment, companies need to identify and capitalize ways with their suppliers to create value. Most common value creation method is

cooperation or collaboration with the supplier. Managerial point of view supports this, as according the survey made by IBM and Industry Week, 62% of executive procurement respondents claimed that collaboration with suppliers was the most effective value creator, as it increases profitability and reduces costs significantly more compared e.g. global sourcing or spend analysis (Hughes, 2008). Cox (2004) argues for ‘‘appropriateness’’ for supplier relationship management. Meaning that managers should analyse the power regime perspective where one is at and relationship with supplier should be tailored according each situation. Many of the relationship fail to create value, due the lack of capabilities and misperceive of circumstances where one is at. For this reason, both players should understand the power relations between them to create successful relationships.

Park & Shin & Chang & Park, (2010) found in their study, that SRM is rarely dealt holistically, usually focusing solely on subjects, such as strategy, supplier selection, collaboration and supplier development. They propose that SRM should be managed through SRM information system, that integrates it with all purchasing activities. This will create for managers more comprehensive knowledge of every department and team’s work, which eases value creation. Lambert and Schwieterman (2012) have their focus on agreement side, as they found that buying firm generates value through close relationships with a small number of suppliers, who have a large contribution to the organization, and more formal or transactional relationship is used with other suppliers. Close relationships are managed with product / service level agreements, which are win-win contracts, that ensure relationship continuity, as both parties benefit. Krause & Handfield & Scannell (1998) argue that when buying firms have difficulties in supplier’s performance, they have four alternatives to choose from. These are investing resources to increase supplier’s performance, manufacture previously procured goods in-house, search alternative supplier or use combinations of these mentioned.

Research’s focus has been mainly on generating purchasing functions added-value, as value creation through supplier networks has got less interest. This traditional way of thinking sees added-value mainly as savings achieved. Modern SRM way of thinking focuses on suppliers and their development as key part of value creation and the level of collaboration with suppliers is the foundation of this (Kähkönen & Lintukangas, 2018).

Study of Kähkönen & Lintukangas (2012) highlights buyer-supplier collaboration, resources and capabilities as critical part of value creation process. Significant is also long-term collaboration with knowledge accumulation together with supplier, understanding of customer needs and supply management is used as strategic tool for the company. It should still be noted, that not all relationships create value and collaboration is not suitable for every relationship. The relations should be seen in wider context. Also measuring value creation in SRM context is extremely difficult, because of its multidimensional nature (Kähkönen & Lintukangas, 2012).

## **1.2 Research gap**

This thesis focuses on finding the best practices in supplier relationship management in value creation. Much academic research on supplier relationship management has been done, however its combination of best practices and their effect on value creation have not been adequately studied. There is considerable need in research for the practical study of things.

Deficiencies have been noted in academic literature in the following areas. Value creation potential of supply management practices and their role in value creation (Lintukangas & Kähkönen, 2018; 2012), power-leverage impact on collaboration (Carnovale et al. 2017; Ahtonen & Virolainen, 2009), supplier development strategies (Nicholson and Khan, 2014), impact of rewarding in SRM (Lambert and Schwieterman, 2012; Krause et al. 1998), analyses of supplier relationships (Park et al. 2010), holistic approach in SRM (Caniels & Gelderman, 2005), win-win outcomes in buyer-supplier context (Cox, 2004). Following Table 1 presents current research gaps in value creation of SRM in academic literature in chronological order.

**Table 1.** Research gap.

Examining the value creation potential of supply management practices in different industries (Lintukangas & Kähkönen, 2018).
Power's impact on strategic alliances and collaboration. Networks role in supply chain transactions e.g. in negotiations (Carnovale et al. 2017).
Supplier development strategies in international context as there is lack of comparable studies (Nicholson and Khan, 2014).
More studies are needed concerning supply management's role in value creation, company's competitive advantage and performance. Supply managements effect in company's ability to create value (Kähkönen & Lintukangas, 2012)
How rewarding buying firm team for created supplier's profit impact, has effect on cooperation and value creation? (Lambert and Schwieterman, 2012).
Analyses of supplier relationships and criteria used to evaluate selection, metrics of evaluating collaborating method, method facilitating win-win contract in buyer-supplier relationship (Park et al. 2010).
Strategic supply's influence towards company's performance, role of supply management in value creation in value nets, power positions effect in forming collaborative buyer-supplier relationship as well of sources of power, role of collaboration in value creation (Ahtonen & Virolainen, 2009).
Supplier's perspective in relationship management. Do both parties (buyer & supplier) interpret their power position in the relationship same way? More holistic approach of the relationship (Caniels & Gelderman, 2005)
Misunderstanding in the literature if it is feasible to gain win-win outcomes in buyer-supplier relationships (Cox, 2004).
Forms of reward and recognition to motivate supplier to develop. How to sustain supplier development long-term? (Krause et al. 1998)

As can be seen from the table, the need for this study is clearly highlighted. Clear factors that have emerged are the effect of power relations to the relationship, development of the supplier and value creation. The buyer-supplier relationship is affected by a huge number of

different factors that make its holistic investigation challenging. This study seeks to bring together best practices of SRM to provide more information on value creation in supplier relationships. Simultaneously impact of power relations are likely to become clearer.

### **1.3 Research questions and objectives**

Main objective in this research is to study the best practices of supplier relationship management that have effect on companies' value creating ability. The study combines different theories from academic literature and empirical managerial findings to provide linkage of the most coherent and high value creating practices. It should be clarified how to create value and what is the role of SRM in order to identify the best practices and the ones that create value the most. This is why main research question is how to create value and what is the value created through SRM. The goal is to maintain a holistic perspective on supplier relationship management throughout the study.

Main research question in this thesis is the following:

- *How to create value and what is the value created through SRM?*

Sub-research questions are the following:

- *What are the challenges of SRM?*
- *What are the best practices of supplier relationship management?*

To support the main research question and objective, secondary objectives are set. In order to discover best practices, study must focus also on the challenges SRM sets, to get more comprehensive picture of the subject. In addition, it needs to be clarified what are the academic and managerial views about SRM practices in value creation in general.

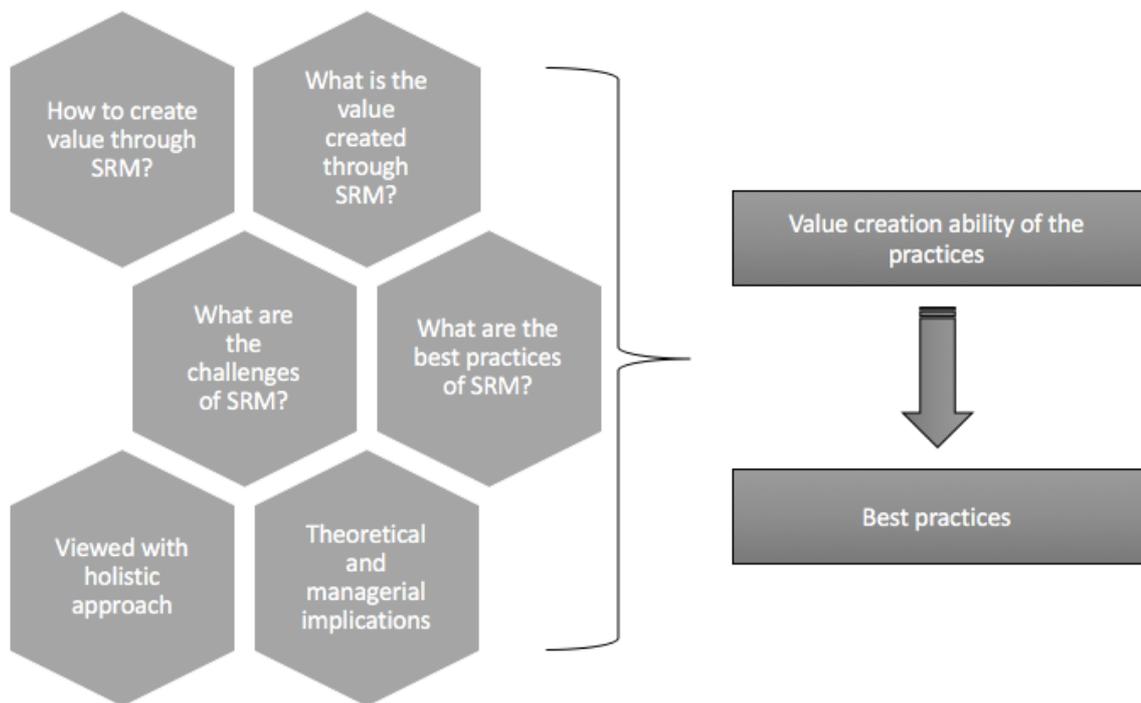
## **1.4 Research methodology and limitations**

The research will be done as qualitatively. Study examines developed practices of supplier relationship management presented in academic literature. These will be then reflected towards empirical findings to highlight the best practices in value creation. Empirical findings are gathered by interviewing company representatives, who are responsible for sourcing or procurement.

The research focuses on the buyer's value creation perspective, hence the suppliers are not assessed. The work deals with sourcing / procurement of manufacturing-based companies. Research's outcome is limited by the sample of its empirical findings. The number of interviews sets the boundary conditions for the reliability of the study. Empirical results are likely to vary depending on the position, company and industry where respondent operates. It is extremely difficult to get a comprehensive and accurate view of best supplier relationship management practices that could be generalized to every situation and industry, as use of SRM is highly contextual. Internal and external challenges impact on how relations should be managed. However, the goal is to find cohesion in SRM practices, that help to better understand what buyer can utilize to maximize value creation in buyer – supplier relationships.

## **1.5 Conceptual framework**

The Figure 1 represents the conceptual framework used in this study. The purpose is to reflect the current research and create a modern concept for value creation. The study takes into account different factors in value creation. Based on the research questions, it is clarified how value is created and what the value created is. In addition, the challenges associated with SRM are taken into account. At the same time, a holistic view is maintained. Practices are explored through theoretical research and managerial views. This will provide an insight into best practices in SRM. Simultaneously, their value-creating capacity is assessed in order to create the modern framework of best practices. Conceptual framework is illustrated below.



**Figure 1.** Conceptual framework

## 1.6 Key concepts of the study

This section defines the key concepts used in this study. Main concepts are supplier relationship management (SRM), value and value creation. Section implicates, how these concepts are discussed in the thesis.

***Supplier relationship management (SRM)*** provides structure for how to manage, develop and maintain relationships with suppliers. It is coordinated interaction with suppliers to maximize the value buying-company gains through these relationships. Interaction is not restricted to simple purchasing, it encompasses activities, e.g. joint research, development and share of strategic information. Key-part of SRM is to determine the activities which are engaged with suppliers and systematically asses their capabilities with respect to strategy of the company (Hughes, 2008; Lambert and Schwieterman, 2012)

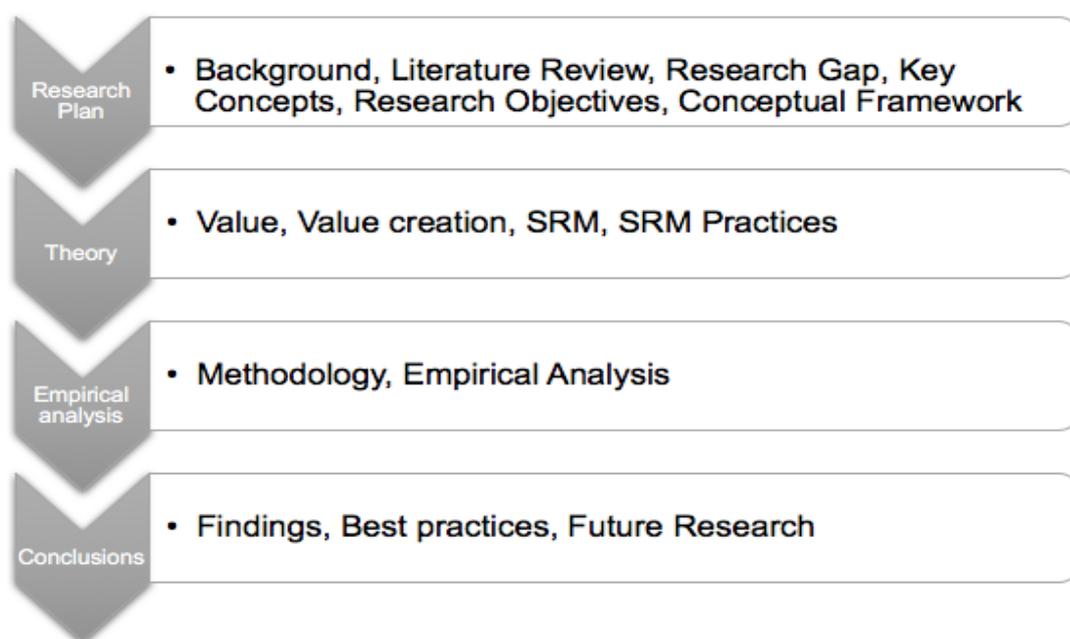
***Value*** is monetary and non-monetary benefit. Monetary value can be measured and it makes economic impact e.g. reduce of costs and reduces price volatilisation. Non-monetary value is more intangible, which e.g. increases competitiveness, innovation development. Value

can also be understood as end-customer's valuation of the end-product / service (Walter, Ritter, Gemünden, 2001; Kähkönen & Lintukangas, 2012).

**Value creation** is the process of combining the competencies of two or more partners in order to improve competitive advantage as a result. Value is created through ability to respond external challenges of the industry, effective utilization of relationships and understand of end-customer needs. Suppliers form the source of value creation potential in SRM context (Lintukangas & Kähkönen, 2012; Lintukangas & Kähkönen, 2018).

## 1.7 Structure of thesis

Structure of the thesis is presented below. The aim of the first section (chapter 1) is to present the need for this research and its objectives. There was a clear need for research, as holistic study of supplier relationship management is still insufficient. Second section (chapters 2 & 3) focuses on examining current practices based on academic research, as well as how value can be created. Third section (chapters 4 & 5) identifies best practices through empirical investigation. The final stage (chapter 6) presents the findings and conclusion. End-results seek to find a holistic approach of how value is created and which practices together produce the best results in manufacturing industry.



**Figure 2.** Structure of the study.

## 2. VALUE CREATION IN SRM

First part of the theory chapter discusses thoroughly value and value creation. The aim of the section is to understand the value that is created in the context of supplier relationship management. In order for this to be understood holistically, it is necessary to clarify what the value is and how it is created. In addition, supplier relationship management in general is discussed.

### 2.1 Value

As already noted in the literature review, there are many different views on understanding the concept of value. Walter et al. (2001); Anderson & Narus, (1995) state that business markets and its environment can only be understood properly by understanding concept of value because of its predominant role on company's performance. Given the fundamental nature of value, companies must also understand its impact on business.

Empirical results from Walter et al. (2001) studies implicate that suppliers who focus on few buyers on long-term perspective rather than suppliers that focus on transactional approach have achieved greater profitability and were able to reduce discretionary costs. Henneberg & Pardo & Mouzas & Naude (2009) on the other hand note that some value also comes from transactional relationships with suppliers where long-term cooperation is not required. Type of relationship is influenced by the current market environment and according Hughes (2008), forms of value in buyer - supplier relationships can't be specifically defined with simple answer. Also buyer is not always the one entity that gains all of the value in transactions or relationships with supplier. Buyers can create value for suppliers through their procurement operations, which provides e.g. revenue, product innovations and technology or access to new markets (Walter et al. 2001).

Value can be understood as monetary or non-monetary factors. Monetary value produces direct business value that is reflected in a company's bottom-line savings. It is achieved as a result of reducing costs in sourcing / procurement operations. Non-monetary value is intangible and more abstract concept. This value contributes e.g. towards competitiveness, market position and social capital growth (Walter et al. 2001; Hughes, 2008). Value can also

be understood as direct and indirect value. Direct value refers to e.g. customer based direct revenue, volume generated by the customer, risk-reduce based value as buyer can safeguard its assets through contractual obligations and guaranteeing a certain level of business. Indirect value refers to innovations, acquirement of new customers, increase of market-information (Möller & Törrönen, 2003).

Value can have different properties. Ulaga & Eggert (2005) identified four characteristics of value:

- (1) Value is subjective concept
- (2) Value is trade-off between gained benefits and sacrifices
- (3) Value gained and sacrifices made may be multidimensional
- (4) Perceived value depends on the current competitive situation.

Möller (2006) states that this value view from Ulaga & Eggert (2005) is limited predominantly from buyer's perspective, which serves well to support the perspective of this dissertation.

Henneberg et al. (2009) divides value into three categories. These are the internal value, exchange value and relational value. Internal value is e.g. cost reductions from managing transaction efficiently with the supplier, in little or non-relationship manner. Exchange value delivers value for both parties in exchanging transactions, in moderate type of relationship with supplier. This can e.g. create customer loyalty, additional sales or obtaining strategic information. Relational value comes from deep dyadic relationship with the supplier, which is something that one entity cannot produce. It is based on information sharing, which creates e.g. innovation and more efficient manufacturing. Following table presents different values that can be created through supplier relationship management according Möller & Törrönen (2003); Byrne (2002); Hughes (2008); Lambert & Schwieterman (2012).

**Table 2.** Examples of different values created in SRM.

<b>Actions done with suppliers:</b>	<b>Value:</b>	<b>Author(s):</b>
Improved accuracy in order fill rates	→ Increase in sales	Lambert & Schwieterman (2012)
Improved contract management	→ Minimize rogue buying	Byrne (2002)
Improved manufacturing processes	→ Improved productivity	Möller & Törrönen (2003)
Improved product quality	→ Increase in sales / Increase customer satisfaction	Byrne (2002)
Reduce of inventory	→ More efficient inventory management and turnover	Lambert & Schwieterman (2012)
Improve asset utilization	→ Reduce fixed costs	Lambert & Schwieterman (2012)
Joint demand forecasting	→ More efficient inventory management turnover	Hughes (2008)
Reduce cost of direct materials	→ Cut variable costs	Lambert & Schwieterman (2012)
Joint product development	→ Create innovations	Byrne (2002)
Networking	→ Enter new markets	Hughes (2008)
Negotiated flexibility in ‘emergencies’	→ Reduced supply risk	Möller & Törrönen (2003)
Optimizing suppliers physical locations	→ Reduce in warehouse and freight costs	Hughes (2008)
Access to new technology	→ New innovations and more efficient manufacturing processes	Hughes (2008)
Information sharing	→ Improved delivery times, flexibility, process excellence	Möller & Törrönen (2003)
Measuring and monitoring	→ Continuous improvement cycle	Byrne (2002)
Design-to-market cycle reduction	→ Quicker access into markets	Hughes (2008)
Supplier pool management	→ Supplier risk reduce	Lambert & Schwieterman (2012)
Preferred access to capacity	→ Reduce variable costs	Hughes (2008)

## 2.2 Value creation

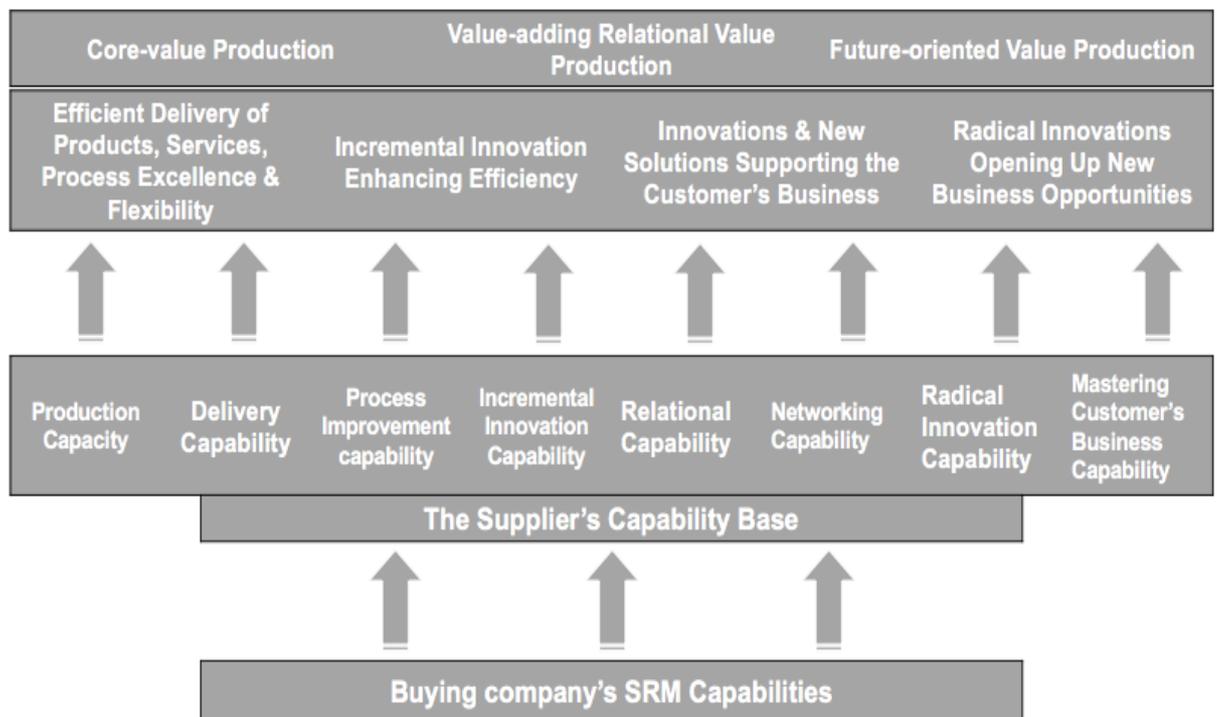
Global markets are saturated with competition, which forces companies systematically create value with one's suppliers (Hughes, 2008). Supplier relationship management acts here as a way of creating maximum value for the buyer in the relationships with its suppliers. Objective of SRM is to optimize the delivered value (Byrne, 2002). Distinction must be made between value and value creation. The value includes the mentioned benefits that are listed above, which are rough examples of the ultimate potential of SRM. Value creation focuses on how these benefits are achieved (Kähkönen & Lintukangas, 2012).

Möller (2006) states that SRM value creation as a phenomenon, is highly relevant in order to comprehend 21<sup>st</sup> century business environment and supplier competences, which is creating the fundamental change in supplier relationship management perspective. Porter's (1985) value chain model is one of the earliest value creation thinking models, which is in modern societies becoming outdated, as it focuses more on the individual value creation perspective and value perspective is shifting to network based models. Ahtonen & Virolainen (2009) also have noticed that strategic approach from the perspective of an individual company is extending towards network-based value creating point of view, which has increased the role of supply and supplier relationship management. Kähkönen & Lintukangas (2012) findings support this perspective, as they argue that traditional view is shifting from value chains toward value creating networks, where value can be created when companies collaborate. It is therefore justified to argue that a shift towards better understanding of value creation and the importance of cooperation and collaboration is under way in academic literature.

Walter et al. (2001) state that the fundamental reason for buyer and supplier to engage in a relationship is to provide value for each other. Value creation is something that doesn't happen in isolation and traditional value creating individualism strategy is going into oblivion in developed countries (Kähkönen & Lintukangas, 2018; Zhang & Chen, 2008). Still, buyer and supplier don't always agree on the constitute of value. Suppliers usually focus on the product level, as buyers are more intrigued of supplier's competences to create value e.g. delivering efficient solution to buyer's needs, suppliers expertise and availability (Möller, 2006). Common opinion in academic studies seems to be that collaborative buyer-

supplier relationships create the most value in SRM context, which e.g. Hughes (2008) have noticed. According Ahtonen & Virolainen (2009), decision to collaborate with supplier rather than use arm's length relationships is very significant from buying firm's perspective. Factors contributing to this are discussed more detail in the next chapter of SRM.

One of the biggest factors influencing value creation abilities, is the capabilities of the buyer and supplier (Ahtonen & Virolainen, 2009; Kähkönen & Lintukangas, 2018). Capabilities refers to organizations capacity undertaking certain activities (Grant, 1995). These are tangible or intangible activities, that will develop over time and are company specific. Capability means in practice the accumulated abilities of a company to use its own resources to achieve its goals. It is combination of knowledge and learning (Lintukangas & Kähkönen, 2018). Capabilities can range from simple interaction and order processing skills to much more demanding skills such as e.g. new product development (Möller, 2006). The effect of capabilities on value creation is shown in the Figure 3, which is modified from a study by Möller & Törrönen (2003).



**Figure 3.** Capability base in value creation (Modified from Möller & Törrönen, 2003)

Figure 3 presents the thinking behind value creation in supplier relationship management. It has been widely recognized that procurement function has deep impact on company's performance and supplier relationship management has overall responsibility determining the value creation potential of its suppliers (Lintukangas & Kähkönen, 2012). Based on the skills and capabilities of the purchasing company it must decide what kind of supplier it works with and if it determines to make-or-buy the procured goods. Company has virtually two options. A product can be produced within the company's own resources, allowing it to create unique value, if the output is company's core-competence's. Product can also be outsourced to external operator, in which case the output can be the core competence of the supplier, through which greater value can be created rather than doing it in-house (Ahtonen & Virolainen, 2009). If outsourcing is chosen, one must evaluate which suppliers are the most capable ones. Value creation is therefore dependent on the supplier's capabilities and buying firm's skills to choose the correct suppliers. It depends on the abilities of the selected suppliers how well they are utilizing their capabilities and resources to create value. Therefore, in value creation, it is crucial to choose suppliers with sufficient capabilities (Möller & Törrönen, 2003).

Collaboration is occurred, when two or more actors work together achieving common objectives and when they actively help each other to achieve it (Hughes, 2008). When establishing partnerships or cooperation with suppliers, it has been noticed that this role of relationship in value creation is critical. Collaboration with suppliers create the most value according studies from Hughes, 2008; Lintukangas & Kähkönen, 2012 & 2018; Ahtonen & Virolainen, 2009; Möller & Törrönen, 2003). As Lintukangas & Kähkönen (2012) state: 'unique value can be created when companies collaborate and combine their competencies and capabilities'. Case study in Hughes (2008) article reflects this statement, as Vantage Partners customer report from 2006 – 2007 shows an average value increase of 40 percent from collaborative key-suppliers compared to the least collaborative suppliers. Also value examples presented in Table 1 are mainly created in collaborative relationships. However, it is not possible to collaborate with all of the suppliers. As Andrew Cox (2004) points out, buyer should recognize the power-leverage circumstances where one is at and find the appropriate type of relationship for the current situation. Value can also be created with arms-length relationship style, but value in this is more related to simple achievements such as e.g. cost savings.

Decisions concerning supplier's competencies and capabilities should have a role in supply strategy. It is important to plan what kind of relationships are created, which suppliers are suitable for cooperation, and how these cooperative relationships will be evaluated and developed (Ahtonen & Virolainen, 2009). Buyer and supplier create value together in collaboration, which highlights the role of the supplier from buyer perspective. Supplier should therefore be considered as the enabler of value creation in the process (Lintukangas & Kähkönen, 2012). In addition, when products are becoming more technologically complex, knowledge-intensive and specified, most companies don't have the assets to operate in such a developed manner. E.g. Internet of things, machine learning, require high knowledge on information systems. Ability to combine the several needed competences to provide customer needs, calls for networking capabilities to successfully implement these into a finished product with one's suppliers. One provider can offer a whole set of services, such as installation, maintenance and upgrades for the product. Ability to create this value with suppliers can lead to more extensive offerings and competitive advantage (Möller, 2006).

### **2.3 Value co-creation**

As the focus of this study is in buyer-supplier relationships, value co-creation is also briefly discussed. According to Kohtamäki & Rajala (2016), value co-creation is creating enormous attraction in B2B research as networking economy has become more imminent in business relationship research, which also Kähkönen & Lintukangas (2012) and Ahtonen & Virolainen (2009) have noticed. To understand the value creation logic, buyer and supplier must comprehend that actors in the relationship can't create value themselves, for they can participate in the process of value co-creation by offering value propositions (Vargo & Lusch, 2016).

Value co-creation can be defined as planned benefits, which will be achieved through process of mutual problem solving. Thus, value created can be the specific problem solution or 'spill-over', which is something that can be extended to some other areas of business as well (Gupta & Polonsky, 2021). Value co-creation is occurred in collaborative relationships, in which two parties are closely involved in different activities. In these, buyer and supplier have mutual goals, they create improvements and develop innovative solutions (Gupta &

Polonsky & Lazaravic, 2019). Demirezen & Kumar & Shetty (2020) noticed that deep involvement of buyer and supplier throughout the value co-creation process can be argued to have most effect on success of the collaboration. However, value co-creation has also received some critique. E.g. Chowdhury & Gruber & Zolkiewski (2016) highlight that harmonious value co-creation is somewhat simplistic and naive view, as some may neglect the complexity of the bilateral relationships in B2B environment.

## **2.4 Supplier relationship management (SRM)**

This sub-chapter discusses the supplier relationship management (SRM). SRM will be gone through in general to keep holistic perspective and to understand its basic principles. Processes are addressed in the next chapter, which includes the practices. SRM related challenges are discussed simultaneously in both chapters. This will lead to a cohesive understanding of value creation in SRM context and answers to the research questions.

Supplier relationship management is essentially a sub-category of supply chain management (SCM). SCM is the encompass of business activities of designing, making, planning and delivering the end-product (Hugos, 2003). In order for supply chain to properly function and perform successfully, companies have focused more on the competence of their SRM (Park et al. 2010). Well managed relationship with supplier can create value for the buying firm, as poorly managed relationships can create or become a source of problems (Yan, Choi, Kim & Yang, 2015). Supplier relationship management is the driver for managing supplier behaviour, encompass of relationship and enabler of the use of leverage (Schuh, 2014). SRM has very broad definition, but essentially its main focus is on how the relationships in the supply chain with the suppliers are maintained and developed (Lambert & Schwieterman, 2012). According Trent (2005) day-to-day activities that buyers undertake with suppliers in SRM matters are e.g. following:

**Table 3.** Activities buyers perform with suppliers by Trent (2005)

Manage relationships with suppliers
Provide feedback on supplier's performance
Assess supplier's perceptions of the buyer to understand supplier's expectations
Meet with the supplier
Build trust
Establish cost management collaboration
Improve supplier's performance capabilities by providing resources
Promote supplier improvement and sharing the value created
Involve suppliers to product planning and development
Implement SRM information systems e.g. ERP
Ensuring long-term contracts with suppliers with high value creating opportunities

Possibly the first researchers in SRM context were Peter Kraljic, who developed a portfolio matrix for procurement segmentation already in the year of 1983. The aim of the model was to provide simple solution for developing a purchasing strategy for variety of industries. The model takes into account the competitive situation in the industry as well the supply risk and supply markets of procured goods, which allows the buyer to create sufficient strategy. Perhaps the most important considerations of the model were, that not all suppliers should be managed in the same way (Kraljic, 1983). Model is still widely used in the industry, but it has also acknowledged some critique. One of the main weaknesses of the matrix is its qualitative nature, which creates subjective results as goods or suppliers are weighted in quadrant matrix, which limits actions to only relatively few strategies (Montgomery, Ogden, Boehmke, 2018).

Fundamentally SRM can be understood as equivalent of customer relationship management (CRM). Companies have many interactions with customers, which they also have with suppliers. These interactions form a relationship. However, customers and suppliers cannot be managed and understood same way. With customers, the main goal is to generate as much sales as possible and the best customer is the one who buys with high margins as much as

possible. On the contrary however, it is not possible to think of the best supplier as one from whom high-volume are procured at lowest possible cost. Typically, these suppliers are relatively easily replaced and does not provide competitive advantage or value. An important supplier is formed through other aspects, such as quality, innovation and differentiation factors. These suppliers have the source of potential value creation ability and can be systematically identified and developed according SRM strategies (Hughes, 2008).

It is the responsibility of the buying company through SRM, to decide what kind of relationships it will build with the suppliers, simultaneously taking into account the current environment, competitive situation and supplier-specific matters (Hughes, 2008). According Lambert & Schwieterman (2012), right level of supplier integration is dependent on the relationship as well as the amount of effort which is committed to it. Every relationship requires a tailored strategy in order to increase the buying-firm's performance. However, there is a debate about the right way of performing SRM. Cox (2004) has found that in extreme measures, others may argue for transparent win-win partnerships, as others focus on the adoption of zero-sum approach with win-lose outcomes. Certainly, the difficulty of SRM is precisely due to the contextual nature of the issues that affect it in many ways. Performing SRM successfully is challenging yet rewarding (Byrne, 2002).

Implementing SRM in day-to-day operations poses challenges for companies, which is most usually why it does not always appear to create value and why it fails. In many supplier relationship management activities, the buying-company policy includes combination of different tools and processes, which are useful in right context. However, companies may lack the fundamental point of SRM that focuses on changing the behaviour of both the buyer and supplier (Schuh, 2014).

A traditional view can lead to an artificial experience for the supplier. A company can call the operation partnership with the supplier, despite the lack of proper cooperation. For example, a supplier is invited to meetings with management, asked to express an honest opinion about the "partnership" and impression is given that the relationship is valued. At the same time, however, the principal behaviour does not change. Supplier still has to do a huge amount of work in order to succeed in tendering processes. The buyer also manages the supplier using its leverage in a dominant manner. The supplier is also constantly

measured and maintaining the relationship devours resources simultaneously receiving no value. As a result, the supplier focuses on managing the buyer with transactional perspective, whereby the collaboration never ultimately occurs and the results are win-lose outcomes instead of win-win. The lack of behavioural change leads to large investments and use of resources in both sides without achieving results (Schuh, 2014; Hughes, 2008). In addition, the strategic nature of SRM poses challenges. It is demanding for buyer to assess a supplier's ability to create value because these are wholly or partly tacit and difficult to benchmark. Value creation focuses on the future and is dependent on the level of cooperation and industry's development. Also the value creation potential may be affected by the networks on both buyer and supplier side (Möller & Törrönen, 2003).

Lambert & Schwieterman (2012) define SRM to be implemented and properly understood when:

- (1) Supplier's assets and capabilities are assessed systematically organization widely, in respect towards the buying company's overall strategy.
- (2) Determining of which and what activities are pursued and engaged with particular supplier.
- (3) Coordinated planning and execution of every interaction with suppliers to create the maximum value that can be realized from supplier interactions.

Trent (2005) states that artificiality in the relationship can be reduced procuring steady levels and not "shopped around", as this sends win-lose message to suppliers. Modern challenge in sourcing is to operate in supplier relationships systematically throughout the organization (Schuh, 2014). According Park et al. (2010) and Byrne (2002), department cooperation and creating information system to enhance this is critical for SRM to succeed. Also managers should possess knowledge of purchasing related activities happening in their organization. Lambert & Schwieterman (2012) claim that management requires methodology to guide them through SRM process. Effective management in SRM is the result of great emphasis on procurement strategy and continuous improvement actions. Successful managers develop metrics to guide and measure these actions, while ensuring the organization is collaborating

and operates the same way in relationships (Byrne, 2002). Prior to the modern view of SRM operations, researchers have mainly focused addressing SRM through individual functions, such as strategy, cooperation, supplier selection and development. These subjects have been rarely dealt from holistic view (Park et al. 2010), which is precisely what this study is aiming to accomplish.

### **3. SRM PROCESS & PRACTICES**

This chapter discusses the supplier relationship management practices in the form of SRM process. Through the interpretation of the process, a holistic view of the best practices is created. The process interpretation is weighted on the basis on studies accomplished by Park et al. (2010) and Lambert & Schwieterman (2012). These studies provide a basic outline for SRM process and practices. These researches are complemented with other findings by various researchers to understand the best supplier relationship management practices in value creation.

#### **3.1 Reviewing the value creating SRM strategy**

First stage of the process is to consider the SRM strategy. It ensures that suppliers performance is aligned with buying-firm capabilities (Krause et al. 1998). Strategy can be described as set of rules, which are designed to guide organization to achieve its goals (Ahtonen & Virolainen, 2009). Creating a comprehensive supplier relationship management strategy is challenging. This is due to its contextual nature as well as due the several contingencies reflecting it. In addition, the long time horizon where possible benefits and value are gained, makes it difficult to interpret (Möller & Törrönen, 2003). Lambert & Schwieterman (2012) note that effort should be taken to tailor each supplier relationship, which adds the challenges of creating a SRM strategy. In order to develop an effective strategy for managing supplier relationships, taking into account competencies, the buyer must identify each other's strategies that which have the prospect of creating value. Möller (2006) divides value creating strategies in three types, which are the following:

- (1) strategy for increasing core-value
- (2) strategy for increasing added-value
- (3) strategy for increasing future-value production.

Increasing core-value is a common strategy type to develop cost efficiency, quality of the product and efficiency in deliveries. According Möller & Törrönen (2003), core value can be enhanced with competitive approach. In value-added strategy, a supplier increases or develops its offering to increase competitiveness, or buyer uses its power to influence a supplier to improve its offering, or buyer and supplier collaborate to achieve mutually better value position. Future-value production refers to situations where a supplier or buyer leads the development of a new innovation as well its commercialization. Thus, this may also happen in collaborative manner. Future-value realizes in the future and usually takes place in a network, where competencies are combined (Möller, 2006).

To create a sufficient SRM strategy according Lambert & Schwieterman (2012), top-management requires methodology for guidance in the process. SRM process team should be established to review current organizational strategy as well the manufacturing and sourcing strategies to identify the key business operations to retain and improve company's success. Day, Magnan, Webb and Hughes (2008) focus on this initial process stage by developing vision and strategy, with gaining top-management support, as well as setting governance to guidance. Ahtonen & Virolainen (2009) point out the importance of identifying company's core-competencies to success, as these are difficult to imitate and are potential source of value. Supplier pool is the fundamental part of profitable corporation, as it impacts significantly towards quality, availability, launch of new products, technology access, risk, supply chain resilience and sustainability. When creating the strategy, the company should identify potential issues for the organization e.g. supply risk, sustainability concerns as well the opportunities for value creation e.g. value co-creation through collaboration and implement these to the decisive strategy (Lambert & Schwieterman, 2012). Strategy should be implemented cohesive within the organization to ensure common approaches and to reduce e.g. rogue buying (Byrne, 2002).

### 3.2 Segmenting suppliers

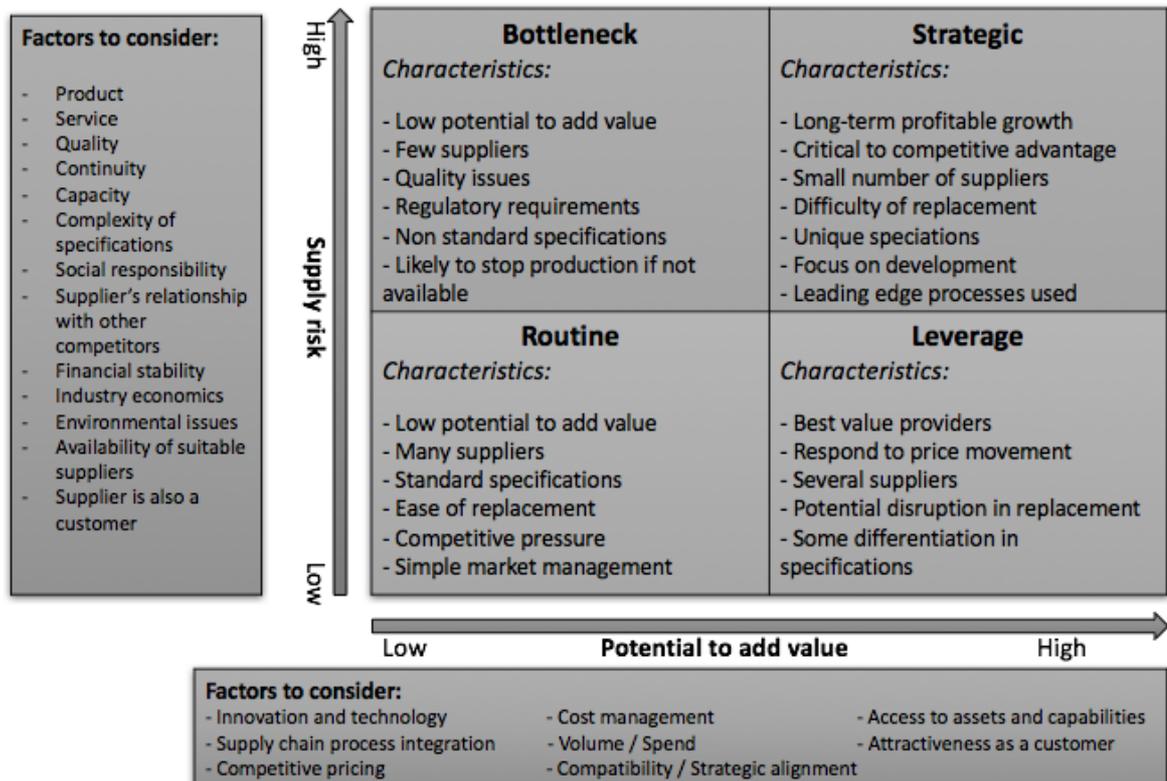
Next practice is used to segment the current supplier pool and possible new suppliers. Buyer should do this to determine which suppliers meet their company's goals and objectives (Lambert & Schwieterman, 2012). Companies should concentrate their resources on the suppliers that have the greatest impact on value creation, which is why segmentation serves as a way to enhance this impact. The utilization of this information can thus see to impact next steps of the process significantly (Day et al. 2008). Lambert & Schwieterman (2012) have gathered supplier segmentation criteria examples:

**Table 4.** Supplier segmentation criteria according Lambert & Schwieterman (2021)

Supplier's profitability, stability, growth as well the criticality for buying company
Supplier's compatibility for buying company's needs
Supplier's technological capabilities and compatibility
Volume purchased or spend
Available capacity from the supplier's
Innovation culture of the supplier's
Quality level of the products procured from the supplier's
Sustainability level of the supplier
Supplier's potential for value creation

The selected appropriate criteria must meet the goals and objectives of the buying firm that has been implemented in to the strategy. Company must define criteria and how to evaluate the supplier's. Segmentation facilitates also identifying the key-suppliers, that are crucial for value creation and success (Cox, 2004). Simple tool to for segmenting suppliers in this phase is Kraljic's (1983) portfolio-analysis matrix, thus it has had its critique for being too qualitative in nature and creating subjective results (Montgomery et al. 2018). Thus argument may be relevant, the tool can be expanded to take into account several factors that contribute to value creation. In addition, the matrix is considered in this process for raw-segmenting the suppliers, as in the later stage, the decisions behind the relationships with

suppliers will be examined in more detail manner. The following Figure 4 presents segmenting according Lambert & Schwieterman (2012).



**Figure 4.** Tool for supplier segmentation in Coca-Cola company presented by Lambert & Schwieterman (2012).

As seen in Figure 4, the segmentation is relatively simple, but may lead to subjective results. Typically, the matrix gives only one recommendation per quadrant. Ensure supply in bottleneck suppliers, form partnership with strategic suppliers, exploit power for leveraging suppliers and manage routine suppliers efficiently. General idea of the matrix is to prevent supply vulnerability and exploit buying power. Power and dependency factors are in significant role for this practice (Caniels et al. 2005). More detail segmentation could be possibly done if developed highly efficient metric system to evaluate the suppliers. The value-creating ability of the supplier is also partly subjective and contextual, so developing such would be extremely challenging. Thus, suppliers can be ranked using raw data, for example, based on the attributes presented on Table 4. In this Coca-Cola case, the company

decided business objectives for each of the four segments. E.g. strategic segment objectives were managing vulnerability and risk, expanding supply performance and develop advantageous relationships. As a result, was profitable win-win scenario with long-term growth (Lambert & Schwieterman, 2012).

### **3.3 Identifying and understanding the Power – Leverage circumstances**

In order for a buyer to truly understand the supplier relationship management choices and how to choose the proper one, power – leverage situation must be analysed. With applying this analysis to supplier relationship management, buyer is able to choose more wisely from variety of SRM options, when making sourcing options (Cox, 2004). For buyer to analyse this, one must understand where power actually derives from. According Ramsay (1996) ‘‘A buyer's power stems from a combination of the attractiveness of their own resources and the supplier's freedom to obtain resources from other organizations, while a supplier's power derives from the attractiveness of their own resources and the buyer's freedom to obtain resources from other organizations.’’ Power can also be intangible organization specific resources and capabilities which are dyadic relationship specific (Finne & Turunen & Eloranta, 2015) or power is the result of utility and scarcity of resources, which both parties bring for business exchange (Rehme, Nordigården, Ellström and Chicksand, 2016). Kähkönen & Virolainen (2011) organized sources of power to three-levels:

**(1) Network power sources:** Role and number of actors / their position in the network / level of domination.

**(2) Relationship power sources:** Market power / negotiation skills / delivery times, cost and quality / dependency level to others / experience / product type / relationship length / up-front investments / alternative sources of supply / switching costs / sale volumes.

**(3) Organization power sources:** Positional resources / financial resources / expertise / resource uniqueness / importance of resources / brand / size / economic situation / product and process technology.

Attributes to Buyer Power Relative to Supplier	High	<b>Buyer Dominance</b>	<b>Interdependence</b>
	Low	<b>Independence</b>	<b>Supplier Dominance</b>
		Low	High
		Attributes to Supplier Power Relative to Buyer	

**Figure 5.** Power - leverage circumstances according Cox (2004).

Above is presented the circumstances where buyer may be at. These are the basic power – dependency relationship alignment. Matrix made by Cox (2004), presents the possible circumstances in supply markets. Based on these circumstances, possible alternative supplier relationships can be interpreted, such as whether supplier development, collaboration or transactional approach is appropriate. Power relations affect the willingness of two players to enter into a particular relationship. If the buyer possesses high dominance over the supplier, this is likely to be less willing to collaborate and vice versa. Supplier development on the other hand requires buyer to have dominance over the supplier or interdependence. Supply markets with independent players creates more options and success is possibly rather dependent on negotiation skills. Buyer should interpret the matrix also from supplier's perspective, as value creation does not happen in isolation (Cox, 2004).

Successful outcome in relationship for buyer and supplier implicate an alignment of goals with both parties and this makes also the relationship successful. Thus, it should be noted

that win-win situation is not always feasible option for maximum value creation, as in some circumstances supplier exploitation is the only way to create value. Whatever players choose to do in a relationship, it is not always possible to achieve the goals set. Failure is usually due to deficiencies in the company's internal capabilities or because of external circumstances. These challenges are difficult to overcome. Also major reason is that the buyer and supplier may misinterpret the current circumstances and tend toward inappropriate relationship type. Identifying and understanding the power – leverage circumstances and applying these to the SRM strategy reflects the success of SRM approach (Cox, 2004).

### 3.4 Choosing the relationship type

Relationship types in SRM can be divided into many different categories depending on the researcher of the study. For the sake of simplicity, this thesis focuses on collaborating and transactional type of relationships. As noted in the value creation chapter, collaboration is the key enabler in value creation, as transactional perspective is more related to strict cost savings. Thus, both are needed to create value (Hughes, 2008; Lintukangas & Kähkönen, 2012 & 2018; Ahtonen & Virolainen, 2009; Möller & Törrönen, 2003).

Least collaborative relationships ←	→ Most collaborative relationships
Low level of trust / Opportunistic behaviour	High level of trust / Confidence that company's actions will be fair and take partners interests into account
Relatively little information is shared (plans, priorities, capabilities)	High degree of transparency (plans, priorities, capabilities)
Focus is on maximizing short-term unilateral value	Focus on maximizing long-term value and ensuring success of partner
Differences (in goals, expertise, strategies) produce friction and undermine trust	Differences are respected and leveraged as a source of innovation and value creation
Conflicts are resolved on the basis of who has most leverage at any given point	Conflicts are resolved "on the merits" / Partners apply objective criteria aimed to produce fair outcomes

**Figure 6.** Transactional based vs collaborative relationships according Hughes (2008).

As presented above by Hughes (2008), creating value and operating in transactional based perspective differs from collaborative relationship. Transactional based relationships require technical and administrative coordination. Key concern is to understand supplier's operations to create mutual transparency as well boundary permeability. It requires effective communication between buyer and supplier. Value creation in transaction based

relationships still result mostly in cost savings (Hammervoll & Toften & O’Cass, 2010). Lintukangas & Kähkönen (2012) argue that value isn’t created efficiently in arm’s-length transactional relationships, thus meaning that there is still value creating ability, however lower than in collaboration. The benefit of these relationships is the simpler manageability, but milder return on value.

The correct way to implement SRM is influenced by the factors mentioned earlier, which should be utilized to understand the suppliers with whom one should be collaborated. This depends on the supplier type, the company’s strategy and industry, as well the power relations. This contextual manner makes it challenging. However, segmentation can be used to type the suppliers so estimation can be done to identify the key-suppliers with greatest value creating potential. These key-suppliers are strategic, critically selected partners, who meet the high standards set by the buying company (Lintukangas & Kähkönen, 2018). Collaborating with these key-supplier may produce substantial value to both parties (Hughes, 2008). Usually collaboration requires intensive relationship with high information and resource sharing, which can increase costs in short-term, but reduce them in long-term (Trent, 2005). Value is usually realized long in the future, which is why collaboration possess some risk (Möller & Törrönen, 2003). For this reason, segmentation of suppliers is critical. Even though all relationships shouldn’t be collaborative co-creating value type, the significance of value creating ability should be identified. Resources and sacrifices to accomplish collaboration should also be noted. Recognizing key-suppliers in segmentation phase should be one of the main things in SRM as it affects the value creating ability. Long-term collaboration with suppliers create the ideal platform for value-creation (Lintukangas & Kähkönen, 2018).

### **3.5 Developing metrics to measure supplier**

In order to understand the impact of suppliers and guide them in the desired direction, activity must be measured. Developing the metrics involves defining the measurements of company’s interests and adjusting these to the impact of supplier towards buying-firm profitability. The set of metrics set to measure suppliers should be consistent and not conflict with other metrics. Set objectives should derive appropriate behaviour and results. When buying company has acknowledged the possible impact of the supplier, metrics should be

developed for the individual impacts. The measured impact can be e.g. inventory, sales, costs or asset related. Incentives can be added to the metrics for suppliers to achieve the goals set and to share risk and value (Lambert & Schwieterman, 2012).

Based on the metrics set, supplier can be evaluated by measuring their performance and capability. Based on these results, more detailed data is obtained on how current relationships should be managed to create value. Based on the data, suppliers can be divided to different categories, e.g. prime group key-supplier with outstanding value creation ability, upper mid-section with moderate value creating ability that requires some efforts to raise it and improvement group with possible supplier development programs (Park et al. 2010).

The challenge of measurement is to focus the metrics on the right factors, so they measure correctly the value created. A successful set of metrics clarifies value creation and directs operations to the right things. SRM programs generally focus overly on short-term objectives and ‘easy-to-measure’ metrics instead of drivers and recognition of long-term value. These short-term metrics and incentives guide supplier’s behaviour, systematically result limiting collaboration as well the invested resources for the relationship, e.g. time and effort, which lessens the value created (Hughes, 2008). The metrics should therefore support both short-term and long-term plans, depending on the desired goal.

### **3.6 Contractual matters in SRM**

In order to ensure the continuity of successful operations, contractual matters must be taken care of. Relationships usually contain some amount of uncertainty and risk, which can appear in opportunistic behaviour. Buying firm can reduce his opportunistic behaviour of other party with two strategic actions. Firstly, buyer must determine contractual agreements level of detail. It can vary from simple agreement that states the wide-ranging lines of exchange, to specified contract which explicitly details the responsibilities and corrective actions for future eventuality. Secondly, buyer must determine with which suppliers a more specific contract will be concluded and for whom less comprehensive terms will suffice (Wuyts & Geyskens, 2005). Specific contractual design elements have gained limited attention, even though it is considered effective way to define behavioural rules and to solve problems and disputes. The specific contractual elements here mean the design feature in the

contract to state its level of detail, specification and accuracy. It has been argued that more specific agreements on roles and responsibilities for both parties reduce contract breaches and thus contribute to the performance of the relationship (Griffith & Zhao, 2015).

Lambert & Schwieterman (2012) suggest for contractual matters product and service agreements (PSA), which ensures the procured goods meet the standards and the needs of buying company. Key-supplier's contracts are fully tailored; as other less important segments get more standardized version of the contract. Metrics mentioned earlier, can be adjusted to these contracts to measure the impact of the supplier towards buying company's performance. The challenge in the agreement aspect is to choose what kind of agreement should be made for each supplier segment. Park et al. (2010) for example, noticed that for fundamental low-value suppliers, contracts should be relatively automated so that resources are not misplaced. Thus, if pursuing towards collaborative relationships with key-suppliers, long-term win-win contracts with value share for both parties is critical to reduce opportunistic behaviour and to build-up the relationship. The purchasing party must therefore decide how much resources it will use for the contracts, for which supplier specific type of contract will be provided and on what terms.

### **3.7 Continuous improvement**

It is noteworthy that SRM is constantly evolving as new research is conducted. Therefore, a policy of continuous improvement should be adopted. Park et al. (2010) proposes a strategy for this that is tied to the data on the company's performance. It is based on (PDCA) plan-do-check-act cycles, where performance data is utilized to streamline business operations and improve productivity. The goal is cultural change towards innovation and development. In practice, the method resembles Lean-principles idea of 'Kaizen'. This means there is always room for improvement. The goal is perfection, which cannot be achieved if stopped in the middle. Main idea is to constantly challenge status-quo (Machado & Leitner, 2010). Park et al. (2010) idea of utilizing continuous improvement as (PDCA) in SRM is following: (1) (Plan) Make plans for improving SRM, (2) (Do) Execute SRM as planned, (3) (Check) Evaluate the SRM, (4) (Act) Implement the plan.

By considering all the practices mentioned in the SRM chapter above, based on the theory provided, it can be argued that their utilization can accumulate the performance of the buying company and create value. At the very least, it adds thought to its complexity and consideration to the matters that reflects supplier relationship management's success. The limited resources of the buying company determine how accurate analysis can be used to carry out SRM. Thus, through successful implementation of SRM, one is likely to achieve competitive advantage in long-term prospect.

## **4. METHODOLOGY & DATA**

This section discusses the research methodology used in this thesis. The purpose is to provide a sufficient picture of the analytical methods used to further confirm the validity of the work. The study analyses 7 different interviewees. Part of the data has been collected through a questionnaire and partly through interviews. Interviewees were selected from different companies and different positions to increase possible different views on best practices. The research is qualitative in nature, in which content analysis is used, utilizing abductive approach.

### **4.1 Research methodology**

Qualitative and quantitative research are predominant in academic research. In general, these are distinguished by two traditional differences, qualitative research consists of numerical research, while qualitative research focuses on word-based context (Creswell, 2009, pp. 3-4). According Eriksson & Kovalainen (2008, pp. 4-5), it is easier to compare the differences between the two research directions than to unambiguously determine them. They still state that there is much internal variation in both types of research, which makes comparison challenging. However, one of the main difference relates to the form of data collection, which is usually in qualitative research observation-based interviews when quantitative numerical data is collected using different instruments (Creswell, 2009, pp. 3-4).

The empirical part of this study is 'word-based' analysis and the study's data is collected through interviews, thus the study is qualitative. Studies that have focus on complex matters, are often associated with qualitative methods (Dubois & Araujo, 2007). Qualitative research,

through empirical data, creates an understanding of the phenomena by interpreting and summarizing the data collected (Malterud, 2012). Qualitative research seeks to understand the perception of individuals or groups of people about social or human problem. Process typically involves the study of emerging issues and practices, where data is collected around specific themes from which the researcher draws interpretations (Creswell, 2009, pp. 3-4). According Tracy (2010), a high-level of qualitative study includes ‘‘worthy topic, rich rigor, sincerity, credibility, resonance, significant contribution, ethics and meaningful coherence.’’

## **4.2 Research analysis**

Analysis in this thesis is done using content analysis with abductive approach. Qualitative content analysis is a way to analyse qualitative data and researchers consider it to be flexible approach to study textual findings. The purpose is to interpret the underlying ‘‘red-thread’’ among the text (Granheim & Lindgren & Lundman, 2017). Content analysis methods range from intuitive, impressionistic, interpretive analyses to stricter type of textual analyses. The flexibility of content analysis has made it versatile and useful for many researches and research problems (Hsieh & Shannon, 2005). Content analysis is a promising type of method for ‘‘difficult-to-study’’ subjects in the perspective of management researchers (Durlauf & Reger & Pfarrer, 2007). There are also some challenges in implementing content analysis. Granheim et al. (2017) underline the difficulty of keeping abstraction and interpretation logical and consistent throughout the analysis and when presenting results. Hsieh et al. (2005) point out that the lack of precise practices in content analysis may limit the use of it.

Content analysis has considerable advantages over competing analytical methods. Foremost in research of management, this analysis method provides replicable approach to access complex and deep structures of information, such as value, intentions and attitudes. Content analysis can be applied in broad range of organizational phenomena’s, e.g. social responsibility and managerial cognition, which are difficult to study with quantitative methods (Durlauf, 2007). Therefore, it can be justified, based on the literature provided, that the content analysis as a method is well suited for this thesis, as the value of supplier relationship management is studied, which is a complex phenomenon.

Abductive approach is used to further study the data interpreted with content analysis. An abductive approach is used according Woo (2019) to clarify, extend, refine or combine current theory based on empirical findings. The abductive approach combines current theory with data-based interpretation. The theory and new information form a whole, that increases knowledge of the topic. The analysis thus has influence in previous theories from the subject (Tuomi & Sarajärvi, 2018). Use of abductive analysis is beneficial when the researcher aims to find discover new concepts, such as variables and relationships. With this approach, the emphasis is on developing the current theory, rather than generating whole new theory (Dubois & Gadde, 2002). Rinehart & Carlson (2021) see abductive approach as one part of empirical observations and one part of theoretical hypothesis. They emphasize the good knowledge required on the subject in order to achieve a conversational tone between findings and the theory. Therefore, the study aims to build the current theory more holistic and to identify possible new factors that have influence in the value creation of supplier relationships and possibly enhance existing practices into a framework, which can be utilized for value creation.

### **4.3 Data gathering**

Data for this study was collected using semi-structured interview form. Based on the interview form, interviews were held. The interviewer asked questions from the interview form, which can be found provided in the appendices. The interviewees were allowed to answer these questions freely. The interviewer did little to none to intervene in the interviewees answers, but directed them slightly, if one was going over the topic which was in discussion. The aim was to locate people for interviews from different companies and different positions so that as many different perspectives as possible could be found. This was also successful. People for the study were found both on the operational and strategic sides of procurement / sourcing in different industries. In addition, there was variation in sourcing experiences. A total of 10 people were given the opportunity to be interviewed, of whom 7 were included in the study. Thus, the response rate was 70%. One of the interviewees responded directly to the given interview form, without an interview, writing freely, due to schedule challenges. This has little or non-effect on the quality of the study.

## 4.4 Interviewees

The following is a presentation of the basic information about the interviewees collected for this study. The interviewees are presented with their job title and brief job description as well their experience in the field. In addition, the form, time and duration of the interview are described. Industry sectors were not added to the study to ensure minimization of interviewee identification. Disclosure of the issues discussed could mean significant harm to companies, so this conclusion was reached.

Interviewee 1 is a *Sourcing Manager* in company's strategic sourcing. Responsible for managing and negotiating contracts with suppliers. 15+ years of procurement / sourcing experience. The interview was conducted in Teams, on August 17, 2021 and lasted 46 minutes.

Interviewee 2 is a *Senior Manager in indirect sourcing*. Develops indirect procurement strategy, tools, contract negotiations and cost savings within the organization. 16+ years procurement / sourcing experience. The interview was conducted in Teams, on August 23, 2021 and lasted 54 minutes.

Interviewee 3 is a *Sourcing Manager*. Contractual responsibilities of suppliers, which includes negotiation, cooperation, evaluation, auditing and selection of new ones. 15+ years of procurement / sourcing experience. The interview was conducted in Teams, on August 16, 2021 and lasted 46 minutes.

Interviewee 4 is a *Senior Buyer*. Extensive industry experience in a variety of roles and industries. Responsible for investment procurement of the factory, procurement of maintenance, repair and operations (MRO). 20+ years of procurement / sourcing experience. The interview was conducted exceptionally in this case, as the interviewee answered the questions of the questionnaire directly in writing independently due to schedule challenges. Form was returned on August 12, 2021.

Interviewee 5 is a *Supply Chain Management Specialist*. Works in the middle ground of operational and strategic procurement with an emphasis on operational purchasing. Mainly

manages foreign suppliers. 6+ years of procurement / sourcing experience. The interview was conducted in Teams, on August 18, 2021 and lasted 1 hour and 1 minute.

Interviewee 6 is a *Category Manager*. Manages specific product category group, which includes tendering, supplier relationship management, supplier market review. As a side role, supply chain de-carbonization and sustainability responsibilities. 3+ years of procurement / sourcing experience. The interview was conducted in Teams, on August 24, 2021 and lasted 55 minutes.

Interviewee 7 is a *Procurement coordinator*. Manages the flow of goods from the supplier to their organization. Purchases and negotiates prices with suppliers. Ensures that goods arrive on time. 3+ years of procurement / sourcing experience. The interview was conducted in Teams, on August 16, 2021 and lasted 56 minutes.

## **5. EMPIRICAL FINDINGS**

This section presents empirical findings based on the interviews conducted. As mentioned earlier, content analysis is utilized here. Abductive analysis is applied in the conclusions. The findings are discussed according to the structure of the interview form, going through the findings one question at a time, to ensure and increase the reliability of the study. First, the value of supplier relationships is addressed. This is followed by challenges in supplier relationship management. Finally, supplier relationship management practices are discussed. By following this, the findings should be cohesive and holistic.

### **5.1 Value in supplier relationship management**

Interviewees were asked to indicate *what are the concrete values that can be generated through supplier relationships management*. Some of the interviewees had clear understanding and vision about the core values of SRM whereas others found the questions more challenging to answer. The concrete values that interviewees highlighted are presented in Table 5.

**Table 5.** Concrete values in SRM

<b>Interviewee:</b>	<b>Values:</b>
<b>Interviewee 1</b>	<b>Innovativeness, continuity</b> in the supplier relationship, <b>reliability</b> and <b>longevity</b> .
<b>Interviewee 2</b>	<b>Innovativeness, transparency</b> and <b>trust</b> that contribute to <b>availability</b> and <b>costs</b> . Well-built relationship can help <b>wedge past competitor</b> in poor availability situation.
<b>Interviewee 3</b>	<b>Utilizing supplier know-how</b> to gain <b>innovative solutions</b> . Added value on the side in the form of <b>cost-level reduction</b> and <b>shorter delivery times</b> .
<b>Interviewee 4</b>	Ensuring <b>delivery capacity</b> , consistent <b>quality</b> , <b>price predictability</b> , <b>transparency in supply chain</b> , supporting long-term <b>business objectives</b> , better perception on <b>risk management</b> and <b>market situation</b> .
<b>Interviewee 5</b>	<b>Financial (costs)</b> and <b>indirect</b> , which includes <b>security of supply</b> , <b>quality</b> , <b>risk management</b> , supplier's <b>flexibility</b> to change to meet the buyer's requirements, <b>new technologies</b> to <b>reduce manufacturing costs</b> , integrated <b>ERP-systems</b> , data.
<b>Interviewee 6</b>	<b>Risk management, transparency</b> in information exchange, better position as a customer that leads to <b>better service</b> .
<b>Interviewee 7</b>	Opportunity to <b>develop</b> your own and the <b>supplier's operations</b> . In products, <b>quality, innovation</b> and <b>delivery reliability</b> .

The table helps to clarify the observed values within SRM. From the answers one can notice variegated view of the values to be achieved. At the same time, certain recurring factors are also seen. E.g. innovation is mentioned in four different interviews, risk management in three, costs in three, quality in three, security of supply and availability in three as well. Interesting individual findings were wedging over competitors in low availability situations and gaining better service. Two respondents distinguished monetary value and indirect value. Another did this almost exemplary.

When respondents were asked **what kind of value they wanted to create through supplier relationships**, the responses became broader. The responses varied depending on the current stage of supplier relationship management program going on in the organization. If the organization is young, the goals were more moderate and if the SRM had been in use longer, the goals were little more demanding. Respondents were well aware that sheer monetary value is not what is solely sought from SRM. Themes that emerged were; sustainability, total cost ownership, development of supplier relationship value measurement, ensuring operational performance now and in the future, increasing cooperation in order to avoid the continuous acquisition of new suppliers. Interviewee 6 described their objectives:

*‘Supply chain transparency and building trust with suppliers. Turnarounds in the industry can be really quick, it would help if you could tell suppliers openly your future projects and supplier can openly tell if there are delivery difficulties for example, so you can work together to make the sourcing process smoother.’ (Interviewee 6)*

After identifying the values, an effort was made to find out **how the relationship with supplier’s effect on value creation**. The main theme that emerged was mutual trust. Each respondent mentioned this. Interviewee 5 described this as follows:

*‘In my opinion, trust is one of the most important things, kind of like ‘Temptation Island’ style when building a supplier relationship.’ (Interviewee 5)*

In one organization, trust was already so far advanced with some suppliers, that the cost structure was opened to view. Then everyone knows what the costs are and what the margins are. It is then negotiated together how big it should be. The advantage for the supplier here is to get the price pressure off and the business will be on sustainable platform. In addition, if the materials from the supplier are expensive, negotiations become easier for both when you know what are the costs. It is thus easier for the supplier to justify price increases.

Functionality, transparency and perseverance of the relationship was also an important part of value creation. Opinion of the interviewee 2:

*‘It is quite obvious that if the relationship is good, then it’s easier to create value. Trust is important, because no one goes to do things for another if they cannot be trusted to benefit also themselves.’ (Interviewee 2)*

When the importance of trust and transparency became apparent in the interviews, I also wanted to find out how it would be possible to increase it. Both interviewee 2 and 6 highlighted the effect of communication. When people talk to each other and learn how the other person talks and how it communicates things in confidence, you can also learn to trust that other person. Also the organizations value-base and strategy should be adjoining with supplier to create better relationship and collaboration which can increase value creation according to interviewee 3 and 6. Respondent 5 noticed that utilizing power relations toward supplier was seen to have strong effect on scrapping a good relationship. This happens if one does constantly change supplier in decline and fails to provide space for development, constantly pressurizes and complains about prices. Consensus was that you will be treated as you treat others usually, if you treat others well, then you will usually get similar treatment back.

When the effect of the relationship on value creation was discussed, the aim was to find out **which supplier relationships create the most value**. Respondents emphasized the words long-term, strategic partnership, trust, transparency, continuity and cooperation. No one believed that short-term transactional relationships would bring value. When doing remote-work during pandemic, it was found that building relationships was little more challenging than before. It was seen to have effect on trust building and communication. In general, the

pandemic was also found to have affected supply availability and risk management. The personal dynamics between buyer-seller were also seen as either facilitating or hindering collaboration. Interviewee 3 described a value creating relationship the following:

*‘‘At its best, a relationship is a one in which both trust each other and are open to discussion on even more confidential matters. This makes it easier to create value and to be able to involve supplier more into our own processes. I would say that this is precisely influenced by the dynamics of the people in the buyer-supplier relationship. People are the ones who do this work.’’ (Interviewee 3)*

The last value question was **how the created value effects the competitiveness of the organization**. Various factors related to competitiveness were found. For some, the benefits of good supplier relationships became tangible during the pandemic, when they got certain items through a ‘‘bypass’’ past competitors. Another had noticed that with good relations products are obtained cheaper and faster than competitors, which meant they could be brought faster to the markets, through which a competitive advantage is formed. There was also a benefit to be gained from innovation. Together with the supplier, a technical innovation, that is different from the others, means that they have direct competitive advantage when they are able to beat their competitors together. Supplier may also have better knowledge of some business areas, where the expertise of own organization is weak. Certificates earned by the supplier were also seen to provide competitive advantage. These may relate to sustainability and the use of special requirements, which competitor’s supplier may not have, which leads to differentiation from the competitor. Interviewee 5 summarized the basics,

*‘‘Competitive advantage is the basis of why to try to create value. When the operational performance level is better than competitors, it usually means good things.’’ (Interviewee 5)*

## **5.2 Challenges in supplier relationship management**

The aim here was to find out with an open question what kind of challenges people have when working with suppliers and the **challenges of supplier relationship management in**

**general.** Many respondents mentioned a lack of time and resources in some form in their responses. These individuals work closer to operative activities. Lack of time and resources was seen to be due to various reasons, such as the top-management's lack of understanding of the impact of supplier relationships, the considerable amount of resources required to manage relationships in top quality, the excessive number of suppliers one is responsible at, the organization's excessive efficiency goals and ambiguities in the goals of the organization. However, it was also noted that it is not sensible nor necessarily possible to manage entire supplier network and not all suppliers are worth the allocated resources. Interviewee 7's thoughts on challenges regarding lack of time,

*‘‘The intention, of course, is for every company to strive to hire as few employees as possible to do the job as efficiently as possible. Then when as few people as possible work and there is some failure or challenge with supplier, there will be a lot of extra after adjustment. For example, it is not possible to know when there is a ship stuck across the Suez Canal, which affects the whole Europe’s supply chain.’’ (Interviewee 7)*

Few respondents found that size sometimes matters, as it may be difficult to get suppliers interested in cooperation or collaboration and to create better relationships in general, if the amount of business is small. The size of the business depends on the nature of the product being purchased or the size of the organization. For some respondents, organization is very large, but purchases are small for some suppliers given the scale of business. Because of this, the seller only wants to sell and not to build any relationships. Then one can't expect so much from the supplier, which poses challenges.

Maintaining continuity also posed some challenges, even if the purchase volume is sufficient. It is difficult to motivate a supplier to act as desired in long-term. Interviewee 1 said that there may be a rising supplier who, for example, may have such a good idea that it can replace a particular product. In the beginning, there may be 10-20% increase in annual spend growth. That's when the supplier makes great contributions, which are reported and the operations are further developed. Then when the purchases balance to certain level, the supplier's enthusiasm stops. It is challenging to keep it up. Respondent 3 believes that interest of a supplier can be increased by working to ensure that the supplier gets something

of the cooperation that it values so much that it prioritizes you over others. This can be extra business, financial gain or an exchange of innovations. However, it is difficult to say no to another customer in poor availability situations. This is eased by a long, well-functioning collaboration. If there is a crisis at hand, and nothing has been done, then it is too late.

Shocks in the markets can cause relationships to erode and challenge even the long-term relationships. Fixed prices may have been negotiated for long-term (more than one year) contracts in order to hedge against price increases. These may have had to be modified during the contract period, as the increase in the price of some material may have been so huge. It would be the right of the respondent organization to keep the prices, but they have to think about whether they are generous to the supplier, as they don't "complain" when the material price is low for the supplier.

Decisions at the top managerial level may also complicate work at the operational level. For example, unilateral decision to change payment terms, which the buyer must communicate to the supplier. This type of poor sharing of information with the supplier can, at worst, destroy the built collaboration. Also the supplier may not understand the idea behind certain development or measuring activities, as why should they follow complaints or delivery reliability for example. The other party may not perceive its significance. Respondent 5 sums up the case,

*“Biggest challenge is building a relationship of trust, where the right things are talked about and action is committed on both sides. A relationship where things are achieved because they are wanted to be done and not because there is a person X in the company who orders to do so. There is a big difference in the end result.” (Interviewee 5)*

### **5.3 Current state of supplier relationship management**

In order to understand the current SRM situation in the interviewees organizations, it was explored **how suppliers are managed**, what are the **SRM objectives** and how the **organizations competence to comprehend and execute SRM** is. To create a

comprehensive mapping of the baseline situation, which is progressing consistently, the interviewees' comments are reviewed individually.

*Interviewee 1:* Suppliers are managed very differently. The criticality of a product is considered, what size the supplier is, what kind of resources it owns and what is the potential purchasing volume. Suppliers are not measured much; collaboration is done with biggest suppliers with regular meetings. There are no direct SRM objectives in the organization. These are more dependent on one's own activity. However, there are direct objectives with key-suppliers, such as development projects, which are perhaps more joint savings projects. There is always room for improvement, for example in the construction of long-term supplier collaboration, for this may not be at a sufficient level yet.

*Interviewee 2:* Suppliers are managed in very different ways, because the organization is young and the procurement categories are different sizes. The situation will change in the future. There are a lot of suppliers and a limited number of staff, suppliers have to be categorized into certain segments, for example ABC etc. Based on the classifications, processes are made and how any category is managed. Key-suppliers are receiving more attention, while simple processes are being created for small spend and easily replaceable suppliers. Competence in understanding and implementing SRM is perceived to vary widely across the organization, as a different department may have a completely different situation than another.

*Interviewee 3:* Suppliers are managed in different ways. Categorization is done depending on the product group. Kraljic's traditional four-field-matrix is used to make classifications to know what to focus on and what is more operational work. In addition, there are some other categorization models. Objectives vary by category. Some aim to cut costs and some to innovate. The main theme at the moment is ensuring availability. The competence to understand and implement SRM is perceived as quite good. However, there is always room for improvement, such as how the capacity reserved by the supplier is managed and verified. In one way or another, categorization helps to manage a large entity.

*Interviewee 4:* Currently supplier relationship management in the organization is monitoring work to control the most important corporation suppliers through main agreements. Recently, the entire supplier pool has been mapped and suppliers were segmented. In addition, the global and local dimension has been taken into account and new management support processes have been introduced, such as the opening process for new suppliers. An automatic risk classification based on responsibility and finances has also been created for suppliers. The objective is to manage risk, including operational delivery capability and business risk more broadly. The basic pieces of the SRM work are there. A concrete SRM requires a clear allocation of responsibilities, purposefulness and commitment. The latter is seen to have room for improvement.

*Interviewee 5:* Basic KPIs drive management, and instructions and protocols guide the basic frameworks of work. There may be a small amount of movement within the frames, depending on the person doing it, what category of supplier it is and what type of supplier it is. KPIs measure e.g. security of supply, load vs. capacity, delays, how the load is distributed to supplier production. The organization has clear objectives for SRM. People who manage supplier relationships are given a set of questions annually, where it is told what kind of things are happening with suppliers and the aim is to develop them. These things will be gone through with the suppliers also. The organization's ability to implement and understand SRM is perceived as pretty good. Tools for managing have been developed and there is a lot of long-term professionals and research behind it.

*Interviewee 6:* Suppliers are not managed in the same way. Identifying key-suppliers is done through spend and volume, which get more attention. A well-thought-out breakdown of suppliers is done through the traditional Kraljic four-field-matrix. Power relations are also analysed a bit. Some routine categories may also be a subject of higher labour input. However, less time is spent with smaller and easily switchable suppliers. The first of the interviewees whose organization has a clearly defined objective. The goal is to manage risks, monitor and develop performance, and build collaboration. Competence to implement and understand supplier relationship management is perceived as professional. Most employees have a clear understanding of what it means and why it is done. In addition, there are training programs on how work can be developed, focusing on various aspects of sourcing, such as supplier relationship management. Some tools for SRM has been developed. Auditing is the

most important one. Feedback from suppliers is also collected in data bank by rating these 1-5 and giving open comments by the buyer. Based on the feedback, development ideas can be given to suppliers. Development can also be monitored based on the tool.

Interviewee 7: The aim is to treat suppliers as equally as possible. In some products, you need to strive for risk management by keeping multiple suppliers. In some cases, supply chain sourcing is used. We strive to be a strategically attractive and reliable partner for suppliers. Goals are commercial, make a profit. Competence to understand and implement SRM is perceived as reasonably good. There are generally accepted trading principles.

#### **5.4 Practices of supplier relationship management**

According to supplier relationship management theories, practices are usually based on some kind of strategy. Therefore, it was investigated **what is the supplier relationship management strategy of respondent's organization and how it is implemented in day-to-day operations**. Many organizations lack a clear red thread to guide day-to-day operations. In one organization, strategy was still in the development stage, as the company is still relatively young. A few respondents, on the other hand, had a very clear vision of how the strategy guides daily activities. Regardless of the lack of clear strategy, all of the respondents have some idea of how they are supposed to manage suppliers. Many respondents also have a model that does not implicate clear strategy, but each supplier / product category has its own strategy that guides operative work. Respondents with a clear vision of strategy also answered the question very clearly. The supplier management strategy is seen as tied to the day-to-day sourcing work that is part of professionalism and responsible sourcing. Interviewee 5 described the matter as follows,

*“Of course there is a strategy. It is tied to operational goals and a budget, which creates a framework within to move. In day-to-day operations, it controls operations in teams and in segments fairly tightly”.* (Interviewee 5)

Next, it was investigated **whether suppliers are segmented in organizations and what is the criteria for segmentation**. Many organizations seem to have more or less some parts of category management in use. At least in segmentation, this is strongly reflected as

categorization of suppliers or products. Kraljic's model seems to be useful on many organizations. However, it not usually used as the only tool, but one's own expertize is utilized. Suppliers are also managed on "feel-basis" and through accumulated sourcing experience, as interviewee number 6 highlights,

*'Honestly, it is also a subjective assessment. There is raw data on the basis of which decisions can be made, but it is also necessary to make an assessment on how to value which supplier relationship. Kraljic's traditional model is in the background and is not used directly. Model doesn't take into account e.g. environmental issues. It will certainly rise to different areas of emphasis in the future as well.'* (Interviewee 6)

The criteria used for segmentation or categorization were different, although turnover and risk management were emphasized. Dependency ratio and the supplier strategic meaning for operative work were also mentioned. E.g. a very small supplier can be really critical to business, so not only turnover can be analysed. Or if there are 5 suppliers in sub-area of the category, within which a strategic partner must be identified and with which co-operation is not continued. This is influenced by the professionalism of the individuals.

The next practice was to explore **how power-leverage relationships are identified, understood and analysed in organizations**. Each respondent understood its practical significance on supplier relationships. This was utilized particularly in negotiation situations, to be aware of one's own position as well the supplier's position. A typical negotiation situation is a one where the supplier wants to set price increases. Then one needs to analyse whether they have any bargaining power. When one's organisation is big, it was noticed that then one has the power to tell for the supplier about the different things one wants. The analysis itself and its utilization is seen in many responses as a matter of professionalism and consideration of the buyer. The power created by a large organization was identified, which is also put into practice, as respondent 5 said,

*‘‘Of course power-leverage is utilized. When there is a lever, it will be twisted. I assume that if I am at a checkout with big purchases and have a new Mercedes-Benz in the yard, then I get better service than the one who buys a lollipop’’. (Interviewee 5)*

The responses also revealed a responsibility aspect. Responsibility is always visible when the power relationship is exploited and its impact on one's own business. There may be suppliers who agree to virtually any terms to keep them running. However, this type of activity is not seen as long-term if it means that the supplier cannot survive in such a business or the company is not profitable. While companies strive to maximize their profits, no respondent wants someone to go bankrupt.

There were different criteria and practices for analysis depending on the organization. E.g. market analysis, which includes the supplier's financial information, competitor information, and the supplier's capabilities. The dependency ratio is taken into account in another organization, where the suppliers are chosen so, that the purchasing organization is not too small and not too big for the supplier. In addition, it also takes into account how to bring added value to the supplier, such as a good reference or enough purchases. Kraljic-type matrix from the supplier's perspective is also used in the organization. In one respondent's organization, on the other hand, this is part of the day-to-day work. There, the analysis is done by comparing the annual spend with the supplier's annual turnover. That gives an estimate of whether the buyer is in the top 10 customers. Experience also helps to understand this. When sending invitations to tender, some products give a large number of offers and some products only a few. This is a pretty clear indicator of how much leverage there is. To improve power-dependency ratio, efforts were made to concentrate purchases on fewer suppliers or by adding value to the supplier to make buyer more attractive in the eyes of supplier.

The next goal was to find out **what kind of relationships the organizations mainly form and what distinguishes the supplier with whom they want to cooperate or collaborate.** The relationships formed were described according to attributes familiar from SRM theory, such as strategic, bottleneck, transactional, supplier development, collaboration and partnership. Depending on the situation, industry, and size of the organization, the focus was

on different relationships and no relationship was particularly emphasized. Interpreting the relationship can sometimes present challenges. One organization had once noticed, that from their perspective, the relationship they built was a good collaboration, but the supplier interpreted the relationship as completely transactional.

In the big picture, non-suitable suppliers for collaboration are those, who do not sign a code of conduct, lack of certain standards, do not meet the sustainable business criteria, or have other operational ambiguities, such as briberies or human right issues in the organization. The fundamental operations of suppliers should be in order before cooperation is considered. These are affected e.g. by the supplier desired volume and industry quality requirements. Attractive cooperative supplier was seen to stand out through transparency, reliability, perseverance and solvency. Also again, the effect of the personal dynamics became apparent. This was seen to have massive influence towards the emergence of collaboration. In one organization, the model is to monitor delivery times and quality, through which good collaborative partners are sought. Early supplier involvement will be introduced later, where suppliers will be able to bring their own ideas and opportunities to product development and indirect procurement.

Next, the **measurement of supplier performance and the metrics and criteria developed** for it were discussed. In almost all organizations, supplier's performance is measured through hard values. These are spend, security of supply, reclamations, quality (e.g. parts per million), cost development. One organization also wanted to develop a set of soft values. These would be measured through sick leave, average age of employees, employee turnover and their training. For they have found that cooperation often suffers when there is a high turnover of people in the supplier organization. Respondents had not developed a metric to measure supplier relationships in general. Interviewee number 6's organization had piloted a system where a supplier could provide feedback to the purchasing organization. They found that the feedback was overly positive, and the suppliers didn't really dare to give honest feedback. However, they themselves collect feedback from buyers concerning suppliers, which have seen to be successful. In many cases, the supplier has developed after the feedback, if there have been any remarks in the operation.

Respondent 5 also noted the challenges associated with measuring. If the metrics are malformed, the end result may be the exact opposite of what one is aiming for. Therefore, the respondent sees the construction of metrics as the most important management tools, including supplier relationship management. In many cases, creating metrics is simple, but the more the factors that affect them are understood, the more demanding the situation becomes. For example, delivery reliability may be affected by the actions of the purchasing organization, in which case the meter does not work as intended.

Next, it was clarified **what kind of factors are involved in contractual matters and whether contracts are somehow tailored for some suppliers**. The general view seems to be to develop framework agreements, which however, can be slightly negotiated, for example, on payment terms or collateral damage. The Code of Conduct is commonly used, to which supplier must commit. Contract tailoring is done a bit depending on the organization. In Respondent 1's organization, this is done on two bases, one for services and one for products. Respondent 2 says there is a big difference between direct and indirect procurement. On the direct side, the key-suppliers have their own framework agreements with a lighter purchase agreement. With really small suppliers, only general terms and conditions are mandatory, if a one-time or small purchase is made. On the indirect procurement side, a separate agreement is being built with the legal party. Although certain frameworks have been developed, they are almost never signed as is, but are usually re-negotiated. Respondent's 3 organization is using a slightly different contract basis for strategic counterparts than for transactional ones. The strategic partner has more room for negotiating the terms. In a few organizations, the goal is to use as standardized contracts as possible, which is almost the same for everyone. However, the agreements may vary depending on the nature of the business. This is affected, for example, by the category or the size of the project. Additional protocols or annexes may be added to these. None of the respondents indicated that they had any incentives defined in the contracts for suppliers. Encouragement is mostly verbal. Interviewee 1's thoughts of the matter,

*“There are really no meter-based incentives developed in the contracts at the moment. Currently it’s not a “stick and carrot” approach, it’s probably more just a stick. In negotiations, the supplier has to give a discount, but if that relationship somehow grows, shouldn’t we reward the supplier for the good work? The use of incentives could have a real impact on supplier relationships.” (Interviewee 1)*

The last question in the interview was an open-ended question on **best practices in supplier relationship management**. Respondents were allowed to openly state what they felt was associated with successful supplier relationship management. The final comments are reviewed individually.

*Interviewee 1:* Interaction, after that comes everything else. You also have to measure the right things. With right measuring, different things can be achieved. A little bit of everything should be able to be valued to some extent in order to see if it is moving forward or not. However, it is challenging to create such meters.

*Interviewee 2:* At this point, I would stick to segmentation, which will make our own workload smaller and work more systematic. In the long-run, we want to create partnerships where the supplier is really able to bring good ideas with confidence to us. At the same time, the supplier receives the additional turnover. Still for now, segmentation is the most important.

*Interviewee 3:* Categorization or segmentation and power-leverage relationships are certainly the most important. We want to see better in the future how suppliers perceive us as customers. At the same time, we need to consider how supplier relationships are managed in practice. Is it possible to deepen supplier cooperation, where we work together and designing and production are taken into account? The quality of daily cooperation with supplier usually takes you forward.

*Interviewee 4:* Measuring, processes, responsibilities and method of reporting the results must be clearly defined. Segmentation should support real needs and there should be different operating models for different categories of suppliers, depending on the criticality and size of the supplier. In addition, operations must be well managed.

*Interviewee 5:* Close cooperation and measuring. Things are measured through concrete metrics, that's what I like. They are not politics as they have only numerical values, so I think it is the most fair for everyone. However, measuring is challenging and requires a lot of research. For example, people work exactly as defined in their bonus metrics. You formulate them incorrectly so the opposite result to what you tried may happen.

*Interviewee 6:* Auditing is the best practice. It is such a powerful tool for understanding the whole of the supplier. In addition, the supplier feedback tool and the utilization of the feedback report in cooperation with the supplier. Our organization emphasizes that you cannot improve what you do not measure. That is a fundamental thing. In addition, I have found that when you create a rhythm for supplier meetings and keep it with certain agenda, it will consciously take that collaboration forward in a concrete and structured way. This works well in building collaborative supplier relationships.

*Interviewee 7:* Supplier relationships and their practices are a bit of an abstract concept and hard to explain in a nutshell. I would say close contact with the supplier, although it might require a high amount of labour.

## **5.5 Summary of the interviews**

Several values produced by SRM were observed. The focus was on innovation, risk management, reduced cost, improved quality, security of supply and availability. In the buyer-seller relationship, trust was seen as an important factor influencing value creation. Functionality, transparency and perseverance were also important factors. In the relationship communication and buyer-supplier bilateral chemistry were important factors in the success of the relationship and thus in value creation. Value creation was seen as important factor for competitive advantage.

The biggest challenges were the lack of time and resources. There is not enough time to manage supplier relationships, and the benefits of SRM may not be fully recognized in the organizations. Market shocks and ensuring the continuity of the relationship also created major challenges. In addition, top-level managers can create challenges in building a supplier relationship with unilateral decisions and poor information share.

Many organizations lacked a clear supplier relationship management strategy. Strategies focus more on each product / supplier category. In segmentation, Kraljic's model is still widely used. However, it is not the main tool and other segmentation practices are being utilized also. Power-leverage is utilized and its impact on supplier relationships is identified. For collaborative relationships, suppliers whose basics are in order, are usually selected, if the current strategy guides towards that specific relationship type. However, the choice of the relationship itself is influenced by the current market situation, industry and size of the organization. Suppliers were measured in almost every organization. Hard values for measuring are in use. Measuring with soft values was also considered. Challenges to the development of the metrics were identified. None of the organizations actually had incentives in the contracts. Code of Conduct is commonly used. Contract customization is done to some extent depending on the organization and supplier. In many cases, the pursuit is towards standard contracts.

## 6. DISCUSSION AND CONCLUSIONS

The aim of the study is to examine the best practices of supplier relationship management that have effect on companies' value creating ability. This last chapter discusses the results of previously presented empirical findings and theory. Based on these, conclusions are drawn, in a form of summary of findings. This chapter presents summary of the findings, answers to the research questions, reveals theoretical contribution, submits managerial implications, and limitations as well as future research avenues.

### 6.1 Summary of the findings

The aim of this sub-chapter is to answer to the research questions. The findings of this study are discussed and compared with existing academic research, using abductive approach.

#### *Value creation through supplier relationship management*

The main research question of this thesis was *how to create value and what is the value created through supplier relationship management*. The empirical findings emphasize that value is created in cooperation or collaboration with the supplier and traditional transactional relationships don't really have influence in this. This view is also supported by the academic literature written by (Hughes, 2008; Lintukangas & Kähkönen, 2012 & 2018; Ahtonen & Virolainen, 2009; Möller & Törrönen, 2003), whose common opinion is that collaborative relationships in buyer-supplier relationships create the most value.

A new discovery in this study's context, which emerged from the empiric data, is the enormous importance of mutual trust for the emergence of collaboration. The key of building trust is effective two-way communication, where the relationship dynamics between buyer and supplier have strong effect. Increasing trust is also facilitated if the buyer's and supplier's value-base and strategy are adjoining. The enormous importance of trust and relationship dynamics between buyer and supplier are not highlighted in the academic literature. This can be therefore seen as the theoretical contribution of this study to the SRM community.

Both empirical findings of this study and previous academic research identify numerous values created by the supplier relationship management. However, empirical findings had special emphasis placed on innovation, risk management, cost reduction and development of quality, which also were identified by Möller & Törrönen (2003); Byrne (2002); Hughes (2008); Lambert & Schwieterman (2012).

A slight difference was seen in the theoretical and empirical data. Empirics revealed and emphasized more abstract and softer values, while theory focused more on hard and measurable values (Möller & Törrönen 2003; Byrne 2002; Hughes 2008; Lambert & Schwieterman 2012). The responses in empiric data might reflect the contact surface of respondents in operational activities, whereby values have been identified as experienced, rather than understanding future values based on proper long-term collaboration. However, it can be rightly argued that supplier relationships have huge potential to create great value for the organization.

According to the empirical findings, the "indirect" value created can clearly be seen to affect a company's competitiveness. Furthermore, findings indicate that good supplier relationships help to cope with various crises, bring products to market faster, increase knowledge of matters which provide challenges in organization, create technical innovations which bring direct competitive advantage. The theory also supports the effect of value on competitiveness, as (Walter et al. 2001; Hughes, 2008; Möller, 2006) found a similar effect in their studies.

### ***Challenges in supplier relationship management***

First sub-research question of this study is *what are the challenges of SRM*. Based on the empirical findings of this study, several challenges were identified due to contextual and abstract nature of SRM. According to the findings, the greatest identified challenge was somewhat surprisingly the lack of time and resources of the buyer organizations. This has a direct impact on the organization's capability to execute SRM. Lack of time and resources is due top management's lack of understanding the impact of supplier relationships, considerable amount of resources required to manage relationships in top-quality, the excessive number of suppliers one is responsible at, the organizations excessive efficiency

objectives and ambiguities in the objectives of the organization. There is not much discussion either of the lack of time and resources in the academic literature, although the amount of resources SRM requires has been noted. This could therefore be highlighted also as a new discovery. In SRM, however, it should be noted that it may not make sense to have complete control over the entire supplier pool. As Lintukangas and Kähkönen (2018) suggest, resources should have focus on key-suppliers with the highest value creation ability.

Other challenges identified by this study were the difficulty in getting suppliers interested in collaborating or building better relationships in general, if the business is small. This is affected by the amount of purchases made by the company and the size of the buying and selling organization, where the supplier dominance mentioned by Cox (2004) can be seen as visible. Building longer-term cooperation without incentives also presents challenges. The supplier's enthusiasm wears off while the benefits accrue. Using only 'stick' alone is not effective. Park et al. (2010) state that long-term win-win contracts with value share for both parties reduce this opportunistic behaviour and build-up the relationship. Interest of a supplier can be increased by working to ensure that the supplier gets something of the cooperation that it values so much that it prioritizes you over others. This can be extra business, financial gain or an exchange of innovations, which also Lambert & Schwieterman (2012) noticed.

Empirical findings of this study show that market shocks increase challenges in relationships, as one of the two must be flexible in the situation. Failure to do so will damage the relationship. Poor management was also seen as a factor complicating relationships, as unilateral decisions at the management level can complicate operational work and weaken built relationships. Furthermore, the supplier may not always understand the idea behind some specific development ideas, such as delivery reliability monitoring. Therefore, the desired goals and attributes should be clearly implemented in the purchasing organization so that they can also be clearly communicated to the supplier as well. Schuh (2014) has also noticed this, as implementing SRM for day-to-day operations is usually the reason why managing supplier relationships does not produce the desired value.

### ***Best practices of supplier relationship management***

Second sub-research question of this study was *what are the best practices of supplier relationship management in value creation*. Practices have been gathered from the latest SRM-related theory. These are reviewed one at a time.

**Value creating SRM strategy.** Many organizations lack a clear red thread on how supplier relationships should be managed, and this is not actually reflected in day-to-day operations. In many cases, however, the strategy appears to be by supplier / product category. Möller & Törrönen (2003) found that developing a cohesive supplier relationship strategy is challenging because of its contextual nature and several contingencies reflecting it. In addition, the long time horizon where the value materializes pose challenges. Those individuals with a clear vision for the strategy described it to be part of day-to-day work and professional sourcing. This is also stated by Byrne (2002), as according to his research, the strategy should be part of the daily work and it should be cohesively implemented in the organization in order to ensure common approaches. This reduces, for example rogue buying. Ahtonen & Virolainen (2009) emphasize the importance of identifying company's core competences and key business operations for strategy, as they are potential source of value.

It is somewhat pointless to implicate the "ingredients" or "a chart" of a cohesive and ubiquitous strategy, which is not done here, as it is completely dependent on the organization. However, it is absolutely clear that value creating SRM strategy must be understandable, identifiable and implemented well for everyone in the organization working with the suppliers. The most important thing is that everyone knows why things are done so that they can be communicated to the supplier also, which enhances the communication and trust. Clearly there is room for improvement based on empirical data.

**Segmenting the suppliers.** Many organizations have more or less parts of category management in use. Kraljic's model from year 1983 is still widely in use for segmentation, which was somewhat surprising result, that no newer tools have really been developed. Matrix has had its critique for being too qualitative in nature and creating subjective results focusing mostly on risk management (Montgomery et al. 2018). Thus, this argument is

relevant, the tool can be expanded to take into account factors that contribute to value creation, as done in Figure 4 by Lambert & Schwieterman (2012). However, matrix was not usually used as the only tool, but one's own expertise is utilized. This is done based on subjective assessment and accumulated sourcing experience. Power relations are also outlined in the segmentation stage.

Criteria for segmentation varies and these can be adjusted as what organization most values in suppliers. A simple and fairly traditional way is to use turnover, volume or spend as criteria. Another simple option is the ABC categorization with 20/80 Pareto principle. Dependency ratio requires more analysis, although it is good to fit in, especially when selecting new suppliers. Lambert & Schwieterman (2012) have additional criteria for segmentation mentioned in Table 4. Auditing can also help with segmentation, as it provides a good overall picture of the supplier. The supplier feedback system has also been seen as a workable tool for valuing suppliers. It can be used to develop poor performers or drop these out altogether. The most important observation, however, is that segmentation or categorization makes it easier to manage large entities, which can also make it easier to create a better functioning holistic SRM strategy.

**Identifying and understanding the power-leverage circumstances.** Based on empirical data, the impact of this is well understood in buyer-supplier relationships. Interviewees utilize the analysis especially in negotiation situations with the supplier. They also found that using force or power, does not help building long-term relationships. This is also evident in Cox's (2004) study, as buyer's high dominance over supplier decreases its willingness to enter into a deeper relationship with the buyer. I would argue that this is due to a lack of trust because of the asymmetry in the relationship. The effect of this must therefore be taken into account when establishing value creating long-term collaborative relationships.

Based on empirical data, collaboration can be increased by sharing the value gained, e.g. reference, sufficient revenue, and according Cox's study (2004), making sure that neither supplier nor buyer is too dominant over the other. Empirics proposed a method for this, in which the supplier is chosen so, that neither organization is too large in relation to the other, e.g. comparing the revenues of both parties. Putting this into practice is probably relatively simple. According Cox (2004), one of major reasons of why relationships fail to create value

is that the buyer and supplier may misinterpret the current circumstances and tend toward inappropriate relationship type. This was also noted in the empirical data in one organization. Based on this knowledge, it can be argued that power-leverage relationships play a huge role in the creation and maintenance of value-creating relationships.

Power-leverage circumstances were analysed in the empirics as follows; using market analysis which includes supplier's financial information and capabilities as well the competitor information, Kraljic type matrix from the supplier's perspective, comparing annual spend to supplier's annual turnover to sort out if buyer is in top 10 customer segment. According to the interviewees, this was also part of the daily work, where the accumulated experience assists, e.g. when sending tendering offers and basis of the amount of tenders received, an assessment can be done of buyer's power position.

**Choosing the buyer-supplier relationship type.** Based on empirical observations, the desired type of buyer-supplier relationship is determined depending on the situation, industry, and size of the buying organization. Respondents also found that not all relationships can be value-creating collaborative type. This is also the view of the theory of SRM, as supplier segmentation is needed for the proper allocation of resources. As Cox (2004) states, win-win collaborative relationship is not always feasible option for maximum value creation, as in some circumstances only way to create value is supplier exploitation. That is why Lintukangas & Kähkönen (2018) emphasize recognizing key-suppliers in segmentation phase to be one of the main things in SRM, as it affects the total value creating ability. Thus, it could be argued that segmentation has strong effect on understanding supplier pool holistically and clarifying the context, which makes the choice of the right relationship for each supplier simpler.

According to empirical data, unsuitable suppliers of collaboration are as follows; suppliers who do not sign a code of conduct, lack of certain standards, do not meet the sustainable business criteria, or have other operational ambiguities, such as briberies or human right issues in the organization. At the same time also fundamental operations of suppliers should be in order before cooperation is considered. These are affected e.g. by the supplier desired volume and industry quality requirements. In addition, suitable collaborative supplier was seen to stand out through transparency, reliability, perseverance and solvency. Personal

chemistry between persons in buying and selling firm either increased or decreased willingness to collaborate. As the relationship between the individuals became apparent again, the importance of which should not be underestimated.

**Metrics to measure supplier performance.** What was noteworthy in the empirical data, was that the value of measurement may not be recognized in many organizations. The metrics developed are relatively rudimentary. In general, the suppliers were measured through hard values. These are Spend, security of supply, reclamations, quality (e.g. parts per million), cost development. According Lambert & Schwieterman (2012), in order to understand the impact of suppliers and guide them in the desired direction, activity must be measured. Developing the metrics involves defining the measurements of the company's interests and adjusting these to the impact of the supplier towards buying-firm profitability. The metrics set to measure suppliers should be consistent and not conflict with other metrics.

Empirical data also showed that there may be a need for soft values. Measuring would be done through sick leaves, average age of employees, employee turnover and their training. One interesting method of measurement emerged in empirics. It is a data-bank, which collects feedback from buyers on supplier's performance and has been seen as successful. Suppliers are rated on a scale of 1-5 with open feedback. The results are discussed at regular basis with suppliers, which have provided clear development in the supplier's operations.

However, even though measuring is important, there are practical challenges in creating a metric. The challenge is to create a set of metrics that perfectly measures the right things and directs to achieve the desired goals. Empirical data indicate that the wrong metrics may steer in a completely opposite direction to what was the goal. The principle behind the metrics is clear, but a deeper understanding of the various factors that have impact on them, makes it virtually impossible to make a comprehensive and well-functioning set of metrics, which is why I understand why organizations focus on relatively simple metrics. Hughes (2008) shares similar views. He also points out that organizations generally focus on short-term objectives, that are easy to measure, rather than long-term operations. In his view, this reduces value creation. Thus, perseverance should be taken into account when developing the instrument.

**Contractual matters in supplier relationship management.** Empirical data implicates that general view is to develop framework agreements with suppliers, which can be slightly negotiated. In addition, the Code of Conduct is commonly used, to which supplier must commit. Empirics did not indicate that any organization had incentives in contracts. Although respondents noticed the importance of co-value creation, supplier was not rewarded through contracts, but rather through mere trust of co-benefitting and verbal acknowledgments. Failure to add value to the supplier poses challenges for building long-term collaboration.

Griffith & Zhao (2015) found in their study that more specific agreements on roles and responsibilities for both parties reduce contract breaches and thus contribute to the performance of the relationship. As the quality of the relationship improves, it can also be argued that value creation is likely to increase. However, according Park et al. (2010), low-value supplier's contracts should be relatively automated to prevent misuse use of resources, and if a collaborative relationship with key-suppliers is sought, a long-term win-win with value share for both parties is critical to reduce opportunistic behaviour and build-up the relationship.

**Summarizing the best practices.** Based on the findings, none of the practices can be ‘‘the best one’’, as rather the management of the entity is paramount. By developing the management of this entity of practices, I would argue that supplier relationships become more value creating. The strategy guides the day-to-day operations, which are tied to the metrics. Identifying power-leverage circumstances helps to identify and segment value creating relationships. Segmentation allocates the use of resources to value creating relationships. Properly made agreements and contracts with incentives make operations long-term and value-adding for both parties. As all practices have effect on everything, the management of the whole is the enabler of value creation. This can also be seen as one of the main findings of this study.

## 6.2 Managerial implications

Supplier relationship management takes a lot of resources and the entity's management is complex and context-sensitive. However, it is clear that if an organization wants to ensure the value creating continuous development of its operations, the priority of supplier relationship management must rise to a higher level. Managers should be aware of how much resources are being spent, where they are being spent, and what they are creating.

Inputs need to be added to value creating collaborative relationships. In these relations, emphasis must not be in superficial cost-cutting projects, but collaboration must be deep, in which trust and communication have huge role. An employee who knows how to negotiate and communicate with a supplier has an important part of this. In addition, if organization wants a collaborative value creating relationship, the use of solely 'stick' must be stopped. An incentive for the supplier helps also the organization to achieve its goals more efficiently as the relationship works better, e.g. the buyer does not have to negotiate matters unnecessarily long, which helps in allocating resources.

A relationship is not built solely through e-mails or quick calls. Therefore, there should be more time for sourcing experts to build a relationship with the suppliers. In addition, it is pointless to dictate the need for improvement at the management level if one does not really understand its impact on operational activities. At worst, these decisions undermine or exterminate the relationship build by the buyer. If management wants something is to be achieved through supplier relationship management, the goals should be clear to the organization, buyer and supplier. This improves the efficiency of communication.

The problem with supplier relationship management is that value is often formed in the long-run, which is why its importance is not perceived. In general, the significance has become more clear to organizations in recent years through unexpected crisis situations, such as the blockage of the Suez-Canal or the sudden onset of a global pandemic by Covid-19. Good relationships can ensure business continuity even in difficult situations.



- **1) Strategy.** Create a red-thread for the organization, where objectives are clear, possible, achievable and measurable. What is the goal of the supplier relationships as a whole and what are the sub-goals? Where are resources allocated? Implement into practice and communicate this to everyone who are in contact with suppliers. Review current situation in every quarter and adjust if necessary.
- **2) Power-leverage.** Identify the circumstances and act as necessary. Tools: Market analysis, Kraljic's matrix from supplier perspective, comparison of annual spend to supplier's annual turnover, buyer's expertise, Power-Leverage attribute comparison in Figure 5. Note that the use of force or dominance does not promote collaboration. Successful collaboration comes with a supplier who is relatively equal to your own organization. Strive to get out of relationships where there is a strong supplier dominance.
- **3) Segmenting.** Segmentation facilitates efficient resource allocation. It helps to identify the suppliers with whom you should collaborate and overall clarifies operations. A strategy should be established to each segment. Tools: Kraljic portfolio analysis (perhaps newer modified version), subjective assessment based on the professionalism of the buyer, ABC segments with 20/80 Pareto principle, dependency ratio, auditing to properly understand supplier.
- **4) Metrics.** To steer the organization in the right direction, supplier performance measurement must be done at least on some level. Adjust the meters according the strategy created. Make sure metrics don't conflict with others and measure the right things. Understand the factors that have influence to the metrics. Align them so that it is possible for the supplier to achieve them and reward success. Tools: Hard values, which are spend, security of supply, reclamations, quality (e.g. parts per million), cost development. Soft values, which are sick leaves, average age of employees, employee turnover, their training and supplier success on a scale of 1-5 with open feedback.

- **5) Relationship type.** Based on previous analyses, choose a relationship type that maximizes value creation. You can't collaborate with everyone, so choose suppliers that have the potential to create value and collaborate with them. Be as automated as possible with low-value easily replaceable suppliers to improve resource utilization. Consider other strategic factors behind the relationship. Small spend suppliers can also be value-creating, for example by creating innovations.
- **6) Contracts.** Properly concluded agreements, in which responsibilities and roles are clearly defined, reduces disputes and thus improves relationships. Provide standard contracts for low-value suppliers, which makes more efficient use of resources. Add incentives into agreements for collaborative suppliers, to increase the continuity of long-term value creating activity.
- **7) Continuous improvement.** Don't stuck on status quo, where everything seems to be fine. Continuous development of operations ensures the development of competitiveness.

#### **6.4 Limitations and future research**

The concept presented in the study can be utilized quite generically, although the outcome depends on many factors, such as the market situation, industry and size of the organization. The accuracy of this study is limited by the number of people who responded to the survey, and these might not provide bulletproof picture of supplier relationship management. The validity has been increased using different theoretical sources to justify findings and documenting the interviews properly. The sample is sufficient to scientifically substantiate the findings presented and the study still expands knowledge from a relatively little researched topic.

When interpreting the results, it should be noted that the respondents are somewhat in proximity to operational activities, also even the managerial level respondents. Presumably, therefore, the answers may be different than would be the case for higher-level managers. Presumably, many other studies focus on higher-level manager respondents, in which case

the operational view may be superficial. Therefore, this study contributes excellently through a different perspective.

There is a lot to explore on this subject. One main theme that would be interesting is how to measure supplier relationship rather than supplier performance. What kind of metrics could be developed here? I would also like to see a comparison of how a top-level manager sees supplier relationship management compared to an operational employee. In addition to these, I would like more research on building trust in buyer-supplier relationships.

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## Appendices

### Appendix 1. Interview form

#### Background

*Title / Main responsibilities / Experience in the field*

Titteli / Päävastualueet / Alan kokemus

#### Value in supplier relationship management

*1. What do you think are the concrete values generated through SRM?*

Mitä mielestäsi ovat toimittajasuhteiden hallinnalla tuotetut konkreettiset arvot?

*2. What is the value you aim to create through SRM?*

Mitä arvoa yrityksenne haluaa luoda toimittajasuhteiden kautta?

*3. How relationship with suppliers affect to value creation?*

Mitä arvoa yrityksenne haluaa luoda toimittajasuhteiden kautta?

*4. What kind of relationships with suppliers create the most value?*

Millaiset suhteet toimittajiin luovat eniten arvoa?

*5. How the value created affects in your company's competitive advantage?*

Miten luotu arvo vaikuttaa yrityksenne kilpailuetuun?

## **Challenges of supplier relationship management**

### *6. Challenges in SRM?*

Toimittajasuhdehallinnan haasteet?

### *7. Biggest challenge?*

Suurin haaste?

## **Practices in SRM**

### *8. Are suppliers managed differently or similarly, how?*

Hallitaanko toimittajia samalla tavalla vai eri tavalla, miten?

### *9. What are the aims of your company's SRM?*

Mitkä ovat yrityksesi toimittajasuhdehallinnan tavoitteet?

### *10. How do you feel your company's competence to comprehend and execute SRM is?*

Miten koet yrityksesi pätevyyden ymmärtää ja toteuttaa toimittajasuhdehallintaa?

### *11. What is your company's SRM strategy and how it is implemented in daily activities?*

Mikä on yrityksesi toimittajasuhdehallintastrategia ja miten toteutetaan päivittäisessä toiminnassa?

### *12. Does your company segment suppliers? If done, how and what are the criteria for this?*

Segmentoiko yrityksesi toimittajia? Jos näin tehdään, miten se tehdään ja mitkä ovat kriteerit segmentoinnissa?

*13. How well are you aware of your power – leverage role with your suppliers and how it is utilized and analysed?*

Kuinka hyvin olette selvillä voima – vipusuhteista toimittajienne kanssa ja miten sitä hyödynnetään / analysoidaan?

*14. What kind of relationships do you have with suppliers, describe (Collaborative / arms-length etc.)?*

Millaisia suhteita teillä on toimittajienne kanssa, kuvaile (esim. yhteistyö, ”hyväksikäyttö”, jotain siltä väliltä?)

*15. If collaboration is done, what are the factors that distinguish a supplier with who you want to collaborate vs one that you don't want to?*

Jos yhteistyötä tehdään, mitkä tekijät erottavat sellaisen toimittajan, jonka kanssa haluat tehdä yhteistyötä, verrattuna sellaiseen jonka kanssa et?

*16. Do you measure supplier's performance? What are the metrics or attributes used and which are used most commonly?*

Mittaatteko toimittajan suorituskykyä? Mitä mittareita tai määreitä käytetään ja mitä käytetään yleisimmin?

*17. Is there a roughly same type of contract with all of the suppliers? What are the reasons for tailoring contracts if it is done?*

Onko kaikkien toimittajien kanssa suunnilleen saman tyyppinen sopimus? Mitkä ovat syyt sopimusten räätälöintiin, jos sellaista tehdään?

*18. What are the best practices to manage suppliers? (Segmentation, measuring, etc.)*

Mitkä ovat toimittajasuhdehallinnan parhaat käytännöt (Segmentointi, mittaus yms.)