The significance of supplier relationship management in industry competitiveness: A case of bakeries in Harare, Zimbabwe

Felix Chari

Department of Economics, Bindura University of Science Education, Zimbabwe. Email: charifelix93@gmail.com. Cellphone: +263775994001

ABSTRACT

This study investigates the significance of supplier relationship management on the competitiveness of the manufacturing firms in Zimbabwe. The main research problem was based on the fact that the traditional and transactional buyer supplier relationships, which focus on the price alone, no longer delivered competitive advantage to manufacturing firms in the bakery industry. The research was descriptive survey in form of a case study and qualitative methodology was mainly accommodated. The total target population was thirty and the whole target population was used, no samples were conducted. Questionnaires were distributed in person to sample staff and its input suppliers as a way of collecting data. The research found out that supplier relationship management is significant to improve organisational competitiveness typically in improving supplier responsiveness and reducing of procurement costs in bread manufacturing companies. Moreover, maintaining trust and credibility and cooperating with suppliers were found to be the main strategies for supplier relationship management. However, poor quality information technology and lack of senior management support hindered successful supplier relationship formation. Based on the findings, the main recommendations are that companies must move towards supplier relationship management and recognize its importance as a strategic tool for company competitiveness.

Key Words: Supplier relationship management, Competitiveness.

1. Introduction

There has been increasing focus on the changes that have occurred during the last decade on relationships between buyers and suppliers. In an era of increasing competition both globally and locally, there is a growing interest in managing long-term buyer-supplier relationships as the management of these relationships has benefits for both parties. However, the concept of supplier relationship management still needs lot of emphasis in developing economies for companies to realise the benefits underlying it (Kalwani and Narayandas 1995). Generally, buyers and suppliers must stress the importance of supplier relationship management, where it is possible to achieve benefits in the form of lowered costs or improved profits (Ford, 1984).

2. Background of the study

In today's industrial environment, suppliers of production raw materials can make a major contribution to a manufacturer's performance in areas of quality, delivery, cost containment and new product development. Consequently, effective supplier relationship management has become a critical issue for both purchasing and operations managers. What has been called the 'traditional' approach to manufacturer supplier relationships – where main focus is on price alone can no longer deliver a competitive advantage for firms in the manufacturing sector. Therefore the way in which manufacturers deal with suppliers have transformed into a new phenomenon of effective supplier relationship management (Lamming 1993). Nowadays companies are now concerned with the concept of supplier relationship management for more organised flow of high quality, value for money products or raw materials from a set of highly innovative suppliers (Goffin *et al* 1997). The challenge for these manufacturers is to identify how to manage their suppliers strategically and more effectively.

Lack of Supplier Relationship Management will result in increased supply chain costs (Atkinson 2013). This is evidenced by a recent survey from Proxima (2013) under the banner of corporate visualization which found that typically 69% of the company's revenues is spend in the supply chain as compared to around 12.5% spent on internal staff costs. The survey highlighted the essence of proper relationship management in the supply chain in order to improve both efficiency and effectiveness of the organizations. If the gap is not bridged, organizations will incur high supply chain costs that may consequently result in closure. More and more people will remain unemployed; Gross Domestic Product (GDP) levels in the manufacturing sector may drop severely damaging the economy.

The Bakery industry contributes significantly to Gross Domestic Product of the Zimbabwean economy. It also serves as a major provider of employment opportunities, with an average of 2600 to 3000 people employed on permanent basis. The Association noted that the number of operators has been decreased by 50% from 2009 to beginning of 2014 and employees downsized by 35% (National Bakers Association 2009). Since year 2009, the selling price of one unit of bread did not go beyond one dollar though the costs of operating and of acquiring raw materials has continued to hike (Zimstats 2012).

Most Bakery companies have halted their operations and some have reduced their production scale following failure to procure strategic resources like wheat and flour (National Bakers Association 2013). There is need to employ procurement tools like supplier relationship management to ensure sustainability of supplies to meet market demand.

This study aims to establish the significance of supplier relationship management on competitiveness of the bakery industry, exploring supplier relationship management strategies for an effective procurement as well as establishing challenges faced in implementing supplier relationship management on the procurement process.

3. Literature Review

3.1 Supplier Relationship Management

Supplier Relationship Management is a comprehensive approach to managing an organization's interactions with the firms that supply the products and services it uses (Mettler and Rohner 2012). It is view as a way of building closer relationships with the organization's strategic suppliers (Gartner 2001). Supply Chain Institute of Management (2008) defined SRM as the process that defines how a company interacts with its suppliers. As the name suggests, this is the mirror image of Customer Relationship Management (CRM). Just as the company needs to develop relationships with its customer, it also needs to foster relationships with its suppliers where by the desired outcome is a win-win situation, both parties benefiting. Supplier Relationship Management is understood as a sourcing policy based design of strategic and operational procurement process as well as the configuration of supplier management (Appelfeller and Buchholz 2005).

3.2 Supplier Relationship Management models

Depending on the analysis level, the focus of supplier relationship management varies (Luitukangas 2006). This means that several theories must be applied when linking supplier relationship management research to an organizational theory because not only one theory fulfils all the supplier relationship management research perspectives. In this research, three different theories are scrutinized to clearly explain their applicability to supplier relationship management research.

3.2.1Transactional Cost Economics Model (TCE).

This model was pioneered by Coase and Williamson (1979) and it focuses to minimise the transactional costs and production costs of the organization. Transaction cost economics model defines the boundaries of the firm because it affects the firm's decisions on how to organize its activities whether to move towards vertical integration or to prefer market exchange. According to the model, governance efficiency of a firm is the key issue which decide whether to implement supplier relationship management or not. Klylaheiko and Virolaimen (2002) added that SRM is an efficient solution only if it creates a value compared to market and hierarchy options. According to the model, the factors that drive implementation of SRM are high degree of transaction frequency, mutual dependency, the possibility to share risk and possibility to share information.

Hides and John (1990) argued that the transaction cost economics model analysis is useful in studies of relationships because it provides insights into the circumstances that cause the development of a closer relationship between buyers and suppliers. They based their theoretical argument on Williamson (1979) model stating that the establishment of a closer relationship corresponds to the shift away from market based exchange towards bilateral governance. However Hides and John (1992) pointed out that the model does not recognise the power dependence in the interaction between firms. According to them, the features of relationship determine what kind of relationship is constructed. Krapfel and Spekman (1991) presented that transactional cost are optimized if the relationship management is optimized according to the relationship type, and argued that the transactional costs have an impact on the type of relationship.

3.2.2 Resource Based View Model (RBV)

The model was done by Wenerfelt (1984) and Barney (1991). It states that companies in the same industry may select a completely different organizational structure, but be equally successful. Competitive advantage come from uniquely and valuable resources. The more these resources are the basis of success, there more dependency upon them. Resource Based View is a theoretical framework for understanding how competitive advantage is achieved by focusing in the internal organization. Resource based view assumes that firms are a bundle of resources, and if these resources are valuable, rare, inimitable and non-substitutable, sustaining competitive advantage can be achieved.

Tecce and Shuen (1997) define resources to be firm-specific assets that are difficult to imitate. Transferring these assets between firms is difficult because of high transaction costs. The model explains resources to be specific physical, human, and organizational assets that can be used to implement value creating strategies. Tecee at el (1997) have enlarged the concept of RBV and defined dynamic capabilities. According to Tecee at el (1997), dynamic capabilities are the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments. Dynamic capabilities are the organizational and strategic routines by which managers change their ways to acquire and protect resources (Eissenhardt and Martin 2002).

3.2.3 Resource Dependency Perspective (RDP)

Pioneered by Pfeffer and Salancik (1978), RDP of relationship formation states that to acquire resources, organizations must interact with others who control these resources. The survival of the organization can be partially explained by its ability to ensure the continuity of the needed resources. They noted that power is determined by the definition of social reality created by the actors and their control over the resources. Organizations seek to avoid dependency and external control and to remain their autonomy for independent action. Cox (2005) states that the relational power determines the sharing of added value, thus it is also relevant to explore how the power and dependency form the relationship types.

When drawing together the three different theoretical views, the argument for and against and matching them to the research of Supplier Relationship Management, it can be said that all these views are applicable pointing to the different focus areas of SRM research. Applying Transaction Cost Economics (TCE) underlines the aspect of efficiency and cost focus. Especially, it determines the boundaries of a firm. Resource Based View (RBV) refers to the firm's internal value creation through its resources and capabilities. Value can be created from SRM through learning mechanisms, routine and experience. Resource Dependency Perspective applies the aspect of external counterparts. It aims the optimization of continuity of the business and autonomy of the firm. As a summary, it can be concluded that these models support the purpose of supplier management through diffusion of supplier information between business units, value creation through internal capabilities, resources and reducing the risk of supplier dependency and availability.

3.3 The significance of SRM in procurement competitiveness

Supplier relationship management has a positive effect on the firm's financial performance (Liu and Wang 2000). According to Kalwani and Narayandas (1995), firms who put the concept of supplier relationship management at the heart of their business achieve higher profitability and return on investment (ROI) than firms using transactional approach. It can be therefore added that strong buyer - supplier relationships have a significant positive effect on manufacturer performance, suppler performance and performance on the entire supply chain.

According to Ganesan (1994), supplier relationship management in the purchasing process is one of the most important elements of supply chain integration. Establishing and managing effective relationships at every link in the supply chain is becoming a pre-requisite for every business success. Thus the significance of supplier relationship management is to ensure organizational success through competitive strategies. Ganesan (1994) also pointed out that high volatility in the retail industry reflects rapid fluctuations in customer demand and unpredictable market trends. Therefore when facing market volatility and diversity, firms are encouraged to develop relatively flexible relationships with multiple channel partners to deal with unexpected market demands thus reducing the dependence on the vendor.

Carr and Smeltzer (1999), state that supplier relationship management has the significance of improving the supplier responsiveness. They defined supplier responsiveness as the ability of strategic purchasing and supply management to influence the suppliers in the supply chain with respect to meeting the requirements of the firm. Carr and Smeltzer, (1999), co-authored that when cooperation and interaction with suppliers increases the firm's ability to respond to the changing requirements of end customers will also grow. Thus managing supplier relationships is significant to improve supplier responsiveness.

Managistics (2003) pointed out that in modern economies, companies derives a large product value from their supply base. The group state that purchased items represent approximately 60% of total costs of goods sold as opposed to 10% ten years ago. This is evidenced by a similar research done in the recent survey from Proxima (2013) under the banner "corporate visualization" which found that typically 69% of the company's revenues are spend in the supply chain as compared to around 12,5% spent on internal staff costs. Therefore, this concludes that supplier relationship management is the key to reducing costs and enhancing customer responsiveness as well as optimization of resource utilization. This is especially important with the procurement of direct strategic materials which are procured from a small number of trusted vendors. IDC Executive brief (2003) outlined that supplier relationship management allows for the development and maintenance of these strategic relationships with key suppliers and forces firms to adopt a new way of thinking.

The importance of buyer supplier relationships was also made clear by Womack and Roos' (1990) in that it facilitate lean production. Reductions in inventories, cycle times, and costs and improvements in quality associated with lean production depend on close relationships between buyers and suppliers. In contrast to transaction cost theory discussed above in this chapter, it can suggest that in the industries, these relationships are not only a substitute for, but an improvement over vertical integration as a means of organizing complex transactions. Many firms seeking to gain the benefits of lean production have adopted these types of buyer supplier relationships.

In a study done by Gozhi (2009) the researcher wanted to establish the effects of buyer supplier relationships on company performance in the Turkish automotive industry. The data collected for this study had been gathered by sending out questionnaires to 255 companies in year 2009. After applying the survey of 255 companies, 114 survey forms eligible for assessment had been gathered. In this research, Gozhi (2009) found out that companies operating in the automotive industry had stepped up their supplier relationship management with their suppliers as compared to five years before. In the study, the researcher examined the relationships of these companies in three groups such as competitive companies, collaborative companies and companies in the transition period from competitive to collaborative. The findings were that companies are generally closer to collaborative structure.

As a result of the researcher’s regression analysis, the findings were that the concept of supplier relationship management has impacts on company performance. After examining the company performance at each group, that is, competitive, collaborative and the transition period to collaborative, it was found out that companies that have placed the concept of supplier relationship management at the heart of their business enjoy higher generally performance as compared to others.

Szwejczewski et al (2005) carried out a research in Germany. The objective of the research was to establish the nature of buyer supplier relationships in the German engineering industry. The research further investigated if management of suppliers is one of the ways manufacturing companies can improve the performance of companies. The research was done in the context of Germany companies only. In order to investigate the two research questions a postal survey was conducted. Questionnaires were posted to a target population of 110 German organizations after stratified random sampling. In the investigations respondents characterized their relationships with suppliers as closer and partnership like. It was concluded that many companies have long term contract with their suppliers and managers perceived to have closer relationships with suppliers today as compared to five years ago and they are enjoying improved competitiveness.

Research methodology

The researchers employed a descriptive survey research design to carry out this research. Descriptive research design was more appropriate since the study is investigating a relatively new research area and it is more advantageous for understanding a new phenomenon in an in depth manner (Boyd et al 2000). The research was largely qualitative as it sought to investigate the perceptions and views of the target population. Meijer (1999) articulates that qualitative research aims at getting respondents to speak about the chosen subject freely and obtain as wide information as possible. The total targeted population was thirty (30) bread manufacturing firms. However because the target population was relatively too small the researchers had to sample the whole population.

Results and conclusions

This study shows that the concept of supplier relationship management is important in the competitiveness of both bread manufacturing firms and their inputs suppliers. Findings are that SRM improves supplier responsiveness and reduced the company's total procurement costs. The respondents said the implementation of supplier relationship management was as a result of the need to secure reliable supplies, cost effectively in a more dynamic and competitive environment.

This research also found out that a combination of cooperation with suppliers, maintaining trust and credibility and the use of the organization's power position are the main strategies used for successful supplier relationship management as per the findings.

Investing in information technology was found to be critical in bringing the buying organization and its suppliers together. This concurs with Stump and Srirom (1997) when they stated that a greater investment in IT will play a role in changing the nature and type of relationships. However, poor information technology facilities and lack of senior management support are the main challenges that hinder the successful implementation of supplier relationship management. Poor information technology facilities disrupt effective communication and poor functional integration and supplier integration. To a lesser extend personnel with poor skills in relationship management is also a challenge as far as the implementation of supplier relationship management is concerned.

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