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## **The outstanding supplier: buyers' perception of good supplier performance**

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**Abstract** Formalised supplier evaluation systems have become more widespread. The aim of this study is to uncover how evaluation systems are used and what role the individual buyer still plays. Currently very little is known of whether formalised supplier evaluation systems are used as intended. Focus is on how evaluation may differ because of different supplier types, how performance measurements are related to the firm's aims and whether buyers actually use the evaluation systems! To undertake an in-depth investigation a case-study approach was used. The study unit was two buying managers – one manager from a small firm and one from a large firm. The findings indicate that parameters used for assessments of suppliers depend on the supplier's role and the firm's aims, but also that the buying manager's perception of the supplier will still influence how the supplier is handled.

**Keywords** Supplier evaluation, Buyers' perception, Informal, Outstanding performance

## **INTRODUCTION**

The performance measurement wave in the 90s had an impact on how many companies perceived quality and measurement (Grant et al. 1994; Hines 1994). Also, in many industrial companies the implementation of TQM and ISO standards had very severe consequences on the method by which suppliers were measured. For example, as a part of the ISO certification system, it is required that evaluation systems are formalised (Sheth and Sharma 1997). One consequence of this formalisation was

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that the evaluation criteria became more explicit than they had previously been. Another was that some knowledge, which had previously been tacit, became explicit (Christopher et al. 1991).

Despite this trend some firms' buying functions have held reservations with regard to the value of such systems which have been described as too "formalised" or "a way of making average judgements that are of limited value" (Stjernström and Bengtson 2004).

In more important relationships, the use of monitoring and control systems can have severe effects. More important supplier relationships mature with interaction and the diversity in the challenges they face or, as Gadde and Håkansson (2001) write, "any attempt from the buying firm to manage the relationship must take the interest of the supplier into consideration as well" (p. 148). Thus it is more important to understand the very nature of the different relationship types the firms face, than it is to obtain an arbitrary figure from an evaluation system. Yet another disadvantage of supplier-performance systems is that they are too one-sided, as they only look at the value, which the buyer profits from the relationship. It is really more about understanding the relationship's dynamics, complexities, value diversities and cost for the collaborating partners over time. According to Tzokas and Saren (2000) specific – and to some extent – different knowledge is necessary in each stage of a relationship. If this is the case, supplier-evaluation systems need to cover both the particular purpose and type of a relationship and the different stages it may be in. As a consequence, a variety of criteria must be applied, not only to each type and stage, but also to the individual single-supplier relationship (Edquist 1997). Thus the question to be addressed here is; does it make sense to use formalised evaluation systems?

Contrary to this, and in accordance with the TQM and measurement approach, it has been claimed that a supplier evaluation system has the advantage of minimising importance of more subjective factors in the evaluation process (Krause and Ellram 1997; Krause et al. 2001). It is important to know a supplier's strengths and weaknesses, and why it performs in a particular manner in specific situations, but, ultimately, it is about the actual performance, and how this is evaluated by the buyer's customer, or as Gelderman and Semeijn (2006) say: "What is the added value of this supplier to our company?" (p.213). While it is important that buyers know their suppliers to improve performance it is of vital importance to develop overall measures in order to be able to send clear signals of what is important, what is not and what needs to be done for improvement (Gelderman and Semeijn 2006; Kraljic 1983; Hahn et al. 1990; Schiele 2006; Tracey and Tan 2001).

Thus some interesting questions are: how do buyers actually make use of formalised evaluation systems?; and, to what extent are the results from formalised evaluation systems bypassed if they do not apply to the perception of the single buyer?

The remainder of this article is organised in the following manner. First, a description and discussion of the central literature for understanding the factors which are important in supplier evaluation (*a priori* theory development) are presented. Second, methodology is elaborated upon, case results discussed and comparisons drawn to the propositions outlined in the beginning of the article. Third, we introduce two case studies that are compared with the literature to identify the most important factors essential to developing a framework for studying the use and consequences of supplier-evaluation systems. Finally, we review the implications and limitations of our study.



## SUPPLIER EVALUATION: STATE OF THE ART

*“Obviously, differentiation is needed in managing supplier relationships, since not all suppliers are dealt with in the same way”* (Gelderman and Weele 2005, p. 19). It follows that two important tasks within buying are to differentiate supplier relationships (portfolio models) and evaluate them based on this differentiation (evaluation systems). Accordingly our focus will be on evaluation and how the differentiated use of suppliers may help explain why the evaluation is different for different suppliers. Two further questions that need to be addressed are how different are the criteria, and how formalised are they? (e.g. Lamming 1993; Lindgreen et al. 2006).

Evaluating, selecting and assessing suppliers are intriguing processes and as Monczka et al. (2005, p. 207) write:

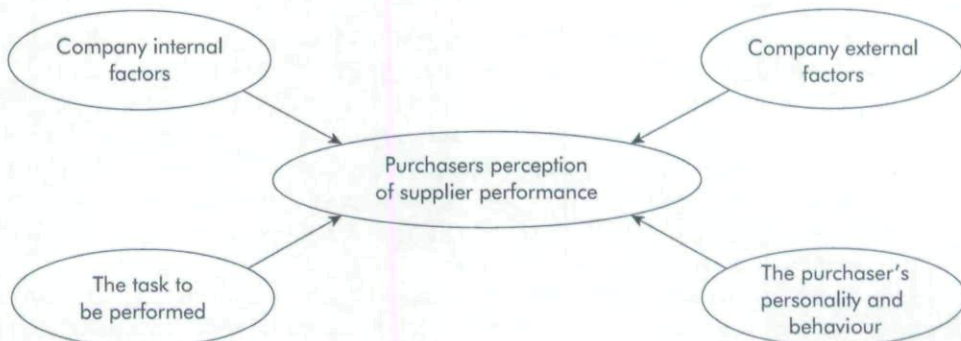
*Most purchasing experts will agree that there is no best way to evaluate and select suppliers; organisations use a variety of different approaches. Regardless of the approach employed, the overall objective of the evaluation process should be to reduce purchase risk and maximise overall value of the purchase.*

At the same time, Monczka et al. (2005, p. 269) regard initial evaluation and selection as linked to supplier performance measurement. In the beginning, the obligations, which the supplier should live up to, are agreed upon, and afterwards the fulfilment of these obligations is measured on a continuous basis.

### *Buyers' supplier perception*

Measuring supplier performance has gained increased attention and importance in recent years, and certification of many industry sectors and practices has clearly influenced the way in which supplier-performance measurement is conducted in many companies (Carr and Pearson 1999; Flies and Becker 2006; Krause and Ellram 1997; Krause et al. 2001; Wagner 2006). As indicated in the introduction, the aim of this study is to uncover to what extent buyers use formalised supplier-evaluation systems, and to what extent other criteria are applied when suppliers are evaluated. Studying this, means looking for several factors influencing, how supplier-performance measurement is actually done (Figure 1).

**FIGURE 1** Factors that influence buyers' perceptions of supplier performance



As it appears from Figure 1, the element analysed is the individual purchaser. At the same time it is important to notice that the individual buyer is influenced by factors at the intra- and interorganisational level. The intra- and interorganisational levels are in this study perceived as the surroundings in which the individual purchaser is embedded (Wilke and Ritter 2006). These issues are discussed in the following section.

### *The task to be performed*

There are several ways in which the products and services bought by a company can be classified. Traditional buying-behaviour theory classifies buying situations according to the uncertainty experienced; the less the knowledge of the company's need (i.e. the product or service required) the greater the uncertainty (Robinson et al. 1967; Webster and Wind 1972). Håkansson and Wootz (1979) also base their theories on the uncertainty concept and distinguish between 'need uncertainty', 'transaction uncertainty' and 'market uncertainty', where "need uncertainty" is about answering the question; what particular product or service can satisfy the buying company's need? Håkansson and Wootz describe it like this:

*How responsible decision makers perceive the need and those products, which can satisfy the need. These perceptions influence, for example functionality and quality demands that are made for possible products, and hence also for their judgment of potential suppliers*

(Håkansson and Wootz 1979, p. 38).

"Transaction uncertainty" relates to dimensions which can be seen as a source of uncertainty in the transaction, e.g. how complex is the transaction? "Market uncertainty" relates to possible uncertainties in the market, e.g. how dynamic is the market?

As shown in Figure 1, the task to be performed is a central element in the interaction model, and it is obvious that the exchange aim for products/services, information, financial set-up and social contact in each buying situation is that the need is satisfied in the best way possible.

A common feature of the theoretical approaches above is that the task to be performed is assumed to have major impact on buyer's perception of supplier's performance.

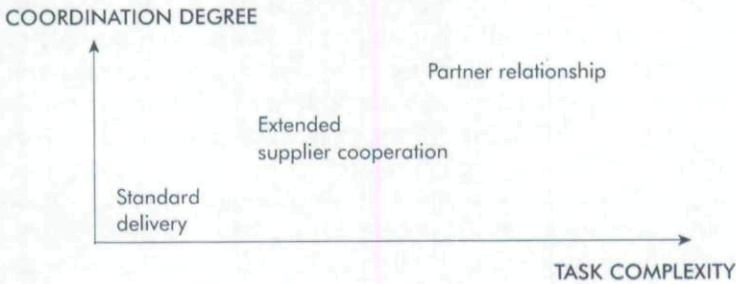
### *External company factors*

The product or service also plays a decisive role when it comes to defining the roles of different sub-supplier types. Christensen et al. (1992; 1998) base their definition of the supplier role on task complexity. It is assumed that task complexity is closely connected with coordination, which is necessary. However, a company can choose the way cooperation should take place. Typology essentials are that different levels of complexity result in different kinds of coordination tasks that need to be addressed (see also Christopher and Towill 2002). There is close cooperation between seller and buyer when addressing these tasks.

In the typology, the supplier's role is connected to different forms of organising interplay between sub-supplier and buyer. Thus there is standard delivery, extended supplier network and partner relationship. From the buyer's point of view, it is



FIGURE 2 Sub-supplier typology



assumed that supplier performance is evaluated according to the particular supplier role. Kannan and Tan (2006) argue along the same line as they conclude: *"Buyers must go beyond operational selection criteria, explicitly considering a potential supplier's strategic orientation and commitment to meeting shared goals and objectives"* (p. 770).

Supplier relationships differ, however, even though some suppliers may perform the same tasks. This is because the parties gradually get to know each other and different adaptations take place in the process. A number of models describing central dimensions and phases in such processes have been developed (for example Ford 1980; Dwyer et al. 1987). Ford noted that relationships between buyer and seller change over time; likewise Fiocca has tried to identify central differences in the relationships' strength. However, the variables described by Fiocca are only to be regarded as indicators and not as unique classification variables.

According to Fiocca, relationship strength is an important factor influencing the way the two parties interact.

Håkansson and Snehota's ARA model (Activity, Resource, Actor) enables different kinds of analyses, including a complete network analysis (Håkansson and Snehota 1995). It is often the case that one supplier relationship can influence other relationships, including performance expectancies. Likewise, the network in which the company interacts can also influence individual relationships, for example through the power dependency relationship that exists within the network (Håkansson 1982).

Power is not only about exercising it, but perhaps to a more extensive degree

TABLE 1 Buyer-seller relation strength

	Strong relation	Weak relation
Relation length	Long	Short
Customer importance	High	Low
Partner importance	High	Low
Friendship	Yes	No
Mutual development	Yes	No
Cultural distance	Small	Large
Geographical distance	Small	Large

about having knowledge of a partner's possibility to enforce power (Cox 2001). Cooperation would be troublesome if it was based on constantly enforcing demands. It would also be very time consuming and costly to the parties involved (Malconi and Benton 2001). Thus conflicts are often avoided. Especially for relationships termed "outstanding" it can be discussed whether or not conflict and power can be expected to be characteristic of the relationship or not. Although power will exist in a relationship with an outstanding supplier, and distribution may even be asymmetrical, if the supplier is described as outstanding it can be questioned to what extent actual and potential use of power can take place?

To answer this, one can look at what kind of power situation exists – how symmetrical is it, which types of power may have been used (coercive, reward, legitimate, legal legitimate, expert, referent), (Malconi and Benton 2001), and what types of activities are undertaken to safeguard investments in the relationship (Heide and John 1988)?

### *Internal company factors*

Usually, the company has decided on a certain sourcing strategy. This strategy delimits a certain number of possible suppliers and outlines general supplier-business procedure. The sourcing strategy may allow or encourage parallel supplier use for a certain product and may stipulate that the supplier relationship should not be very close. Or the sourcing strategy may stipulate that supplier relationships should be close and sole-suppliers should be used (Gadde and Håkansson 2001). In addition to this, individual supplier management usually takes place within the boundaries of a portfolio model (Bensaou 1999; Gelderman and Semeejn 2006; Gelderman and van Weele 2005). Theories of portfolio planning contain a thorough discussion on possible goods and services classifications. Based on the criteria *power* and *ability to deliver the goods*, etc., Kraljic (1983), for example, uses the terms *strategic*, *bottleneck*, *leverage* and *non-critical*. Thus the applied portfolio model will contain a certain supplier prioritisation based on a number of central variables. Finally, the company's buying policy will contain terms of delivery, payment, etc. However, in reality, deviations from the general buying policy almost always exist because of special agreements with individual suppliers. Thus supplier performance is evaluated according to these agreements and it will influence the buyer's overall evaluation.

Turning to formalised supplier evaluation, it is seen that it often consists of two parts; continuous performance evaluation and more general supplier relationship evaluation (Freytag et al. 2000). Factors measured for individual deliveries can be divided into four groups as mentioned by Monczka (2005, p. 269); delivery

**TABLE 2** Short and long term supplier evaluation factors

Continuous performance evaluation (Individual deliveries)	Supplier evaluation (Cooperation between parties)
- deadline observance	- attitude to the cooperation
- ability and willingness to correct errors	- change readiness
- product quality	- production technology
- price development	- innovativeness
- ability to control quality	- strategy
- supplier's financial development	- environmental policy



performance, quality performance, cost reductions and qualitative factors.

Naturally, these factors importance may vary. Another aspect of certification systems is that some systems require cooperation with suppliers and supplier performance control to take place in a predefined way.

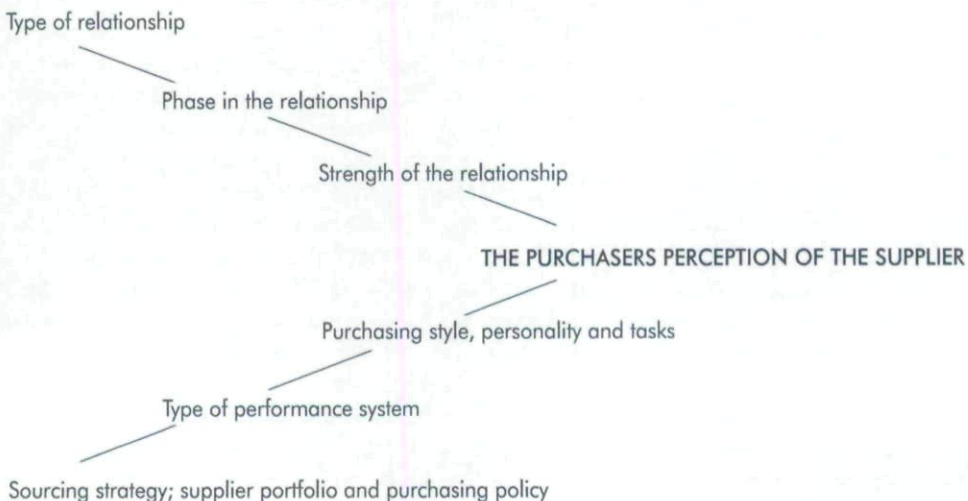
In companies, purchasing is usually based on collective rather than individual decisions. The buying centre is the group of people, who initiate, estimates, decides and evaluates the items bought (Webster and Wind 1972; Lichtenthal 1988). This implies that other players' attitudes and actions will influence the individual buyer in the buying process.

### *Buyer's personality and behaviour*

The buyer's personality also plays a role. Research in this field is scarce, but Wilson (1971) has demonstrated that buyers can be divided into three types; normative, conservative and switchers. The normative buyer has a low need for certainty. The conservative buyer usually has extensive need for certainty, and tends to stick to well-known solutions. Finally, as the term indicates, the switcher tends to switch between the two behaviours. The portfolio model suggested by Kraljic (1983) also indicates that buyers should adjust their behaviour according to the type of supplier relationship the company aims at. Further, it is pointed out that one single buyer is hardly able to embrace all supplier relationship types; thus it is necessary to employ different buyer types (Bremer and Vammen 2006).

A vast research amount has been carried out regarding the importance of personality when negotiating. Negotiation styles are usually divided into cooperative and non-cooperative strategies, and persistent and non-persistent styles (Raiffa 1982). To some extent, it can be assumed that goals and management instruments applied by the company, i.e. the company's sourcing strategy, portfolio model, buying policy and employee incentives, will influence the negotiation style. On the other hand, a person's attitude to competition and cooperation also reflects some basic human characteristics, which can be difficult to suppress sometimes. In the following we look at how the factors mentioned in Figure 3 can be studied.

**FIGURE 3** Framework for understanding buyer perception of supplier performance





## STUDY AIM

The purpose of this study is to highlight factors that are important when supplier performance measurement is undertaken. Thus the following propositions will be investigated:

**Proposition 1** *What is seen as good supplier performance depends on the particular supplier use. E.g. what is the supplier's role – standard supplier or developer? In other words good performance depends on contextual conditions.*

**Proposition 2** *What is seen as good supplier performance depends on the firm's purchasing procedures, goals and strategies. Performance measurements are related to the firm's aims. The formal evaluation system reflects the firm's performance measurement.*

**Proposition 3** *The individual buyer's supplier-relationship perception and the firm's purchasing procedures, goals and strategies will influence, the interpretation of supplier performance measurements. For example, buyers may, in some situations, choose to ignore negative formal supplier performance results and focus more on what we could call an internally based informal supplier evaluation system. e.g. if a supplier is perceived as outstanding by the buyer, but only produces average or below average results as measured by the formal evaluation system, the buyer may choose to disregard the results.*

To highlight possible differences in a buyer's actual evaluation compared to the possible indication of a formal evaluation system, two case studies were undertaken using the methodology described below.

## METHODOLOGY – CASE STUDIES AS RESEARCH STRATEGY

The case study was selected as research strategy for this study. Selection was made after thorough considerations regarding the paradigmatic perspective, the nature of the paper's purpose and finally the propositions and research questions. Application of a case study is, however, based on several contingencies. First, it is appropriate to apply case studies, when investigation focus is on specific actions that evolve from a context (Eisenhardt 1989, p. 534; Merriam 1988, p. 11), which is the case in this study (e.g. identification and understanding of factors leading to high buyer ratings). In this way, the case-study approach makes it possible to undertake an in-depth investigation and produce a holistic understanding of the investigated phenomenon. Second, case studies are especially appropriate, when the researcher searches for meaning, which is believed to be context dependent (Bonoma 1985, p. 204; Stake 1978; Yin 1994, pp. 11-14). It is difficult to imagine that the B2B context does not in some way affect the analysis unit (buying centre) and the suppliers' actions and interpretations, which are additional reasons for choosing case studies for this study. Further Halinen and Törnroos (2005, p. 1286) argue that the case-study approach is especially appropriate, when studying business networks.

In this study the study unit was two buyers (i.e. buying managers). These two buying managers were interviewed. Further, 6 interviews were done in the two case companies with two CEO's and three technical managers and one operational manager. We crafted a multi case design consisting of multi units of analysis (i.e. the

eight purchasing participants) that was embedded in two independent firms. This is according to Grünbaum (2007) a summation 2 case study design because multi units of analysis are studied in each case. Furthermore the design draws on a replication logic (Yin 2003) which makes it possible to produce more robust, authentic and transferable findings. The two case companies were deliberately selected because they both operated in the electronic industry. This was done in order to avoid the possibility that particular business norms and customs might affect the interpretations. Moreover this industry is characterised by extensive certification system use, i.e. systems, which increase formalisation and degree of continuous supplier evaluation procedures.

Another selection criterion was size. One of our assumptions was that company size could play a role in relation to motivation (or need) for entering into close supplier relationships and in relation to the formalisation degree of the supplier-evaluation system. Hence the two case companies are quite different regarding size, facilitating contrasting data analysis. Finally, the case companies were partly chosen for the very open access to the organisation itself, and partly because of the extensive amount of obtainable information, i.e. where learning was maximised (Stake 2000, p. 446).

The validity and reliability of case studies have been questioned. It is, however, possible to ensure both methodological rigour and objectivity, if a number of techniques are carefully applied. Accordingly, we used the following procedure; empirical data was collected with point of departure in a semi-structured question guide that was theoretically motivated. 8 interviews were conducted, which lasted approximately 2 hours each. The interviews were digitally recorded and subsequently completely transcribed. The transcribed interviews, interview notes and several secondary data sources (i.e. strategy notes, internal and external accounting material, specification lists, supplier-buyer contractual documents and newspaper articles) were analysed to enable data triangulation (Denzin 1989; Patton 2001). The inferences were further discussed with other researchers enabling researcher triangulation (Denzin 1989).

**TABLE 3** Actions to ensure validity and reliability

Technique	Other notations	Actions
Objectivity	Confirmability	Interview recording Tape transcription Note taking Chain of evidence Member checks
Reliability	Dependability, Auditability	Case-study database Case-study protocol
Internal Validity	Credibility, Authenticity	Pattern matching Rival propositions Triangulation Close relationship between a priori theory, analysis unit and interpretations
External Validity	Transferability, Fittingness	Thick description Multi-case design Separate cross-case analysis



Primary data were analysed by searching for matching patterns (Yin 2003; Miles and Huberman 1994) in the transcribed material. The patterns were subsequently compared to the initial propositions. Basically, we worked back and forth with the empirical data (i.e. both primary and secondary) categorising and reducing the material to identify and qualify the inferences. Secondary data were used to support the inferences, thus trying to secure a chain of evidence (Yin 2003). In addition the case description was sent to the interviewees for approval, facilitating phenomenological validity. Finally, a thorough cross case analysis was performed by using the same question protocol in all the interviews. The protocol was amended throughout the data collection process to create a match between theory, propositions and inferences. In cases of such adjustments previous interviewees were contacted again by telephone to check for coherence. Specific actions taken to ensure the findings' truth value are summarised in table 3.

## CASE PRESENTATIONS

### *Case company 1: Scientific - Atlanta*

Scientific-Atlanta<sup>1</sup> (case company 1 – CC1) was founded in 1951 and now employs approximately 6,500 persons in 70 countries. CC1 operates in the broadband business segment and their customers are cable operators, programmers, broadcasters, phone and utility companies, governments and corporations worldwide. CC1 is a leading global manufacturer and supplier of products, systems and services that help operators connect consumers with a world of integrated, interactive video, data and voice services.

### **The buying function**

In CC1, the buying function is geographically split, mainly due to the company's extensive size. Matters concerning strategic and global buying are placed in the central office in Atlanta under strategic procurement (SP) and worldwide procurement operations (WPO), respectively. The strategic procurement division is divided into three sub-areas; a) inductors and magnetics, b) power/mechanical and c) semiconductors, digital turners, etc. Likewise, WPO is divided, and one of these subdivisions is placed in Denmark, where we had the opportunity to interview the key informant. The Danish subdivision cannot select its business partners all by itself; it can, however, influence selection indirectly.

Top management has decided that the company has to cut back annual buys by 100 million dollars, from total expenditure of approximately 1 billion dollars. This decision is the primary goal in the company, and thus it has tremendous impact on the buying function. Basically, all tasks are directed towards this decision of lower expenditure, and thus it influences the buying function's culture. This fact is important for the suppliers to realise, because it implies that a supplier can only remain one (or become one) if it can facilitate implementation of this very important rationalisation, i.e. lower spending.

In all CC1 departments, a pronounced 'management by objectives' style is prevalent. This implies that things are very formalised and a number of key figures

1 We would like to thank Scientific-Atlanta for the information on which this section is primarily based.



are produced, which are used to control development. These figures also enable management to act quickly, if they deviate from the previously decided rationalisation course.

#### *Case company 2: PAJ Systemtechnik*

PAJ Systemtechnik (case company 2 – CC2) is a SME employing approximately 20 persons. Since the founding of the company, annual turnover has been in the range of DKK 7-15 millions. The company was founded in 1997 and is still fully owned by the founder. It mainly operates in the electronics industry, as consultant and manufacturer in connection with software development and apparatus building. CC2 manufactures different electronics equipment, such as measurement and control equipment and process control equipment. The core competence is perceived by the owner to be the ability to develop customised mechatronics, i.e. a product that combines mechanics with electronics, for example heart-lung machines, or mechanisms that control speed and automatic stop in case of driver illness (dead-man button) on trains.

#### *Supplier characteristics and management*

CC2 has an annual purchasing budget of approximately DKK 6-7 millions. The largest single post is circuit boards making up 30% of the purchasing budget followed by TLT monitors (10%) and the remaining 60% are standard products, such as power supplies, foils, screws and sheet iron. They have divided suppliers into two categories; those that deliver critical components/products and those that deliver non-critical components. Today they have three critical suppliers delivering circuit boards. Their share of total delivery of circuit boards is 10%, 30% and 60%, respectively. The purchasing manager uses a simple, but detailed, control system by which he is able to control single deliveries and all kinds of delivery failures that a certain supplier has made. This system is based on extensive control, when deliveries arrive. When it comes to critical components, deliveries are always controlled 100% regardless of the length of the relationship with the supplier in question. The choice of three critical suppliers is deliberate. First, because the company does not want to be dependent on one single supplier, and hence increase dependence on this supplier. Second, because the company wishes to introduce a certain competition level among its suppliers. And third, because it enables CC2 to meet unexpected needs for circuit boards due to increasing activities (multi sourcing). The critical suppliers are all characterised by having a size similar to CC2's. According to the purchasing manager, this is an important criterion for securing a certain power balance.

## **PRESENTATION OF FINDINGS - CASE RESULTS**

Interpretation of the empirical data from CC1 and CC2 will be organised around six central questions. The six questions are derived from the initial propositions above. In this way the hope is to facilitate a logical structure between data and propositions, and hence link the empirical data with the propositions.

### *a. What is the perception of the suppliers' task performance?*

In both CC1 and CC2 the perception of suppliers' task performance is that suppliers perform excellently. Due to constant headquarter pressure CC1 decided to search



for new suppliers in the Far East. They found one in China. Independently of each other, key informants said; *"it is half the price in China"*. We asked; *"and half the quality?"*. Informant;

*It is better, it is much better actually and yes the quality is better, the finish is better, what can I say, delivery performance is better, capacity is much better, if I have a need of for example 5000 of these boxes (i.e. the interview is based on a real product that is produced by a specific supplier in China) in 14 days then I call my China friend and say that I need 5000 of them in 14 days then he say okay it sounds good and if I then call to my Danish contact and also say that I need 5000 of them there in 14 days then he hangs up or else he would laugh outright because he hasn't the capacity because Danish companies they do not have anybody to walk around and twiddle their thumbs so they.. (i.e. China).. have an extra capacity where they can gear up or down which is important for me if we have a customer that is placing an order.*

From this quotation it is pretty obvious that the customer is more than satisfied with his Chinese supplier whom he has been working with for approximately two years. On the same basis, if suppliers are not performing well, they will be exchanged very quickly. This procedure is mainly due to the supplier company's size and hence extensive resource capacity. In CC2 the perception of suppliers' task performance is also very positive. This is mainly due to the fact that suppliers have the correct and required certification. Here, it is only possible to enter into delivery contracts if a certain level of certification can be documented, because certifications become a safety valve for all future component errors that may occur. When buying from a certified supplier, the company has done everything necessary to obtain the right quality. Errors or product failures in this line of business (cf. case presentation) can have fatal human consequences to CC2. Thus the company must be able to identify errors and define whose responsibility they are, partly because of possible legal proceedings and partly because the company wants to avoid the same situations in the future. As one informant puts it; *"...we do not yet have a supplier that delivers without a access control...it is also because the consequence is very big if a fail is present and it first is caught in the end of the production then it is expensive..."*

Thus the case study showed that both CC1 and CC2 were very positive towards their suppliers though for very different reasons.

#### ***b. What role does the supplier play?***

In both CC1 and CC2 a certain level of complexity characterises product buys. This means that some coordination is necessary, and hence the supplier relationship can be characterised as "extended supplier cooperation" (cf. Figure 2). For CC2 the relationship is moving towards a "partner relation". In CC1 the continuous search for new and better suppliers that can reduce buying costs, means that the researched supplier-buyer relationship is short, i.e. less than one year. In addition, there is a large cultural and geographical distance between the supplier and CC1 (i.e. the supplier is located in China), but the parties know each other personally, and to some extent there is also a personal friendship between the parties. CC1's supplier has experienced significant positive development due to the relationship with CC1, and the supplier has some importance to CC1. Hence the relationship between CC1 and the supplier can be characterised as very important to the supplier, but less important to CC1, because CC1's value creating competencies are positioned internally in the company. The relationship seems strong in spite of the power imbalance, but CC1's very good



competencies plus the company's unwillingness to be dependent on a single supplier draws in the opposite direction.

*c. What is the investigated supplier-buyer relationship's strength?*

The obvious power imbalance between CC1 and its supplier speaks against a close supplier relationship (Palmer 1996; Gummesson 1994). The CC1 key informant thought that the supplier relationship, researched in this case study, was both close and very efficient. However, the informant's description of the relationship revealed a rather transaction oriented approach to the relationship. Thus, CC1 selects a certain geographical area for its search for potential suppliers. After a thorough screening process, in this particular case spanning over 1 year, CC1 selects a supplier and the Danish division takes over in order to establish effective cooperation with the selected supplier. Much energy and many resources are invested in giving the new supplier instructions, creating effective and efficient ways of communicating and getting to know each other. The perception of the supplier-buyer relationship is expressed very accurately in the following statement from the informant:

*We're the ones in charge out there... Yes, I would almost say that our word is law...*

Opposite to CC1, the buyer-supplier relationship in CC2 is characterised by more equality. CC2 deliberately selects suppliers, where the power balance between parties is almost equal, because in general this will result in a more efficient supplier-buyer relationship. The informant in CC2 expresses it like this:

*...I would never select a critical supplier which was very large, for example BB Electronic; they have customers paying a couple of millions... They would give me lower priority - but they would never admit that.*

This also implies that CC2's critical supplier-customer relationships are stronger than CC1's because CC2 and their suppliers are much more dependent on each other, and thus there is need for much closer cooperation. This tendency is intensified by low cultural and geographical distance. The perception of cultural distance, however, has been extensive in CC2 as one informant puts it: .. *"in the beginning it was a disaster right, first is the Chinese culture quite different from ours, that is, if you ask about something they say sure, yes, yes regardless if they mean yes or no and that is a little bit difficult"*.

In both CC1 and CC2 it was interesting to notice that power aspects were not major issues or concerns, i.e. simply because the relationship in the outstanding example was embedded in a harmonious atmosphere. Note nevertheless, from the preceding discussion, that consensus (i.e. between the supplier and the buyer) perception of the harmonious atmosphere stems from the exceedingly different positions. In the CC2 situation the buyer aims at finding a supplier with a high similarity degree (i.e. for example regarding size, values, etc.), whereas the buyer in the CC1 situation simply creates and models suppliers according to the exact needs the buyer has. When this is successfully accomplished both parties clearly understand and accept the established power structures, thus facilitating the harmonious atmosphere, which is a prerequisite for sustaining the outstanding supplier-buyer relationship. Furthermore, conflict situations simply do not escalate due to the clear "chain of command" understanding. The described modelling process in CC2 is well expressed in the following quotation:



*If they are not ISO certified then we go in and do it our way, that is, we have a quality people, in a group, that only travels around and secure and work with our supplier continuously and makes sure that they are brought up to a standard where we can live with them so that we in this group do not have to bother with them*

***d. How does sourcing strategy, portfolio approach and buying policy affect the re-searched supplier-buyer relationship?***

Both case companies have made some strategic decisions regarding sourcing, and these decisions definitely affect the investigated supplier-buyer relationships, simply because strategic decisions prevail over personal preferences. This became very evident during the interviews with the key informants. To a certain extent it almost seemed as if these decisions were a main reason behind the formation of personal preferences. On a more concrete level, it became clear that neither CC1 nor CC2 used any kind of portfolio models. Both case companies had a carefully formulated sourcing strategy, which influenced the supplier-buyer relationship. CC1 decided to outsource production to reduce costs, which again could lead to fulfilment of the company's profit goals and expected profit development. On the other hand, any kind of development and control should take place inside the company. Thus the company mainly enters into relationships where the power balance is in the company's favour; an asymmetrical situation that can be used to form and control the relationship and its development. This is also evident in CC2's buying policies. In CC2's view everything can be outsourced, this has albeit forced the company to develop very sophisticated cooperation competencies. However, the company always makes sure that it controls the relationship as much as possible. Being a very cooperatively minded company, CC2 is more proactive when searching for new partners that can contribute to development and realisation of new business ideas. The company searches for partners, not only in the immediate 'neighbourhood' or the same line of trade, but searches other lines of trade, for example scientific and social science university faculties. One could almost say that the decisive core competence is the ability to enter into relationships with anyone, who can bring a process one step further. By contrast with its business partners, CC2 has the overview of and the experience with the entire process, which the partners work on at a certain time, not only parts of it.

***e. How does the buying company conduct supplier performance measurement and overall assessment?***

CC1 and CC2 apply detailed and formalised evaluation systems. On a concrete level, this is expressed through a number of key figures, where the companies carefully study performance level and development. However, CC1 uses this key figure system much more systematically and often than CC2, and if deviations become too extensive, the company responds quickly. In addition, the evaluation system is much more complex and the guidelines for taking action are much more explicit in CC1 than CC2. In CC2 there is a more extensive tendency to use 'common sense' and self-developed techniques to identify potential problems in a supplying company. Examples of these techniques, could be annual analysis of the supplier's accounts or special focus on the supplier's staff, for example to see if important employees are trying to get a job elsewhere. All these issues can easily be spotted due to low cultural and geographical distance and well-known and delimited business network. As one informant from CC2 puts it:



*...we evaluate pretty much on the economical side.... We go in on KOB (i.e. Danish database on economical key figures).. and follow the annual accounts ... I do this one time a year if it is a critical supplier but also we follow our suppliers and hear what is going on...*

A common feature for CC1 and CC2 is that some buyers use quite a lot of time discussing incidents that happened between buyer and supplier. In this way, a uniform understanding of a certain supplier's performance is established among peers in the buying company.

Based on the discussion mentioned above it can be realised that a number of factors are regarded as important, when buyers in CC1 and CC2 formed overall evaluations of the supplier-buyer relationship.

In CC1 these were:

*Price, quality, assisting in cost reduction, communication, delivery time, trustworthiness, development potential, asymmetric power and partner importance.*

In CC2 these factors were:

*Innovativeness, support of further idea development, cooperativeness, organisation size, asymmetric power and partner importance, price, quality, information in due time if anything unexpected occurs, on time delivery, trustworthiness.*

#### *f. How can buyer negotiation style be described?*

In CC1 and CC2 the buyers' personalities are quite alike. Both are detail oriented, mainly introvert, very control oriented and their negotiation styles could be characterised as mainly non-cooperative. Another common feature is that the company's buying policy and sourcing strategy prevails over the buyers' own personal preferences. This means that buyers suppress characteristics from their personality if they perceive them as going against organisational practice, or if they might lead to an outcome that is against company wishes. In addition, it turns out that the buyer personality is much in line with the organisation's purchasing practices, and this is probably the primary reason, why the purchasing managers, from both CC1 and CC2, experience personal progress and success in their jobs. There are, however, many different reasons for this very evident harmony between buyer personality and the organisation's purchasing practices. In CC1, buying policies are very clearly defined and fixed, and here the company deliberately employs a matching personality type. In CC2, the case is rather that the buyer's personality forms the buying policies and customs. This is possible because of the organisation's size, age and competency levels. What really matters to CC2 is that supplier-buyer relationships work satisfactorily; which is enough. The company does not focus on rationalisations, cost reductions or continuous and frequent controls to the same extent as CC1.

CC1 and CC2 both build their supplier expectations on previous experience with the supplier in question and the cooperation with previous suppliers. On a concrete level, these expectations are used as an internal standard against which supplier performance is measured. In order to be regarded as an outstanding supplier, it is not enough just to live up to these expectations; the supplier has to perform beyond the buyer's expectations. However, often this is only possible in very special situations, and noticing when such a situation arises is up to the supplier. A special situation can be described as an unexpected situation for the buyer, where the buyer is dependent on the supplier being willing to make an extra effort to help the buyer. Typically,



the buyer needs something which is not included in the agreement. This special need is almost always caused by the fact that the buyer's customer has experienced something unexpected, for example a sudden extra demand for particular goods. The supplier will often experience that extra activities performed in order to help the buyer, are not profitable. However, this is only the case in the short run, because this supplier behaviour usually gives the buyer (including the buying centre) a very positive impression of the supplier and hence a feeling of loyalty. This mechanism is just like the one used in situations where one helps a friend or a family member in need based on feelings, i.e. the affective or emotive system.

## CONCLUSIONS AND IMPLICATIONS

Suppliers have more to offer than delivering products on request. Thus having good suppliers is important to the buying firms' success. Being aware of who is a good supplier and who is not is crucial in this respect. Formalised evaluation systems have become the cornerstone in assessing supplier performance. The aim of this study is to find out how evaluation systems are used and what role the human factor (the buyer) plays.

The first proposition was about the importance of the supplier's role in relation to the evaluation made by the buyer. As it appeared, the supplier's role is reasonably clearly reflected in the applied evaluation criteria. For the supplier, who attends to more simple tasks, the measurement will typically be a set of comparatively few parameters. On the other hand the supplier, who takes on a more complex job, will also be measured by a series of other parameters. In other words, the first proposition reflects that criteria in use overall depend on the supplier's role.

The second proposition elaborates more on the exact criteria in use for suppliers' performance measurements. It is found that formal evaluation systems are in use in both firms. The reported evaluation system usage indicated that high emphasis was put on evaluation system use. It is perceived as important to perform well, even though variations are accepted. In general it is perceived as important to the average and the outstanding supplier to live up to the criteria, but on average the outstanding supplier performs better and gives more value for money by being more responsive. The responsiveness is related to more short and long term buyer demand.

The third proposition relates to buyers' evaluation system use. It is stated in the proposition that the buyer may neglect performance measurements, more or less, if they do not match the buyer's perception. It is not found that the buyer generally neglects evaluation system results if they do not match the buyers own supplier evaluation. At the same time the buyer's own supplier evaluation still plays a role.

When a buyer in CC1 and CC2 deals with a supplier, the supplier has to meet the formal criteria. If this is not the case, the supplier has to improve its results. When the supplier meets the criteria it can be the fertile ground for further development of the relationship. Both companies' results indicate that personal factors have implications to a relationship, including when a supplier is evaluated as outstanding. Attitude and trust factors influence how interested the buyer is in getting more involved with the supplier. A supplier may formally be seen as partner, but the buyer may have reservations in entering into an elaborated partnership if the supplier is not perceived as responsive or trustworthy.



### Management implications

For suppliers, who have status as outstanding, the study indicates that it is important to understand how personal relationships work and what can be done to make them prosper. Living up to the performance criteria in an evaluation system is a necessary but not sufficient condition for being perceived as an attractive supplier.

For a new supplier the personal dimension may be a good starting point for getting attention and interest when establishing a relationship. Buyers do not only look for suppliers, who can solve their problem, but also suppliers they can rely on and perceive as responsive to their needs.

### Theoretical implication

As a part of the TQM wave of the 90s, evaluation systems have spread into business. Only a limited number of studies have reported on the effects of the evaluation systems. There is a need for a more thorough understanding of, how firms actually deal with these systems. Especially, how is the understanding of buying behaviour affected? This study only reports some preliminary results on how buying may be affected, and there is a need for much more insight into the effects formal evaluation systems may have on firms' buying behaviour and how buying behaviour models should be constructed!

Another weak point in the theory is on decision-making styles in buying. The individual buyer has to comply with the formal evaluation, but the personal factor is still important. An on-going research project by the Danish buyer association is interesting to follow, but more is needed. Portfolio models have become popular when differentiating among suppliers, but at the same time this raises a need for more knowledge on buyer selection and training depending on tasks. There is need for a better understanding of how supplier types, buyer tasks and competences and buyer personalities may link together.

### Methodology

This study includes two case studies, which are primarily based on personal interviews. Self reporting holds several well-known limitations, e.g. respondents are not fully aware of their own behaviour and motives. Thus asking about one's own role and performance in relation to supplier evaluation has obvious limitations. First of all, buyers may not be aware of their own behaviour and role in a given situation. Second, buyers may not be willing to admit their own (political) role and influence. Thus the next step to obtain a deeper understanding of what is actually happening could be to make observational studies.

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