



Examining buyer supplier relationship existing in telecom companies

Rashi Taggar and Sunil Giri

College of Management, Shri Mata Vaishno Devi University, Katra, Jammu and Kashmir.

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ABSTRACT

Purpose- The primary aim of this research paper is to explore buyer-supplier relationships within telecom sector.

Approach- To address the primary aim, both qualitative and quantitative approaches was utilized. A list of antecedents was prepared as discussed with telecom purchasing professionals who complemented with the schedule of enquiry for recording the impact of emphasis on these antecedents on the relationship between the buyer and suppliers of different categories from buyers' perspective.

Findings- The results of this research indicate that there are significant differences in the way relationship is maintained by the buyer with different suppliers thus making the buyer supplier management not a general but a specific and situational issue.

Practical Implications- This research is of practical use to many organizations attempting to develop relationship orientation with their suppliers according to the importance in terms of profitability and options available of supply.

Value- Not much has been written about the buyer supplier relationship in the Indian context and as such this paper provides an insight into various factors relating to management of relationship by the telecom buyers with different suppliers.

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Introduction

India has emerged as one of the youngest and fastest growing economies in the world today. One of the sectors that has shown the signs of profitability and contributed significantly to the country's economy is the telecom industry. India has the third largest (based on the total number of fixed/mobile subscriber lines) telecom network in the world and the second largest mobile network. In the telecommunications equipment sector, outsourcing of production to large contract manufacturers has been a major trend in recent years. A key feature of the telecom industry is the uncertain demand. The uncertainty on the telecom market, and the short product life cycles, make it very difficult to produce reliable forecasts of required supply chain capacity.

There are many reasons for the uncertainty in the underlying demand: new operators emerge, and the introduction of the new 3G telecom systems is subject to governmental regulations regarding timing and coverage, causing a very fast ramp-up of volumes.

Large orders must be delivered simultaneously to remote areas in different countries. New consumers are continuously added, both geographically (new countries) and in markets (e.g. transmission of data), in consumer segments (e.g. teenagers, children and senior citizens) and in technology (shift from second generation, e.g. GSM or TDMA, to third generation technology, such as WCDMA) (Agrell et. al 2004)

The ability to provide high levels of customer satisfaction has been considered an essential ingredient of business success. In many industries the increasing demands of customers has led to a need for lower prices and improvements in quality and service.

Such pressures have forced many firms to review their approach to operations management and, in order to remain competitive; they have examined the potential contribution

suppliers can make (Quayle, 2000). Fig. 1 is a representation of supply structure of a telecom organization depicting the nodes, in form of tiers of suppliers, operators, retailers and customers and flows.

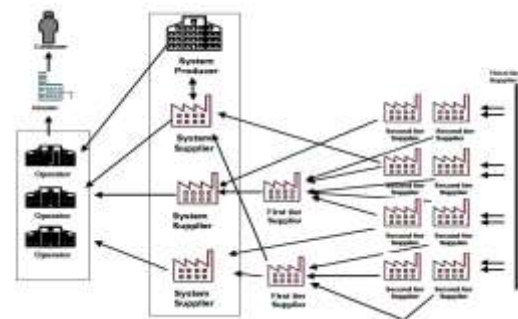


Fig. 1 A general view of Telecom Supply Network

The general assessment says that the telecom operator has to maintain good relationship with all its suppliers as most of the products and services are procured from them only. But investing in a relationship requires many resources like money, time, skill etc. which is not feasible in all situations or with all suppliers. Thus creating a need to distinguish the type of relationship according to the procurement and situation.

Kraljic (1983) has suggested that the purchasing strategy is differentiated after evaluating the complexity of the supply market and the importance of the purchased product. The separate model for each supplier to capture suitable strategies for the procurement of different products and services has to be created.

A proper purchasing method is selected depending on the complexity of both products/services to be procured and the availability of suppliers or providers of these in the supply network chain. In the telecom industry innovation increasingly means introduction of new services for consumers. This requires

a much closer cooperation between the systems producer and the operators.

Objective of the Study

The objective of the survey is to find out the various antecedents or the factors which lead to the development of a type of relationship between the buyer and the supplier and the impact of these antecedents on the relationship with supplier of different categories of products/services.

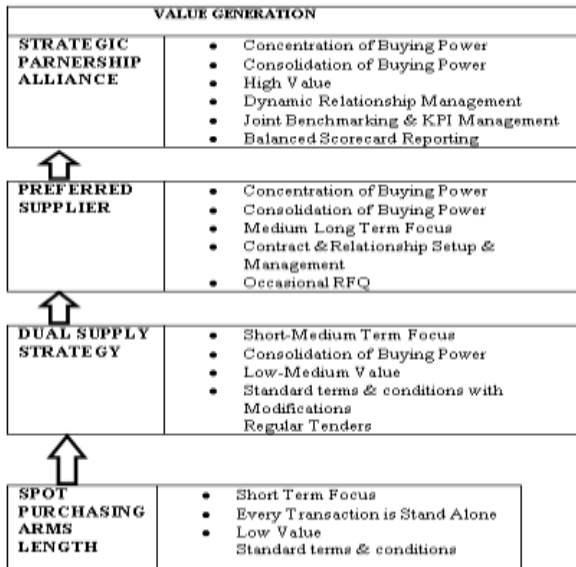


Fig. 2 Supplier Relationship Evolution (Rogers 2006)

Literature Review

Historically, supply chain relationships have been used either on power or on trust. There seems to be differences in approach across cultures. In power based relationships, the stronger party usually exploits the weaker one. In the short run, the stronger party is able to benefit at the expense of weaker one but since this is not sustainable, in the long run either the relationship breaks down or the overall chain performance starts deteriorating. Fig. 2 is showing the change in trend from transaction orientation to relationship orientation with much emphasis on value generation for the whole supply chain. Relationship commitment is a common measure used in examining dyadic supply chain relationship. Performance improvements sought by buying firms are often only possible when they commit to a long term relationship with their key suppliers (Krause, 1999). Various empirical studies have shown the assessment and importance of Buyer Supplier Relationship (Ring & Van, 1994; Gadde & Snehota, 2000; Perez & Sanchez, 2000; Handfield & Bechtel, 2002; Ginnakis, 2007). The relationship cannot be formed with all the suppliers. The willingness to enter in relationship develops the urge in buyer and supplier to work in collaboration. Willingness of supplier to be in relationship determines the strength of relationship (Kannan and Tan 2003). When both the parties see the tangible form of commitment through investment and support in each other's venture then it becomes easy to establish an alliance. Trust in each other reduces the need of formal contracts because the sense of initiative and responsibility is willingly taken which is not seen in case of formal contracts as the parties may not agree to do 'extra'. The trend is seen that informal contracts supersede formal legal contracts, so it can be conceived that legal contracts can be an impediment to trust as for 'safety' they have to undergo the path to development of trust among them by not going beyond the contract (Handfield and Bechtel 2002).

The introduction of competition on the telecommunications market is one of the most dramatic and rapid economic changes that have taken place. In order to take full advantage of this new market situation the management of many authorities considered buying services instead for buying equipment and managing own staff. While buying these services, procurement strategies are planned so as to consider the various options on the basis of importance and future viability.

The portfolio matrix (Kraljic, 1983) is a useful tool to classify purchased goods and the suppliers involved. Taking the complexity of the supplier market and the financial relevance or impact into account, goods and suppliers can be classified as leverage, routine, strategic and bottleneck items. The strength of the instrument is that it enables the purchaser to differentiate between the various supplier relations and strategies that are appropriate for each category. These are

1. Leverage items: hard bargaining, induce services
2. Non-critical items: reduce handling/overhead costs; try to cluster into leverage contracts
3. Strategic items: go for partnerships
4. Bottleneck items: ensure supply



Fig. 3 Product Portfolio Matrix (Kraljic 1983)

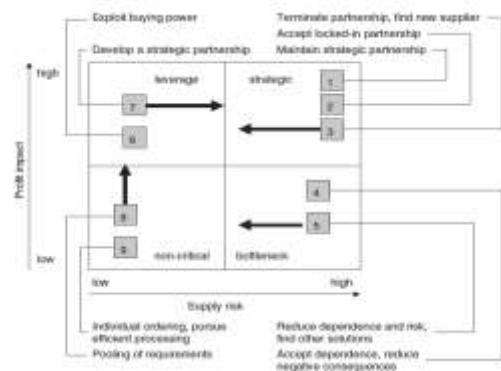


Fig. 4 Overview of purchasing strategies for all portfolio quadrants (Gelderman and Weele 2003)

Method

While reviewing the literature available it was found that there is a change in trend from arm's length transaction orientation to trust based relationship orientation in managing the associations with the supplier. To study these different relationship types the purchasing professionals of select five telecom companies in Jammu region were contacted. The research question for this study was: What do buyers perceive as the main antecedents of buyer supplier relationships? They were interviewed to collect the list antecedents which is to be considered for the relationship with the supplier and as described in Kraljic matrix, the impact of these antecedents on relationship, with four categories of product/service suppliers, were recorded on five point scale (+2 to -2). Three to five visits were organized to

conduct interview with one purchasing professional. One interview generally ranged from 40 minutes to 2 hours.

Data Analysis

The following antecedents were identified in the process of interviews conducted with the telecom buyers:

Trust: As the telecom buyers expect the latest technology to be used and provided by the supplier thus trust included the reliability of the buyer on supplier to be updated with flawless technology. As Mohr and Spekman (1994) point out, trust, commitment, communication quality, information sharing, joint planning and joint problem resolution, all serve to better align supplier's expectations, goals and objectives.

1. Long term orientation: For supplier selection still the tender based system is being used so the suppliers seek long term association with the buyer to have the beneficial linkage. Ganesan (1994) has analysed that Firms with short term orientation rely on the efficiencies of market exchanges to maximize their profits in exchanges and firms with long term orientation rely on relational exchanges to maximize their profits over a series of transactions.

2. Length of Contract: The investment involved in telecom core equipment is quite high so longer contract period is required in these cases. In a study by Mudambi and Helper in 1998, the supplier's perceived probability of a switch falls as the duration of its written contract and the time required bringing in a replacement supplier rise.

3. Formal agreement: Formal relationships are based on well-detailed, written and often legally binding contracts. To avoid any legal hassles there has to be formal governance through the agreements to be signed by both the parties. The risks and benefits are usually shared through joint ownership, with formal agreement in areas such as obligation contracting, profit sharing, and the provision of incentive systems for the collaboration parties (Harland et al., 2003). Less formal types of collaboration probably involve less clear risk, uncertainty and benefit sharing.

4. Development of Supplier: Supplier development is any activity initiated by a buying organization to improve the performance of its suppliers (Krause et al., 1998). Supplier development is an important strategy for examination because it encapsulates two of the most evident features of social capital: shared knowledge and shared asset investments. In some cases the Indian/local suppliers have been developed technically and financially so as to reduce the supply risk of the products or services to be procured by the focal organization.

5. Information sharing: There has to be transparency in the policies and plans of both the parties so as to maintain the reliable relationship. Cannon in his study in 1994 has explored that informal monitoring involves a routinized procedure executed by both parties and facilitated by open information sharing.

6. Coordination: It is not only the equipment which has to be bought but also the installation and maintenance has to be done so the coordination from the supplier side is sought. One of the rules of thumb (Handfield & Nichols 2002) to develop a trusting relationship with Supply Chain partners is to show genuine responsiveness to partners needs and showing willingness to go the 'extra mile' if necessary.

7. Regular Interaction: Repeated interactions between individuals lead to the emergence of explicit rules (communication procedures, rules of information sharing) and implicit rules (honesty, openness, equity, reciprocity) that consolidate cooperation (Larson, 1992). The use of IT has made it feasible for regular interactions between the partners as for

coordination and information sharing is required. Repeated interaction between exchange parties gives parties a chance to develop relational norms (Gundlach and Achrol, 1993) and to evaluate each other's performance.

8. Sub-optimization: Logistics optimization is based on the notion that sub-optimization at one point in the logistics organization is permitted as long as that contributes to overall optimization (Hoek 1998). To some extent the buyer is ready to be flexible with this aspect as ultimately the relationship is for seeking benefit out of it but not to the extent which can impact the services of the focal organization.

9. Personal Favor: Regular face to face interactions sometimes involve some personal favor but only to the limit where it should not enhance some maverick buying or spending. Emmett and Crocker (2006) have also identified it as an important factor in establishing and maintaining collaborative relationships.

10. Benefit: Ultimately, the relationship with the supplier should be able to upgrade the services for the end customers. When a buyer is dependent on a supplier, the benefit the buyer receives from the relationship with the supplier must be either marginally greater than or equal to the benefit the supplier perceives as available from alternative exchange parties (Ganesan, 1994). The direct functions of a supplier relationship are: cost reduction, quality, volume and safeguard functions. The indirect relationship functions also called second/third order or secondary functions are: Market, Scout, Innovation Development and social support functions. (Walter et. al. 2003)

According to the Kraljic Matrix, four categories of products to be procured are identified depending upon the supplier options available and investment involved. The procurement strategy for these products varies with the category in which they are falling. In the survey it was asked from the buyers the products and services which have to be sourced by the focal organization, these are: Exchange equipment, Mobile core equipment, Mobile tower Infrastructure, IT hardware and software, Lawful Interceptor, Optical Fiber, cable, SIM card etc.

I. Strategic Products/Services: The Suppliers of Strategic products are trusted with technology so as to get positive benefits in long term oriented relationship with the buyer by indulging in long term contracts and formal agreements. Personal favor and sub-optimization can hamper the good terms between the parties. As the big suppliers are providing the strategic items so the buyer perceives that the development may not be required from its side.

II. Leverage Products/Services: In this case the availability of supplier options is there which has led to buyers' perception that not much of the information is required to be shared as it can lead to disclosure of certain details to competitors also which further can affect the relationship in negative way.

III. Bottleneck products/ services: The suppliers are limited in this case, so the buyers have to be cautious as there is dependency. Buyers perceive that personal favors done for the bottleneck suppliers may impact positively the relationship.

IV. Non-critical products/services: There is not much need for a strong relationship to be developed but still technology of the supplier has to be trusted. Long term orientation and contract duration can yield more financial benefits to the buyer.

Overall it has been seen, that coordination for all products and services procured, is sought by the buyers as the technology and technique used is complex. Sub-optimization is always discouraged as it may affect the relationship between the buyer and supplier in future. But the level of involvement as seen in

the impact of antecedents on relationship varies in the four categories which clarifies the picture that the same type of relationship cannot be maintained by the buyer with all suppliers.

Discussion

The telecom supply chain has undergone major shifts during the past decade, and is still turbulent. Because of demand uncertainty in both level and timing, the roles and responsibilities in the supply chain are changing, often accelerated by outsourcing, leading to initially unclear interfaces. McDonald (1999) suggests that the ability to exercise power in supplier relationships stems from control of information, control of strategically important technology, and market power. Most organizations make use of a variety of supplier relationships characterized by different degrees of involvement. According to Bensaou (1999), firms balance a portfolio of different types of relationships rather than rely on one type. Organizations need both high and low involvement relationships because of the involvement of different degrees of cost, profit, resources and benefits. It's clear that using a structured approach to procurement relationships as illustrated in this paper and predicated on co-dependency enables the buyer to expect benefits from the dyad relationship. The traditional arm's length approach is still prevalent in cases where the profit impact of the product or service to be procured is less and also many options are available to procure. Smart organizations leverage significant gain in procurement value through strong partnering relationships with a 'few' key suppliers in a co-dependent model. Procurement models based on performance based contracts are proven mechanisms for delivery of mutual benefits to both parties. Collaboration and co-dependency is achieved through strong trusting relationships (Rogers 2006). It is also observed in the discussions with buyers that all the relationships are based on both formal and informal elements. Also every dyadic relationship seeks evaluation through the analysis of both soft and hard aspects involved. To ensure an efficient supply chain the forms of relationships must be chosen with agility, adaptability and alignment in mind (Nilsson 2005). The relative importance of antecedents varies with the importance of the product/services to be procured and the type of suppliers. The appropriate form of relationship varies from arms-length interactions to formal partnerships. There is a change in market, a change in consumer needs and thus a change in procurement issues. There cannot be a general rule to develop relationship between the buyer and supplier. This study has provided insights that what are the various factors which derive the relationship and how the importance of these factors varies in different procurement strategies. Further studies can be done to study the impact of each antecedent in a more quantitative way in other sectors also.

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Table 1 Scorecard depicting the impact of antecedents on BSR (varying from +2 to -2 are the modal values)

S.No.	Antecedents	Impact on Buyer Supplier Relationship			
		I. Strategic products/services	II. Leverage products/ services	III. Bottleneck products/ services	IV. Non-critical products/ services
1	Trust	+2	+1	+1	+1
2	Long term orientation	+2	+1	+2	+1
3	Length of Contract	+2	+2	+1	+1
4	Formal agreement	+2	+2	+1	0
5	Development of Supplier	0	0	+1	0
6	Information sharing	+1	-1	+2	0
7	Coordination	+2	+2	+2	0
8	Regular Interaction	+2	+2	+1	0
9	Sub-optimization	-2	-2	-2	-2
10	Personal Favor	-1	-2	+1	0
11	Benefit	+2	+2	+2	+2