

# Perception and practice of the supplier relationship management

for Work-in Progress

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## ABSTRACT

The aim of our paper is to investigate the perception of the supplier relationships and the tools used in their management in Hungary, examining as well as the unison of the declared and followed values concerning these relationships.

The premise of our study is that firms work in networks of business relationships. The performance of the firm is therefore affected not only by its inner processes and performance, but also by the performance of its business partners (suppliers, as well as customers) and by the management of their business relationships. The relationship between a company's performance and its relations is a common belief in the business relationship literature (Ford et al. 1998, Håkansson 1982, Håkansson–Snehota 1995). Relationship management capability is considered to be one of the companies' core success factors. In our previous researches we have investigated the effect of business relationship management on the performance of the firm, and value creating role of business relationships (Wimmer–Mandják 2002, Wimmer et al. 2004).

In this study we focus on the managers' views on supplier-buyer relationships, and investigate their perception and the management tools used in their practice. The empirical research is built on the results of the competitiveness survey conducted by the Competitiveness Research Center at Corvinus University of Budapest in 2009. Four managers of three hundred Hungarian companies filled a comprehensive questionnaire about their special field: top management, marketing or sales management, operations management and finance. The survey and therefore our paper is wholly built on the managers' subjective perception. It is a somehow philosophical claim, that this perception is crucial, because the whole range of individual and group decisions are not based on knowledge about an abstract "real" world, but on how the world is seen by the decision makers.

In the empirical analyses we focus our attention on the perception of business relationships (the characteristics of the valuable supplier-buyer relationships) and the expectations towards suppliers and buyers. From practice we examine the support function of certain information and controlling elements, analysing also the different experiences of functional managers. We tried to find the connections between these perceptions of relationships and the practical support of managing these relationships. Potential future research directions and conclusions close the article.

*Keywords: supplier management, business relationship management, empirical findings about Hungary*

## INTRODUCTION

The aim of our paper is to investigate the views on the supplier relationships and the tools used in their management in Hungary at the end of the first decade of the 21st century. The further objective is to examine the concordance of the declared and followed values concerning these relationships.

Our empirical research is built on the results of the competitiveness survey conducted by the Competitiveness Research Center at Corvinus University of Budapest. In the fourth round of this survey in 2009, four managers of more than three hundred Hungarian companies filled a comprehensive questionnaire about their special field: top management, marketing or sales management, operations management and finance.

Business relationships management is considered to be one of the companies' core success factors. In our previous researches we have investigated the effect of business relationship management on the performance of the firm, and value creating role of business relationships (Wimmer–Mandják 2002, Wimmer et al. 2004).

In this study we focus on the managers' views on business relationships, and investigate their perception and the management tools used in their practice.

The paper is structured as follows:

*Research background* – We emphasize the importance of business relationships building on the results of international and Hungarian research. Afterwards we introduce the Competitiveness survey, which provides the base for this study: we characterize the sample and the evaluated questions from the questionnaire.

*Empirical research results: perceptions, practice and their relations* – In the section presenting the empirical results we focus our attention on the perception of business relationships (the characteristics of the valuable supplier-buyer relationships) and the expectations towards suppliers and buyers. From practice we examine the support function of certain information and controlling elements, analysing also the different experiences of functional managers. We tried to find the connections between these perceptions of relationships and the practical support of managing these relationships.

Potential future research directions and conclusions close the article.

## RESEARCH BACKGROUND

### THE IMPORTANCE OF BUSINESS RELATIONSHIPS AND THEIR MANAGEMENT

The premise of our study is that firms work in networks of business relationships. The performance of the firm is therefore affected not only by its inner processes and performance, but also by the performance of its business partners (suppliers, as well as buyers) and by the management of their business relationships. The connection between a company's performance and its relationships is a common belief in the business relationship literature (Ford et al. 1998, Håkansson 1982, Håkansson–Snehota 1995). The relationship management and performance management has become a significant part of the supply chain management literature as well (e.g. Fawcett et al., 2007).

The frameworks of performance management are more and more focused on the identification and management of the value drivers or value creating factors (e.g. Lebas –

Euske, 2002). A growing emphasis on external factors (including understanding and management of stakeholder relationships) has emerged. Analysing their stakeholder relations, firms should realize that their stakeholders' expectations are greater than in the past decades (Clement, 2005), but the expectations of the firms have increased significantly as well. Latest approaches, e.g. performance prism (Kennerley–Neely, 2002, Neely et al., 2002) have put emphasis on the reciprocal manner of these relationships, and they report an increasing demand for the creation of mutual relationship between firms and their stakeholders (among them the customers and the suppliers). The starting idea of the performance prism is to focus on the stakeholders satisfaction (what do they want and need) and the stakeholder contribution (required from the firms' stakeholders) as well.

In our previous researches – relying heavily on the international experiences – we tried to grasp the different approaches of the Hungarian firms towards their stakeholders based on the initial concept of Performance Prism as a theoretical background. Hence, the perception of the managers is analyzed regarding both their expectations from and the expectation raised by the stakeholder groups. The findings showed that managers usually pay attention to the traditional directions. In customer-supplier relationships for example companies mainly concentrate on the needs of the customers and their expectations conveyed towards suppliers though, the expectations raised by the suppliers or the firms' expectations from their customers are often neglected. (Wimmer–Szántó–Kiss, 2005, Szántó–Wimmer, 2007).

#### EMPIRICAL RESEARCH BACKGROUND: COMPETITIVENESS SURVEYS CONDUCTED IN HUNGARY

The Competitiveness surveys have been conducted by the Competitiveness Research Center at Corvinus University of Budapest (“In global competition” – micro-economic factors of the competitiveness of the Hungarian economy”) since year 1996. There have been four rounds of this survey in years 1996, 1999, 2004 and 2009, so in case of certain topics we have the possibility to evaluate the path leading to the current situation and the development of the competitiveness of Hungarian companies based on four similarly structured and sized databases. However, we would like to emphasize that the survey and its results reflect the opinion of the executives, not some objective truth (Chikan et al., 2002). In this paper we present the results of the last survey, conducted in 2009.

#### *Sample characteristics*

The sample consists of more than three hundred companies, what means the collection of information from more than 1,200 managers (four managers were asked at every company). The four managers were the top management (executives), marketing or sales management, operations management and finance.

The sample of 316 companies consists of primarily medium sized manufacturing companies with mostly domestic ownership. 65% of the sample are medium sized firms, 20% of the firms are small companies, and 15% of the sample are large companies. Around two thirds of the companies in the sample have dominant Hungarian private ownership. 40% of firms operate in manufacturing industries, 25% of the companies work in services and 20% in the wholesale and retail trade. Compared to the whole Hungarian economy the small enterprises are under-represented and the manufacturing industry is overrepresented.

### *Questions examined*

The survey results are the answers of the four managers and therefore our paper is entirely built on the managers' subjective perception. For the purposes of this paper we categorize the questions about how managers perceive certain factors as “perception”. What do they *think* about the importance of several factors. We define questions on what does the firm use in certain operations as “practice”.

In the survey there are questions of different types. There are some asking whether the manager uses a method, a tool or not. Other questions are scaling, for example how important a factor is, or to what degree does the manager agree with a statement. Responses were given on a 5-point Likert scale (5 – totally agree and 1– totally disagree) in these cases.

With the objective of analyzing the perception of business relationships we examined the following question blocks:

- According to the operations and sales/marketing manager what factors define the valuable supplier/buyer relationship?
- How do executives see the expectations of their partners, and what expectations do they define towards their partners?

From the answers to these question blocks we can see which are the most important factors in a valuable business relationship and which are the strongest expectations. Interesting (from the second question block) is how balanced the expectations list of the executives as a supplier and as a buyer is. Do they think the same way in both directions?

The practice is represented by answers on the support role of information management and controlling practice: how do these systems support the management of supplier/buyer relationships (in general, and compared to support of other management tasks), how do they help in communicating with partners? Is there a difference between the four managers in using these information? The other field of practice, which we examine is, whether a factor that is perceived as important is used in the partner selection. The examined questions are summarized in Table 1.

Table 1. : The selected questions representing perception and practice

Perceptions of supplier and buyer relationships	The connections between perception and practice	Practice
<p>1. Characteristics of valuable business relationships (buyer relationships evaluated by production managers; supplier relationships evaluated by marketing and sales managers)</p> <p>2. Executives' expectations as supplier / buyer and their perceptions of expectations of their suppliers and buyers</p>	<p>If a factor is perceived as a very important characteristics of the valuable relationship, then does it have a relevant place in practice?</p> <p>Is it supported by information system? Does it matter in partner selection?</p> <p>(two selected fields for the purpose of this paper are information sharing and cooperation in development)</p>	<p>1. The role of the information system in the support of business relationships (opinion of different managers about the practice)</p> <p>2. Business relationships-connected information used in controlling reports</p> <p>3. The practice of supplier selection (supplier selection criteria, we focus our attention to the criteria connected with maintaining a good relationship in future)</p>

## RESEARCH FINDINGS: PERCEPTIONS AND PRACTICE OF BUSINESS RELATIONSHIPS MANAGEMENT

### THE CHARACTERISTICS OF VALUABLE RELATIONSHIPS FROM SUPPLIER AND FROM BUYER PERSPECTIVE

Operations and sales managers were asked to evaluate a few statements answering the question “When is a relationship with a supplier (respectively buyer) valuable?” There were twelve and fourteen statements about reliability, information sharing, cooperation in development, image of partner and similar. This way we got the views on valuable relationships in both directions, so we could compare these. The results can be seen in table 2. In Figure 1. we displayed the two dimensions as the perception of operations and sales managers, so we can see the asymmetries, if there are any.

The main findings are:

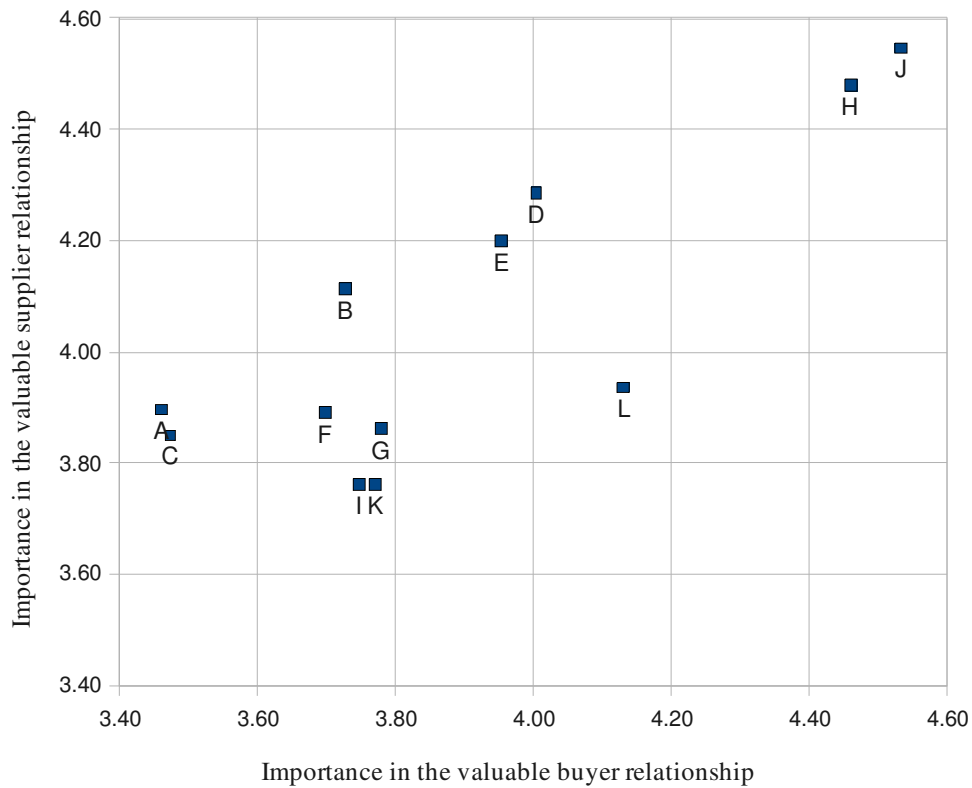
- The most important characteristics of a valuable relationship are connected with reliability, both on the buyer (4.53 on a 5 points scale) and on supplier side (4.55). Keeping their promises is the next most important, what was indicated as important also in previous surveys, but this might have got stronger during crisis. (points H and J in Figure 1.)
- The importance of factors are found stronger when dealing with the supplier side than on the buyer side (the results show higher values on nearly all statements).

- The most significant differences are in expertise of the partner, cooperation in development and value creation role of information sharing – these are found much more important on the supplier side. (points A, B and C)
- The reputation of the partner was indicated with the same averages (3.76 and 3.77), but on the buyer side it is more important compared to other characteristics. The contribution to positive judgment of the company was found significantly more important in buyer relationships (4.13) than on the supplier side (3.94). (points K and L)
- In the case of statements connected with expertise we can see that the personal relationships are found more important. The expertise of the partner company is perceived as less important (3.9 regarding suppliers and 3.46 on the side of buyers) than the competence of the person (4.29 and 4.00) with whom the managers deal at the other company.(points A and D)

Table 2. : Characteristics of the valuable business relationships (buyer and supplier evaluation)

<b>Characteristics of the relationships (partners)</b>	<b>Importance in the valuable buyers' relationships</b>	<b>Importance in the valuable suppliers' relationships</b>	<b>Difference</b>
A) Known of his special expertise	3.46	3.90	-0.44
B) Cooperative in development with supply chain partners (transmit / meet requirements)	3.73	4.11	-0.39
C) Continuous product development is done by the supplier / required by the customer	3.47	3.85	-0.38
D) The contact persons are competent	4.00	4.29	-0.28
E) Provides relevant and reliable informations	3.95	4.20	-0.25
F) Shares best practices of the industry.	3.70	3.89	-0.19
G) Easy to manage and sustain the relationship.	3.78	3.86	-0.08
H) Keep their promises	4.46	4.48	-0.02
I) Common developments are adaptable in other relationships	3.75	3.76	-0.01
J) Reliable	4.53	4.55	-0.01
K) Have a good reputation	3.77	3.76	0.01
L) Contribute to the good image of the partner	4.13	3.94	0.19

Figure 1. : Assymetries in the perceptions of important characteristics of the valuable business relationships (capitals show the characteristics from table 2.)



#### EXPECTATIONS TOWARDS BUSINESS PARTNERS VS. PERCEPTIONS OF THE BUSINESS PARTNERS' EXPECTATIONS

We asked executives to evaluate different statements concerning their stakeholders' needs and wants (their perception about stakeholders' opinion) as well as concerning their needs and wants toward their stakeholders (i.e. expected stakeholder contribution). Responses were given on a 5-point Likert scale (5 – totally agree and 1- totally disagree). (Result of earlier surveys presented in Szántó–Wimmer, 2007.) In this paper we focus on the statements concerning the suppliers and the buyers. The comparison of the perceptions about the business partners' opinion and the firms' expectations, as well as the views from the different supply chain position (as supplier and as buyer) give a possibility to examine the balance in the executives' judgements. Based on the results of the 2009 year survey we can see a relatively balanced view when comparing firms' expectation with their perceptions of the partners expectations (see Figure 3.). For comparison we present the result of the competitiveness surveys made in year 2004 (see Figure 2.), when we observed a lot less balanced view (The surveys were similarly structured in 2004 and 2009. The samples are different, but the sample size was similar in 2004: 301 companies, consisted primarily of small and medium sized firms.)

Figure 2. : Expectations and perception of business partners' expectations, 2004

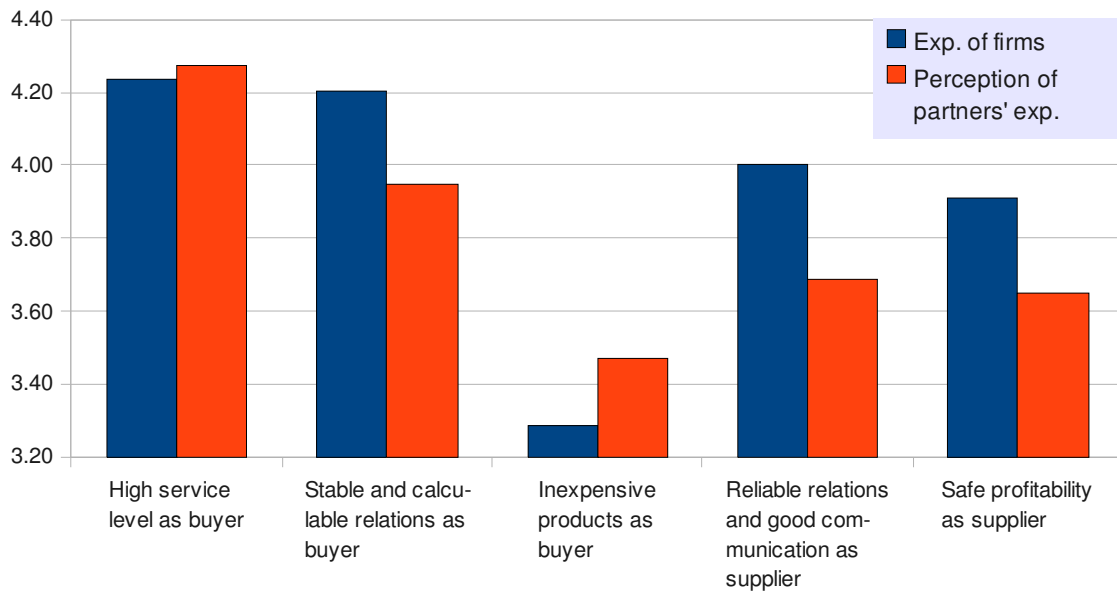
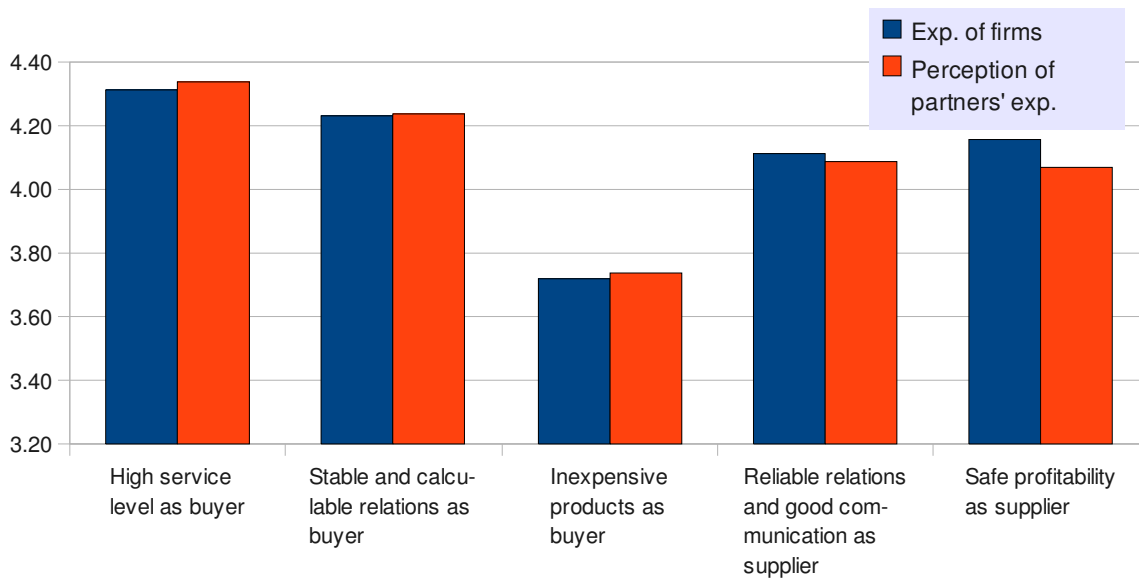


Figure 3. : Expectations and perception of business partners' expectations, 2009



Our main findings based on the competitiveness surveys in 2004 and 2009:

- Three types of expectations were evaluated by the executives: expectations of high service level (by the customers/buyers), financial expectations toward partners (profitability for suppliers and inexpensive products for buyers) and the stability, reliability of the relationships (both the supplier and the buyer side). The respondents mostly agreed on the need of high service level: they expect it as buyer (4.32 in the five point scale in 2009, 4.24 in 2004) and



assume that their costumers highly expect it as well (4.34 in 2009 and 4.28 in 2004).

- In 2004 it was apparent that the expectations of the companies are usually higher than the perceived expectations of their business partners (except cheaper products as buyer). Now, the results of the last survey show a more balanced picture: there is no remarkable difference between the evaluations of companies' own needs and the presumed needs of their partners.

- The expectations toward the partners and perception of expectations towards them are higher in 2009. There is a stronger perception of business partners' needs.

- We can see the rise of importance of the financial factors: the executives indicate higher expectations in the profitability as supplier, and perceive more intensively this need from their suppliers as well (the significant differences observed five years ago disappeared).

- The need for stability and reliability in business relationships is invariably very important for the managers, and they observe this need from their partners more.

Concerning perceived expectations and own expectations the results show a more balanced picture compared to that in 2004. These differences have disappeared both between own expectations and perceived expectations of partners, and between buyer and supplier views. The expectations of suppliers were indicated by executives as higher compared to the previous survey. The importance of financial issues have risen, stability continues to be an important factor.

#### PRACTICE: THE SUPPORTING ROLE OF INFORMATION SYSTEMS AND THE PRACTICE OF SUPPLIER SELECTION

We have selected information sharing and cooperation because these characterize the relationship (and not the performance of on side). According to the opinion of the four different managers, information systems used by the companies usually support “traditional” goals of performance measurement such as control, reporting, planning and making business decisions. Information systems are generally not able to integrate the business partners’ opinions and expectations. From the list of fourteen tasks the support of tasks connected with maintaining relationships (evaluation of partner satisfaction and performance, information sharing, support of communication) are not between the highest rated tasks. In average the managers see decision making (3.73) and control (3.75) as most supported. From the four managers the sales/marketing managers were the ones that indicated higher support of the tasks connected with relationship management. These were the questions we regarded as one element of what we call “practice” in this paper.

The other aspect of practice – on the side of the relationship – are the questions about the criteria of supplier selection. From these criteria the operations managers indicated the supply performance, price and conditions of payment, and quality as most important (4.53, 4.42, 4.38) and supplier potential and geographical distance as least important (3.65 and 3.62). We chose two criteria to examine: cooperation in problem solving and product development (3.71) and the will to share information about costs and other issues (3.71).

## PRACTICE AND PERCEPTION

As it is shown in Table 1., we have picked two fields where the concordance of perception and practice can be examined. These are the possibilities provided by the database – we were looking for areas where we could find parallel evaluations of views on relationships and on practice. We chose the areas of cooperation (here we compared the indicated importance of cooperation-related factors in a valuable relationship with one single practice-oriented question: does the company use „cooperation” as criterion in supplier selection? – this was answered by the operations manager) and information sharing (here we compared the indicated importance of factors related to information sharing with two practice-oriented questions: does the information system support communication and information sharing with partners? – answered by sales or marketing manager; and does „will to share information” appear as supplier selection criteria? – answered by the operations manager). In all three categories we examined the correlations, compared means at every level and conducted cluster analysis to see, what groups could be created in that category.

Information sharing – (sales/marketing manager; perception: buyer shares best practices, provides relevant and reliable information; practice: the information system supports communication and information sharing with business partners) The values of the practice-oriented statement do not correlate with the other two variables. According to cluster analysis we can identify four clusters, from which two are asymmetrical, what means that there are two groups of companies where the practical implication and the perceived importance of information sharing is not in correlation. There are 48 companies, where support is weak (cluster center value 2) but the two information-related statements got high values (4 and 4). The other asymmetrical cluster has the opposite values (15 members). There can be found some weak tendencies: very small enterprises indicated high values in perception of importance, but low on support. Companies in agriculture were those with very high levels in importance of information sharing and reliability, and the lowest values in support. To find out, what characteristics are common for the two asymmetrical group members will be the task of further data analysis.

Information sharing II. - (operations manager; perception: shares best practices, provides relevant and reliable information; practice: the will of partner to share information on costs and other issues is a criterion in supplier selection) There is significant, but weak correlation between the practice-oriented statement and the two other variables. From the four clusters created there is one interesting: 24 respondents in a cluster, where the company does not use this as a supplier selection criteria (2) and the sharing of best practices is not important (2) but the relevance and reliability of information is an important part of a valuable relationship (4). When we compare means, we can see that the highest values are indicated by energetic industry, but wholesale and retail trade show high values as well. Services is the category, where the sharing of best practices and the relevance and reliability of information is important, but this sector shows a value low under average in practice.

Cooperation – (operations manager; perception: cooperative in development with supply chain partners (transmit / meet requirements), continuous product development is done by the supplier / required by the customer, common developments are adaptable in other relationships; practice: cooperation in product development and problem solving is an important supplier selection criterion) There is significant, moderate correlation between the last variable and the other three. Cluster analysis did not show any larger asymmetries, one outlier group is a cluster, where the cluster center value is (2) for the practice-oriented

statement and 2 and 3 for the other three. This means that the 25 members of this cluster do not evaluate the will to cooperate as an important supplier selection criterion and do not think that these factors are the important characteristics of a valuable relationship. Interesting is that companies in agriculture show values well below the average on the first three statements, but the highest regarding the usage of „the will to cooperate” criterion. This might be because the formulation of the statement is „the will to cooperate in product development and problem solving” but the first three statements are all connected only with development.

## CONCLUSION

Business relationships management is considered to be one of the companies’ core success factors. In our study we have focused on the Hungarian managers’ views on business relationships, and investigate their perception and the management tools used in their practice. The empirical research was built on the results of the competitiveness survey conducted by the Competitiveness Research Center at Corvinus University of Budapest (fourth time in 2009).

Based on the managers’ opinion, the most important characteristics of a valuable relationship are connected with reliability, both on the buyer and on supplier side. Expertise of the partner, cooperation in development and value creation role of information sharing are found much more important on the supplier side. The personal level of the relationships is important: competence of the contact persons was found more important compared to expertise of the company.

Concerning perceived expectations toward business partners (supplier or buyer) and the firms’ own expectations the results show a more balanced picture compared to that in 2004 (a survey conducted with a different sample but with similar methodology). The expectations of suppliers were indicated by executives as higher compared to the previous survey. The importance of financial issues have risen, stability continues to be an important factor.

Investigation of the practice (information systems’ support and supplier selection criterias) has suggested a focus on traditional elements of controlling systems. There is a relatively higher support of control, reporting, planning and making business decisions, but the information systems are generally not able to integrate the business partners’ opinions and expectations. Among the criterias of supplier selection the elements of the performance of the partner (the supply performance, price and conditions of payment, and quality) are the most important. Characteristics of the relationships (cooperation in problem solving and product development and the will to share information about costs and other issues) considered as less important by operations managers.

The disharmony found between perception and practice (p. ex. factors of business relationships considered as important are not certainly supported by the practice, and factors used in practice are not certainly considered as important) rise several further research issues. Analyses the group of companies characterized with different perception-practice combination could be the next step of our research in order to understand these differences and find potential influencing factors.

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