

What needs to change to develop a key supplier strategy for sustainable competitive advantages?

Michel Philippart – Université Paris Dauphine EDDBA Program

Abstract

Purpose: The primary objective of supplier management in most industries is short term cost reduction, which is not delivering enhanced profitability because the while the academic literature documents that suppliers can be used to generate sustainable competitive advantages. Using the Resource Based Theory as a structuring theory, we aim to develop a framework to allow firms to leverage effectively their suppliers as sources of competitive advantages.

Design/ Methodology: An evidence based study demonstrates a steady increase of papers validating the relevance of the Resource Based Theory (RBT) applied to supply chains. Focusing on high impact journals, we identify the conditions that lead firms to capture the benefits of suppliers considered as strategic resources. We combine with empirical observations to identify the structuring elements present in successful supplier generated competitive advantage development.

Findings: The research validates that strategic resources exist outside the firm boundaries. Essential suppliers, dyads, and the capacity to manage them can become resources that are valuable, rare, inimitable, and non-substitutable. It identifies elements that contribute to enhancing a firm's ability to manage its key suppliers to capture that potential such as the deliberate intent to protect supplier contribution from competitor's imitation. Facing heavy competition and growth challenges, after identify unmet market needs, an enlighten

leadership changes the culture and targets applied to supplier management. Two traits are shared: a spirit of supply chain competitiveness and a bias for collaboration. The spirit of competitiveness is the deliberate intention of both the supplier and the client firms to offer value in a way that competition had not identified as a dyad that generates competitive advantages, a shared orientation towards entrepreneurship, innovativeness, and the desire to close the gap between the consumer's expectations and the market offer in a way that will be exclusive to the dyad. The bias for collaboration is the intent to create a best supplier / best client relation with trust and respect, and a shared long term vision. Those two traits allow the firms in the dyad to develop joint sensemaking, target their innovation effort, and a strategic intent to protect the joint resource from competitor's access. This last element is probably the most critical but also the least documented. It is essential to maintain the inimitability of the resource.

Research Limitations: Because firms that have successfully implemented such an approach in a conscious way do not willingly reveal the keys to their success, empirical evidence is rare. Moreover, there is a lack of tools to pilot and measure the impact of long term supplier management initiatives, while short term tools prevail. This makes difficult to differentiate the long term impact of supplier strategies versus other firm initiatives.

Engaged Scholarship Debate: Although scholars have validated that suppliers and supply chain offer the potential to create value and enhance firm performance, our identification of the elements that lead to competitive advantages is new. The framework presented is practical, realistic. It allows practitioners to develop structured supplier management strategies aimed at creating competitive advantages. It also allows general management to understand how to adapt the governance and objectives they assign to their purchasing function. It especially stresses two less discussed elements, the need for general management

to consider key suppliers as intangible assets rather than costs to develop a more appropriate governance, and the need for purchasing managers to incorporate fencing strategies to retain the rare and inimitable components of the resources external to the firm.

Keywords: Purchasing, supplier management, supply chain competitiveness, collaboration, joint sensemaking, value creation, competitive advantages, resource based theory