Power dynamics in Large Enterprises – SME relationships

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Abstract : The current business environment is typified by dynamic business environment, fierce competition, highly demanding informed customers, profound transformation in production technologies and rapidly changing supply markets. In this scenario the quality has become just an order qualifier. Companies are looking for innovative methods for process, supply and optimization cost cutting and trying to creatively find areas of improvement. Efficient and innovative management of supply chain is inevitable for organization whether it is small or large to survive and sustain.Many organizations have responded to these challenges by developing collaborative partnership with their suppliers and customers. This paper analyzes the level of supply integration exists between the Large Enterprises(LE)&Small and medium scale enterprises (SME) , the power dynamics and challenges faced by them in their mutual interaction based on two well established models : Peter Kraljic's Purchasing portfolio and Bensaou's buyer-supplier relationships.

Keywords : *SME , LE, Power imbalances , Supply-chain partnership*

Introduction

Nowadays enterprises leverage more on their core-competences, and involve more outsourcing activities to their suppliers in Supply chain. As a result, supply chain management plays a pivotal role for promoting efficient management and developing important competitive advantages of suppliers (Quayle, 2003). Obviously, the supplier quality directly affects a firms' products and the long-term , consistent delivery performance of these suppliers affects the firms competitiveness.Large Enterprises (LEs) really need suppliers with high performance and efficient rolein the importance of theentire supply chain.Small and Medium-sized Enterprises (SMEs) have more and more significant impacts on supply chain performance by actively partaking in supply chain of LEs, and can functionas distributors, suppliers , producers and customers (Trung&Hieu, 2010). "The sensitiveness for changes in business environment (Weathead & Storey, 1996), agility to respond to the requirement of customers' and quick decision making in behavior (Carson, 1995) have made SMEs as candidates to meet constantly changing customer requirements and rapid increasing technologies. However, owingtowardssize restrictions, resources and other conventional characteristics, compare with LEs in supply chain, SMEs have less competitive advantages and are generally more vulnerable (O'Gorman, 2001).

Effective purchasing can add to the firm beyond that of an order- processing role (for example, Kraljic, 1983; Carr and Pearson, 1999; Cousins and Spekman, 2003s). This research investigates the interaction between SMEs and supply chain of LEs and will discover the concernsprevailing in a

relationship and look for the way to improve SMEs' performance and a proper position in LEs' supply chain."

Background Research

A logistics or supply chain network can be defined as the system of organizations, people, technology, activities, information and resources involved in moving a product or service from supplier to customer(Bowersox& Closs)."The term SCM was developed in 1980s to express the need to integrate the key business processes from end user through original suppliers. SCM isthe systematic management of flow of finance, inventory and information between the different members of supply chain." The basic idea behind the SCM is that companies and corporations collaborate and function together in a chain by exchanging information regarding market fluctuations and production capabilities. IncorporatingSCM into the organization leads to a new kind of competition scenario on the global market where competition is no longer of thecompany versus company form but rather takes on a supply chain versus supply chain form.(Mentzer,2001)"

With increase in competition and the need for leaner flexible systems forcing companies to form strategic alliances and deeper collaboration than ever before in order to provide superior customer value. As a result of there is greater opportunities for small companies as large companies outsource all other activities and focus on core competencies (Arend and Wisner,2005)

The inter-relations of supply chain members can be accomplishedby coordination mechanisms such as incorporation of information technology , supply chain contracts, information sharing,technical support , collaborative decision-making and regular conferencesbetween supply chain members (Disney & Towill , 2003). SME's are generallyunable to implement SCM fully, due to the dependence on large customers and following of the standardspostulated by them(Arend & Wisner,2005). Big companies consider Small firms as being easy to replace and hesitant to form strategic alliances with SMEs. It is not possible for all the SME's to afford the high adoption costs of involving in inter organizational information systems(Singh , 2012)."Grittell and Weiss (2004) For achieving coordination in supply chain efforts are required to take initiatives such as scheduling of frequent conventions of stakeholders for solving issues, knowledge sharing,analysingthe nature of intermediaries, and familiarity of supply chain concepts, status or power difference and resistance in following the instructions of other organizations".

As per the definition by Ministry of Small and medium scale enterprises, in India , Medium organizations in are those with 10 to 30 crore of investment and large enterprises are those with more than 30 crore of investment.

There is a large degree of mutual dependence between supply chain members to effectively transfer information and goods among each otherChen & Paulraj ,2004). Vertical disintegration, rising cooperation on a global scale, and a emphasis on core activities have created a conception that organizations are links in the network of supply-chain. Tocontend in global market,

an organization must have an effective SCM that consists of disparate but inter-dependent members who are reliant on each other to managevarious resources likeinformation, funds and inventory)(Arshinder & Deshmukh ,2009).Poor coordinationwithin these members and the conflicting objectives may often sourceambiguities in market factors like supply and demand. Coordination willsupport in reducing uncertainties andhandlinginter dependencies. Naturally, a system is mandatory to rationalize the entire supplychain and retain all the members to in the supply chain(Giannoccaro& Pontrandolfo, 2004)

Further this is difficult because of the majority of policies or supply chain initiatives that are put forward by large enterprises in fact increases the pressure on small scale enterprisers and is actually exploiting them due to the bargaining power advantage of large players.(Powers&Reagan, 2007)

There are basically three types of supplier – buyer relationships transactional, collaborative and alliance. The level of integration, collaboration and strategic synergy increases while moving from transactional to alliance type relationships.(Caniëls& Gelderman ,2007)

In the past, price has been the most important, rather only parameter for selection of suppliers. However, as companies have understood that it is not efficient to just rely on price as a single metric for vendor selection, they have turned into to a broad multi-criteria approach. Recently, more complex factors such as political, social, environmental, and customer satisfaction concerns have been added to the elementslikecost, delivery, quality, and service.(Pal, Kumar &Gupta,2013)

Various researches has been carried out to understand the negative factors or pain points in this relationship.The level of supply chain integration, which exists between manufacturing SME and its customer, is low/medium. Furthermore, the conflicting goal, which exists between supply chain partners, are that the volume flexibility,demand of quality level ,demand of delivery and storage flexibility and the relatively high manufacturing and downstream complexity(Paqarizi&Hsu,2013).
In this research we are going to analyse the pain areas in SME – large player relationship - in Coimbatore small medium enterprises.

Supplier –buyer power dynamics

Power is a temporal conceptionrepresenting the capability of a party to control of the conduct of the other in a relationship (Ansary & Stern, 1972). As such, the originalvariation of the other party's behavior can be achieved only byexercising power (Gaski, 1984) .Conditionalto nature of force, sources of power can be segregated into coercive and non-coercive (Frazier, 1983).Power can be analysed as theamount of mutual- dependence that the parties experience in a relationship (Ramsay, 1996)
Power exercised can be expressed as a function of how critical the resource is and the availability the same resource from alternate sources (Cox , 2004).
“The power differential gives way for a powerful firm to behavespeculativelyin the supply chain(Ireland & Webb, 2007), and example maypursue to createcontractswhichfavorsthem or encourage the other party to make most of the investments.Powerful organizations are

highly inclined to resist having long-term partnership, as it would indicate a loss of command due to increase in dependence (Casciaro & Piskorski,2005)".

It is too principled to think that increase in collaboration will result in an equal share of requirements (Amaeshi, Osuji, & Nnodim, 2008). Several authors have argued that larger firms have comparably more power than small firms to stimulate sustainable practices along their SCs (Ciliberti, Pontrandolfo, & Scozzi, 2008). Also, SMEs are seen to have less capability and resources to address sustainability issues and will consequently face difficulties to respond to the pressure from their customers, let alone to implement their own SSCM agenda (Pedersen, 2009)

The relation between buyers and sellers can be explained and the outcome can be measured by explanatory and outcome variables (Bensaou ,1999).The various explanatory variables encompasses of Intellectual Property Rights, Unavailability of substitutes ,Size of Market owned , Shared goals,Non-retrievable investments, Mutual technological infrastructure, supplier size and the outcome variablesincludePerformance satisfaction, Trust,Structural bonds , Reputation, Information sharing, CooperationSocial bonds etc.

In a strategic partnership there will be high levels of mutual trust but in a captive buyer efficiency and commercial achievements, principally in chains subjugated by influential buyers (Cox & Chicksand, 2007).Large companies often put pressure on SMEs to comply with their sustainability

relationship there is a low level of mutual trust(Bensaou ,1999).

Issues identified

Large enterprises face many challenges to form a strategic supply chain alliance with SME's.The main problems that are faced include Supply chain management capability, Trust between partners, Weak strategic vendor collaboration, Delivery lead times,poor information sharing, (Jayaram, Dixit & Motwani ,2014), Poor information system infrastructure, IT investment required in Supply chain integration and information sharing (Bala , 2014), Unwillingnessof sharing reward and risk (Pugazhendhi , 2012)Poor quality and support in terms of ability to cater in emergency,timely delivery and readiness to improve technology (Thakkar, Kanda& Deshmukh ,2011) ,Lack of supply chain management teams for SME'sUnreasonable demands ,Supply chain integration and information sharing (Bala , 2014) and Absence of long-term contracts Babu (2012).

Theoretical frameworks

In this paper we are trying to analyze the purchasing behavior of SME- LE interaction and their responses , power dynamics based on Bensaou's buyer-supplier relationships and buying portfolio analysis .A set of four case studies are prepared based on field research on multiple LE and SME in around south India .Through this frame work we are analyzing the actions in respective spend category and the strategies formulated by SME and LE.This also analyzes how the power dynamics vary from each scenario and the irony that occurs in some spend scenario with that of theoretical frame work and in actual situations

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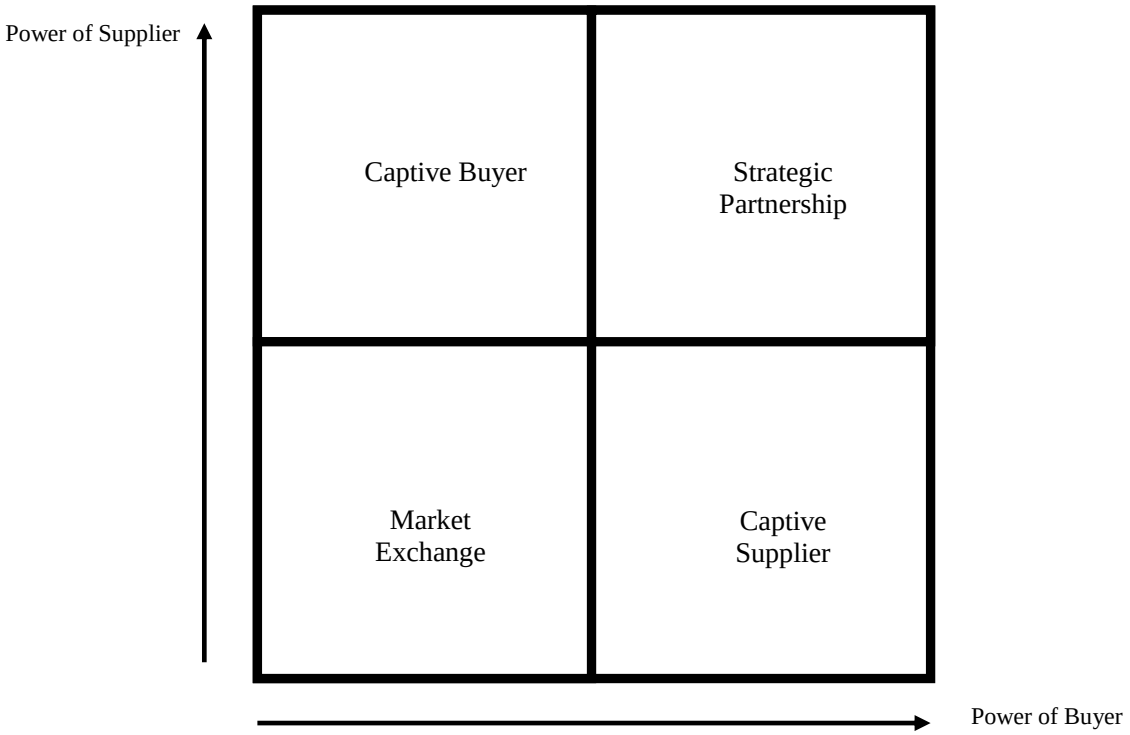
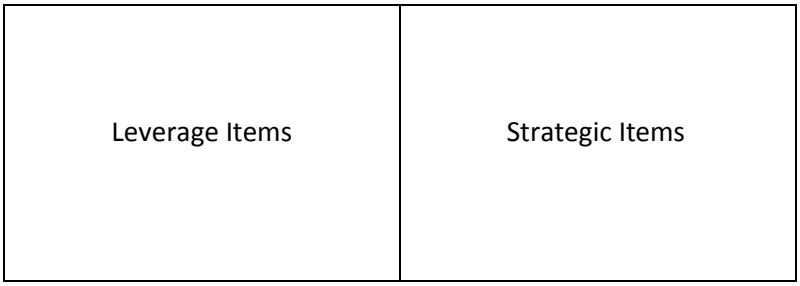
Bensaou's buyer-supplier relationships



Kraljic Model



Non-Critical Items	Bottleneck Items

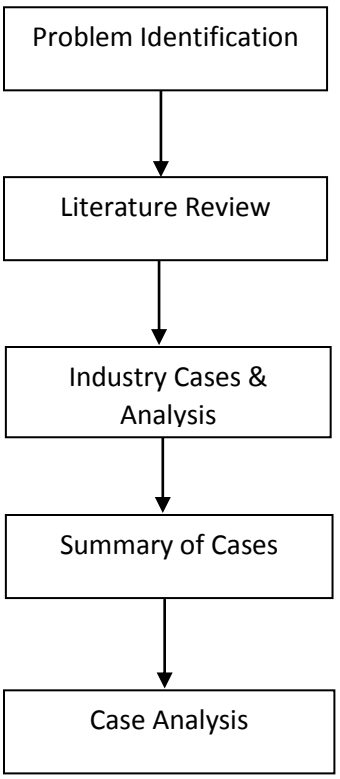
The Kraljic Model can be employed to evaluate the purchasing portfolio of a firm.The framework is based on two dimensions , financial impact and supply risk for for categorizing a firm's purchases and therby evaluating the performance of the same.

Research Questions

What level of supply chain integration exists in the between Large Enterprise and its supplier(SME's) ?
What are the issues/ challenges faced by LEs on getting SME's integrated into its Supply chain?

Research Methodology

The research is explorative in nature. The following framework is used for this study.



This research utilizes qualitative techniques leveraging subjective methods such as unstructured and in-depth interviews to collect substantive and relevant data. From the literature review , the main problems that are faced by SME's and LE's are Listed. This list is validated by conducting field study, having multiple levels of interviews with the managers of SME's and LE's. It is repeated with different SME's / LE's until the list becomes self-redundant. Such a qualitative approach is valuable here due to the variet experiences with the industry and other organizational cultural scenerio. Upon collecting the qualitative data derived from said interviews, careful analysis shall be done to prepare a research paper with three

case studies reflecting on the major problems faced by the three organizations on their relationship with SME's / LE's .The paper tries to analyze the case studies and the supplier buyer relationship based on buyers portfolio and Bensaou's buyer-supplier relationshipsand mapping it into different quadrants.

Description of case units

The performanceof different LE-SME supply chain and operations of different south Indian SMEs are analyzed in this section. A multiple case study methodologyis adopted to increase validity (Voss, 2002) in order to get a theoretical generalization rather than a statistical generalization (Yin, 2003).

The organizations in the case are Medium and large organizations located in South India. The turnover ,size & industry of the different units is probably not comparable, as the units differ in the value of the raw materials, business structure, expansion under globalization and suppliers

Case 1 : ABC Chemicals

ABC chemicals is a chemical manufacturing company based at south India. The company produces artificial chemicals, food flavors etc. serving both domestic as well as overseas clients. Having two decade of experience in the manufacturing and marketing of highly specialized chemical products, the company mainly focuses on its garment wet processing chemicals business.

Packing materials form a critical part of the firms' purchasing portfolio .They consume all sorts of packaging materials like corrugated cartons, multiple plastic coated paper sacks, plastic cans etc. The firm has only one supplier for multiple plastic coated paper sacks which is a micro organization operating at Delhi. The packing material that is being sourced is not generic as it requires a special quality printing. The supplier that provides the material is largely inconstant and is not cooperative. As this packaging falls in low spend area of the product, the fund allocation for supplier development is low. There were problems in the quality of bags received and printing defects were also detected in QC checks, multiple times. Alternative vendor development is difficult due to the company's limited quantity requirement, the generic nature of the product and low fund allocation for vendor development. Due to these reasons, the Delhi based micro organization has more power over ABC chemicals.

Case 2 : X Corp

X Corp. is one of the largest FMCG manufacturers in India having four

manufacturing facilities in different parts of the country. The company equips a large product line and has multiple stock keeping units of each product line.

Due to this complex nature product line, higher intermediaries and wider distribution network , the planning and control becomes a herculean task. Further the distribution network is very less responsive and it is difficult to accommodate the seasonal fluctuations. The fixed expenses of distribution are very high by itself.

The company has recently outsourced its entire distribution to a third party logistics provider. The information regarding orders and dispatch is currently shared in real time to the supplier via ERP platform. Further both companies employed staff to coordinate the activities and is currently implementing combined improvement initiatives. This outsourcing helps the organization to reduce the cost of distribution as well helps in increasing its service levels

Cases in Brief

Firms	Firm size	Nature of business	Products	Supply chain Position	Customers	Issues / Features
ABC Chemicals	Large	Chemical Manaufa-cturing	Garment wet processing chemicals, food flavors	Buyer	Industrial Buyers , Hotels etc.	Poor Vendor Perfomance , Lack of alternative Suppliers
X Corp.	Large	FMCG	Food and cosmetics	Buyer	FMCG Customers	Good Coordination, Information sharing

Supply chain issues of the firms

The dominant supply chain issues faced by the company A includes lack of trust along the members, low bargaining power with respect to supplier leading to supply issues, lack of co-operation by the supplier, lack of reliable substitutes & the issues faced by company B includes the investment required for developing mutual shared infrastructure and high dependence on supplier .

Factors	Company A & its supplier	Company B & its suppler
Size of supplier/buyer	Medium scale	Large scale
Relative Market share of suppliers market	Low	High
Mutual goal	No	Yes
Technological dependence	Least dependent	Highly dependent on shared technology
Investments that cannot be retrieved	No	High sunk cost interms of investments like ERP and associated investments in automation & information

		sharing
Power	Low power	Equal power
Product category (Peter krajiac)	Leverage item for seller & bottle neck for buyer	Strategic category for both supplier and buyer
Interdependence	Buyer is highly depend on supplier	Mutual dependence
Trust	Low	High via information & technological infrastructure sharing
Performance satisfaction	No	Yes, mutual performance improvement initiatives
Co operation	No	Yes
Information sharing	No	Yes, order & dispatch data are shared in real time

The Company A is be placed on captive buyer(Bensaou,1999) because its satisfies almost all criteria like many buyers & less number of supplier, the buyer has less market share of supplier leading to supplier dominance. & power dynamics factors like power and interdependence favoring the supplier . The Company B on the other hand is placed as a strategic partnership as because they have high mutual dependence and information sharing and have mutual performance improvement initiatives as well as having no supplier interdependence.

Case Discussion

As per Bensaou there are mainly 4 types of relationships which are determined by the fixed investments. From case analysis it was found that there are many more variables that determine the type of buyer supplier relationship apart from non-retrievable investments Even though There are many explanatory variables at the same time but even one variable can also determine what type will result. There are multiple variables that has an effect on the relationship in addition to non retrievable investments can be broadly classified into exploratory variables, power variables & outcome variables. The exploratory variables include factors like size of firm/supplier, relative market share of buyer/supplier market, mutual goals, shared technology etc..The power factors include power dominance & interdependence while outcome variables include trust reputation of the firm ,information sharing ,co operation etc. In addition to this there are possibilities that one or more variables determine the type of relationship whereas other variable that predicts a different condition. Example: In the Strategic Partnership we can identify that in that both parties have, mutual goals, limited substitutes etc. One could expect that both parties have the same size but in or case analysis buyer is has higher Financial strength than the supplier. There are many other variables which have different weights which eventually determine the resulting type of relationship.

When we analyze the outcome variables we will get even concreteconclusion can be made. From literature we can identify that these variables will have a certain state for each type of buyer-supplier relationship. For example: “Cox (2001), Parsons (2002),

Mohr and Spekman (1994),Powers and Reagan (2007) Tutan, andUrban (2001) andBensaou(1999)we expect a high level of trust in strategic relationship and vice versa in relationship of captive buyer . The case study observations show that a strategic partnership can be characterized by a high level of trust, a captive buyer relationship can also be based on a high level of trust. From this it can be concluded that, even though there is a high probability that certain conditions might occur more frequently for certain form of relationship when compared to others, in practice there is a certain probability of all different outcome variables occurring in all mutual relations. These variables could therefore not determine the type of relationship, but they characterize the nature of the relationship".

Factors	Strategic partnership	Captive buyer
Lack of substitutes	Few buyers, few suppliers- not confirmed ,the nature of product & other factors depend.AS there are many 3pl providers & many companies	Less number of buyers- failed to confirm,
Size	Inability for buyer/supplier to obtain economies of scale- confirmed	Small-confirmed
Market share	Buyer consumes high percentage share of supplier market- not confirmed	Percentage share of buyer in share of supplier market is high - confirmed

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