# I'm your man: How suppliers gain strategic status in buying companies

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ABSTRACT

Selecting suppliers and deciding which suppliers to develop strategic relationships with is important for buying organisations. However, little is known about how strategic suppliers become recognised as such in the first place. We provide a detailed and explorative case study of supplier categorisation processes among actors in buying organisations. The social process of categorising and evaluating supplier inputs has been referred to as status creation. We map sensegiving processes and how they influence supplier status development using a longitudinal case study approach.

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## 1. Introduction

Selecting and classifying suppliers in order to adequately manage supplier relationships is seen as increasingly critical (Van Echtelt et al., 2008). Partnerships with strategically important suppliers can reduce the buying organisation's supply channel coordination costs, increase exchange effectiveness and provide exclusive access to supplier resources (Kauffman and Popkowski, 2005; Liesch and Buckley, 2012). While at the same time, the number of critical supplier relationships that a buying organisation can commit to is limited, making the choice and development of supplier relationships critical (Kauffman and Popkowski, 2005). Much of the purchasing and supply management literature has focused on policies for organising the supply base and on the development of supplier management policies for various groups of suppliers (Day et al., 2010; Gelderman and Van Weele, 2005; Olsen and Ellram, 1997). However, while research has been done on selection criteria and several frameworks for supplier selection and classification have been provided, the individual and collective processes through which suppliers become recognised in buying organisations are not well-known. Research into these processes and into the role of suppliers in influencing and shaping these processes is called for (Bakker and Kamann, 2007).

0A recent stream of supply management research seeks to understand how cognition and sensemaking processes unfold in supply-related activities (Bakker and Kamann, 2007; Leek and Mason, 2010; Mota and de Castro, 2005). This literature offers insights into the processes of organisational commitment and alignment with critical suppliers. The paper seeks to investigate the process through which a supplier gains status in a buyer's organisation. We conduct a detailed and explorative case study of categorisation processes among actors in the buying organisation. Labelling certain qualities and ascribing them to phenomena, as well as communicating these to others are important categorisation processes in organisations (Weick, 1995). The social process of categorising and evaluating supplier inputs has been referred to as status creation (Merton, 1968; Podolny and Phillips 1996). We draw on this steam of literature and ask how the perceived status of suppliers develops in buyer organisations. The interplay between critical events in the buyer–supplier relationship and how these are translated in the buying organisation are analysed, and we discuss how these events affect the development of the supplier's social status, as perceived by members of the buying organisation (as a shorthand we use supplier status). The paper proceeds as follows: First, we provide a critical review of the supplier selection literature, discussing supplier status and sensemaking as possible perspectives that may address some of the drawbacks in the current research. This is followed by a presentation of the research design and the data that informs the presented case study. Then, we analyse and discuss the findings and conclude with a discussion of implications for research and management.

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## 2. Theoretical background

To provide background for a study of the organisational processes that affect supplier status development in buying organisations and how an alternative perspective may add to the current debate on supplier selection and classification, we first have to critically discuss the existing literature. Next, we introduce organisational sensemaking and social status as two complementary perspectives for exploring how suppliers gain strategic status in buying organisations.

### 2.1. Supplier classification: a critical perspective

The conventional literature on supplier classification can be divided into descriptive and prescriptive approaches (Lienland et al., 2013). The descriptive approach typically studies the criteria used for classifying suppliers by decision makers, such as purchasers see for instance (Kumar Kar and Pani 2014). The prescriptive approach is concerned with developing methods for selecting and weighting the multiple operational and strategic criteria that individuals or teams use to rank and categorise suppliers (De Boer et al., 2001; Chai et al., 2013; Liu and Hai, 2005). Both the descriptive and prescriptive studies lend support to a technical-rational view; that decisions regarding supplier categorisation result from a linear process in which top management periodically selects the overall strategic objectives of a firm, which then in a top-down manner is translated into procurement strategies and operationalised into supplier selection criteria effectuated by purchasing professionals (Nollet et al., 2005).

Critics of the conventional views claim that a technical-rational approach to supplier classification rests, at best, on rationalisation in hindsight (Gadde and Snehota, 2000). We believe that several criticisms can be levelled against the underlying assumptions of the technical-rational perspective, and that we can lend support from these in the existing literature on supplier classification and supply management. First, it is assumed that the buying firm's strategy is fairly stable and that the role of the purchasing department is to operationalise corporate strategic priorities by deploying a supplier classification policy, consistent with overall strategic objectives (Nollet et al., 2005). However, frequently the bases of segmentation appear disconnected from the strategic management of the company (Day et al., 2010; Sausen et al., 2005). This view of strategy is based on a traditional planning perspective (Gadde and Snehota, 2000), and seems quite unaffected by more recent advances in strategy research. In fact, few conceptual linkages have developed between purchasing literature and more recent strategy research (Weele and Raaij, 2014). Strategic decision makers operate in dynamic business contexts, where fundamental changes in competitive conditions appear unexpectedly and where agility in strategic response is called for (Kor and Mesko, 2013; Pisano and Hitt, 2012). Corporate strategy is increasingly seldom detailed and fixed for a prolonged period of time, and the hierarchical relationship of detailed strategic planning is increasingly replaced with more emergent approaches to strategy (Eisenhardt and Piezunka, 2011). Considerable complexity and corresponding strategic ambiguity can interfere with supplier selection criteria. Furthermore, there is not one strategic voice in an organisation that the purchasing department must follow and translate into useful supplier selection criteria. Rather, there are many voices at once, each seeking to influence the strategic direction of the firm (Vaara, 2010; Ciborra, 1996). Second, often the qualities and competences of suppliers (or customers) do not appear in a pre-packaged form, instead they must be discovered and constructed by purchasers (Harrison and Kjellberg, 2010), and they are contingent on both purchaser experience and intent as well as influenced by relevant stakeholders (Reuter et al., 2012; Schneider

and Wallenburg, 2012). For example, a study found that in key decision-making areas handled by purchasing management, such as selecting suppliers, individual purchasing managers developed different interpretive schemes and framed the importance and role of the determinants guiding this selection differently (Kamann and Bakker, 2004). In addition, departments in the buying firm, such as R&D, manufacturing and purchasing units, may differ in the characteristics that they deem important and in the way that they assign specific labels to specific suppliers (Andersen and Drejer, 2009; Argyres, 1999; Hald and Ellegaard, 2011). A third criticism concerns barriers to developing and implementing policies for the preferential treatment of strategic suppliers. Companies have frequently found it difficult to tailor their treatment of suppliers to their underlying segmentation (Dyer et al., 1998). Understanding the significance of the supplier categorisation process and the role of the purchasing department in the negotiated social order and hierarchy within the buying firm is particularly challenging (Goebel et al., 2003; Pardo et al., 2011; Roy, 2003). The influence of purchasing departments varies, and their responsibility for formulating and implementing selection criteria varies correspondingly. Finally, the emphasis on establishing a set of supplier selection criteria seems to rest on the assumption that these are intrinsic to the supplying company. However, as noted by Dubois and Pedersen (2002), the value of a supplier is bound less to intrinsic qualities and more to relational ones: "[supplier] performance will be a function of all its relationships [and will be] relative to each customer" (p. 40). This notion is supported by a study of purchasing portfolios in sustainable sourcing, which demonstrated that firms could apparently gain competitive advantages from treating suppliers of commodity inputs (e.g. potatoes) *as if* they were strategic suppliers (Pagell et al., 2010).

Following from this discussion, there is good reason to suggest that the classification process is more interpretive, messy and ongoing than implied in the reviewed literature, and it involves several decision-makers other than purchasers (March, 1994; Dempsey, 1978). Exploring these processes may provide a new and useful insight into the organisational processes that inform supplier classifications in buying organisations. All of the literature on sensemaking/sensegiving and on social status development takes departure in an emergent rather than a technical rational-choice approach to decisions. We believe that combining the perspectives provides a consistent framework for exploring the development of a supplier's strategic status in a buyer organisation, including the classification events involved in such a process. Whereas the literature on organisational sensemaking is useful for understanding how organisational decision makers attribute meaning (and value) to suppliers, and the social status perspective provides insights into the valuation and prioritisation mechanisms for ranking suppliers in a social community.

### 2.2. Sensemaking

By "sensemaking", we refer to the notion that social reality is actively created by human effort to create order and make retrospective sense of what occurs (Weick, 1995). Rather than seeing supplier efforts and capabilities as objective selection and ranking criteria, the sensemaking perspective questions and explores how the efforts of a supplier come to be recognised and labelled by members of the buying organisation. As noted by Schiele (2012), sensemaking has an individual and a social side. Through interactions, individuals in an organisation "give sense" to certain phenomena, which thus affects how other individuals see and respond to the world. Gioia and Chittipeddi (1991, p. 442) applied the term "sensegiving" to the "process of attempting to influence the sensemaking and meaning construction of others toward a preferred redefinition of organisational reality". Social influences