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The effects of low internal integration between purchasing and operations on suppliers' resource mobilization

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ABSTRACT

A company that suffers from low internal integration between corporate functions performs worse than its more integrated competitors, leaving it in a position of competitive disparity. This paper reports on an investigation of the effects of internal integration between purchasing and operations on the mobilization of supplier resources. Low internal integration generates uncoordinated operations and purchasing behaviors that negatively affect supplier resource mobilization. We find that the lack of operations support for eight major purchasing initiatives in a construction company negatively affects supplier resource mobilization, resulting in poor exchange outcomes for the suppliers. Furthermore, different types of uncoordinated behaviors affect suppliers' resource mobilization in diverse negative ways. Based on the results, we offer a categorization of diverse types of supplier mobilization activities and offer several managerial implications for both buyers and suppliers.

1. Introduction

The organizational integration between the purchasing function and other corporate functions is one of the most critical determinants of not only purchasing performance, but also overall company performance (Andersen and Rask, 2003; Cousins and Spekman, 2003; Narasimhan and Das, 2001). Integration implies that organizational functions responsible for purchasing and supply management activities, such as purchasing, logistics, operations, and product development, act in a coordinated manner in their boundary spanning behaviors in exchange with suppliers. Several constructs have been used to describe the integration of purchasing and other relevant supply functions, including internal integration (Germain and Iyer, 2006), supply chain integration (Flynn et al., 2010), supply management integration (Lintukangas et al., 2009), and purchasing integration (Narasimhan and Das, 2001). Integration is a key descriptive variable of purchasing organizations and one that typically distinguishes advanced organizations from less advanced ones (Cousins et al., 2006). Despite broad consensus that integration is a key success factor, companies still seem to find this aspect of purchasing and supply management difficult (Hillebrand and Biemans, 2003; Pagell, 2004; Richey et al., 2010). Few studies have inquired into the effects of internal integration on external parties, for instance the impact on suppliers. Those few studies have focused mostly on the effects on external integration, understood as the degree to which the buying company partners up with suppliers and develops joint strategies and practices. However, before high levels of external integration can be realized, the buying company must consider how it manages to get suppliers to mobilize their resources to prioritize the buying company in the first place. Accordingly, we perceive resource mobilization a key intermediate process linking internal integration and external integration. Some studies of buying company efforts at mobilizing supplier resources have appeared in the literature (Ramsay and Wagner, 2009; Ritvala and Salmi, 2010; Schiele, 2010). This paper contributes to this growing stream of research by investigating the effects of internal integration on supplier resource mobilization—a link that has not been studied.

By means of a qualitative single case research design we investigate *how* internal integration, or more precisely poor internal integration, between purchasing and operations in a construction company affects three key suppliers, specifically their mobilization of resources to serve the buying company. Unlike most research on internal integration and its up-stream effects, this study contributes by adopting a qualitative research methodology, allowing inquiries into *how* the actions and behaviors of the buying company affect suppliers' resource mobilization. As such, we focus on the actual actions of the parties as called for by van der Vaart and van Donk (2008). The findings add to our understanding of functional integration and the

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various ways low levels of integration affect suppliers' resource mobilization.

The paper is structured as follows. After this brief introduction, we frame the research problem and explain the methodology. Second, the literature review lays out internal integration and the integration-supplier resource mobilization link. Next, we describe the lack of integration in the case company and present our findings regarding the detrimental effects of low integration on supplier resource mobilization. Finally, we discuss theoretical and managerial implications and conclude on the paper.

2. Research problem and methodology

We apply a resource based perspective and perceive business exchange as a process, where actors in the buying and supplying companies actively access and influence their exchange partners' resource mobilization (Håkansson and Snehota, 1995; Lilliecreutz, 1998; Schiele, 2010; Villanueva et al., 2012). Supplier resource mobilization is a core determinant of competitive advantage as it underlies various types of joint innovation and development efforts between buyer and supplier, including new product development, Total cost reduction, and process integration (Beelaerts van Blokland and Santema, 2006; Santema and Kopecka, 2006; Schiele et al., 2011). However, many supplier resources are not just out there to be freely accessed and acquired, for instance in the form of available products on the market. Suppliers actively differentiate their customer portfolio and concentrate their resource mobilization on specific customers, including the initiatives, projects, and development activities of these customers (Ivens et al., 2009; Kleinaltenkamp and Ehret, 2006). Buying companies influence this mobilization process and affect the business activities of suppliers to favor the buying company in competition with other less interesting customers (Christiansen and Maltz, 2002; Ellegaard et al., 2003). The behaviors and activities of the buying company become key means of influencing the resource mobilization of suppliers (Finch et al., 2012; Schiele, 2010).

Knowledge of how buying companies' initiatives and behaviors affect supplier resource mobilization is needed, as competitive advantage is highly dependent on supplier contributions in terms of knowledge, financial, human, technological, and physical resources (Dyer and Singh, 1998; Liker and Choi, 2004). Especially more complex types of developmental resource mobilization such as process improvements, product development, quality management, and CSR require more attention and consideration of the ways buying companies engage with suppliers. Several studies have shown how companies either employ inappropriate methods of engagement with suppliers (Johnsen and Ford, 2005; Liker and Choi, 2004) or are inadequately organized and prepared internally to allow the utilization of supplier resources (Dyer and Hatch, 2006; Pardo et al., 2011). Knowledge on how companies can overcome these internal and external barriers to drawing use of supplier resources is therefore needed. Resource mobilization is understood broadly as the company's activities of preparing, activating, and deploying its resources for use by customers.

Sometimes the customer's main challenge is not to influence suppliers to focus their resource mobilization on the customer. In these types of fortunate exchanges, such as the ones under study in this paper, suppliers are from the outset willing to mobilize resources because they believe in the potential of a specific customer. Even with willing suppliers, buying companies must manage interfaces in a way that allows supplier to mobilize their resources effectively, thereby enabling them to make a profit. Integration plays a key role in this connection as a high level of integration causes coordinated actions and behaviors from the operations and purchasing departments, thereby allowing suppliers to mobilize their resources effectively (Pardo et al., 2011). Poor integration, on the other hand, produces conflicting functional behaviors, which have negative effects on supplier resource mobilization. For instance, Moses and Åhlström (2008) found that when various purchasing decisions inflict costs upon other functions they tend to provoke opposition from these functions against the decisions. Such instances of oppositional behaviors may end up hurting key suppliers. As suppliers' business is affected negatively, they become dissatisfied with the customer and consequently find other channels for resource allocation. To assist purchasing managers avoid this, one major aim of this investigation is to generate knowledge of the effects of lack of coordination on suppliers, thereby improving their management of purchasing initiatives. The following research question forms the basis for our investigation: *How does internal integration between purchasing and operations in the buying company affect suppliers' resource mobilization?*

3. Methodology-literature review

The literature search for this investigation was carried out in two stages. First, we searched the relevant literatures on internal integration to establish a sound understanding of this construct. Although the focus was primarily on the purchasing/operations interface, we also looked for relevant articles on the integration in other functional interfaces, as these papers could potentially inform our study. For instance, quite a few studies have been made on the interface between operations and sales/marketing. We searched using several key words in combination with integration, including internal, organizational, purchasing, functional, supply chain, and supply management. In parallel, we studied reference lists from the found articles to make sure that all relevant literature had been covered. Second, we sorted out the small subset of this literature dealing with the external effects of internal integration, focusing on the effects on suppliers and their ability to mobilize resources. Our review confirmed that Hillebrand and Biemans' (2003) observation that little research attention had been devoted to the relationship between internal and external cooperation was still true. However, the review also confirmed that the topic is receiving increasing attention in the literature. Finally, we generated an overview of the small, but growing research stream on supplier resource mobilization to allow further positioning of our study.

3.1. Methodology—Empirical investigation

A qualitative single case research design was adopted for this study, which is ideal for the purpose because theory on the external up-stream effects of internal integration is still limited. Furthermore, qualitative research offers the opportunity to shed light on the underlying buying company behaviors that affect suppliers' resource mobilization. The single case design allowed us to study the phenomenon in depth, to uncover *how* lack of integration affects suppliers (Ellram, 1996; Yin, 1994). The case represented an extreme exemplar, displaying the studied phenomenon to a degree where maximum knowledge could be derived. It was chosen purposefully because of its high potential to improve knowledge on the subject (Stake, 2008). The main organization in the study was a major construction company (C1). Construction companies are particularly exposed to low functional integration as operations and purchasing are physically separate entities, with operations being managed primarily at the construction site and purchasing in administrative facilities (Dubois and Gadde, 2000). The low integration tends to generate