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## Strategic sourcing with multi-stakeholders through value co-creation: An evidence from global health care company

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## ABSTRACT

This paper explores how a firm is able to consider the value co-creation potential of its suppliers, mediate the goals and actions of both its external and internal stakeholders, and develop strategic supplier partnerships that go beyond compliance to contractual agreements to innovative value co-creation activities. The study contributes to filling a knowledge gap in understanding the process of value co-creation in a service context by providing empirical evidence, by means of case-based action research in a global healthcare company (HCC), on strategic multi-sourcing decision-making and value co-creation within multi-stakeholders' collaborative partnerships. The case-based action research discussed in the paper lays a foundation for normative theories of multi-stakeholder multi-sourcing strategic decision-making. The paper describes how the firm uses the Kraljic portfolio purchasing matrix for initial screening of potential suppliers; identifies multiple stakeholders and mediates multiple stakeholder goals to establish behavioural factors for strategic sourcing decision-making and evaluating the effectiveness of multi-stakeholder collaborative decision-making during the process to develop a value co-creation system. The arguments and findings draw attention to a number of specific stakeholder expectations and goals that need to be considered before embarking on a strategy of a collaborative multi-stakeholder supplier innovation strategy. The findings of the research vindicate and qualify the approach used to develop an innovative collaborative partnership through stakeholder mediation to co-create value.

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### 1. Introduction

In stakeholder theory, value creation is a necessary and explicit part of the business mission (Freeman, 1994). The activity of value co-creation in a business is known to be “*decidedly pro-stakeholder*” (Freeman et al., 2004). In order to remain competitive in today's business economy, strategic collaboration and partnerships between stakeholders and suppliers are essential in most firms (Ulaga, 2003). This collaborative partnership is a complex web of some intangible issues evolving from the sourcing decision-making process. Ideally, the generic process of selecting and evaluating a strategic supplier involves two stages (Spekman, 1988). A pool of potential strategic suppliers is identified in the first phase, while the second stage acts as a filter where the most appropriate strategic suppliers are selected based on their level of commitments, collaboration and appropriate metrics by

establishing a threshold performance level (Spekman, 1988). However, this process involves mediating multi-stakeholders for value co-creation activities.

Purchasing decision-making through value creation in a supplier-purchaser relationship is multi-dimensional in nature, consisting of several functionalities, e.g. supplier efficiency, effectiveness and network functions (Möller and Törönen, 2003). Due to the strategic nature of the key supplier relationships and collaborative partnership, the purchaser should evaluate the value co-creation capacity of the potential strategic suppliers (Möller and Törönen, 2003). Both the monetary and nonmonetary benefits, risks and sacrifices should be included in the assessment of value in the supplier-purchaser relationship (Ng and Nudurupati, 2010). Ng et al. (2011) argue that purchasers and suppliers need to align their expectations, processes, culture, behaviours, complementary competencies, co-operate with each other and finally empower and co-ordinate to manage the perceived joint benefits risks and sacrifices. Möller and Törönen (2003) argue that the value co-creation potential of a supplier can be assessed by deriving the key operational capability indicators if “*there is sufficient benchmarking information in the form of existing alternative offerings and solutions*”.

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Although research on multiple stakeholder based strategic sourcing was studied using conventional procurement processes in the past (Spekman, 1988; Macbeth and Ferguson, 1994; Ellram, 1995; Lewis, 1995; Lock, 1998; Sadler, 2003; Scott et al., 2013; Dey et al., 2014), there is limited research on how firms can mediate with its multiple stakeholders to co-create value (Francis et al., 2014; Romero and Molina, 2011) through collaborative strategic sourcing partnerships. In particular, the following knowledge gaps in the literature have been identified:

- There are only a few examples of how procurement firms classify the value co-creation potential of their suppliers (who provide services) and manage the transition of such suppliers into strategic partnerships.
- There are few examples in the literature of value co-creation of services. Much of the extant literature appears to focus on complex engineered products.
- There appears to be very little in the extant literature on the measurement of value co-creation opportunities or on supplier performance measurement systems that go beyond compliance to contractual agreements.

Hence the overall aim of this research is to explore how a firm can mediate multiple stakeholders (both internal and external) and engage in strategic partnership with multiple suppliers in co-creating value. This study is based on a four-step action research process within a global Health Care Corporation (referred to in this paper as HCC) and contributes to the existing body of knowledge. Firstly, this case-based action research involves identifying specific stakeholders and mediators in the context of HCC's strategic intent. Secondly, the research plots all the relevant suppliers using Kraljic's matrix, and selects the suppliers with the potential to contribute to the strategic intent. Thirdly, the research mediates the stakeholders' expectations through eight behavioural metrics to shift the existing culture from purchaser command-and-control to the development of an open culture of collaboration through value co-creation with strategic suppliers. Finally, the research measures the value co-creating activities through eight behavioural metrics on three dimensions, viz. engagement, collaboration and innovation.

The outcomes of this study include three findings. Firstly, it developed a process of mediating internal and external stakeholders as well as selecting strategic suppliers. Secondly, it developed an ecosystem based on eight behaviours for multiple stakeholders in co-creating value and delivering innovation (i.e. the strategic intent in this case). Finally, a measurement framework (based on the balanced scorecard, Kaplan and Norton, 1992) was developed for evaluating the suppliers' performance beyond their contractual compliance. The following section discusses background literature, including collaboration and partnership aspects of strategic multi-supplier development and evaluation and the reported value co-creation activities in business decisions. The subsequent section then presents the research design, taking into consideration the action research strategy and its application to HCC. This is followed by a discussion of the key findings of the study. Finally the paper concludes with comments on the limitations of the study and provides an indication of future directions for research.

## 2. Literature review

Conventional procurement processes include aggressive bidding and negotiation activities. The consequences of these processes are insufficient trust, poor-quality products and/or services, poor service delivery by suppliers and higher product and/or service delivery costs. These consequences are reduced if each actor in the supply network visualises itself as an investor (Lewis, 1995). The term

"investor" could be seen as a metaphor for the provision of cooperation and partnership with suppliers, thereby maximising the benefits of the procurement process (Lewis, 1995). Spekman (1988) defines "collaboration" as "the process by which partners adopt a high level of purposeful cooperation to maintain a trading relationship over time". It has been argued that collaboration between purchaser and supplier generates "a capacity for innovation" (Lewis, 1995).

Collaborative partnership sourcing is an element of an organisation's competitive strategy (Sadler, 2003). Many organisations promote strategic collaboration and partnerships with their suppliers within a competitive business environment (Ellram, 1995). It has been observed that partnership sourcing is beneficial as it creates a relationship based on mutual trust between suppliers and purchasers (Macbeth and Ferguson, 1994). A firm implements partnership sourcing with the intention of exploiting multiple benefits from its competitive strategy. Such benefits include lead time reduction, inventory reduction, stock time reduction, increases in flexibility and cash flow (Spekman, 1988; Lock, 1998). Additional advantages of partnership sourcing are successful long-term planning, innovation and technological development. Therefore, greater benefits are obtained through mediating the roles of multi-stakeholders in collaborative partnerships between suppliers and purchasers. Therefore, the scope of the literature review is focussed on strategic sourcing decision-making issues and considers the following aspects: collaboration and partnership in multi-supplier development and evaluation, involvement of multi-stakeholders, tools for mediating decision-making, and the process of value co-creation.

### 2.1. Collaboration and partnership in multi-supplier development and evaluation

For a significant period of time the prevalent sourcing strategy was to select a single supplier, on the basis that single sourcing leads to "foster better collaboration and partnership and reduce cost" (Zhang and Zhang, 2011). This notion has proved to be inappropriate as a single sourcing strategy for all purchase orders because it involves high risk and less supply chain robustness (Zhang and Zhang, 2011). In this regard multiple sourcing decision (Bhattacharya et al., 2010) involving collaboration and partnership plays a pivotal role (Bhattacharya et al., 2014) for a firm. In a multiple sourcing decision "mutual entanglement" and "not blind trust" "is what binds important suppliers to customers" (Kamath and Liker, 1994). This "mutual entanglement" helps build a purchaser's dependency on the suppliers' technical know-how within a collaborative business environment (Kamath and Liker, 1994). The "mutual entanglement" between the firm's partners (i.e. suppliers) and the firm (i.e. purchaser) entails flexibility where specific knowledge transfer is sometimes suggested by the firm's partner (Kamath and Liker, 1994; von Corswant and Tunälv, 2002). The role of multiple suppliers in collaboration and partnership is significant. In a collaborative environment multiple suppliers become inter-dependent – even though they are competitors and co-workers at the same time (Bapna et al., 2010). Reliance on other suppliers' performance is crucial in order to meet the firm's strategic intent. Examples of collaborative partnership in supplier development and evaluation are Toyota and Eaton Corporation (Kamath and Liker, 1994). In a collaborative sourcing strategy the suppliers are required to adapt their roles in order to cope with a changing business scenario in which failure to engage will lead to reduced value creation opportunities for the existing partners. For a successful collaborative partnership, it is important for a mature supplier to co-operate with other suppliers (Ahuja, 2000) in order to remain updated in terms of both market and technology, develop new capabilities, maintain competitiveness, and learn via a critical review of development results (von Corswant and Tunälv, 2002).

Although multi-stakeholder collaboration and partnership have several advantages in sourcing decision-making, its inappropriate

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