Optimizing SMEs’ Competitive Supply Management Activities

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ABSTRACT
The strategic role of supply management (SM) for a company’s performance has been widely accepted in literature. However, although world class suppliers start getting rare only little scholarly attention has been paid to the concept of competitive dynamics as an inherent component of supply markets. What is more, the few articles attempting to connect supply management and competition focus on bigger companies while neglecting the importance of smaller companies.

Drawing on both the awareness-motivation-capability (AMC) framework and the concept of sources of supplier value (SOSV), this literature study attempts to provide small and medium-sized enterprises (SMEs) a set of specific competitive actions that can help to improve their relative competitive position in supply markets without suffering from acts of retaliation carried out by multinational companies (MNCs).

The findings show that SMEs can increase their relative attractiveness to suppliers by providing access to new markets, establishing close personal relations and maintaining a positive reputation. While MNCs have other strengths in the supply market, they clearly lack behind in activities that are encouraged by the distinct particularities of SMEs.

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Keywords
Supply Management, Competition, Competitive Dynamics, Supply Market, SMEs, Purchasing and Supply Management

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1. INTRODUCTION

Literature has witnessed a shift of the meaning and importance of the purchasing function (Carr & Pearson, 1999). From being a clerical operating function for the majority of companies, the concept of purchasing has developed to be a strategic initiative, commonly known as Supply Management (SM) (Carr & Pearson, 1999; Ellram & Carr, 1994). Rather than only entailing procurement activities, creating synergic, long-term oriented supplier-buyer relationships has become the key concept of SM (Liao, Hong, & Rao, 2010). If companies get to successfully implement their practices in compliance with their overall strategy SM can have positive performance outcomes such as reduced lead times (Spekman, 1988) or increased quality of products (I. J. Chen, Paulraj, & Lado, 2004; Hult, Ferrell, Hurley, & Giunipero, 2000).

While excellent supply management (SM) strengthened P&G’s market position by facilitating savings of up to US$325 (Shin, Collier, & Wilson, 2000), companies like Cisco and Motorola experienced the negative impacts mismanagement in the field of supply management can have. Their failure to successfully manage business relationships with their suppliers led to sudden decreases in their respective sales volumes (Lee, 2004). The given examples mentioned above are extremes but nonetheless showcase perfectly the effect SM can have on the performance and economic wellbeing of a company. Thus, as a matter of course, strategic management of suppliers has devised as a key research field in operations management (Carr & Pearson, 1999; I. J. Chen et al., 2004; Shin et al., 2000). Activities like the integration of suppliers into their own structures, development of suppliers and their resources and the active management of the supply base have emerged as core responsibilities in the implementation of SM (Antonette, Giunipero, & Sawchuk, 2002; S. M. Wagner, 2003).

While literature widely acknowledges the impact SM has on the competitiveness of companies (e.g., González-Benito, 2010; Wang, 2007; Yusuf & Saffu, 2005), only minimal attention has been paid to the role competition plays in the very process of SM. Namely, in the phase of acquiring suppliers, there is a high degree of competition where buying companies try to convince suppliers of their respective value and attractiveness compared to rivals (Galt & Dale, 1991; McGinnis & Vallopra, 1999). In SM the ability to acquire the best suppliers available is at the strategic core when it comes to eventually developing key capabilities that give the focal firm a direct competitive edge over its rivals (Berger, Gerstenfeld, & Zeng, 2004; Dyer & Singh, 1998). Since a firm’s competitive advantage is measured in relation to its next best competitor (Porter, 1998), the success of its strategy therefore is dependent on the rival’s behavior towards the focal company (J. Ramsay & Croom, 2008). It therefore is of importance for the successful implementation of SM to know where direct rivals position themselves and how they react to competitive actions.

Admittedly, in their effort to understand what suppliers expect from their buyers Schiele et al. (2012; 2008) have provided first insights about how buyers need to behave in order to attract the most capable suppliers. By becoming more attractive to suppliers than direct competitors, buying companies can achieve a “preferred customer” status, which is associated with supply privileges. However, these findings have been examined without the consideration of contingent moves from direct rivals, who actively try to achieve the same objectives. Hence, it does not consider the reciprocity of competitive actions and reactions between competing companies.

In their research, Chen et al. (2007) have taken the first notable step towards a more dynamic view on competition, which allows a specific differentiation of direct competitors. The resulting Awareness-Motivation-Capability (AMC) framework serves well as an approach to predict a company’s behavior, since the respective factors can, depending on the situation, be either catalyst or obstacle to a company’s competitive actions and reactions (Haleblian, McNamara, Kolev, & Dykes, 2012). Many examples in current literature show how the majority of the knowledge and insight about supply management strategies and its relation to competitive behavior come from studies regarding multi national companies (MNCs) as samples (e.g., M. J. Chen, 2011; Thakkar, Kanda, & Deshmukh, 2009). However, literature concerning small and medium sized enterprises (SMEs) and its positioning in competitive SM is largely in its infancy (Arend & Wisner, 2005). The lack of scientific attention for smaller companies comes as surprising, as in 2004 SMEs accounted for 96% of all the businesses in Australia, 99% in the USA and even 99,7% in Japan (J. Ramsay & Croom, 2008). More essentially, small and medium sized enterprises are of importance to both society and the economy as they account for more than 56% of the turnover generated by the private sector and moreover provide more than two third of its jobs (Lukács, 2005; Robu, 2013).

This study makes different contributions. Compared to previous papers in the field of Supply Management, this study is the first that applies findings of competitive actions research to the characteristics and attributes of SMEs in due consideration of competitive dynamics with bigger firms. To the best of my knowledge this literature study therefore will be first of its kind to provide SMEs with specific advice regarding the competitive alignment in their supply management strategies.

Like the Pulles et al. (2014) research, this study focuses on the influence competitive dynamics can have on SM. But instead of analyzing to what extent the execution of a SM strategy depends on the level of competitive tension between various companies, the concentration is on the role SMEs can take in this situation. By linking the literature stream of competitive dynamics to the various characteristics of SMEs this literature study aims to fill the previously indicated literature gap. Eventually, the question “What competitive actions can SMEs effectively apply to increase the strategic impact of their SM practices?” will be answered by providing a compilation of specific actions SMEs can implement to gain a competitive edge over competitors in their endeavors to optimize their SM.

To give reasoned output this study builds on two main theories. First, Ramsay and Wagners (2009) theory about sources of supplier value (SOSV), which identifies forty-nine attributes that are valuable for suppliers in their customer selection process. It will be argued that buying companies can make use of an understanding of supplier preferences in order to influence the own behavior accordingly. Reaching a status where one buying company get preferred over another requires a buyer to outperform direct rivals in terms of attractiveness (Hüttlinger, Schiele,
Schröer, 2014), so that competitive dynamics are crucial to this theory’s practical applicability. Consequently, the second central theory for this research comes from Chen et al. (2007) who provide a framework that helps to understand what kind of reactions from rivals companies can expect as an answer to their own competitive behavior.

The remainder of this paper is structured as follows. The next section will present differences in organizational characteristics between SMEs and MNCs as they appear in literature. After that the literature stream of competitive dynamics will be examined, with special emphasis on the emerging streams of competitive interaction and rivalry. The following section will discuss SMEs’ relative competitive position in supply markets before the subsequent sections yield five specific propositions on how SMEs can optimize their competitive activities aimed to optimize their SM strategy. Lastly, in the discussion the results will be put into a bigger scholarly picture with the aim to determine its relevance for the existing body of literature. Here also the limitations of the study and ideas for further research will be provided.

2. LITERATURE

2.1 SMEs in Literature

Reading scientific articles about business or just the daily newspaper, one can easily think that big, internationally operating companies dominate the European economy. What most of the time gets lost, between all the multi-million takeovers and expansion plans, is the importance of SMEs for a nation’s economy. Representing between 95-99% of all companies (Robu, 2013) and providing about 70% of the jobs (Meghana, Asli, & Vojsislav, 2011), SMEs of today can be seen as the economy’s mainstay.

While there is a mutual consensus about the importance of SMEs, there is not something like a unitary definition of the term yet. In literature, the main criterion for defining SMEs is the number of employees. Park and Krishnan (2001) and Arend and Wisner (2005) consider companies with less than 500 employees SMEs, others define them as companies with less than 250 employees (Freel, 2000; Quayle, 2002). For the sake of simplicity, this study aims at companies which come within the scope of the definition provided by the European Commission (2003). Namely, companies having less than 250 employees and either a turnover below € 50m or a balance sheet total of less than € 43m.

According to Zilber et al. (2012) it is important to note that SMEs are not just big companies in a smaller size with fewer employees and less turnover but, instead, have very different characteristics. In terms of internal setup, big companies were found to have well-established and professional structures, which make them organized on one hand but bureaucratic and less flexible to environmental changes on the other (M.-J. Chen & Hambrick, 1995). Most of the time the high degree of bureaucracy and inertia in MNCs is due to high number of employees involved in every operation and decision making process (Gélinas & Bigras, 2004). On contrary to this, SMEs have a less complex organizational structure (Raymond, Bergeron, Gingras, & Rivard, 1991) whose informal nature allows the company to be more flexible to any occurring external changes (D’Ambroise, 1989).

Due to the limited amount of employees and managers, SMEs do have fewer specialized functional departments (e.g. Purchasing or R&D department) in which competences of several functions typically are in the responsibility of a few employees (Březinová, 2013). Contrary to that, MNCs usually hire more specialized employees to staff departments and function of critical importance to the company (Zilber & de Araújo, 2012). The authors further report that in MNCs leadership therefore turns out to be more formal and communication tends to be in written form, compared to smaller companies. This is because managers and supervisors can not get in touch with every employee personally but follow a standardized communication method instead.

In their examination of SMEs and MNCs in an economy, Alvarez and Barney (2001) reported that SMEs are typically constrained in their resources compared to their larger counterparts. They are confronted with a resource gap when it comes to knowledge, skills, technologies (Hashim, 2007) but also simple manpower and the access to capital (van Hoorn, 1979). In comparison, organizational routines and the capability to leverage important networks to gain access to capital, skilled employees and other resources allowed MNCs to overcome the naturally advancing scarcity of resources (McDougall, Shane, & Oviatt, 1994).

But not only is there a difference in the availability of resources, SMEs and MNCs also differ in terms of behavioral patterns in their respective departments. When it comes to gathering information as valuable input for future operations, MNCs increasingly rely on the highly technologized information systems, which help the company to source information in a systematic and organized way (Bhagwat & Sharma, 2007). SMEs, by contrast, often do not have the financial opportunity to integrate those systems into their daily operations (Inman & Mehra, 1990; Weil, 1997).

However, in order to obtain information at little cost SMEs try to establish interpersonal networks with other companies as an effort to consolidate the company (Fourcade, 1991).

In existing literature numerous scholars have found that there are significant differences between SMEs and MNCs when it comes to the perceived value SM adds to the company and how related practices should be implemented (e.g., Bhagwat & Sharma, 2007; Paik, Bagchi, Skjøtt-Larsen, & Adams, 2009; Quayle, 2003; John Ramsay, 2001; Sharma, Bhagwat, & Dangayach, 2008; S. M. Wagner, 2003). According to Quayle (2003) only 45% of all SMEs acknowledge SM and the purchasing function as an important contribution to their business. Instead, their emphasis tends to be on less strategic functions and activities which require more immediate reactions and hence are targeted on short-term achievements (Paik et al., 2009; Vaaland & Heide, 2007).

As a consequence of globalization, Christopher and Holweg (2011) predict that the future for SMEs will become increasingly turbulent and unforeseeable. One of the main reasons for this phenomenon is reported to be the increasing amount of competitors SMEs have to be aware of in each market. One way of sustaining themselves through this turbulence, which causes companies to find themselves in unexpected scenarios, is to optimize Supply (Chain) Management practices, as it can reduce the risk of supply disruptions while promoting reliable, shorter delivery times of key products (Bask & Juga, 2001; Christopher, 1998).

For this purpose SMEs are required to strategically plan their practices (Singh, 2011) and allocate their scarce resources to the selected strategic approach (Skjøtt-Larsen, 2000).

In literature strategic planning has gained a lot of attention as it is reported to have a positive influence on a company’s
competitiveness, thus also on its survival (Ennis, 1998; Schwenk & Shrader, 1993). In fact, it has already become an integral part of almost every MNC nowadays as it allows companies the "structured evaluation" (Gibson & Cassar, 2002, p. 172) of alternatives and external influences such competitors. However, on the contrary, the majority of small and medium sized companies neglect or ignore strategic planning (Beaver, 2003; Berman, Gordon, & Sussman, 1997; Orser, Hogarth-Scott, & Riding, 2000; Robinson & Pearce, 1984; Sandberg, Robinson, & Pearce, 2001; Sexton & van Auken, 1985). Due to their limited resources and the lack of empirical findings, planning in SMEs is yet considered a tactical option, which is carried out reactively and focuses on the short term (Gibson & Cassar, 2002; Risseeuw & Masurel, 1994).

2.2 Competitive Dynamics

In their aspirations to improve profits or establish relative competitive advantages, companies decide to take direct actions against rivals (K. G. Smith, Ferrier, & Ndofort, 2001; K. G. Smith, Grimm, & Gannon, 1992), which, in turn, may provoke competing companies to carry out acts of retaliation (M.-J. Chen & MacMillan, 1992; Yu & Cannella, 2007). The resulting interactions between competing firms are the key concept to competitive dynamics, which Chen and Miller (2012, p. 137) define as "the study of interfirm rivalry based on specific competitive actions and reactions, their strategic and organizational contexts, and their drivers and consequences".

The research stream of competitive dynamics has its theoretical roots in Schumpeter’s (1934, 1950) theory of "creative destruction". Schumpeter discusses how the pursuit for achievements in a dynamic environment explains actions and reactions between competing firms. He further argues that the earned profits of one company motivate others to undertake specific actions aimed to overcome leader (Schumpeter, 1947). While previous researchers have primarily focused on competition between a community or population (Freeman & Hannan, 1983), strategic groups (Cool & Schendel, 1987) or industries (Porter, 1980) a more recent approach by Chen (2009) took a more particularized perspective. The popularity of competitive dynamics has flourished over the last years as it allows a fine-grained view on the reciprocal actions among companies. By considering elements like the effects of competitive actions on company performance, the dynamic view far beyond only considering the static elements and characteristics of competition. This approach receives broad support by the "Austrian School" stating that the overall concept of competition needs to be considered as a dynamic, vividly developing process rather than a static, fixed condition (e.g., Jacobson, 1992; Mises, 1949; Young, Smith, & Grimm, 1996). This theoretical approach thinks of competitive advantage as a temporary phenomenon whose preservation requires companies to carry out competitive actions against rivals time and time again.

Hence, current literature on competitive dynamics builds on the interrelating concepts of action and reaction between companies and on the idea that the surrounding environment in which action will be carried out influences the performance of those activities (e.g., K. G. Smith et al., 2001; K. G. Smith et al., 1992; Upson, Ketchen Jr, Connelly, & Ranft, 2012). Over the years research in the field of competitive dynamics has originated two separated literature streams from within (Ketchen, Snow, & Hoover, 2004). The stream of competitive actions examines mainly positive aspects and consequences of actions and reactions from competing companies. On contrary to that, the competitive rivalry stream sheds light on negative factors and impacts overly aggressive competition can have on the participant’s performance.

2.2.1 Competitive Action/Interaction

Competitive actions are defined by Smith et al. (2001, p. 321) as "externally directed, specific, and observable competitive move[s] initiated by a firm to enhance its relative competitive position". Actions like introducing new products or cutting prices are hence aimed at improving the competitive position relative to a firm’s rivals. The reactive, observable action coming from the competing company to strengthen its own position against the attacking company is defined as the competitive reaction or counteraction (M.-J. Chen & MacMillan, 1992; Porter, 1980). The likelihood and the extent of competitive reactions as an answer to a rival’s initiation were found to be dependent on numerous factors. Young et al. (1996) showed that the characteristics of the action itself was important for its likelihood to happen. In detail, companies are less likely to undertake competitive actions, if its implementation would be too difficult or would require too many resources. Characteristics of the attacking company, for example supporting organizational structures or commitment to the plan, are identified to be another influencing factor (M.-J. Chen, Smith, & Grimm, 1992).

Conversely, the characteristics of the defender are also an important factor to be aware of when predicting the success of a competitive action (Baum & Korn, 1996); for example the rival’s interest in the attacked market. The interaction between the initial competitive action of a company and the subsequent reaction from its rival are at the heart of competitive dynamics.

In an effort to understand and explain the drivers for the dynamic nature of actions between competing firms, three basic assumptions were derived from D’Aveni’s (1994) work about hypercompetition. Firstly, because companies actively seek to disrupt the positive impact competitive actions have on rival’s performance, competitive advantage is volatile and inconstant. Secondly, in order to sustain a competitive advantage firms constantly need to implement competitive actions. Lastly, the likelihood of superiority shows a close positive relation to the amount of competitive actions implemented.

Having identified the basic underlying assumptions of dynamic competitive actions, literature has identified three dimensions of competitive actions. The level and timing of actions both define the intensity of the actions, whereas the competitive repertoire describes the diversity (M. J. Chen et al., 1992; Ferrier, Smith, & Grimm, 1999; K. G. Smith et al., 1992). The competitive repertoire of a company is best described as the entire range of competitive movements a company can and is willing to undertake in order to improve its relative competitive position (M. J. Chen, 2008). Examples could be marketing offensives, price cuts or new product introduction. In general, it has become evident that the application of a broad repertoire is positively related to a superior company performance. Companies are thus recommended to make use of competitive actions that are new to the company itself and hence might come unexpected.
for rivals (Danny Miller, 1992). Even more so, Ferrier et al. (1999) argue that applying competitive actions differently from competitors will add complexity to the company’s repertoire. Conversely, if companies focus on a few, simple competitive action instead, they will fail to benefit from the quickly changing environment (Danny Miller & Chen, 1996). González-Benito (2010) claims that importance should be equally attributed to all the competitive actions of the repertoire without prioritizing specific ones. This way, the danger of neglecting effective actions can be minimized.

One of the two determinants for intensity is the speed or timing of a competitive action. Ideally, companies carry out their actions quickly without rushing for imprudent decisions (K. G. Smith et al., 1992). By doing this, the rival’s reaction will get slowed down because there is little time to react on quick and unexpected competitive attacks. As a consequence, the initiating company has more “downtime” where it does not have to fear attacks from rivals. Based on this, Schumpeter (1934) argued that the longer a competing company needs to react to the initiative move, the less likely it is to have any positive impact. Especially in a fast growing environment with a lot of competitors, it is essential for companies to react immediately to attacks in order to signalize presence (Chang & Park, 2012; Gadiesch, Leung, & Vestring, 2007). As a consequence of constantly undertaking competitive actions in a quick manner, Dickson (1992) argues, companies will be able to establish routines in their activities making them more effective from time to time.

When it comes to the level of competitive actions, the second part of intensity, literature commonly agreed upon the fact that a high amount of competitive actions induces superior competitiveness (e.g., Ferrier et al., 1999; Young et al., 1996). In turn, companies carrying out a limited amount of action relative to its competitors were found to be less successful (de Brito & Brito, 2014; Danny Miller & Chen, 1996). Needless to say, the amount of competitive actions a company is advised to carry out also depends on the magnitude of available resources.

2.2.1.1 The AMC Framework
The AMC framework, firstly introduced by Chen (1996), offers an entirely new approach to determine companies’ incentives for competitive actions or reactions. Instead of seeing the motives for competitive reactions originated in economic factors, it has its conceptual roots in psychology (e.g., M. J. Chen & Miller, 2012; Kahnemann, Slovic, & Tversky, 1982; Yu & Cannella, 2007). Basically, the framework proposes three behavioral urges to have an impact on a company’s competitive decision-making process: awareness, motivation and capability. In more detail, the degree to which a company is aware of a competitor’s action greatly depends on factors such as visibility of the attack (Ken G. Smith, Grimm, Gannon, & Chen, 1991) and company size (M.-J. Chen & Miller, 1994). Chen et al. (2007) suppose that visibility is closely related to company size, which is why competitive actions from larger companies are more easily detectable.

The motivation to react to a competitive attack meanwhile depends on the necessity the attacked company sees in reacting to it. Companies feel more motivated to react if they get attacked in many markets simultaneously (Baum & Korn, 1996; Gimeno, 1999) or in markets which are key to their strategy (M.-J. Chen & MacMillan, 1992).

The capability of a competitor to contest is largely dependent on the perceived simplicity of the reaction (Ken G. Smith et al., 1991). This, in turn, depends on the similarities between the resources of attacking and attacked company. Chen et al. (2007) argue that a company considers itself of being capable to react to an attack, if the attacking rival has a similar resource profile. This assumption is in line with findings in literature that companies of similar structure have similar objectives and therefore will end up competing with each other (e.g., Heil & Robertson, 1991; M. Miller & Shamsie, 1996). To put it briefly, if a company is neither aware of the threat, motivated to react to the threat nor capable of eliminating it, there will be no retaliating reactions (M. J. Chen & Miller, 2012).

Even though various pieces of research from the literature stream of competitive actions have shown its positive relation to company performance, the stream of competitive rivalry provides another perspective by showing how escalating rivalries can damage the success of a company.

2.2.2 Competitive Rivalry
A quite different stream of literature comes from the research field of industrial organization. Here scholars define “rivalry” as a set of sequential, consecutive moves from a company aiming to weaken the relative position of its rivals (Bettis & Weeks, 1987; Porter, 1980). The concept is based on the belief that companies’ competitive positions are incompatible with each other, hence there is a continuous striving to oust direct rivals. However, if no limits are set to the scope of actions, excessive rivalry can turn into a competitive war which is defined as a phase of extreme and ruthless competition (Bain, 1949; Mason, 1939). Industries with many similar competitors in terms of resource availability are thus likely to experience such a warlike situation. This is because the competing companies, which are more or less of equal power, do spend a majority of their resources and excess capacities on the attempt to defeat their rivals (e.g., Porter, 1980; Porter, 1998; Rindova, Becerra, & Contrado, 2004; Scherer & Ross, 1990). As a matter of fact, many companies, which are involved in cycles of competitive warfare, find themselves with difficulties waiting for the right time to exit the rivalry. Consequently, this can lead to a situation where competitive actions result in having destructive consequences for the acting companies rather than performance improving ones (K. G. Smith et al., 1992).

To prevent companies from getting into a situation where excessive competition damages their performance, literature suggests identifying available resources and then determining the appropriate degree of involvement in competitive activity (Ferlic, Raisch, & Von Krogh, 2008). Contrary to the initial belief that a high amount of quickly executed, competitive actions will result in sustained competitive advantage (K. G. Smith et al., 1992; Young et al., 1996), Grimm and Smith (1997) later advised companies to take a more sustainable perspective in situations of competitive war. This is because the effective implementation of competitive actions results more than ever depends on a company’s underlying resources and the understanding to allocate those efficiently.
3. SMES IN THE COMPETITIVE SUPPLY MARKET

According to Pulles et al. (2014) supply markets are those markets where buying companies acquire goods and services from supplying companies. A recent trend in current supply markets is that, in spite of the world becoming more connected and open, buying companies see the overall amount of suppliers decreasing (Lavie, 2007; Schiele, 2008; S. Wagner & Bode, 2011). This is in line with Cordón and Vollmann’s (2008) assumption that, as a consequence of volatile markets, the number of world-class suppliers will shrink drastically. As a consequence, there will be more buyers per suppliers than a few years ago, which is why competing buyers increasingly will be forced to obtain their resources from the same suppliers (Schiele et al., 2012).

Suppliers, on the other hand, therefore will be able to choose the buyers they want to work with as their dependency on this specific supplier is most likely going to increase. Resulting from this new balance of dependency, buying companies find themselves in an intense competition for the best suppliers (Oblon & Capron, 2011)

Thibaut and Kelley (1959) found that suppliers only collaborate with buyers which they think can add significant value to their company. However, establishing valuable partnerships with suppliers requires more than only meeting the asking price or attending buyer-supplier meetings every now and then (Landry, 1998). A theory that is based on this thinking is the “preferred customer” concept developed by Schiele et al. (2012, 2008). A preferred customer is a buying company which is held in high esteem in the supplier’s eyes because it adds more value to the supplying company than its competitors do. This preferred company will be treated preferentially in terms of resources compared to other buying companies, even if the requested resources start becoming rare in the market (Steinke & Schiele, 2008).

In a similar fashion Ramsay and Wagner (2009) identified over forty sources of supplier value (SOSV). Those sources can be attributes, behaviors and characteristics of buying firms suppliers consider attractive, such as overall profit or reputation. If buyers fulfill the suppliers’ demand in these categories, the buyer can achieve the status “customer of choice”. Likewise for the preferred customer status, a company that wants to enjoy the privileges of the customer of choice status needs to win out over its competitors. By increasing its relative attractiveness a buying company can convince suppliers of its advantage it has over competing buying companies. Hence, in a supply market customer attractiveness can be seen as a competitive advantage that can be increased by attacking the relative position of competitors while being prepared for competitive reactions. In this context Galt and Dale (1991) were among the first researchers to suggest that a buying company needs to inflict damage on the relative attractiveness of its competitors in order to get selected by suppliers. However, SMEs show very little engagement in supply markets and in SM in general. Most do not see involvement in SM as essential for their company (Ellegaard, 2006) or do not seek to establish departments, whose main function is to take care of everything related to SM (J. Ramsay & Croom, 2008). As a consequence many SMEs do not see the necessity to work against competitors in the supply market as to increase their chance of collaborating with the best suppliers.

Based on what has been found in the literature stream of competitive dynamics, propositions will be built to theorize about how SMEs could align their competitive actions to improve their supply management strategies. By taking advantage of their own characteristics, SMEs could aim to address the competitive dynamics that come into being as a result of SMEs’ actions.

3.1 Discrepancy Between SMEs and MNCs

Ramsay and Wagner (2009) recently found that there is disparity between the ways small and large companies try to impress suppliers of their respective value. Traditional practices like “hard-hitting negotiations” can not be applied by SMEs and MNCs in equal manner because their organizational characteristics differ too much. Consequently, they argued that there is no way for SMEs to ever become a “customer of choice” to suppliers but, instead, they need to wait for MNCs’ absence in special situation to become more attractive. Indeed, many of the SOSVs the authors identified possibly can not be achieved by smaller companies as effectively as by larger companies. Usually, SMEs due to their limited resources lack behind their larger counterparts when it comes to things like overall profit, sales volume and sales impact. In literature these factors were described to have a positive influence on the supplier’s opinion of the buying company (e.g., Anderson, 2008; Mack, 1971; J. Ramsay, 1994), which is why MNCs in these categories have a relative competitive advantage over smaller companies. It is therefore not advisable for SMEs to focus on the same objectives as MNC’s by precisely imitating their actions. This is because bigger companies with distinctive sets of resources can implement actions differently from smaller companies and therefore add different value to suppliers. Due to their particularities, SMEs on the other hand, need to approach suppliers and their general position in a supply market in another way, as they normally cannot make use of assets such as highly specialized staff or huge investments.

However, as mentioned before, attractiveness to suppliers is a relative notion because buying companies are evaluated in relation to each other. Hence, by undertaking certain competitive actions SMEs can either increase their attractiveness or reduce the attractiveness of its competitors. In this way, SMEs can compete directly with larger companies for the best suppliers even though they were thought to have a competitive disadvantage because of resource constraints.

Proposition 1) Their particularities require SMEs to act differently in supply markets than MNCs to optimize their SM practices.

Instead, the aggressive nature of SMEs allows the company to initiate competitive attacks against MNCs in a speedy but subtle way (M. J. Chen & Miller, 2012). Because MNCs are able to initiate massive competitive attacks as an act of retaliation (M. J. Chen et al., 2007) it becomes important for smaller companies to avoid direct confrontation. Even though SMEs were found to react slowly to competitive reactions (M.-J. Chen & Hambrick, 1995), emerging competitive dynamics between two or more companies can result in a competitive war in the supply market. To win a competitive war companies increasingly are required to allocate internal resources in a way competitors can be
eliminated. Obviously, while MNCs would also possibly benefit from aligning their competitive activities to the AMC framework so that competitors are less likely to react, the urgency to do so is lower. This is because, compared to smaller companies, MNCs have more resources they can spend to sustain through a highly competitive situation in which the competitor seeks for retaliation. However, according to Rindova et al. (2004), SMEs do not have the resources to sustain through such a warlike situation, which makes them an easy target for competitive attacks from MNCs. Therefore it is important for the survival of the SME to predict the next competitive step of direct competitors, for example by considering the AMC framework in their competitive strategy. As proposed by Pulles et al. (2014), competitive attacks of which the attacked company is not aware, motivated or capable to respond are less likely to provoke competitive reactions and therefore more likely to be successful. Consequently, by planning their competitive activities in a way that complies with the three dimensions of the framework, SMEs can avoid competitive reactions from MNCs and a resulting trial of strength. By staying clear of confrontations with MNCs SMEs can save and reallocate their resources to another opportunity that is likely to improve their competitive position.

Proposition 2) By incorporating the AMC framework in their competitive strategy, SMEs can avoid acts of retaliation from MNCs that result in a competitive rivalry.

3.2 New Markets for Suppliers

Two of the determined SOSVs are Market Access and Market Information (J. Ramsay & Wagner, 2009). In order to expand their reach to markets they have not discovered yet, suppliers value buying companies that can pave the way to new lucrative markets. Mortensen (2012) argued that the attractiveness and profitability of a market segment positively influences the supplier in its buyer-selection decision. As the demands of end consumers increase and get more diversified, different niche segments are emerging in existing markets (Christopher & Holweg, 2011). Because MNCs usually are limited in terms of flexibility and adaptability to frequent changes (Gélinas & Bigras, 2004), niche markets are very rarely served by large companies (Christensen, 1997; Eden, Levitas, & Martinenz, 1997). On contrary to that, flexibility and closeness to markets (Lukács, 2005) allow SMEs to enter niche markets more frequently and with higher success. By entering niche markets SMEs will get to know its consumers and their demand in more detail and information can be abstracted (Zilber & de Araújo, 2012). As a consequence, granting access to new niche markets while providing valuable market insight will eventually increase the buyer’s attractiveness to suppliers.

Traditionally, niche markets are characterized by very specific demands of a relatively small group of consumers (Rugg, Rhodes, & Jones, 2002). With their highly specialized skills SMEs are more capable of serving these markets than larger companies, which instead concentrate on many markets at the same time (Rhodes & Carter, 1999). Diversification of products and services was identified as a SOSV (Fiocca, 1982; J. Ramsay & Wagner, 2009) that can be achieved by building upon SMEs’ expertise to serve these specific markets that developed diversified demands.

By introducing suppliers to specific niche markets a SME can fulfill various SOSVs, thus increase its attractiveness. Because of their inflexibility and inertia MNCs are not capable of serving niche markets the way SMEs can do it. Consequently, even if MNCs are aware of the proceedings in the niche markets, SMEs do not have to expect any significant competitive reactions.

Proposition 3) SMEs’ easy access to new/niche markets will increase their attractiveness to growth-minded suppliers.

3.3 Reputation and CSR

In a world where media coverage becomes faster, information flows obscure and supplier-buyer networks more complex (Carroll, 1991), companies are no longer only responsible for their behavior but increasingly for their partners’ image as well. Ecological catastrophes like the Exxon Valdez oil spillover in 1989 or more recently the Refugio oil spill in 2015 did not only have negative consequences for the company in direct charge but also for affiliated companies. A damaged reputation in the media affects the firm performance negatively insofar that making business with this company gets more unattractive (Eltantawy, Fox, & Giunipero, 2009). In line with this finding Ramsay and Wagner (2009) found Reputation to be a SOSV, hence suppliers are keen on collaborating with a buying company whose reputation is not blemished but positive.

One way to improve the reputation of a company is to establish a positive corporate social responsibility (CSR) (McWilliams & Siegel, 2001; Zyglidopoulos, 2002). The European Commission (2011) defines CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis“. Practices to improve a company’s CSR include activities such as issuing sustainability reports, harvesting partnerships with non-profit organizations, minimizing the use of natural resources or the creating a safe work environment for employees.

In a context where several companies compete for the goodwill of a limited number of suppliers, companies tempt each other to perform unethical maneuvers that harm their competitor’s reputation (Morris, 2005). Since CSR can gain a competitive advantage over others (Husted & Allen, 2000; Porter & Kramer, 2006) and its implementation can be influenced by external sources such as the behavior of competitors, CSR strategies can be seen as a concept that gets influenced by competitive dynamics.

While the effectiveness of CSR as an integrated part of a company’s strategy is perceived as high regardless of the company, the way SMEs and MNCs implement related practices differ significantly. Because MNCs are easily visible to the public, many of them make use of CSR as a marketing tool to “greenwash“ their businesses. For example, to distract the media from suppressing working conditions for employees (Bendixen & Abratt, 2007). To meet their need for clear structures MNCs apply formalized and well organized CSR systems (Tantalo, Caroli, & Vanevenhoven, 2012). On the other side, SMEs due to their particularities need an own, individual approach to CSR. Rather than using formalized communication channels to promote their norms and values, SMEs can benefit from informal communication structures to quickly disseminate...
CSR messages among employees. Their inherent creativity can facilitate the development of new and innovative CSR strategies that are adaptive to the changing environment and their flat hierarchies can help to involve all regarded employees more quickly. On contrary to that, MNCs need to spend more time to spread the CSR message to every single employee which increases the chance of misconducts. This is in line with findings from Jenkins (2004) and Spence (1999) examining that personal motivations and objectives usually outweigh the ones prescribed by the company they are working for. This means that MNCs need to spend a lot more time and effort to overview and guide every single employee to preserve their reputation than SMEs.

To conclude, contrary to MNCs’ CSR practices, which are focused on maintaining a positive image by avoiding ethical missteps, SMEs aim to create an atmosphere of goodwill that creates value for employees, customers and suppliers. Hence, MNCs and SMEs approach CSR in two very different ways giving MNCs less motivation to react competitively towards SMEs’ CSR commitments.

Proposition 4) Creating a good reputation by means of CSR practices will increase SMEs’ attractiveness to suppliers.

3.4 Network of Goodwill and Knowledge

In a time which is characterized by automatization and highly developed technologies, Ramsay and Wagner (2009) have identified Personal Meetings and Good Inter-organizational Staff Relationships as source of supplier value. Apparently, suppliers prefer face-to-face communication to online meetings and still appreciate personal relationships between employees of different companies as a solid basis for further collaborative activities. In an atmosphere where supplier and buyer work closely together a firm dyadic network can evolve. Such a dyad network is characterized by the embeddedness of supplier and buyer, which is defined as the degree to which one party is influenced by behaviors, decisions and performance of its partner (Kim, Choi, & Skilton, 2015).

Two different dimensions have been defined as determinants of the embeddedness in a supplier-buyer network. First, the relational dimension, which is constituted of concepts like level of commitment, trust, shared values and quality of conflict resolution. Second, the structural dimension defined by concepts like frequency of interaction or mutual dependence. These factors characterize dyadic relationships and, obviously, are cultivated differently in every relationship based on companies’ particularities. With their simple, informal and non-bureaucratic structures SMEs offer the possibility for suppliers to establish good, personal relationships between the two companies. SMEs’ appreciation for open communication and cooperation (Redondo & Cambra-Fierro, 2007) can moreover facilitate the Receptiveness to Suppliers Ideas and the Free and Timely Information Flow, of which both have been identified to be SOSVs (J. Ramsay & Wagner, 2009). This is when the level of commitment to the objectives of the partner increases to the extent that information get disseminated freely and timely and ideas from the supplier are welcome to the SME as valuable input. Ideally, good personal relationships, combined with mutual objectives, can lay the foundation of Joint Teams between supplier and SME. However, in a business relation with MNCs establishing personal relationships between employees will be more difficult. The reason for this is that the complexity and relatively high number of departments as well as the bureaucracy of its communication channels does not favor personal meetings or sustainable relationships between employees. Quite the contrary, because MNCs are operating globally they are probably dependent on more than just a handful of suppliers. Consequently, the flow of information becomes less exclusive and the lack of time to care about every single supplier decreases the probability that the MNCs are open to the ideas of the suppliers.

Not only does a close liaison between supplier and buyer favor good and personal relationships between the two sides, it also facilitates innovation. According to Dyer and Singh (1998) a company’s capability to innovate is limited because it only has a certain amount of internal resources available. However, creating a link to a partner that has different resources, will improve a company’s ability to innovate (Belderbos, Carree, & Lokshin, 2006; Greve, Rowley, & Shipilov, 2014). Being innovative allows companies to be more attuned to rapidly changing demands in a market (Ireland & Hitt, 1999) leading to a competitive advantage (Fröhlich & Westbrook, 2001). Unsurprisingly, both Customer-led Innovation and Supplier-led Innovation Support were examined to be SOSVs (J. Ramsay & Wagner, 2009). Not only appreciate suppliers the own innovativeness of buying firms but they also value their supportive orientation towards innovations initiated by the supplier.

Needless to say, huge investments in R&D make MNCs an innovative partner in the classic sense. However, according to Gomes et al. (2009), making use of external sources of innovation is always influenced by the partner’s corporate culture, pace, information flow and work routines. With this being said, MNCs are therefore less likely to support suppliers in their innovation processes because their information flow is too slow and working processes are not synchronized. SMEs’ closeness to markets and adaptability to changes enable them to acquire knowledge and market information that are important for innovations in a fast way. Their flexible but rapid decision-making processes help to estimate what is the best way to approach these quickly changing markets and serve them accordingly. Also, their very specialized skills and technological leadership (Qian & Li, 2003) are valuable input for suppliers that want to develop their own innovations or would like to get supported this way.

Even though innovativeness is widely acknowledged to be the key attribute of smaller companies, one can not claim that MNCs are not innovative. However, they way SMEs can provide suppliers an innovative atmosphere is quite different. Instead of investing in R&D to innovate, SMEs can establish close personal relationships to suppliers that enable the knowledge transfer between the two sides. Admittedly, MNCs are also able to integrate suppliers into their processes and mechanisms but their complex structures complicate the personal approach. This is why MNCs will be not be capable to offer the same value in the innovation process to suppliers as SMEs, even if they are aware and motivated to react.

Proposition 5) A personal atmosphere between SMEs and suppliers facilitates innovative processes and knowledge transfer whereby the SMEs’ attractiveness will be enhanced.
4. DISCUSSION

Contrary to the belief of Ramsay and Wagner (2009) that small companies cannot become customer of choice for suppliers when large companies are in the same market, the findings of this study show that it is indeed possible for small companies to become more attractive than their bigger counterparts. Characteristics like closeness to markets, flexible structures and informal communication channels enable SMEs to fulfill many SOSVs in a more convincing fashion than MNCs. The divergence in the findings might be due to the fact that Ramsay and Wagner compared SMEs and MNCs in terms of their visible attributes, things that will most likely be of interest for potential suppliers. However, this research takes a quite different approach by focusing on the competitive abilities each party has and how those can possible influence their respective attractiveness to suppliers.

Admittedly, it has to be said that not all of the identified SOSVs can be fulfilled by SMEs in a way that increases attractiveness. That is not to say that SMEs cannot achieve Financial Probit or meet the demands when it comes to Sales Volume. However, due to their resource prosperity MNCs are more likely to achieve a superior outcome. What is more, SOSVs like Personal Preference are also beyond the control of SMEs. For instance, a supplier might collaborate with MNCs because an important decision maker prefers MNCs to SMEs without any reasoned justification.

The fact that MNCs are more capable of fulfilling certain SOSVs than SMEs does not necessarily have to have negative implications for SMEs in terms of their long-run competitiveness. This is because the different focus on competitive actions forces MNCs to concentrate their resources on some objectives while paying less attention to others. In turn, this allows SMEs to follow their competitive actions without having to fear competitive actions they might not withstand.

Moreover, the previously proposed competitive actions can be seen as components of a broad competitive repertoire. This is in line with statements from Miller and Chen (1996) and Ferrier et al. (1999) that broad competitive repertoires increase the effectiveness of competitive actions as they come unexpected. As a consequence, the actions of SMEs might catch competing MNCs by surprise so that those can not react anymore before SMEs achieve a competitive advantage.

Benefits in SMEs’ supply management strategies resulting from successfully implemented competitive actions, could potentially overcome the belief that there is no fit between supply (chain) management and SMEs (e.g., Arend & Wisner, 2005; John Ramsay, 2001). Especially Arend and Wisner were among the researchers who argued that smaller firms can not attract key suppliers in the long run. Conversely, the findings of this study suggest that there are competitive activities SMEs can carry out that both fit their particularities and increase their performance of practices related to supply management.

From a managerial point of view this study has several implications for both the buyer and supplier side. For the suppliers, this study suggests that collaborating with the largest companies in the market does not always guarantee the best outcome. Quite the contrary, for example, suppliers that want to establish close personal links to their partners and become more innovative can benefit from the characteristics of SMEs in many ways. Therefore, suppliers do not necessarily have to trust in the big names of the business but instead are well advised to team up with one of the many SMEs. On the other hand, for the buying side, this paper calls attention to the importance of SM as a performance improving function in a company. While many SMEs have not considered SM practices an essential part of their strategy, the findings of this study show that SMEs do not need to feel intimidated by MNCs’ magnitude of resources, but instead can achieve good results with few resources. However, the findings also suggest managers of SMEs to plan competitive actions carefully without neglecting the threat coming from competitive reactions of MNCs. Similarly, the importance of SOSVs that SMEs can not fulfill as convincingly as MNCs should not be neglected either. In other words, it might not be enough to establish close personal bonds to the supplying firm, while MNCs, on the other hand, offer suppliers a high sales volume. Obviously, it is not possible for SMEs to compete with MNCs in terms of sales volumes all of a sudden. But instead of trying to take away their natural disadvantages compared to MNCs, SMEs rather need to focus on employing their characteristics and opportunities to advantage. For example, since SMEs are less visible in public it is easier for them to communicate with suppliers without getting detected by competitors. In this way SMEs can discuss details of the collaboration with suppliers while MNCs do not realize that a certain supplier enters a new market with the help of an innovative SME, for instance. So as a consequence, MNCs can not react in a timely manner and already find themselves in a disadvantageous competitive position.

4.1 Limitations

The most obvious limitation of a literature study of this kind is the complete reliance on existing literature since it entirely builds up on findings and conclusions stemming from previous researches. In detail, the results of this study were influenced by the availability of literature in accessible databases and both the appropriateness and validity of selected articles. Speaking of validity, on the one hand many of the conclusions drawn in this paper – especially those regarding competitive dynamics - were derived from studies having big companies as their research samples. On the other hand, most of the conclusions made about SMEs were based on the findings from very specialized papers. Many of the used articles discussed particularities of SMEs in a certain country or industry (see Maranto-Vargas & Gómez-Tagle Rangel, 2007; Quayle, 2003; Yusuf & Saffu, 2005). This means that some of the findings might have been influenced by specific circumstances such as culture or industry-specific technologies.

What is more, this study treats the supply market as an environment where SMEs and MNCs compete with each other for the best possible suppliers. However, no attention has been paid to the possibility that suppliers develop to the extent that they can serve numerous buying companies equally good without classifying buying companies as “customer of choice” or “preferred customer”. Moreover, it is not always the case that SMEs only have to face MNCs which are quite different in a number of ways. Consequently, the findings of this study do not necessarily provide solutions for SMEs in each competitive scenario they have to deal with. Also, the concept of coopeition – the scenario where competitors cooperate to achieve better results – has not been regarded as an alternative to competition in supply markets.
Nevertheless, these limitations do not necessarily weaken the applicability of the findings of this study but can be incentive enough for other researchers to test their generalizability and applicability in different situations.

4.2 Further Research
After answering the research question of this study, the question still remains whether or not implementing supply management practices in their overall strategy is recommendable for SMEs. Admittedly, it has been argued that SMEs theoretically will be capable of becoming a customer of choice for suppliers, if they manage to increase their relative attractiveness compared to competitors. However, even though precise activities have been identified on how to achieve this status, this study does not further specify the resources SMEs need to mobilize for this purpose. It therefore did not get clear if the effort companies have expend and the risk from intense competition are worth the potential positive consequences for firm performance. To shed more light onto this question, differently sized SMEs in very different industries need to be analyzed so that each situation can be assessed individually.

First of all, in order to give more detailed advice for SMEs, the term needs to get subdivided again and regarded separately. Current literature tends to make use of the term SME when talking about companies that are smaller than MNCs. However, also in this category, which is commonly expected to have not more than 250 employees, differences are notable between micro, small and medium-sized companies that have not been considered in the supply management literature yet. Needless to say, these differences might have an influence on the applicability and effectiveness of the competitive actions which is why further elaboration is needed.

In order to add more validity to this study, its findings need to be tested empirically. Ideally, SMEs from different industries will be observed and analyzed while carrying out the proposed competitive actions. By doing this, researchers can test the effectiveness of the competitive actions in different circumstances in order to customize those accordingly. For instance, according to Bouckeen et al. (2015), SMEs have 14% higher chance of surviving in a high-tech industry than in a low-tech industry. Consequently, it is important for SMEs to adapt their competitive actions to their respective environment in order to prevail against competitors. Similarly, as this research only provides SMEs with a first very vague direction how to approach a competitive supply market, the next scholarly steps need to specify the competitive actions in more depth. For example, it might be a good starting point for a SME to know that a well conceived CSR program can improve its reputation and thus increase its relative attractiveness, but it is even more interesting to know what specific CSR practice can be implemented at what time to convince what certain type of supplier.

Also, as far as theories are concerned competitive dynamics in supply markets can be complemented in a number of ways. For example, the consideration of the social network theory (e.g., Gulati, 1995; Gulati, Nohria, & Zaheer, 2000) or industrial network theory (e.g., Gadde, Huenner, & Håkansson, 2003; Möller & Rajala, 2007) can give further detailed insight into the relationships that evolve when suppliers and buyers collaborate. Both theories explain how external factors such as competition or shifts in technology affect relationships between partners but also consider internal factors like frequency of communication as determinants for a successful relation. Including those theories in a next research step can enhance the understanding of how SMEs must behave in order to sustain valuable relationships with suppliers while prevailing against MNCs.

5. CONCLUSION
Both researchers and practitioners have recognized the positive influence Supply Management can have on the performance of a company. However, current literature in this field lacks of two major aspects. First, it does not sufficiently consider the effect of competition on supply management strategies. This comes surprisingly insomuch that the number of world class suppliers decreases so that numerous buying companies find themselves competing with each other for best suppliers. Second, existing literature in both the area of supply management and competitive dynamics focuses primarily on large companies, whereas the importance of smaller companies gets ignored widely.

This paper aimed to expedite the competitive supply management literature by giving explicit advice to SMEs about how to behave in a competitive supply market. Because SMEs cannot be seen as little MNCs, the propositions made are in due consideration of SMEs’ particularities and possible reactions from the competitive environment. In detail, because of their informal structures, technological expertise and flexibility SMEs were found to be commendable partners for suppliers in quite some situations. Namely, providing access to new markets, maintaining a good reputation and facilitating the process of innovation are three competitive activities that get boosted by the characteristics of SMEs but can not be implemented by MNCs the same way. The underlying objective of the proposed actions is to become more attractive to the best available suppliers and thus improve the overall performance of a company’s supply management strategy. Compared to SMEs MNCs, due to their rigid structures and slow decision making, do have more problems fulfilling the above mentioned criteria, hence are less capable and motivate to react to SMEs’ commitments. Consequently, while trying to fulfill those sources of value for suppliers SMEs most likely do not have to expect competitive reactions from MNCs, which is why they can obtain a competitive advantage in their aspiration to collaborate with the best suppliers.

6. REFERENCES


