

# Editorial:

## Innovative Supplier Selection: Key Success Factors

Arvind Upadhyay<sup>a</sup> and Enzo Baglieri<sup>b</sup>

- a. Editor, IJIB and Visiting Researcher, Judge Business School, University of Cambridge, United Kingdom, Editorial Editor of IJIB, Email: [a.upadhyay@cibmp.org](mailto:a.upadhyay@cibmp.org)*
- b. Prof. and Head of Operations & Technology Management, SDA Bocconi School of Management, Italy*

### **Abstract**

Due to the emergence of globalization and shrinking distances, companies don't mind going to new unexplored locations in search of suitable suppliers. However, the suitability of suppliers can be measured in terms of its technical competence and innovativeness. The aim of this paper is to find out the necessary parameters to check the innovativeness of suppliers. This paper looks at how the authors analyzed existing literature on supplier selection based on their innovativeness.

**Keywords:** Supplier Selection, Innovative Selection, Buyer-Supplier, Innovative Supplier, Innovative Supplier Selection

### **Introduction**

The activities of innovative supplier's are dependent upon the environment of the industry and the various types of supplier-buyer relationships. However, some practitioners feel that product development and innovation is a cooperative venture (Burt and Soukup, 1985). But a cooperative venture only, is not enough in innovation and product development as the

commitment from the supplier's side is also very important. Sustainability is also an emerging issue, which is linked with supplier selection (Upadhyay, 2012); Buyers are looking for sustainable suppliers and prefer suppliers who match with their sustainable practices. Innovative suppliers must continue to try to align their practices with the buyer's sustainable practices (Upadhyay et al., 2012).

### **Model**

There are various models, which suggest different approaches to deal with the supplier's innovativeness. Kamath and Liker (1990) discuss the supplier's innovativeness by developing a theoretical model and they tested this model with automobile component suppliers to the Original Equipment Manufacturers (OEM) in USA. In the results, they found out that the innovativeness of supplier's depended upon the type of suppliers e.g. Dependent and Independent suppliers. This model is based on contingency theory (Lawrence and Lorsch, 1969), based on their theoretical model; salient features of model are given below:

- The potential benefits of Innovative activities
- Clarity of Innovative objectives
- Dependence and Innovation
- Control variables (Intensity of competitive rivalry, supplier's
- Commitment to innovation, Technological opportunity, Growth etc.

While Independent suppliers would innovate only if they were able to perceive a cost-benefit ratio based on the principals of a more traditional model. However, dependent suppliers are more willing to innovate if they are clear what kind of innovation their customers desire. They are even ready to invest in Innovation even if they don't see the return in short term. The reason behind dependent supplier's willingness to innovate is because they seek the

investment in innovation with the customer as a long-term plan and perceive the advantages in future. Hence it is more a strategic decision to keep their global competitiveness (Upadhyay and Baglieri, 2010). It also helps suppliers to plan their production and other activities for long-term operations. Hence the OEM that rates innovation is a key factor for their suppliers must consider the status of a supplier (dependent or Independent).

### **Supplier's Innovativeness**

Innovativeness describes the aptitude of a supplier to realize new products or processes (Wang and Ahmed, 2004). The aptitude depends upon the various other factors, which differ from one Industry to the other. In hi-tech and information-technology industry, the standards change very soon (life cycle is very short) and the supplier's are forced to adopt themselves according to the latest changes either by innovation or by cost leadership. And the innovation is also radical in nature due to the significant changes in the standards. However, in other industries (sheet-metal, auto-component etc.), the innovation process is more gradual. The customers and suppliers work together for a long-term innovative plan.

One of the most popular measures of innovative practice is through human resources. These comprise the number of R&D employees as well as their absolute or relative share in the total number of employees (Wasti and Liker, 1997). This is a very effective indicator in the hi-tech industry and is widely used also. The company's expense on research and development activities in comparison to other operational activities is also an important indicator. Sometimes, corporate restructuring also plays a vital role in supplier selection (Upadhyay and Baglieri, 2012); different types of corporations prefer different types of customers depending upon their need and requirements.

Furthermore, the qualification level of the employees in the corporation can be judged along their education, training and experience (Souitaris, 1999). The share of employees with a high educational degree or the frequency and number of trainings can be considered as indicators (Souitaris, 1999; McDermott and Corredoira, 2010). Employees with research degrees and qualifications combined with their exposure to the research facilities and training is vital. Most of the hi-tech companies have a yearly plan for research related training activities for their employees. One-step forward is collaboration with universities and research institutions for the collaborative research and trainings. By collaboration, supplier's can develop their innovative capabilities, which help them in achieving long-term goals.

### **Innovative Capabilities**

Earlier studies have found that one of the most critical innovative capabilities of suppliers with new products and process developments include, how and to what extent the supplier is able to design and develop the required tooling to manufacture new products (Lamberson et al., 1976). This is most relevant to the manufacturing industry especially automobile industries. There is always a need for process improvement in manufacturing industry, which leads to lean manufacturing and minimizing scrap.

Another important capability seems to be the willingness and the ability of suppliers to support customers with engineering capabilities (LaBahn and Krapfel, 2000). Also, it has been found that if the supplier possesses the ability to conduct simultaneous engineering (SE), he can be integrated quite early into the development projects of the customers. The supplier's previous experiences with product and process development projects are also considered to be an indicator of innovative capabilities (Sarkis and Talluri, 2002). Therefore, the frequency of the supplier's integration into development projects of customers and the innovation degree of these projects can be used to measure this particular capability

(Soderquist and Godener, 2004). Some supplier's prefer to get involved with the customers from the starting phase of an innovative project; it helps the supplier's to understand the project in more detail and to feel as a major stakeholder in the innovative project. A sense of responsibility and the major stakes involved in innovative projects are the key motivation factors for suppliers to innovate.

### **Outlook and Conclusion**

There are different indicators specific to various industries, which help in understanding the innovativeness of suppliers. Important indicators could be the number of innovation awards and quality certificates such as ISO/TS 16949, which are specific to automotive industry (Schiele, 2006). In addition the number of registered patents of suppliers is a widely used indicator to measure its innovative capabilities (Galbreath, 2005). The number of patents should be taken care of, along with the existence of the supplier in that specific sector. For a new supplier, the number of patents is not the right indicator for his innovative capability.

According to Wang and Ahmed (2007), dynamic capabilities (cost efficiency, TQM, TPM, JIT deliveries etc.) are directly linked with the innovative capabilities of suppliers. A firm demonstrates how likely it is to build particular capabilities, as dictated by its business strategy. The dynamic capabilities emerge over a period of time and hence the life span of a firm and its existence in the relevant market concerned is also an important factor. It takes time and efforts for the firms to gain these dynamic capabilities which overall increase their innovation capabilities. In brief, this paper discusses the selected existing literature and the work done on supplier selection processes as the basis of their innovativeness.

Factors affecting the supplier selection on the basis of innovativeness are varied depending upon the type of supplier, the type of Industry and the time they spent in the Industry. A

better approach and future research ideas will be to work on the innovativeness of suppliers on the basis of Industry, e.g. separate indicators for suppliers in manufacturing, service and hi-tech Industries. Another interesting area of research will be to explore the innovativeness of suppliers in family owned organizations.

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