Expanding the Knowledge Capability of Suppliers through Supplier Development Programs

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ABSTRACT

As firms increasingly outsource to focus on their core competencies, effective supplier development has become a major strategic decision in order to maintain a network of competent suppliers. Supplier development can be seen as a capability-enhancing activity that an organization undertakes to improve its suppliers’ performance. This study conceptualizes supplier development as a knowledge-intensive and collaborative program, and explores how knowledge creation processes can be facilitated through different supplier development activities. A qualitative inquiry with a thematic analysis that focuses on five companies that are the suppliers of the largest motorcycle firm in Taiwan is presented in order to identify how different supplier development activities facilitate the knowledge creation process through the SECI modes and ba. The results show that these supplier development activities facilitate different types of knowledge conversion processes that can expand the knowledge capability of suppliers in a so-called center-satellite supply chain.

Keywords: Capability Enhancing, Center-satellite supply chain, Knowledge creation, SECI modes and ba, Supplier development

INTRODUCTION

As firms increasingly outsource to focus on their core competencies, effective supplier development (SD) has become a major strategic decision in order to maintain a network of competent suppliers. Supplier development can be seen as a capability-enhancing activity that an organization undertakes to improve its suppliers’ performance (Sako, 2004). Successful management of supplier development can potentially enhance the productivity of the trading partners through the creation of knowledge and mutual assistance, along with the implementation of good practices (Giannakis, 2008). In addition, the firms’ knowledge creation capabilities play a crucial role in generating innovations, and by networking firms are able to create and share new knowledge more efficiently in a supply chain (Hallikas et al., 2009). Because SD is a knowledge-intensive process, the management of SD programs presents two equally important challenges: the establishment of practices and strategies that may lead to successful SD design and implementation, and a better understanding of the knowledge management related

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processes that take place in such programs. SD research has traditionally focused on the former challenge, while the few studies that consider the latter tend to look into the issue of knowledge transfer (for example Sako, 2004; Modi & Mabert, 2007; Giannakis, 2008) rather than knowledge creation. The ability of firms to consistently create knowledge and manage it strategically is viewed as critical to organizational success and survival (Nonaka & Teece, 2001). However, there is a significant gap in our understanding of the underlying structures and processes needed for knowledge creation with the implementation of promising SD practices. This study addresses this gap by conceptualizing SD as a knowledge-intensive and collaborative program, and exploring how knowledge creation processes can be facilitated through different SD activities. It is based on examining how the largest motorcycle company (M Company, hereafter) in Taiwan implements various SD activities in five of its suppliers that are small and medium-sized enterprises (SME).

This paper first reviews the existing literature related to SD programs. Second, the socialization, externalization combination and internalization (SECI) modes, and various ba proposed by Nonaka and Konno (1998) are introduced. Third, a qualitative inquiry using a thematic analysis that focuses on five companies which are the suppliers of the largest motorcycle firm in Taiwan is presented in order to identify how different SD activities facilitate the knowledge creation process through the SECI modes and ba. The final section includes a discussion of the findings and presents the conclusions of this work.

THE LITERATURE REVIEW
Supplier Development Programs

Supplier development was pioneered in the automotive industry, and companies like Toyota and Honda are masters at such initiatives (Liker & Wu, 2000). SD programs are defined as “long-term cooperative effort(s) between a buying firm and its suppliers to upgrade the suppliers’ technical, quality, delivery, and cost capabilities to foster ongoing improvements” (Watts & Hahn, 1993, p. 12). In the SD literature there are a number of in-depth studies on the practices and strategies that may lead to successful SD design and implementation. For example, Krause et al. (2000) characterized four useful supplier development strategies, including competitive pressure, evaluation and certification systems, incentives, and direct involvement. Handfield et al. (2000) described a seven-step process to avoid the common pitfalls of SD programs. Carr and Kaynak (2007) investigated the relationships among communication methods, information sharing within a firm, information sharing between firms, and support aimed at supplier development. Modi and Mabert (2007) argued that collaborative inter-organizational communication is an important supporting factor in transforming an organization’s efforts to improve supplier performance. In addition, some studies also examine how knowledge transfer may be facilitated between trading partners. For example, Dyer and Nobeoka (2000) noted that suppliers learned more quickly after participating in Toyota’s knowledge-sharing network, while for semiconductor equipment purchases, Appleyard (2003) found that buyers could indeed accumulate both embodied and unembodied technological knowledge by learning from the supplier’s engineering adjustments to the production machines during the hand-over of the equipment. Wagner and Krause (2009) noted that buying firms pursuing a strategy to improve supplier capabilities rely more intensively on training and co-location of buyer and supplier employees to leverage the transfer of knowledge to the supplier firm. Giannakis (2008) proposed a framework for analyzing knowledge transfer among and between organizations, and presented a knowledge-based perspective for the design and management of SD programs. Although strategy/knowledge sharing has emerged in these studies as a critical factor in improving suppliers’ capability during SD programs,
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