

## Chapter 69

# Critical Success Factors for Supplier Development and Buyer Supplier Relationship: Exploratory Factor Analysis

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### ABSTRACT

*Development of supplier base is becoming mandatory for buyers, as it is not possible to manufacture all components in house, or to search new supplier every time. It is recommended that supplier base of buyer should be self-efficient and developed one to achieve competitive advantages. This development of supplier can be achieved by applying different supplier development practices and buyer supplier relationship practices as per the requirement. In this article, Exploratory Factor analysis (EFA) is applied for grouping the critical success factors with their items by using SPSS software. 6 factors viz., Drivers for Supplier Development Practices, Supplier Development Practices, Buyer supplier Relationship Practices, Buyer supplier Relationship Improvement, Competitive Advantages and Profitability were formed with their respective items. The multi-item scale shows strong evidence of reliability as well as convergent, discriminant validity in a sample. EFA and Reliability Analysis were applied on data for validation of instrument. Data from 87 respondents working in manufacturing sector were used for analysis.*

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## **INTRODUCTION**

The term “Supplier Development” describes efforts by manufacturers (Buyer) to increase the number of viable suppliers and improve their performance. More specifically, supplier development has been defined as any effort by an industrial buying firm to improve the performance or capabilities of its suppliers (Krause and Ellram, 1997). Cooperation with suppliers can make the buyer more efficient and, thus, enable goods to be purchased at lower prices; it also helps the buyer concentrate upon his core competency to remain more competitive (Lau, 2011). Thus, supplier development is a kind of cooperation between a buyer and a supplier to seek continuous improvement in supplier performance to make the buyer competitive (Hahn et al., 1990; Krause, 1999; Wagner, 2011). Supplier development can be further linked with relationship development and improvement in competitive advantage, which will ultimately lead to enhanced profitability of the buyer as well as the supplier. Enhanced focus of these efforts for supplier development is towards supplier performance, buyer competitive advantage, and buyer-supplier relationship improvement (Li et al., 2007).

## **LITERATURE REVIEW**

The buyer-supplier relationship can be challenged by several problems such as a particular product not being vended by the current suppliers, below-par supplier performance, quality provided by supplier not making the buyer competitive, and non-availability of capable suppliers in the market. For such problems, the buyer can follow any one of three courses: 1) Supplier switching 2) Vertical integration 3) Supplier development. Among these, the third option is currently becoming more important and feasible because otherwise, it is rather challenging to search for more capable suppliers. Besides, the option of making all components in-house is a big investment and financially unviable. Hence, supplier development is emerging as a feasible solution for the buyer (Wagner, 2006).

Supplier development program is divided mainly into two categories: direct and indirect. Indirect supplier development improves the suppliers’ product and delivery performance while direct supplier development improves supplier capabilities (Wagner, 2010; Aslan et al., 2011). It is mandatory that before selecting any supplier, the buyer makes a proper evaluation of the supplier through frequent visits and certification checks. In this case, if minor issues are detected then the buyer can decide at the very outset what training is required by the supplier (Aslan et al., 2011). Involving suppliers in product development can result in major benefits in terms of money and time, but it requires a substantial thinking and effort (Hasrulnizzam et al., 2011).

## **Factor Identification**

On the basis of a critical review of literature, the following factors were found to contribute primarily for supplier development and relationship practices. The same have been listed in Table 1.

### **Training and Education**

Programs for supplier development that receive assistance from buyers can be regarded as buyer-supported training. The right type of training can lead to an increase in performance for the supplier, which will, in

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