

## Chapter 22

# Supply Chain Management: Identifying Innovative Suppliers

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### ABSTRACT

*The main purpose of this chapter is to develop an exploratory proposal for identifying innovative suppliers, creating knowledge in an area not very deeply explored. Based on a literature revision based on the innovative supplier identification and management, the study suggests that innovative suppliers are highly specialized and technically competent companies, located nearby their customers and take part on their client's improvement program. Based on the literature revision, a framework analyzing client-supplier relationships throughout the supply chain is proposed. The framework uses the strategic alignment concept between clients and suppliers. Finally, 61 questions were developed to identify the innovative suppliers.*

### INTRODUCTION

Successful companies tend to be much more outwardly (customer) oriented than inwardly oriented. The more customer-oriented firms are, the more likely to innovate and develop new products and services that are valued by their clients. However, being customer orientated, in order to encourage and boost firm's innovation activities, is not enough when suppliers represent the largest share of value delivered to the customer, when the supply chain's fragmentation goes well

beyond the production and logistics outsourcing, and when suppliers have to bear more design and development responsibilities than ever before (Wagner, 2009).

There are innumerable ways in which companies can promote, request, implement and reward innovation along with their suppliers. The encouragement of the suppliers' ideas may begin with standard channels. However, wide approaches and impersonal connections may only be the first step to boost the supplier's innovation capacity (Wagner, 2009).

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In spite of the importance of selecting suppliers for the implementation of innovative activities, firms are traditionally very limited on their evaluation of the technological and business capabilities of their suppliers. A supplier should understand, for instance, its client market positioning or the social and economic trends that shape the buying behavior of the end customer. The supplier customer orientation has a significant impact on the innovation capacity, as well as on the cost and speed of its new product development (NPD) projects. Both result on competitive advantages and financial profits.

Firms need to increase their supplier selection process and evaluate how clients understand their suppliers throughout the supply chain. However, there is an important question: how does one identify suppliers? The present chapter aims to answer this main question. The chapter also aims to address the following more specific questions that are related with the previous one: what are innovative suppliers?; what is their role?; how to select innovative suppliers?; How to manage innovative suppliers?; how to increase the supplier innovative capacity?

The additional contribution of this chapter focuses on the supplier innovative capacity to establish partnerships and to cooperate with the clients, on an area very little explored academically. Moreover, the client-supplier relationship can be explored in order to analyze how both firms are strategically aligned and if they follow a relational perspective.

The chapter is composed of seven sections. After the Introduction, which includes the first section, a review of the concept of innovative suppliers is covered in the second section. While the third section examines how to identify innovative suppliers, the fourth section discusses the management of innovative suppliers. The fifth section addresses how to increase the innovation capacity of suppliers. In the sixth section an operational exploratory framework is proposed in the form of a questionnaire. Finally, in the seventh section the conclusions are drawn.

## **INNOVATIVE SUPPLIERS**

The word innovation means renovation, newness. It has a dynamic meaning, related to something that did not exist. In business, the term innovation is related to the object of change, and it can be associated to something new to the world or new to the firm (Schiele, 2006). The innovation theme has been widely explored and analyzed according to many perspectives, and it has been indistinctly associated to products, services, values and characteristics (Moreira, 2011). The OECD, conscientious of this situation, and of the problems related to it, published the Oslo Manual (OECD, 1997) where they explain some of the conceptual aspects on the many types of innovation. Although there are many typologies associated to it, Moreira (2011) presents a multifaceted characterization of innovation, following a traditional perspective at product, process and organizational level.

In any case, innovation is frequently the result of a dynamic entrepreneurial perspective. Several definitions of business innovation (Kimberly & Evanisko, 1981; Van de Ven, 1986; Bolton, 1993) focus on its entrepreneurial nature (ideas, programs, structures, and processes) and, on the other hand, on the fact that innovation presents something new for the organization adopting it (Zaltman, Duncan, & Holbeck, 1973). Innovation is clearly linked to change processes. Also there are those who focus on the characteristics of the adoption process (Sabherwal & Robey, 1993) and on the changing process itself (Van de Ven & Poole, 1995). Although there are studies on project management, knowledge management, among others, Ingham (1994) has analyzed innovation from a business cooperative perspective.

Taking into consideration the main goal of this chapter, it is convenient to offer a more objective definition of the term, i.e., to look at innovation as something new to the firm, independently of being new to competitors or not. The result of a NPD process, the introduction of new product functions or simply the replacement of one of

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