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**GUIDELINES FOR SME SUPPLIER SELECTION AND
DEVELOPMENT: THE PRACTICE OF SMES IN
INFORMATION TECHNOLOGY OUTSOURCING SECTOR**
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List of Abbreviations

CRM	Customer Relationship Management
IT	Information Technology
ITO	Information Technology Outsourcing
SD	Supplier Development
SMEs	Small & Medium-Sized Enterprises

ABSTRACT

In modern business management, companies have no longer competed as single firms but within supply chains, in which the role of suppliers has changed from simple suppliers to strategic partners. Supplier development has become a viable supply chain management practice across industries, as firms continue to focus on their core competencies and outsource other activities. Numerous research papers on supplier development have been done during recent decades. Most of studies focused on manufacturing sectors such as automotive, electronics, oil & gas or cross manufacturing industries. As the nature of these sectors, the clients are usually big corporations that have the significant dominance over the suppliers in the industries. In other words, supplier development is more likely the game only for big corporations. However, practical knowledge of supplier development applied to large firms is not necessarily applicable to SMEs. When both the client and suppliers are small, the power balance between them is not asymmetric. Both parties may have equal contributions and decision power on supplier development process. This paper, based on the results of a successful case study of supplier development in IT outsourcing sector, sheds light on how SMEs can properly select and develop their small suppliers.

Keywords: *SMEs, supplier selection, supplier development, supplier willingness, IT outsourcing, Germany, Vietnam.*

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INTRODUCTION

Outsourcing is likely inevitable for organizations in modern business life of every industry, since this strategy might be promising regarding the extra resource supplement, cost reduction and other competitive advantages for organizations. Companies are increasingly focusing on their core competencies and outsource other functions to external providers with more favorable conditions (Oshri, 2015). The fast-changing IT environment creates desirable conditions for clients and their suppliers to form strategic alliances (Liang, Wang, Xue, & Cui, 2016). The role of suppliers has also changed from simple providers to strategic partners (Kwon, Joo, & Hong, 2010). However, successfully working with external vendors is always challenging, especially when there are problems regarding the supplier's quality, cost or delivery. In this case, the client usually has to either change the supplier or try to improve the current supplier capability. The second option is increasingly favored by a significant number of enterprises (Wagner, 2006). Supplier development (SD) can be defined as any effort of a buying firm to increase the performance and capabilities of suppliers to meet its supply needs (Krause & Ellram, 1997). SD has become a viable supply chain management practice across industries (Krause & Scannell, 2002).

Regarding research of SD, most of previous studies have explored SD practices of big corporations with their suppliers in the manufacturing sector (e.g. automotive, electronics, oil & gas, etc.) (Nguyen, 2020). There is limited research on SD practices in a pure SME context, in which both the client and suppliers are SMEs. In comparison to large firms, it is no doubt that SMEs have many disadvantages such as lack of resources, capabilities and international experiences (Hong & Jeong, 2006). Consequently, practical knowledge of SD applied to large firms is not necessarily applicable to SMEs. When both the client and suppliers are small, they may have equal contributions and decision power on SD process.

This paper, therefore, tries to shed light on the SD practice of SMEs. Based on results of a successful case study, a guideline for SME supplier selection and development is developed. This might be highly applicable for SMEs, especially those in Germany looking for small suppliers in other countries. In the first part of this paper, a hands-on guideline of supplier development process will be introduced. In the second part, the case study will be described to illustrate how to apply the guideline for supplier selection and development of SMEs.

GUIDELINES FOR SME SUPPLIER SELECTION AND DEVELOPMENT

Supplier development procedure

Basically, the SD process contains three main steps: (1) preparation, (2) supplier development and (3) monitoring & evaluation (Glock, Grosse, & Ries, 2017). Each step has some key activities which are described as follow:

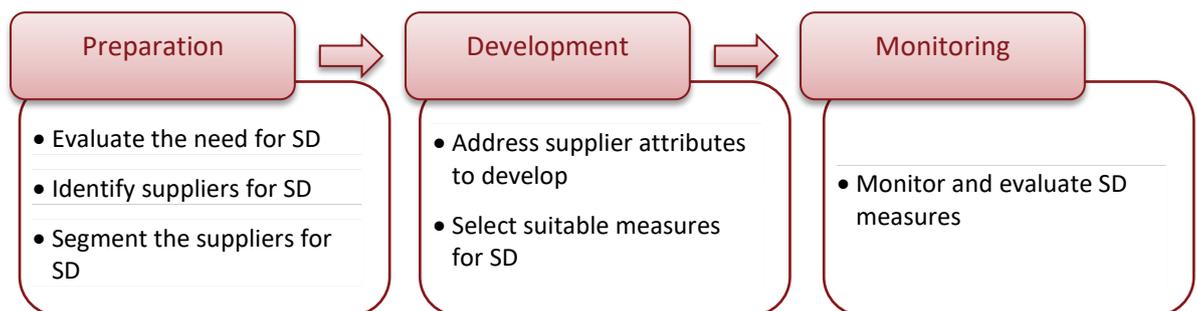


Figure 1: Three main steps of supplier development
Source: Glock et al. (2017)

For supplier selection, especially in SME contexts, the client should consider not only the supplier capability, but also other factors such as the supplier willingness and attitude. However, supplier willingness is not something exists before the client initiates, but it is and should be provoked by the client’s efforts for the cooperation. In other words, the client, at the same time, not only evaluates but also stimulates the supplier willingness to join the cooperation.

When a client has a portfolio of suppliers which are varying in their capability and willingness, the client should consider different strategies or SD activities to treat these different suppliers effectively. However, it is challenging to exactly evaluate the supplier capability and willingness, especially at the initial steps, in which both sides have not been involved in any business. This paper provides some practical hints that can help managers of SMEs to deal with the situation.

Firstly, the client contacts potential suppliers to quickly evaluate the suppliers through their profiles, historical performances and initial feedback. Those are basically for evaluating the supplier capability. After that, it can extend communication and ask the suppliers to invest some efforts (e.g. time, human resource) for joining the cooperation. Meanwhile, the client has to show its attractiveness regarding the business potential and the commitment for long-term cooperation. By doing so, the client can evaluate the supplier willingness to join the venture. Hopefully, the client can identify some suppliers willing to cooperate and capable enough to work for it. After that, the client can go further with the SD process including training, pilot projects and other SD activities. Finally, both can monitor and evaluate the effectiveness of the engagement. The next table describes a suggested outsourcing process which is based on the outsourcing practice observed in the case study.

Table 1: Suggested outsourcing process and SD for SMEs based on the case study results

Phase	No. of vendors	Activities	Goals
Exploring	40 – 60 vendors	<ul style="list-style-type: none"> • Profile evaluation • Contacting (email, video calls) • Categorizing based on available skills/capabilities and general willingness 	<ul style="list-style-type: none"> • Build up a good supply base • Stay in touch and be ready to contact when demands come
Testing	15 – 20 vendors	<ul style="list-style-type: none"> • On-site visits • Direct interviews • Invitation to training • Invitation to a pilot project • Asking for developers' profiles • Testing specific developers 	<ul style="list-style-type: none"> • Concretely identify vendors with relevant skillset/capabilities • Measure vendors' capabilities and willingness • Evaluate vendors business process, international experience
Engaging/ piloting	5 – 7 vendors	<ul style="list-style-type: none"> • Training/knowledge transfer • Pilot projects • Small real projects • Working directly with client product owners/managers • Introducing potential business projects and working models • Initial negotiating contract and price 	<ul style="list-style-type: none"> • Deeply evaluate vendors' capabilities, business processes, real willingness to cooperation • Compare vendors with one another, segment the vendors. • Build up the stronger business relationship for potential projects.
Architecting/ transitioning	3 – 5 vendors	<ul style="list-style-type: none"> • Internal arranging what, which whom and how to outsource • Final agreement on prices (hour rate or fixed price) and contracting (2 – 5 years) • Transitioning among internal and external teams 	<ul style="list-style-type: none"> • Identify right functions to be outsourced • Efficiently contract with suitable vendors • Smoothly transition among internal and external teams
Operating/ optimizing	3 – 5 vendors	<ul style="list-style-type: none"> • Jumping in real projects • Cross-team project operating • Monitoring productivity, issues • Facilitating inter-organizational working process 	<ul style="list-style-type: none"> • Optimize the efficiency • Prepare for back-up plan when some vendors fail to operate • Back-up in case of disruptions.
Regenerating	Fresh new 40 – 60 vendors (or the same vendors)	<ul style="list-style-type: none"> • Refresh strategy • Totally evaluating outsourcing results 	<ul style="list-style-type: none"> • Outcomes & lessons learnt • Re-outsource or insource • Knowledge refresh

Source: Author's elaboration

Supplier evaluation & segmentation criteria

Previously, most authors use the supplier capabilities as the main criteria to evaluate the suppliers. Those capabilities can be categorized differently depending on the author's point of view. For example, Oshri, Kotlarsky, and Willcocks (2010) summarize twelve key capabilities that IT outsourcing (ITO) suppliers should obtain to be competitive including: leadership, business management, domain expertise, behavior management, sourcing, process improvement, technology exploitation, program management, customer development, planning and contracting, organization design and governance. Chang et al. (2012) suggest that SME clients can use a simplified model with four key criteria to evaluate the suppliers, they includes (1) capability of professional skills, (2) capacity of service, (3) capacity of operation and (4) external evaluation. Nevertheless, researchers rarely consider factors other than suppliers' capabilities (e.g. cooperation willingness, adaptability of suppliers) in the supplier selection criteria. Whether those factors play an important role in client supplier selection, therefore, calls for further investigation.

Clients usually choose not only one supplier, but a portfolio of suppliers as a backup strategy. Those suppliers in the portfolio are usually different in their capabilities, attitude and even the importance to the client. Therefore, the client should classify its suppliers properly in order to manage them effectively. A review of Rezaei and Ortt (2012) identifies two main methods of supplier segmentation: portfolio method and involvement method.

The portfolio method helps to classify services that a firm purchases into categories by considering two variables of supply risk and profit impact (Kraljic, 1983; van Weele, 2010). The involvement method, on the other hand, considers the level of involvement and coordination between client and supplier to classify the relationship. For example, Cox (1996) considers client-supplier relationships in a continuum from arm's length to strategic alliance. Ellram (1991) classifies the client-supplier relationships in the supply chain as: (1) short-term contracts, (2) long-term contracts, (3) joint ventures and (4) equity interests.

The two main methods seems to be fine until Rezaei and Ortt (2012) find that there is disadvantage of the methods. Basically, supplier segmentation should reflect supplier selection criteria, which can determine which suppliers are more likely to be selected. However, when a buying firm applies one of the two methods, it cannot know whether the approach it applies includes the most appropriate criteria, because segmentation criteria vary considerably in these two approaches (Rezaei & Ortt, 2012). Therefore, it is still challenging for the client to manage its portfolio of suppliers properly (i.e. how to implement SD programs effectively).

Based on the disadvantage of the two approaches, Rezaei and his associates propose a new segmentation approach called "supplier potential method". They examine a framework which combines the two phases of supplier segmentation and SD into one research to propose the so-called Best Worst Method to employ SD in practice (e.g. see Rezaei and Ortt (2012), Rezaei, Wang, and Tavasszy (2015)). Following that, two very dynamic concepts were introduced: supplier capability and supplier willingness (Rezaei & Ortt, 2012). The two concepts are expected to help the client segment and develop suppliers more effectively, because the two concepts can reflect criteria used in the supplier selection step. Generally, supplier capability is any skills,

knowledge or experience of a supplier that are useful and important to the client (Rezaei & Ortt, 2012). Supplier willingness, on the other hand, is the commitment and motivation of the supplier to engage in a long-term relationship with a client (Rezaei & Ortt, 2012).

One point to be noted is that the two proposed dimensions of capability and willingness are dynamic and context-specific. Depending on the situation, functions or industries in which the client and suppliers are working together, specific criteria or indications of supplier capability and willingness will be considered. The two tables below depict some possible criteria of the two dimensions in IT outsourcing sector. Those criteria can be flexibly adapted depending on the business context and the concerns of the client.

Table 2: Key possible criteria of supplier capability by the client at the initial phase

Criteria of supplier capability	Explanation (examples in IT industry)
Relevant skillset of vendors	IT-related skills such as programming languages (Java, PHP, .Net, etc.), platforms (HTML, Core Media, Java script, etc.) used by vendor developers
Price (Finance/cost capability)	The hour rates of developers (various depending on experience, skills). It is considered in a combination of price, quality, delivery, etc.
Profile of vendors	Previous project done, historical records
Market sense capability	Historical experience working with other clients in Europe or in other culturally similar countries.
Service and business process	How suppliers perform the business communication, process with the client.
Language capability (English)	The vendor developers/coordinators' capability to communicate in English (speaking, writing, reading, etc.)
Certificates	IT-related certificates such as ISO, CMMI, ITIL, etc.

Source: Author's elaboration

Table 3: Key possible criteria of supplier willingness by the client at the initial phase

Criteria of supplier willingness	Explanation
Willingness to improve performance/capability	The vendor is willing to improve performance (delivery time, efficiency of developers, capacity used)
Willingness to share information	The vendor is willing to communicate openly, honestly and frequently.
Willingness to rely on each other	The vendor is willing to rely on the client business with its end customers.
Willingness to get involved in a long-term relationship	The vendor is willing to build up a long-term cooperation with the client.
Willingness to adapt to the client requirements	The vendor is willing to change its internal processes, technologies to meet the client requirements.
Willingness in invest in specific relationship (equipment, technology, human resource)	The vendor is willing to spend money, manpower in learning new knowledge, technology required by the client.
Willingness to task risks	The vendor is willing to deal with uncertainty of business opportunities together with the client.

Source: Author's elaboration

Following the model from Rezaei et al. (2015), we analyzed the suppliers regarding their capability and willingness, ranging from low, middle to high level. Capability includes skills required from the client, service and business processes, international market experience, cost competency (price), certificates and English communication. Willingness can be understood as the adaptability of the vendor with respect to the client's requirements and the willingness to cooperate with the client. The figure below illustrates the positioning of the portfolio of suppliers.

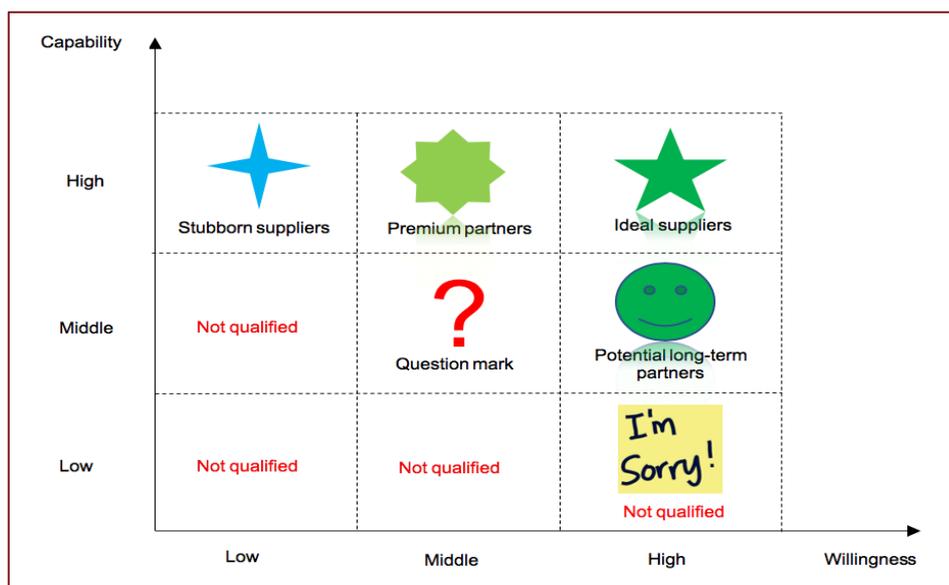


Figure 2: Segmentation of suppliers based on capability and willingness

Source: Author's elaboration

Based on this model, suppliers might be categorized into different groups. Those suppliers which are evaluated with low capability should be removed from the client portfolio of suppliers, because they are simply not able to take over the jobs from the client. Those with low willingness should be neither considered, unless they are very high in their capability. Therefore, there will be five groups of suppliers that the client should be working with:

- **Ideal suppliers:** are perceived as having high capability and high willingness to cooperate with the client. They are “super stars” in the vendor portfolio of the client. The client should develop and maintain good relationship with such suppliers.
- **Potential long-term partners:** are considered obtaining high willingness but average capability. These “friendly” suppliers are eager to learn new things and invest their efforts in the engagement with the client. Thus, the client should keep these vendors and try to develop their capability accordingly. Those suppliers might become “super stars” in the future.
- **Premium partners:** are those with high capability but average willingness. They might also become “super stars” in the future. If the client can improve their willingness by showing its overall attractiveness and the potential business, the client might also consider those vendors highly potential for long-term partnership.
- **Stubborn suppliers:** are those with high capability but low willingness. It is quite difficult to improve their willingness to work with the client. Instead, the client should manage those suppliers by rigorous contractual relationship, if it wants to work with them. Those suppliers should be considered only for short-term engagement or transaction basis with the client.
- **Question-mark suppliers:** are those with average capability and average willingness. In this case, it depends on how specific situation in which the client is in to decide if it wants to work with those suppliers. Nevertheless, the client has to consider the efforts and relevant measures to develop both supplier capability and willingness, if it wants to cooperate with such vendors.

Supplier development strategies

It is not always the case that the client gets an ideal supplier high in both capability and willingness to make the project successful. The client may also succeed in cooperation with a supplier lacking either the capability or willingness, as long as it can manage the engagement properly and implement the right SD activities. There are strategies or programs (both direct and indirect) for improving the supplier willingness and capability. Obviously, those activities should be aligned with both parties’ development strategies, because most of SD activities are considered relationship-specific investments which may not be adopted with other clients or projects.

Table 4: Strategies to improve supplier capability and willingness

Strategies/activities	Improve supplier capability	Improve supplier willingness
Enhance two-way communication		X
Joint action	X	X
On-site visits to the supplier		X
Invite supplier to the client company		X
Increase in the purchase percentage of annual sales		X
Competitive pressure	X	
Emphasis on factors other than price	X	X
Raising expectations regarding the supplier performance	X	
Supplier evaluation and feedback	X	X
Financial and physical investment or supplier	X	X
Knowledge transfer (training, transferring material, etc.)	X	X
Incentives for supplier	X	X

Source: combined from the case study results and Rezaei et al. (2015)

Risk management in outsourcing

Obviously, outsourcing and supplier development might bring potential risks for the client. There are some key risks identified by Oshri et al. (2010). The table below will suggest some practical solutions based on the observation of the case study.

Table 5: Client risks and difficulties of outsourcing implementation and suggested solutions

Risk/difficulty	Description	Solutions
Poor service quality	The vendor underperforms	Select the right vendor first, then the right developers/staff of vendor. Test them with pilot projects before taking next steps.
Over budget	The vendor needs more time/resources than estimated to complete the tasks.	Agile developing to avoid over budgeting by fixing the budget and time-line and keep the scope of project flexible. Using fixed price model to deal with vendors (suitable for initial pilot projects).
Cultural differences	Difference in communication style, way of thinking, cultural norms.	Having a coordinator who knows both client (German) and supplier (Vietnamese) culture to overcome those difficulties. Training of cultural topics should be organized frequently.
Language differences	English is the language in common, while the mother tongue is	English should be the first business language both inter- and externally.

	German and Vietnamese.	For vendors, they should be forced to improve English capability (training, practicing). There should be incentive/punishing for that goal.
Employee turnover	Developers/staff of either vendors or client suddenly quit jobs at pre- or post-project.	For each skill/project there must be at least two people who can take over, both in internal and external team. Most important is to keep employees motivated and build long-term development strategy.
Price rising over time	After the first project/contract, the vendor wants to increase the price (hour rate, project rate).	Long-term contracting with the vendor (2 – 4 years) with fixed rate and SLAs (service level agreements) to mitigate the risk of price rising in short-term. For each skill/service/product there must be at least two vendors who can offer acceptable level of service. Competitive pressure should be always accompanying with commitment and cooperative attitude. However, reasonable price increase should be allowed, as the vendor has to get deserved margin to survive and grow up.
Lack of client acceptance	End-clients doubt about vendor capability or they simply do not want to work with third offshore parties.	Step by step show the clients how good the new model is in managing the quality and delivery of service through working with vendors. Pilot projects with special offers to invite them to join and test with the client.
Data security problems	Data from the client or vendors might be lost or wrongly transferred or leaked.	Clearly communication about confidential issues (via direct communication, NDA (non-disclosure agreement) to ensure that vendors understand and acknowledge the issues. All data have to be stored at least in two places (client and supplier servers).
Loss of control	The client may rely on the vendor.	For each skill/project there must be at least two people who can take over, both in internal and external team. For each skill/service/product there must be at least two vendors who can offer acceptable level of service. Competitive pressure should be always accompanying with commitment and cooperative attitude.

Source: Author's elaboration

In the next session, the case study will be introduced to illustrate the application of this guideline.

THE CASE STUDY DESCRIPTION

The case study focused on a successful 22-year old Germany-based IT SME. The company has many customers but struggles to maintain service standards due to the lack of internal resources. Thus, the company chose to consider software development suppliers in Vietnam, a growing destination for IT outsourcing in Asia. Before that, the company had already international experience working with software suppliers in India and Czech Republic in some projects.

Table 6: The growth index of the client company (2013 – 2017)

Year	2013	2014	2015	2016	2017
Revenue (mil. Euro)	2,466	7,652	11,947	15,309	17,162
Growth rate (%)	40	210.3	56.1	28.1	12.1
No. of employees ²	33	62	104	130	155

Source: extracted from yearly reports at <http://www.agenturranking.de/rankings/2018.html>

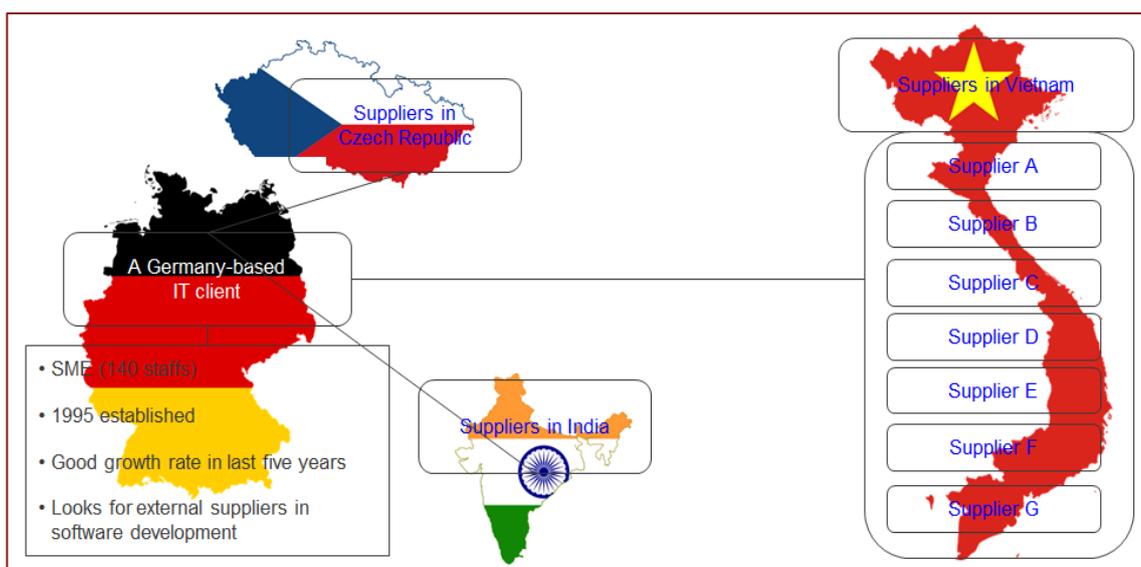


Figure 3: The case study description

Source: Author's elaboration

While Czech Republic is very close, and India is in the middle of Asia, Vietnam is quite far away from Germany with the distance of 11.600 km and 6 hours difference in time zone (in winter).

² Number of employees reported at the end of the year (31.12.2017).

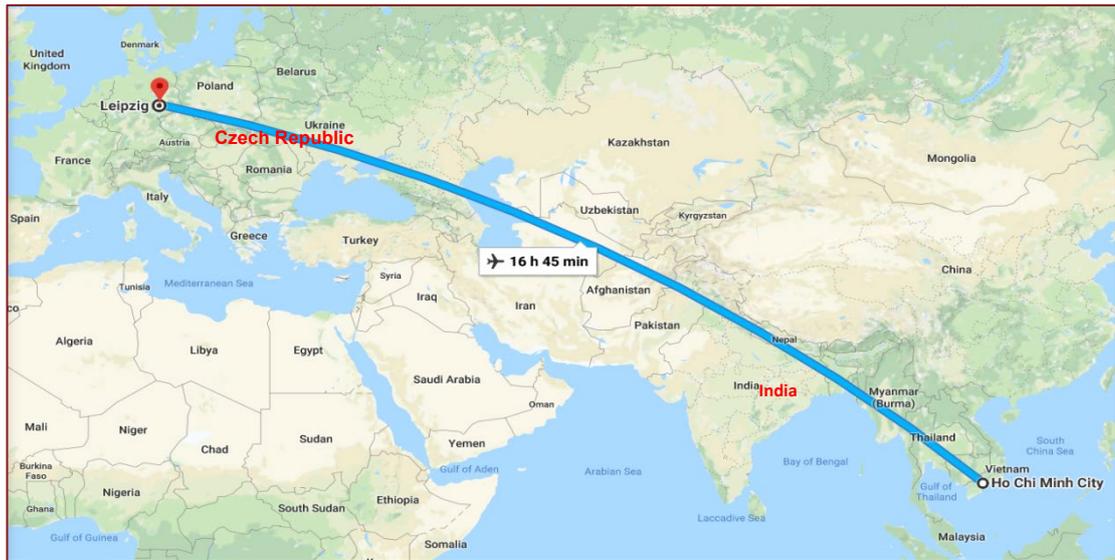


Figure 4: The geographical distance between the client and suppliers

Source: Google maps search result

Regarding the suppliers, they are all SME IT service providers in Vietnam with the number of staffs ranging from 35 to 130 employees. Four of them are 100% Vietnamese companies, two are joint ventures (one with Norway and one with Japan), and the other is a 100% Japanese capital company. Seven suppliers are quite young (the oldest is established in 2003, and the youngest is in 2015). However, all of them have been serving in international market such as Europe, North America, Australia, New Zealand, Singapore, Japan and South Korea. Interestingly, there is no significant difference in price of developers among suppliers (ranging from 12 – 25 USD/hour). Obviously, that price range is very attractive to ITO clients world while.

Table 7: The summary of seven suppliers' profiles

Supplier ³	A	B	C	D	E	F	G
Firm structure	Joint venture (Norway + Vietnam)	100% Japanese capital	Vietnam	Vietnam	Joint venture (Japan + Vietnam)	Vietnam	Vietnam
Number of employees	120	130	125	35	80	30	67
Year of establishment	2005	2003	2003	2015	2013	2010	2011
Main market	Europe, Australia, Japan, New Zealand	Japan, Australia, Singapore	US, Japan, Australia, Europe	US, Japan, Korea	US, Europe, Singapore, Japan	Singapore, France, Vietnam	US, Singapore, Australia, Europe
Hourly rate of developer (*)	12 - 22 USD/h	14 - 18 USD/h	16 - 25 USD/h	12 - 20 USD/h	14 - 16 USD/h	12 - 20 USD/h	14 - 20 USD/h

(*): Hourly rate varies depending on developer experience (there is no significant difference among suppliers).

Source: Author's elaboration

³ For confidential reason, names of suppliers are replaced by A, B, C, D, E, F and G.

For easily describing the case study, what has happened in the research will be described following the SD process proposed by Glock et al. (2017). The SD process contains three main steps: (1) preparation, (2) supplier development and (3) monitoring & evaluation. Therefore, the case study will follow those sequences and describe how both the client and its suppliers undertake SD practices.

Preparation phase (supplier identification)

Since this was the first time to work with offshore suppliers in Vietnam, the client’s objective in this phase was to select the right supplier(s) to start with. After searching and evaluating a number of suppliers, the company decided to visit seven potential IT suppliers. All suppliers were small & medium-sized enterprises (SMEs) in Vietnam. After that, there was a period of time in which the company has been working with the suppliers to select the right one for further steps of cooperation. Those included further communications to explore the suppliers, sending request for proposals, invitation to external training from a third party and joining a pilot project. Finally, the client selected one supplier for a pilot project using a platform which is completely new to the supplier. The case study could also be described as a working process between the client and its suppliers as below:

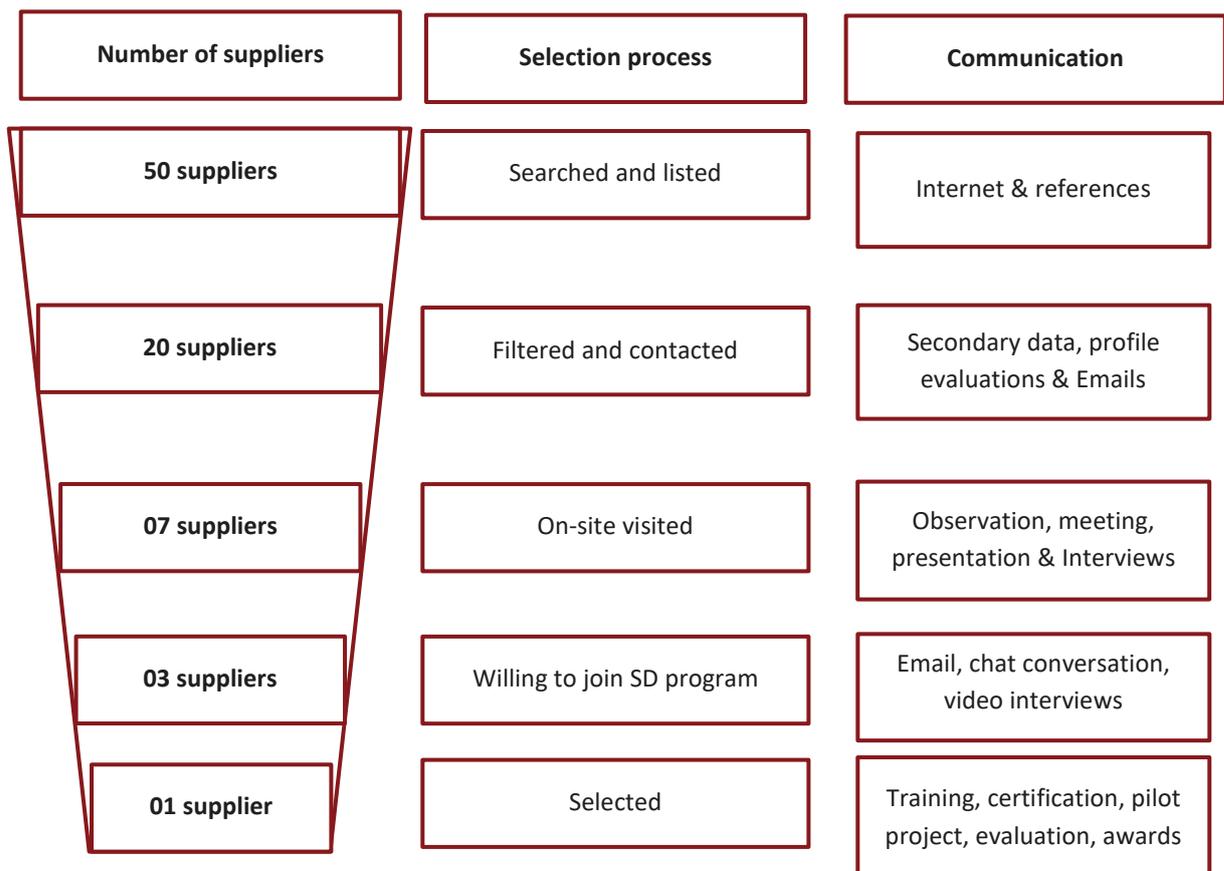


Figure 5: The selection process and communication between the client and suppliers

Source: Author’s elaboration

In this case study, the method for selecting suppliers was different from typical ITO supplier selection. The client usually, after screening profiles and historical performance of the suppliers, invites suppliers to undertake a pilot project to test capability. In this case, after visiting suppliers on-site, the client required the suppliers to invest in a new technology, which is used by the client. The suppliers were also required to pay for themselves to be trained by a third party to be able to use the new platform. After that they can come to the client. Surprisingly, out of seven suppliers, three were willing to join the program and agreed to the client’s requirements. However, only one of the three suppliers showed high willingness and proactively contacted the client and the third party for the training. The client finally chose only that supplier (supplier D) for the first pilot SD project due to its commitment to the cooperation.

The figure below illustrates perceived level of capability and willingness, based on the average evaluation of three interviewees from the client.

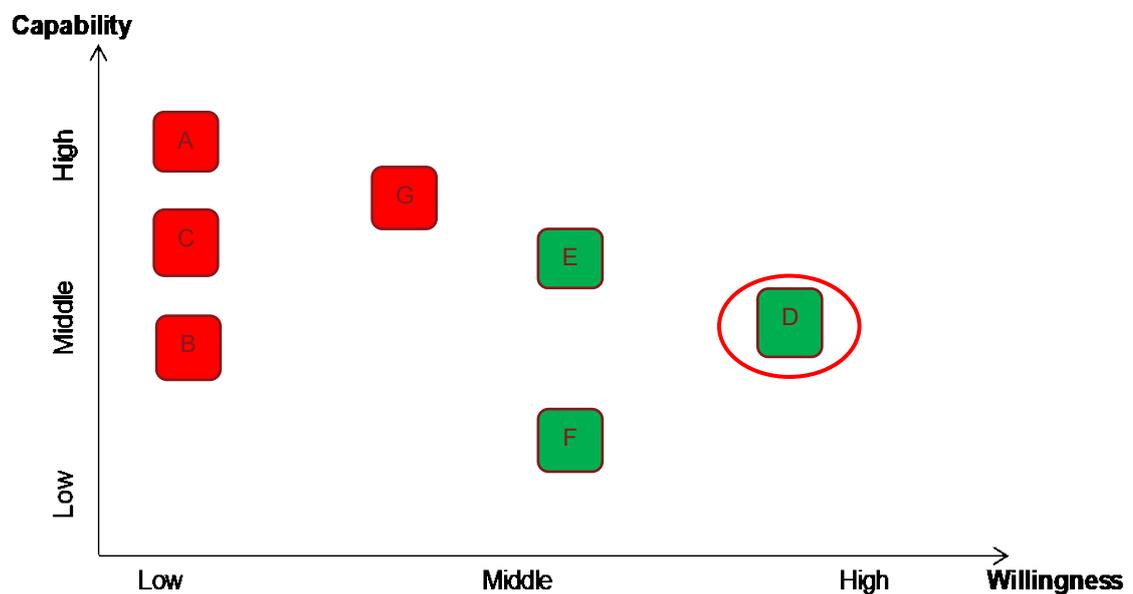


Figure 6: Perceived supplier capabilities and willingness by the client⁴

Source: Author’s elaboration

Supplier development phase

In the second phase, that is not only the story between the client with the chosen supplier in the first phase, but also the interaction with two other suppliers in real software development projects. That was the time in which the client implemented projects with three software suppliers but with different approaches. During the observation period, there were three projects with supplier D, three projects with supplier E and one project with supplier G.

⁴ Suppliers in red rejected the training invitation of the client, supplier in green accepted the invitation.

Table 8: Summary of the project implemented between the client and three suppliers

Supplier	Project	Approach
Supplier D	Project D1: Pilot training project	The supplier paid for the training course offered by a third party. The client paid the supplier for efforts spent in the pilot project to test the capability of the supplier. Thus, both parties contributed to the SD program.
	Project D2: Website development	First, the client trained the supplier about the Conrad knowledge via materials (documents, videos, source codes) and asked the supplier to do an example project. After that, the supplier began to implement real project related to Conrad for the client.
	Project D3: Website maintenance	The supplier can utilize the framework of Conrad-Core and PHP to handle the maintenance tasks for this project.
	Project D4: Website development	The client had a time-and-material based contract with the supplier to build up a multiple-function website for a third client. There was a budget limit monthly from the client.
Supplier E	Project E1: Testing for a CRM platform	The client provided the supplier testers some videos about the testing environment, the platform and how to implement testing tasks. After that, the supplier will implement those testing tasks. This was a time-and-material based contract.
	Project E2: Development and maintenance for content management system	The client spent efforts to train supplier developers to be familiar with the MDM platform. After that, the supplier will implement and maintain the system for the client. This was a fixed price contract for a long-time implementation.
	Project E3: Developing a Window app in-house	This was a fixed-price contract within three months to complete a Window app for the client with little supports from the client.
Supplier G	Project G1: Developing a mobile app for a third party	The client gave all descriptions and requirements to the supplier. Then, the suppliers fully implemented the app with the fixed price and specific timeline. However, the client worked closely and communicated frequently to give feedback to the supplier about the app development progress.

Source: Author's elaboration

Due to the differences in capability and willingness of the three suppliers, the client treated them also differently with specific purposes. The table below summarizes activities/ approaches which were used for specific suppliers.

Table 9: SD approaches for the three suppliers

Activities	Supplier D (average capability, very high willingness)	Supplier E (above-average capability, high willingness)	Supplier G (high capability, average willingness)
Training (video-based, sending materials, Q&A session, on-site training)	High	Average	Minimum
Pilot project to transfer knowledge	High	High	Minimum
Technical support	High	Average	Minimum
Visiting the supplier company	High (frequently)	High (frequently)	Average
Communicating the client strategies and long-term objectives	High	High	Average
Feedback and evaluation	High	Average	High
Incentive for the supplier	High	High	High
Competitive pressure	Minimum	Average	High
Higher requirements from the client	Minimum	Average	High
Financial support/investment	Minimum	Minimum	Minimum

Source: Author's elaboration

Monitoring and evaluation phase

It is always challenging to evaluate the effectiveness of SD programs regarding the cooperation and its outcomes. In this case study, there are two perspectives in which the cooperation might be considered: (1) Inter-organizational perspective and (2) project-specific perspective. Inter-organizational perspective considers the relationship development between the client and the supplier, the overall goal of the cooperation or the long-term benefits. The project-specific perspective refers to the client and supplier satisfaction in a specific project and business benefits gained from the project (Savolainen, Ahonen, & Richardson, 2012). In this case, both the client and suppliers were generally satisfied with each other at inter-organizational level as they perceived significantly improvement of the relationship which might lead to long-term successful cooperation in future. At project-specific level, the success of projects was perceived variously by the client and suppliers.

Table 10: Perceived results of the SD programs by the client and suppliers

Supplier	Projects	Project-specific level		Inter-organizational level evaluation	
		Evaluated by client	Evaluated by supplier	Perceived by client	Perceived by supplier
Supplier D	Project D1: Pilot training project	Failed	Failed	Highly satisfied	Highly satisfied
	Project D2: Website development	Average	Average		
	Project D3: Website maintenance	Successful	Successful		
	Project D4: Website development	Successful	Successful		
Supplier E	Project E1: Testing for a CRM platform	Successful	Successful	Satisfied	Satisfied
	Project E2: Development and maintenance for content management system	Average	Average		
	Project E3: Developing a Window app in-house	Successful	Successful		
Supplier G	Project G1: Developing a mobile app for a third party	Successful	Successful	Satisfied	Satisfied

Source: Author's elaboration

This case study can be considered a successful case, because both the client and selected suppliers have so far been satisfied with the business outcome and the inter-organizational relationship. Their engagement also promises potential development in the future as both sides have found their suitable partners. The figure below shows the perceived improvement of suppliers by the client.

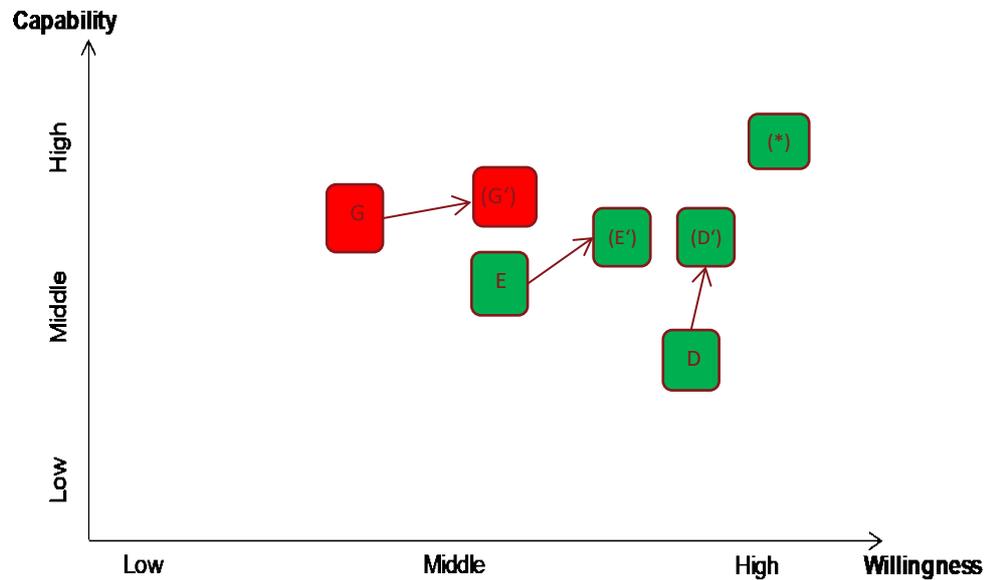


Figure 7: The perceived improvement of suppliers by the client
G', E', D': the perceived capability and willingness of suppliers after SD programs by the client
() : the expected ideal capability and willingness of suppliers by the client*
 Source: Author's elaboration

CONCLUSION

It is apparent to client managers that the decision whether to collaborate is not uniquely theirs. Suppliers also have a significant role in the decision-making process. In this situation, the client has minimal control over the supplier. Therefore, the client is required to make an appealing offer to suppliers to show that cooperation investment is worthwhile.

For supplier selection in SME contexts, the client should not only consider the supplier capability, but also the supplier willingness. However, supplier willingness is not something that exists before the client comes, but it is and should be provoked by the client efforts for the cooperation. In other words, the client, at the same time, not only evaluates but also stimulates the supplier willingness to join the cooperation.

Regarding SD programs, there is a wide range of activities (both direct and indirect activities) that have been implemented. Thus, clients and suppliers should consider which activities are suitable in their specific situations and can bring the best outcomes for the cooperation. For doing so, the client should be able to segment the suppliers depending on their capability and willingness. Obviously, those activities should be aligned with both parties' development

strategies, because most of SD activities are considered relationship-specific investments, which may not be adopted with other clients or projects.

For small suppliers, showing high willingness to cooperate and eagerness to develop can overcome capability shortcoming, and improve the chance of winning contracts. A client who seeks long-term cooperation with offshore suppliers considers not only current skills and capabilities, but also the supplier plans and ambitions with the risk-taking attitude together with the client.

For a successful cooperation, both clients and vendors should align their strategies and show the commitment to the cooperation. This can be achieved only through significant effort in communication, supports from both parties during negotiation and initial projects.

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