Unleashing inter-organizational capabilities in global supplier–buyer relationships for competitive advantage

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Abstract

Global account management (GAM) has become a critical issue for multinationals competing in a dynamic global market environment. Approaching GAM from a dynamic capability perspective, we introduce a framework of intra- and inter-organizational capabilities through which we recognize that a supplier's dynamic GAM capability extends beyond operational sales routines to customer-linked strategic, organizational, and functional dimensions. Such a dynamic GAM capability reconfigures, integrates, and replicates the firms' skills, resources, and competences to form inter-organizational value co-creation capabilities, which in turn determine joint profit performance and competitive advantage. We develop propositions for each construct on the basis of results from a five-year GAM research consortium. The framework can serve as a base for further empirical research that investigates the implications of a dynamic capability approach to GAM. From a practical viewpoint, the framework underlines the importance of attributing strategic weight to GAM and acknowledging it as a collaborative, value-generating supplier–buyer process that can yield superior dyadic outcomes that neither firm could generate by itself.

Introduction

In their quest to achieve competitive advantage and superior performance, firms enter into alliances and form close business relationships, often as supplier–buyer exchanges (Dwyer *et al.*, 1987; Anderson *et al.*, 1994; Cannon and Perreault, 1999; Narayandas and Rangan, 2004). Transaction cost theory (Williamson, 1975) has helped explain the efficiency of different forms and functions of supplier–buyer relationships in mature markets (Sriram *et al.*, 1992; Heide, 1994; Dyer, 1997) but cannot capture their entire value-generating potential (Zajac and Olsen, 1993) and neglects strategic factors that pertain to the formation of exchange relationships (Eisenhardt and Schoonhoven, 1996).

By building on the relational view, the International Marketing and Purchasing (IMP) Group (e.g., Håkansson and Wootz, 1979; Ford, 1980, 2002), along with the relational marketing (Dwyer *et al.*, 1987; Gummesson, 1987), relationship marketing (Morgan and Hunt, 1994; Grönroos, 1994), and power (Provan and Gassenheimer, 1994; Maloni and Benton, 2000) perspectives, have advanced understanding of why and how firms purposefully structure such exchange relationships.

However, though adopting a systems perspective to analyze supplier–buyer relationships is undoubtedly valuable because of its comprehensiveness, the approach lacks predictive power (Cox *et al.*, 2004) because it attributes equal weight to each side of the dyad. Despite ongoing calls for more collaborative relationships (e.g., Lamming *et al.*, 1996; Liker and Choi, 2004), supplier–buyer relationships are often imbalanced, which means firms must attempt one-dimensional approaches to actively manage the resources on which they depend (Pfeffer and Salancik, 1978).

On one side of the dyad, buyers take a more systematic approach to purchasing through portfolio management (Turnbull, 1990; Olsen and Ellram, 1997) and emphasize lean, agile, and total quality processes subsumed under the heading "supply chain management" (Hines and Rich, 1997; Naylor *et al.*, 1999). Suppliers, on the other side, attempt to manage relationships to their favor with portfolio management (Johnson and Selnes, 2004), relationship management (Jap and Ganesan,

2000; Subramani and Venkatraman, 2003), and national and key account management (Shapiro and Moriarty, 1984; Pardo *et al.*, 1995; McDonald *et al.*, 1997; Weilbaker and Weeks, 1997; Capon, 2001), which help them cope with the considerable imbalances of power in increasingly global markets (Birkinshaw *et al.*, 2001; Harvey *et al.*, 2003a).

As buyers continue to internationalize and source globally, attracting and retaining customers across borders—namely, global account management (GAM)—becomes a critical issue for suppliers (Cavusgil *et al.*, 2005). Defined by Shi *et al.* (2004: 539) as "a collaborative process between a multinational customer and a multinational supplier by which the worldwide buying–selling activities are centrally coordinated between the two organizations," GAM has recently attracted significant research attention in terms of its drivers and challenges (Yip and Madsen, 1996; Montgomery and Yip, 2000; Arnold *et al.*, 2001), development path (Millman, 1996; Gosselin and Heene, 2005), and program design and efficiency (Birkinshaw *et al.*, 2001; Capon, 2001; Homburg *et al.*, 2002;), as well as the necessary roles and competences of global account managers and teams (Harvey *et al.*, 2003a, b; Wilson and Millman, 2003) and required organizational capabilities (Shi *et al.* 2004, 2005). Overall and despite its importance, GAM research remains in its infancy, and results from practice are mixed (Shi *et al.*, 2004).

Currently, GAM might be described as a dominant one-dimensional approach to customer management that emphasizes the operational element of customer dependence. In line with Gosselin and Heene (2005), we argue for a more strategic approach to GAM that acknowledges the supplier–buyer relationship as a source of joint value creation, embedded in a larger value system.

Building on the resource-based view (RBV) (e.g., Wernerfelt, 1984; Barney, 1991; Peteraf, 1993) and its relational perspective (Dyer and Singh, 1998), we examine the role of a supplier's dynamic GAM capability during the formation of three inter-organizational capabilities: top-level coactivity, innovation partnering, and end-consumer focus, all of which give rise to relational rents

and competitive advantage. In particular, we adapt a dynamic capability view of the dyad to account for the turbulent global market environment and emphasize the inter-organizational resource reconfiguration, integration, and replication processes.

This article also extends previous work by Shi *et al.* (2004, 2005) on GAM capabilities by developing a multi-level definition of a dynamic GAM capability and examining the formation of inter-organizational capabilities and their link to dyadic outcomes. Moreover, the proposed inter-organizational capabilities complement research on GAM design (Birkinshaw *et al.*, 2001; Homburg *et al.*, 2002) by providing the missing link between a supplier's GAM efforts and performance outcomes. Finally, in a broader sense, we extend the market-based concept of customer-linking capability (Day, 1994; Day and Van den Bulte, 2002) to the domain of global customer management.

We derive the construct of dynamic GAM capability from relevant literature, such as that pertaining to the dynamic capability approach (DCA) (e.g., Teece and Pisano, 1994; Teece *et al.*, 1997; Eisenhardt and Martin, 2000), GAM (e.g., Birkinshaw *et al.*, 2001; Shi *et al.*, 2005), and traditional account management (e.g., Homburg *et al.*, 2002). We base our three proposed inter-organizational capabilities on the results of a five-year GAM research consortium with leading European and American suppliers of various industries, including chemicals, engineering and construction, packaging, information and telecommunications, financial services, and software. Overall, we conducted more than 20 workshops and 50 personal interviews during our study of the mechanisms of joint value creation.

In the following section, we examine current approaches to customer management during environmental changes and argue for a more strategic, dynamic approach to GAM. We then propose a framework of GAM capabilities and dyadic outcomes, illustrated by three cases from the GAM consortium. Finally, we propose and discuss both the managerial implications of a dynamic capability approach to GAM and an agenda for further research.

Toward a strategic and dynamic GAM approach

Traditional customer management

Business relationships between suppliers and buyers differ from consumer relationships in the nature of their demand, frequency, complexity, and transaction value. As a rule, key customers, which represent approximately 20 percent of a supplier's customer base, can contribute up to 80 percent of total revenues (Gosselin and Heene, 2005) and therefore help stabilize cash flow volatility (Capon, 2001). According to the RBV, a firm will respond to and become dependent on those firms that control resources that are critical to its operations and over which it has limited control (Pfeffer and Salancik, 1978). Consequently, a supplier's success depends to a large extent on how it manages its resource dependence on its key customers, which guarantee its long-term survival.

Given the importance of these commercially critical customers, suppliers have developed distinctive approaches to managing customer dependency. These approaches tend to be rather one-dimensional (Cox *et al.*, 2004) because they aim to shift the balance of power in their favor. An early literature stream addresses national and key account management (Tosdal, 1950; Shapiro and Moriarty, 1984; Pardo *et al.*, 1995; McDonald *et al.*, 1997; Weilbaker and Weeks, 1997). In the 1950s, suppliers in the industrial sector began to introduce national account management in response to increasingly demanding buyers that had begun to source nationally through buying centers. Suppliers established specialized sales teams and account managers that acted as single points-of-contact for key customers and coordinated all activities centrally with the aim of increasing their share of the customer's wallet and raising switching costs through isolating mechanisms (Sengupta *et al.*, 1997).

In the early 1990s, many firms began to increase their internationalization efforts in response to industry-specific factors (Yip and Madsen, 1996). When buyers reach out to new markets, they tend to intensify their global sourcing activities as well, which offered supplies a new challenge: They could either follow their key customers on the global expansion path as preferred suppliers or risk

losing the entire business to suppliers that could meet customer demands both globally and locally. Attracting and retaining multinational customers across borders thus became the new frontier for global suppliers, as well as for account management researchers (Yip and Madsen, 1996; Cavusgil *et al.*, 2005).

Although the potential benefits of GAM have been elaborated on (e.g., Homburg *et al.*, 2002), the results from practice remain mixed, and until now, only a few suppliers have made GAM their competitive advantage (Shi *et al.*, 2004). One possible explanation for these results is that many suppliers simply extend their national account processes and systems to GAM without taking into consideration that cultural diversity and organizational complexity increase substantially, which sometimes requires a fundamentally different approach (Millman, 1999). However, the most significant issue, in our opinion, is that traditional account management, with its one-dimensional, operational view, neglects the value-creating potential of customer relationships, as well as the dynamic environment within which such relationships are embedded.

Contextual drivers

The modern turbulence in global business markets is fueled by several factors that can be subsumed into three categories: industry restructuring, strategic sourcing, and technological advance. Each of these factors presses suppliers to attain operational efficiency, innovation, and value creation to retain their key customers.

First, the networks within which suppliers compete have changed significantly as a result of far-reaching restructuring. The intense mergers and acquisitions activity of the 1980s led to many oligopolistic buyer markets. Moreover, many firms left market segments that were either financially unattractive or unaddressable due to their lack of competence, which allowed competitors to grab market share. As a result, the balance of power has shifted to buyers (Birkinshaw *et al.*, 2001); certain key buyers have become even more important than country markets.

Second, purchasing has been elevated from an administrative budget control function of the managerial backwaters (Capon, 2001) to a contributor to competitive advantage at the strategic level (Pearson and Gritzmacher, 1990; Ellram and Carr, 1994). Consequently, many buyers purposefully manage and reduce their supplier bases substantially (Capon, 2001), seeking closer partnerships with select suppliers that are able to not only offer competitive prices but also create value beyond total quality or just-in-time management.

Third, technological advances, particularly the convergence of information technology and telecommunications, have eased global operations dramatically. Simplified interfaces and increased transparency enable buyers to streamline procurement processes, communicate with and control far-flung national operations better, and compare deals and prices across the globe. Beyond the information technology field, high research and development costs, coupled with shorter lifecycles, require both suppliers and buyers to allocate their resources efficiently to exploit first-mover rents (Montgomery and Yip, 2000).

These three contextual factors act as catalysts for new relational opportunities and, at the same time, raise new demands that can determine the long-term survival of suppliers. Suppliers still need to excel at the operational level of customer management, but the pivotal question is whether they can move beyond the traditional customer management mindset of selling more and emphasize instead ways to make their customers and the dyad itself more competitive and profitable.

Strategic GAM

Supplier–buyer relationships have inherent economic value that justifies collaboration efforts. Extracting this value in global high-velocity markets, however, becomes challenging and requires, in addition to idiosyncratic investments, a strategic view of and dynamic approach to GAM. Many suppliers introduce an allegedly relational view by focusing on customer lifetime value and value-based selling, but the underlying mindset remains one of selling more to existing customers and

gaining the upper hand in asymmetric relationships (Jap and Ganesan, 2000; Subramani and Venkatraman, 2003). Other suppliers respond to environmental pressures by performing traditional customer management processes at a world-class level. Although the operational excellence of a firm's customer management undoubtedly is important, managing customers does not represent a sustainable approach, because any firm can adopt such selling techniques or best practices over time.

The RBV (e.g., Wernerfelt, 1984; Barney, 1991; Peteraf, 1993) extends beyond the one-dimensional view that would constrain GAM to the sales department by focusing on a firm's heterogeneous resource base to develop its competitive advantage. According to the relational view (Dyer and Singh, 1998), such resources are not constrained to individual firms but span firm boundaries and include inter-organizational resources and routines. A network of firms or a supplier–buyer relationship thus can be the source of competitive advantage (Sheth and Sharma, 1997; Harvey *et al.*, 2003b) through the pooling and alteration of resources for joint value creation.

From a strategic viewpoint, suppliers should focus on value creation and competitive advantage. Value is not created by offering buyers a bundle of products and services that the supplier considers value-adding but rather defined by the buyer and end-consumers; it therefore requires the supplier to collaborate closely with the buyer to create the necessary capabilities for value co-creation. Furthermore, competitive advantage is not constrained to either the supplier or the buyer but instead should be considered from a dyadic perspective. Intense competition in global markets means that many dyads and networks compete. Strong dyads enjoy some protection, because competitors find it difficult to replicate the relationships within them (Dierickx and Cool, 1989), but within weak dyads, even strong firms sometimes will suffer.

Achieving superior performance and competitive advantage thus requires suppliers to be flexible and learn quickly, which raises the need for a dynamic GAM capability that can alter

customer-linked skills, resources, and competences internally and within the dyad to achieve congruence with the changing market environment.

Dynamic GAM capability

The DCA (Teece and Pisano, 1994; Teece *et al.*, 1997; Eisenhardt and Martin, 2000; Winter, 2003) emphasizes the key role of strategic management for altering skills, resources, and competences to generate new value-creating strategies and competitive advantage. In this context, the term "dynamic" refers to the ability to renew competences to achieve congruence with a high-velocity environment, and "alteration" encompasses not only the reconfiguration of resources but also the integration and recombination of those that emerge later. Within the broader field of relationship management and customer orientation, several dynamic capabilities have been suggested. For example, Dyer and Singh (1998) argue for a relational capability that involves a firm's learning in terms of inter-organizational behavior and relationship management procedures. Johnson *et al.* (2003) refer to a firm's market-focused strategic flexibility as its ability to change direction quickly and reconfigure strategically to produce superior customer value propositions. Finally, Day (1994) and Day and van den Bulte (2002) propose a customer-linking capability to achieve collaborative customer relationships with well-defined procedures in place for responding to customer needs.

Building on Day's (1994) understanding of a capability as a mechanism by which competences are developed, as well as Eisenhardt and Martin's (2000) notion that dynamic capabilities are combinations of simpler, foundational capabilities or routines, we define a *supplier's dynamic GAM capability* as a set of strategic, functional, and organizational capabilities that form a mechanism to reconfigure, integrate, and/or replicate inter-organizational resources into capabilities for value co-creation in a high-velocity environment. Following Teece and Pisano's (1994) argument, we recognize that a dynamic GAM capability cannot be bought but must be built over time.

A supplier's dynamic GAM capability consists of three important characteristics pertaining to alteration. First, the dynamic GAM capability can reconfigure (i.e., improve or leverage) existing resources. For example, many suppliers limit their top management involvement to crisis intervention or power plays instead of using it as a resource. Distinctive GAM routines, such as joint business development, can help proactively engage both suppliers' and buyers' top management to advance single projects, as well as the overall relationship. Second, the dynamic GAM capability helps integrate and mobilize inter-organizational resources. Traditionally, suppliers and buyers have maintained separate R&D teams that engage in little direct communication. Instead of diverting valuable knowledge through sales and purchasing, a supplier's dynamic GAM capability can help it establish joint innovation teams that consist of cross-functional and cross-divisional experts that work together closely and focus on value co-creation. Third, a supplier's dynamic GAM capability helps replicate inter-organizational routines through learning, such that, for example, a supplier and buyer are capable of replicating a value-enhancing activity from one particular national market to other markets.

A conceptual framework of GAM capabilities

Our framework (see Figure 1) proposes that a supplier's dynamic GAM capability leads to value co-creation through the development of three inter-organizational supplier–buyer capabilities: top-level coactivity, innovation partnering, and end-consumer focus. The link between GAM capability and inter-organizational capabilities is moderated by the degree of inter-organizational commitment. Furthermore, the framework posits that the formation of each of the three inter-organizational capabilities is associated with positive dyadic outcomes in terms of joint profit performance and competitive advantage.

Figure 1 about here

Multilevel dimensions of dynamic GAM capability

A supplier's dynamic GAM capability involves a complex mechanism that helps unleash inter-organizational capabilities. To parameterize such a complex capability, we must decompose it into distinct processes and competences (Day and Van den Bulte, 2002). In this regard, DCA offers several process dimensions. For example, Teece *et al.* (1997) argue that competitive advantage in a rapidly changing environment depends on the development of distinctive technological, organizational, and managerial processes. Similarly, Eisenhardt and Martin (2000) define dynamic capability as a set of specific and identifiable processes, such as strategic and organizational ones. In line with these arguments, we decompose a supplier's dynamic GAM capability into strategic, functional, and organizational dimensions.

Strategic dimension

The strategic dimension encompasses customer selection, top executive sponsorship, and knowledge management. C*ustomer selection* is the first step of collaborative relationships. Arnold *et al.* (2001) emphasize the importance of assessing the readiness of both parties for global partnering and selecting customers with not only a financial but a long-term strategic intent. Objective selection criteria based on strategic rationales help shift the focus away from pure sales objectives to joint value creation. As a further criterion for customer selection, Shi *et al.* (2004) add resource complementarity, or the degree to which a buyer can contribute distinctive knowledge, assets, and competencies to the partnership, which falls is in line with Harrison *et al.* (2001), who suggest that collaboration with a partner that has different resources offers value-creating synergies in the long run, whereas resource similarity limits the partnership to short-term improvements.

The second strategic capability, *top executive sponsorship*, pertains to the crucial role top management plays in providing GAM with the necessary resources and intra-organizational support. The long-term success of a supplier's GAM initiative depends on whether it is reflected in corporate strategy. Furthermore, the direct involvement of top management in business relationships has a positive influence on GAM effectiveness (Workman *et al.*, 2003).

Knowledge management is the third capability that constitutes the strategic dimension. Knowledge is fundamental to building market-sensing and customer-linking capabilities (Day, 1994), and processes that generate and integrate market knowledge exert a positive influence on new product advantage (Li and Calantone, 1998). Examples of supplier knowledge management processes include the application of success stories from one market to another and from one business relationship to another or the provision of actionable knowledge to improve products, services, and processes on an ongoing basis.

> **Proposition 1a:** A supplier's strategic GAM processes (i.e., customer selection, top executive sponsorship, and knowledge management) have a positive effect on the formation of inter-organizational top-level coactivity, innovation partnering, and end-consumer focus.

Functional dimension

On the functional level, suppliers establish the main processes that support the implementation of the defined strategy and the smooth functioning of the GAM program. Such capabilities include solution development, process integration, and systems management.

Solution development refers to tailor-made solutions that are not offered to the entire customer base and represents one of the key determinants of GAM performance (Workman *et al.*, 2003). In addition, solution development involves comprehensive product/service bundles that consist of standardized and customized components (Millman, 1996), as well as harmonized global prices

(Narayandas *et al.*, 2000). A prerequisite for joint solution development is that suppliers can integrate market trends, customer knowledge, and customer teams into their R&D processes.

Inter-organizational collaboration is associated largely with the *process integration* between supplier and buyer, which involves various coordinating and monitoring processes, such as joint production planning (Day, 1994), the execution of complex projects across functions, clear decision-making processes, and total quality management throughout the value chain.

Finally, a supplier's dynamic GAM capability entails effective *systems management*, which encompasses communication systems that enable collaboration among virtual teams, management information systems that allow for fast and fact-based decision making, and measurement systems that help track quality and performance. A supplier's information system contains critical market and customer information and therefore should be designed to ensure worldwide accessibility and encourage knowledge sharing. Such systems therefore can promote customer value and an end-consumer focus (Woodruff, 1997).

> **Proposition 1b:** A supplier's functional GAM processes (i.e., solution development, process integration, and systems management) have a positive effect on the formation of inter-organizational top-level coactivity, innovation partnering, and end-consumer focus.

Organizational dimension

The organizational dimension comprises managerial competencies, coordination tasks, and information flows. Moving toward customer-centric forms of organization raises demands on *personnel development.* The shift from geographies to customers is associated with the transfer of power and resources from individual countries to boundary-spanning units, which places more weight on the role of the global account manager (Homburg *et al.*, 2000) and the emerging chief marketing officer function. A global account manager assumes a complex and demanding position—Wilson and Millman (2003) call such managers the political entrepreneur—that requires extensive changes to

the objectives and competences of traditional sales managers (Harvey *et al.*, 2003b). Global account manager competencies might include the ability to identify win–win business opportunities, engage top management in the business process, collaborate in cross-functional and virtual teams (Millman and Wilson, 1999), and understand and act on end-consumer needs (Woodruff, 1997).

Coordination is another important element of the organizational dimension. A supplier's ability to coordinate complex undertakings is a prerequisite of joint supplier–buyer processes, such as just-in-time production (Mohr and Spekman, 1994). This element might involve the coordination of GAM activities across hierarchical levels, from frontline staff to managers, or cross-functional, cross–business unit expert teams that serve particular global customers. The ability to coordinate across functional and geographical boundaries can be fostered by a customer-centric mindset and incentive structures that help overcome silo thinking.

Finally, *information management* refers to the routines related to gathering, interpreting, and disseminating information, such as market, customer, and competitor information, in a systematic manner. Building on Day's (1994) notion of a market-sensing capability, Shi *et al.* (2005: 99) identify GAM intelligence acquisition, or "the process of scanning and evaluating the global account needs and the environmental needs," as a key GAM capability.

> **Proposition 1c:** A supplier's organizational GAM processes (i.e., personnel development, coordination, and information management) have a positive effect on the formation of inter-organizational top-level coactivity, innovation partnering, and end-consumer focus.

Inter-organizational supplier–buyer capabilities

Inter-organizational capabilities are nontradable accumulations of inter-firm resources, competences, and routines deployed for joint value creation (Day, 1994; Dyer and Singh, 1998; Shi *et al.*, 2004). On the basis of extant literature and results obtained from our GAM research consortium, we propose

three inter-organizational capabilities—top-level coactivity, innovation partnering, and end-consumer focus—as the foundation of value co-creation. The emphasis on value co-creation (Ramirez, 1999; Ulaga, 2001; Walter *et al.*, 2001; Prahalad and Ramaswamy, 2004b) from the relational perspective of the RBV (Dyer and Singh, 1998) complements our understanding of firm-specific rents that pertain to one-dimensional supplier–buyer approaches.

Top-level coactivity

Top-level coactivity refers to proactive and intense dialogue between the supplier's and the buyer's top management. Traditionally, such interactions have been the responsibility of the local sales force (Arnold *et al.*, 1999) or the purchasing department, while senior managers limited their involvement to crisis intervention. Top-level coactivity makes joint strategy planning and business development for value co-creation a top management priority and moves the discussion away from operational aspects. Moreover, top management assumes the important role of communicating and promoting the overarching relationship goals across both organizations, which results in increased legitimacy and buy-in for the collaboration. By combining forces at the top level, the two companies shift from contracting to less formal, self-enforcing governance mechanisms that are based on intense dialogue and a high degree of trust. Due to their inimitability and lower costs, these governance forms become a key inter-organizational capability and source of relational rents (Dyer and Singh, 1998).

A supplier's dynamic GAM capability can enable the formation of top-level coactivity. For example, customer selection helps the supplier engage with those customers that exhibit a high partnership potential in terms of similar strategies and complementary resources. If top executive sponsorship is already in place, the supplier's management is more prone to engage the buyer's top management proactively and enthusiastically. Valuable and actionable top-to-top knowledge exchange, and its organizational dissemination, are facilitated by the supplier's knowledge management process. Furthermore, a supplier’s effective information-processing systems enable

both firms to resort quickly to accurate, synthesized information for joint decision making. Finally, global account managers coordinate top-level meetings through structured management briefings and ensure that meeting outcomes get transferred into concrete actions at the operational level.

Case: Siemens and consumer goods customer

Siemens Information and Communications (Siemens IC) is a core segment of Siemens AG that provides technology and communications solutions for enterprises and carriers in more than 160 countries. In 1999, building on its previous account management experience at local and divisional levels, Siemens IC launched its Corporate Account Management program, which introduced a top executive relationship management process that proactively engaged top management. For example, board members review the top 50 account plans annually to allocate resources and prepare for top-level planning meetings with customers.

In one relationship with a large, fast-moving consumer goods (FMCG) company, Siemens IC had served the customer for many years by national companies in an uncoordinated manner. When Corporate Account Management conducted an assessment of the overall business and how Siemens IC could help the customer become more competitive, it discovered vast potential for corporate solutions and cost savings. Siemens' top management presented these opportunities to the customer's chief operating officer during a "roadmap workshop," and the two firms soon embarked on an unprecedented partnership. Every year, a joint business development workshop between Corporate Account Management and the customer's sourcing department takes place, preceded by a top management meeting that sets the overall direction and creates a collaborative environment. Since then, Siemens IC has grown its business with the customer tenfold to more than US$160 million, as a direct result of its identification of new business that Siemens could provide as a preferred supplier. The results for the customer primarily involved increased operational efficiencies through better management of its total cost of ownership.

This case illustrates the potential dyadic outcomes of top-level coactivity. Siemens IC and the customer contributed to their competitive advantage through joint business planning, strategy alignment, avoiding any exhausting balance-of-power struggles, and focusing on long-term value-creating strategies. Joint profit performance resulted from reduced management and contracting costs on both sides, reduced total cost of ownership for the customer, and increased cross-selling levels for Siemens IC. We therefore propose the following:

> **Proposition 2**: Top-level coactivity has a positive effect on (a) dyadic competitive advantage and (b) joint profit performance.

Innovation partnering

Innovation partnering refers to the combination of supplier and buyer R&D resources to develop superior products and solutions faster and with greater cost efficiency. Suppliers are aware of the potential benefits of integrating customer knowledge into their new product development (Hagedoorn, 1993, 2002) but tend to rely on one-way communication, such as customer surveys (Prahalad and Ramaswamy, 2004a) or focus groups, despite their well-known limitations. Because continuous, iterative, and personal dialogue is sparse, tacit knowledge is hard to tap; as a consequence, the firms cannot exploit their potential for value creation fully. In contrast, innovation partnering promotes proactive collaboration through joint innovation teams that identify and develop value-enhancing offerings and thereby results in performance improvements due to the transfer of tacit knowledge (Eisenhardt and Schoonhoven, 1996; Lambe and Spekman, 1997), access to complementary assets (Teece, 1986), mutual relationship building (Ritter and Walter, 2003), and shared R&D costs as well as risks (Hagedoorn, 2002).

A supplier's dynamic GAM capability enables innovation partnering through customer selection, which focuses the firms on those buyers that possess complementary R&D resources. The supplier's top management is more willing to assign, or even grant the buyer direct access to, special

R&D resources because they have jointly agreed on the relationship strategies and value-creation projects. The supplier's knowledge management processes help integrate both organizations' knowledge repositories into joint innovation activities and create inter-organizational knowledge stores (Johnson *et al.*, 2004). Knowledge management also enhances partner-specific absorptive capacities, that is, the ability to recognize and assimilate valuable information and know-how provided by the partner (Cohen and Levinthal, 1990). A GAM-specific information management system facilitates knowledge management by providing internal and external team members with relevant and actionable information. Furthermore, a supplier's ability to develop tailor-made bundles of products and services promotes a modular, flexible, solution-based approach to joint innovation. Finally, innovation teams can collaborate more effectively if the supplier's GAM team members possess the skills and mindset to work successfully in cross-functional and virtual team settings, led by the global account manager and his or her counterpart in the buyer's organization.

Case: Linde and Tesco

Linde Refrigeration, part of the Linde Group, with its more than 40,000 employees worldwide, develops refrigeration and retail system solutions for food retailers. Linde Refrigeration's strategic customers account for 45 percent of its total sales. Because innovations are one of the few differentiation factors for retail chains, they prefer relationships with suppliers that can deliver breakthrough solutions; for suppliers, joint innovation thus becomes a decisive value driver in such relationships. Linde Refrigeration, for example, initiated innovation partnering with Tesco by establishing a multi-functional innovation team that brought together its refrigeration knowledge and Tesco's retail market knowledge. Linde team members include functional experts in GAM, central key accounts, R&D, product management, and manufacturing, whereas Tesco sent representatives from engineering, purchasing, retail, and merchandising. The innovation team generates and evaluates ideas, defines concepts, and maintains a knowledge exchange forum. One breakthrough

product that resulted from this innovation partnering was a special fruit-and-vegetable presenter, tailor-made to meet Tesco's distinctive needs, which offered a time to market of less than 12 months, compared with the average of three years.

This case illustrates potential outcomes that can be derived from innovation partnering. Linde Refrigeration and Tesco enhanced their competitive advantage by embarking on a larger project for which they shared both investments and risks. Their collaboration led to a significant innovation associated with knowledge leadership, which neither could have achieved independently. Profit performance improved due to the shared costs, use and multiplication of inter-organizational knowledge, reduction of experimental R&D efforts, and faster time to market, which helped them reap a first-mover advantage. For Linde, innovation partnering with key accounts in general has resulted in better product development success rates and the opportunity to cascade breakthrough innovations to its broader customer base. For Tesco, the partnering reduced its traditional adaptation costs of non-customized products to almost zero and provided an effective differentiation in the highly competitive retail sector. We therefore propose that

> **Proposition 3:** Innovation partnering has a positive effect on (a) dyadic competitive advantage and (b) joint profit performance.

End-consumer focus

Customer value delivery is a key source of competitive advantage and performance improvement (Day, 1990; Gale, 1994; Naumann, 1995; Woodruff, 1997; Scott, 1998). In collaborative supplier–buyer relationships, an end-consumer focus ensures that joint forces aim to identify, understand, and deliver end-consumer value. In traditional business exchanges, suppliers tend to concentrate on what they perceive to be their immediate buyers' needs and rarely involve customers several steps removed. Moreover, buyers tend to emphasize operational efficiency in purchasing and overall inflow activities but attribute less importance to how suppliers can help create value for their end-

consumers. Both organizations thus approach end-consumers separately and attempt to create pull for their proprietary products and services, which results in inconsistent messages, an inefficient use (or neglect) of inter-organizational resources, and missed opportunities for value co-creation. Overall, the larger network or stakeholder system (Payne and Holt, 2001) in which the supplier–buyer relationship is embedded receives little attention from a value-creating perspective.

A supplier's dynamic GAM capability promotes an end-consumer focus through the collaborative engagement of leading suppliers and buyers in their respective end-consumer markets that have a sound understanding of what their consumers' value drivers are and how they change over time. A supplier's knowledge management process can pool both organizations' end-consumer and channel knowledge to facilitate value co-creation. Distinctive operational GAM processes that ensure, for example, total quality management throughout the value chain support value co-creation even further, as do systems, such as customer satisfaction and recommendation assessments, that measure and demonstrate the value created for and delivered to end-consumers. Another prerequisite for an end-consumer focus is personnel development. For example, the supplier's GAM team, which consists of cross-functional experts, must possess the skills and competences to understand what the buyer and its end-consumer values, create an appropriate value-delivery strategy, adapt to internal processes, deliver value, track the performance of the value delivery, and learn from the value-delivery process (Woodruff, 1997). Finally, a supplier's GAM coordination ability supports an end-consumer focus by replicating successful local value-adding activities in other markets served by the supplier–buyer relationship.

Case: Tetra Pak and consumer goods customers

Tetra Pak, part of the Tetra Laval Group, is a leading provider of processing and packaging solutions for food, functions in more than 165 countries, and employs more than 21,000 people. With its key global customers, including FMCGs such as MinuteMaid, Nestlé, PepsiCo, and Unilever, Tetra Pak

pursues value co-creation driven by a strong end-consumer focus. Unlike many of its competitors, Tetra Pak does not work for but rather with its global accounts to develop processing and packaging solutions that add value across the entire value chain, including for retailers and private end-consumers. For example, for key accounts, packaging solutions enable cost-effective transportation with minimal environmental impact. Retailers benefit from these efficient and attractive packaging solutions that ensure that the packaged products are well protected on shelves, that costly shelf space is optimized, and that goods are presented in an attractive manner to promote their turnover. Finally, Tetra Pak addresses the concerns of end-consumers, such as food safety and the protection of nutritional value and original taste without refrigeration or preservatives, by incorporating these demands as requirements in the innovation process and purposefully raising awareness through its "protects what is good" media campaign.

A prerequisite for Tetra Pak's end-consumer focus and value co-creation ability in its global account relationships is its International Key Account Management (IKAM) program and customer-centric mindset, which permeates the entire organization. At the core of Tetra Pak's IKAM is knowledge management that ensures a profound understanding of the value drivers of each stakeholder in the value chain. Significant investments in consumer and category research fuel knowledge management while dedicated IKAM systems track customer satisfaction and loyalty; the results then are systematically incorporated into business plans and discussed with key customers. To maintain a continuous dialogue about value co-creation and delivery, Tetra Pak has established dedicated IKAM portals for its key global customers, through which Tetra Pak and its customers not only manage their joint projects but also exchange knowledge about consumer trends that may affect future value deliveries.

The dyadic competitive advantage in Tetra Pak's case is based on the exploitation of the value-creating potential of the supplier–buyer relationship through a strong focus on end-consumers.

The ability to create real value, as perceived by the various stakeholders, strengthens the supplier–buyer relationship and distinguishes it from other dyads that lack a sound understanding of stakeholders' value drivers. Joint profit performance thus results because benefits at each stage of the value chain are increased, while costs are kept in check or even lowered. We therefore propose the following proposition:

> **Proposition 4:** End-consumer focus has a positive effect on (a) dyadic competitive advantage and (b) joint profit performance.

Inter-organizational commitment as a moderator

Although dynamic GAM capability is the driving force from the supplier's side, its effectiveness in forming inter-organizational capabilities depends on the degree of inter-organizational commitment from both the supplier and the buyer. In a wider sense, the construct builds on the IMP model and its "atmosphere" aspect, which includes determinants such as power and dependence, cooperation, closeness, and expectations (Håkansson, 1982). Morgan and Hunt (1994) conceptualize inter-organizational commitment as an enduring intention by partners to develop and sustain a long-term relationship, and we extend this conceptualization to associate two key factors with inter-organizational commitment: trust and goal congruence.

As an attribute of successful partnerships (Mohr and Spekman, 1994), trust represents a major determinant of relationship commitment, because commitment entails risks, and companies are willing to commit only to trustworthy partners (Morgan and Hunt, 1994). This concept pertains to global supplier–buyer relationships in particular, for which idiosyncratic investments and the risks of worldwide collaboration are both significant. Intense communication, the absence of opportunistic behavior, and a high degree of inter-personal trust, however, can overcome even extreme relational asymmetries (Morgan and Hunt, 1994; Narayandas and Rangan, 2004).

Goal congruence describes the extent to which suppliers and buyers pursue similar strategies for their collaboration and value creation (Capon, 2001). It relates to Toulan *et al.*'s (2002) notion of strategic fit in reference to the strategic importance of the supplier–buyer relationship. Goal congruence promotes joint investment and strategy development (Marshall, 2003) and has a positive effect on the development of inter-organizational capabilities (Shi *et al.,* 2004).

> **Proposition 5:** The degree of inter-organizational commitment (i.e., trust and goal congruence) between suppliers and buyers moderates the formation of inter-organizational top-level coactivity, innovation partnering, and end-consumer focus.

Dyadic outcomes

Building on the RBV (e.g., Barney, 1991), we argue that competitive advantage is enhanced by the development of valuable, rare, inimitable, and non-substitutable capabilities, which make it difficult for competitors to duplicate the benefits of the dyad's value-creating strategy. Collaborative supplier–buyer relationships can sustain their value-creating capabilities and associated competitive advantage because of time compression diseconomies, inter-organizational asset stock interconnectedness, partner scarcity, and resource indivisibility (Dierickx and Cool, 1989; Dyer and Singh, 1998).

Furthermore, joint profit performance, according to Dyer and Singh's (1998) concept of relational rents, refers to an above-normal profit generated jointly by the supplier and buyer. According to Shi *et al.* (2004), joint profit performance in GAM relationships is not simply the sum of both organizations' profits but a result that cannot be generated by either firm in isolation because it requires combined idiosyncratic contributions.

Conclusion

Achieving competitive advantage and superior performance is critical for supplier–buyer relationships in global, high-velocity markets, but the results reported from practice are mixed. We argue for a more strategic and dynamic approach to supplier–buyer relationships that can unleash

inter-organizational capabilities for joint value creation. Through a comprehensive review of the literature and results obtained from a five-year GAM research consortium, we develop a conceptual framework of GAM capabilities and dyadic outcomes that contributes to extant literature in several ways. First, by applying DCA to GAM, our framework conceptualizes a supplier's dynamic GAM capability as a set of strategic, functional, and organizational capabilities that form a mechanism to reconfigure, integrate, and/or replicate inter-organizational resources. Second, the framework shifts attention from one-dimensional GAM approaches to a relational view of the dyad (Dyer and Singh, 1998; Srivastava *et al.*, 2001) and emphasizes three inter-organizational capabilities—top-level coactivity, innovation partnering, and end-consumer focus—for value co-creation. Third, our framework links capabilities to relational rents (Madhok and Tallman, 1998) and thus enhances understanding of one-dimensional GAM approaches associated with firm-specific rents.

From a managerial perspective, this study underlines the importance of proactively and systematically nurturing strategic, functional, and organizational processes to develop a dynamic GAM capability and thereby drive inter-organizational value creation. The pursuit of joint value creation requires, from both suppliers and buyers, a more strategic and partnering approach to business relationships that moves beyond traditional sales and purchasing mindsets. Inter-organizational capabilities can be neither bought nor instantly built. Rather, capability development requires idiosyncratic investments from both parties and a long-term commitment to allow capabilities to mature over time (Helfat and Peteraf, 2003). Overall, our consortium results support the notion that firms that pursue early joint capability development outperform competitors by realizing dyadic rents that neither firm could achieve in isolation.

This study also offers several interesting avenues for further research. First, additional research could build on the proposed framework to identify other inter-organizational capabilities and empirically measure their performance outcomes; study the effects of different facilitating

conditions; and introduce control variables, such as industry type and national culture, that might explain differences in dyadic outcomes. Second, according to some arguments, dynamic capabilities emerge from path-dependent processes (Teece *et al.*, 1997). Investigating the learning mechanisms (Zollo and Winter, 2002) through which suppliers develop dynamic GAM capabilities could provide important insights for practitioners. Third, we emphasize a relational view of the dyad and its value-creating potential. Although we derive the relational rents in the framework from literature and illustrate them with cases, it is not clear how these relational rents are distributed between suppliers and buyers. Further research could study the allocation of the relational rent pie in terms of processes and the role of power mechanisms.

Global account management relationships are a critical issue for both suppliers and buyers. We hope that this study spurs further research that will enhance our understanding in this emerging field of inquiry.

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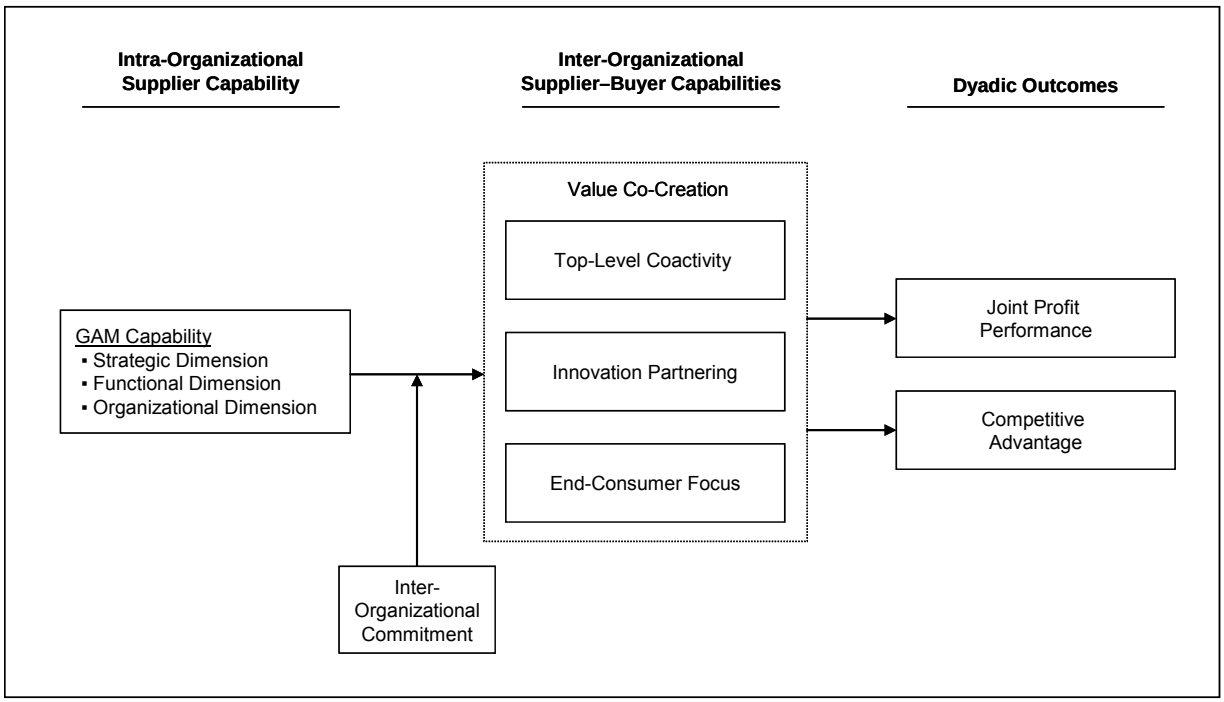
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Figure 1. Conceptual framework of GAM capabilities



Source: Authors