
VALUE MANAGEMENT PRINCIPLES' EXTENSION FOR SUPPLIERS, AS MAJOR COMPANY'S STAKEHOLDER

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Abstract

Maintaining or increasing the market competitiveness is crucial for the company's existence. The managers of the enterprises, who take this fact into the account are searching for new approaches and activities. One of them is building a long-term sustainable relationship with the stakeholders by providing them value. A comparative analysis of the theoretical material and case studies has led to the conclusion, that the suppliers as major stakeholders have a significant position in the value chain of the enterprise. The management is not aware of this fact and therefore pays a low level of attention to the management activities. The given grounds are the reason why the paper is focused on the suppliers. The aim of the paper is to point out that the application of the value management principles in the enterprise will create a long-term sustainable relationship with the suppliers. The relationship built this way benefits the enterprise as well as the supplier. It is important to synchronize the opinions of both parties and to achieve the balance between the needs met and the resources expended. The value creation should not be the result of the random processes and management decisions in the enterprises. Based on the synthesis of results by processing data obtained from structured interviews we propose a supplier creation value process. It consists of the value definition and description, its expression through the results measured by financial and non-financial indicators and the definition of management activities affecting the value creation for suppliers.

Keywords

Value, suppliers, value management, cooperation, competitiveness

JEL Classification

A12, M21, G32

Introduction

At the present stage of economic environment development, the problem is not the production of products, but their realization on the market. The value of the product for the customer must be greater than the value offered by competitors. The customer is one of the stakeholders of the enterprise together with owners, creditors, employees, suppliers, business partners, competitors, government, local government, nongovernmental organizations, pressure groups, communities and media. The profitability of the enterprise is directly dependent on all the above-mentioned stakeholders. This implies the need to include the value creation for stakeholders into the strategic management, through building a sustainable relationship (Garcia-Castro and Aguilera, 2015), (Gans and Ryall, 2017). The value provided by enterprise to the customer also influences the enterprise's relationship with the suppliers. According to Valaskova et al. (2018) the private labels and branding are important for customers in decision making and to fulfill their needs. It can be assumed, that the branding and private labels are important factors in the process of decision making also in case of suppliers. The supplier is a physical person or corporation who supplies an enterprise with material, energy, fixed assets and services for an agreed price, within an agreed time or deadlines. The specialized suppliers could be defined as a cluster, those suppliers are rivals on the same market (Havko et al., 2016). European Standard EN 1325-2014 Value Management emphasizes the need of value creation for all stakeholders of enterprise. It is necessary to manage the relations with them; however, the strategy can be focused on all stakeholders or only on selected groups (Kern and Gospel, 2020). In this case a stakeholder concentration index could be used (Obeng, 2019). Suppliers effectively contribute to achievement of the goal of value creation for customers. Supplier's willingness and readiness to innovate, bring the permanent product optimization to ensure and develop the competitiveness in terms of function, quality and price, and on the other hand to develop a lasting customer-oriented partnership. To ensure the competitiveness of the enterprises in domestic and global market, it is necessary to realize the value and importance of people in the process (Kucharcikova and Miciak, 2017). By creating value for suppliers, the enterprise builds a partnership and a beneficial relationship for both parties. The enterprise needs efficient, reliable, flexible and innovative suppliers. The established supplier-customer relationship is based on the value chain, coordination and location of value creation (Huemer, 2006). The supplier needs the enterprise as its buyer. The established lasting relationship is beneficial for both parties. Additional costs arise from the acquisition, addressing and creation of a supplying system of new suppliers. The enterprise builds lasting relationship with the suppliers in case, it has created value system for them, and the suppliers perceive the effect of this value system. The development of common action plans is important for regulation of the existing situation and for organization of common events focused on continuous improvement. Therefore, it is necessary to define and describe the value for the suppliers, express it in the results of measurement through financial and nonfinancial indicators and define the managerial activities, which have influence on the value creation for the suppliers. It is necessary to apply the principles of value management to suppliers as major stakeholders. Value management is a management style particularly dedicated to people, to motivate them, to develop their skills and promote synergies and innovation, with the aim of maximizing the overall performance of an enterprise (EN 1325-2014 Value Management). It is a process of managerial activities through approaches and methods used at various levels of value-oriented management in the enterprise. It focuses on linking new and existing knowledge. (Shephard and Egan, 2018)

Research Methodology

The paper focuses on linking the principles of value management with the value creation for suppliers. As a result of this linkage, the enterprise tracks the building of long-term sustainable relationship with the suppliers. This is possible only, if the supplier identifies the provision of value. The basis for achieving the goal was a comparative analysis of the data from the field of value management and value creation for stakeholders.

Further data were obtained from the structured interviews (Pen and paper interviews) with the competent managers of selected enterprises. According to the previous survey in these enterprises, they are engaged or interested in value management.

The chosen form of the research was based on the need to obtain information regarding the opinions, interests, attitudes, knowledge and preferences of the suppliers. They are the bases for the forthcoming questionnaire survey for small and medium-sized manufacturing enterprises in Slovak Republic. In the next phase of the research, the similar survey will be conducted in other European countries. The structured interview included closed questions for obtaining standardized answers and opened questions, as an opportunity to obtain unexpected data.

Results and Discussion

Based on the processing of primary data the three areas of results were created from the application of the principles of value management in enterprises for building a long-term sustainable relationship with suppliers.

The first area relates to a level of providing value and applying the principles of value management in business conditions. The questioned managers expressed their subjective opinion (low, insufficient, standard, average and good). Subsequently, they were given a verbal rating scale with numerical values of 1 to 10, which means the higher is the number, the higher is the level of value provision.

Table no. 1 The results of the demand for the application of the value management principles

Inquired data	Verbal rating scale									
	1	2	3	4	5	6	7	8	9	10
	Number of responses									
Level of value provision	0	2	3	2	5	5	0	3	0	0
Application of value management principles	0	3	5	4	5	3	0	0	0	0

The second part focuses on the types of provided values and their importance. The managers have expressed their opinion regarding what kind of value the suppliers are most interested in, to be provided to them by the enterprise. Afterwards they gave their opinion regarding the importance of the value types, provided by us through the verbal evaluation scale with numerical values of 1 to 10, which means the higher is the number, the higher is the level of value provision.

Table no. 2 The results of the types of value provided

The type of provided value	Importance									
	1	2	3	4	5	6	7	8	9	10
	Number of responses									
Payment of the invoices by the due date	0	2	3	2	5	5	0	3	0	0
Regular orders	0	0	0	0	4	3	8	1	2	2
Friendly relations between the business partners	0	0	0	0	3	4	6	3	2	2
Clarity of meeting the contractual terms and conditions	0	0	0	0	0	0	5	6	4	5
Adaptation training	0	1	2	3	5	4	2	1	1	1
Participation in development	0	0	0	2	4	5	3	3	2	1

The interviews revealed further needs of suppliers as follows: meeting the deadlines by the enterprise, its high flexibility, reliability and expertise in case of problem solving. The third part contains the analysis based on the absence of providing the value for suppliers as major stakeholders. The managers expressed what kind of value is missing and to what extent it is perceived by the suppliers. The aim of the investigation, was to find the way in which managers detect the absence of values (by regular or occasional interview in person, questionnaire, intuitive way, making no effort etc.)

Table no. 3 The results of the absence of value provided

The type of provided value	The rate of the absence									
	1	2	3	4	5	6	7	8	9	10
	The number of responses									
Payment of the invoices by the due date	0	2	3	2	5	5	0	3	0	0
Regular orders	0	0	0	0	3	0	4	6	6	1
Friendly relations between the business partners	1	2	0	0	5	2	3	3	2	2
Clarity of meeting the contractual terms and conditions	0	2	2	2	3	2	3	3	2	1
Adaptation training	0	0	0	0	0	0	5	7	5	3
Participation in development	0	1	2	3	5	4	1	1	1	2

The benefit of using the method of structured interview was to obtain further significant information, which was not previously defined. These are in particular:

- the costs of building the sustainable relationship with suppliers are not monitored (no principle of relationship between the creation of the value and the resources spent on its creation is used),
 - the building of such cooperation is time-consuming,
 - competences and responsibilities are not strictly assigned,
 - insufficient information due to missing records,
 - absence of supplier management software,
 - focus on the substance of the specific delivery and not on future deliveries.

The results of the research could be clearly expressed by a verbal-graphic model listed below (Figure 1 – Value creation process for the suppliers). It contains 3 steps – expressing the value, measuring the value and applying the managerial activities. All enterprises are trying to fulfill

the unlimited needs of human society, as the same of stakeholders, by using limited resources, therefore, their driving force and important goal is to achieve sustainable development. (Durisova et al., 2019)

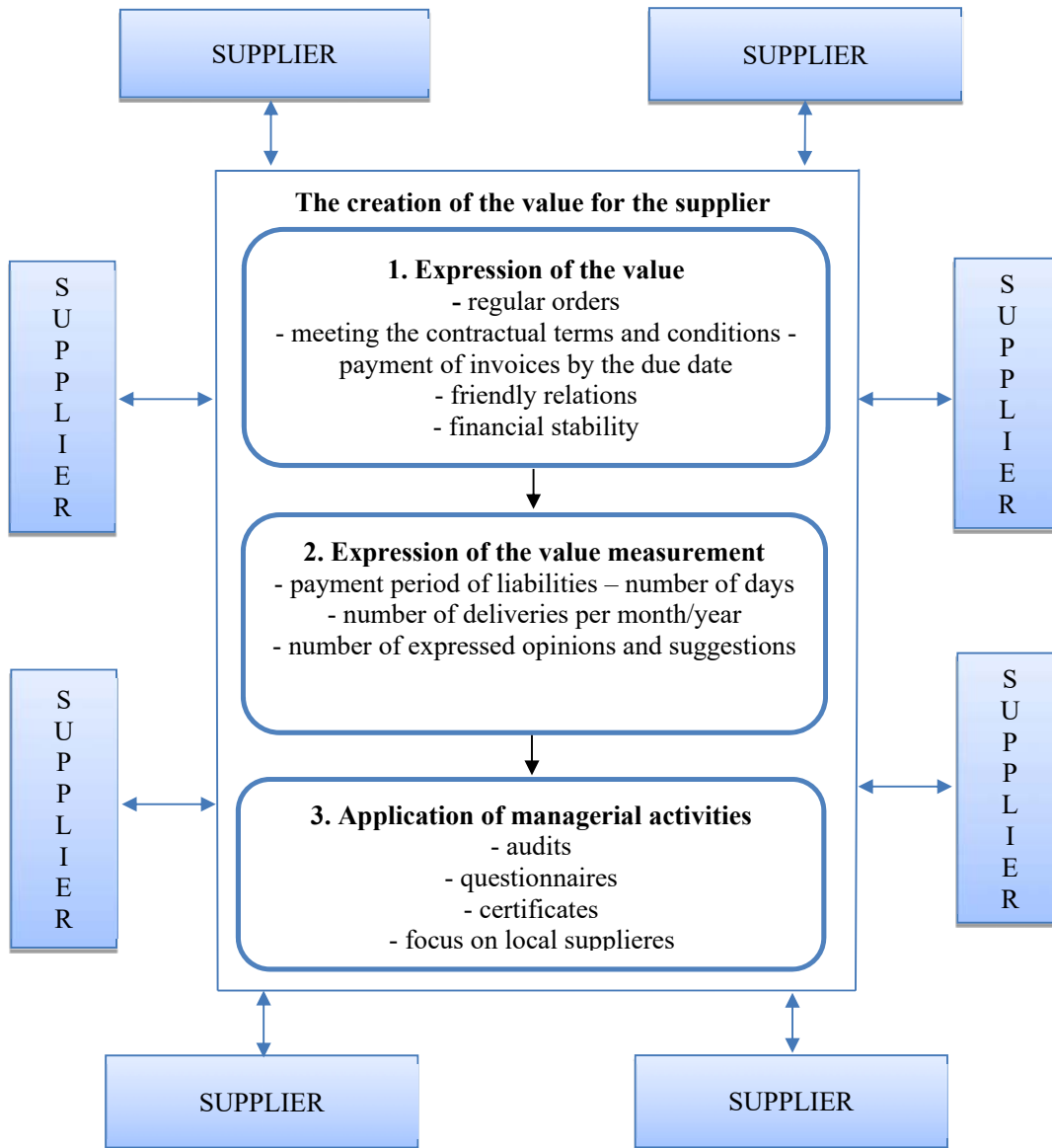


Fig. no. 1 Value creation process for the suppliers

Value management is based on the relationship between meeting the needs and the resources used to achieve them (Davies, 2016). The enterprise monitors the creation of the value for the supplier on one hand and on the other hand monitors the costs of its creation, especially material and labor. The product cost calculation is influenced by the pricing of suppliers, which requires transparent pricing. The application of the procedure is based on the pre-qualification of suppliers performed by using the commercial and technical evaluation. It is

followed by formal evaluation of important suppliers to monitor the continuous improvement. Continuous performance and product quality are monitored through formal evaluations. The defined procedures are used for dealing with disagreements in order of quick rectification. The quantification of the economic return on any investment to motivation is very difficult, as is based on difficult quantification of measurable benefits for the enterprise. (Hitka et al., 2017)

Conclusions

When doing business, every enterprise exposes to different types of risks, regardless of its business plan. (Tokarcikova et al., 2015). The enterprise builds the permanent (long-term) relationship with the key suppliers based on the cooperation. It expects creativity, the ability to innovate and on the other hand, provides a motivating system of cooperation. The enterprises should use the innovative methods in work with the people. The principles of value management could be applied in this area. Value management focuses on the knowledge and skills of the people, on promoting synergies and innovation. The aim of the paper is to show the effect of application of the value management principles in the enterprise on establishing a long-term sustainable relationship with the suppliers. The above stated aim was fulfilled by creating the value creation process for the supplier with an emphasis on quantitative expression. The enterprise provides value which is expressed by regular orders, meeting the contractual terms and conditions, payment of invoices by the due date, friendly relationships and measured through the payment period of liabilities (number of days), number of deliveries per month/year, number of expressed opinions and suggestions. The managerial activities of the enterprise are such as audits, questionnaires, certificates, focus on local suppliers, close cooperation in the area of product development, support of active development of the suppliers. This procedure is in line with the strategy of the enterprise. The enterprise demands the reliability, flexibility, creativity and innovation capabilities from the suppliers. The close cooperation between the enterprise and the supplier leads to achievement of their common goal which is maintaining the market position. The enterprise is competitive, and the sales of the supplier are ensured. We made the conclusion, that intensive cooperation with the suppliers should be applied through the whole value chain. Another conclusion, based on the empirical examination is, that the application of the value management principles is beneficial for both examined parties – enterprise and the suppliers. The suppliers deliver the products to the enterprise through the innovation, those products are subsequently processed by the enterprise and based on this process the added value could be provided to the customers. Our recommendation for the enterprises is to develop a system approach for the key suppliers. It is worth considering the use of information and communication technologies (ICT) in managing the suppliers. The structured interviews revealed the additional information regarding the low usage of ICT. This can be considered as an identified problem in the enterprise. The enterprises used to apply software solutions in the customer-oriented relationships. Furthermore, the use of ICT can determine the costs of building a sustainable relationship.

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