**SHORT-TERM AND LONG-TERM BENEFITS OF SUPPLIER-CUSTOMER RELATIONSHIP**

**MANFAAT HUBUNGAN PELANGGAN-PEMASOK DALAM JANGKA PENDEK DAN JANGKA PANJANG**

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**ABSTRACT**

Today, business environment has become more dynamic with more demanding customers and intense market competition. To meet this, more and more firms are conducting innovation activities. Firms which are succeed to innovate tends to survive and grow to a greater extent. Innovation may come from various sources, one of them is from external side of a firm. As one of the main sources of innovation from external side, business partner which include supplier and customer have important role to the success of innovation. This paper attempts to analyzing the role of cooperation and relationship between supplier and customer firms in Indonesia’s automotive sector, in regard with the change in innovation maturity stage of those firms. Long term and short term advantages gain from the cooperation and managed relationship are also discussed. Key factors for successful cooperation with optimum benefits are related with trust and openness culture from both parties. Further research directions are also discussed in this paper.

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1. INTRODUCTION

In this knowledge-based economy era, innovation is an important key activity which can sustain long-run growth of the country. More and more firms are realizing the importance of innovation to gain competitive advantage. Accordingly, they are engaging themselves in various innovative activities, ranging from manufacturing processes, product improvement, to brand building initiatives for customer satisfaction. Today, business environment has become more dynamic with more demanding customers and intense market competition. To meet this, firms are creating new products, more efficient production process, more effective marketing strategy and improve their management way that provide a better experience for the consumers. Firms which are succeed to innovate tends to survive and grow to a greater extent.

Innovation may come from various sources, either from internal or external side of a firm. From internal side, R&D or engineering department may become the main sources while external side involve business partner and also public/private R&D institutions. As one of the main sources of innovation, business partner which include supplier, customer, or competitor has a role in providing key information for innovation. Customer which usually have mutual relationship with supplier firm may bring benefit for the supplier firm and vice versa.

There have been several studies concerning the supplier-customer relationship in regards with innovation. Different aspects of supplier-customer relationship has been studied and discussed. Walter et al. (2007) studied on how suppliers can gain higher shares of customer’s business by offering an innovation development function. The study shows that a supplier’s innovation development function offers a differentiation potential against competitors and that this function is related to higher shares of customer’s business. Study by Wagner (2008) suggest that the supplier’s downstream customer orientation and supplier-customer homophily have a significant impact on the customer firm’s new product effectiveness (i.e., innovativeness) and new product efficiency (i.e., project cost and project speed). More innovative products developed in projects with supplier contribution in turn positively influence the market performance and profitability of these products. Smals and Smith (2010) explored precondition that suppliers needed to be willing to invest in their customers’ innovative efforts in order for those benefits to materialize. They investigated the value that a supplier can experience from being involved in high tech firms’ new product development and observed that the value comes in four forms for suppliers. Other study by Laaksonen (2008) analyze the co-evolution of trust and dependence in customer–supplier relationships.

In Indonesia, study related with supplier-customer relationship is still rare to be found. One related study was Prihadyanti (2012) which discuss the general benefit in maintaining supplier-customer relationship. This study also found that utilizing social capital through well-managed close supplier-customer relationship may increase innovation capability especially for the supplier firm. Other related study discuss on the technological learning occur within relationship between multinational corporation (MNC) and local company (Rianto et al, 2010). Nevertheless, this study does not specifically discuss about its impact on innovation. This study found that Indonesia’s local companies have not yet optimally exploit the benefits from interaction with MNC. Nevertheless, such relations viewed from several theory may bring various outcomes (Ranaei et al, 2010).

Benefits in accordance with innovation obtained by supplier or customer may be different in each stages of innovation maturity stages due to different characteristics of each stages. Nevertheless, related studies is still rarely found. One of the related study was conducted by Lehtimaki et al (2012) who analyzed supplier and customer roles at different stages of co-innovation. This paper focuses on revealing these roles, which are discussed
through the goals and the involvement of the actors in different stages of the co-innovation process. Johnsen et al (2006) evaluates the assumption that interaction within customer–supplier relationships is always the pivotal point for innovation. The article proposes that the relevance of customer and supplier relationships depends on the nature and maturity of the technology being developed, thus exploring the potential variation in customer–supplier interactions during different phases of the innovation life cycle.

Seeing the previous studies, it can be concluded that there is no specific study discuss on the benefits of short-term and long-term supplier-customer relationship that can be obtained by each parties, and linked it with innovation maturity stages. This paper attempts to analyze the role of cooperation and relationship between supplier and customer firms in Indonesia’s automotive sector, in regard with the change of innovation maturity stage of the supplier firm. Long term and short term advantages gained by each parties from the cooperation are also discussed, includes strategy to gain optimum benefit from supplier-customer relationship. This is important to bring insight on how a company especially local company who act as supplier of MNC as its customer can optimize the benefit from the relationship. This can result in a better strategy to increase innovation performance of local company.

2. LITERATURE REVIEW

Innovation is an important aspect for company to gain a competitive advantage (Barney, 1991). Innovation has a variety of definitions. At the firm level, innovation can be defined as the application of new ideas for products, processes, and activities (Dodgson and Rothwell, 1994). Innovation may come from various sources, includes external parties e.g. supplier or customer as business partner.

Today, supplier and customer cooperate for mutually beneficial reasons based less on customer’s power and more on symbiotic relationship based on value exchange (Hacker et al, 1999). Their relationship can be described as business partners in which trust becomes a key component to sustain the relationship. By high level of trust, each party is convinced the other to obtain mutual business success which are interdependent. Open information and knowledge sharing is more likely to occur in climate of trust.

Prihadyanti (2012) argued that the formed interorganizational relations through the social capital in the interaction allows the supplier to imitate the strategies of its customer to build its innovation capabilities by immitating the strategy of its customer. However, it cannot happen in a short period of time due to the fact that the company must meet the prerequisite conditions. The requirements include the length of time and intensity of interaction. In addition, the supplier company must have and build similar character with the immitated company to apply the strategy. Therefore the effort required to mold the character certainly needs to be supported by the implementation of a similar management model. This also has implications for the similarity of values on both firm and not too distant gap between the capabilities of human resources.

Relationship between a supplier and customer as interorganizational relations can be explained through several theories, such as transaction economic cost theory, resource dependency theory, strategic choice theory, stakeholders theory, learning theory, and institutional theory. In the process which is influenced by various factors, and may resulting outcomes such as production and transaction cost reduction, decreasing corporate risk, obstructing competitor, etc (Ranaei et al, 2010). The outcomes can be in form of production and transaction cost reduction, acquiring needed knowledge and skills, obstructing competitors, etc. These are form of benefits obtained by parties involved in the relationship. But it is not clear yet what benefit is obtained by each party.

Innovation is a series of process that starts from the identification of needs and directed to
the utilization and diffusion of products either in form of goods or services arising from the demanded requirements. Table 1 shows the phases through which an innovation occurs.

Interaction with suppliers and other business partners, include unrelated industry often becomes the source of innovative ideas (Bell, 2002). It can even create a radically new concept as well as new opportunities. Increased reliance in supply chain becomes an indication on the importance of interaction with suppliers and other partners in order to continuously improve business performance. In this regard, enterprise organizations become more active in conducting learning activities, knowledge sharing on best practice, searching for knowledge, ideas, and new innovative approaches. This activities forms some innovation maturity stages.

Organization on the start-up phase will have a character associated with the identification of improvement opportunities, which can only be done by selected key staff. At the stage of maturity, the organization became regularly involved with innovation as the improvement activity has become part of the culture in the organization. The key factor here is the identification of knowledge and innovation champion, which is an important mechanism for sharing and transferring knowledge.

Table 1. Innovation Phase

<table>
<thead>
<tr>
<th>Innovation Phase</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification of requirements</td>
<td>Identification of new ideas which involve knowledge on technical feasibility and requirements</td>
</tr>
<tr>
<td>Idea formulation</td>
<td>Combination between technical feasibility and existing requirements to be a design concept</td>
</tr>
<tr>
<td>Problem solving</td>
<td>Collection of existing information and exploration of unavailable information</td>
</tr>
<tr>
<td>Solution</td>
<td>Verification of technical feasibility and identified requirement</td>
</tr>
<tr>
<td>Development</td>
<td>Solving problem in uncertainty of market demand and problem on production scaling up</td>
</tr>
<tr>
<td>Utilization and diffusion</td>
<td>Testing product requirements to achieve sales, profit, and ROI</td>
</tr>
</tbody>
</table>

Source: Bell (2002)

Allign with Bell (2002), more detail characteristics of innovation maturity stages is suggested by Williams (2010) who divided innovation maturity into six level: 1) innovation management deficient, 2) innovation structure, 3) innovation processes, 4) innovation standards, 5) innovation optimized, 6) continuous innovation. Each stages has particular characteristics concerning with people, process, culture, leadership, tools and techniques.

Table 2. Innovation Maturity Stages

<table>
<thead>
<tr>
<th>Status</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start-up stage</td>
<td>Opportunity for improvement has been identified and implemented</td>
</tr>
<tr>
<td>On-the-way stage</td>
<td>Continuous improvement has become a purpose for each individual in organization</td>
</tr>
<tr>
<td>Mature stage</td>
<td>Successful improvement and innovation have been fully integrated in the organization</td>
</tr>
</tbody>
</table>

Source: Bell (2002)

3. METHODOLOGY

This research uses case study approach in two companies which have long-term supplier-customer relationship in the supply chain of...
automotive industry in Indonesia. One of the company is in the first tier while another is in the second tier. The first company which is an MNC was chosen due to its ability to maintain its supply chain, while the second company which is a local one was chosen considering its development after cooperating with the first company. Data and information is collected by conducting interviews with companies’ top level management or the ones who has served in management positions in previous years. For each company, interview was conducted by present director, present manager, and previous manager who has longest work experience in the company. This is done to determine the historical cooperation of the company in relation with innovation for some sequence. However, this study can not detailly and specifically mention the year period of the order sequences, but have noticed the elapsed time. The analysis is also supported by the data and information obtained through the distribution of questionnaires to the employees of the company especially the knowledge workers.

4. RESULTS AND DISCUSSION

4.1 Innovation in Company A

The company which act as customer in this study (Company A) is a assembler of engine, body parts and chassis for transport vehicle in Indonesia. This company is located in East Jakarta. The company actively conduct product, process and managerial innovation. For product innovation, the company innovate in its material and its type. The company is also considering the environmental impact of products, so that the resulting product is emphasized to be environmentally friendly. For process innovation, the innovation is not only emphasized to improve aspects of quality, cost and delivery (QCD), but also oriented towards efficiency and effectiveness along the supply chain system. It is also associated with the company's policy to cooperate with suppliers in the long term. This is possible if the suppliers are able to maintain or even improve its performance. However, when a supplier is not able to do so, the company is not directly dismissing the supplier firm, but will firstly looking at the condition of the company and the problems that arise and even helped the supplier to resolve the problem within certain limits of time. For managerial innovation, the company also supplied a lot of emphasis on human resources because the company believes that human resources is the key actors of innovation and success of the company's innovation with the knowledge that they have. These condition shows that Company A has already build innovation culture, both in its own organization and outside of the firm particularly in its supply chain.

[Director] in order to optimize our business performance, we must collaborate with our business partners, especially our suppliers. This is due to the fact that their performance will have impact on our performance...

Since its establishment, Company A has been dealing with learning activities both internally and externally as its Japanenes principal policies. For internal learning activities, in addition to the activities of quality control circle (QCC), discussions were conducted both in the same department as well as between different departments. The company also provides training and forms innovation teams. The training is performed after one or some of the company’s personel join the external training, either from a consultant, or by the parent company abroad. The personels are then further delivered the result to other personnel in the company, who have no chance to follow such training directly. The results of this training is often delivered at a meeting with suppliers. For learning activities involving external parties, the company working on through regular meetings with customers and suppliers-suppliers, seigi event, communication by phone or internet with contacts in other companies, the parent company abroad, participation in seminars or exhibitions internationally in the field of technology or material science, as well as interaction with the
universities or other higher education institution. These conditions show that the company has already conducted information and knowledge transfer activities, both formal and informal as well as knowledge sharing. Based on the survey results to knowledge workers in the company, it appears that the formal activity is nearly balanced with informal activity. Formal information and knowledge sharing is 52% while the informal is 48%.

Based on the interview results, it appears that Company A has reached a mature stage in the innovation maturity stage. The company has passed the start-up stage, where the improvement opportunities have been identified and implemented in the company. This is supported by the fact that this company has made improvement programs as part of the daily activities of the company, and his employees also continue to improve the way they work in order to be more effectively and efficiently which then performed on a continuous basis or a continuous improvement for each individual employee. This condition is shown by the survey results based on the statement of 63% of the company's employees that they routinely perform improvement activities in their daily work. It also shows that the company has passed on the way stage of innovation maturity. The company has already reached the mature stage, because the improvement and successful innovation has been fully integrated in the company. This happens because the cooperation and collaboration between departments have integrated well, especially with the support of a team of innovation, so that failed innovations due to internal errors are rarely occur.

4.2 Innovation in Company B

Company B is one of Company A’s supplier which produces car dashboards, located in Bekasi, Central Java. This company is not only innovating in its products, but also in process and managerial innovation. For product innovation, the firm tend to improve aspects of quality, cost and delivery (QCD) as demanded by its customers. The capability is not solely built by the company itself but slowly formed through the support of the customer company (Company A). For managerial innovation, this company emphasize the aspect of human resource as the company believes that human capital is a very valuable and a key to the success of the company's innovation for the knowledge that they have. This value is the same condition as Company A. Therefore, the company is also had great concern about the learning process of its employees. It is formed through the efforts of imitation with enterprise customers because the company has seen positive effects obtained by company A. This is the right choice because when seen from the composition, the character of human resources work does not too much differ with Company A.

[Director] .... Our employees are important asset. They think valuable ideas and make it possible to be implemented in our company. Our innovation rely on them.

The company who acts as supplier in this study has learning activities both internally and externally. For internal learning, the company put in a group activity of quality control circle (QCC), and discussions both between the same or different departments. These kind of discussions are quite often to be conducted, at least 3 weeks. For learning involving external parties, the company attempts to seeking it through regular meetings with customers and suppliers-suppliers, seigi event that involves the engineering of trial customers do before the product is launched, as well as through communication via phone or internet with contacts in other companies that are usually done informally. This shows the information and knowledge transfer activities, both formal and informal. This is aligned with the survey which note that formal activity is more frequent to be performed (60%) compared to informal activities. In the event, the role of external parties is also quite dominant, seen from the dominant role of acquaintances or friends in the
company of supplier or customer as a source of information and knowledge for the company. This condition is evident from the survey that 30% of employees said that acquaintances or friends in customer firms become an important source of information. This is very important because 58% of employees in the company have no supportive educational background in accordance with their job.

Based on the interview results, it appears that the supplier company have almost reached the mature stage in the innovation maturity stage. The company has passed the start-up stage, where the improvement opportunities have been identified and implemented in the company. This is supported by the fact that this company has made improvement program as part of the activities of the company, and most of his employees are also continually improve the way they work in order to be more effective and efficient (55%). These activities were then performed on a continuous basis or for a continuous improvement for each individual employee. It also shows that the company has achieved on the way to the innovation maturity stage. This achievement can be realized through the encouragement of company A which act as customer that continually implementing cost reduction programs on a regular basis, including by providing an alternative solution which might be implemented by the company. In the other hand, Company A also helped company B in evaluating solutions that will be implemented by the Company B. However, the company has not fully reached the mature stage, because the improvement and innovation have not been fully integrated in the company. This happens because the cooperation and collaboration between departments are not being integrated well, so there is still quite a lot of innovations that failed due to internal error. Cooperation with Company A which has been built since the company was at the end of the start-up phase give an impact in the form of the establishment of corporate culture to routinely made improvement in the company. Besides, to get on the mature stage, this company certainly need support to improve its absorptive capacity. This work is done through training and product development collaboration. This kind of support is performed by Company A as its customer.

4.3 Supplier-customer role in Innovation Phase and Maturity Stage

Seen from the innovation phase passed by the supplier firm, it appears that the role of the customer firm is significant towards higher level position in the innovation maturity stage. The

![Fig. 1. Information and Knowledge Exchanged in Phase of Innovation in Company A and Company B](image-url)
role and support of the company's customers to the company's suppliers are summarized in Table 3. These kind of support are associated with short-term benefits that can be obtained by supplier firm through the company's partnership with the customer firm. In more detail, information and knowledge exchanged by both firms can be seen in Fig. 1.

Table 3. Role and Support from Customer Firm for Supplier Firm in Phases of Innovation

<table>
<thead>
<tr>
<th>Phase of Innovation</th>
<th>Role/support from customer firm to supplier firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification of requirements</td>
<td>Suggest on the feasibility of the ideas; support for human resource and appropriate training</td>
</tr>
<tr>
<td>Idea formulation</td>
<td>Input to design</td>
</tr>
<tr>
<td>Problem solving</td>
<td>Inform appropriate source/parties which may be a problem solver; solve problem by delegating engineer to analyze problem in the company</td>
</tr>
<tr>
<td>Solution</td>
<td>Give feedback when there is change of demand, in order to be adapted by condition of each company</td>
</tr>
<tr>
<td>Development</td>
<td>Together with partner firms in the supply chain cooperate to stabilize market demand, e.g. through creating barrier to entry</td>
</tr>
<tr>
<td>Utilization and diffusion</td>
<td>Support in Seigi event</td>
</tr>
</tbody>
</table>

Through a series of cooperation carried out by Company A and Company B for more than 10 years, it appears that the cooperation results in high trust. It has an impact on increasing the 'value' of supplier firm in the eyes of the customer firm, so that the customer firm perceive the company as part of its organization. This has implications for resource sharing, which is very helpful especially when the supplier company requires expert or personnel who can help solve problems in the enterprise when it is no longer in the company personnel who have the ability to do so. It also allows supplier company to save costs to conduct training for the company's customers have allocated most of its resources, especially financial resources for the company's suppliers. In the long term, the supplier company can also undertake learning because the firm gain knowledge about its business processes and from innovative practices which may be replicated and implemented in the company.

The other positive impact of expanding the cooperative relationship can be obtained through collaborative event named Seigi event which allows the supplier firm reducing the risk of failure in launching its product. Therefore, this can have impact in reducing the potential losses faced by the firm. If this is done continuously, it can provide long-term impacts such as reduced risk of product failure in the marketplace, not only for the customer firm but also for the supplier firm as well as other companies in the supply chain. This activity is initiated by the customer firm. Cooperation between the two companies also guarantee market availability by buying or ordering the product as result of innovation especially for the supplier firm. For the customer firm, this cooperation can strengthen the creation of barriers to entry for emerging competitors. This is possible by blocking the competitor’s supply chain from suppliers of qualified components.

Comparing with benefits obtained based on interorganizational relations theory (Ranaei et al, 2010), all of the outcomes occurred from relationship of companies in this case study. Two additional benefits can be added, which include trust-building and innovation culture. To obtain the optimum benefit, included the unrealized ones, both companies especially managers and directors always keep in mind that similarity of vision were the key point. Openness culture between the parties, even in level of staff also becomes determinant for the success in collaboration process.
5. CONCLUSION

Cooperation between companies committed as supplier and customer in a supply chain can provide positive impact either in short-term or long-term. In short-term inter-company cooperation will only have little impact on innovation. This is due to trust which has not been well established. On the other hand, if the cooperation is built in the long term, it will bring a greater impact. This is possible because it has been established the high trust. The well established trust will make the company consider the supplier firm as part of the company that also need to be supported to improve its performance and vice versa. It enables resource sharing, especially human resources also has implications for financial resources and also risk sharing. If the supplier firm still has lower innovation capability than the customer firm, then the long-term cooperation will enable the firm to enhance its innovation capability so as to achieve the innovation phase to be almost the same or closing the gap between them.

Key factors for successful cooperation with optimum benefits are related with trust and openness culture from both parties. If both parties were able to maintain the factors, long-term mutual benefit will be obtained. However, further research is still needed to obtain a more robust generalization justification. Advanced research may still be done related to the improvement of research methodology in a more specific time period that is more detailed and precise particularly since the company was established. Research in different industrial sectors are also necessary. Another possible research is a quantitative study that compares the performance of innovation among the companies that have made a long-term cooperation with its suppliers as well as companies that prefer to have rapid supplier turnover.

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