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BUYER-SUPPLIER RELATIONSHIPS IN THE CHANGING ROMANIAN ECONOMY

by [Ioan Plaias](#) and [Anca Muresan](#)

Ioan Plaias is Professor of Marketing at Babes-Bolyai University, Cluj-Napoca, Romania. His research interests include marketing, distribution channels and organisational Markets. : plaias@econ.ubbcluj.ro

Anca Muresan holds a PhD in marketing and is working on her second doctorate, in ethics in marketing research, at Auckland University of Technology, Auckland, New Zealand. anca.muresan@aut.ac.nz

Relationships between buyers and suppliers became dysfunctional following the sweeping political changes of the early nineties. While relatively normalized, these relationships are far from perfect. These authors provide an overview of managers' perceptions of the supplier selection process, the main criteria used in the selection, and managers' intense preoccupation with building and maintaining good relationships with suppliers.

In 1990 the Romanian economy began to make transition to a free market economy, made possible by the abolition of the communism regime. New small and medium sized enterprises were set up with the input of local, foreign and mixed capital. Less than 22 per cent of the enterprises that had been established prior to 1990 remained operational. Those that did remain had to adjust to operating in another context, that of the free market.

Along with the transition to a free-market economy, activities related to providing material resources also began to change, essentially by copying Western practices. Although the practices used in acquisitions by developed countries are known to Romanian businesses, the changes could not occur quickly or without difficulty. The reason is that Romanian enterprises have had to adapt, in a relatively short period of time, from functioning in a centralised economy where everything was prescribed, to operating proactively, which is specific to a free market. For businesses to adapt to the free-market economy, it was necessary to make an ideological shift and develop the knowledge and acceptance of western practices, as well as the necessary financial and human resources.

The recent acceptance of Romania in to the European Union has made it more important for

Romanian businesses to use Western business practices, if they are to take advantage of the opportunities presented by being part of the EU.

Adapting to a new way of doing is not a matter of choice, but rather is vital for survival in the new Romanian economy. There have been a large number of firms which have not been able to cope with the changes. In general, this has been due to the fact that these firms did not plan activities that take into account the environmental changes, and the lack of understanding that the current business environment is characterised by change. These are enterprises that still react to the consequences of their activities rather than anticipate the environmental changes and manage activities accordingly.

As experience is gained from operating in a free-market economy, the more progressive enterprises know that to succeed they must adopt a proactive, disciplined and systematic approach to the market, no matter whether upstream or downstream of production. They must carefully select their priorities, allocate resources wisely, use them efficiently and make discerning compromises.

An examination was undertaken in regard to the way Romanian companies operate and their degree of success in developing a proactive approach to acquiring resources, and building relationships with suppliers. Issues such as diversity of offerings, increased competition in the market, and freedom of choice were examined and discussed. Questions about the ease of moving from a reactive approach in the acquisition of resources to a proactive approach, and whether traditional business practices continue to be used despite the changing business environment were also addressed.

To understand and describe the behaviour of Romanian small and medium sized organisations, a survey of 400 enterprises from diverse industries was undertaken in July 2006. Questionnaires were administered to managers responsible for supply chain management. A total of 338 questionnaires (84.5 per cent) were completed with the results then analysed and used as the basis for discussion.

General description of SME's

To set the context of the results, 21.9 per cent of the respondent companies were founded prior to 1990, 67.5 per cent between 1990 and 2000, and 10.6 per cent being established after 2000. The number of employees in the companies varied: 45.2 per cent have less than 50 employees, 32.5 per cent have between 50 and 250 employees, while 22.3 per cent have more than 250 employees. Of those companies with 50 to 250 employees, and particularly those with over 250 employees, most were established prior to 1990. Unlike during the communist regime, the most recently established companies are only small to medium size.

Since 1990 investors have been more interested in commercial activities, due to the greater returns from this sector. Of those enterprises established and involved in manufacturing prior to 1990 (83.8 per cent), only 31.6 per cent have survived. Research shows that while manufacturing

still comprises the majority of small and medium enterprises (58 per cent) there has been an overall decline in manufacturing enterprises. Currently 21 per cent are engaged in services and 21 per cent in retail. Over the last ten years, there has been an increase in the percentage of start-ups in the services and retail sectors, hence the decline in the percentage of manufacturers. There has been a greater injection of capital into these other sectors since 1990, as investors regard these as areas with the greatest growth.

An evaluation of the technology used by small and medium enterprises shows that only 50 per cent are using up-to-date technology, with 12 per cent using out-dated technology. However, in recent times there has been increased focus on improving production capability through the acquisition of technology and purpose-built buildings.

Supplier selection process: Relationships with suppliers

The study identified that the bigger the company the more likely that a policy has been developed and implemented in regard to suppliers. The aim of the supplier-selection process is to find the most suitable source or a small group of alternative sources. Repeat orders can then be sent to the same supplier for products/ services.

Thus, effort needs to be made to cultivate and maintain relationships with good suppliers. It is expected that relationships improve along with reliability of demand and supply, which leads to mutual understanding and agreement. The acquisitions manager(s) has to realise the importance of this relationship with suppliers and work continually to improve it. The research shows that not many of them focus on this as some enterprises do not realise the importance of establishing a good relationship with suppliers.

The study shows that 34 per cent of buyers have had difficulties in the procurement process within the last year, with 36 per cent of these having had to refuse poor- quality materials shipped by their suppliers. Therefore, part of the relationship needs to be focused on formalising and implementing specific policies with suppliers, as this is essential to sustaining the enterprise. Having only a general interest in the quality of relations does not solve problems that can occur in the procurement and delivery process.

The best way of avoiding problems that can occur with the procurement of supplies is to carefully select the supplier(s). If the supplier(s) is not chosen carefully, products and services may not be delivered on time or in the correct quantity, or may be of inferior quality. Any of these may affect the organisation's product or services. Since the selection of suppliers is the first step in the purchasing process, it is logical that the decision about suppliers becomes the responsibility of the purchasing department, since it is this department that is held accountable for the timeliness, quantity and quality of supplies. If final authority for purchasing is not with the purchasing department, control over the purchasing process is lost, and the firm's ability to compete in the market can be compromised. If there is no clear responsibility and accountability there can be conflict between departments, which can spill over into the relationship between the firm and its clients. Therefore, the responsibility and the selection of suppliers should be

considered one of the most important decisions that need to be made.

As part of the selection process, suppliers are evaluated according to their capacity to deliver the required quality, quantity, price and post-sale services, such as timeliness of delivery. A good method in the selection of suppliers is to check with their clients / customers as to their quality and reliability of supply. Research shows that the majority of buyers use this information as part of their selection criteria. However, a small number (19 per cent) are not interested in doing this.

The research reveals that most buyers in Romanian enterprises are primarily interested in quality (55.3 per cent), followed by price, and least of all by the timeliness of delivery. The study shows that due to technical progress in Romania, quality is now the main criterion when evaluating a supplier. Despite evidence that Romanian enterprises have begun to give greater emphasis on quality, it will take time before a quality-oriented approach is universal.

Respondents were asked to evaluate several criteria: quality, price and timeliness of delivery in the importance in supplier selection, as more than one criterion can be used in the evaluation of suppliers. An overall score is calculated by the buyer for each of the potential suppliers using a coefficient of importance set for the criteria used when making a decision e.g. quality, price, and delivery time of supplies. This allows the buyer to rank individual suppliers and then give priority when purchasing. Most firms (64 per cent) use this as a method to rank-order suppliers but there are many companies (30.5 per cent) that are disinterested in using it as a method of selection, while others (5.6 per cent) do not even think about using this type of evaluation when choosing suppliers.

Experienced buyers often claim that, if supplier selection is done competently, other problems should be minimized. However, being able to have a good relationship with the supplier is becoming another important consideration for buyers. For some firms, this is not easy and can be quite a complex activity. The study reveals that there are few enterprises (25 per cent) with less than ten suppliers, while 35 per cent of firms have approximately fifty suppliers. The remaining firms (40 per cent) have more than fifty suppliers, with some having more than five hundred suppliers. Maintaining good relationships with suppliers may be useful, but for the majority of firms it is costly and time-consuming. Nevertheless, experience shows that these costs may be worth it to ensure the survival of the firm.

Some buyers (34.3 per cent) indicated that they are limited in what they can demand due to a lack of competition among suppliers. At present, the lack of competition means there is nothing to differentiate the good from the bad. In the long term, however, it is hoped that this situation will be rectified by the principles that underpin a free-market economy. The fact that some buyers are unaware that a competitive supply market allows them to negotiate a better deal from a supplier indicates a lack of understanding about a free-market economy and raises concern about the quality of management in these enterprises.

At present, a popular practice for Romanian enterprises is to buy materials from one supplier only. But this decision is not always of benefit to the company. However, it may be that only one

supplier is available because a monopoly exists in the market. Or, it can be that the quantity to be purchased is too small to be worth the effort of dividing it among suppliers, or because a provider has a good reputation and there is no other comparable competitor. However, healthy competition needs to exist to obtain the best from suppliers. Obtaining supplies from only one source could potentially lead to a monopoly as other suppliers in the market might disappear, which would impact on price, quality and service. Research shows that some enterprises (3.3 per cent) are not concerned about developing a network of suppliers. However, more companies are beginning to realize the importance of good networks and developing long-term relationships. The lack of competition in the materials market helps to explain why few enterprises (12 per cent) are satisfied with current suppliers and are willing to help them in their development. Most organisations (84.6 per cent) are more concerned with searching for new suppliers and sometimes with increasing the number of suppliers.

There are advantages when enterprises design and implement information systems. Fifty-five per cent of the surveyed enterprises have an intranet. However, few firms have integrated their information systems with their acquisition function. Only six firms (15 per cent) in the survey resolved this connection favourably. The development and maintenance of positive relationships with suppliers requires a certain level and quality of communication between the two. In this context, the connection of acquisition agents to the IT system is considered critical. Where there is no intranet (43.2 per cent of the cases), the communication between departments is deficient and the consequences have a direct impact on purchasing as well.

A high percentage of enterprises that were studied tend to use traditional communication channels, like mail, which make the decision-making process more difficult and lengthy.

Future directions in the Romanian market

The changes that have occurred in the Romanian business environment have been radical. In relation to purchasing, many companies employ a proactive approach with all its advantages. In principle, the acquisition function should be oriented towards selecting good suppliers that can be considered an integral part of the buyer's business. The study shows that a large number of Romanian companies apply this approach, but there still are many companies who resist change, as they lack good management to support their development in a free market economy. In some enterprises, traditional practices are still used together with new positive developments. It seems that for other enterprises, however, changes take place too slowly and are not radical enough. Of course, some of these changes require upfront expenditures and are therefore affected by the availability of funds. Still, many of these changes, perhaps most of them, are conditioned by an ideological shift in thinking with regards to doing business in a free-market economy. Perhaps this is the change needed the most, and the slowness in making this change is the greatest obstacle to a full transition to a free-market economy.

Good relationships with suppliers may encourage suppliers to get involved in planning and organizing buyers' manufacturing processes. In this regard, their contribution to the development of components of the final products may be obtained. Of course, long-term buyer-seller relationships, based on trust and mutual satisfaction, imply a loyalty to the suppliers. An

industrial partnership is a business philosophy that contributes to the involvement of buyers and suppliers, regardless of their size, in a long-term relationship based on clear and reciprocal agreements on goals, in order to obtain superior capabilities and competitiveness.

As a final thought, the authors consider that fundamental changes in Romanian companies' philosophy on how to do business must take place in order for managers to develop the necessary skills to cope with a free-market economy. Moreover, the implementation and generalisation of this philosophy, leading to more knowledge and understanding of the principles of a free market economy and appropriate management skills, should become a priority.

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About the Authors

[Ioan Plaias](#)

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[Anca Muresan](#)

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