Cultivating Social and Environmental Sustainability in Social Business through Supplier Relationships: a Kraljic Matrix Approach

Khan Muhammed Saqiful Alam and Varqa Shamsi Bahar

Lecturer, School of Business, North South University

ARTICLE INFO

Article history:
Received 15 June 2014
Received in revised form 8 July 2014
Accepted 4 September 2014
Available online 20 September 2014

Keywords:
Social business, supplier relationships, social sustainability, environmental sustainability, business sustainability, Kraljic matrix, supply chain management.

ABSTRACT

The social business paradigm encapsulates the significance of sustainability to effectively address social and environmental problems. However, there exist a limited number of research papers conceptualizing management strategies on how social businesses can effectively remain sustainable. In consequence, this paper addresses a gap in the literature and proposes the utilization of supplier relationships as an instrument to cultivate social and environmental sustainability in a social business. Furthermore, the authors of this paper redefine the Kraljic Matrix framework to facilitate its utilization in the social business model and reveal the relationship strategies social businesses can pursue with their suppliers in order to be sustainable. Hence, this research paper fulfills an important need to define strategies to cultivate sustainability in a social business and provides powerful insights encompassing the milieu of supply chain management.

INTRODUCTION

The theory of sustainability is increasingly being applied by many organizations across the globe. The concept of sustainable development is often conceptualized in terms of the triple bottom line approach [12]. This approach suggests businesses to pursue sustainability in terms of financial, social and environmental value [10,11]. However, sustainability in a social business reflects a double bottom line approach encapsulating social and environmental value only, whereby financial bottom line does not exist. This is because a social business is a non profit, non dividend company addressing social and environmental problems [25].

One of the means of effectively ensuring sustainability of a business is through the development of stronger relationship with the suppliers. In consequence, this research paper addresses the form of relationship strategy a social business should utilize with its different suppliers while also revealing the sourcing strategy which should be employed to effectively create sustainability. The authors of this paper utilizes and redefines the Kraljic Matrix proposed by Peter Kraljic [17] to propose the supplier relationship strategy a social business should utilize. Additionally, the proposed sourcing strategy a social business should exercise is presented by utilizing the previous work of Chiesa, Manzini and Tecilla [4]. In consequence, this research paper reveals a significant strategic alignment involving the supplier stakeholder. Scholars such as Cousins and Spekman [7] and Cousins, Lamming, Lawson and Squire [8] have revealed the importance of the aforementioned strategic alignment to cultivate business sustainability. A social business being a relatively new concept has not had any such study to incorporate the mentioned factors to enhance sustainability. In consequence, this paper focuses on both the social and environmental bottom line and explores the significance of supplier relationships and supplier sourcing strategies as an instrument to cultivate sustainability in a social business.

Literature Review:

Sustainability has evolved as a mainstay of corporate strategy and is increasingly being applied by many organizations across the globe [14]. As a result, sustainability in a business has been the topic of a number of publications such as Bansel [1], Garvare and Johansson [13], Isaksson [15] and Shrivastava [22] to name a few. Business sustainability is based on the notion that organizations, due to their knowledge of management and technology, institutional capacity, political power, and availability of resources can actively contribute to sustainable development [22]. The Brundtland Commission defined sustainability as “development that meets
the needs of the present without compromising the ability of future generations to meet their own needs” [24]. Thus, sustainability must enhance the welfare gains of people over time in order to be momentous. Furthermore, in the quest of accomplishing sustainability, societies cannot offload the problems of today onto future generations [16]. Additionally, sustainability should not be attained in one part of the world at the cost of another [16]. Hence, sustainability is crucial for a social business to achieve its sole purpose of addressing social and environmental problems. Hence, this study will focuses on how a social business through the integration of sustainability in its model can create social and environmental value for the present and the future generations through the implementation of supplier relationship and supplier sourcing strategies.

**Sustainability through Supplier Relationship and Supplier Sourcing Strategies:**

‘A company is no more sustainable than the suppliers from which it sources’ [18]. Hence, purchasing and supply management are essential elements to achieve sustainability. One of the means of making a supply chain sustainable is through supplier relationships. However, due to the complexity of products and services in today’s commercial environment, handling suppliers at arm’s length is no longer an effective strategy [8]. As a result, businesses should build strategic partnerships with suppliers who are providing key resources to the organization [9]. One of the strategic supply chain management tools that come in very handy while classifying the type of resources an organization requires from its suppliers and the relationship strategy to be pursued with the suppliers is the Kraljic Matrix proposed by Peter Kraljic [17]. The matrix simply categorizes the resources provided by suppliers based on two dimensions – supply risk (Porter’s bargaining power of suppliers) and impact on business (the cost or value of the resource to the manufacturer).

As far as the conceptualization of supplier sourcing strategy is concerned, the works of Miemczyk, Johnsen and Macquet [18], Chiesa, Manzini and Tecilla [4] and Venkatesan [23] highlights the different supplier sourcing strategies. The aforementioned scholars defined the sourcing strategies in terms of the requirement of an organization based on situations and contexts which are very similar to that of the factors used for categorizing the Kraljic Matrix. As a result, the work of Cousins *et al.* [9] suggested the use of four sourcing strategies which could be used on top of the Kraljic Matrix in order to not only categorize supplier relationships but also to propose a means of selecting a sourcing strategy that best matches the supplier relationship category. Hence, this paper integrates the supplier relationship and sourcing strategies to present a holistic approach in the quest to achieve sustainability in a social business. However, the aforementioned dimensions of the Kraljic Matrix, along with the supplier sourcing strategies have been applicable to profit maximization firms only. However, due to the versatility and simplicity of the Kraljic Matrix [8], the authors of this paper suggest a change in one of the dimensions of the matrix in order to facilitate the application of the framework in a social business set up.

**Development of the new approach for Social and Environmental Sustainability:**

To incorporate Kraljic Matrix framework in order to develop a strategy of sustainability in social business, the dimension of the matrix that we suggest for modification is the ‘impact on business’. Instead, we propose the use of the term ‘social and environmental importance’ in order to signify the level of social and environmental impact that the supplier’s resource will have on the social and environmental bottom line of a social business. Accordingly, Figure 1 illustrated below reveals the modified Kraljic Matrix framework which social businesses can utilize to cultivate social and environmental sustainability.

Based on the modified Kraljic Matrix, the resources provided by the suppliers can be categorized under four items. Routine items are the resources with low social and environmental importance that a social business can acquire with minimal strategic effort, whereby, relationship with suppliers at arm’s length will suffice. Furthermore, leverage items are the resources that are of significant importance for a social business to create social and environmental value. However, there exist a good number of suppliers selling these items. Hence, the supplier relationship approach will be similar to routine items. On the other hand, bottleneck items are the resources that are of much strategic importance for the social business. However, the supplier availability of these items is low in the market. Hence the focus here should be on item supply continuity and the nature of supplier relationship will be more strategic in nature. Finally, critical items are the core resources a social business needs to generate social and environmental value. However, due to the limited availability of suppliers for these items, there needs to be a close, strategic relationship between the social business and the supplier through strategic alliances. Moreover, the authors of this paper suggest social businesses to extend their business operations onto the supply side of bottleneck and critical items by incorporating a vertical supply system. This in turn will make sure that the social business philosophy of the business are extended through its supply chain and in extension will help develop a sustainable social business model.
Fig. 1: Kraljic Matrix Incorporating Social and Environmental Importance.

Additionally, based on the previous work of Cousin et al. [9], this study merges the supplier sourcing strategies with the nature of relationships that a social business should pursue with its suppliers. In consequence, the supplier sourcing strategies are strategically aligned with the supplier relationships a social business should practice at different levels of supplier risk on one hand and the significance of social and environmental impact on another. Figure 2 below illustrates the supplier sourcing strategies incorporated into the Kraljic Matrix.

Fig. 2: Sourcing Strategies being incorporated into the Kraljic Matrix.

For the routine category of supplies, due to arm’s length nature of relationship with the supplier (as a result of low supplier risk and low social and environmental importance), a multiple sourcing strategy should be employed whereby the aim will be to reduce cost. For the critical category of supplies (high risk and high social & environmental importance), a single sourcing strategy will lead to a better alignment with the nature of supplier relationship required. The similar strategy can also be implemented for the bottleneck items (high supplier risk, low social & environmental importance), as the focus for these items is supply continuity. Finally, for the leverage category of supplies, a delegated sourcing strategy will be appropriate where the social business will be having a close collaboration with one supplier whose aim will be to get the best deal in terms of value and cost from the market. This will both save the resources and time needed by the social business and will ensure the supply of the best value materials.

Conclusion:

Hence, this paper reveals the importance of building relationships with suppliers as a key to effectively address social and environmental problems. Additionally, it provides significant supplier sourcing strategies that a social business should pursue. As a result, this paper provides social businesses a vital insight into how social and environmental sustainability can be achieved through supplier relationships and supplier sourcing strategies. As an agenda for future research, we propose researchers to implement the modified Kaljric Matrix in a social business through action research. In consequence, knowledge and practicality being the nucleus of action research will further present strong guidelines for social businesses to cultivate social sustainability [6].
REFERENCES