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# **Skanska and their strategic Polish suppliers:**

**Analysis of the buyer-supplier relationship against the interplay of  
pricing strategy, supply chain policies and culture**

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## **Abstract**

- Title:** Skanska and their strategic Polish suppliers: Analysis of the buyer-supplier relationship against the interplay of pricing strategy, supply chain policies and culture
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- Course:** FEK P01 – Master thesis in Strategic Management
- Authors:** Elena Topalova, Lukas Tympalski
- Supervisor:** Christer Kedström
- Key words:** Price strategy, supply chain, culture, cultural differences, transition economies
- Purpose:** The paper's purpose is to enlighten: 1) how Skanska cooperate with their strategic Polish suppliers; 2) what are their advantages and disadvantages in terms of the cultural factor, pricing and supply chain policies; 3) to which extent the observed practices are adequate
- Methodology and empirical data** A qualitative study, following inductive approach and based on face-to face interviews taken on site, in Poland both from Skanska and from the supplier companies' representatives
- Theoretical perspective:** Researchers and practitioners have recognized the need for 'transforming' every policy of the company into a competitive advantage tool. Thus, both the pricing approach and the supply chain practices of the firm have emerged as an important determinant of success. In this study, however, we are not only interested in these two aspects, but also in a third one-namely cultural conflicts as an obstacle and challenge. The interaction of the three factors is extensively presented against the backdrop of Skanska and four of their closest Polish suppliers.
- Conclusions:** We provide an in-depth analysis, which reveals important details not only about the supplier-buyer relationship, but about tendencies and characteristics of the current Polish business way as well. One of the most important findings we made is, that Polish companies still have to learn a lot in order to recognize the need for planning and more professional approach when defining and implementing strategies.

## Sammanfattning

- Titel:** Skanska och deras strategiska Polska leverantörer: En analys av inköps och leverantörs förhållande i relation till prisstrategi, distributions politik och kultur.
- Seminariedatum:** 2008-01-24
- Ämne/Kurs:** FEK P01 – Magisteruppsats i strategisk ledning
- Författare:** Elena Topalova, Lukas Tympalski
- Handledare:** Christer Kedström
- Nyckelord:** Prisstrategi, distributionskedja, kultur, kulturella skillnader, ekonomier i övergång
- Syfte:** Uppsatsens syfte är att åskådliggöra: 1) Skanskas samarbete med sina strategiskt betydande Polska leverantörer; 2) deras för- och nackdelar avseende den kulturella aspekten, prissättning och deras distributions politik; 3) giltigheten av de observerade aspekterna
- Metod och empiri:** En kvalitativ studie som följer ett induktivt angreppssätt, med utgångspunkten i personliga intervjuer som utfördes i Polen hos Skanska och deras leverantörer.
- Teoretiskt perspektiv:** Forskare och utövare har insatt behovet av att omvandla varje del av företagets policy till ett konkurrenskraftigt verktyg. Följaktligen har både företagets prissättning och deras distributionskanaler bidragit till att bli viktiga determinanter till framgång. I denna studie är vi inte bara intresserade av dessa två aspekter, men också i en tredje nämligen de kulturella konflikter och vilka hinder och utmaning det medför. Växelverkan mellan dessa tre faktorer är nämligen påtagligt närvarande mellan Skanska och deras fyra närmaste Polska leverantörer.
- Slutsatser:** Vår djupanalys avslöjar inte bara viktiga detaljer om förhållandet mellan inköpsfunktionen och dess leverantörer, men också om tendenser och karaktären hos det nuvarande Polska affärssättet. Ett av de allra viktigaste fynden som vi gjorde, är att Polska företag fortfarande har mycket kvar att lära, för att inse behovet av planering och mer professionellt tillvägagångssätt vid bestämning och tillämpning av strategier.

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# **1. Introduction**

## **1.1 Background**

Against the background of today's economy dynamics, its new requirements and challenges, any company without careful planning and ability to learn and adopt fast, will be lost in an ocean of chaos and most probably will not survive. Although the concept of competitive advantage is well-known and sometimes even "overexposed", there will always be the need to explore what triggers it now, at present, and what will trigger it in the future. The determinants of that concept are changing and business players should be always able to identify them and take advantage of them. Many factors count for the success of a company, there are tree of them, however, that we see as crucial. Moreover, their interplay seems to be both theoretical and empirical challenge. These are the pricing strategy of a company, its supply chain policy and ability to appreciate and learn from foreign national culture. The pricing strategy of a company should not be seen only as a marketing tool, but as a strong competitive weapon. Prices are not just signals for the quality of a product, but are a serious indicator for the way the firm acts-how future, customers, competitors and suppliers are being taken into consideration. Suppliers are the link to the next issue, that can considerably increase any firm's competitive advantage and what is more important to sustain it. That is namely the way companies approach their supply chains. Last but not least, in the era of globalization and increased number of sourcing options, the clash of different national cultures is more than obvious. The question is to which extend differences are manageable and even beneficial.

The impact of globalization can be observed within the continent of Europe. The largest and most powerful nations have joined the European Union, a political and economic union facilitated by the forces of globalization.

"The enlargement of markets in Europe and worldwide, actual and in prospect, has produced an explosion of national and cross-border mergers, the integration of production and distribution facilities in a search for economies of scale, and defence and aggressive manoeuvring for position and power" (Nordenstreng and Schiller 1993).

This study is focusing on Poland, both because the booming Polish economy provides an excellent "scene" for the developments mentioned above, and, since the country is undergoing transition, which is interesting from political and especially from economical point of view (Mroczkowsk 1995).

One further reason that made Poland attractive to the study was also the presence of Skanska<sup>1</sup> in Poland. Our particular interest in Skanska was aroused mainly because the company is one of the largest and most successful Swedish companies and at the same time is engaged in the construction industry, which, by differentiating considerably from the other manufacturing industries challenged us and motivated our research in this area. Skanska came quite naturally as our choice, because it is big and well-reputed international player, which has proved very successful in its approach to foreign cultures. The company has received numerous business awards in recent years, including:

- The most precious building company, according to Newsweek ranking list of 100 best companies (2004-2007)
- A company of the highest economic value (2007)
- The best employer according to Data Bank (2002-2007)
- The highest positioned building company socially responsible, according to Corporate Social Responsibility ranking list (2007)
- Awards in “a construction of a year” competition (1992).

The building industry on the other side was selected because it is vibrant industry, amounting to a significant part of the economy of a country (in the case of Poland it is even major economical sector). Moreover, the state of the construction sector is an important indicator of the health any the country’s economy. As mentioned above this kind of industry is “special” since it is characterized by high fragmentation, low productivity, and time overruns, which are not so typical for other manufacturing industries (X.Xue 2007). The way to successful management of those problems requires strong and effective relationship with suppliers. For that reason the role of the buyer-supplier relationship became central to our research. (The particular characteristics and performance of the Polish building industry will be discussed in greater detail in chapter two.). Moreover, our initial talks with Skanska’s procurement manager in Poland contoured tree very important “cornerstones” of the relationship between buyers and suppliers, which we used as evaluation dimensions for our analysis. These are namely the way prices are being set, the way the supply chain is managed and how cultural differences impact business relationships.

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<sup>1</sup> We refer to Skanska Sweden AB, but for practical reasons we will call it only Skanska

Skanska have demonstrated their ability to motivate, initiate and help improvements at the smaller supplier companies they work with. The Polish suppliers presented in this study are interesting for reasons which directly correspond to the choice of Poland as “landscape” of the study. First of all, the relationships of Skanska to Polish suppliers have proved very successful. Second, Poland is not only the largest market and producer from Central and Eastern Europe, but it is also a country in transition, which offers many advantages but poses risks as well. Third, by focusing upon the Swedish company Skanska and its Polish suppliers, a cultural analysis that highlights the similarities and differences between the two cultures allow for the consideration of social factors that might otherwise be overlooked within a more traditional business study.

## **1.2 Problem discussion**

The choice of Skanska and its cooperation with Polish suppliers was made very carefully, since it represents a very interesting interaction of strategies, determining competitive advantage (pricing and supply chain policies) on the one hand, and national culture differences as a landscape where they interplay, on the other.

The concepts of pricing, supply chain and culture have long “theoretical history”. All of them are explored in-depth and there are maybe only few aspects that have not been addressed by research. Therefore we are not interested in the ‘theoretical deficits’ on the three issues, but rather at the way *they interact and influence each other* in a buyer-supplier relationship, where cultural conflicts are based not only on national differences but are also the “heritage” of a political and economic regime, totally different from the Swedish one-namely communism. Besides, the evolvement of small firms during their cooperation with a large and experienced company is also an interesting aspect. The importance of clear definition and allocation of roles in such kind of relationships is vital. Concepts like flexibility, adaptability, initiative and strong will to cooperate are other determinants of this strategic-cultural interplay. There are a plenty of questions which are raised by such a constellation: to which extend does the experience of companies as Skanska influence positively less advanced producers, operating in a highly dynamic and less regulated (than the Western world) market. And what competences should these producers’ possess in order to attract and maintain successfully their business relationship to a big foreign investor? It is beyond any doubt that, the questions of these answers, at least in the case of our study, are hidden in the interaction of the three aspects we address in this paper.

### **1.3 Purpose**

This paper has the purpose to enlighten:

1. how Skanska cooperates with Polish suppliers
2. what are their advantages and disadvantages in terms of the cultural factor, pricing and supply chain policies.
3. to which extend the existing policies of Skanska and especially the Polish supplier companies, evaluated against the three dimensions, presented above, are adequate at present.

### **1.4 Limitation**

Skanska has many international suppliers, but we chose exactly the Polish ones as an object of our study, not only because Poland is one of the main sourcing options for Skanska in Europe, but also because it is a very interesting markets, posing both risks and opportunities. We focus our study on three dimensions-cultural differences, pricing tactics and supply chain policies-since they had been pointed out in the initial talks with Skanska as central issues in their relationships to Polish suppliers.

### **1.5 Outline**

*Chapter one* is an introduction to the problem of this study. Skanska and the Polish environment-general overview on Poland and Polish construction market-are presented as well.

*Chapter two* is the bridging between the theoretical foundations and the empirical material and presents the Poland, as the “scene” of the buyer-supplier relationship in our case.

*Chapter three* presents the characteristics of our research method-inductive qualitative approach, whereas data is collected on the base of interviews. Validity, reliability and generalizability are discussed and evaluated.

*Chapter four* is devoted to the underlying theory. We make use of research concerning pricing, supply chain management and its alternatives, and culture. The theory is based both on articles and on electronic sources.

In *chapter five* we present the empirical material collected during the interviews in Poland. The four suppliers are introduced along with their answers concerning their business policies and the relationship with Skanska. Skanska's perception of their Polish partners is also presented extensively.

In *chapter six* we evaluate the information delivered by the interviews. An in-depth analysis of the suppliers and their typical characteristics is provided. Trends and developments concerning both mentality and the 'structure' of the buyer-supplier relationship are identified.

*Chapter seven* is devoted to the conclusions we draw from the analysis of the empirical material

*In chapter eight* we present our suggestion for further research

## 2. Review of Poland and Skanska

*In this chapter we introduce Skanska and we offer an extensive presentation of Poland as the “scene” of the buyer-supplier relationship, studied in this paper*

Population (in millions)	38.3
Area ('000 sq. km)	313.9
Official language	Polish
GDP per capita in 2006 at current international US\$	13,996
Private sector share in GDP (2005)	75 per cent
National currency	Zloty

Table 1. Poland-facts and Figures (EBRD country report)<sup>2</sup>

### 2.1 Polish Economy-background

The shock therapy programme introduced in Poland after the communist regime fall in 1989 enabled the country to transform its economy successfully into market economy. Since the early 90s Poland has been experiencing impressive growth, so that it is the fastest growing economy in Central and Eastern Europe. The policy of market liberalization led to new market environment, creating threats but also opportunities for the establishment of business relationships. The progress of economic recovery is largely due to the sound fiscal and monetary policy maintained by successive governments, which have made strong public overtures encouraging Western investment, as well as trade with Western countries (EBRD factsheet). There are two important factors relating to the westernization and globalization of the Polish economy that have proven vital to its economic success. First, Poland represents one of Central and Eastern Europe's most successful "free market" transitions, culminating in membership in the Organisation for Economic Co-operation and Development (OECD) in 1996. Second, Poland has placed strong emphasis on joining European and Euro-Atlantic institutions, demonstrating a profound interest in regional integration -- particularly under the

<sup>2</sup> European Bank for Reconstruction and Development

auspices of the European Union (EU). Poland reached an Association Agreement with the EU in 1994 and attained membership in 2004.

Although Poland suffered a lot of economic and social deficits, today the country stands out as a success story among transition economies. In 2006, GDP grew based on rising private consumption, a 16.7% jump in investment, and burgeoning exports (EBRD country report). Poland nowadays has a flourishing private sector which created more than 300,000 new jobs only in 2006. Consumer price inflation - at 1.3% in 2006 - remains among the lowest in the EU. Since 2004, EU membership and access to EU structural funds has provided a major boost to the economy. .

### **2.1.1 Real Economy**

Real GDP growth rebounded to 5.8 per cent in 2006 (EBRD country report). The overall economy performance can be ascribed to the increase in domestic consumption, despite the considerable investment levels. Industry and construction grew by 7.7 and 14.6 per cent respectively in 2006. Unfortunately that considerable growth couldn't mitigate the regional disparities (before the Rumania's and Bulgaria's accession in the EU Poland 'accommodated' the five poorest regions within the EU).

### **2.1.2 External Sector**

The current account deficit constituted 2.1 per cent of the GDP and amounted to 5.6 billion €. Exports in 2006 increased by 19.9 per cent and imports rose by 21.5 percent in parallel to the increasing domestic demand growth (EBRD country report). Foreign Direct Investment increased from 7.7 to 11.7 billion € in 2006, with major investments being announced by foreign firms in computer, consumer electronics, and automobile component production. External debt remains around 47 per cent of GDP.

### **2.1.3 Outlook**

Given the significant economic growth and expected improvement in infrastructure, the outlook remains positive. However, despite Poland's successes, more remains to be done. Main source of uncertainty is the political situation in the country. Unemployment, which stood at 15% in December 2006, is still the highest in the EU. An inefficient commercial court system, a rigid labour code, bureaucratic red tape, and persistent corruption keep the private sector from performing to its potential. Agriculture is handicapped by inefficient small

farms and inadequate investment. Restructuring and privatization of the remaining state-owned industries, especially "sensitive sectors" such as coal, oil refining, railroads, and energy transmission and generation, have stalled due to concerns about loss of control over critical national assets and lay-offs. Further progress in public finance depends mainly on reducing losses in Polish state enterprises, restraining entitlements, and overhauling the tax code.

## **2.2 Polish building market-key factors shaping market growth**

The Polish construction sector is by far the largest in Central Europe. It is constantly and steadily growing, with projected annual growth of 9 per cent for the next years. It employs a considerable part of Poland's workforce (about 1 million people) and substantially outpaces the sales of other industries. This industry amounts to 5.6 per cent of the GDP. The monthly wage on this market averaged 680 € in 2006 (EBRD factsheet), which is comparable to the wages in the public and private sector, namely 630 €. The total value of investments on the market is estimated to be around 3 billion Euros. Overall industrial output is determined almost entirely by private companies involved in new construction and civil engineering projects, particularly the construction of highways, airports, office buildings and sports facilities. The overall Polish construction and refurbishment market is currently estimated to be worth around 10,7 billion €, with new build activity representing around 70% of the market. The total value of foreign investment on the market is estimated around 3 billion €. The overall industry has performed well since 2002, with the market expected to reach a value in excess of 13,3 billion € by 2010 (EBRD country report). Building contractors in the Polish Construction industry are continuing to experience high levels of activity, with some key players recording growth in turnover in excess of 70% between 2004 and 2005.

The dynamic expansion of Poland's construction industry directly coincides with the transformation of the country's economy. The political and economic transformations after 1989 have resulted among others in higher rates of urbanization, and demand for improved transportation infrastructure. Polish population growth in 2007 was approximately -0,046% and has been low or negative the recent years. This figure shows that the demand for construction and building development is connected less to the population growth than to the shifting urban-rural ratio. Besides, there is another factor that has turned to national priority, namely the poorly equipped Polish road network, which is not able to meet the needs of rising vehicle volumes and to serve properly the rapidly developing economy. In addition those

bottlenecks could easily ‘chase away’ foreign investment. This reality is the impetus for programs, designed to improve the existing transportation infrastructure and therefore bolsters obviously the need for construction and building development services.

A factor stimulating the sector is the continued increase in average size of newly constructed buildings, heightening project values. Beyond that the market value of the industry is being bolstered by the rise in labour costs, arising from lack of skilled labour force. Nevertheless, in the background of high unemployment rates this sector remains still highly attractive.

Last bit not least, the regulation that has to be taken into account by the players on the construction market-construction and building materials production companies- is based on the Construction, Procurement, Zoning and Building Materials Laws.

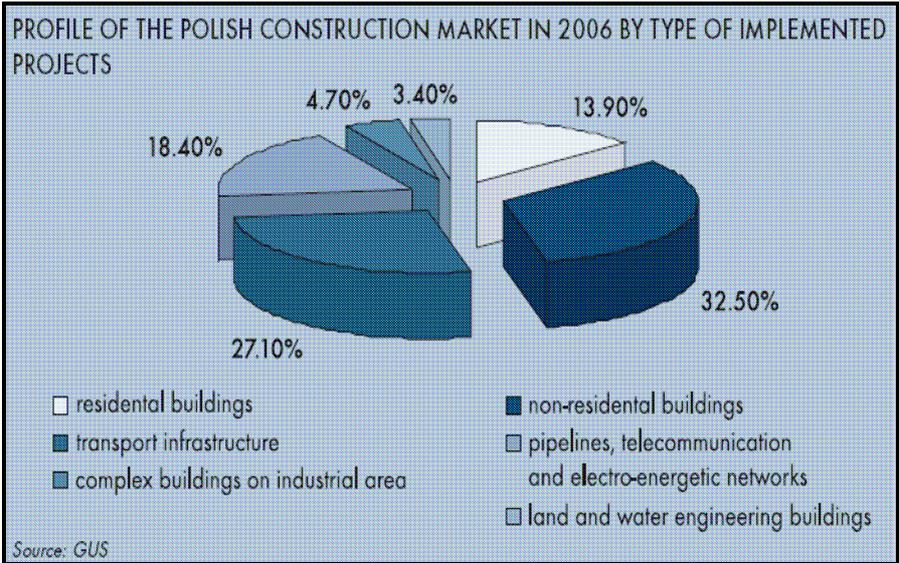


Fig. 1 Profile of the Polish Construction Market in 2006 (PIFIA)<sup>3</sup>

<sup>3</sup> Polish Information and Foreign Investment Agency

Company	Headquarters	Revenues (PLN thousand)	Employment
Budimex S.A. GK	Warsaw	2,702,877	5,086
Grupa Skanska S.A.	Warsaw	2,249,100	4,977
Budimex Dromex S.A.	Warsaw	1,919,111	1,585
Strabag Polska Sp. z o.o.	Warsaw	1,510,240	1,677
Warbud S.A.	Warsaw	990,008	726
Mostostal Warszawa S.A. GK	Warsaw	837,799	3,352
Hochtief Polska Sp. z o.o.	Warsaw	797,087	645
Hydrobudowa 6 S.A. GK	Warsaw	726,499	1,297
Kopex S.A. GK	Katowice	586,536	2,569
PBG S.A. GK	Przeźmierowo	409,004	575
Hydrobudowa 9 PIB Sp. z o.o.	Poznań	366,908	1,226
Mostostal Zabrze Holding S.A. GK	Zabrze	348,559	2,241

*Source: List of 500 largest companies, 'Rzeczpospolita', 26.04.2006*

Table 2. Poland's largest construction companies (as of the end of 2004)<sup>4</sup>

Company	Investment (USD million)	Country of origin
Apollo-Rida Poland Ue.	1,300.0	USA
BEG S.A.	47.5	France
Skanska Kraft AB	255.2	Sweden
Epstein	200	USA
Ferrovial	200	Spain
Bau Holding Strabag AG	118.2	Austria
Hines	99	USA
Eiffage Construction	85	France
TK Holding	83	Denmark
NCC AB	68.8	Sweden
Parkridge Holdings	50	UK
Sino Frontier Properties Ltd.	25	China
Lend Lease Central Europe	25	Australia
Chelverton Properties	25	USA
Acciona	24.4	Spain
Hochtief AG	20.8	Germany
Warimpex	20	Austria
Bilfinger und Berger Bau AG	18.5	Germany

Table 3. The largest foreign investments on the Polish construction market

<sup>4</sup> Having in mind that the construction market in Poland is booming we are aware that this figures are not actual enough. Unfortunately we do not dispose of recent data. However, they still sketch the main tendencies.

## **2.3 Building Materials Market and Suppliers**

### **2.3.1 Some Facts In general**

The building materials market in Poland is valued at approximately 4.2 billion €. Most products are distributed through wholesalers. Building product supply in Poland is dominated by the large international manufacturers such as Saint Gobain, Kronopol, and Heidelberg. All of these operations have manufacturing plants in Poland, taking advantage of key factors such as lower labour costs, and geographical location for distribution facilitation. In terms of building products distribution in Poland, the market remains highly fragmented, with a small number of large international players dominating the key channels.

It is important to mention that despite the obvious advantages Poland's EU-membership offers, there are also some negative aspects to be mentioned and one of them is the increase of VAT on building materials from 7 to 22 per cent, which has doubtlessly led to tremendous increase in the costs of construction. Sustainable growth registered only gypsum building materials, concrete and ceramic bricks. Another challenge for this industry is the labour shortage-the number of bricklayers, carpenters or plasterers doesn't correspond to the needs of the industry.

### **2.3.2 Distribution of Building Materials**

There are different distribution channels for different types of building materials in Poland. The majority of heavy building materials are sold through manufacturers' warehouses. This includes about 10 percent of heavy building materials like bricks, hollow bricks and other wall construction elements, roofing-tiles, cement and lime, and an even higher percentage of aggregate and concrete blocks. Transportation costs can be high though. Estimates put profitability of cement transportation to buyers at no farther than 300-350 km from the warehouse while the limit for transporting concrete blocks is a distance of 200-250 km. More expensive building products (calculated by per unit or per kg) are sold through small specialty shops, mostly located in cities. Such products include floor panels, various chemical products used by builders, paints, ceramic tiles, bathroom accessories, heating, and ventilation and air conditioning systems. Building materials are also sold through factory outlets. They supply distributors, warehouses and individual clients and have competitive prices, usually the lowest

on the market. In some cases, large manufacturers of more expensive building materials (bathroom ceramics, windows and doors) open up a network of such outlets.

## **2.4 SKANSKA**

Skanska has one of the strongest positions on the Polish market and one of the strongest in the world. It was established in 1887 by engineer Rudolf Fredrik Berg and was named Skånska Cementgjuteriet. In the beginning it manufactured decorative cement parts for churches and for public buildings. The company changed its name to Skanska in 1984. Through all the years Skanska has played a major role in building private and public necessities like roads, apartments and power plants especially in Sweden. Now it is present among many others in the USA, Sweden, Norway, Poland, and the UK. The most popular clients of Skanska are as follows: Ericsson, Nokia, AT&T, Ikea, Coca Cola, Pfizer, and Astra Zeneca. The company has been present at the Stockholm Stock Exchange since 1965. As it is the strongest company in Europe it has taken the position of the European leader. In Poland, together with Budimex and Echo Investment the company was chosen for best building company among 100 others (Skanska webpage).

Skanska constitutes a global corporation and acts on 23 markets out of 11 are native ones. The company is rather decentralized. Its strength is based on the power of local markets. Moreover, Skanska focuses on the most profitable markets with further development perspectives. As a foreign investor Skanska has been present in Poland since 1972. The president of the company is Roman Wieczorek. Since 2003, after having merged with Exbud, Skanska has been functioning as Skanska SA in Poland. The company has won a number of awards since it came on Polish market. These are some of them:

- The most precious building company, according to Newsweek ranking list of 100 best companies (2004-2007)
- A company of the highest economic value (2007)
- The best employer according to Data Bank (2002-2007)
- The highest positioned building company socially responsible, according to Corporate Social Responsibility ranking list (2007)
- Awards in “a construction of a year” competition (1992).

Skanska is famous for its care about the environment. It possess the certificates compatible with ISO 9001: 2001 standards – in terms of quality; ISO 14001: 2004 – in terms of environment; OHSAS 18001: 1999 – in terms of security and labour hygiene; AGAP 2110: 1995 – in terms of NATO requirements. The mentioned standards confirm the standards established by the company itself. The main assumption of Skanska is to be a sort of a “Good Citizen”, which means not only the realization of building projects but also taking part in lives of local communities with particular focus on the environment protection. With that aim the company cooperates with many charity companies such as UNICEF, Red Cross, or SOS foundation. As a leader on the Polish market Skanska offers a full array of services in the building market. It is involved in general and industrial construction, road and bridge construction. (Skanska’s webpage)

### 3. Method

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*In this chapter we describe the method our study follows-namely inductive method with qualitative approach. In addition we present the data collection characteristics and limitations.*

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A research approach that is not an object to pre-existing expectations would be the most optimal one, because it does not restrict the information selection criteria both in terms of quantity and quality (Jacobsen 2002). In the beginning of our study we had certain expectations and assumptions, which, however were considerably questioned during the interviews. It seemed that we adhered strictly to the theory we were already familiar with, and the significantly different practical situation we witnessed, during the interviews enabled us to realize our one-sided view. Thus, after evaluating the data collected, we recognized the advantages and especially the appropriateness of the inductive method, based on the identification of a common characteristic of the sample and translating it to the “population”. This allowed us to concentrate on the findings from the empirical analysis and establish an adequate connection to the theory.

Bearing in mind that we took restricted number of interviews from 5 companies, namely Skanska and their 4 closest suppliers, we can conclude that our approach is intensive(Jacobsen 2002) as opposed to the extensive one, based on a large number of information sources, interviews respectively. The number of suppliers was limited to four, for several reasons. First, these companies are Skanska’s closest suppliers in Poland. Second, they are most representative for the sub-industries they operate in. And third, these companies were most open and cooperative in terms of taking part in our study. Unfortunately, the interviews with the suppliers were taken only from representatives at managerial positions, so that we cannot present the views of ‘lower-level’ employees. Beyond that, the time horizon for interviews conduction was restricted to two weeks, which also hindered us to collect more data.

We make use of the qualitative type of survey, which enables researchers without extensive and professional knowledge of the subject to produce an in-depth, general comprehension. One drawback of the selected method is that it is time-consuming. This was a serious

drawback for us, since the limited time forced us to concentrate on fewer respondents than we wished and may have resulted in decreased validity of the work. However, we hope that our paper can be the basis for further research on the interplay of cultural conflicts and their implications for particular competitive strategies, which our study restricted to pricing and supply chain policies.

### **3.1 Method selection and quality of research**

The assessment of significance of any study consists of dimensions like validity, reliability and generalizability. Validity addresses the degree of consistency between the conclusions drawn and the analysis of the empirical material. In this connection is important to mention that we tried to be as coherent, consequent and objective as possible. Of course, we admit that the possibility to affect research (analysis, interviewees etc.) unconsciously with attitudes or notions exists, but our efforts were aimed at the maximal reduction of that distortion source. Therefore, we approached both the theory and especially the empirical material (interview answers) critically. In addition, we were highly critical to ourselves and have questioned all ambiguous points in our analysis and conclusions in order to improve the validity power of our research.

Reliability is connected to the transparency during the process of data collection, transformation and evaluation, and is contingent on the researcher. The interviews as our main tool of research, have some disadvantages when it comes to subjectivity, since as we stated above, interviewees may be influenced (purposely or unconsciously). On the other hand, the face-to face interviews we made use of, offer the advantage of direct observation of the body language of respondents and thus, enhance the interpretation reliability of the researcher.

Against the background of a qualitative study, analytic generalizability seems to be the most appropriate option and addresses the question if the results from a certain survey can be valid in other settings. We are aware that the number of interviews we have conducted is insufficient to draw definitive conclusions about the policies of all Polish companies for example, but it is important to underline that the information from our talks with different companies' representatives indicates important developments and tendencies, which can be employed further in more specialized studies.

### **3.2 Data collection and conditions**

In a study, where the main actors are individuals, one needs to create understanding for behavior. To achieve a deeper understanding, interviews are the best way and maybe the only approach according to Merriam (1994). Besides, we have already pointed out that interviews are consistent with the requirements of qualitative study approaches.

Our first and most important contact person was the Procurement Manager of Skanska in Poland. We established first contact to her by mail and later by phone in October 2007. Due to 'lucky' concatenation of circumstances we were invited to take interviews with Skanska on site, in Poland. The company proved cooperative not only in terms of providing extensive and important information, but also in facilitating the contact to the four supplier companies. Skanska addressed these companies as their closest, most important suppliers, which at the same time turned out to be some of the most representative producers for their sub-industries. Thus, we interviewed the Procurement Manager and three Procurement Coordinators at Skanska between 21.11 and the 29. 11. 2007(see Appendix). The interviews with the four companies were conducted at their offices/factories all over Poland between 26.11 and 3.12.2007. The questions were carefully formulated, both in order to lead the respondent to as concrete answers as possible, and to open space for further discussion. Besides, they were structured in the same order as we present theory and analysis in order to guarantee maximal coherence. We recorded the conversations in order to guarantee the information wholeness and then transcribed them with the aim to increase their manageability.

The first requirement the companies' representatives set, was to guarantee their anonymity. Therefore, *chapter five* will present the four supplier companies background only briefly, with as little facts about them as possible. For practical reasons we "renamed" the firms after the letters A, B, C, D.

### **3.3 Information sources and criticism**

In order to guarantee the force of expression of our study, we employed the research of some of the 'gurus' of the respective areas, like for example: Noble and Gruca in the theoretical part concerning pricing, P.Kraljic while discussing Supply Chain Management-practices or G.Hofstede, when explaining the cultural factor. However, the rest of the literature and articles were also carefully selected. In addition, bearing in mind, that the more actual research is, the higher level of trustworthiness is guaranteed (Kvale 1997) ,we made use of the periodical country reports (in our case on Poland) of well- reputed institutions like the

European Bank for Reconstruction and Development (EBRD), the International Monetary Funds (IMF) or the World Bank.

Despite of the careful selection of the mentioned sources, we should admit our relatively high level of criticism, while analyzing and using them. What is more important, we need to underline the critical evaluation of the data, collected during the interviews. We are aware that the answers of respondents may not reflect fully the actual situation for at least three reasons. The two of them are connected in some way, these are namely confidentiality, which restricted the amount of information provided and mentality, which in our case translated into 'shyness' and bottom line had the same effect as confidentiality. The third factor, that we need to mention, is the question of representativeness. While we could talk with employees at different positions at Skanska, this was not the case with the four Polish suppliers, where we could source information only from higher managers.

## 4. Theoretical Considerations

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*This chapter is devoted to the theory, underlying our study. We present extensively previous research on cultural conflicts, pricing approaches and supply chain policies*

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### 4.1 Cultural Conflicts and Transition Processes

*"Culture is more often a source of conflict than of synergy. Cultural differences are a nuisance at best and often a disaster."* Prof. Geert Hofstede

Despite trying to avoid the intricate and broad area of the concept of culture and cultural differences which are a whole universe itself and could be a subject of another, more specialized study, we were compelled to touch Geert Hofstede's framework for assessing culture as a very suitable way to explain the difficulties or conflicts (see interviews) existing in the business relations subject of this study. In addition, those differences could be explained not only by conflicting national values but also by the existence of totally different historic and economic developments-namely market economy versus command economy. There is no doubt that the long years of communist regime have left a great impact on people's thinking, mentality and logically managerial behaviour. The bridging between the "old order" characterizing the countries from Central and Eastern Europe and the successful way of "the West" is the process of transition which Poland has been following after the fall of the communist regime in 1989. This transformation has also a considerable impact on managerial behaviour and will be also employed as theoretical reference for our paper.

#### 4.1.1 Culture as the base for conflicting values

Business nowadays is following the opportunities one of the greatest phenomena of our time offers-globalization. Thus, the 'internationalization' of business should go in line with effective strategic management, aimed at identifying fundamental cultural differences (G.Hofstede, M.Bond, R.Franke 1991). Therefore the question to which extend, cultural differences have impact on economic performance is a central one. Previous studies have proved that tangible factors such as capital investment, education or technological innovation seem to be only a partly determinant of economic growth.

According to Hofstede the differences in goals of international business partners are useful to know but not an impediment. However, the constellation changes considerably when partners from different countries enter into shared operations like strategic alliances, joint ventures, mergers (or with respect to our study we would also add buyer-supplier relationships). Moreover the success of such ventures depends highly on the respective environment of the parties involved. Thus the risk of being ill prepared in a specific local setting is more than obvious.

Thus, the need to define culture, as well as national value systems, is more than obvious. Edward Tylor describes culture from the perspective of social anthropology:

*"Culture or civilization taken in its wide ethnographic sense, is that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society."*

Another definition of culture is the one given by UNESCO<sup>5</sup> (2002):

*"... culture should be regarded as the set of distinctive spiritual, material, intellectual and emotional features of society or a social group, and that it encompasses, in addition to art and, lifestyles ways of living together, value systems, traditions and beliefs".*

A discussion of national culture and cultural differences obviously needs a definition of the value systems characterizing the respective national culture. Values, in turn, are 'broad preferences for one state of affairs over another (Hofstede 1985). In his book *Culture's Consequences* (1980) Hofstede presents a study of the differences in work-related value systems based on the answers to paper-and-pencil questions by respondents (IBM employees) from forty countries. Thus, after data is aggregated and analyzed at national level (Hofstede uses country mean scores on questions), he identifies four value dimensions explaining about 50 per cent of the dissimilarities in work-related patterns.

The first index refers to the concept of power to distance and is the "society endorsement of inequality" (Hofstede 1980), or the degree to which power in organizations is distributed unequally. The second dimension addresses individualism as the tendency of individuals to

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<sup>5</sup> United Nations Educational, Scientific and Cultural Organization

“care of themselves and their immediate families only” (Hofstede 1980). The inverse of this dimension is collectivism, characterizing society where members rely on each other and expect loyalty. Uncertainty avoidance is the third index and stands for the extent to which society members prefer to follow “paths” guaranteeing certainty and to “maintain institutions protecting conformity”. Masculinity is the fourth dimension. It refers to the importance of heroism, material success and assertiveness unlike femininity, concentrated on empathy, modesty and quality of life. The framework was extended later by a fifth index-long-term orientation. That dimension refers to the importance of persistence as well as the role of future compared to the present and the past.

#### **4.1.2 Transition**

Transition is a dynamic historical process, imposing change on almost every element of society (IMF Quarterly Magazine)<sup>6</sup>. The term transition economy is used to address the countries of Central and Eastern Europe after the fall of the communist regime in the late 1980’s. Therefore this is the transformation from a command economy to a market-based one. That evolution consists of processes concerning total restructuring of governmental institutions change in the role of state and promotion of private-owned enterprises and independent financial institutions (Falke 2002). Transition in a broad sense implies:

- Reallocation of resources to their optimal use
- Creation, promotion and security of private property rights
- Liberalization of economic activities and prices
- Privatization
- Introduction of market-oriented tools for macroeconomic stabilization
- Imposing strict budget constraints
- Guaranteeing the independence of markets and financial institutions from government interference

Transition success is most often assessed against the sustainable recovery of output as an immediate ‘therapy’ for improving welfare. The experience of the Central and Eastern European countries, undergoing transition, showed that the most important aspects to be considered while transforming were the high importance of inflation control, immediate, but not delayed reforms and the development of reliable legal system. Anyway it is also important

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<sup>6</sup> International Monetary Funds

to consider the possible negative outcomes of a transition process. Sometimes the initial efforts to market economy may create opportunities for corruption, underground economy or disloyal competition. Therefore it is vital to emphasize the role of political will in this context, because it provides the direction of development assisting (virtuous circle) or resisting (vicious circle) the reforms (IMF quarterly magazine):

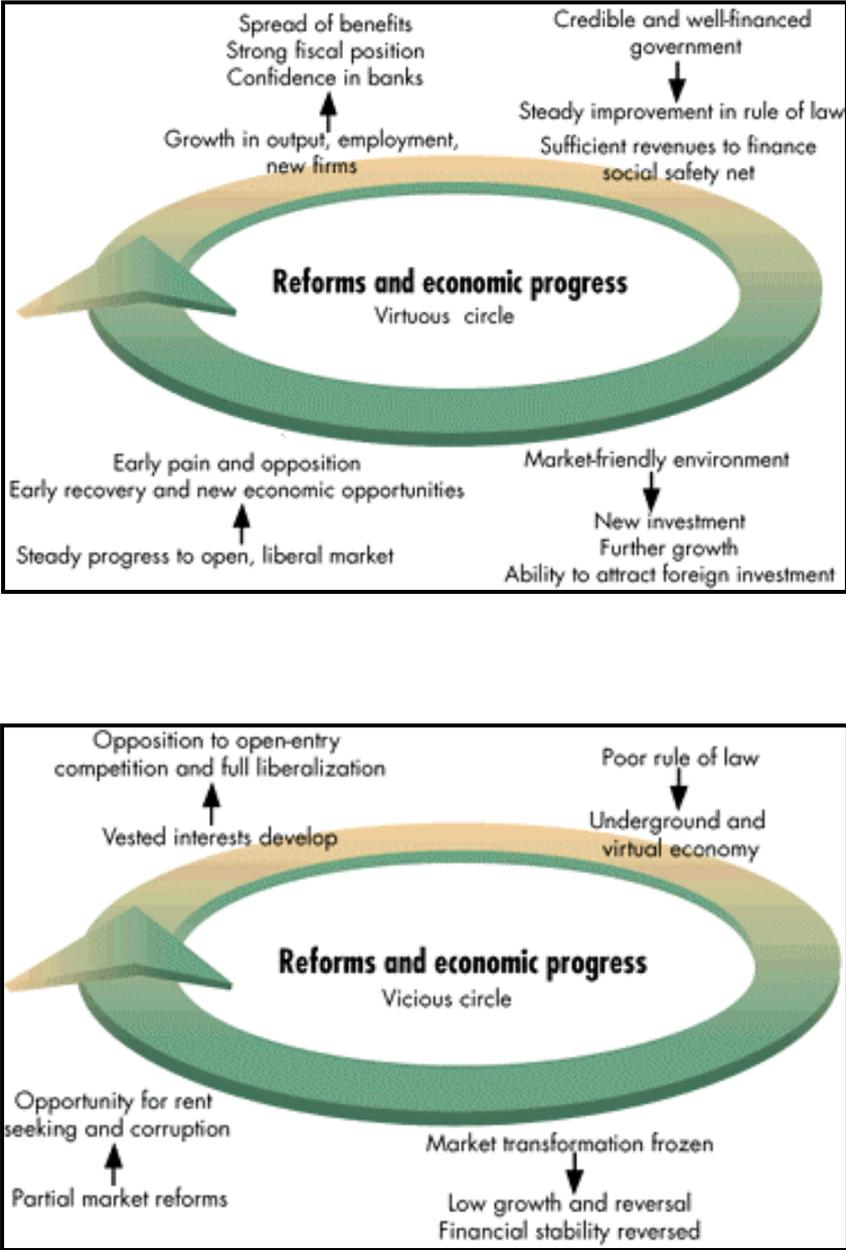


Fig.2 Reforms assisting /resisting development

### **4.1.3 The Polish Way**

The way to getting the frontrunner of transition was a long and hard one for Poland. The initial conditions in Poland were highly unfavourable-the typical deficiencies of planned economy have left their deep traces. Moreover, unlike the other post-communist countries Poland inherited huge foreign debt and very high inflation levels. Despite of that difference the reform in Poland took a similar course as in the other Central European countries-transition based on macroeconomic stabilization and microeconomic adjustment.

The transition process started with the stabilization package of 1990 known as ‘shock therapy’ or the Polish ‘big bang’. Those measures were aimed at liberalization and stabilization. Despite the difficulties, they produced positive results-price distortion elimination, opening of the Polish economy through making the zloty convertible and of course the start of privatization. Many specialists think that actually this package was the main source for subsequent positive developments.

One of the most serious challenges was the reaction of state enterprises. Although they seemed to be trying to adjust to the new conditions, by establishing proper structures like marketing departments for example, they remained incapable to attract external financing and incapable to be competitive in the long term.

Other important issues were the transformation of the bank sector and the control over credit, in the context of the prevailing communist style of management. That led to the introduction of credit ceiling. However it couldn’t prevent the large share of lost or doubtful loans (about 30 % in 1991). Therefore state banks privatization and restructuring was started in the late 1991. That measure turned out to be highly effective and beneficial-new expertise was accumulated and capital base increased. So, after 10 years of transition the sector seemed undercapitalized, fragmented, but ‘released’ from in transparent ownership structures. (Belka 2000)

Business activity during the transition process after the communist regime fall could be divided in 4 periods: recession 1990-1992; revival 1992-1994, (where the construction industry as a main object of interest of that study started recovering); acceleration between 1994 and 1998 and slowdown after 1998.

As of 2006 Poland is one of the most advanced transition economies with 75 per cent of economic activity engaged in the private sector, open foreign trade regime, liberal foreign investment conditions etc. The figure bellows comes to illustrate the current state of economic affairs (EBRD factsheet):

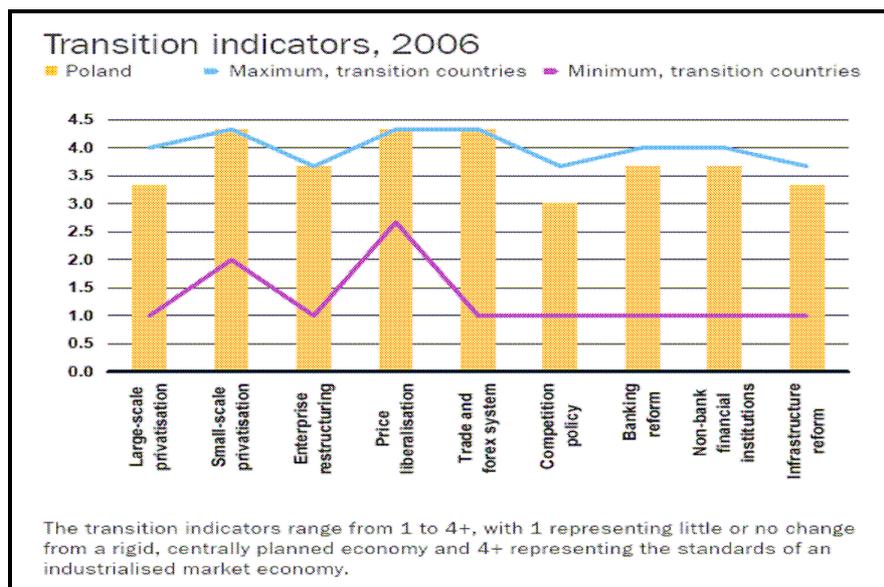


Figure 3. Transition Indicators (EBRD country report)

## 4.2 PRICE STRATEGIES AND DETERMINANTS

### 4.2.1 The need for price strategy.

Pricing plays an important role. It may become a source of competitive advantage as well as it may result in inadequate net profit. It constitutes a crucial choice in determining the way to seize or defend market share. Therefore, adjustment to the price structure seems to be indispensable in order to gain improvements. What is more important, price strategy enables to follow the market and know the different market segments.

Price planning is one of the most overlooked areas in industrial marketing, whereas the emphasis is placed on product development, advertising strategy, and distribution. Consequently, pricing decisions are made quickly without taking into consideration vital cost and market factors. When it comes to achieving financial and accounting objectives price is a key factor. However, having an effective price strategy is a complex task for industrial marketing managers. Wrong pricing decisions may contribute to missing opportunities and lowering profits by companies. Although, price decisions are viewed by companies as being vital, most of them “make these decisions purely on tactical basis, or in response to competitors initiatives” (Docters 1997). It has been underlined that a typical response is: “Let’s reduce the price of Product X by 15% to meet competition, but let’s see if we can make it up with an increase in Product Y” (Docters 1997). It has been suggested that such a

response may only sometimes be sufficient but usually it is not as it does not deter competitors and ends up in lower sales of Product Y. As it has noticed companies tend to use the same strategies while dealing with new competitors and protecting their margins. Consequently, they cut costs, introduce new products, diversify their offerings, and accelerate their speed to market. Nevertheless, corporate strategies miss one of their weapons: improved price strategies (Docters 1997).

It has been emphasized that price implementation influences: customers, products, cost recovery efforts, produce margin levels, customer retention, market share, and domestic and international sales. Therefore, it has been stated that price strategy should be more than “a rapid response to market conditions” and it should to be the reflection of: “the fundamental pricing strategy, market segmentation and elasticity, costs, competitor understanding, and exceptional capabilities” (Docters 1997). Price strategies are crucial as they are “pricing weapons” companies should make use of, if they want gain pricing sophistication. In order to do that, however, they need management skills, knowledge base and information technology support. What is more, without the adequate analysis and the corporate capabilities which are vital, managers cannot deal with new competition and preserve shareholder value.

#### **4.2.2 Basics of price strategies**

Developing a price plan forces a company to scrutinize a number of objectives, as well as the course of action, operational strategy, and a set of control and review procedures. All that must be coordinated with other activities involved in market planning. It may not be easy as there may be two factors making it difficult to prepare a separate pricing plan. First of all, “the perception that is too dependent on the other elements in the marketing mix” Secondly, “the difficulty of establishing a pricing organization in a firm” (Lancioni 2005). Typical principle elements of a general marketing and pricing plan include:

- A summary of the pricing strategies and recommendation of the company
- An overview of the current market-pricing situation
- A SWOT<sup>7</sup> analysis of the markets the firm is a part of
- The pricing strategies that the company is currently employing on its market segments
- The pricing objectives that the company has established to guide its overall pricing strategy
- The pricing programs to be used in order to accomplish the pricing objectives

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<sup>7</sup> Strengths weaknesses opportunities, threats

- The monitoring mechanism to be used to review the results of the executed pricing strategies (Lancioni 2005).

The choice of price strategies depends on the specific situation of the particular company. Therefore, the so called entrants and incumbents may choose different pricing behaviors. First of all, entrants use a very well known tactic which is underpricing the incumbents. They typically, will set a superior price or performance offer before potential customers. Obviously, it depends on the quality of the product and service whether the price will be higher or lower than that of incumbents. However, there is one significant factor influencing such a tactic, namely entrants must achieve a relative price transparency in order to enable the customers to compare prices. It has been stated that underpricing “works best when customers can compare product or service price easily” whereas “it becomes less effective the more complex the purchase” (Docters 1997). In other words, complexity and hidden price elements are usually not good tactics as they force customers to work to understand the entrant’s price advantage” (Docters 1997). This is the reason for avoiding price transparency by incumbents. However, it has been suggested that the less power of a company the less it can obstruct the process of price comparisons. Consequently, it is forced to offer lower pricing. The below table shows classic price strategies:

Table 4. Classical price strategies (Docters 1997).

Classic price strategies		
Entrant price strategies	The market	Incumbent price strategies

<ul style="list-style-type: none"> <li>- under-price incumbent</li> <li>- target most attractive segments with low price and loss-leaders</li> <li>- simple pricing</li> <li>- bundle with attacker's core products</li> <li>- use of agent 3<sup>rd</sup> party channels and price structures</li> <li>- partnership</li> <li>- innovative products at appropriate price</li> </ul>		<ul style="list-style-type: none"> <li>- make clear willingness to compete on price</li> <li>- avoid price transparency</li> <li>- retaliate against attacker's core market</li> <li>- leverage channels</li> <li>- lock up customers with contracts</li> <li>- bundling of services</li> <li>- two-part price schemes</li> <li>- loyalty programs</li> <li>- free services to compensate for attacker's volume discounts</li> <li>- link price strategy to attacker' investment plan</li> </ul>
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Differences in market share constitute an obstacle to effective price strategy. In some situations incumbent or entrant strategy is appropriate in other not. Thus, the price strategy should reflect the mentioned differences. Understanding these differences is vital to price products and services successfully.

Other examples of pricing tactics presented by Robert Docters and others (1997) are as follows:

Table 5. Examples of pricing tactics ( Docters 1997)

Examples of pricing tactics		
Tool	objective	... price structure
Culminate discounts	Decrease customer shopping around	Change volume discounts into cumulative discounts
Cross product discount	Induce trial for existing customer base	Create discounts for new products
Resale price levels	Reduce price negotiation at the	Reduce the spread between the

	point of sale	manufacture's suggested retail price and wholesale price
Distributor exclusivity	Increase distribution attention to your product	Explicitly tie wholesale discounts to specific activities, such as an exclusive distribution
Wholesaler discounts	Reduce harmful product brokerage	Narrow the quantity discount and increase functional discounts for specific activities
Segment-based pricing	Realize higher prices in a non-price-sensitive-segment	Design discount structure so customer's self select based on segment requirements
Loss leaders	Avoid new entrants in your markets	Price to pre-empt up-front profits
Signaling	Discourage competitors from discounts	Signal that you will retaliate after XX% discount below your prices
Bundling	Leverage existing market position or channels	Price multiple products together.

It is obvious that price may be a powerful tool in dealing with competition and preserving the margins. Nevertheless, one should take into account that "price level must reflect the relative position of the product or service being priced" (Docters 1997).

Noble and Gruca have also contributed considerably to the pricing theory, presenting different pricing strategies and determinants. Therefore, they define four pricing situations and categorize ten pricing strategies and their determinants according to these situations:

- New Product Pricing Situation-pricing according the position of a product on the PLC-curve. Typical pricing strategies are, Price Skimming, Penetration Pricing and Experience Curve Pricing
- Competitive Pricing Situation: the second situation represents pricing strategies depending solely on the competitive environment-Leader pricing, Parity pricing and pricing strategy following the low-cost supplier.

- Product Line Pricing Situation: The use of product mix tools differentiates between Product line, Optional-, Captive- and by Product pricing.
- Cost-based Pricing Situation: This last type of pricing situation is the one based on costs plus a specific profit margin or mark-up.

#### 4.2.3 Other determinants of prices

As stated previously, prices depend on many factors-the competitive environment of the firm, the type of product the company offers, the size and market share of the firm. There are however, three other aspects that need to be mentioned (even briefly) when discussing prices. These are namely the materials costs, the bargaining power of buyers and suppliers as well as the ultimate value of materials/products( TCO)<sup>8</sup>. It is important to stress that the costs of materials are highly dependant of the presence of buyer or supplier dominance.

Materials represent considerable expense in construction, therefore minimizing that type of costs leads to a tremendous impact on the firm-level profit. For that reason the bargaining power plays a significant role in price setting since the costs of materials are determined by the price that has been agreed upon after effective negotiation. Unit prices in turn depend on bargaining leverage, delivery time and mostly on quantity. Previous research focuses on 3 major types of supplier pricing schemes, based on quantity discounts (Burke, Carillo Vakharia 2007):

- *linear discount price*-supplier disclose linearly declining per unit price
- *incremental units discounted price*- supplier disclose lower price per unit only for incremental quantities
- *all units discount price* – suppliers offer reduced price on every unit exceeding certain target.

When selecting suppliers one should not forget to think about the ultimate value of materials and products (Ehlen 1997). It consists not only of the purchasing price, but also from costs connected to inspection, warehousing, insurance, testing, and warranties. Besides, the declining state of highways of bridges for example can lead to tremendous costs for rehabilitation or replacement. So the ultimate value is closely connected to the use of high-performance materials, which have qualitative performance advantages over conventional materials, offer more opportunities for designers and reduce considerably the risk and total

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<sup>8</sup> Total costs of ownership

value of materials. High-performance concrete, steel or aluminium are a good instance in the case of our study.

### **4.3 The role of supply chain**

One of the most visible aims of companies, when building and rebuilding supply chains is: “to deliver goods and services to consumers as quickly and inexpensively as possible” (Lee 2004). In other words they aim at greater speed and cost-effectiveness. At this point we should make clear that the concept of purchasing and purchasing management is inextricably connected to the nature of supply chains and will be presented extensively later on in this chapter.

Three qualities of top-performing supply have been listed. These are: agility, adaptability and alignment (Lee 2004). In other words, great supply chains are agile – as they are able to react to sudden changes in demand and supply, they are adaptable, which means that they “adapt over time as market structures and strategies evolve” and they combine (align) the interests of all companies in the supply network “so that companies optimize the chain’s performance when they maximize their interests” (Lee 2004). It has been emphasized that only companies with such characteristics can generate and sustain competitive advantage.

Furthermore, there is a risk of exceeding costs and speed. Several reasons for ineffectiveness of supply chains have been identified. Two of have already been mentioned, these are: high-speed and low-cost supply chains. The possible results of that may be the break down of a supply chain during the launch of new products, lack of competitiveness triggered by inability to adapt to changes in the structures of markets, and consequently inability to react. Supply chain efficiency is vital but it is not sufficient to surpass the competitors. Thus, the solution seem be hidden behind the key words; agility, adaptability and alignment because, as it has been stated, “only those companies that build agile, adaptable, and aligned supply chains, get ahead of the competition” (Lee 2004).

#### **4.3.1 The importance of agility**

Disregard of agility results in paying big price. Especially nowadays, when sudden shocks such as terrorist attacks, natural disasters, wars, epidemics or computer viruses, the need for agility is of prime importance. The importance to be agile seems to have been noticed. It has

been suggested that companies can create agility into supply chains with the aid of six rules. These are as follows. First of all, the companies should provide data in supply and demand to partners continuously to make them respond fast. This enables all firms to have the same demand and supply data at the same time, as well as to notice appearing changes in demand or supply and finally to react. Second of all, they should create collaborative relationship with suppliers and customers in order to enable companies' cooperation. Moreover, there is a need to design product "substantially only by the end of the production process" (Lee 2004). It enables companies to finish products only when they are informed about consumer preferences and consequently "respond quickly to demand fluctuation" (Lee 2004). Furthermore, Companies should "keep a small inventory of expensive components which trigger bottlenecks", and, moreover, build a dependable logistics system that could help to regroup quickly to react to unexpected needs. In addition it is quite important to "put together a team that knows how to invoke backup plans" (Lee 2004).

To sum up, the objective of agility is to respond to short term changes in demand or supply as quickly as possible. The following methods illustrate how to achieve that:

- Promote flow of information with suppliers and customers
- Develop collaborative relationship with suppliers
- Design for postponement
- Build inventory buffers by maintaining a stockpile of expensive but key components
- Have a dependable logistics system or partner
- Draw up contingency plans and create crisis management teams (Lee 2004).

#### **4.3.2 The role of adaptability**

The main objective of adaptability is to "adjust supply chain's design to meet structural shifts in market and to modify supply network to strategies, product and technologies" (Lee 2004). It has been underlined that adaptability is crucial to develop a supply chain that delivers a sustainable advantage. Moreover, unexpected changes in supply and demand trigger changes in markets. It may be caused by economic progress, political and social change, demographic trends, and technological advances. The best supply chains identify structural shifts, even before their appearance, as they gather the latest data, and then "filter out noise and track key patterns" (Lee 2004).

In other words, they relocate facilities, change sources of supplies and outsource manufacturing. Moreover, it has been emphasized that adaptation does not have to constitute a

defense, while many companies adapting supply chains when they improve strategies frequently are successful in terms of launching new products or breaking into new markets. Similarly, when it comes to the question of creating an adaptable supply chains there are two vital elements to be taken into account: “ability to notice trends and the capability to change supply networks” (Lee 2004).

The following activities are deemed advisable when identifying future patterns. First of all, the company should follow economic changes, particularly in the case of open countries where. Secondly, they should “decipher the needs of their ultimate consumers” in order to avoid becoming a victim to the bullwhip effect which amplifies and distorts demand fluctuation” (Lee 2004). What is more, developing new suppliers complementing the current ones is vital. Finally, companies should build awareness of the product design teams of the supply chain implications of their design. It has been suggested that designers have to be familiar with the three “design-for-supply principles”: commodity, postponement and standardization (Lee 2004).

Summing up, there are several methods enabling adaptability:

- Monitoring economies all over the world
- Using intermediaries to create fresh suppliers and logistics infrastructure
- Evaluating needs of ultimate consumers – not just immediate ones
- Creating flexible product designs
- Determining where companies’ products stand in terms of technology cycles and product life cycle (Lee 2004).

### **4.3.3 Creating the alignment**

The aim is to create the incentives for increased quality of performance. As it has been mentioned at the beginning, it is not an easy task to build alignment. Different companies in the same supply, for instance, have different interests, which may be a source of problems:

*Every firm, be it a supplier, an assembler, a distributor, or a retailer – tries to maximize only its own interests. If any companies’ interests differ from those of the other organizations in the supply chain, its actions will not maximize the chain’s performance (Lee 2004).*

Therefore, lack of alignment is an obstacle and brings about the failure of many supply chain practices. One suggested way of aligning the interests of several companies is with the aid of

redefining the terms of their relationships so that firms share risks, costs, and rewards equitably. Sometimes, intermediaries are needed that could align the interests of companies to supply chains.

The useful methods in boosting alignment are:

- Exchanging information and knowledge freely with vendors and customers
- Laying down roles, tasks, and responsibilities clearly for suppliers and customers
- Sharing risks, costs, and gain of improvements initiatives equitably (Lee 2004).

#### **4.4 Supply chain management**

The profitability of a firm is most often explained in the background of favourable industry conditions, as well as inimitable resources and capabilities, creating uniqueness. Anyway there is one more factor to be considered when it comes to success—the way firms cooperate with suppliers. That is namely the idea that purchasing can also be profitability driver. As Peter Kraljic puts it—purchasing must be supply management. That concept plays a major role nowadays, in the era of globalization, where sourcing from all over the world cuts cost and leads to improved and sustainable competitive position. In addition, that conception is of high importance in the construction industry, which is the object of research of this study, especially because this industry is characterised by high price sensitivity, low profit margins and cost overruns.

There are a number of opinions on appropriateness in relationship between buyers and suppliers in business transactions. Therefore, there are several most popular approaches concerning the buyer and supplier relationship. It is vital, however, that buyers had a competence to choose correctly from the wide range of various alternatives. It has been emphasized, that while buyers have a wide spectrum of choices, they cannot decide in isolation but must work with suppliers. Suppliers, as well as buyers, have their own goals and motives, which are not necessarily compatible. It has been underlined, that there is no single way of managing business relationships that could be appropriate in all circumstances and situations:

*While there may be ideal situations for buyers when they manage suppliers, buyers have to manage business relationships in a range of very different circumstances (Cox 2004).*

It means that there is a need of competence and knowledge which would enable to understand both the “buyer and supplier exchange circumstances that exist and the various relationship management choices available to buyers when working with suppliers” (Cox 2004). Therefore, adequate decisions concerning appropriate business relationship are called “the art of the possible” (Cox 2004).

#### **4.4.1 Appropriateness in buyer and supplier exchange**

There are several approaches and options available for buyers. They may be divided into two groups: Proactive and reactive approaches. To reactive approaches belong the so called supplier selection, and supply chain sourcing, whereas to proactive ones belong the so called supplier development and supply chain management (Cox 2004).

The first option of reactive approach is not based on long-term and collaborative relationship. It is rather based on “relatively short-term contracting relationships, with the buyer selecting from amongst competent suppliers in the market all marking their own supply offerings” (Cox 2004). In other words, buyers make selection decisions as a reaction to the supply market. Therefore, the role of a buyer consists in selecting from the available suppliers “on the basis of the currently perceived best trade-off between functionality and cost” (Cox 2004). In other words the buyer works in non-collaborative and reactive way with suppliers. Another posture towards suppliers is called supply chain sourcing which is similar to the previous approach. The buyer applies the same sourcing techniques, however, selects from amongst suppliers taking into consideration as many tiers as possible “from raw materials through the final diversity of the end product by the first tier supplier” (Cox 2004):

*At each tier in the supply chain, the buyer selects from currently component suppliers on the basis of the currently perceive best trade-offs between functionality and price (Cox 2004).*

Similarly, it the reactive role of buyers with limited contracting. As far as the proactive approach is concerned, the two mentioned options are more collaborative in practice. The first one, supplier development consists in:

*Acting proactively and as a result making the relationship shift from arm's-length with limited involvement by the buyer in the supplier's business, to one in which the relationship becomes more long term and highly collaborative (Cox 2004: 349).*

It provides greater transparency as far as the question of input costs, margins and production techniques are concerned. Technical bonds are created, which enable the two sites to create new products and service offerings. It has been said that the approach is “much more resource intensive for the buyer and suppliers it involves transaction costs for development work rather than just for search, selection and negotiation” (Cox 2004). Supply chain management as a second example of proactive approach, is deemed most advantageous approach for a buyer. Nevertheless, it is at the same time the most difficult option to implement. It has been defined as “a sourcing technique that involves the buyer undertaking proactive supplier development work, not only at the first-tier through to raw material supply” (Cox 2004). This sort of relationship enables long-term collaborative cooperation and the most advantageous, provided that this relationship can be directed towards constant innovations on functionality and cost. The problem appears when it comes to the question of practice. It has been noticed that very few companies can afford that approach, though it seems to be the most advisable and the most favorable. It happens because of several reasons. First of all, it is the most resource intensive requirement for buyers and suppliers in the chain as it involves:

- Transaction costs for the buyer associated with search
- Selection and negotiation
- The linked to creation of dedicated investments and relationship specific adaptations for supplier development work (Cox 2004).

Consequently, this type of sourcing is quite impossible for a number of companies as it has been noticed, as they usually lack the internal resources and capabilities requisite to apply it. The second reason is connected with power and leverage. The research shows that the best relationship between the buyer and supplier is when there is dominance over suppliers and very rarely there can be independence in the power relationship (Cox 2004). Therefore, as supplier development and supply chain management tend to work best in the situation of dominance, it has been observed that:

*Many companies that have been able to adopt these approaches normally have high levels of global volume, with regular and standardized demand requirements from suppliers who*

*operate within highly contested markets, and with relatively low switching costs between them (Cox 2004).*

This explains why certain companies will not adopt such a posture. Moreover, it seems that in some situations, some power circumstances are more favorable to the appliance of supplier development and supply chain management than others.

There is no particular way for buyers and suppliers' cooperation, but whatever the situation is, there is always an approach buyers may pursue. Therefore, there is a need for knowledge of particular types of sourcing options. It has been stated that, "pursuing an alternative sourcing approach may be the most appropriate and, sometimes the only alternative" (Cox 2004). Close collaborative, long-term relationships concentrated on joint development of supply are favorable only for the situation of extended buyer dominance or extended supplier interdependence. The objective power circumstances in which buyers find themselves can be described with the aid of the concepts of: buyer dominance, interdependence, independence or supplier's dominance. The ability to find leverage routes is crucial here. It enables suppliers to move "from their existing power situations to circumstances that provide the buyer with more effective leverage over quality and cost" (Cox 2001). The mentioned routes may look as follows:

- Supplier dominance to buyer dominance (increases the buyer's share of the market, increases the number of suppliers in the market, increase selected suppliers' dependency on the buyer, creates commoditization and standardization of supply, ensures cost and quality transparency).
- Supplier dominance to interdependence (increases buyer's shares, increases number of suppliers, close relationship with preferred suppliers, lock-in high-quality suppliers, creates jointly owned product/service differentiation).
- Supplier dominance to independence (increase number of suppliers, encourage substitutes, creates commoditization and standardization, innovate to reduce buyer search costs, lowers barriers to entry for new entrants).
- Interdependence to buyer's dominance (increases buyer's share of the market, increases number of suppliers, increases proffered supplier dependency on buyer, increases commoditization and standardization of supply, reduces supplier control of intellectual property rights).

- Independence to interdependence (increases buyer's share of the market, selects preferred suppliers for close working relationship, increases suppliers dependency on buyer business, locks-in suppliers with distinctive capabilities vis-à-vis their competitors, creates jointly owned product/service differentiation) (Cox 2001).

## **4.5 Portfolio models as a tool in strategic planning**

Portfolio models seem to be very useful in analyzing a company's supplier relationship and strategic planning. They have been used in strategic decision-making to support resource allocation decisions.

Generally portfolio models focus on categorizing a product, a customer or a supplier relationship (Olsen 1997: 102). During the process of categorization, the decision makers will have to discuss "inconsistencies among themselves and agree on the importance of the different products, suppliers, or relationships that are being classified" (Olsen 1997). Portfolio is most useful in strategic planning as a helpful tool.

There are several steps recommended when applying portfolio model of supplier relationship. These are as follows:

1. Analysis of the company's purchases
2. Analysis of the supplier relationship
3. Developing actions plans (Olsen 1997).

In order to categorize the purchases in a portfolio model, the firm should assign the weights to each of such factors as:

- Competence factors
- Economic factors
- Image factors (Olsen 1997)

The competence factors show the extent to which the purchased element is a part of the company's core competencies (technical advantages, know-how advantages, and specialized investments). The economic factors describe the economic need of the purchase. The image factors reflect "the importance of the purchase to the company's image among customers and suppliers" (Olsen 1997). Moreover, there should be scrutinized such factors describing the difficulty of managing the purchase situation. These are:

- Product characteristic (novelty, complexity)
- Supply market characteristics (suppliers' power, suppliers' technical and commercial competence)
- Environmental characteristics (risk, uncertainty)

Table 6. Hierarchy of selection factors (Olsen1997) The hierarchy of the selected factors with the aid of the following table:

Difficulty of managing the purchase situation					
Product characteristics		Supply market characteristics		Environmental characteristics	
Product complexity	novelty	Suppliers' power	Suppliers' competence	Risk	Uncertainty

When analyzing the supplier relationships, one should think about the power balance between the companies. Factors which should be taken into consideration are:

- Financial and economic factors (the suppliers' margin, financial stability, the suppliers' scale and experience, barriers to the suppliers' entry and exit, slack)
- Performance factors (delivery, quality, price)
- Technological factors (the ability to cope with changes in technology, the types and depth of suppliers' current and future technological capabilities, their current and future capacity utilization, speed in development, patent protection)
- Organizational, cultural, and strategic factors (influence of the company's network position, internal and external integration of the supplier, the strategic fit between buyer and supplier, management attitude/outlook)
- Other factors (ability to cope with changes in the environment, safety record of supplier) (Olsen 1997).

The strengths of a relationship may be described as follows:

- Economic factors (volume of dollar value of purchases, importance of the buyer to the supplier, exit costs)
- Character of the exchange relationship (Types of exchange, level and number of personal contacts, number of other partners, duration of the exchange relationship)
- Cooperation between buyer and supplier (cooperation in development, technical cooperation, integration of management)
- Distance between the buyer and supplier (social distance, cultural distance, technological distance, time distance, and geographical distance).

The development of action plans is concerned, may be done on the basis of the previous analyses, namely the analysis of the suppliers' purchases, the analysis of the actual supplier relationship and the analysis of the actual supplier relationships. The comparison of those analyses will help develop action plans.

#### **4.6 Purchasing Management**

The next section will present the framework of Peter Kraljic as one of the most famous and applied portfolio models. It employs the concept of purchasing to high extend, which in turn necessitates a theoretical presentation of the idea. For that reason we will devote that section to purchasing management with the aim to make the bridging between supply chain concepts and Kraljic's framework clearer.

Purchasing management is a highly specialized facet of supply chain management, which can be used to support the strategic function of the firm as well as to improve the organization's alliances with key purchasing suppliers. This supply chain management tool is one of the ways in which strategic planning can be enabled and enhanced. Purchasing is described by Gower as "obtaining from external sources all goods, services, capabilities and knowledge which are necessary for running, maintaining and managing the company's primary and support activities at the most favourable conditions (Day 2002). It includes purchasing activities (requisitioning, approving, making purchasing choices, placing orders, receipting goods and services, accounting goods and services, receiving invoices and making payment), purchasing management activities (tracking, recording and planning purchases) and purchasing optimization practices (Day 2002). According to Day, purchasing management has evolved out of a need to be able to integrate purchasing activities into the strategic direction of the organization. Rather than continuing to use traditional purchasing techniques, which did not integrate well in the supply chain environment, purchasing management allows for the integration of these purchases into the supply chain of the organization.

According to Day (2002), purchasing management must be undertaken in organizations using supply-side purchasing practices because traditional purchasing techniques may not be sufficient for the organization. This indicates that it is connected to supply chain management, as well as other input sourcing paradigms. Because purchasing is an operation that must occur

in every organization, it stands to reason that purchasing management is an integral part of supply chain management and must be included in discussions of supply chain management. There have been a number of different paradigms discussed for purchasing management. One such paradigm was Smith and Conway's seven key success factors (Day, 2002). These key success factors included "a clear purchasing strategy, effective management information and control systems, development of expertise, a role in corporate management, an entrepreneurial and proactive approach, coordination, and focused efforts (Day, 2002)." This conceptual model of purchasing remains an effective model and one that is used in modern purchasing management.

Activities within the purchasing function vary by the organization, its needs and degree of specialization between the departments, the size and scope of the task of purchasing, and many other factors (Day 2002).

Purchasing management is a considerable opportunity for an organization to strengthen alliances with other entities within its supply chain (Zsidisin & Ellram 2001). The authors stated:

*Like the logistics function and other key players in supply chain management, [Purchasing and Supply Management] serves a boundary-spanning role for firms, by acting as an interface between an organization and its suppliers. Just as logistical alliances require active participation by the logistics function to be successful, PSM needs to be an active participant in forming and maintaining supplier alliances. (Zsidisin & Ellram 2001).*

#### **4.7 The Kraljic's model**

Kraljic's model was developed in 1983 and belongs to the dominant portfolio approaches and provides guidance concerning developing effective purchasing and supplier strategies. His model is the first comprehensive portfolio approach in purchasing and supply management. It is deemed a significant breakthrough in the development of theory in that field of is used frequently as a basis for the development of other theories concerning the subject.

When defining Kraljic's model, one should start with the general idea of that theory, namely: "to minimize supply risk and make the most of buying power" (Kraljic 1983). Kraljic's model of purchasing sophistication, in the form of four-quadrant matrix consisting of purchasing management, materials management, sourcing management, and supply management,

demonstrated how organizational priorities change as companies approach supply chain management with increasing sophistication (Kraljic 1983). A company that places a low value on purchasing in a low-complexity market will engage in purchasing management; a company that places high value on purchasing in a low-complexity market will engage in materials management; a company, prioritizing purchasing in high complexity will engage in sourcing management, and supply management including both high value and high complexity. This matrix allowed for an understanding of the importance and potential role of supply and purchasing management.

In addition the model offers a categorization of products against two factors: “profit impact and supply risk”. The result is a 2x2 matrix and four types of commodities: bottleneck, non-critical, leverage and strategic items, where each category requires a distinctive approach toward suppliers. It has been explained that non-critical items need efficient processing, product standardization, order volume, and inventory optimization. Leverage elements enable the buying company to exploit its full purchasing power, with the aid of tendering target pricing, and product substitution. Bottleneck elements trigger number of problems and risks and volume insurance is supposed to be carried out by means of supplier control, security of inventories, and backup plans. Strategic items are characterized by natural scarcity are supplied only by big international producers. In this sense they imply high degree of uncertainty and have high profit impact. In addition there have been three basic power positions identified and associated with three different supplier strategies. These are as follows: balance, exploit and diversify (Gelederman and Van Weele 2002). Kraljic’s strategic recommendation for the mentioned four categories may be summarized into such concepts as: “efficient processing”, “exploit power”, “strategic partnership” and “volume insurance” (Gelederman and Van Weele 2002)

Purchasing portfolio management was a keystone of Kraljic’s model. Kraljic recommended the use of a purchasing portfolio in order to perform strategic purchasing activities (Kraljic 1983). The first phase, classification of items to be purchased according to category (strategic items, bottleneck items, leverage items and non-critical items), was followed by analysis of the market in order to determine supplier utilization capacity, supplier break-even stability, uniqueness of suppliers’ product, annual volume purchased and expected growth in demand, and potential risk of non-delivery or quality issue (Kraljic 1983). Following these two phases, strategic positioning of the purchase within the purchasing portfolio matrix allowed for opportunity and threat analysis in order to determine the level of risk associated with this

purchase (Kraljic 1983). Finally, an action plan is formed using the purchasing portfolio matrix in order to allow the organization to determine which purchases and suppliers will be strategically sound and reduce the level of risk. Each of the quadrants of purchasing sophistication was supplied with general strategic suggestions in order to maximize the efficiency of its purchasing at the level at which it was operating (Kraljic 1983).

Kraljic's model is not well supplied with practical guidance for strategic movement of commodities within the supplier matrix, despite its common use within the purchasing management function and the fact that it forms a basis of many modern supply management and purchasing theories (Gelderman & van Weele 2002). However, Gelderman and van Weele found that with sufficient refinement of the theory in order to provide specific context for the arena in which it was being used, that Kraljic's model provided sufficient support for and information about the operation of the purchasing management portfolio. The authors recommended that:

*The general strategic recommendations, as provided by Kraljic, should be elaborated and tailored in view of company-specific circumstances and conditions. The Kraljic framework does not provide guidelines for moving commodities or suppliers around this matrix. (Geldeman & van Weele 2002).*

Thus, it is possible to use Kraljic's model effectively in practice even though it is a generalized theory, by adjusting the general strategic recommendations in order to account for the individual context and industrial environment of the organization. However, while Kraljic's model cannot be considered to be an immediate solution to purchasing management strategy setting, it provides excellent guidance and is the base for many other theories of supply chain management that continue to evolve today.

## **4.8 Alternatives to Supply Chain Management**

The need for improvement of quality, cost and service conditions in the construction industry is more than obvious. Hence, an increasing number of firms are 'revising' the role of the supply chain as a factor guaranteeing performance improvement. Therefore subcontractors need to adopt manufacturing strategies, which are adequate to their business environment and respect the position of manufacturing in the value chain (Errasti et al. 2007). Moreover, the

latest experiences of organizations as well as literature introduce an alternative to the supply chain management, which is also highly effective in optimizing quality, production costs, development cycle- namely Concurrent Engineering (CE). That is a time compression approach demanding closer inter-functional cooperation and increasing supply chain performance. CE takes simultaneously account of the product and the process underlying the realization of the product. Concurrent Engineering is a process where all tasks concerning product development are performed in parallel. It is especially effective and powerful weapon in the early design phase of product development, where most of the costs are committed.

***Potential Advantage of Using Concurrent Engineering*** (Berkeley Expert System Technology Laboratory 1998)<sup>9</sup>

- Ability to execute high level and complex projects while minimizing the difficulties.
- Faster time to market which results in increased market share.
- Lower manufacturing and production costs.
- Improved quality of resulting end products.
- Increased positioning in a highly competitive world market.
- Increased accuracy in predicting and meeting project plans, schedules, timelines, and budgets.
- Higher reliability in the product development process.
- Reduced defect rates.
- Increased effectiveness in transferring technology.
- Increased customer satisfaction.
- Shorter design and development process with accelerated project execution.
- Higher return on investments.
- Reduction or elimination of the number of design changes and re-engineering efforts at later phases in the development process.
- Reduced labour and resource requirements.
- Ability to recognize necessary design changes early in the development process.
- Increased innovation by having all players participate in the concept development phase.
- Ability to design right the first time out / First time capabilities.
- Overlapping capabilities and the ability to work in parallel.

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<sup>9</sup> Berkeley Expert System Technology Laboratory at the University of Berkeley, California

- Increased cohesiveness within the firm.
- Improved communication between individuals and departments within the firm.
- Lower implementation risks.

## 5. Empirical Study

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*This chapter is devoted to the data, provided by the interviews. Information both about the four companies and the relationship Skanska-suppliers is extensively presented*

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This part of the study has been realized on the basis of interviews carried out in the headquarters of Skanska's Polish suppliers. Similar questions were used in all interviews, which enabled us to make a comparative analysis of their price strategies and supply chain management policies. The data material was gathered between 20.11 and 03.12 2007. The list below shows the range of issues raised during the talks:

- Characteristic of the market the supplier-company acts
- Size of company/the number of workers
- Philosophy applied on the market by the company
- Strengths and weaknesses
- Basic products and services
- PLC (product life cycle)
- Relation with Skanska in terms of cooperation
- Changing prices in the light of Polish participation in the European Union and 2012
- Price strategy and its importance
- Process of establishing the prices and the number of people involved in it
- Price policy and its role in positioning the company on the market
- Mass production and its role
- Influence of suppliers and competitors on price policy of particular companies
- Possible common price policy with Skanska
- Role of computer technology
- Data exchange.

### **5.1 General information concerning the relation Skanska – Polish suppliers.**

It has been 40 years since Skanska “set foot” in Poland, it started namely with two hotel projects. After opening the borders in 1989, Skanska got involved in building apartments in the hope that the broadly known as ‘exclusive’ Swedish style is a precondition for success. Nevertheless, it did not turn out as an attraction to the Polish people. At the same time

Skanska began to sell out Swedish construction companies both in Poland and in the Czech Republic. “That created the business here” (Procurement Coordinator, 20.11. 2007).

This part of the study is an attempt to answer some crucial questions concerning the relationship between Skanska and its suppliers in Poland, as well as some related issues. For that reason several interviews with the main suppliers of Skanska in Poland were conducted in November 2007. The interviewees were representatives such as: Procurement Manager, Procurement Specialist, Procurement Coordinator, Export Director, Marketing Director and company owner. All of them provided information with significant degree of relatedness to the object of our interest.

The Procurement Manager interviewed on 21.11.2007, answered some crucial questions, giving general picture of Skanska’s supplier cooperation in Poland, and information related to products and prices. As it has been mentioned earlier, Skanska cooperates with many Polish companies. 16 out of 60 suppliers belong to the closest suppliers of Skanska in Poland. The Procurement Manager underlines that those 16 suppliers are close suppliers while the rest are potential ones. Skanska puts an emphasis on that relation as a very important factor, contributing to cooperation satisfaction. That is why it has been said:

*(...) Scandinavian mentality differs much from the Polish one (...) During the delivery from Poland we need to be very close to the supplier, so we can trust that he will deliver right quality in right time, because that is important for us” (The Procurement Manager, Skanska 21.11.2007).*

Being asked about the key-suppliers and the categories according to which they are evaluated, she focused on several factors which are taken into account during the selection process. First of all, cheaper suppliers are the most preferred ones; second the much shorter delivery time in Poland, compared to Sweden, plays a considerable role. When talking about Swedish suppliers it is worth noticing that they still constitute the significant majority, however, because of the longer delivery time, Skanska is forced to seek out suppliers on Polish market. The average delivery time in Poland accounts for three weeks while in Sweden sometimes three-four months.

Summarized, the rationales for choosing Polish suppliers are the following:

1. Shorter delivery time
2. Lower price
3. The transport cost
4. Availability of material on the Polish market
5. The ability to catch up with the 'West'
6. Swedish companies acting on the Polish market already

Similar factors were emphasized by another engineer in Skanska Company, namely the Procurement Coordinator. He stated that Skanska is looking for “good companies” which could meet the Swedish standards and consequently make the cooperation more successful. Thus, he enumerated the following advantages of Polish suppliers:

- They are more flexible than the Swedish ones
- The contracts are carried out much faster
- Quick supplier reaction time
- Better delivery time
- Better production power (Procurement Coordinator, Skanska 22.11.2007).

Another issue browsed in the interviews was the question of planning. The comparison made between the Swedish company and Polish suppliers made clear that there is little planning in Poland, while in Sweden it is a critical point. Planning enables successful control over production; that is why Skanska emphasize it:

*If you compare kitchens in Sweden (...) we put an order to a company and they have already booked up in the factory manufacturing and can immediately tell you when the delivery will be realized (...) because they can always put production in their planning (The Procurement Manager, Skanska 21.11.2007).*

While “In Poland they (suppliers) don't have control over it (...) they don't have a picture of planning” she says. As far as the risk is concerned, there are three major risk sources underlined during the interview. First of all, delivery time always constitutes a sort of risk. Second of all, Polish suppliers are said “not to believe that you demand high quality”. Furthermore, additional costs may be a risk as well.

## **5.2 Skanska – Company A**

The interview with the Export Director of Company A provided us with important information about the relation between Skanska and one of its main suppliers. Company A has been cooperating with Skanska for three years and is a very promising supplier, since they are the sole producer of kitchen furniture and carpentry products that Skanska purchases from for the Swedish market.

### **5.2.3 The market**

The kitchen furniture market in Poland is characterized by a relative fragmentation, which means that the dominant groups of companies are so called micro-subjects (with 5 employees) and small subjects (with 10 employees). Moreover, there are over 40 thousand kitchen furniture producers out of which there are only six significant companies on the market. 97% of all constitute micro-subjects and small subjects. In total, they have about 15-16% market share. 40-45% of the market belongs to the medium sized companies and the rest goes to importers, particularly the German and the Scandinavian ones. The market can be divided into three segments:

1. the lowest – cheap furniture and of bad quality
2. premium – better quality and higher price (3-4 thousands PLN)
3. super-premium – super quality and high price (over 12 thousands PLN)

### **5.2.4 Company A as Skanska supplier**

Skanska oscillates between premium and super-premium. The offer of Company A is of two types, namely the one directed to developers such as Skanska, and the second offer is aimed at individual buyers.

Company A is the only kitchen furniture supplier of Skanska. It has been present on the Polish market for many years. The company employs 250 people out of whom 200 work at the production facilities and the other 50 are ‘white collar’ workers. Company A is technically quite well advanced and has developed fast. It operates in the premium segment but also super premium and offers exclusive furniture and carpentry products. Medium-density fibreboard (MDF) is its main product used in production. Swedish standards are its greatest advantage.

According to the statements of representatives from Company A, their company possess several characteristics that make it attractive:

- is willing to cooperate with Skanska
- has lower prices
- has interest to develop (Procurement Manager, Skanska 21.11.2007).

Company A has cooperated for three years with Skanska and during that time it has learnt a lot, as one of the representatives says. Patterns and solutions overtaken from Skanska are much appreciated. Nevertheless, it has been emphasized that they make sense only when they have access to actual. Otherwise, there is no flexibility during the cooperation. Fortunately, the system of data exchange is being implemented successfully.

As far as price strategy is concerned, Company A is trying to reduce the direct and indirect costs of production and then determine the mark-up. There is no differentiation pricing. In other words, there the “mark-up method” is the typical price strategy of the company. All the storage payments, which also influence the price, are gathered and finally compared to the prices of competitors. Therefore, direct and indirect costs determine to great extend the price limits. The direct costs expenses are the costs for materials and work. Company A emphasizes that, while the cost of material is very difficult to influence and therefore reduce, the company aims at lowering the labour expenses. In that way it attempts to increase the efficiency of manual workers. The Export Director claims that this has been already achieved through automation

The reduction of materials costs is related to the question of materials sourcing and sometimes materials import if there no other opportunity on the domestic market. Therefore transport costs should be also accounted for. In such cases the transport costs, which are indirect expenses, are added to the direct costs and then multiplied by a certain mark-up and once again by the profit margin, aimed by the company. In this connection it is also important to mention that, the average product life cycle accounts for 5 years.

When it came to the question of management style, the main disadvantage pointed out by the Manager Director of Company A, was the authoritarian system of managing, where power is not shared between the workers but lies only at the highest level. It seems to be inadequate nowadays. It has been suggested that a modern company should give up such radical hierarchical structures and share certain powers between particular people on the lower levels. The reason for not doing that is connected with the problem of the presence of considerable

number of unqualified workers, triggered by mass emigration. Lack of the “middle level” employees constitutes another problem which Company A is facing.

To sum up, the interviewed representative of Company A pointed out several issues to be dealt with:

- Reorganization of management is inescapable.
- Ineffective flow between the trade and production departments
- Poor access to computer data
- Lack of time controlling system (an average time of production is 6 weeks)

### **5.3 Skanska – Company B**

Company B has been present on the Polish market for many years and for 7 years it has been cooperating with Skanska. The Company belongs to the small-sized companies, as it employs about 20 people.

#### **5.3.1 The market**

The director of the company underlines that the market is quite complicated as it is very dynamic. Moreover, it is dependent on the actual policy of the country. The company seems to operate on the market very successfully because of several factors, particularly its price strategy and its related philosophy.

#### **5.3.2 Company B as Skanska’s supplier and its price strategy**

First of all, the company produces concrete related products, which are tailored to the demands of particular clients. That is actually the main advantage of the company in comparison to competitors. Filigrees which are the main product of the company constitute 85%-95% of Company B’s income. The company director emphasizes that the clients’ expectations are of prime importance to Company B; that is why prices are determined primarily according to customers’ requirements. As advantages of Company B the Director points out:

- Flexibility on the market
- Clients’ demands and expectations are of prime importance
- Clients’ satisfaction is vital
- Skilful workers
- Very cooperative team
- Successful price strategies
- The product is still being improved

- Good relations with steel producers (steel and cement shape the price of basic products in Company B)

All enumerated strengths of Company B seem to be the result of the company's specific approach and applied strategies. Namely, it has been stated that: "the price is the last element taken into account in negotiations" (The Director of the company, 28.11.2007). It means that the fundamental strategy consists of price adjustment to market demands so that customers are permanently attracted. Beyond that, Company B aims at:

- being on the market
- maintaining good quality of products
- being innovative

Being on the market does not mean struggling for the top places, but functioning as a medium sized company, with the aim of not being eliminated from the market. As far as innovation is concerned, the Director highlighted that innovation means control over the very dynamic prices on the market. In other words, the purpose is to always adjust. It has been summed up in these words: "We are listening to the market" (The Director of the company, 28.11.2007). When listing all the elements of which the price consists, the following factors were mentioned:

- cost of material
- flexibility of the market
- importance of what the buyers are saying
- analysis of the costs and contacts
- human factor
- aggregate
- future perspectives

As far as the human factor is concerned, Company B emphasizes the vital role of people. An emerging problem is the shortage of qualified workers on the Polish market. As the company attaches great importance to the cooperative work, where every person contributes to the overall success, emigration is perceived as a risk.

There are two products that need to be mentioned when discussing Company B's pricing policies-namely steel and cement, as their prices are significantly volatile. That produces a

sort of risk. Nevertheless, the Director of the company underlines that the experience of Company B has led to the establishment of very good relations to the steel producers in Poland who inform the company in advance about risky changes market. To sum up, the good knowledge of steel and cement prices enables the company to determine an adequate lower price limit, whereas the upper bound is flexible and market dependant. Responsible for the pricing tactics are the managers of the company, who are led by the following philosophy: “We aim at being a good company, which offers a good product and is flexible concerning the clients’ ideas” (The Director of the company, 28.11.2007).

When it came to the question of European Union, Company B has not taken advantage of subsidies and so far it has succeeded without such help. Thus Polish participation in the EU has not influenced the price strategy of Company B. Nevertheless, it has been mentioned that the company intends to take part in the EU programs in 2008.

The question of marketing has also been browsed. It has been underlined that quite a lot of time is devoted to all sort of analyses. The elements listed below, comprise marketing activities:

- the analysis of the market (all sort of demographic changes)
- the analysis of competitors’ behaviour and the predictions concerning it
- brainstorming
- arrangements concerning suppliers

As far as the question of mutual understanding and cooperation between Skanska and Company B were concerned, it has been underlined that the main advantage of Skanska is its reliability and good organization. Moreover, “the contracts are never violated” says the representative of Company B (28.11.2007). Consequently, the cooperation is satisfactory.

## **5.4 Skanska – Company C**

### **5.4.1 The market**

Company C is an international player. Therefore, it is not dependant only on the Polish market. However, in Poland the company is the market leader. It has been stressed that the majority of strategic partners and customers is Eastern European. Nevertheless, the rest of the markets like Scandinavia and Sweden in particular, are also of high importance, due to their experience. The level of cooperation between Company C and Skanska has been deemed satisfactory, especially because of mutual understanding.

#### **5.4.2 Company C as a supplier and the price strategy of the company**

Skanska has been cooperating with Company C for four years. So far it has been focused on testing Company C in various ways. At present Company C is developing fast. Next year it intends to buy and build several factories.

As far as the price strategy is concerned, the market has been pointed out as playing the vital role in shaping the prices. Annual analyses are carried out, on which prices are being based. The company with its large market share is a price leader in Poland, and therefore influences successfully the market. Prices are said to be determined first by market trends, second by, the cost structure of the company. The most of the costs are incurred by material, transport, labour, energy and various risks. Moreover, the company includes the risks in the costs as it takes out insurance. However, the costs are a matter of secondary importance.

Regarding the role of the European Union membership, the Director of Company C states that:

*Obviously, it has influenced prices; furthermore market is open and Polish companies have the opportunity to operate abroad. Company C itself is settled more in the foreign markets rather than in Poland.*

Company C has several strengths which have been summarized by its representative :

- very good access to various markets
- power of production
- “an acceptable level of service”
- the quality of supplies
- constant development

The company as a supplier does not feel strong, because of the considerable market dynamics. However, it points out that the cooperation with Skanska seems to be very satisfactory and stability increasing.

#### **5.5 Skanska – Company D**

Company D is a private company cooperating with Skanska since 2007. It operates not only on the Polish market but also abroad. Thus beside Scandinavian countries there are also customers from the United States, Germany, France and Austria. The company has been

present on the market for 20 years. It employs 40 people. Its main production consists of metal components.

It seems that the company does not have any specific price strategy. The prices are fixed solely by the owners, namely the father and the son. At the beginning, prices were based on material weight. However the pricing technique evolved and at present there are three factors which influence prices:

- the actual price of the material on the market
- the cost of labour
- the risks

There seem to be no planning in terms of making predictions for the future. The owner underlines, however, that the need for making annual analyses is increasing as the company is developing quite fast. Nevertheless, at present no such documents are made. Consequently, there is no price strategy which could be distinguished and little time is devoted to it.

The philosophy of the company is focused on quality. According to the owner, even if the price is lowered the quality stays the same. Company D points out its advantages as:

- quality
- flexibility
- good relations with old clients
- good delivery time
- good designers, craftsmanship

The company has not taken use of any EU-subsidies, but plans to.

## **5.6 The cultural factor in Skanska-suppliers relations.**

The cultural factor is one of the crucial issues when it comes to the question of satisfactory relations and mutual understanding. Several companies cooperating with Skanska deem that factor vital. Cultural differences have been underlined while interviewing one of the representatives of Skanska in Poland. Namely, several typical characteristics, influencing different aspects of cooperation, were mentioned. These are some typical traits of Polish companies in the perception of Skanska,:

- little flexibility as far as the attitude towards prices is concerned
- different views on what is cheap and what is expensive

- little creativity
- very hierarchical relations – different view on leadership
- vulnerability to corruption
- different behaviour style in terms of male – female and management - workers relations
- greater attachment to the significance of written agreements

As far as flexibility in terms of pricing is concerned, Skanska emphasized, that what is common not only in Poland but also in the rest of Europe, is that prices are difficult to influence and change. Beyond that, Polish culture has been evaluated as difficult to follow. Nevertheless, Skanska emphasizes that their long-year experience enables them to get to know it and thus make cooperation much better. Knowledge of Polish culture contributed to smoother collaboration and mutual understanding. Being asked about what Skanska has learnt from their Polish partners, the representative listed the following elements:

- Polish culture
- How to work with Polish people which has improved the cooperation
- “We’ve learnt that we should not take too much implementation at the same time” (29.11.2007).
- “We’ve learnt how Polish companies work inside” (29.11.2007).

Furthermore, when enumerating the differences, it was said that the greatest problem is the inability to think creatively and independently:

*That is what we would like to change, (...) because this is the whole culture that you’re not open in the same way as we are. Polish people are afraid of saying what they are thinking (29.11.2007).*

Skanska finds that Polish people do not feel comfortable when asked about their opinion and are not used to give it:

*Polish people are not willing to express their opinion even if they are asked to (...) we would like to improve that; we would like to have very open conversation (29.11.2007).*

Probably it is connected with Polish culture which is still strongly rooted in the hierarchical pyramid. Therefore, there is different perception and definition of leadership – “you can’t take a decision if you don’t ask the bosses” (29.11.2007). Thus, Polish companies are seen as old-fashioned and not attractive enough to Skanska:

*There are too many companies that are old-fashioned. We need to meet the management or owner of the company (...) such leadership is not interesting for us (29.11.2007).*

As it can be seen, the management style of these companies is found as a disadvantage. Moreover, it has been noticed that people in Poland do not perceive the representatives of Skanska as being authorized to make decisions. Such a perception is typical for the older; however the young are also imbued with that ideology. The presence of hierarchical models of management and work made Swedish people hard to adjust while cooperating: “We need to be more Polish when we meet them even if they are open-minded” (29.11.2007). Directly connected to this old-fashioned style of working is the high degree of formality. Examples for that characteristic are the very formal style of addressing people or the need for suitable dresses talking to workers:

*If you want to have power during the meeting you have to dress correct (...) if you are to relaxed they feel that you are not at a higher level (...) you can’t address them by names but use titles (29.11.2007).*

Another cultural difference is connected with the question of equality in the two countries. There seem to be two different cultures in terms of gender differences. In general, women expect to be treated in a special – favourable way, which means that they feel still weaker than men and at the disadvantage:

*It is not as equal as in Sweden. I think there are more gentlemen in Poland and women want to be treated as the lower. In Sweden it does not matter if it is a director or a female or a man (29.11.2007).*

Moreover, there is little spontaneity in Polish companies:

*The director likes to be treated as a director. People are sitting and waiting for the decisions from the management. Even if I put up the idea I don't go on until I don't get the approval from the manager (29.11.2007).*

The question of creativity is closely connected with what was said, namely that people stay in the same company if the salary is good, even if there is no chance of developing their creativity. Moreover, it has been noticed that some people are glad to see that they don't have to be creative or initiative and just need to follow the instructions. It is probably deeply rooted in the previous political system which motivated total obedience to rules and authorities to.

What is more, Poles are very cautious when it comes to written agreements, particularly giving signatures. While in Sweden verbal agreements function as well, in Poland a signature is associated with courts and potential problems. Therefore, they are less willing to sign documents if they are not certain that they will manage to keep it. In particular, the penalties which are predicted for the companies which violate agreements or do not manage to realize them in due time, constitute a sort of deterrent. It has been said that: "If you talk to a company here and if they will have to agree to a delivery time they are nervous (...)" (29.11.2007). In other words Skanska has had to force Polish companies to stick to the established delivery time, as "they are used to be late", and it did it with the aim of potential penalties. However, it has been emphasized that the problem of delaying is typical of Polish culture not only the construction business.

As far as friendship is concerned between Skanska and its suppliers, once it is built it is kept for a long time. However, the representative of Skanska underlines that certain Polish tendencies are disapproved in Skanska organization, namely corruption:

*We the Swedish people are very sensitive to bribes and corruption, so we are friendly to each other and listen to each other but at the same time we are very strict in our organization in order not to lose the business.*

Corruption seems to be still present in Poland and Skanska has to deal with it. Nevertheless, it has been stated that: “you can be a good friend here and you can still have the business relation” (29.11.2007).

### **5.7 Strengths, price strategy, philosophy – comparison of Skanska’s suppliers**

This section plays the role of juxtaposition of conclusions stemming from interviews. The four companies are put side by side in terms of their strong characteristics, price strategies and market philosophies. What is more, the below table allows to perceive these four companies in a simple manner, not deepening in their complex managements and market relationships.

	Strengths	Price strategy	Philosophy
Company A	<ul style="list-style-type: none"> <li>- lower prices</li> <li>- willingness to cooperate</li> <li>- fast growth</li> </ul>	<ul style="list-style-type: none"> <li>- to reduce the direct and indirect costs of production and then determine the mark-up</li> </ul>	<ul style="list-style-type: none"> <li>- assigning the responsibility to respective departments and company centres – decentralizing powers</li> </ul>
Company B	<ul style="list-style-type: none"> <li>- flexibility</li> <li>- skilful workers</li> <li>- satisfied clients</li> <li>- successful price strategy</li> <li>- cooperative team</li> <li>- high quality of products</li> </ul>	<ul style="list-style-type: none"> <li>- adjusting the prices to the market demands</li> </ul>	<ul style="list-style-type: none"> <li>- being on the market</li> <li>- maintaining good quality of products</li> <li>- being innovative</li> </ul>
Company C	<ul style="list-style-type: none"> <li>- good access to various markets</li> <li>- power of production</li> <li>- an acceptable level of service</li> <li>- high quality of</li> </ul>	<ul style="list-style-type: none"> <li>- based on costs of material, transport labour energy</li> <li>- taking account of different risks</li> </ul>	<ul style="list-style-type: none"> <li>- annual analyses carried out in order to make predictions on the basis of which the price is established.</li> </ul>

	supplies - constant development		
Company D	- quality - flexibility - good relations with old clients - good delivery time - good designers	- no price strategy	- the philosophy of the company is focused on providing high quality products and services

## **6. Analysis**

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*In this chapter we provide an in-depth analysis of the information, obtained during the interviews. The data is evaluated against the three study dimensions-culture, pricing approaches and supply chain practices*

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### **6.1 Analysis structure**

In order to facilitate the readability of the analysis and to guarantee better overview, the study of the empirical material will follow the chronological order of the theoretical part. The companies will be compared and evaluated against the dimensions presented in chapter 4. Depending on the degree of similarities/dissimilarities between the companies, regarding the underlying theoretical aspects, the analysis will be “compressed” (generalized) or applied on every single company respectively.

### **6.2 Some introductory words**

When analyzing Skanska’s relationships to its suppliers it is of high importance to consider the two points of view- namely those of the Swedish construction giant and its Polish suppliers. The experience from the partnership with Skanska seems to be highly positive- all the Polish interviewees agree that the work with Skanska is ‘satisfactory’, ‘contracts are never violated’ and so on. Skanska on the other hand is more critical especially to typical tendencies like the lack of planning systems, delivery times violation, no clear argumentation for certain price setting, no respect of certain contractual specifications, rigid hierarchical structures and management styles, lack of initiative, corruption. Moreover from all the information that the interviews delivered, it seems that Skanska is the party approaching the Polish way, while the opposite tendency is not quite obvious: “We need to be more Polish when we meet them even if they are open-minded” (29.11.2007). It remains questionable however, if this kind of one-sidedness is fully appropriate. Anyway, it was stressed that once the relationship is established one can expect it to be long-lasting.

### **6.3 Strengths and weaknesses of Skanska and the four Polish suppliers - overview**

Before examining in detail the main points and characteristics of Skanska’s partnership with Polish suppliers as well as the reference to the existing theory, it could be useful to compare

the general strengths and weaknesses of the two parties of our study. Polish subcontractors appear attractive and competitive mainly to the considerably lower prices of their products, their significantly shorter delivery times (3 weeks in Poland compared to 3 months in Sweden for example) , ability to “learn fast” and last but not least their flexibility. The question about what are the criteria for flexibility is very interesting. In the background of our study the concept of ‘flexibility’ seems to be present among Polish suppliers due to the dynamics of Polish market, the strive to exploit new opportunities and attract Western investors and the seemingly not so strong compliance to regulations. Self evidently this idyllic picture is opposed to a reality hiding certain risks, which were already mentioned above. However, the weaknesses of Polish contractors, looming primarily in poor organizational and information flow manageability, don’t appear as an obstacle but rather a challenge for Skanska, since the company keeps establishing new partnerships with Polish producers on and on. So, the benefits seem to dominate the difficulties and explain the rationale for the interest in this type of business relations.

On the contrary, Skanska as a partner doesn’t seem to pose so many questions and risks as long as we evaluate the information from the interviews. Its reputation, corporate culture, adaptability and correctness (appreciated by its Polish partners) function as an assurance against uncertainty and guarantee for long-term co-operation. Moreover, Skanska may function as a catalyst for improvements within the structures and practices of the Polish companies it works with and therefore develop their competitive position.

#### **6.4 Evaluation dimensions**

The selection of the four suppliers, subject of our study was made very carefully, after a lot of deliberations. The products of the four companies may not represent the whole pallet of building materials, but it is beyond any doubt that these companies are representative for the industries they operate in, and what is more important, they are supply sources for Skanska of strategic importance( according to the company). In addition, despite of being active in the building materials industry, these suppliers stand for totally different sub-markets, which makes it possible to present considerably more characteristics and trends within the construction industry in general and hence to increase the validity of our findings and the significance of our analysis.

The differences in the supplier companies interviewed, do not consist only in their activities but rather in their size, structure, managerial style and policies. Doubtlessly those dissimilarities will have a great impact on the companies' pricing strategies and co-operation approaches. While preparing the questions to be asked during the interviews, we were primarily interested in three aspects:

- Pricing strategy and price setting rationales
- Degree of co-operation and partnership with Skanska
- Cultural distinctiveness and its implication for the two aspects above

The companies distinguished in the information they provided only at first sight-to the extend, to which their relative position in the respective sub-market differs. Anyway, it is to mention that for reasons of confidentiality and sometimes specific mentality some questions could not be answered concretely. Unsurprisingly the theory did not materialize in the answers of Polish interviewees, which confirmed the truth that practice and theory are two different worlds. However, the data we collected during these interviews was very useful to obtain a picture of the aspects of our interest. Based on that, we will provide an analysis against three theoretical dimensions

- pricing,
- co-operation in the background of supply chain management and its alternatives (if any)
- culture as a challenge and an obstacle

and will try to draw conclusions on the outcomes of the interaction between those three perspectives and of course its impact on Skanska's relationships to its suppliers.

## **6.5 The cultural perspective-differences in Polish and Swedish managerial behaviour**

### **6.5.1 Hofstede and his intercultural dimensions framework**

Before presenting the cultural aspect analysis, we should make clear that we limit it to the initial four dimensions of the framework, overleaping the long-term orientation index as the one with least reference to the empirical material.

The interviewees from Skanska emphasize the high level of formality, existence of authoritarian management style, hierarchical structure, lack of self-initiative and freedom of expression by employees, working in their Polish partners' companies. All those observations are the typical indicators of the high level of power distance-one of the five dimensions of

Dutch sociologist G.Hofstede's framework (Hofstede 1980). Power distance describes the extent to which employees accept that superiors have more power than they have. According to his study Poland has 68 and Sweden 31 on the scale, where 11 are the lowest score. It is obvious that the high distance to power is deeply embedded in Polish culture and is therefore unavoidable and difficult to change aspect in business relations. Not accidentally, as it is obvious from the interviews, Skanska is the party adapting to the Polish and not the other way round.

The next point that was made during the interviews is the absence of planning systems, any kind of control over planning, permanent delivery delays and disrespect to contractual agreements. These 'weaknesses' of Polish suppliers (in the perception of Skanska of course) signify their short-term orientation in terms of fostering business relationships. Unlike Sweden with 33 points, Poland isn't even assigned a point (benchmark: the country with highest score is China, namely 108). So, here we have again congruence of theory and practice.

The model is valid also with respect to the relation masculinity-femininity. Masculinity versus its opposite, femininity refers to the distribution of roles between the genders which is another fundamental issue for any society. The majority of Polish employees, including women, agree on the importance of man dominance as a sign for 'reliability' and 'security'. Sweden on the other side is the most feminine country in the world. Hence the conflict and mistrust potential in this aspect is more than obvious.

The very high uncertainty avoidance index of Poland opposed to Sweden is surprising only at first sight. The caution of Polish businessmen, as it was pointed in the interviews with Skanska is more than obvious (e.g. only written agreements are accepted or higher managers respected during negotiations etc.) and that is actually one of the determinants of uncertainty avoidance.

### **6.5.2 Communism, transition and their impact on leadership style**

We have only mentioned some features of the "communism" concept, without presenting it broadly, since it is not the main focus of our work. Nevertheless, we should employ it as an explanatory factor in our analysis since there is hardly anybody nowadays who will reject the deteriorating impact of communism on managerial behaviour. Moreover, as a main driver of

the need for urgent political and economical transformation, it is intrinsically connected with the transition process aspect we have already introduced. It is very important to emphasize that the effects of communistic regime are being passed on to the transition process, which is doubtlessly a source of distraction for the “transformation objects”.

The excessive emphasis on central planning and on centrally assigned production goals discouraged management and technological innovation irreversibly. That development had logically immediate consequences for employees’ morale and mentality which descended considerably. Low working disciplines, lack of motivation or poor quality production were just a small part of the results. In the context of our study we would add some tendencies mentioned during the interviews like for example ‘authoritarian’ management style (nowadays managers shouldn’t be commanders any more but rather leaders), lack of initiative proactiveness, ambition to participate more actively in decision taking, short term focus and lack of any other ‘growth’ needs provided the salary is satisfactory.

In a report on the transition advance of former communist countries in 1997, the European Bank for Reconstruction and Development (EBRD) addresses ‘legacies inherited from central planning’ creating a lot of negative consequences for the adoption of market-oriented Western management approaches. Obviously the ‘old fashion’ has deep roots and significantly long period of time is needed for its extinction. In this connection is very important to mention what are the major deficiencies inherited and still posing obstacles. One of them is the need for mutual trust and effective communication between all levels of the organization. Managers should share democratic values and must be able to lead change and employees. Personal integrity, initiative, opinion and creativity should be prioritized. Last but not least transparency must be guaranteed.

An economy is said to work within a framework reflecting the values of the society in which it is embedded. There are thousands of criteria for successful development, but the ones mentioned above seem to be a ‘diagnosis’ of the situation at the contemporary Polish companies and the objects of our study make no exception. Having in mind that ‘diagnosis’- namely a country in the background of transformation, we should be able to understand the origins of ‘strange’ or even irrational managerial practices and compare them to childhood disease that needs some time to be healed.

## **6.6 The four companies in comparison against the background of pricing**

### **6.6.1 The need for price strategy-have the Polish suppliers realized it?**

It is well known that the price is a very important competitive tool. Besides, price is the only 'P' from the four 'P'-s (price, product, promotion, place) constituting the marketing mix, which generates revenue as opposed to the rest of them incurring costs. It has been emphasized often throughout the study, that the main strength of Polish suppliers is their highly competitive prices. One may ask then: are those prices the outcome of careful deliberations or rather a 'lucky' concatenation of circumstances due to the advantageous economic conditions in Poland? The theory on pricing offers a plenty of price strategies. However, the four 'players' of our study seem to make less use of the rational theory or professional market analyses than of spontaneous decisions taken by a limited number of company members. Prices are supposed to be the immediate response to market conditions. In our case, however, is questionable what do the four Polish suppliers mean by "market". Is that the customers or rather the competitors? We tend to see the second as more probable. Nevertheless, all interviewees admit the need for proficient price setting approach as well as their will to work on implementing it.

Despite the four supplier companies seem to be very similar in approaching pricing, we will devote a bit more attention to companies D and C since they represent the two extremes.

Company D is very interesting, because of two reasons-it is a small company<sup>10</sup> and it does not seem to have particular pricing strategy. The rationales for the lack of any strategy may be explained with the assistance of research, devoted to the absence of technical and professional price-setting in the background of small and middle-sized businesses. Empirical studies have proved that that type of companies base their prices primarily on costs, whereas costs are the lower limit for price and competition determines the upper limit. It is also to mention that the normal practice of setting prices according to customers' needs and evaluation of the quality of goods and services is neglected. Maybe the main reason for that is the dominant role of managers' intuition and judgement. As Watkins and Blackburn (1986) state "the founder's feel for the market may be the only guide to consumer needs," One further interesting point here is the 'observation' of a considerable number of researchers claiming that in many cases small or middle-sized businesses are not motivated to search for the optimal price,

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<sup>10</sup> We emphasize that the small size of the company, since it has important implications for the pricing strategy of the firm from theoretical point of view

guaranteeing profit maximization, but rather focused just on fair rate of profit or even conforming to the industry norms ( linked to our subject of discussion by norms we mean acceptable margin levels).

In this aspect Company B, also a small firm seems to be an ‘antipode’ of Company D. The company has not only a profound argumentation for its price setting but also reflects aspects like ‘the human factor’ and customer needs orientation, which makes it stand out compared to the rest of suppliers presented. The company competes not on price but on tailoring to customers’ expectations and thus creates a unique niche. That approach is highly progressive because it takes account of factors that do not only address immediate profit but are rather able to affect positively the company’s competitive advantage in the long run.

### **6.6.2 Price determinants**

When analysing price setting it is advisable to start with costs as the lower limit of price and respectively the cost drivers. All the interviewees agree that the main cost-incurring factors are the materials as well as the increasing costs of labour due to the shortage of skilful workforce. Materials costs are the result of effective bargaining with producers and are highly dependent on the quantity purchased. The interviews do not reveal details about purchasing specifications but we can assume the existence of unit price discounts especially when it comes to the purchase of materials like concrete, cement, wood or metal (the materials mostly used by the producers in our study.)

The common perception of price structure among all suppliers is evident- they all define their price setting approach as one depending on direct costs, competitors’ signals and a certain mark-up as a profit margin. That approach seems to be straightforward and not complicated to implement and track. Actually it refers to the cost-plus pricing technique.

However, although the Polish suppliers seem to follow pretty similar pricing model, the situation can not be generalized since there are also other aspects to be taken into account. For instance, two of the companies, namely those producing concrete elements and kitchen furniture, logically ‘suffer’ from very high transport expenses. Besides, the ‘human factor’ and customers’ expectations could also be reflected in prices. Unfortunately, only one of the companies, namely Company B, bases its prices on these factors. This fact is characteristic for

the prevailing way of thinking of Polish management as long as we rely on the data from the interviews.

### **6.6.3 Pricing tactics**

An overhasty conclusion, that the price setting methods of the four suppliers are similar or simple, can be highly misleading. If those pricing methods are put in the context of the company's economies of scale, product differentiation, capacity utilization, switching costs or the location of the product on the PLC-curve the questions 'why' and 'how' concerning prices, will receive more adequate explanations. For that reason it is advisable to tie up the existing practices at the four companies to the theory and its classification of pricing tactics (bearing in mind of course that the practice will never be a full reflection of the theory). Noble and Gurca's classification is advantageous since it summarizes the main pricing environment situations, without requiring further information (which we do not dispose of e.g. discount policies etc.) like the other theoretical pricing strategies, presented in chapter 3.

#### *Pricing according to the PLC*

Thus for instance, all four companies offer products which have already gone through the market introduction- and growth stages of the Product Life Cycle and currently belong to the mature stage. Beyond that all the companies are already established on the Polish market, present there for many years. These facts come to explain why strategies like price skimming or all other tactics of under-pricing, discounting etc. typical for new market entrants or introduction of products with high degree of innovation are not observed among the pricing strategies of the four suppliers. The logical consequence of that constellation is the lack of price transparency at the supplier companies- something that was completely confirmed by Skanska throughout the interviews.

#### *Competitive pricing situation*

If we examine pricing against the competitive environment pricing situation, differentiating between leader pricing, parity pricing and pricing according to the low-cost producer, then there is one supplier standing out as a total price leader. That is Company C and this position is quite logical, having in mind that the company has a 70 per cent market share. The other 3 companies appear to be rather 'followers' in their sub-industries. Here we can establish the very important connection between company size, market share and price setting. Size matters doubtlessly. If we have to categorize our four suppliers more precisely than we can conclude that while Company C is the obvious leader in its market and Company A with its 36 per cent

market share has relative power (after all that share is big in the highly fragmented kitchen furniture market) Company B and Company D with their small size, are forced to conform to the market.

#### *Product Line and Cost-Based Pricing?*

Unfortunately the interviews did not provide further information on product line pricing approaches, so that an analysis from such perspective is not reasonable at that stage. The fourth pricing situation, in contrast-the cost-based one- is clearly observed at all four firms and was already discussed in the previous section.

#### **6.6.4 Present tendencies and future outlook**

Undeniably suppliers have good reasons to price their products in one way or another. As we argued above, the selection for a certain pricing tactic can be tracked more easily if it is put into the context of the firm's competitive environment, capabilities and future orientation. All these aspects imply a certain degree of price planning and alignment between pricing strategy and techniques and the company's internal resources. In this connection it is of high importance to question the availability of price planning mechanisms in the case of the four Polish supplier companies. Such a mechanism presupposes the presence of careful market examination like SWAT analysis for instance or detailed customer screening and segmentation. Unfortunately the interviews confirmed our expectations-namely the degree of professional approach to what is being seen rather as a routine in more advanced economies, turned out to be somewhat low. The only exception makes Company B, as already mentioned, which tailors strategies to different customers segments and generates new strategies from customers' requirements. Thus, we encounter once again the 'phenomenon' already observed in the case of Company D-the considerable extend of intuitive and sometimes spontaneous way of management as well as decision making based primarily on individual perceptions and judgements rather than on extensive discussions within teams of experts and analysers, aimed at diagnosing weaknesses of existing pricing behaviour and leading effective change. The evident lack of such practices increases logically the degree of uncertainty and the presence of transparency 'deficits'.

However we should admit, that despite of the poor planning mechanisms at the four supplier companies, they manage ( to some extend purposely, to some not) to decrease the Total Costs of Ownership, by shortening considerably the time horizon of delivery.

Nevertheless, we have already sketched the cultural, economical and historical context of the Polish supplier companies and compared the negatively nuanced tendencies to a ‘childhood disease’. The noticeable co-operation strives of Polish suppliers, stated often throughout the interviews, and the resulting mutual benefits seem to be a very persuasive motivational factor, which on its turn is an important precondition for progress and positive change.

### **6.6.5 The supply chain**

In the theoretical part of the study we assign a considerable part of our attention to the nature of supply chains, Supply Chain Management (SCM) and related theories, devoted to improvement of the competitive position of a firm through an optimization of the production, information and communication flows throughout the supply chain. In order to be able to obtain a deeper insight in the relationship supplier- buyer, we should not forget that they do not operate isolated from the outside world, but rather the opposite way-they depend considerably on other external factors like raw materials suppliers, production schedules or logistics networks for example. The more ‘external’ those factors are, the more difficult it will be for any supplier to run any kind of business, to be competitive and to be able to maintain long-term relationships to buyers. Therefore the need for ‘internalization’ of these issues seems to become a stringent necessity. Under internalization we do not mean verbatim vertical integration, which will doubtlessly assure control over contingencies. The degree of uncertainty can be decreased significantly by effective communication and establishment of partnerships as well.

So, the next natural step of our analysis should be to check to which extend such practices are being made use of by the four Polish supplier companies. Somehow or other, we have addressed this question before and have even given answers indirectly by some issues already mentioned or discussed in the previous sections. Despite of that, it is worth examining more concretely how the supply chain is designed and facilitated by the four suppliers. In addition, the noticeable impacts on the cooperation with Skanska as well as the other way round-Skanska’s influence on suppliers’ SCM-policies (if any) are of particular interest for our work.

## **6.7 Comparative characteristics of the four suppliers and Skanska**

The theoretical part presented the main requirements an effective supply chain poses. The findings concerning the nature of the relation Skanska-suppliers imply a satisfactory level of cooperation, which is also admitted by the interviewees. The concept of 'cooperation' however, presupposes working in common with mutually agreed-upon goals. The clear definition of goals doesn't necessarily prevent from conflict of interests and maximization of objectives, different from the agreed-on ones. The interviews did not provide any explicit information on discord of that kind. The most serious concern of Skanska-permanent delays in delivery-does not appear to be the consequence of the 'agency problem', but rather of poor organization. Beyond that, if this problem was seriously present in the business relationship of Polish suppliers to Skanska this would have negative impact on the quality of products, which, provided we rely fully on the data from the interviews, has not been an issue. Nonetheless, we are aware that without knowledge of the concrete incentives and mechanisms Skanska and its suppliers make use of for goals alignment, the validity of our claims is limited.

Company A, with its 36% market share in a highly fragmented market consisting primarily of micro or small subjects, should be relative big player. This, in turn, presupposes a high level of business activities dynamics and therefore high level of learning and adoption of new and more advanced approaches. Despite of that, the representatives of the company state explicitly that they 'suffer' from the lack of smooth information flow, limited access to computer data and poor coordination of trade and production entities. The will to cooperate, develop and learn, however are in place.

Although a small firm, Company B seems to be quite advanced regarding its relationships to suppliers. The company has realized that in the unpredictable and changeable concrete and cement market intensive cooperation and partnerships with suppliers is a stringent necessity. For that reason, at present, the company has made its suppliers 'confederates', so that Company B is always informed in advance about every new trend or change in the market, especially price changes.

Company C, which is almost a monopolist in its market, also does not seem to have an advanced supply chain system. However, it stresses the vital role of suppliers and the importance of their careful selection. The company claims to have very good suppliers, very good relationships to them and permanent development initiatives. Besides, Company C has

an access to a number of foreign markets and is also opening its first production plants abroad. All these points come to allude to a certain degree of integrity, coordination and planning advance.

Company D appears as the company suffering most of the lack of network integration. In spite of that fact, the metal elements producer states its good delivery times as one of its main strengths. It is questionable how exactly this result is being achieved.

### **6.7.1 The triple A-agility, adaptability, alignment**

Since we will turn to the concept of Supply Chain Management often, in the effort to check to which extend it is applied by the four companies, subject of our study, it is advisable to verify if the three main prerequisites for its efficient functioning are in place in the four Polish suppliers. These are namely agility, adaptability and alignment. We will rather concentrate on the first two, because the last concept was already addressed.

Agility refers to the ability to respond immediately to changes or new requirements and necessitates the availability of special backup plans or strategies for bottleneck prevention. Adaptability in turn, represents the capabilities of firms to notice trends and to respond adequately to structural shifts in demand for example. The Polish supplier companies seem to fulfil the second requirement (that is one of the main reasons they are preferred by Skanska; the term 'flexibility' was used quite often throughout the interviews). As opposed to that positive finding, the picture does not look so 'idyllic' in regard to the concept of agility. If the suppliers were agile there should not be any delivery delays for instance. And of all things Skanska experience the permanent inobservance of agreed-upon terms as the major source of problem. Thus, Polish suppliers seem to oscillate between the old way 'old fashioned' way of working and the more advanced one.

If we oppose the information we have collected and sketched about Skanska's Polish suppliers, to the existing theory in this aspect, as well as the long-year practices of the majority of successful and profitable companies, one can easily infer how much way should be gone by the four companies. All of them underline good relationships to suppliers as their strength, without recognizing that this is not seen as strength any more but as an obligatory precondition. Moreover, all the 'strengths' listed by the companies' representatives are only separate elements of what should be a supply chain system or management. The way of

thinking we are witnesses of, is a sign for an inability to recognize the importance of the 'long run' as vital.

In the current state of economic affairs, where globalization is the prevailing determinant, the underemployment of information technologies and data exchange is absolutely inadequate and even unforgivable. Not only costs are reduced dramatically, but business partners (suppliers, logistics networks etc) are selected more optimally as well. The integration and internalization of these elements is the next step to be taken by the Polish suppliers presented. In this regard the cooperation with Skanska, a company with broad experience, successful development and very promising future perspectives presents itself as a catalyst for these processes.

## **6.8 Supply chain management**

The management of business relationships can not be always appropriate in all circumstances for all parties involved. A smooth mutual support is a stringent necessity for the management of the whole system of organizations, people, resources, information and activities while transforming raw materials into a finished product and moving it from the supplier to the end consumer. It is beyond any doubt that cooperation and effective supply management are inextricably connected. So, after analyzing Skanska's relationships to its suppliers against the backdrop of pricing policies, it is time to study how production, information flow as well as mutual learning are handled by the two parties.

### **6.8.1 The need for competences**

The most important prerequisite for the establishment and maintenance of cooperative way of working is the availability of competences for that. Such kind of competences can be developed primarily owing to extensive experience in this area. The experience of Skanska is beyond any doubt-the company is operating and sourcing internationally for many years. On the other hand, we do not have so much conclusive information about the four Polish supplier companies. Nevertheless, one can assume that in the context of increasing globalization and Poland's accession to the European Union more and more opportunities present themselves, which in turn implies some degree of 'familiarity' of the Polish supplier companies in question with that type of business affairs.

### **6.8.2 The roles allocation-proactiveness vs. reactiveness**

What is making itself conspicuous throughout the interviews is the very strong will of Polish suppliers to cooperate with Skanska. We will not pore over what they understand under

‘cooperation’ since Skanska seems to accept it; moreover the answers of the interviewees give the impression that Skanska functions as a ‘mentor’ or a ‘guide’ in the process of cooperation and learning. That means that the ‘roles’ in the relationships are already assigned and each party has agreed to act and produce results according to the requirements of these ‘roles’ so that the two sides involved are able to go successfully the way to the point where they ‘meet’, interact and bring into being beneficial outcomes. In addition, this unwritten agreement seems to be made democratically, without feeling of disadvantage.

The next observation, which is in a very close connection to what was just claimed, previously, is the fact that Skanska is the ‘more initiating’ side. There should be no confusion when discussing initiative, because unfortunately, very often it is associated with pure imposition of requirements. If we try to summarize Skanska’s position, based on the information we obtained from the interviews, the most important finding doubtlessly is, that the Swedish construction giant seems to be a proactive buyer in its approach to its Polish suppliers. That means that it aims at making its relationships to suppliers highly collaborative and long-term oriented. In our case Skanska’s ‘policy’ to initiate is a stringent necessity and the result of the proactive approach, focused on supplier development. As an illustration of the strong need for an initiator in the supplier-buyer relationship, we can take one statement, made during the interviews and bringing to light a very important characteristic of ‘the Polish way’, namely:

*‘Polish people are not willing to express their opinion even if they are asked to (...) we would like to improve that; we would like to have very open conversation (29.11.2007)’.*

It is clear that the difficulties in expressing opinion are an indicator of difficulties in proposing and leading change, whereas change is the only way to improvements and optimization. At this stage it seems reasonable to try to explain why Polish managers and employees behave somewhat passively. Is it national mentality, lack of motivation, lack of self-confidence or Skanska’s dominance that trigger it? None of the representatives of the Polish supplier companies raised the question of extremely asymmetric power relations. Besides, our analysis also comes to confirm that. Therefore we can exclude this option. Lack of motivation also does not seem very probable since the work with Skanska is a very profitable opportunity for a number of reasons. So, then the logical conclusion we can draw would be that passivity and even shyness are cultural phenomena which can be eliminated in a longer run, with profound understanding of the problem and with trust in the partner on the other side.

## **6.9 Kraljic's framework**

### **6.9.1 The four suppliers**

Before the interviews with Skanska and its Polish suppliers took place, we were very interested in how the building materials, purchased by the company can be categorized according to the matrix model of P. Kraljic. Skanska restricted the choice of suppliers (products respectively) to four as ones of high importance for the company and representative for their sub-markets. As we expected we could not obtain concrete categorization of these products from Skanska, so we started our deliberations on where purchases should be positioned on the matrix. Of course we will made the limitation that without deeper knowledge of the four markets the supplier companies operate in, our categorization of the products may not reflect the actual situation fully. An analysis of 'why' and 'how' cannot escape the question of bargaining power of suppliers and buyers. Deplorably, the interviews do not enlighten this aspect. We can only speculate which of the suppliers could exercise more power during the negotiations. According to the categorization we have made in the previous section, one can assume that Company C as by far the biggest supplier in its market, will be in a significantly more favourable position than Company D or Company B for instance. Anyway, no company expressed any bothers about asymmetric relations to Skanska, which should be also taken into consideration. In the context of all these deliberations we suggest a classification looking as follows: first we excluded the category of non-critical items, since none of the four suppliers seem to offer such kind of product. Taking account of the fact that Company C is the biggest player in its market and therefore has substantial influence over it, one can think of it as a supply risk, since alternative suppliers are more difficult to get hold of. Company A on the other hand seems to offer leverage product, since there are a lot of other suppliers on the market and the buyer can exercise full purchasing power; besides the switching costs should not be so high. The same argumentation appears reasonable when categorizing the products of companies B and D.

<p>Leverage Items</p> <p>Company A      low supply complexity                          high profit impact</p> <p>Company B      <b>Materials management</b></p> <p>Company D</p>	<p>Strategic Items</p> <p style="text-align: center;"><b>Supply Chain management</b></p>
<p>Non-critical items</p> <p style="text-align: center;"><b>Purchasing management</b></p>	<p>Bottlenecks</p> <p>Company C      high supply complexity                          low profit impact</p> <p style="text-align: center;"><b>Sourcing management</b></p>

**6.9.2 Skanska and Kraljic’s framework**

It is beyond any doubt that purchasing management is well integrated in Skanska’s strategic direction. The company sources globally, makes careful supplier selection, maintains potential supplier base, cooperates with their suppliers, promoting mutual trust and learning, acts proactively with the aim to improve suppliers’ performance in terms of quality, prices and delivery times. However, we do not think it is following Supply Chain Management policy in its relationship to the four Polish suppliers, presented in our paper. The theoretical part emphasized that Supply Chain Management is a very advantageous approach, but unfortunately, very difficult to implement due to its significant resource intensiveness. Moreover, it is appropriate when commodities of strategic importance are concerned, which obviously is not the case here.

Evaluating Skanska’s approach to purchasing, according to the model of Peter Kraljic, the company seems to be engaged in materials management, concerning their relationships to companies A, B, D since it seems, that they offer a leverage product and we have already explained what that type of commodities imply; regarding the work with company C, Skanska appears to be engaged in sourcing management. However, we would like to emphasize once again, that without having further information about the negotiation practices between the two parties, as well as data about the respective sub-markets of the four companies, our claims have limited validity.

## 7. CONCLUSIONS

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*This chapter is a summary of the findings we have obtained during the analysis of the empirical material.*

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Our research was aimed at studying the major determinants of business decision-making within the globalizing economic environment of Europe and particularly at the relationship between Skanska, a Swedish construction company and four of its major suppliers.

In the first chapter of this study we outlined three sub-purposes. First of all, this paper focused upon developing an in-depth understanding of how Skanska cooperates with its Polish suppliers. From the empirical and analytical part of the study it is obvious that Skanska's relationships with their Polish business partners are complicated and cannot be judged unequivocally. Skanska is faced with the need to manage a relationship that successfully juggles between evident cultural differences which are simultaneously opportunity and a threat and come to light especially when it comes to issues like pricing or supply chain management. At the same time the Polish suppliers are also seriously challenged by two extremes: the communistic regime heritage, still influencing significantly both management and workforce mentality and the need and efforts to meet the high requirements of the "New Time" and the "West" materialized in Skanska. These findings seem to suggest that the cultural factors may play a larger role in determining strategic choices than what might be expected, because it is exactly these cultural characteristics that define ingrained behaviours that are often repeated (particularly by the suppliers). Thus, the buyer-supplier relationship presented in our paper can be metaphorized as a line, from which two "ends" Skanska and their suppliers respectively, are approaching the middle of the same line, coming closer and closer to each other, due to mutual support and in spite of the "hurdles" on the way.

The second and the third sub-purpose of the study are directly connected to the first one, namely to identify the advantages and disadvantages of that partnership in terms of the cultural factor, pricing and supply chain policies and to which extend (especially concerning the supplier side) that policies are adequate. In order to summarize our findings in that regard,

we will follow the chronological order we made use of, in the analytical part and corresponding to the tree evaluation dimensions, presented in the purpose: pricing, supply chain practices and culture.

## **7.1 Price strategy**

The study of Skanska helped to illuminate some of the most important elements of a successful building company within the industry and economy of Poland. Price planning and pricing decisions constitute one of the most important elements in industrial marketing. Therefore, they should be put at the core of every business plan. Its influence seems to be obvious, as it has an impact on the critical components of particular companies' marketing strategies. Unfortunately, regarding the four supplier companies, that important requirement is met only partly and even the ability to offer very attractive, low prices, cannot compensate for the disadvantages, arising from the "not so professional" approach to price planning. For exactly that reason this issue was one of the most often mentioned ones during the interviews with Skanska.

Pricing decisions are influenced by many factors in Polish companies, not only such as cost of material or the market but also mentality, or in other words the cultural factor. Unfortunately, as far as Polish companies are concerned, the majority of suppliers seem to neglect price planning. Having an effective price strategy is a complex task and requires much effort and skills from different people, which appear to "scare" the objects of our study. First of all, a general marketing and pricing plan include typical elements such as, various sorts of analysis (SWOT), an overview of the current market pricing situation, the already established pricing objectives, pricing programs and various monitoring mechanisms.

Polish suppliers lack all of them frequently. Moreover, they often establish prices spontaneously, without any predictions for the future. One of the most striking examples is the company, pointing out the market as playing the vital role in shaping the prices, but making no annual analyses in order to make predictions. Thus, there is an apparent need to improve that area by Polish suppliers who seem to be successful at the moment, but without the development of comprehensive pricing plan that position in the long run seems highly questionable.

Regarding their pricing strategies, the different suppliers present different price determinants. While all of them stress material cost as the lower bound of prices, issues like risks, ‘the human factor’, customers expectations or innovation are already recognized as an important determinant and reflected in prices. So the conclusion that can be made at first sight is that the four Polish suppliers seem to price rather, intuitively, spontaneously and chaotically. Thus, their price setting policies appear to be a haphazard process, which is evidently an obstacle for Skanska. Nevertheless, all of the four supplier companies not only show respect to their relationship to Skanska but also strong will to adopt patterns from the construction giant, which is an indicator for positive future development based on learning. That seems to be very strong motivational factor for the Swedish company; otherwise it would not keep on working with Polish suppliers.

## **7.2 Supply chain**

Regarding the three important requirements any effective supply chain should meet—agility, adaptability and alignment, the four supplier companies seem to be only partly “familiar” with them. While their adaptability seems doubtless, one can not say the same for their agility—unfortunately rather the opposite. The promotion of smoother information flow, the development of collaborative relationship with clients and reliable logistics system are only the beginning but still not enough to guarantee flawless service and relationships to buyers. Concerning the question of adaptability, most of the companies seem to meet this requirement as they appear flexible enough. It is to mention, however, that they achieve this, without professional approach but rather intuitively.

Another important issue is that some of the four companies have already started evaluating needs of consumers and creating flexible product designs. However, the majority of suppliers do not determine where their products are positioned in terms of technology cycles and product life cycle. Moreover, a factor that can trigger the failure of the supply chain practices is the lack of clear definition and allocation of responsibilities, when it comes to risks, cost or improvement gains sharing.

Nevertheless it is to mention that the Polish suppliers manage to reduce significantly the TCO due to competitive prices and especially much shorter (than in Sweden for instance) delivery times, which despite all the criticism, is a serious competitive “tool”.

### **7.3 The cultural factor**

It has been observed many times throughout the study, that the difference between Polish and Swedish cultures influences the business relation significantly. The differences observed were discussed against the model of Hofstede, which highlights four cultural dimensions that help to predict and explain variations.

Skanska recognizes and seeks to work with some of the important cultural characteristics. Highlighted factors include:

- little flexibility as far as the attitude towards professional pricing is concerned
- different views on what is cheap and what is expensive
- little creativity
- very hierarchical relations – different view on leadership
- vulnerability to corruption
- different behaviour style in terms of male – female and management - workers relations
- greater attachment to the significance of written agreements

The obvious lack of planning or control over production are only a simple example, showing the conflict. That produces several risks despite such advantages as flexibility, quick reaction, better deliver time, and better production power.

Although the representatives of the Polish companies have not expressed any concerns regarding the obvious difference in mentality, it is noticeable that they do not accept it; otherwise they would be the party that adopts the ‘Swedish way’ and not the opposite. Besides, they would be able to trust more informally dressed business partners or unwritten agreements. Skanska, on the other hand had recognized the need to be ‘more Polish’ and the importance of seeing cultural ‘conflicts’ not only as an obstacle, but as a challenge and even opportunity. Anyhow, the company can not be indifferent to the lack of initiative and creativity, authoritarian managerial styles, corruption or permanent delivery delays. Of course one should not forget that the Polish mentality can be also seen as an ‘inheritance’ from previous political and economic regime and can be compared to a ‘childhood’s disease’ that takes certain period of time to be treated. Skanska appear to understand that, otherwise they would not ‘invest’ in their relationships to Polish suppliers. Moreover, as it was stated in the interviews, once it is established it can keep long time.

## **8. Further Research and Theoretical Deliberations**

Although we tried to provide an extensive analysis concerning Pricing, SCM and cultural differences, we are aware that these are by far not the only aspects in a buyer-supplier relationship. Our paper (especially the empirical material) raised a lot of questions, which can be the base for further studies in that area. We have “touched” the problem of development and mutual learning and we would be significantly interested in a more specialized study of that subject. Is for example the one sidedness in approaching foreign national culture appropriate (at least in our study the Polish do not seem to be interested in learning and understanding Swedish culture, while the opposite is quite obvious)? The question about the incentives and determinants of learning in a relationship, where one of the partners is an object to a dynamic, less regulated but fast growing economy ( the markets from Central and Eastern Europe for instance), is a very challenging one. Another thought of line could be the impact of the shortage of qualified labour force (due to mass emigration) on companies’ competences and strategies.

## **APPENDIX - Interviews and Questions**

### **Interviews with Skanska suppliers:**

Company A: 26.11.2007, Export Director

Company B: 28.11.2007, Marketing and Sales Director

Company C: 30.11.2007, Area Export Manager

Company D: 3.12.2007, Owner

### **Questions to Skanska's suppliers**

- Can you describe the market that your company is active on, its structure and characteristic?
- What is the size of your company, number of employees turnover?
- For how long have your company worked together with Skanska?
- What is your company philosophy, mission statement?
- What is your most important product/service?
- How large part of your business is accounted by service/ production?
- What is the position of your products on the Product life cycle, PLC?
- How do you perceive your position as supplier in relation to Skanska?
- How do you comprehend the changing prices on the building market in relation to: The entrance to EU, Euro 2012 and the infrastructural requirements?
- Do you receive benefits/ subsidies from the government or EU?
- Do you perceive yourself as a price setter or price taker? Does the negotiation of price result in price reduction?
- How much time do you spend on price strategy?
- Do you perceive price strategy as important part of managing your business?
- How many employees are involved in price setting and strategy?
- Who is responsible for establishing price (Sales Director, Marketing Director etc.)?
- Who is responsible for price calculation in your company?
- Do you have a price strategy?
- Do you apply economies of scale?

- Do you use your price policy as a tool in creating a distinctive image for your company?
- What is the influence of your suppliers on your price strategy/ policy?
- What is the influence of your competitors on your price strategy/ policy?
- What are the main elements that constitute the price of your products?
- Can you describe your price calculation and price creation process (with regard to material, work, transport, profit, risk)?
- Can you describe your discount policy?
- Would you like to have a joint price policy together with Skanska?
- Do you use any computer aided programs in the process of establishing prices?
- What is the most important experience from the collaboration with Skanska?
- Are you trying to incorporate the value created by the company with the aid of price policy?
- Do you incorporate environmental impact into price strategy?

## **Interviews with Skanska Procurement Division Poland:**

Skanska 20.11.2007, Charlotte Olofsson, Procurement Manager, Katarzyna Sułot, Procurement Specialist, Łukasz Kozerski, Procurement Coordinator, Krzysztof Biłozór, Procurement Coordinator, Iwona Hutyra. Procurement Coordinator

Skanska 21.11.2007, Charlotte Olofsson, Procurement Manager

Skanska 22.11.2007, Krzysztof Biłozór, Procurement Coordinator

Skanska 22.11.2007 and 21.11.2007, Łukasz Kozerski, Procurement Coordinator

Skanska 23.11.2007, Krzysztof Biłozór and Łukasz Kozerski Procurement Coordinator

Skanska 29.11.2007, Charlotte Olofsson, Procurement Manager

### Skanska Sweden AB, Procurement Division Poland

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Katarzyna Sułot, Procurement Specialist

Krzysztof Biłozór, Procurement Coordinator

Łukasz Kozerski, Procurement Coordinator

## **Questions to Skanska**

- How many suppliers do you have?
- Who are your key suppliers and why?
- Why do you choose Polish suppliers?
- What other countries do you source from to Sweden?
- Do you make use of single, or multiple – sources?
- How often do you change your suppliers?

- What are your supplier selection criteria – price, quality, size, logistics, technology, green materials?
- Do you let suppliers compete for deliveries?
- Do you have a supplier improvement program?
- What means of motivation do you have for your suppliers, rewards – reprimand?
- Do you suffer from information asymmetry?
- Do you support the idea of price partnership?
- What do you regard as the major risk with Polish suppliers?
- How does your price policy look like? Do you feel pressured from your suppliers and competitors? How is your position towards your suppliers?
- What are the most important components that affect the price setting in your business?
- Do you focus on the current price of material or on its total value?
- Do negotiations with your suppliers often lead to price cuts?
- Do your suppliers change their behaviour after developing closer relationship with you?
- Would you like to have a joint price policy together with your suppliers? Do you think it's possible?
- What are the advantages/ disadvantages of an economy in transition?

**Supplier behaviour questions:**

- Are your suppliers actively seeking solutions or just following what they are told?
- Do you perceive a difference in communication with Polish suppliers in comparison with Swedish?
- Do you use the Swedish communication style or adapt to the Polish way?
- How do you perceive the Polish leadership difference in comparison to Swedish?
- Is there certain leadership behaviour within the construction business that is specific for the industry?
- Is there any unspoken code of conduct concerning price negotiations?
- How is your perception of time delays concerning your suppliers in Poland?
- How is your perception of title and approachability concerning your suppliers in Poland?
- How is your perception of making new contact with new suppliers in Poland?
- What is your perception of Polish supplier attitude towards authority?

- What is your perception of Polish supplier attitude towards green materials?
- What have you learned from your Polish suppliers and what would you like to improve?

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