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# **The Influence of Internal and External factors on the Supplier Selection**

A study in the Swedish Furniture Industry

Master Thesis in Business Administration

Authors: Nikolaos Chatzidakis

Adilson Leite Cancino

Tutor: Henrik Agndal

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Adilson Leite Cancino

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Authors:	Nikolaos Chatzidakis Adilson Leite Cancino
Tutor:	Henrik Agndal
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### Abstract

Sweden has a global reputation of producing exquisite and functional furniture, and the Swedish industrial design is internationally well-known. The supply of materials is necessary in every company and purchasing is responsible for coordinating and organising the supply. The materials purchased from vendors become one of the most strategic parts of the final product quality in order to reduce complaints and additional costs generated by low quality of materials. Supplier selection plays a vital role in any company as it represents a significant production of the unity prices as well as enhances organisational price competitiveness. It is essential for companies in the furniture industry and from other industries to take into consideration the internal and external organisational factors that reflect on the supplier selection process to remain competitive and to gain competitiveness before choosing potential vendors.

The purpose of this thesis is to analyse how the internal and external organisational factors are reflected in the supplier selection criteria in the Swedish Furniture Industry. The combination of the two theories in the frame of reference, namely supplier selection process as well as internal and external organisational factors were utilised in order to accomplish this purpose.

This paper is based on the use of a multiple-case study, including six organisations or cases. The type of interview relevant for this research is the “unstructured interviews” as they are informal and are used to explore in depth a general area in which the researchers are interested, also referred as “in-depth interviews”.

One of the main outcomes found after analysing the theoretical framework and the gathered data is that quality and delivery time are heading these companies’ ranking lists affecting directly their supplier selection. Another outcome verified by the researchers of this paper is the fact that the case study companies present a decentralised approach where the purchasing departments have a total independence with regard to day-to-day supplier selection decisions. A third outcome found is that the case companies are collaborating with both national and international suppliers where all the relevant international vendors are located in Europe as companies are prioritising geographical location of their suppliers. The final outcome highlighted is the fact that economic factors do not have a relevant influence on supplier selection decisions, as it was found out in the conduction of this research.

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# I Introduction

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*This chapter provides the reader with the background and problem discussion of the study. Furthermore, it presents the formulation of the purpose and the research questions. Structure is presented at the end of this chapter.*

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## I.1 Background

Sweden has a global reputation of producing exquisite and functional furniture, and the Swedish industrial design is internationally well-known. Simplicity, sustainability and time-less quality are the essential values for the Swedish furniture industry (TMF, 2012). The globalisation is provoking changes in the structure of labour intensive industries such as the furniture industry (Ueanet, 2012). The everevolving context brings forward the level of competition: the success of an organisation does not only lay on the management of core activities, but also on supply relations and management. Thus, upwards and downwards the supply chain, a furniture firm must manage relationships with clients and suppliers (Ueanet, 2012). The supply of materials is necessary in every company and purchasing is responsible for coordinating and organising the supply (Monczka, Handfield, Guinipero, Patterson & Waters, 2010). That is to say, purchasing plays a vital role within every organisation by connecting them and simultaneously provides the flow of materials through supply chains. This function focus on obtaining the right product, at the right price, in the right quantities, and at the right time. Furthermore, purchasers are aiming at acquiring the most convenient supplies of raw materials at the best price (Brink & Berndt, 2004). In order to maintain such reputation, buyers from Swedish furniture companies face constantly the challenge of purchasing the most appropriate raw materials from the most suitable suppliers to contribute to the maintenance of their competitiveness in the market.

Langley, Coyle, Gibson, Novack and Bardi (2008) point out that many managers of leading companies have recognised the key role that purchase plays in supply chain management and that supplier-vendor relationships are a fundamental part of this process. In furniture manufacturing, as well as in other industries, the materials purchased from vendors become one of the most strategic parts of the final product quality in order to reduce complaints and additional costs generated by low quality of materials (Gonzalez, Quesada & Monge, 2004). For instance, furniture companies that manufacture chairs may have returns of raw material ranging between 50-70 per cent, which makes purchasing decisions a fundamental aspect of profitability (Gonzalez et al., 1994). Thus, inappropriate decision making regarding acquisition of supplies of raw materials might affect the production process and consequently the final product leading to customer dissatisfaction. Monczka et al. (2010) highlight the importance of purchasing by affirming that it influences broader the performance of an organisation. If purchasing is inaccurate, materials do not reach their destination or the wrong materials are delivered in an incorrect amount and with poor quality. However, a well performed purchase may provide the organisation a significant competitive advantage. In order to achieve a well conducted purchase buyers do not only have to select the most appropriate supplier based on multiple criteria, but also take into consideration internal and external organisational factors.

Ting & Cho (2008) state that supplier selection plays a vital role in any company as it represents a significant production of the unity prices as well as enhances organisational price competitiveness. According to Langley et al. (2008) the most vital factor in supplier selection is usually quality; the second and third criteria for the majority of purchasers are reliability and performance history. Thus, purchasers must catalogue potential suppliers, evaluate them, reduce the list to a reasonable shortlist and pinpoint the best supplier for a par-

ticular order (Monczka et al., 2010). In order to choose the most suitable vendor in the furniture industry it is essential to make a trade-off between tangible and intangible factors, some of which may conflict (Gonzalez et al., 2004). Hence, it is essential for companies in the furniture industry and from other industries to analyse the internal and external organisational factors that reflect on the supplier selection process to remain competitive and to gain competitiveness.

## **1.2 Problem Discussion**

Organisations have augmented their level of outsourcing and are focusing more deeply on their supply chain as a source of their competitive advantage. Therefore, deciding which suppliers to involve in the supplier chain has been taken more and more into consideration as a strategic key (Choi & Hartley, 1996). As the number of outsourced activities has increased in organisations, companies must be aware of external and internal factors that may affect their supplier selection and their competitiveness. Thus, in order to succeed in the selection of suppliers, it is necessary for companies to have a complementary alignment among the internal structural aspects of the organisation. Factors such as task specialisation, technology, span of control, size and responsibility of the administrative function, levels of hierarchy and integration, need to have a high degree of balance among each other (Johnson & Leenders, 2006). On the other hand, international competition, the search for competitive advantage and more demanding final customers in a constantly changing environment, obligate buyers to secure products on the most competitive terms available (Donaldson, 1994). Furthermore, Azadegan (2008) mentions the supplier integration only brings benefits to the manufacturing company in case a fit between one organisation's needs and another's resource requirements exist.

The manufacturing of furniture is an activity with the long tradition in Sweden. Recent research on Swedish furniture industry (TMF, 2012) shown that business trade held up well in 2011. Such expansion has occurred in a year in which large parts of southern Europe's furniture production were badly hit by the economic crisis. The Swedish furniture exports was estimated at 15.7 billion Swedish Krona for 2011 and the main markets remain Norway with a share of 33 per cent, followed by Denmark 11 per cent, while Germany maintains its position as the third with a total of 10 per cent of Swedish exports. Swedish furniture also exported mainly to EU countries as well as to Asia and the United States. For years, China's furniture exports have increased very sharply, which is obviously a major challenge for the Swedish producers. In 2011, the Swedish import was at the same level as for 2010, resulting in a better trade balance. In order to maintain its position and strengthen its competitiveness, the Swedish furniture industry is working with innovation and design, and to be a leader in areas such as quality, environment and social responsibility. In order to maintain this growth and development in the industry, it is important for the companies involved in this market to take into consideration how internal and external organisational factors impact on the supplier selection process before choosing potential vendors.

## **1.3 Purpose of the Paper**

This paper has the purpose to analyse how the internal and external organisational factors are reflected in the supplier selection criteria in the Swedish Furniture Industry.

## **I.4 Disposition of the Paper**

The presentation of this study is divided in six chapters.

The first chapter - *Introduction* - begins with the background to the subject of interest together with problem discussion and finishes with the purpose of this thesis.

The second chapter - *Frame of Reference* - presents the theory related to supplier selection criteria as well as to internal and external organisational factors. This chapter ends with theoretical synthesis and the research questions of this study.

The third chapter - *Methodology* - covers the structure of this paper and the type of research method selected. It also presents methods for gathering and studying theoretical and empirical data as well as validity and reliability.

The fourth chapter - *Empirical Data* - provides the outcomes from the six interviewed managers representing case companies.

The fifth chapter - *Analysis* - discuss the findings from the interviews and theoretical framework by combining their outcomes.

The last chapter - *Conclusions* - presents the results obtained through the analysis of research questions of this paper. Future research provides suggestions for further researches related to the supplier selection process.

## 2 Frame of Reference

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*This chapter has the purpose of presenting the most important criteria conducted by organisations when selecting suppliers (see 2.1). The overall argument is that these criteria should reflect certain internal and external organisational factors (see 2.2). At the end of this chapter, a theoretical synthesis will be presented (2.3). This generates four research questions (2.4) concerning how these selection criteria reflect internal and external organisational factors.*

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### 2.1 Supplier Selection Process

In order to provide the reader with an overall comprehension, a more complete explanation regarding supplier selection processes was included in this section.

According to Leenders and Fearon (1997), the evaluation of the potential supply sources must respond two issues. That is to say the competence of the supplier in following the requirements imposed by the purchaser in the short-and long-run, as well as the supplier motivation in serving these requirements. If there is a lack of motivation by the supplier, a partnership will not exist between both parties.

When it comes to a decision of source of supply, three processes need to be taken into consideration: selection, evaluation and development of the suppliers (Ellram, 1995). The development of a supplier is a situation that the buying organisation has clear interest in insertion and conservation of a certain supplier as part of its supply chain. Therefore, there is a strong desire in improving the performance and abilities of the established supplier, including the commitment of human and financial resources from both parties (Leenders & Fearon, 1997). The main aspect found in the supplier selection process is the presence of criteria that search for an identification of characteristics that contribute with the elaboration of the profile of the supplier and after that the source of supply is selected. The implementation of each criterion is strongly related to a buying specific situation, e.g. the type of desired relationship and the sort of product to be acquired (Kannan & Tan, 2002).

To sum up, the supplier selection is a process that, if implementing the appropriate selection criteria, can introduce compatible suppliers that will fulfil the expectations desired by both parties.

#### 2.1.1 The Identification of the Sources of Supply

The identification of the possible sources of supply is a market research process where the responsible for the activity searches for information about organisations that have potential to commercialise the item to be acquired. There are several tools that can be used to identify the most appropriate suppliers. Steele and Court (1996), and Monczka et al. (2010) highlight a list of such tools:

- *Catalogues, trade journals or magazines*: Usually possess a presentation of the supply company, which lines of product are commercialised and some information such as technology and location. Suppliers also utilise trade journals to market their products and service. The magazines can be accessed by subscription in the most cases.
- *Trade directories*: As their role is to connect companies by sector, they maintain in their database register of important possible suppliers, including in many cases financial information, size, number of employees and traded brand names.
- *Yellow pages*: Are very common when it comes to identifying the sources of supply, since there is a telephone list attached by product and service type. The drawback

regarding this source is that only basic and local contact information of companies is presented.

- *Sales representatives*: Offer all buyers sales and marketing information and can be valuable source of information about potential sources. A visit to a purchaser's office might reveal a set of drawers that contain information about sales and marketing.
- *Trade shows*: Generally regional or sectorial, fairs and expositions represent an excellent source of information about certain market by bringing together several supplying firms at one time. The great advantage of fair and expositions is that apart from enable the product lines and sales professionals to become known, the atmosphere of these types of event are appropriate to begin an interpersonal relation between buyers and suppliers.
- *Internet*: another important source of information, the World Wide Web has the advantage of being one of the tools with a broad database that does not force purchasers to move from their workplaces to another location. As the internet usage has become more intensified lately, companies have been giving more focus on providing a more pleasant navigation.

After identifying sources of potential supplies, the list of promising suppliers must pass through a pre-evaluation in order to become more practical so that the process can be continued. The expected result of this activity is a more shaped list with an identification of suppliers whose profiles are compatible with the analysed buying situation. The next stages will be then the supplier selection.

### **2.1.2 Supplier Selection Criteria**

Several successful organisations recognise the important role that procurement plays in the supply chain management and supplier-buyer partnership are an essential part of successful purchasing process. This strategy is to use reduced number of vendors in order to acquire an appropriate supply of quality materials over time at an optimum cost (Langley et al., 2008). In the process of supplier selection, both parties must be motivated in order to make the process succeed (Steele & Court, 1996). Langley et al. (2008) also states that the procurement management must present consistence regarding the overall competitive advantage that an organisation is searching to obtain in the marketplace. Even with a partnership with a supplier, several relevant criteria must be taken into consideration in any purchasing situation.

The main supplier selection criteria approached among several published academic papers are quality, delivery, price and service, not necessarily in this order. Dickson (1966) published one of the first articles about this topic and they are still reference for a number of papers that need the usage of these supplier selection criteria. Dickson (1966) conducted a survey in American and Canadian companies. The results of this survey showed that the importance of criteria varied from case to case. The author presented a classification of different weights for criteria, by placing quality and delivery in the first positions and price just in sixth. Table 2.1, provides an overview of the Dickson's selection criteria.

Table 2.1 Supplier Selection Criteria (Dickson, 1966)

Rank	Criteria	Evaluation
1	Quality	Extreme importance
2	Delivery	
3	Performance history	
4	Warranties and claim policies	
5	Production facilities and capacity	Considerable importance
6	Price	
7	Technical capability	
8	Financial position	
9	Procedural compliance	
10	Communication system	
11	Reputation and position in the industry	
12	Desire for business	
13	Management and organisation	Average importance
14	Operating controls	
15	Repair service	
16	Attitude	
17	Impression	
18	Packaging ability	
19	Labour relations record	
20	Geographical location	
21	Amount of past business	
22	Training aids	
23	Reciprocal arrangements	Slight importance

With the introduction of concepts of strategic alliances that require long-term relationships between companies in the supply chain, the qualitative criteria began to gain prominence and contributed to a nature differentiation for this type of relationship. Ellram (1990) reinforces that the idea of a more objective criteria quantification supplier selection process should be developed as well as the different usages for different types of decision. With the objective of selecting suppliers that are able to continuously add value during a long period of time, Ellram (1990) carries out a research that possesses a more prescriptive character in the presentation of new criteria for the process. Since the nature of these factors is purely qualitative, the author points out the importance of developing appropriate measurement techniques that minimise the subjective character of this evaluation. The Table 2.2 shows these criteria, named as soft factors.

Table 2.2 Measurement Techniques Criteria (Ellram, 1990)

<b>Group</b>	<b>Criteria</b>
<b>Financial issues</b>	Economic performance
	Financial stability
<b>Organisational and Strategy Issues</b>	Feeling of trust
	Strategic fit
	Management attitude for the future
	Top management capability
	Compatibility across levels and functions of buyers and suppliers firms
	Supplier's organisational structure and personnel
<b>Technology issues</b>	Assessment of current manufacturing facilities
	Assessment of future manufacturing capabilities
	Supplier's design capabilities
	Supplier's speed in development
<b>Other factors</b>	Safety record
	Business references
	Supplier's customer base

Weber, Current and Benton (1991) revised the academic literature related to this topic of Dickson (1966) in order to have a wise vision of the use of supplier selection process in business and academic world. This research is vastly quoted in papers related to this topic, as the analysis included 74 articles. Weber et al. (1991) conclude that 64 per cent of the articles analyse more than one criterion which characterises the nature of multiple objectives and the main three criteria discussed in the literature are price, delivery and quality, with 80 per cent, 59 per cent and 54 per cent respectively. Wilson (1994) points out that quality and service are now leading the rank of criteria, as they are directly related to the total cost of a product both through direct or indirect costs associated to product quality, and through costs related to product utilisation support.

Choy and Hartley (1996) conducted a research in the American automobile industry with companies from different levels of supply in the supply chain. That is to direct and indirect suppliers. The selection criteria in the research were grouped in the following categories: finance, consistence, relationship, flexibility, technological competence, service, reliability and price. Choy and Hartley (1996) concluded that the supplier selection process aiming long-run relationships, it is important to all members in the supply chain. Yet, irrespective of the position in the supply chain, the criterion price was also considered with little weight

in decisions for indirect suppliers who usually acquire more commodities than the remaining members. The most important criteria are the ones that are grouped within the consistence such as quality and delivery which are also important at all level in the supply chain, coinciding with previous research in this topic.

Masella and Rangone (2000) proposed four groups for the supplier selection by combining time horizon aspects (short-and long-run) and the type of integration between supplier and buyer (logistics integration and strategy). When it comes to time horizon, categories were considered dependent factors such as the level of investment and cost for changing a supplier, including in this case the costs of research and analysis for new potential suppliers. Logistics integration refers to the systems where setting of performance is inserted that usually are supply strategies such as quality, service and delivery time. The strategic integration concerns the settings where competence of supplier are involved, for example, the development of products and new technologies. The possible combinations identified are the following:

- *Type A (short-run + logistics integration)*: the process of supplier selection includes only productive performance and must focus on these criteria; in case a supplier with a better performance is found, the company can switch the suppliers in a simple way without any additional cost.
- *Type B (Long run + logistics integration)*: the potential supplier for future improvements needs to be taken into account; the evaluation of resources of productive infrastructure must be conducted as the responsible attribute for performance improvements.
- *Type C (short-run + Strategic integration)*: the supplier is considered as a supplier of products and services and also as a source of competence; this the case of company that purchases a component based on certain key technology that has direct impact on the perception of value of its customers; in these cases is sufficient that the selection of suppliers evaluates only indexes such as productive and technological performance.
- *Type D (Long-run + Strategic integration)*: must be evaluated the indexes such as productive and technological performance and after that infrastructure resources.

More recently, Kannan and Tan (2002) identified the impact that the supplier selection and evaluation process has on buying companies' performance. Kannan and Tan (2002) conducted a survey where the respondents place marks in a scale of 1 (low importance) to 5 (high importance) for each criterion. Afterwards, the performance of each company compared with its main competitor in the industry was indicated. In order to make the research more structured, the criteria were divided into five categories: commitment, needs, capability, fit and honesty, and developed a system for supplier evaluation based on delivery, quality, responsiveness and information sharing. Table 2.3 shows the list of criteria created by Kannan and Tan (2002). The authors concluded that soft factors (frequent communications, knowledge of industry and ethical standards), have a huge impact on the performance of companies not only in the partnerships, but also in the traditional buying relations.

Table 2.3 Elements of Supplier Selection (Kannan & Tan, 2002)

<b>Selection Criteria</b>	<b>Mean Score</b>
Ability to meet delivery due dates	4.62
Commitment to quality	4.60
Technical expertise	4.25
Price of materials, parts, and services	4.16
Honest and frequent communications	4.11
Reserve capacity or the ability to respond to unexpected demand	4.08
Industry knowledge	4.06
Financial stability and staying power	4.03
Supplier's process capability	3.98
Commitment to continuous improvement in product and process	3.98
Ethical standards	3.92
Open to site evaluation	3.90
References/reputation of supplier	3.86
Flexible contract terms and conditions	3.79
Testing capability	3.77
Supplier has strategic importance to your firm	3.76
Scope of resources	3.69
Past and current relationship with supplier	3.63
Willingness to integrate supply chain management relationship	3.39
Supplier's willingness to share confidential information	3.37
Supplier's effort in eliminating waste	3.29
Supplier's ability to make a decent profit for supplying to you	3.25
Supplier's effort in promoting JIT principles	3.24
Your annual orders as a percentage of their overall business	3.15
Insurance and litigation history	3.14
Geographical compatibility/proximity	3.07
Supplier's order entry and invoicing system, including EDI	3.03
Cultural match between the companies	2.90
Percentage of supplier's work commonly subcontracted	2.87
Company size	2.67

## **2.2 Internal and External Organisational Factors**

Executives must take into consideration all factors that have influence on their organisations. Most of the supplier selection criteria that were highlighted in the literature can be reflected by factors that can influence organisational operations. In order to execute the most suitable supplier selection criteria (see 2.1.2) it is essential for the companies to contend with internal and external factors that can provide encouragements organisational changes. In this section, it will be presented different internal and external factors that may affect organisations.

### **2.2.1 Internal Organisational Factors**

As every organisation has a unique environment, organisational factors play a critical role in the performance of organisation (Galbraith, 2002). Organisational factors refer to those re-

sources and constraints dictated by the environment within the organisation (Shaw, 2001). In addition, O'Dell and Grayson (1998) argue that the ability to transfer knowledge effectively is a key organisational factor.

Therefore, Gosen, Babbar and Prasad (2005) listed internal/organisational factors as upper management goals and priorities, the degree to which employees are committed or controlled, and the type of organisational structure which refers to centralisation and decentralisation.

*Goals and priorities.* Goals and priorities refer to investment decisions and direct organisation-wide strategies and priorities (Gosen et al. 2005). Popova and Sharpanskykh (2011) note that every organisation has one or more goals and in order to measure organisational success rate, organisations determine and evaluate their goals in anticipation with the estimated performance indicators such as profit and costs. Goals and priorities contain the value the firm places on quality and customer satisfaction, productivity and operational enhancements, cross-cultural adaptation, and technological innovation (Gosen et al. 2005). These goals and priorities can also be described as investment decisions, such as investment in R&D (Meier, 1998) and decision guidelines (Daft, 2001). Furthermore, strategic criteria chosen by top managers for supplier selection have a positive influence on the ability to accomplish strategic objectives regarding manufacturing operations (Phusavat, Jaiwong, Sujitwanich and Kanchana, 2009).

*Centralisation/decentralisation.* Gosen et al. (2005) state that centralisation/decentralisation refers to the degree of power and authority in decision-making of the organisational hierarchy. Centralised organisational structure exists when all the power for decision-making focus at a single point of organisation; decentralised organisational structure occurs when the power for decision-making spread among many individuals (Moynihan, 1985). In addition, Russell and Hoag (2004, p.107) note that “*centralisation means the degree to which control and decision-making rests with a few powerful members of the organisation*”. Furthermore, Gunnarsson (1993) states that in business, managers have choices and decentralisation can be chosen due to the fact that it is more flexible, regarding response to market needs. Additionally, Gosen et al. (2005) argue that centralisation/decentralisation includes variables such as the level of employees that are involved in organisation decision making as well as which employees are critically evaluate and fulfil problems report. Mintzberg (1979) reinforces that centralisation has the advantage when economies of scale are crucial or when the organisational environment is very aggressive. In return, decentralisation has the advantage when the organisational environment is complex. Moreover, factors that control or guide employees such as goal setting and formulation of policy, also mentioned in this category by Gosen et al. (2005).

### **2.2.2 External Organisational Factors**

There is general agreement among researchers that the more turbulent the environmental circumstances the more motivated the organisation is to gain benefits in terms of long-term survival and profitability (Zdunczyk & Blenkinsopp, 2007). However, Fiol and Lyles (1985) mention that in extremely uncertain external circumstances, organisations tend to learn at the higher level and concentrate on adaption by “*trial-and-error*”. Covin and Slevin (1991) argues that the external environment can contain economic and political/legal and geographical factors that contribute the wider context for the organisation's operations. For instance, an aggressive external environment might block the level of capital investment, settle financial and regulatory barriers, and discourage the rise of the entrepreneurial spirit that is an attribute of particular cultures (McClelland, 1976; Lee & Peterson, 2000). Although,

an advantageous external environment can ease such barriers and encourage entrepreneurial potential (Lee and Peterson, 2000). In addition, Foster (1986) states that the external environment will be most advantageous in development of business which can provide motivated market influence and availability of capital.

Further, there is a classification by Gosen et al. (2005) of external factors that influence organisational environment as economic, political/legal and geographical factors which are analysed below.

*Political/Legal and Geographical factors.* Friedman (1982) notes that for the growth of business, a political system needs to be structured on individual rights, democratic rules, freedom of choice and balances of government. Furthermore, government's actions or inactions are influencing the business opportunities (Lee & Peterson, 2000). As more specific Baumol (1990) states that the degree of business is developed in a country directly regarding governing regulations and policies. Governments can secure markets activity efficiently by purging unnecessary regulations or removing conditions that can cause entry barriers (Lee & Peterson, 2000). Moreover, Gosen et al. (2005) pointed that factors such as democracy, efficiency of the government, financial incentives and regulations that are provided by the government as well as free-trade agreements with other nations are having the potential to influence business in countries. Furthermore, Phatak (1995) includes external factors such as legal traditions and their effectiveness, treaties with other nations, patents, trademark laws and laws are affecting business firms McGivern and Tvorik (1997) state that the volume or the range of the external environment can be changed by the effect of free-trade agreements through an increased access to world markets. In addition, the role of the public sector, such as government departments that are supporting manufacturing sectors, central planning and the priority on manufacturing, are also having the potential to affect the operations and the quality in organisations, including delivery times (Gosen et al. 2005). Uncertain delivery times occur owing to several reasons, such as capacity constraints, scheduling difficulties, uncertain material supplies and production processes, and quality problems affecting customers' satisfaction (Weng & McClurg, 2003). Kasarda and Rondinelli (1998) highlights that a rapid response strategy is essential regarding customers' needs as it is directly related to manufacturing flexibility. Thus, Drejer (2000) states that companies' customers can obtain value through core competences and outsource other activities.

*Economic factors.* As economic growth increases, the conditions promoting business also can be improved (Wilken, 1979) as the capital is the major resource, which is a prerequisite for business opportunities and activities (Lee and Peterson, 2000). In contrast, the environment, that is at economic inertia, provides limited market incentives and the degree of capital is insufficient to provide potential entrepreneurs of the already existing limited opportunities (Lee and Peterson, 2000). Furthermore, Phatak (1995) argues that the economic environment can be defined by factors such as the level of economic development, population, gross domestic product (GDP), "per capita" income, infrastructure, natural resources, climate, membership in economic blocks, financial and taxes policies, degree of competition, currency convertibility, degree of inflation and interest rates, as well as wage and salary levels. In addition, economic factors such as quality of infrastructure, role of the private sector in the economy, size of markets, resource availability, and volatility have been identified as critical factors for quality in operations in developing countries (Gosen et al. 2005).

### 2.3 Theoretical Synthesis

The supplier selection criteria began to be discussed in the academic literature since the sixties, when quality and delivery were identified as the most important aspects of the supplier selection. In the course of the time, several studies were conducted with the objective to determine which criteria are the most important for the process and some of the authors also made a quantitative comparison of these criteria. It is possible to note that there is certain tendency of considering criteria such as quality, service and delivery as the most important ones for the supplier selection process. However, there is a huge variation of their importance due to the scope of the research, as its adaptation to the studied industry.

In order to find out how the Internal and External organisational factors are reflected on the Supplier Selection Criteria in the Swedish furniture industry, four research questions were elaborated. The theory behind these questions will be associated and adapted to this research to facilitate its analysis. This implies that Internal factors (goals and priorities as well as centralisation/decentralisation, see 2.2.1) and External factors (political, legal and geographical factors as well as economic factors, see 2.2.2), will be studied together with these aspects in order to verify their influences on the supplier criteria selection (see 2.1.2.).

The figure 2.1 presents an overview of theoretical synthesis conducted in this research.

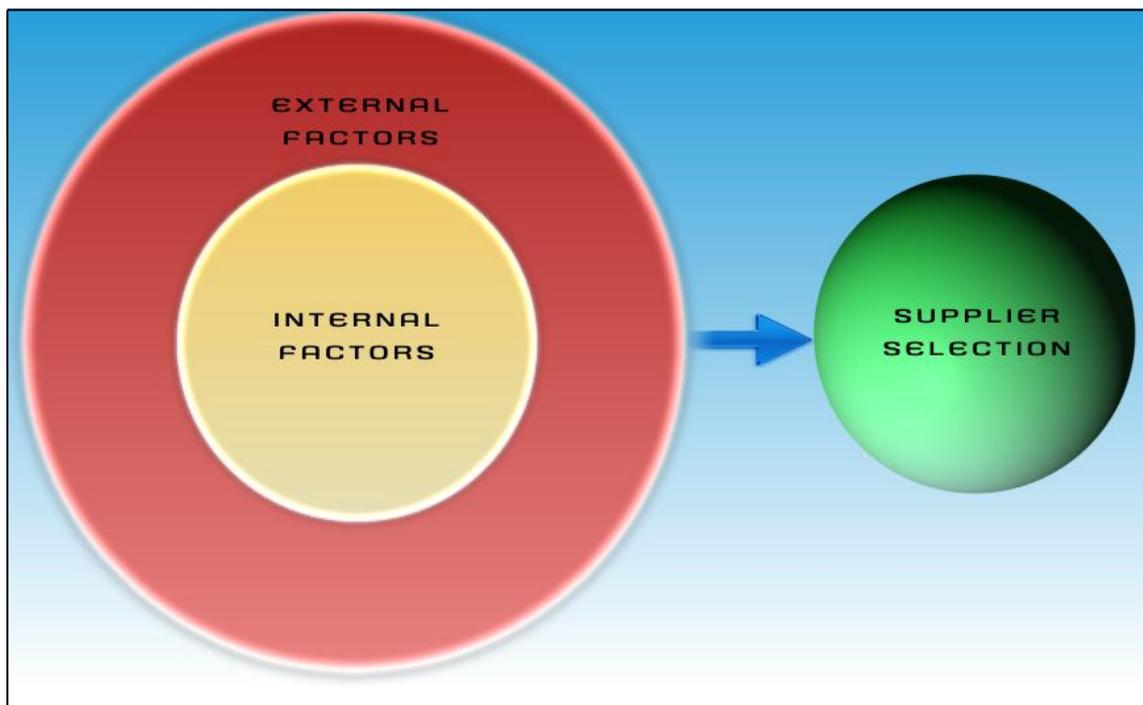


Figure 2.1 - Theoretical Synthesis Overview.

## 2.4 Research Questions

In order to fulfill the purpose of this paper, the problem discussion is divided into four research questions.

The first two research questions determine how internal organizational factors influence the supplier selection process.

1. *How are the organization's goals and priorities reflected in supplier selection criteria?*
2. *How is level of centralisation/decentralization of sourcing decision-making reflected in supplier selection criteria?*

The research questions three and four are categorised in the external factors and aim at examining the influence of these factors upon supplier selection criteria.

1. *How are political and legal factors reflected in supplier selection criteria?*
2. *How are economic factors reflected in supplier selection criteria?*

## 3 Methodology

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*This chapter introduces the research approach to the reader and the selection of the cases. Furthermore, it describes the measurement instruments as well as data selection. Finally, it presents analysis process and evaluation where validity and reliability are discussed.*

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### 3.1 Research Approach

A case study is “*an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident*” (Yin, 2003, p. 7). This research is based on the use of multiple-case studies which contributes to answer the research questions in a more appropriate way, including four organisations or cases. Multiple cases have become increasingly common in business and management researches and permit the researchers to compare and contrast the findings deriving from each of the cases (Bryman & Bell, 2011). Saunders, Lewis & Thornhill (2009) suggest that the focus on multiple-case studies have the need to establish whether the findings of the first case arise in the other cases and, as a consequence, the need to generalise from these findings. Yen (2011) states that analytic conclusions independently arising from more than one case, will be more influential than those coming from a single case or experiment. In other words, the multiple-case study improves theory building (Bryman & Bell, 2011). Saunders et al. (2011) define qualitative data as an all non-numeric data or data that have not been quantified and can be a result of all research strategies. Qualitative data analysis procedures assist this, allowing you to develop theory from your data (Saunders et al, 2011). Since the researchers desire to find out how internal and external factors are reflected in the supplier selection process and its conduction, this study requires a more in-depth knowledge. The use of qualitative methods in the form of multiple-case studies creates an in-depth, rich account (Saunders et al., 2009). Swanson and Holton (2005) state that when the researcher is interested in contemporary events and does not have an ability to control or manipulate events, the case study research can be considered a right strategy. In order to answer research questions as well as to meet the objectives, researchers may need to undertake an in-depth study (Saunders et al., 2009).

### 3.2 Selection of Study Objects

The selected organisations for this research were Swedish furniture manufacturers located in different parts of the country, but with few common characteristics. They are furniture companies that have national and international suppliers and manufacture a multiple range of products to their customers. In order to be able to provide such assortment of products, it is necessary to manage and deal with a huge number of suppliers and take into consideration external and internal factors that may affect the desired final product. These firms were included in this paper after one of the researchers visited the Stockholmsmässan (Stockholm International Fairs) where 740 furniture companies from 31 countries were exposing their products and concepts to both private and public sectors (Stockholmsmassan, 2012). The objective of this visit was to contact the most appropriate companies that fitted in the two criteria mentioned above and find out how internal and external factors are reflected to the conduction of their supplier selection criteria.

One main reason why companies in the furniture sector were selected, it is because the furniture industry has doubled its production and exports in the last ten years and total production in 2011 was estimated in 23 billion SEK. Furthermore, it is a sector that employs many workers (TMF, 2012). A total of sixteen companies that manufacture multiple products and have international and national suppliers were contacted at the fair and seven

firms agreed to participate in the interview by providing the researcher with their business cards. The result of this contact enabled the researchers to narrow down the number of companies to six in order to conduct a deeper investigation with the most suitable companies for this research: Limhamn Möbel AB, Engleson Sverige AB, Lamhults Möbel AB, Johanson Design, Stolab and deNord.

### **3.3 Interview Guide**

The primary data collection of this paper is characterised by personal interviews carried out in six case companies mentioned above. The research interview is a specific type of interaction between humans in which knowledge is increased through a dialogue (Kvale, 1996). Interviews may be highly formalised and structured, utilising standardised questions for each research participant respondent, or they may be informal and unstructured conversations (Saunders et al., 2011). The term qualitative interview is normally used to capture the different types of interview that are applied in qualitative research where interviews have a tendency to be less structured than in survey research (Bryman & Bell, 2011). The type of interview relevant for this research is the “*unstructured interviews*” as they are informal and are used to explore in depth a general area in which the researchers are interested, also referred as “*in-depth interviews*”. The interviewee is given the opportunity to talk freely about events, behaviour and beliefs in relation to the topic area, so that this type of interaction is sometimes called “*non-directive*”. The qualitative research interview is designed to describe and the meanings of central themes in the life world of the subjects. The main function in interviewing is to comprehend the meaning of what the respondents state (Kvale, 1996). In other words, in-depth interviews are relevant for this research as they cover one topic in considerable detail and questions are based on what the respondents state.

The purpose of this study is to analyse how internal and external factors are reflected in the supplier selection process. In order to facilitate the researcher’s analysis, the transformation from research questions into interview questions underwent a process where each question was planned based on a data collection that was intended to contribute to gather relevant information for this study. The first part of the interview guide was aimed to find out the number of employees, how many years the respondent has been working in this area of business as well as the number company’s relevant suppliers. The next four parts of the interview represented the external and internal factors that are relevant for this research. Regarding internal factors, questions about goals and priorities, as well as decentralisation and centralization were asked. Concerning external factors, questions about political and legal factors, as well as economic factors were addressed. In order to obtain more detailed and precise responses, the researchers also created interview questions avoiding “yes” or “no” answers by the respondents. The interview guide can be found in the Appendix A for further analysis.

### **3.4 Data Collection**

The data collection of this paper will be based on two sources in order to answer the research questions. Secondary and primary data will be combined to achieve the desired results. Secondary data include written documents and materials such as records books, journal and magazine articles and newspapers. Written documents can also include notices, reports to shareholders, diaries, transcripts of speeches and administrative and public (Saunders et al., 2011). In this research, books, journals, reports and newspapers were the most relevant secondary data collected.

The primary data collection was conducted with the use of interviews, since interviews can contribute to gather relevant valid and reliable data (Saunders et al., 2011). As this research has its focus on the relation between internal and external factors that reflect on the supplier selection process, the selected respondents work or are involved directly in the inbound logistics activities. In other words, procurement and materials management rather than issues related to sales and retailing which would not be fruitful and appropriate for this study, since purchasers and vendors are the main actors included in this process.

The selected respondents were Dan Johanson, manager and owner of Johanson Design, Sylvia Andersson, purchasing manager of Limhamn Möbel AB, Thomas Pettersson, purchasing manager of Lammhults Möbel AB, Peter Lindvall, co-owner of deNord, Michael Englesson, president of the Englesson Sverige AB and Martin Johansson, Managing Director of Stolab. All the six interviews were conducted over the telephone due to the locations of the respondents, as they were located far away from the researchers. The following Table 3.1 shows the date and duration of each interview.

Table 3.1 Interviews' Respondents

COMPANY	RESPONDED	DATE OF INTERVIEW	DURATION OF INTERVIEW
Johanson Design	Dan Johanson	2012/03/28	31 min.
Limhamn Möbel AB	Sylvia Andersson	2012/03/29	27 min.
Lammhults Möbel AB	Thomas Pettersson	2012/04/16	27 min.
deNord	Peter Lindvall	2012/04/20	40 min.
Englesson Sverige AB	Michael Englesson	2012/04/24	31 min
Stolab	Martin Johansson	2012/04/26	40 min.

### 3.5 Analysis Process

The analysis conducted in this study has its focus on a qualitative research, as it is the most suitable approach concerning the problem and purpose of this paper. The analysis process will permit to solve research problems, upon selecting appropriate strategy and procedures regarding data analysis (Kumar, 2011). However, data analysis can be considered as a complex process with potential differentiation in strategies and procedures (Yin, 2003). After interviewing the six respondents from the six organisations mentioned earlier, the researchers noted the answers down in order to facilitate its comprehension and analysis. The next step was to shorten the huge amount of information gathered and highlight the most relevant for the research questions. When this process was completed, the researchers wrote down what was found out during the interviews in order to finish the empirical study. The results of this comparison were combined together with theories from the literature review in the analysis chapter. This combination between the data gathered from empirical study and the theories have the intention to determine how internal and external fac-

tors are reflected in the supplier selection process. In the next step, conclusions were drawn from the analysis section, providing both theoretical and managerial contributions to the reader.

## **3.6 Critical Evaluation**

In order to reduce the possibility of having the wrong answer signifies that attention has to be paid to two particular emphases on research design: reliability and validity (Saunders et al. 2011). The next two sections will present these two concepts.

### **3.6.1 Reliability**

Saunders et al. (2011) defines reliability as the extent to which the techniques of data collected or the analysed procedures will yield consistent findings. The lower the degree of accuracy of a misconception in an instrument, the higher the reliability (Kumar, 2010). According to Kumar (2010) reliability can be seen from two different perspectives. The first side is related to when gathering the same amount of information more than once utilising the same instrument and have the same or similar results under the same or similar conditions, an instrument is considered to be reliable (Kumar, 2010). The second perspective has its focus on the degree of inconsistency in the measurement made by an instrument. That is to say, the extent of difference that exists in the measurements when the same amount of information is gathered more than once, using the same instruments under the same or similar conditions (Kumar, 2010). The researchers are aware that it is impossible to have exactly the same results if an interview is repeated, as the interview guide is made in form of discussion to involve the interviewees in the process. Moreover, some aspects such as the respondent's mood, the interviewer's mood and the regression effect of an instrument can affect the reliability of a research instrument (Kumar, 2010). In order to enhance the reliability, both interviewers were present during the interviews where both took notes that were compared at the end of each interview. Another procedure used to augment the reliability was to respect the order of the questions in the interview guide where the same interviewer asked and formulate the same questions during each interview occasion. Also, the interview guide was sent to the respondents some days before the interview was arranged in order to offer the interviewees the possibility to follow the interview guide and read the questions at the same time they were addressed. This contributed to avoid misinterpretations and provided satisfactory results.

### **3.6.2 Validity**

According to Saunders et al. (2011) validity is related to whether the findings are really about what they seem to be about. "*Validity is the ability of an instrument to measure what is designed to measure*" (Kumar, 2010, p. 178). Saunders et al. (2011) point out that validity can be divided into internal and external validity. The authors define internal validity as the degree to which the findings can be attributed to the interventions rather than any flaws in your research design, and external validity as the degree to which the results from a particular study are theoretical generalisation to all relevant contexts. In order to assure this paper's validity, the majority of the terms, definitions and perspectives utilised in the literature review were compared, based on a number of different authors. This process permitted the researchers of this paper to include data with enhanced validity and at the same time reduce the reliance on, for example a single book, journal or report. As this paper was not produced to be applied to all populations, but in the furniture industry, the researchers intended to explain what was occurring in their particular setting. As long as the researchers do

not claim that their findings, results and conclusions can be generalised, the researchers will not face any problem. (Saunders et al. 2011).

## 4 Empirical Data

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*This chapter presents the empirical findings gathered through interviews conducted in six case companies in the Swedish Furniture Industry. The data collected will be used as basis for the analysis. Additionally, a short background of each company is included in this chapter.*

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### 4.1 Engleson Sverige AB

The family business, Engleson Sverige AB is a furniture manufacturer that makes furniture by having its own design for nearly 50 years. The company is located in Djursholm, one of four suburban districts in Stockholm County. Over the years the company has grown and today, the whole family is involved not only in product development, but also in the environment and other social issues. The production developed rapidly to include various types of tables, bookcases, mirrors and sconces of brass. (Engleson Sverige AB, 2012)

The owners' interest in interior design led to a number of collaborations with various architects and among others, has been part of decoration projects for Grand Hotel and Strand Hotel in Stockholm. During the past few years, Engleson Sverige AB has been involved in a variety of interior design projects such as royal VIP lounge at the airport of Arlanda. In the early 90s, when John and Michael Engleson became part of the company, its focus changed from metal to wood furniture. In 2011, the company started a new production facility where also mattresses started being manufactured. Engleson's business idea: "*Furniture, that you enjoy longer, made for each room of your home*" (Engleson Sverige AB, 2012).

Engleson Sverige AB has a plant of 10.000 m<sup>2</sup> where wooden furniture, sofas, armchairs and beds are produced. All design and product developments take place within the company and its products are sold through furniture retailers in Sweden, Norway and Finland and in several countries in Europe (Engleson Sverige AB, 2012).

In 2011, the company became ISO 9001:2008 certified for having a quality management system. Thus, any piece of furniture that comes from Engleson receives a signature and mark which implies that it has a guarantee of quality (Engleson Sverige AB, 2012).

Engleson Sverige AB has around 150 employees and has about 50 relevant suppliers for its production. One hundred per cent of its supplier delivers only one product, where fabric is bought from about 15 suppliers, furniture parts and spare material are purchased from the remaining suppliers (Engleson Sverige AB, 2012).

#### Interview with Michael Engleson

The president of the Engleson Sverige AB, Michael Engleson, is 47 years old has been working in this field for over 25 years. Michael considers that the competition in the furniture industry is absolutely hard, but it can vary from strategy to strategy. Michael Engleson pointed out: "*it depends on in what price level you try to operate in, but we are doing really well right now, though the competition is very tough*".

##### 4.1.1 Goals and Priorities

According to Michael Engleson price is an important criterion when selecting a supplier. However, as the company's goal is to have the highest possible quality in their products, Engleson Sverige AB's purchasers focus mostly on quality, how long the vendors have been operating in the market and how trustful the suppliers are when it comes to delivery times. The respondent mentions: "*we do not purchase anything from China. If we for example buy something from China that is half price and everything goes wrong regarding shipments or delivery, quality*

*and delivery time, this will cost us much more than that would cost if we had purchased directly from our German suppliers”.*

When there is a change in the company’s strategy, Engleson Sverige AB hardly ever look for cheaper alternatives or cheaper suppliers, as the organisation has middle range up to very expensive prices.

#### **4.1.2 Centralisation/Decentralisation**

Michael Engleson states that 95 per cent of the decisions are made by the purchasing department where five people from two purchasing departments are involved in the supplier selection process. That is to say, three persons from the purchasing department in Poland and two from the purchasing department in Sweden, though many of the decisions are made in the headquarters in the Stockholm County. Basically, all the decisions regarding supplier selection are made in two purchasing departments, one in Sweden and one in Poland. The department located in Sweden is responsible for the purchase of fabrics and when it comes to raw materials the purchasing department located in Poland is the one that buys these types of goods. After implemented the ISO 9001 quality certification, all the company’s decisions regarding purchase and supplier selection have to go through procedures before buying from a supplier where three new potential suppliers are selected.

#### **4.1.3 Political/Legal and Geographical Factors**

The company has national and international suppliers. The international suppliers, that represent 70 per cent of company’s purchased raw material, are mainly located Germany, Poland, Spain and Italy. The main reason Engleson Sverige AB’s purchasers buy from these European countries is the fact that the company’s desire is to have such materials shipped very fast. Michael Engleson highlights: *“it is a logistics reason including delivery time and shipment. If I order it today I will have it shipped in two days in our factory in Poland”*. As Engleson Sverige AB purchases only from European suppliers, the company does not face any entry barriers in the European Union such as government regulations and tariffs. Michael Engleson states that is quite easy to approach an European market. However, when it comes to some furniture components that can be produced everywhere in Europe, changes of suppliers can occur very easily. With regard to fabrics, the company is very depended on who they work with, as mentioned earlier in goals and priorities, it is important for the company to have a satisfactory supplier with a trustworthy name behind it. Michael Engleson also points out concerning company’s supplier: *“Reputation is very important for us”*.

As the company did not experience any entry barriers, they would only switch to a Swedish supplier, if the firm could find the same or better competence in the Swedish supplier compared to the current international vendor. This implies that Engleson Sverige AB would take into consideration a combination of factors such as high quality, trustful delivery time and a reasonable price.

#### **4.1.4 Economic Factors**

Michael Engleson mentions that the company has not been affected by any economic factor that many companies could have faced after the economic crisis in the recent years. The respondent also mentions: *“the Swedish, market we operate in, is really good”*. The only aspect that has affected Engleson Sverige AB was related to the company’s suppliers. That is to say, *“in an economic crisis situation, it can be noted if our suppliers are reliable and financially stable or not. This market is quite flexible, some weeks we have several orders and other weeks no orders at all. We really depend on our suppliers, if they are flexible or not regarding these changes in orders”*.

Engleson Sverige AB does not take so much into account factors such as country's infrastructure, natural resources and inflation, but the currency stability. Michael Engleson mentions that some years ago, the company was not able to buy from a certain Italian supplier to due to its high prices. The Euro instability and the Swedish Krona becoming stronger compared to the Euro, contributed to a cheaper acquisition of raw materials from the Eurozone. The respondent states: *"the currency could affect us a bit, but just a bit"*. The interviewee also mentions that currency instability would make the company switch its supplier selection criteria in the. In order to avoid this to occur, Engleson Sverige AB is buying currency in one and a half years in advance to make sure that the organisation has the right calculation regarding prices.

## **4.2 Lammhults Möbel AB**

Lammhults Möbel AB, whose president is Lars Bülow has grown from a regional workshop in the 1940s to an international furniture company. The seven most important export markets are Denmark, Germany, Japan, Norway, The Netherlands, United Kingdom and United States of America. Today, some of Lammhults earliest products are still in production and are frequently used in current interior specifications. The company has projects around the world, including Sweden, Denmark, USA, China, and Japan. These projects can be appreciated by places such as at airports, banks, churches, hospitals & medical centres, libraries, museums, universities (Lammhults Möbel AB, 2012).

Lammhults' policy is clear and its approach is direct: *"the best design is timeless; the best manufacturing will not compromise this commitment"*. At Lammhults design takes the shape of graphics and showcases, showrooms as well as exhibitions (Lammhults Möbel AB, 2012).

The source of Lammhults is located, 450 kilometres south of Stockholm, in the village of Lammhults, named as the heart of Sweden's *"kingdom of furniture"*. In this location can be founded the Lammhults factory, a 10,000 m<sup>2</sup> facility that also houses the senior management, staff and operations centre, along with a showroom display of every Lammhults product (Lammhults Möbel AB,2012).

In October 1998, Lammhults received the ISO 14001-certificate, ensuring that the company *"has an eco-management system that fulfils the requirements of SS-EN ISO 14001: 2004"*. Since February 2012 Lammhults is also certified according to ISO 9001 ensuring *"a quality management system that fulfils the requirements of SS-EN ISO 9001:2008"* (Lammhults Möbel AB).

The company has around 95 employees and about 100 relevant suppliers for its production. Less than five suppliers deliver only one product and 95 per cent provide multiple products, where 50 per cent deliver multiple products to different lines.

### **Interview with Thomas Pettersson**

The purchasing manager of Lammhults Möbel AB, Thomas Pettersson, is 58 years old and has been working in this area his current company for 25 years. The respondent considers that the competition in the Swedish furniture industry is strong compared to the other European countries, if the last ten years are taken into account.

#### **4.2.1 Goals and Priorities**

Lammhults Möbel AB has several different goals, according to the Thomas Pettersson. The company has quality goals, delivery goals, economic goals and environmental goals. Regarding quality, the goal is to reduce the number of complaints made by company's clients.

That is to say, its goal is to have as little complaints as possible. When it comes to delivery, delivery safety is another priority. The intention is to have as high safety as possible. Furthermore, economic goals are high turnover, return on sales and inventory turnover. Work Environment implies that the company measures employees well-being, tries to reduce sick leave and electricity consumption, and the utilisation of chemicals in its production.

Regarding the supplier selection, quality is company's first priority when the organisation chooses a supplier as well as lead-time and delivery safety, as the purchaser at the company feel safer if the supplier performs what was promised. Inventory turnover can also be included in the firm's goals, as Lammhults Möbel AB according to the respondent, *"has a look at suppliers that deliver in small batches. These are the most important aspect I take into consideration when I choose suppliers"*. Thomas Pettersson points out that the company did not face or experience any changes in its strategy in the last ten years, which means that Lammhults Möbel AB's purchasers supplier selection was not affected either.

#### **4.2.2 Centralisation/Decentralisation**

The respondent states: *"the purchasing department has hundred per cent freedom in making general decisions and supplier selection decisions"*. However, two other departments can be included such as product development department and the production department, containing less than five persons involved in decisions regarding the selection of suppliers. Thomas Pettersson mentions that few aspects are documented with regard to supplier selection decisions and processes. The respondent affirms: *"we normally base on the feeling that we have after meeting the suppliers and looking around their factories. That is to say, not so many documented decisions, it is more about feeling and observation"*.

#### **4.2.3 Political/Legal and Geographical Factors**

Nowadays, 85 per cent of companies' suppliers are national suppliers and 15 per cent are international. The organisation has Suppliers from Germany, Denmark, Norway, England and some in Italy. The main reasons for choosing international suppliers can vary, as Lammhults Möbel AB has different criteria. However, in certain cases the company buys from low-cost countries and in certain cases it is a matter of competence, since a unique competence might perhaps be found in only international suppliers. That is to say, *"economy and competence are the main reasons why we have chosen international suppliers"*, states the respondent. Regarding low-cost countries, Lammhults Möbel AB work together with some Chinese suppliers and with regard to special competence its vendors come from the European Union. The company did not experience big difficulties or barriers concerning international suppliers. Certainly, when it comes to Chinese suppliers, Lammhults Möbel AB faces customs tariffs, though these costs are quite low which do not influence directly company's purchasers' decisions. A disadvantage in the case of China is that long lead-times and delivery times can be faced which might be a drawback in some aspects. Thus, these barriers do not affect company's decisions, as such customs tariff problems do not have a relevant influence. This implies that *"unique competence is more relevant when it comes to international suppliers"*. In case, Lammhults Möbel AB faces certain barriers in China or in another low-cost country can be due to the fact that the lead-time is relatively too long. This can be considered a reason why the company's purchasers may switch to a closer supplier.

#### **4.2.4 Economic Factors**

According to Thomas Pettersson, the financial crisis did not influence the company in a high scale concerning supplier selection decisions or changes in the recent years. Lammhults Möbel AB's purchasers take very little into consideration factors such as coun-

try's infrastructure, natural resources, inflation and currency stability. If so, these factors can appear at the bottom of the supplier selection criteria ranking list. The respondent states: "*satisfactory suppliers, attractive price from low-cost countries and unique competence come first than the country's infrastructure, natural resources, inflation, currency stability and corruption*". The economic crisis obligated the company to buy more from low-cost countries. In case, the economic crisis becomes stronger Lammhults Möbel AB's buyers will be forced to opt out from some national suppliers.

### **4.3 Stolab**

Stolab has been manufacturing furniture since 1907 and thus the company has earned experience in this field of business as well as a potential for further developing. Stolab owns its own factory located in Smålandsstenar, in which manufacture all furniture (Stolab, 2012).

Employees with the combination of woodworking technology manage company's manufacturing process and thus Stolab owns a modern manufacturing facility. In addition, the constant collaboration between company's designers and production staff provides to Stolab further design opportunities. Furthermore, Stolab is operating with simplicity regarding its products but also as far as is concern company's interaction with the customers and dealers (Stolab, 2012).

Stolab is manufacturing and selling furniture, preferably made from solid wood to the Nordic region and to public interior market. In order to achieve quality and durable products, Stolab is working with materials and products that are assembled mostly from birch. In addition, most of company's furniture have been tested and approved by SP - Technical Research Institute of Sweden (Stolab, 2012).

Stolab endeavour to choose materials and production methods in order to assure the minimum environmental impact. Furthermore, the company's production is close to local market in order to achieve environmental stability and keep company's environmental responsibility. Company's manufacturing process imbued by conscious environmental and quality awareness and hence, Stolab is environmentally and quality certified by ISO 14001 as well as ISO 9001 (Stolab, 2012).

The company has around 55 employees and has about 15 relevant suppliers for its manufacturing. Most of all these suppliers deliver only one product to the company in which assigned to different product lines (Stolab, 2012).

#### **Interview with Martin Johansson**

The respondent is Martin Johansson, Managing Director of Stolab and he is working for 5 years in the company. Martin Johansson states that furniture industries that are located outside of Swedish region (i.e. Baltic region, Eastern Europe, China, Denmark) are more competitive than Stolab than Swedish Furniture Industry. The respondent also notes "*we are experiencing a lot of competition outside Sweden*".

##### **4.3.1 Goals and Priorities**

According to Martin Johansson, Stolab's goals are to increase the company's turnover as well as company's "*profitable grow*". Stolab aims at manufacturing the best brand of solid wood products in the furniture industry within the Nordic Region. This is one of the reasons why the company is focusing on image of the product. When it comes to supplier se-

lection Stolab's goals are to focus on high quality materials from their suppliers as well as on environmental friendly materials. Due to the fact that, in some occasions, it is too expensive to acquire best quality materials, Stolab is seeking for sufficient quality from their suppliers, according to the respondent. In addition, the environmental focus of the company is based on certified materials/products from company's suppliers, for instance non-exploited woods. The respondent states that Stolab is collaborating efficiently with its suppliers in order to gain the knowledge of how their suppliers operate. When Stolab decides to have a change in its strategy, according to Martin Johansson, its suppliers also have to follow this change. In case that company's suppliers are not able to follow this strategic change, Stolab has to search and find new suppliers or change to another supplier. Martin Johansson notes "*if we want to double our turnover within five years, we have to work with a supplier who is willing to double its turnover as well*". The respondent continues with "*if we want to increase our volumes in Stolab, our suppliers also have to increase their total volumes*". However, Martin Johansson states that despite the fact that a change in strategy is working in collaboration with suppliers, only a big strategic change will lead to switch company's supplier's base. For instance, as the respondent mention, if Stolab decides to add a new material to the product line, the company has to find sufficient suppliers that deliver this material.

#### **4.3.2 Centralisation/Decentralisation**

The company's purchasing decisions when it comes to existing suppliers, are executed mainly by the purchasing department. In other words, the purchasing department has independency regarding purchasing materials from suppliers that have already been chosen. Although, with regard to the selection of a new supplier three departments - managing, production and purchasing department - are involved in the supplier selection process and thereby three people are involved when it comes to the strategic selection of suppliers - managing director, purchasing manager and production manager. In addition, two layers of management are involved in the supplier selection process - managing director and the purchasing department. According to the respondent, Stolab holds written documents that have the role of evaluating suppliers as well as ISO 9001 and ISO 14001 which certificate quality and environmental factors that the company demand from suppliers.

#### **4.3.3 Political/Legal and Geographical Factors**

According to the respondent, Stolab collaborates with both national and international suppliers. Four of Stolab's suppliers are international - two suppliers from Denmark, one supplier from Finland as well as one from Germany - and the remain suppliers come from Swedish region. Stolab is working with some "*typically Swedish materials*" that can be found in Swedish forests and that is one of the reasons of collaboration with national suppliers. Moreover, an important factor that makes Stolab collaborate with national suppliers is because of the high volumes of Swedish forest industry. In addition, Stolab is focusing on its supplier's geographical location and thus can collaborate with them easily. "*We want to get involved with our suppliers and it is more convenient to have them close*" the respondent mentions. However, the geographical location is the reason why Stolab's international suppliers are located close to the Swedish region. According to the respondent, Stolab met some barriers, regarding the entry in international supplier market such as some problems with standards of suppliers as well as some language barriers. However, those barriers did not affect company's selection of current international suppliers.

#### 4.3.4 Economic Factors

The financial crisis faced by the European Union in the recent years is not affecting substantially Stolab that can force company to be out of business, according to the respondent. Most all of company's relevant suppliers are financial stable, as the respondent continues. However, Stolab's suppliers faced a problem to be taken into consideration during January of 2005 when a devastated storm hit Swedish forests and destroyed many trees (according to the Swedish Forest Administration, approximately 75 million cubic metres were wind thrown or damaged - Skogsstyrelsen, 2005).

According to the respondent, Stolab is willing to be more cautious about potential suppliers that come from countries that are facing financial problems as well as take into consideration factors such as inflation, natural resources, currency stability and country's infrastructure. The respondent also mentions that Stolab is willing to visit the potential supplier in order to examine and create an image of how this supplier is developing. The respondent argues that Stolab's supplier's financial status is determined by company's dependence on its supplier. In other words, as the respondent mentions, the company is willing to maintain its current suppliers despite the fact that they are more expensive as well as in some cases, the company is willing to accept higher prices from its current suppliers in order to keep them in a "good shape".

#### 4.4 Limhamn Möbel AB

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*For reasons of confidentiality, a fictitious name is used for the company and respondent under research. In the remainder of this report, the company as well as the interviewee are labeled respectively Limhamn Möbel AB and Sylvia Andersson.*

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Limhamn Möbel AB has been designing and manufacturing woven and hand tufted rugs since late 19th century. Since its foundation, the company has been operating from its own factory on the western coast of Sweden, which is an area rich in textile manufacturing history. Company's products are developed right next to the factory in order to test the production more closely.

Today, Limhamn Möbel AB is represented in around thirty countries all over the world. The company's customers include everyone from chain stores to hotels, offices, restaurants, government buildings, authorities and private individuals. Over the years, Limhamn Möbel AB has grown to become an international rug designer and manufacturer, with consistent focus on design and product development. The company builds on Swedish traditions of craftsmanship, which are developed and interpreted in modern form. Employees are developing techniques and individual colours, dyes and collections.

Limhamn Möbel AB takes an active responsibility for the environment and is environmentally certified according to the ISO 14001 standard. This shows that company's suppliers are taking into account the environmental responsibility, which is an important aspect of the company.

The company has around 120 employees and about 15 to 20 relevant suppliers. Three of them are delivering to company only one product/material and the rest seventeen suppliers are delivering multiple products to the company.

## **Interview with Sylvia Andersson**

Sylvia Andersson holds the position of purchasing, quality and environmental manager of Limhamn Möbel AB. The respondent argues that the competition in furniture industry field is quite hard and thus the supplier selection process is vital for the company.

### **4.4.1 Goals and Priorities**

Sylvia Andersson mentions that the goal of the company is to increase the turnover and thus the reduction of costs in order to increase the profit of the company. In order to achieve these goals when it comes to the supplier selection, company focuses mainly on delivery times that the supplier can provide, the prices of supplier's products as well as the quality and environmental level of products. The respondent states that not all company's suppliers are able to reach the degree of quality and environmental demands. Hence, the company can face some difficulties in order to change the final product and its appearance in market. As the company is keeping the same strategy, a large emphasis is given to long relationships with company's suppliers, as the maintenance of quality is important. However, the furniture industry demands a constant search for suppliers that might match better with the strategy or for suppliers that provide some other features that current company's suppliers have.

### **4.4.2 Centralisation/Decentralisation**

The company's purchasing decisions when it comes to supplier selection, is executed mainly (except the call-offs) by the company's purchasing department. In other words, almost all share of supplier purchasing decisions are completed by only one department of the company. In that procedure of supplier selection, two layers of management are involved: the Chief Executive Officer (CEO) and the purchasing department. Moreover, except these two departments that are involved in the supplier selection process, the product development is taking part in the final selection. In addition, purchasing tasks and roles are defined in the company's written documents. These tasks present the evaluation of suppliers, the company's quality and price demand as well as the environmental statement of the company.

### **4.4.3 Political/Legal and Geographical Factors**

The company has both International and National suppliers. 85 per cent of these suppliers are international and the remaining 15 per cent are national suppliers. The company strategy to keep national suppliers is the reason why a national supplier can provide and keep flexibility to the company, as these suppliers are located close to company's factory. On the other hand, the reason why the company is choosing to interact with international suppliers is because there are no suppliers in the national territory that can meet company's demands. These international suppliers are located in Europe; some of them in Italy and in Spain. Sylvia Andersson continues with the statement that *“the flexibility and our evaluation of the products are really high and every end product is order initiated from the customer. So, if you have a supplier from Asia, you cannot have this flexibility”*. There are many entry barriers that the company can meet when entering an international market when it comes to interaction with international suppliers. Sylvia Andersson states that there are some cultural factors, that difference from supplier to supplier, as for instance how important the delivery times are for them. In order to minimise the barriers that the company might face, it is important to predict some of these barriers in advance, before the agreement with the supplier. However, the respondent mentions that it is *“impossible to predict everything”* and thus, the company had to have some caution about these barriers. This can be achieved by trying some *“test*

orders” to the suppliers that the company interacts with and it is vital for the company to have always a “*backup*” supplier. Nevertheless, these entry barriers will not make the company switch from one country’s supplier to another. In fact, Sylvia Andersson argues that “*other issues that the company has to face can lead to this point, as for instance the small budgets of a Swedish supplier. Therefore, the decision that has to be made by the company is not an International or a Swedish supplier but mainly more an International or another International supplier*”.

#### **4.4.4 Economic Factors**

The financial crisis in the recent years influences the whole furniture industry. Companies should be aware of how their supplier’s businesses are developing as well as the supplier of their suppliers. Moreover, Sylvia Andersson argues that companies should not be depended on only one supplier for one material, but have backups in times of crisis. In addition, the company is taking into serious consideration economic factors such as country’s infrastructure, natural resources, currency stability and inflation when it comes to supplier selection these factors can lead company to change their supplier.

### **4.5 Johanson Design**

Johanson Design Furniture Company founded in 1953 and based in Markaryd, Småland of Southern Sweden. The company is manufacturing furniture in a production plant, which is located in Markaryd Municipality in the Kronoberg County. With a conscious and consistent focus on designed that is following the “Scandinavian lines”, Johanson Design succeed to establish a strong global brand in furniture industry, operating worldwide and in the past five years has exported furniture to more than 52 countries.

The company produces a range of products, with different design, for all kind of environments. This variety of items provided by Johanson Design goes from chairs, tables and u-sits to barstools, sound absorbent products and coat hangers.

Johanson Design is collaborating with designers within Swedish and European region. Furthermore, company is focusing on quality craftsmanship, employees’ experience and traditional furniture manufacturing methods. In addition, Johanson Design environmental responsibility is certificated by ISO 14001.

The company has around 45 employees and the range of company’s relevant suppliers are 40 to 50. Five of company’s suppliers are delivering only one product such as raw materials, plastic materials, thermoplastic elastomers (TPE) and aluminum. The remaining suppliers are delivering multiple products to the company.

#### **Interview with Dani Johanson**

Dan Johanson is the owner and the manager of Johanson Design. The intensity of competition in furniture industry described by Dan Johanson as quite hard and the main competitors of the company are coming from Scandinavia, but competitors can consider also furniture industries from all around the world.

##### **4.5.1 Goals and Priorities**

The company’s priority is that every aspect of the industry to “*grow in harmony*”, as the respondent mentions and continues with “*if you are growing too fast you might miss something*”. In fact, the company is trying to avoid quick growing due to the fact that it might miss aspects that are vital to the company such as quality and delivery times. Therefore, the company’s purchasers are very careful with the supplier selection in order to have great control and

knowledge of their suppliers demands. In addition, each change of strategy that the company will decide to follow, will affect the supplier selection. In other words, as Dan Johanson mentions, each selection of a supplier depends from the product that the company is willing to produce. In conclusion, as Dan Johanson mentions, it is possible for the company to change a supplier, if the supplier's products/materials are too expensive for the company and the company cannot afford the costs.

#### **4.5.2 Centralisation/Decentralisation**

The company's purchasing decisions when it comes to supplier selection, are executed by the company's purchasing department. Dani Johanson also states that all company's departments exert influence on supplier selection decisions, with one or two members of each department. The respondent states that in the supplier selection process are involved two layers of management and three departments of the company; the production manager, the design manager as well as the purchasing manager, with two to six persons in the final supplier selection. In addition, all departments that are involved in the supplier selection process have to work collaterally with purchasing tasks and roles that are defined in company's written documents. Furthermore, company's characteristics and abilities, as ISO 14000, are provided in written documents when it comes to supplier selection process.

#### **4.5.3 Political/Legal and Geographical Factors**

As the Dan Johanson states, the company has both International and National suppliers. The 75 per cent of the company's suppliers are located in Sweden and the remaining 25 per cent are located in other Scandinavian countries as well as from other countries in Europe. In example, some components are provided to the company by the suppliers that are located in Italy and in Germany. The main reason why the company collaborates with Swedish suppliers is because there are advantages as the suppliers are located more closely to the company's factory. In addition, the respondent mentions that some "*special*" components or products that the company is seeking for, can be provided by Swedish suppliers, but only by European suppliers. There are also some regulations such as government regulations and supplier agreements that the company has to meet in order to interact with international suppliers. However, due to the fact that there are few regulations that company have to face (e.g. European Union trade agreements) when interact with European suppliers, the supplier selection process is not greatly affected. In fact, as Dan Johanson states, the company will not be willing to choose a supplier from a country that can lead the company to meet many regulations.

#### **4.5.4 Economic Factors**

The Swedish furniture industry, as all industries, has been influenced by the financial crisis in the recent years. The respondent mentions that "*we all influenced by the economic crisis?*" however, this crisis did not had much affect in the company's supplier selection process. Moreover, the company has been forced to change some of their suppliers as well as their supplier selection, but this procedure is not caused by financial reasons. In addition, Dan Johanson argues that the company is not taking into big consideration, factors like infrastructure of the supplier's country, natural resources and currency stability when it comes to supplier selection. However, it can provide advantage for the company if those economic factors are minimized.

## 4.6 deNord

DeNord is a Swedish company and located in Rydaholm, which is locally situated in Värnamo Municipality, which belongs to the Jönköping County. In the factory located in Rydaholm, hundred per cent of the company's products are manufactured. Company's most important exports countries are located in Nordic countries (Denmark and Norway) and some other European countries (United Kingdom, Germany, Holland, Switzerland, Greece, Spain, Portugal and Austria).

The company manufactures chair, bar stools, sofas and stools with focus on tradition of Swedish furniture. The company also produces benches that are made to warm halls both at home and in public settings. DeNord also designs sofa sheets on a minimal surface that are able to accommodate and contrast between the leather, wood and metal made for narrow spaces in the halls and corridors.

DeNord collaborate with four major suppliers. That is to say, two different suppliers that are delivering steel materials (for table bases, frameworks for chairs, etc.) as well as two suppliers that are delivering wood to the company. In addition, deNord environmental responsibility is certificated by ISO 14001.

### Interview with Peter Lindvall

The co-owner of deNord, Peter Lindvall has been working in this field for over 20 years. The respondent mention that company holds two different suppliers that are delivering steel material (for table bases, frameworks for chairs, etc.) as well as two suppliers that are delivering wood to the company. The respondent considers that the competition in the furniture industry is very tough due to the fact that many products are existing within the market and thus the profitability is not at high levels.

#### 4.6.1 Goals and Priorities

According to Peter Lindvall, deNord is focusing on manufacturing unique products for the market and hence, with a goal that is aiming at quality products. When it comes to supplier selection, deNord is focusing on quality and delivery times of materials that the supplier can provide as well as reliability of supplier in the market. Moreover, according to Peter Lindvall, when it comes to supplier selection, deNord is taking into consideration "*what suppliers can produce*" and in addition, the respondent notes that "*we are trying to push the supplier to do further that it has been done before*".

Additionally, a change in the company's strategy will affect the supplier selection decisions, if the company, for instance, wants to focus more on quality or on delivery times as Peter Lindvall mentions.

#### 4.6.2 Centralisation/Decentralisation

All departments within the company are influencing the supplier selection decisions. In fact, the respondent notes that, "*if you have a flat organisation, you hear point of view from all departments of the company*". As the respondent states, all the departments of the company are equal when it comes to strategic investments about suppliers. In other words, all departments come to a common agreement regarding suppliers. The departments that are involved in the supplier selection process within the company are no more than three. However, as Peter Lindvall notes, occasionally there is no need from all departments to get involved when "*every day purchases*" are processed. DeNord managers define in written documents requirements such as ISO 14001 as well as environmental certification that are pre-

requisite for company's suppliers; as the respondent mentions *"if suppliers do not have these certifications can be disqualified"*.

#### 4.6.3 Political/Legal and Geographical Factors

According to Peter Lindvall, deNord has national suppliers, due to the fact that Swedish suppliers meet company's requirements as well as for volume related reasons. Furthermore the advantages, that a Swedish supplier can provide to the company, are the same language as well as the distance between suppliers and company, mentioned the respondent. Although, at some cases deNord is focusing on holding local suppliers, but with the meaning of European Union, as respondent mentions. In addition, company used to have some suppliers from China, through trade agents, and also the company is in the process of examining a supplier that comes from Poland. The respondent also mentions that in recent years, international suppliers are approaching Swedish companies more frequently, although Peter Lindvall concludes with the note *"maybe an international supplier is cheaper, but if something goes wrong there is a chance to lose this profitability"*.

#### 4.6.4 Economic Factors

Peter Lindvall mentions that the financial crisis in the recent years is a bit challenging for the company. DeNord is focusing on financial stability of its suppliers and constantly examine this stability. According to Peter Lindvall, deNord does not take into consideration factors such as country's infrastructure, natural resources, inflation and currency stability, if the suppliers meet company's requirements. Peter Lindvall notes that an economic factor that can be taking into consideration for Swedish Furniture Industry is that Sweden is not part of the Eurozone. In other words, as Peter Lindvall mentions *"the Swedish Krona is about 25 per cent stronger than the Euro as it was 2 years ago, which means that a product coming from Eurozone is 25 per cent cheaper"*.

Table 4.1 shows an overview of the six case companies' most important factors and criteria

Table 4.1 Case Companies' important factors and criteria

Company	Internal Factors		External Factors	
	Goals/Priorities	Central/Decentralisation	Political/Legal	Economic
<b>Englesson Sverige AB</b>	Price, Quality, Lead Times, Reputation	Decentralisation, 2 Departments Involvement (2-5 persons)	Supplier Location, Reliability. No Entry Barriers	Not Affected by Crisis. Currency Stability
<b>Lammhults Möbel AB</b>	Quality, Lead Times	Decentralisation, 3 Departments Involvement	Supplier Location, Competence. No Entry Barriers	Not Affected by Crisis.
<b>Stolab</b>	Price, Quality, Environmental Focus	Decentralisation, 3 Departments Involvement	Supplier Location. No Entry Barriers	Not Affected by Crisis. Currency Stability

Company	Internal Factors		External Factors	
	Goals/Priorities	Central/Decentralisation	Political/Legal	Economic
<b>Limhamn Möbel AB</b>	Quality, Lead Times, Environmental Focus	Decentralisation, 3 Departments Involvement	Flexibility. Minor Entry Barriers (Cultural Differences)	Affected by Crisis. Currency Stability
<b>Johanson Design</b>	Price, Quality, Lead Times	Decentralisation, 3 Departments Involvement (2-6 persons)	Supplier Location. Not Entry Barriers	Not Affected by Crisis.
<b>DeNord</b>	Quality, Lead Times, Reliability	Decentralisation, 3 Departments Involvement (3 persons)	Supplier Location	Currency & Financial Stability

## 5 Analysis and Discussion

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*This chapter has the purpose to summarise the empirical data gathered through authors' interviews and execute an analysis by combining literature review chapter and the specified research questions, as well as the authors' personal opinions and viewpoints.*

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### 5.1 Goals and Priorities

This section starts by analysing the goals and priorities of the six cases of Swedish Furniture Industry companies included in this research. The next step will ascertain how these goals and priorities influence the supplier selection. Companies' strategy will be analysed with regard to how it may influence the selection of suppliers is analysed at the end of this chapter.

David (1989) argues that every organisation has a unique purpose, goals and priorities. In addition, Popova and Sharpanskykh (2011) mention that all companies set one or more goals in order to achieve desired results. The authors continue by pointing out that organisations determine and evaluate their goals and priorities in anticipation, which contribute to indicate the estimated performance such as profit and costs. One major aspect that each respondent affirmed, when it comes to their company's goals and priorities, was to set aim on quality. Gosen, Babbar and Prasad (2005) recently argued that quality is becoming globally important criterion and might affect the performance of the companies. In fact, this statement was supported by all the respondents, as their main focus is on quality. Other relevant common aspects, noted by the researchers, mentioned when interviewing the respondents, were factors such as increased turnover, growth with profit and growth in harmony.

It was noted by the researchers that both the respondents of all the six cases and various published academic papers highlighted that the main supplier selection criteria are quality. Another common criterion mentioned by the respondents was the importance of following the delivery time. Dickson (1966) presents a classification of distinct weights for criteria where quality and delivery time are placed in the first positions (see Table 1). Furthermore, Wilson (1994) argues that quality was already leading the rank of criteria in the nineties, as it has a direct relation to the total cost of a product through direct or indirect costs connected to product quality. Two years later, in another research regarding supplier selection, Choy and Hartley (1996) state that the most essential criteria are the ones that are classified within the consistence including quality and delivery time. Quality and delivery time are the two major criteria for the interviewed companies in the Swedish furniture industry when it comes to how these organisations are selecting their suppliers. In addition, it could be seen that these two criteria are unanimous concerning companies' goals and priorities. The researchers have noticed that these two main criteria might be a key success factors for companies to maintain a share of this highly demanded and competitive market, as all the respondents mentioned in the interviews. Hence, in order for these case companies to achieve their set goals and priorities, is fundamental to take into consideration factors such as quality and delivery time.

Despite of delivery time and quality being the most two common criteria implemented by the case companies in the Swedish Furniture industry there were several other mentioned factors when it comes to supplier selection. This includes factors such as reliability and reputation of suppliers, buyer/supplier collaboration as well as environmental focus on suppliers' materials. Michael Englesson, Peter Lindvall and Dan Johanson, the respondents who were respectively representing Englesson Sverige AB, de Nord and Johanson Design

mentioned that reliability and reputation as a vital factor to take into consideration when selecting a supplier. Langley et al. (2008) affirm that the most two fundamental factors in supplier selection for the majority of purchasers, after quality, are reliability and performance history. The buyer/supplier collaboration was mentioned in two out of the six cases the researchers studied. Dan Johanson highlighted the importance of collaborating with Johanson Design suppliers which can enable a closer control as well as better knowledge of the company's vendors. This was enhanced by Peter Lindvall, who stated that innovation can be obtained through collaboration, as the company can examine that its suppliers are able to manufacture, in order to improve future productions. Various successful organisations acknowledge the essential role played by purchasing in the entire supply chain and supplier/buyer collaboration are an important part of successful procurement process (Langley et al., 2008). However if the motivation lacks by the supplier, a collaboration will not exist between supplier and buyer (Leenders and Fearon, 1997). When it comes to environmental focus, Sylvia Andersson from Limhamn Möbel AB and Martin Johansson from Stolab mentioned that, when selecting a supplier this criterion is taken into account, which might enhance the image of the product for being environmental friendly.

Phusavat et al., (2009) point out that, strategic criteria when chosen by top executives with regard to supplier selection, influence positively the competence to accomplish strategic aims concerning manufacturing operations. According to Michael Engleson from Engleson Sverige AB and Thomas Pettersson from Lamnhults Möbel AB the change in the strategy were not so relevant in the last decade when it comes to the supplier selection. However, Stolab, Limhamn Möbel AB, Johanson Design and de Nord experienced changes in their strategy which obligated these four companies to change their suppliers. This resulted in search for new or more relevant suppliers who were able to either follow the new strategies or to match the new requirements of the companies. Leenders and Fearon (1997), mention that the assessment of the potential supply sources need to take into account two issues. This includes the competence of the supplier in following the requirements imposed by the purchasing company in the short and long run, as well as the supplier motivation in meeting these requirements.

To conclude the six case companies of Swedish Furniture Industry analysed present similar aspects when it comes to goals and priorities in the supplier selection. The main factors that these companies are prioritising, are mainly quality and delivery time. The main supplier selection criteria approached among several published academic papers are quality, delivery and service. This also was reinforced by Dickson (1966) when the author conducted a survey in many organisations where quality and delivery were placed in the first positions as supplier selection criteria for these companies. Additionally, the results achieved by Choy and Hartley (1996) coincided with previous research in this topic where these authors mention that the most important criteria are the ones that are grouped within the consistence such as quality and delivery which are also important at all level in the supply chain.

Dickson (1966) points out reputation as a considerable important criterion which is corroborated by the respondents in this research, where it is stated that supplier reputation is also vital for the companies' supplier selection process (see table 2.1, rank 11). Some other factors such as suppliers' reliability, supplier environmental focus and buyer/supplier close collaboration were also highlighted as essential for the companies' supplier selection process. Langley et al. (2008) ranked reliability as a third fundamental criterion for the majority of purchasers, regarding supplier selection process. This implies that companies' goals and priorities have direct influence on the supplier selection in the Swedish Furniture Industry.

## 5.2 Centralisation/Decentralisation

This section will present the analysis and discussion of the degree of centralisation or decentralisation of the six case companies involved in this research in Swedish Furniture Industry. Furthermore, it will be shown how many departments, employees as well as layers of the companies can be directly or indirectly included in the supplier selection decisions. As companies' written documents might also have an influence on the level of centralisation and decentralisation, the researchers will also analyse to what extent these six case companies document their roles and tasks with regard to supplier selection decisions.

Kathawala and Lingaraj (1990) point out that for several years business organisations have been experiencing many changes in their structure. Yet, in the last few decades companies have been undergoing a shift in the economy away from a manufacturing focus and more to a service orientation. Moreover, Kathawala and Lingaraj (1990) highlight that the advancements in technology have brought important changes to the management of the business activities. These changes have brought about major shifts in how the organisation structures itself. Gamage (2008) states that centralised organisations focus their authority at the higher levels of the power-structure. On the other hand, decentralised organisations have as a characteristic to release much of this authority to the lower echelons of the managerial structure. Moreover, Moynihan (1985) notes that the existence of a centralised organisational structure occurs when all the power for decision-making has its focus at one point of the organisation; whilst decentralised organisational structure exists when the power for decision-making spread among several individuals. Decentralisation has undoubtedly been the primary direction that most companies are taking when it comes to restructuring their operations even though some have questioned this belief (Kathawala and Lingaraj, 1990).

The majority of the respondents that were representing the six researched cases stated that their purchasing departments have nearly hundred per cent autonomy in making decisions related to supplier selection. However, in a few cases, these purchasers have the freedom to buy materials from the existing suppliers, but when it comes to selecting new or changing vendors some other departments might be involved in the supplier selection decisions. Kathawala and Lingaraj (1990) affirm that the flexibility and responsiveness that a decentralised structure offers fits in very well with the shift to the service economy where customer satisfaction and speed are of the essence. Yet, in many manufacturing and non-manufacturing operations signs of centralisation can be found, especially in the organisation of functional areas. In an isolated case, at deNord, it was mentioned that all departments can have influence on the selection of suppliers, for all the company's departments are equal with regard to strategic investments in suppliers.

Despite of the statement made by Peter Lindvall from deNord, where all the departments are included in the supplier selection, having the same weight in decision-making processes, it could be noted that regarding daily purchases, only the purchasing department is involved in these activities. Examples of departments such as product development, production, managing department were mentioned during the six interviews. Rowe (1984) argues that many companies utilise a decentralised approach, as it enhances flexibility by allowing swifter decision-making from those closer to the action and also by bringing the profit motive to bear on a wider group. That is to say, most of purchasers of the six interviewed companies have the right of freedom concerning making-decisions, as buyers are the closest actors from the purchasing company's perspective in the buyer/seller action. As mentioned in the literature review with regard to a decision of source of supply, three processes need to be taken into consideration: selection, evaluation and development of the suppliers

(Ellram, 1995) It can be noted that this closeness may favour the entire organisation or part of it financially, since fewer employees and assets are involved in this time consuming process. This was what all the six respondents, of the manufacturing furniture companies participating in this research, stated that no more than five employees are involved in the selection of supplier decisions.

Gosen et al. (2005) state that centralisation/decentralisation involves variables related to what degree the employees are involved in organisational decision making as well as to the degree in which individuals are inspired to critically evaluate and inform about the occurred problems through reports. Moreover, Rodrigues (1995) points out that centralisation refer to the role of formal authority and hierarchical mechanisms plays in the organisation's decision-making processes. Formalisation represents decision making through bureaucratic mechanisms such as formal systems and prescribed procedures. Rowe (1984) states that decentralisation is maintained, not by centralising decisions towards the head managers, but by setting documented tasks, rules and procedures which employees can work with. According to Thomas Pettersson, the respondent at Lammhults Möbel AB, only few factors are documented when selecting a supplier. This implies that most of the decisions are made through meetings with potential suppliers and through observation by visiting these suppliers' facilities, where such procedure is defined by company's purchasers' perceptions. However, during the interviews, nearly all the purchasing departments in the six case studies gather information about their potential suppliers by documenting their attributes and qualities. Afterwards, purchasers use this information to examine which of the potential suppliers are the most suitable for each company and their requirements. Finally, the buyers select the appropriate supplier based on these documents.

In order to conclude this discuss and analysis, it was noted by the researchers of this paper that all the participants in this study affirmed that there is a hundred per cent freedom to make decisions regarding existing supplier. Additionally, when it comes to decisions about new suppliers more departments might be involved, but not necessarily the top management, which makes these companies more flexible in the decisions, as the authority is released to lower level of the managerial structure. As all the six companies involved in the study present a decentralised approach, with the purchasing department being one of the most responsible departments in the firms when selecting suppliers, the companies might favour from that. This is reinforced by Gunnarsson (1993) with the statement that decentralisation can be chosen due to the fact that it is more flexible, regarding response to market needs. It was perceived by the researchers that supplier selection criteria are affected by decentralised companies, in a way that purchasing managers have the flexibility to respond to markets' needs and demands where the buyer may or not change company's criteria. This analysis shows that decentralised organisations have a certain influence on supplier selection, as the closest departments to the suppliers are directly in contact with the vendors, such as purchasers, manufacturers and developers. These are the employees who master this field of business and know what is essential for the company's final products as well as what materials to acquire from the suppliers.

### **5.3 Political/Legal and Geographical Factors**

As noted by the researchers, most of companies participating in this study have international suppliers are located in European countries and in most of cases, these countries are members of the Eurozone, such as Italy, Germany and Spain. The reasons that companies are selecting to collaborate with international suppliers can vary. As Michael Englesson from Englesson Sverige AB and Thomas Pettersson from Lammhults Möbel AB men-

tioned, the main reason of selecting international suppliers is the level of competence that international suppliers can provide to the organisation. Drejer (2000) mentions that core competences can offer value to the customers of the firm. Furthermore, Michael Englesson highlighted that another reason of selecting international suppliers is the delivery time that can be provided by the supplier. Uncertain delivery times occur due to a number of different causes, including capacity constraints, scheduling difficulties, uncertain material supplies and production processes, and quality problems (Weng & McClurg, 2003). Furthermore, Thomas Pettersson stated that another reason of choosing an international supplier is based on low costs of materials. Moreover, Sylvia Andersson, argued that the reason that Limhamn Möbel AB is selecting international suppliers bases upon that a Swedish supplier cannot meet company's demands. Yet, Dan Johanson, the respondent of Johanson Design, affirmed that some special components provided by international suppliers, are the main reason why these suppliers are selected.

Additionally, Michael Englesson from Englesson Sverige AB and Thomas Pettersson from Lamhults Möbel AB argued that no barriers were faced when it comes to entering the European market. This was supported by Baumol (1990) with the statement that the level of operations is developed in a country directly concerning regulations and policies. Furthermore, McGivern and Tvorik (1997) affirm that the effect of free-trade agreements can change the volumes or the range of the external environment through an increased access to world markets. However, Dan Johanson and Sylvia Andersson the respondents who were respectively representing Johanson Design and Limhamn Möbel AB mentioned that their companies faced some minor entry issues and barriers regarding these international markets, but in fact these factors did not affect company's supplier selection decisions.

On the other hand, the main factor that influences almost all case companies regarding the selection of a national supplier is geographical location. Dan Johanson from Johanson Design, Peter Lindvall from deNord and Martin Johansson from Stolab argued that is very important for the company to have its supplier close to the factory. Moreover, Sylvia Andersson the respondent from Limhamn Möbel AB highlighted the geographical factor can also provide flexibility to the company. Langley et al. (2008) argue that the need for flexibility and responsiveness is a requisite for customer service through the supply chain. The authors also mention that organisations need a network system that is able and flexible in order to respond and modify in the marketplace in short or long run. The importance of rapid response strategy to customers' needs which is directly connected to manufacturing flexibility (Kasarda and Rondinelli, 1998). In addition, Langley et al. (2008) highlight that flexibility is essential for organizational success, as the requirement for flexibility often has the meaning of leasing facilities, equipment and support services.

Another factor that can lead companies to select national suppliers are some materials that can be found in the Swedish market which are suitable for the Swedish furniture companies, as Martin Johansson from Stolab mentioned. Furthermore, as Peter Lindvall from de Nord affirmed, companies tend to have Swedish suppliers - if these suppliers meet companies' demands and volumes.

In order to conclude this discussion and analysis if the political, legal and geographical factors reflect on the supplier selection, it was noted that all the participants in this study stated that the reason why choosing an international supplier is because their competence, delivery time and unique products. As these companies did not face any or only irrelevant entry barriers, these factors did not have any influence on their supplier selection. However, when selecting a supplier, the only external factor, among the ones analysed in this section, that might influence the supplier selection is the geographical location of the suppliers.

This is supported by Dickson (1966) who states that product quality and delivery lead the ranking list of supplier selection criteria and the only external factor that might reflect on the companies vendor selection criteria is the geographical location (see table 2.1, rank 20). This is due to the fact that the six companies' managers prefer to have their vendors' closely located to their manufacturing factories in order to react more easily to what is required by the demand. This means that geographical location of the suppliers plays an important role when it comes to supplier selection decisions and process where political and legal factors were in most of the cases not taking into account by these organisations.

## 5.4 Economic Factors

The efficiency of supply chain management has become a vital factor in an organisation's competitiveness, due to more globalised markets, customer needs customer needs, and the complexity of product parts and components (Park, Shin, Chang & Park, 2010). Simchi-Levi, Kaminsky and Simchi-Levi (2003) state that it is noted that managing the supply chain in a proper way may not only reduce risks and uncertainty, but may also optimise the inventory level and process cycle time. This way companies are able to satisfy customer need and make profit out of that. Burke, Clarke, Barrow and Molian (2008) point out that if radical shifts are planned or not, these changes will probably occur within the broader business environment. Burke et al. (2008) also affirm that factors having influence on the business and/or its markets which are caused by the economy, likely switch in the price of key commodities such as whether the national economy is growing, flat or in a period of recession.

Park et al. (2010) point out that some factors, such as financial and economic status, performance, are influencing the relative supplier attractiveness and economic factors describe the strength of the relationship between buyers and suppliers. The majority of the respondents of the analysed companies in this research argued that the economic crisis did not influence on their organisations in a high scale. However, some of the respondents mentioned that, in the whole, the furniture industry was affect by the economic crisis that began at the end of 2008. Krugman (2011) characterise the financial crisis as the worst since the *Great Depression* (the worldwide economic depression in the decade preceding World War II). Furthermore, Bhattacharyay (2011) states that the world has faced a remarkable systemic financial crisis originating from the USA in September 2008, which led to a deep worldwide economic recession. Peter Lindvall, the representative respondent of deNord highlighted that deNord's purchasers started taking into consideration their suppliers' stability in the last years. It can be noted that the economic crisis that started recently and continues nowadays, did not affect the companies individually, but generally. When it comes to supplier selection, the economic instability did not have a direct impact on the six case companies in this research. Nevertheless, the researchers could verify that these companies begun to take more closely into consideration the suppliers' stability, as the most stable suppliers will be capable of surviving this period of uncertainty. According to the respondents, it can be concluded that the economic crisis did not reflect directly on the Swedish furniture industry, consequently either on the supplier selection, as companies maintain the same line with regard to their procedures and operations.

Phatak (1995) states that the definition of economic environment can be based on some factors such as the level of economic development, infrastructure, natural resources, currency convertibility, degree of inflation and interest rates, as well as wage and salary levels. Furthermore, Mallik and Bhar (2011) argue that the effect of inflation on economic performance is an essential but complex topic, because it may influence growth negatively.

However, in any of the interviews made by the researchers, it was mentioned that these economic factors, mentioned above, are not taking into consideration by any of the case companies or can appear in the bottom of the companies' selection criteria. The only aspect that might be relevant for these companies is the currency instability, especially the Euro. Currency movements have a vital impact both on the returns achieved by cross-border investors as well as on the costs occupiers have faced in different countries (Hutchings, 1997). Western (2004) points out that companies should take into consideration currency realignments, as it play a vital role in determining the pace in which stock markets of the world will rise or fall, some faster or slower than others. This is due to the fact that all the studied companies buy the majority of their components or raw material from European suppliers using the Swedish Krona. Currency stability is not necessarily in everyone's interests, as it was known that exporters and domestic debtors can benefit from currency depreciation (Bulmer-Thomas, 1995). This is exactly what Swedish purchasing companies are doing, especially the ones analyse from the Swedish furniture industry. That is to say, these companies purchase cheaper than that it was done in previous years, owing to the euro instability. The Swedish krona has become stronger against the dollar and the krona also appreciated against the euro at 8.8871, after strengthening to 8.8671 (Blommborg, 2012).

In order to conclude this discussion and analysis related to economic factors it was noted by the researchers that economic factors such as infrastructure, natural resources, inflation and corruption among others do not have considerably reflection in the supplier selection. Another major outcome that can be concluded, based on the respondents' answers, in this analysis, is the fact that financial crisis did not affect the Swedish furniture industry in high scale compared to what a number of Eurozone members are facing. Thus, an important aspect to be considered by the researched companies in the Swedish furniture industry is the fact that the currency instability, especially the Euro instability is a quite important economic factor, as many suppliers are located in the Eurozone. This implies that the companies, in this study, are making the most of this financial situation and buying more inexpensive than what it was done before the economic crisis broke in 2008 and also seeing what suppliers are financially stable. The survey conducted by Dickson (1966) shows that financial position of the supplier is graded as considerable importance for the organisations (see table 2.1, rank 8). Furthermore, Ellram (1990) measures economic performance and financial stability of suppliers as two of the most important financial issues on the ranking list (see table 2.2). Moreover, on the Kannan & Tan's (2002) research, the financial stability was reached the figure of 4.03, coming in the 8th position of author's elements list (see table 2.3). Hence, the financial stability is another criterion that plays an important role when selecting a supplier for companies and its importance was also mentioned by many authors in this field including in the top ten rankings.

## 6 Conclusions

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*This chapter will provide the reader an overview of the findings from the empirical and analysis sections by presenting theoretical and managerial contributions. Furthermore, researchers of this thesis will also provide suggestions for future studies.*

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The purpose of this research is to analyse how the internal and external organisational factors are reflected in the supplier selection criteria in the Swedish furniture industry. The researchers of this paper pursued this purpose by conducting a multiple case study of six manufacturing organisations in the Swedish furniture industry.

### 6.1 Theoretical contributions

After studying the empirical and the analysis chapters the researchers of this paper found a number of theoretical contributions regarding the supplier selection process and how the internal and external factors might reflect on decisions concerning vendors. The first contribution that can be mentioned is the fact that goals and priorities applied by the six case studies coincide with what it was mentioned in the literature review. This implies that these companies in the Swedish furniture industry still have similar supplier selection criteria as firms have been using in the last 50 years. Quality and delivery time are heading these companies' ranking lists affecting directly their supplier selection.

Another contribution that it was verified by the researchers of this paper is the fact that the case study companies present a decentralised approach where the purchasing departments have a total independence with regard to day-to-day supplier selection decisions. Furthermore, it could be seen that some other departments might participate in the supplier selection decision-making, but not necessarily the top managers may be involved in these activities. This facilitates such process, as decisions can be made more quickly and effectively by experts in purchasing without consulting top executives. This decentralised approach can provide an advantage of how companies are selecting or maintaining their supplier criteria list, as organisations are becoming more flexible due to market requirements and needs through decision-making process. This aspect was corroborated in the literature chapter where it argued that many companies, nowadays, prefer to use a more decentralised approach in order to be more flexible, as the department professionals are the ones who master the procedures and operations due to their closeness to the actions.

A third contribution found in this research is that the case companies in this study are collaborating with both national and international suppliers where all the relevant international vendors are located in Europe. By purchasing from Europe, Swedish companies face irrelevant entry barriers that did not reflect on the supplier selection criteria owing to the trade agreements within the European Union. This was verified in the literature where it was mentioned that free trade agreements facilitate the business activities of countries. However, the most important external factor and criterion that could be seen in this research is that these purchasing companies are prioritising geographical location of their suppliers. This aspect can directly be connected with companies supplier selection criteria, as the advantage of having suppliers close to the factories, can make the geographical location of the supplier occupy a better position in the supplier selection criteria ranking list. On the other hand, an unsuitable supplier location might cause some loss of position in the company's ranking criteria list or even lead to a vendor disqualification. The suppliers' location, will have a great influence in the supplier selection regarding both Swedish and non-Swedish suppliers, accounting for one of the reasons why these companies do not interact with Asian suppliers.

A forth contribution that can be highlighted by the researchers of this thesis is the fact that economic factors does not have a relevant influence on supplier selection decisions, as it was found out in the conduction of this research. One single aspect that might have reflect on the supplier selection decisions the instability of the Euro, as the case study companies are buying raw materials from them. Due to economic crisis affecting the European Union members, it is becoming more and more inexpensive to purchase from the Eurozone by utilising Swedish Krona.

## **6.2 Managerial contributions**

The outcomes of this research can have practical contributions for executives. It shows that the researchers of this paper have an adequate basis for assuming that purchasing companies might profit from focusing on buying quality products and on reducing delivery time as well as becoming more and more environmentally oriented, if firms desire to operate at the same pattern as the case companies' high price level and design perform. Another aspect that plays a vital role to succeed in this field of business is the geographical location. It was noted that the closer the supplier is located to the purchaser the easier is for the companies to replace damaged and erroneous shipments in a short period of time. Thus, a supplier situated in a low cost country, e.g. China, can have a huge consequence for the purchasing company regarding the final product price if the order shipped is inaccurate, even though the purchasers acquire cheaper goods in the first place. This is because a new order from Asia implies longer lead times causing delays in the manufacturing process in Swedish companies.

Another contribution that this research establishes is that organisations may adopt a more decentralised approach, as the purchasing companies must be flexible due to the variation in the amount of placed orders by the clients without consulting the top managers. This means, that companies can benefit from the reduction of time and steps required in decision make processes when less people are involved, facilitating the supplier selection criteria by following changes in the demand. The last contribution that can be demonstrated in this study is that companies buying with Swedish Krona are acquiring cheaper goods and services than before, due to the economic crisis that the member of the Eurozone countries are facing, especially regarding currency instability.

## **6.3 Final Reflection and Suggestions for Future Research**

The scope of this research is limited to the Swedish Furniture Industry. The researchers limited the analysis by verifying how internal and external organisational factors influence supplier selection process. However, further research can explore how the dependence of the buyers in relation to the suppliers in the Swedish Furniture Industry can be affected, since the majority of the vendors are located in the European Union area that has been economically instable in the recent years. Another relevant further research that can be analysed is how the manufacturing activities of Swedish Furniture Industry can be influenced by the involvement of the suppliers in this process. This is due to the fact that companies may or not enhance the activities by involving their suppliers in their production. A third further research can provide comparison between Swedish Furniture Industry and another Scandinavian Furniture Industry regarding supplier selection criteria, owing the fact that the furniture industry is in a competitive market to be significant to explore how the neighbouring countries operate. The last and forth future research that the researchers of this thesis suggest is to verify how third-party logistics providers can be involved and to what extent these forwarder companies can influence the supplier selection process in the Swedish Furniture Industry.

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# Appendix A

## Interview Guide

### Company and personal facts

Name of the Company:

Name:

Age (optional):

Position:

Education (optional):

How long have you been working in this field/area and for your current company?:

How would you judge the intensity of competition in your field of business?

### General Questions about the Company

- What is the number of company's relevant suppliers?
- How many suppliers deliver only one product?
- How many suppliers deliver multiple products within the same product line?
- How many suppliers delivers multiple products to different product lines?
- What is the total number of people working for your company?

### Questions about Internal factors

#### Goals and Priorities

- What are the company's goals and which are the priorities of these goals?
- What are the company's goals and which are the priorities of these goals when it comes to supplier selection?
- When there is a change in the strategy of your company, to what extent is the supplier selection affected?

#### Centralisation/Decentralisation

- When it comes to layers of management, how many of these layers might be included the selection of suppliers?
- What is the number of departments involved in the selection of suppliers?
- How large share of the purchasing decisions are made from the central purchasing department?
- How many employees can be involved in the supplier selection process?
- How much influence can other departments than the purchasing have on company's supplier selection decisions?
- Which purchasing tasks and roles are documented when it comes to supplier selection?

### Questions about External Factors

#### Political/Legal Factors

- What is the percentage of national and international suppliers and what are the main reasons for selection national and international suppliers?
- What entry barriers does your company meet when entering an international market (government regulations, supplier agreements, tariffs, etc.)?

## Appendix

- To what extent do these entry barriers affect the supplier selection process?
- To what degree did these barriers you faced drive you to switch supplier from one country to another or to a Swedish supplier?

### Economic Factors

- Did the financial crisis in the recent years influence your company to change the supplier selecti
- When purchasing from certain suppliers to what extent do you take into consideration factors such as country's infrastructure, natural resources, inflation, currency stability etc.?
- Can you mention any economic factor that made you change your supplier selection criteria?