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## THE ROLE OF QUALITY IMPROVEMENT IN COOPERATION BETWEEN CUSTOMERS AND SUPPLIERS IN B2B MARKET

### Introduction

Building partner relationships on the B2B market is largely the result of some kind of evolution from repeated transactions based on loyalty with the source of the purchase, and trust between partners. Recurring transactions are often transformed into long-term relationships in which mutual relations are governed by contracts. If the parties are satisfied with the implementation of the provisions contained in these contracts then such cooperation can become close partner relationships. They can lead to many mutual benefits such as improving product quality and service, shortening order fulfillment cycles, purchasing efficiencies, improved communication between the supplier and the recipient, or joint research and development. An observation of business practices shows that many enterprises improving the processes in a supply chain focus on the implementation of quality, and on environmental and safety management systems conforming to ISO organizational standards requirements as well as operational excellence tools like Toyota Production System, Lean Management and Six Sigma methodologies. Improving their management system, companies more and more often put a lot of effort into shaping positive relations with customers. This is of great significance for companies operating on the B2B market.

The close cooperation of suppliers with customers on this market is based on a partnership and allows for the prompt diagnosis of changing problems and needs depending on their current and predicted organisational, technological and marketing development. A partnership comprises a process in which the customer and the supplier gradually build strong and extensive social, economic and technical relations. Creating partnerships usually results from some kind of evolution beginning with repeated transactions based on loyalty to the source of the purchase, and on confidence related to the positive image of a particular partner. Repeated transactions often transform into long-term connections in which relations are regulated by agreements. If the parties are happy with keeping to the arrangements set out in the agreements, their cooperation may transform into a close partnership (Ghosh & al., 2004; Bonner & Calantone, 2005). This may produce lots of benefits for the partners and these are: improved quality of products and services, prompter carrying out of orders, preferential prices, improved communication between the supplier and the recipient (quicker and more complete exchange of information), and joint research and development (Beverland & Lindgreen, 2005). The benefits enhance the positive images of the partners. In some cases, a partnership between the supplier and the customer may transform into a strategic alliance which is based on the joint achievement of specific long-term goals. Creating partnerships with the supplier lets the recipient on the B2B market transform commercial cooperation into various types of alliances and, thus, gain a range of benefits:

- time saving connected with choosing a supply source;
- reduced risk which is connected with choosing a new supplier or buying a new product (brand);
- quicker and more effective flow of market information;

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-joint solving of technical and organisational problems, which allows greater effectiveness of using resources in process enhancement.

In many sectors of the B2B market, one may notice a tendency towards limiting the number of suppliers that institutional customers cooperate with. Such a limitation of supply sources makes customers cooperate only with suppliers whose reputation and image are, in their opinion, positive.

This cooperation develops and often results in close relationships between the supplier and the recipient. One of its aspects is the precise compatibility of the logistics systems of the partners. Due to close cooperation, partnership marketing in a supply chain significantly contributes to offering higher and higher technical quality as well as before-sales and after-sales service. It also ensures increased use of modern technologies for communication between the supplier and the customers. The intensity and success of mutual cooperation are dependent on clear defining of its aims and scope among partners. Close cooperation between the supplier and customers contributes to:

- shorter cycles of introducing product innovations due to the customer's involvement in new product development which makes it possible to meet their individual requirements;
- flexible reactions to the buyer's needs (the ones connected with a product range, quantity and delivery date) depending on market fluctuations;
- individual service connected with the selling process and after-sales service (technical and informative assistance).

Expansion of many companies and especially global corporations increases the importance of the technical standardization (to ensure the required repeatable quality) as well as organizational standardization (especially in countries where investments are localized and are established relationships with local suppliers). And there is a clear gap between these corporations and indigenous operators. In many cases, it is outweighed by the action of the international corporations that introduced the concept of sustainable (sustainable) development of strong direction for it to work with our partners in the supply chain (suppliers and customers).

## **1. Building relationships in the supply chain**

Supply Chain Management is a fundamental concept of logistics that has evolved to enable organizations to improve their efficiency and effectiveness in the global and highly competitive environment in the twenty first century. This concept comprises processes connected with planning, completion and evaluation related to the flow of materials, equipment, information and human resources among organizations to ensure effective and fast delivery of tangible products and services between the supplier and the customer (Ballou 2004; Stonebraker, 2004, Narasimhan & Matthews 2006). Building a competitive advantage in the B2B sector in particular is subject to shaping the long-term partner relationships between companies and their customers and suppliers. An individualized, trust-based approach towards the establishment of contacts, interests and possibilities of cooperation offers the negotiation and execution of transactions with parties guaranteeing their equivalent positions (called win-win). A positive evaluation of these activities is essential to maintain these relationships, and a sign of readiness for further cooperation partners, by which each party can see the number of measurable benefits. The condition of their feelings is the effective communication in the form and content of communication meeting the expectations of each partner (Miocevic, 2008). The activities of multinational corporations, which introduced the concept of sustainable development, is heavily focused on collaboration with its partners in the supply chain (suppliers and customers). Large corporations are increasingly offering their support through joint ventures, such as deployment projects, operational improvement tools (environmental and safety management systems, Lean Management, Six Sigma, Toyota Production System), or developing concepts for new products. Building partnerships with customers and suppliers can bring the supply chain many important benefits such as:

- shortening the time for new products (and reducing the associated costs);

- ensuring business continuity, together with the methodology developed for identification, analysis, and hazard mitigation (associated with the product and the processes implemented in the supply chain);
- increased flexibility, efficiency and effectiveness of the processes through efficient and rapid communication (aimed at forecasting demand, joint planning of resource use; use of a compatible infrastructure and the use of operational improvement tools [quality management systems/environment/safety, as well as Toyota Production System based on Kaizen philosophy, Lean Management, and Six Sigma]);
- promotion of ethics in economic activity through the avoidance of corruption, discrimination (using monopolistic practices), the discharge of contracts (including trade secrets), and compliance with regulatory requirements, design and analysis of product life cycle according to the guidelines contained in ISO standards series 14 040. (Mollenkopf & al., 2010; Goebel & al., 2012)

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## **2. The role of quality in cooperation with suppliers**

Building a partnership with suppliers is dependent on specifying the requirements they must meet and on the efficiency of employing tools which will make them fulfil the requirements, e.g. audits, supplier evaluation sheets (which are based on an indicator analysis concerning meeting requirements in the area of technical quality, meeting deadlines, price competitiveness, providing services). Significant conditions shaping this partnership are the speed of information exchange and individualization of the approach, e.g. by means of offering a wider and wider range of services by the supplier and getting involved in joint research and development of new products. The most common organizational standard used by companies to ensure the required quality and raise its level with the growth expectations of the buyers are the guidelines contained in ISO 9001. The guidance in this standard includes criteria for the implementation of operational processes (related to product design, purchasing, production, transportation, storage and delivery of goods, installation of equipment at the customer service after the sale).

The standardization of these processes is achieved through Standard Operating Procedures (SOP) and/or employee training programs, provision of resources (personnel qualifications maintenance of facilities, supervised environment), and the use of monitoring and measurement methods which allow the quality level of provided services to be reached and improved. The selection of suppliers is usually preceded by an audit. During the audit clients particularly focus on the evaluation of the capacity of the suppliers. This assessment includes the following elements: infrastructure (buildings, equipment manufacturing), maintenance and efficiency of IT equipment. The periodic classification of suppliers is carried out through continuous monitoring and measurement using indicators relating to the quality of the products entrusted supply (no damage, theft, shortage), timeliness of delivery (no delays in deliveries), responsiveness to complaints, compliance with delivery of documents, and flexibility (the possibility of changes in the size and timing of deliveries). Performed by the

customers, periodic surveillance audits at suppliers' plants include not only the verification of compliance with organizational standards requirements. Audits also provide arrangements for process improvement by reducing the level of risk, the risks associated with quality products, improving the environmental impact and exchange of information (including documents and records). Some international companies require from suppliers regular reports on progress in the improvement of management systems (Feedback Reports Cards) which contain data on cost reduction, reduction of non-compliance, improvement of efficiency and effectiveness indicator processes, reduction of energy consumption, a cutting of cycle times of processes, and optimization of capacity utilization. More and more customers on the B2B market before starting collaboration with suppliers also take into account the introduction of environmental management standards based on the monitoring of environmental aspects. These standards emphasize the objectives (based on the environmental aspects) and programs to improve the impact on the environment, as well as legal compliance in this area. During the audit suppliers are assessed for compliance with the requirements of international environmental management standards ISO series 14000 and legal requirements for the protection of the environment (in particular Directives of the European Union (Fuentes-Fuentes & al. 2011, MacDonald, 2005). Many companies also assess suppliers on the basis of their level of management focusing on the requirements conform to ISO 9001, ISO 14001 and OHSAS 18001. Many international companies publish their own holistic requirements (in the form of Supplier Quality Requirements Manuals, Supplier Quality and Excellence Manuals, Customer-Specific Requirements) which are relevant to a wider range than those of international standards. Compliance with these requirements the clients are verified by the client through the audits and self-assessment of suppliers. The scope of requirements demanded of providers also often includes operational improvement tools (elements of the Toyota Production System, Lean Management), or codes of ethics (code of conduct based on the declaration of the Global Compact). They also audit suppliers periodically. Some international companies require regular reports on progress in improvement of management systems while monitoring suppliers. They also keep monitoring them regularly by means of Performance Feedback Reports Cards which contain data on lowering costs, reducing incompatibility, improving effectiveness indicators and process efficiency indicators, reducing energy consumption, shorter cycles of process completion, and optimization of using production capabilities.

The above-described behaviour may be presented as a cycle of constant improvement. Companies implementing management systems which conform to organisational standards much more often complete sheets and employ periodical evaluation indicators as well as audit their business partners when shaping their relations with suppliers compared to companies which do not implement systems of this type. They also require that bidders implement quality management systems and also, more and more often, an environmental management system. Observing world trends, one may notice easily that recently suppliers have been monitored from the point of view of meeting the sustainable development based on the concept of the Global Compact (Pojasek, 2008). Creating partnerships with supplier lets the recipient on the B2B market transform commercial cooperation into various types of alliances and, thus, gain a range of benefits:

- time saving connected with choosing a supply source;
- reduced risk which is connected with choosing a new supplier or buying a new product (brand);
- quicker and more effective flow of market information;
- joint solving of technical and (sometimes) organisational problems, which allows greater effectiveness of using resources in process enhancement.

More and more often institutional clients (especially producers) begin to concentrate on the selection of key suppliers, shaping long-term relationships with them based on the advancement of the technical quality of product solutions (running research and development projects together), and reliability of deliveries (based both on their flexibility and shortening of the order cycle). These actions, executed by both sides, lead to decreasing costs (Krause 1997, Arumugem & al., 2011; Garfamy, 2011). Specific requirements for the protection of the environment put Japanese

companies which have developed detailed guidelines for suppliers such as Toshiba, Sharp, Mazda (Green Procurement Guidelines), Canon, Kyocera (Green Procurement Standards), Fujitsu (Green Procurement Directions), Sony (Green Purchasing Standards), NEC (Green Procurement Policies). These standards are imposed on suppliers due to the clauses included in the contracts. Many multinational companies are used for the classification of suppliers. They developed their own standards and provide both general guidelines for pre-qualification of suppliers, as well as periodic evaluation. Evaluation criteria focus mainly on three crucial parameters, known under the acronym QCD (Quality-Cost-Delivery). In terms of quality assessment the issue mainly taken into account is the technical quality of our solutions to customers (level of defective supplies, reported claims). Taking into account the costs, customers are focused not only on the price of purchases of goods, but on getting additional benefits (such as free shipping, warranty, maintenance services), product performance and incurred expenditures for the current operation. In assessing the performance of delivery customers take into account the timeliness, completeness, and flexibility in changing conditions. Many companies extend their criteria for evaluating suppliers with such items as: innovation, offered services, system approach to management, and compliance with best practices in the field of ethical conduct. For example, Texas Instruments evaluates vendors according to the formula CETRAQ, which is an acronym of the main criteria, which include: the *cost* of purchase, operation aimed at protecting the *environment* and safety (environment, health and safety management system), modern *technology*, social *responsibility*, *assurance* of supply and *quality* of supply. The 3M company evaluate the contractor according to the formula TQRDC, which includes: the use of modern *technology*, the technical *quality* of the products, social *responsibility*, on-time delivery, and also ability to reduce *costs*. Similarly, LG Electronics is progressing by basing on the evaluation formula TQRDCME. The scope of this assessment includes: modern *technology*, the technical *quality* of products, the implementation of the concept of corporate social *responsibility*, on-time delivery, implementation of management systems, as well as the positive impact on the environment.

### 3. Communication with supplier

Companies which are business customers also notice that a prerequisite for good cooperation with suppliers is providing them with clear product specifications. Clear examples of such behaviour may be observed in organizations with certified management systems, among manufacturers, in medium and large economic units and in global business entities. More and more customers on the market of companies notice efforts made by suppliers regarding building partnership marketing and their offering on-line technical advice, training, and/or team-building meetings. They also more and more often take advantage of the opportunity to place orders on-line. An increasing number of companies improve relations with suppliers by means of joint research and development of new products and offering training to suppliers. This is particularly emphasised by production companies and entities with foreign capital. Auditing suppliers and their implementation of an environmental management system is particularly noticeable in the case of large business entities, companies with foreign capital and firms offering products in the B2B market.

An organisation which purchases all kinds of materials, equipment or tools should specify precisely the subject of an order and place it with a qualified supplier. In larger companies orders are placed with suppliers by a supplies department. In small companies people are usually selected and delegated to keep in touch with suppliers. They are purchase specialists/coordinators, managers of particular departments or warehouse workers who are responsible for placing orders. Basic tasks of a supplies department/people responsible for placing orders include:

- an analysis of the suppliers' market taking into account their capability to meet the requirements regarding technical quality, technological potential, logistics efficiency and after-sales service;
- communication with suppliers, i.e. providing suppliers with requirements by means of letters of inquiry and orders as well as other specifications included in the technical documentation (of a product and/or of a process);

- ensuring cooperation (including other departments) with suppliers in the area of working out joint solutions concerning a product and/or a process;
- providing customers with training;
- informing suppliers of complaints and comments.

#### **4. Supplier development programs**

Many international companies taking steps to improve their processes and products also involve their suppliers in the implementation of process and product improvement tools offering special support programs based on the principle of win-win (Chavhan& al., 2012; Omurca, 2013). Supplier development programs are implemented through joint projects aimed at introducing new, or improving existing products. The successful implementation of these programs sometimes requires companies who are clients of investment to equip partners with the necessary infrastructure and technology (Arroyo-López & al., 2012, Ahmed & Hendry, 2012). In practice, one can notice that supplier development programs can be of short and medium term (reactive, focusing largely on eliminating the current problems) or long term (strategic, based on a strong integration partner). They can focus on activities aimed at ensuring and improving the quality of products or the provision and improvement of the process quality. These programs can also be aimed at providing basic or specialized support activities to improve products and processes (Song & Benedetto, 2008; Mishra & Patel, 2010).

The successful implementation of these programs allows both suppliers and customers to improve the quality of products (lower level of non-compliance, introduce product innovations, increase reliability and security), shorten cycle processes and reduce their costs (in particular with regard to operational processes such as design, customer service before and after the sale, production/services, transportation and maintenance of infrastructure) and improve mutual communication (Bai & Sarkis, 2011; Fu& al., 2012). Actions aimed at developing suppliers undoubtedly contribute to a reduction in transaction costs related to the exploration of new supply capacity, conducting audits and other forms of assessment, verification and qualification of the sources of purchase (Nagati & Rebolledo, 2013). In order to ensure the effectiveness of supplier development program is necessary to produce a climate of cooperation based on mutual commitment, trust and open information exchange especially in the area of performance quality (level of compliance with the requirements for the provision and improvement of products and processes ) and cost (access to financial data relating to joint ventures). Effectively implemented, the development programs of suppliers undoubtedly contribute to building the intellectual capital of the partners (Krause, & al., 2007).

#### **5. The trends in building relationships in the supply chain**

Observing world trends, one may easily notice that recently suppliers have been monitored from the point of view of meeting the sustainable development requirements following economic aspects (demanding high technical quality, delivery reliability, price competitiveness, technical support), and often also environmental aspects and social aspects (principles based on the concept of the Global Compact). Furthermore, supplier Conduct Principles are defined. Regarding environment protection requirements, special emphasis is put on suppliers by Japanese firms which laid down detailed guidelines for suppliers. Many international companies more frequently require from their suppliers detailed evidence defining environmental goals, documentation, activities aimed at limiting resource consumption, employee training, reducing factors harmful to environment (resulting from processes e.g. gas emission, noise, vibration, waste), and disseminating information on performance connected with environmental protection (Uлага & Eggert. 2006; Gunasekaran & Spalanzani, 2012; Hojmoose & Adrien-Kirby, 2012; Tate & al., 2012). When carrying out audits aimed at the evaluation of functioning of suppliers' environmental management attention is most often paid to the following elements:

- environmental culture which is connected with adopting the environmental policy, identification of environmental aspects and defining environmental goals and tasks;

- adhering to laws concerning environmental protection;
- supervising the system of environmental management by means of ensuring appropriate documentation (procedures /instructions. records) and resources (infrastructure, process technology, information systems, appropriately qualified employees) as well as employing environmental indicators (e.g. related to energy consumption, natural resources, waste economy, pollution);
- internal and external communication;
- employee training;
- cooperation with suppliers in the area of environmental management (establishing criteria concerning qualification and monitoring suppliers from the point of view of their environmental operation.

When signing contracts with suppliers, a lot of international companies also make them sign statements according to which they will be obliged to adopt principles included in clauses of so-called business practices (Statements on Business Practices). The enterprises often issue special behavior and ethical rules for the suppliers (Supplier Conduct Principles, Principles and Standards of Ethical Supply Management Conduct) as well as guidelines in respect of their implementation (Supply Chain CSR Deployment Guidebook. Purchasing Way), organize programs (Supply Chain Social Responsibility Programs), introduce projects (Supplier Responsibility Projects) and draft control lists (Supply Chain CSR Checklist) used, for instance, for self-assessment of contractors. Statements on Business Practices are connected with, among others, business operations accompanied by scrupulous observation of all binding laws and ethical standards, avoiding corruption practices and fighting against attempts to bribe domestic and foreign institutions' employees, avoiding employee discrimination, protection of international human rights and responsibility for the environment. It is worth noting that these requirements are not imposed on one party only (by means of forcing suppliers to meet them). More and more companies want to shape their image as a reliable partner (customer) and therefore draw up purchasing codes of ethics or customer and supplier good practice guides (Foerstl & al., 2010; Goebel & al., 2012).

## **Conclusion**

Multinationals corporations investing in many countries around the world do not focus on a few selected sources of purchases but are increasingly diversifying them, seeking to establish links with local suppliers. The starting point in building these relations is undergoing pre-qualification of potential partners based on multi-criteria evaluation methods, which are often more important than price attributes being required to guarantee the quality of technical and organizational support (based on the standardization and security products and processes), and the timeliness of deliveries, flexibility to the requirements of buyers, and reducing the burden on the environment. Recapitulating, it should be noted that the B2B market buyers define customized requirements to their suppliers through detailed specifications which determine not only issues related to ensuring the quality (ensuring technical quality), but are also related to the increase in organizational efficiency (shortening implementation cycles), efficiency (cost reduction), safety (working conditions, information management), reducing negative impact on the environment, and the implementation of product and process innovations (Wee & Wu, 2009, Wiengarten & Pagell, 2012).

This approach is an important incentive for companies to improve the management system by introducing environmental and safety organizational standards, as well as other excellence tools that require more active involvement of employees in order to improve the performance of operational processes. The actions taken by the company in the field of continuous improvement has a significant impact on ongoing globalization. The international expansion of many companies, especially global companies, increases the importance of technical standardization (to ensure consistent quality required), and organization standardization. This is particularly important in countries where investments are located due to lower labor costs like Central and Eastern Europe and Asia. In these countries, one could perceive a gap in the field of organizational solutions between

international corporations and indigenous businesses. In many cases this gap is outweighed by the introduction of the concept of sustainable development. International companies implementing this concept focus on the cooperation with their partners in the supply chain (suppliers and customers), offering them support through joint projects. These initiatives are aimed at improving common processes and developing concepts for new products.

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## ABSTRACT

The purpose of this paper is to present the importance of the role of quality improvement in building partnerships with suppliers. It can be observed that many companies who are buyers in the B2B sector very often define to their suppliers individualized requirements through specifications to determine not only issues related to quality assurance, but also organizational performance related to the increase of efficiency (cost reduction) and reducing the negative impact on the environment. Adapting to these requirements by suppliers creates a platform for building partnerships with clients operating in the B2B sector, based on mutual benefits. The effectiveness of the action on improving the quality of processes and products by building relationships with suppliers depends largely on the support provided to them. To achieve these objectives many companies introduce special development programs for suppliers.

**Keywords:** supply chain management, supplier relationship management, quality improvement, sustainable development