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Cooperation versus competition: do buyers and suppliers really see eye-to-eye?

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Abstract

Purchasers have used a variety of tools to help improve the performance of their suppliers' processes and products. Results of two large-scale surveys that compare buyer and supplier perceptions of a common customer firm's supplier development and its supply base's adoption of total quality management are reported here. One customer, known for its cooperative (partnership-like) approach to supplier relations, is contrasted with another firm that uses supplier switching to meet its procurement needs. Analysis of the survey data indicates that buyers and suppliers have a better "shared understanding" (smaller satisfaction gap) within the "competitive" relationship than within the "cooperative" relationship. © 2000 Elsevier Science Ltd. All rights reserved.

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1. Cooperation or competition?

Partnerships, alliances, and buyer/supplier relationships in general have received much attention during the 1990s (Heide and John, 1990; Anderson and Narus, 1991; Ellram, 1991; Metcalf et al., 1992; Pilling and Zhang, 1992; Lamming, 1993; Mohr and Spekman, 1994). Reports from industry of shorter cycle times, fewer quality defects, reduced costs, and streamlined processes resulting from closer working relationships with suppliers have suggested a clearer understanding of reciprocal needs and capabilities among buying and supplying firms (Minahan, 1998). Yet some firms continue to maintain arm's-length relationships with their suppliers and to use competition and supplier switching as motivations to obtain optimal performance from their supply base. What impact do cooperative approaches versus competitive approaches have on buyer and supplier perceptions of their mutually dependent relationship and on some of the tools used to improve supplier performance?

2. Markets, bureaucracies, and clans

For commercial relationships to succeed, compensation must not only be offered in exchange for goods and services rendered but must also be perceived as being fair by each of the transacting parties. Equity of compensation can be assured by means of three types of transaction governance: markets, bureaucracies, and clans (Ouchi, 1980). These governance forms have their roots in transaction cost economics (TCE), which is based on the assumption that such organizational configurations exist to more efficiently mediate inter-party exchange transactions (Leblebici, 1985).

Transaction cost economics classifies transactions by focusing on three measures: (1) how often transactions occur, (2) how much and what type of uncertainty surrounds the transactions, and (3) how much and what form of asset specificity is present (Williamson, 1981). Transaction frequency "refers to the distinction between a "one-shot" exchange and a reoccurring exchange" (John and Weitz, 1988p. 337). Uncertainty is concerned with the ability (or lack thereof) to anticipate important contingencies encompassing the transaction (John and Weitz, 1988). Contingency theory proposes that organizations are open systems that respond to shifts in their environment (Steiner, 1979). Intensified market competition and faster technological change over the past two

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decades have driven companies to search harder, scrutinize more carefully, and develop more fully their supply bases (Hahn et al., 1990). These actions have been in response to "primary uncertainty" — "random acts of nature and unpredictable changes in customer preferences" (Williamson, 1989p. 145). Uncertainty can also arise due to inadequate communication between decision makers ("secondary uncertainty"); this often occurs when one exchange partner is unable to ascertain the coexisting arrangements and intents of others (Williamson, 1989). Finally, transactions can be defined by the degree and form of asset specificity present in the exchange. Asset specificity refers to "the degree to which an asset can be redeployed to alternative uses and by alternative users without sacrifice of productive value" (Williamson, 1989p.142). It is an important facet of exchange relationships because highly specific assets are difficult (and/or expensive) to utilize in alternate productive situations if the relationship (transaction) for which the asset was first developed dissolves. The developer of the specific asset assumes a risk that the initial capital outlay required may never be recovered.

Open-market competition is characterized by sporadic, infrequent transactions between trading parties, low primary uncertainty, and low asset specificity. It is equivalent to Williamson's (1981) "markets" in his "markets and hierarchies" typology. When sufficient alternative sources of competitive goods and services exist in an open marketplace, an easily determined basis of comparison is available for the buyer to determine the fairness of a given price. If the price is perceived as being unreasonable for a product, the buyer can simply turn to another supplier to supply that same item. Norms of equity will be violated if adequate marketplace competition is either constrained or deficient. Prices charged in such a limited marketplace will appear to be biased to the buyer or supplier, and the disappointed firm's satisfaction with the exchange will be reduced. Genuine competition in an open market, therefore, guarantees that reciprocity prevails.

When required resources are unique or distinct (i.e. asset specificity increases) and must operate together in coordinated efforts between transacting parties, the second form of transaction governance, bureaucracy, is often the most effective in evaluating performance outcome and assigning a value to it. Bureaucracy is equivalent to Dwyer et al. (1987) "relational exchange," which proposes an intermediate purchase relationship between Williamson's (1981) "markets and hierarchies." Parties to the exchange are no longer independent contractors and must place a high level of trust in a superior power (the bureaucracy) to set standards, monitor performance, and make a fair judgment regarding reasonable compensation. If the superior power is well informed, is perceived as legitimate, and rewards effort according to either merit or past performance, then the bureaucracy can be an efficient form of exchange governance. However, a bureaucracy adds considerable layers of administrative and managerial overhead in its efforts to monitor exchange transactions that the open market does not require. Bureaucracy is appropriate when transactions are more frequent and predictable, and when moderate uncertainty and asset specificity prevail.

The third form of transaction governance, the economic clan, is viable only when the parties that comprise it share strongly held common values and beliefs and remain in the organization over a long period. An economic clan is defined as "a culturally homogeneous organization, one in which most members share a common set of values or objectives plus beliefs about how to coordinate effort in order to reach common objectives" (Ouchi and Price, 1978, p. 36). Clans exist in an environment of regular, everyday contact among organization members, high primary uncertainty but low secondary uncertainty, and high asset specificity.

Markets, bureaucracies, and clans can be distinguished by the level of performance ambiguity and goal incongruence encountered among group members. Performance ambiguity refers to the ease or difficulty with which others, as evaluators, can assess the degree of conformance of an economic agent's performance with prior expectations and standards. Goal incongruence refers to the extent of mutual exclusivity of individuals' objectives from an exchange relationship. High goal incongruence indicates that one's individual goals and objectives are incompatible with, or differ greatly from, the goals and objectives of the other parties. When performance can be easily assessed, open markets will perform well, even with the existence of high goal incongruence among transacting parties. If performance ambiguity is high, then goal incongruence must be low for clans to operate effectively. Bureaucracies can function effectively under conditions of both moderate performance ambiguity and goal incongruence.

Ouchi's (1980) "markets, bureaucracies, and clans" model can also be applied to interorganizational relationships (Patterson et al., 1999). Ouchi's "markets" correspond to the traditional "arm's-length" buyer–supplier exchange relationships which are often marked by infrequent interaction, mutual distrust, self-serving behavior, and a prevalent "win–lose" attitude towards the exchange terms negotiated between the buying and supplying parties. To prevent the other party from gaining or sustaining any possible commercial advantage, minimal information is revealed to the other side. Such buyer–supplier relationships are often a result of traditional competitive bidding practices.

Relationships of partial or quasi-vertical integration that hold some moderate level of mutual benefits for both buyers and suppliers are similar to Ouchi's "bureaucracies". The terms of these buyer–supplier relationships are enforced through extensive, formal contractual