



# Manufacturer–supplier relationships An empirical test of a model of buyer outcomes

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Received 24 March 2000; received in revised form 2 December 2000; accepted 22 January 2001

## Abstract

Relational buyer–seller exchanges have been the focus of significant research in the past few years. In extending this recent research, the authors draw upon transaction cost analysis and symbolic interactionism to propose and test a model focusing on outcomes of manufacturer–supplier relationships from the perspective of the manufacturer. Data from 157 purchasing executives offer empirical support for the relationships proposed in the model. In the context of acquiring critical items, relational orientation is found to be negatively related to measures of acquisition and possession costs and positively related to perceived product quality, and these variables, in turn, are significantly linked to the buyer's satisfaction with the supplier. Model results also indicate that a relational orientation has both a direct and an indirect link to satisfaction. Implications for both marketing managers and researchers interested in collaborative relationships between buyer and supplier organizations are offered. © 2002 Elsevier Science Inc. All rights reserved.

*Keywords:* Relationships; Relational; Quality; Cost; Satisfaction

## 1. Introduction

Today's competitive business environment has made it imperative for firms to continuously look for effective ways to compete. An increasing number of organizations are realizing that competing effectively in this type of environment often involves trust and cooperation in some network [44]. This has led to formation of long-term collaborative associations with suppliers (and often customers), where the focus is on mutual benefits for the parties involved [10,18,51]. Given this potential for benefits, we see an increasing interest in formation of collaborative alliances by firms.

Recent literature on buyer–supplier relationships has also noted a trend of cooperation via formation of alliances and partnerships [4,27,37]. Motorola, Marks & Spencer, and Xerox are some examples of firms that have moved towards closer, collaborative relationships with their suppliers. In the global auto industry, the big three US auto makers and many of their European counterparts have joined major Japanese automakers in their attempts toward forming collaborative

relationships with few suppliers [4]. By treating suppliers as allies and sharing strategic information with them, advocates of collaborative relationships claim that firms can achieve better lead times and quality, increase operating flexibility, and establish long-term cost reductions, all of which could help these firms enhance value for the ultimate customer [5,40].

Other recent developments based on mutual cooperation between buyers and suppliers include the Vendor Managed Inventory (VMI) programs and outsourcing. DuPont's alliance with automobile manufacturers in the US is a good example of VMI at work. In these arrangements, DuPont receives highly confidential sales and product demand data from its customers, and assumes responsibility for managing their inventories through highly automated messaging systems. This arrangement is cost-effective for both parties [15]. Similarly, recent estimates indicate that 85% of North American and European multinational companies practice outsourcing [58]. A good example of outsourcing involves the US auto industry. GM, Ford, and Chrysler use tiered suppliers to acquire complete systems such as door modules and dashboard modules.

Clearly, recent industry evidence suggests that collaborative relationships with key partners may help in achieving favorable outcomes. Aspects such as joint planning,

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sharing strategic information, and commitment to the relationship characterize this relational approach [19,31,44,54]. This approach is in contrast to the “arms-length” transactional approach characterized by members whose activities are geared primarily toward attaining their own respective goals [20,42]. In this study, the transactional–relational continuum is assessed by measuring the degree of relational norms characterizing a buyer–seller relationship. This focal construct is termed relational orientation [35].

Recent research has outlined many firms moving away from discrete transactions and entering into long-term oriented relational exchanges in response to environmental uncertainty [31]. Considering the time and resources involved in forming and maintaining such close relationships [2], most buying organizations would most likely not enter into such relationships with all suppliers. In this research, we use the notion that organizations would be likely to enter into relational exchanges with few suppliers for items that are perceived to be critical for the firm’s business. The basic rationale is that costs involved with maintaining relationships with suppliers would be considered worthwhile in situations where critical components are being acquired. Although recent research has provided some empirical evidence supporting the link between long-term relationships with suppliers and financial performance, some authors [10] note the need for future studies to focus on suppliers of critical items.

1.1. Basic research question addressed

Based upon the preceding discussion, the primary research question addressed in this study is whether a buyer acquiring critical items can enhance performance outcomes by engaging in a relational orientation (as opposed to a transactional orientation) toward its supplier. We propose a conceptual model linking relational orientation with poten-

tial outcomes of importance to buyers. Within this conceptual framework, this research assesses the association between relational orientation and outcomes such as costs, quality, and buyer satisfaction. From a managerial standpoint, given that a typical industrial buyer spends more than half of every sales dollar on purchased products [17,39], such outcomes associated with the buyer–seller relationship are of critical importance.

After providing a brief overview of the buyer outcomes model presented in this research, we briefly outline major components of the model, while integrating prior research and outlining the hypotheses proposed. The sampling frame and measurement issues are described next, followed by results for the proposed model and tests of postulated relationships. We conclude by discussing the results with particular emphasis on managerial practice.

2. Conceptual background and hypotheses

In our buyer outcomes model (please refer to Fig. 1), we attempt to link relational orientation to various key outcomes, including buyer satisfaction. The theoretical background for the relationships proposed is provided by the transaction cost framework [59,60] and the symbolic interactionist perspective [7,11].

2.1. Hypotheses concerning relational orientation

Relational orientation is conceptualized based upon elements of relational governance [19,45,59] or relationalism characterizing the buyer–supplier relationship. Buyer–seller relationships have been viewed on a continuum from discrete transactions to relational exchanges [6,28]. Thus, relational orientation reflects a continuum on which relationships vary by extent of bonding. Discrete transactional

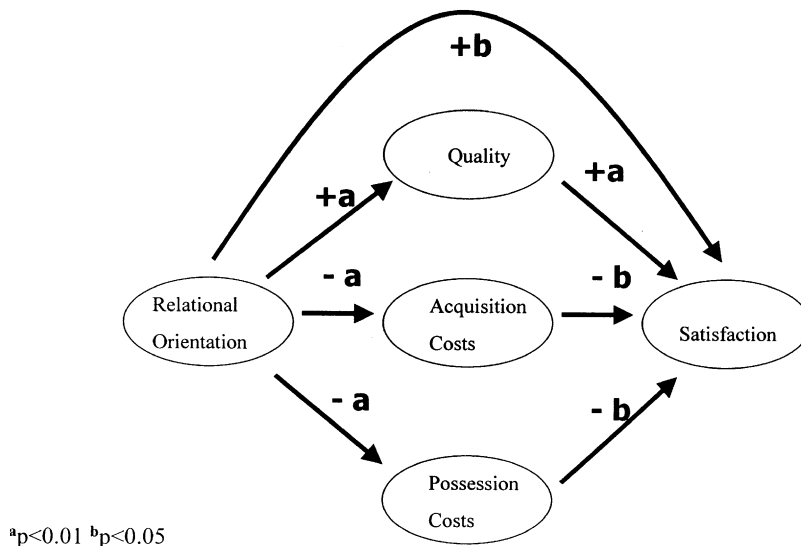


Fig. 1. The buyer outcomes model: proposed relationships and results.

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