



# Relationship performance dimensions of buyer–supplier exchanges

Tom O’Toole<sup>a,\*</sup>, Bill Donaldson<sup>b</sup>

<sup>a</sup>*School of Accountancy and Business Studies, Waterford Institute of Technology, Waterford, Ireland*

<sup>b</sup>*Graduate School of Business, University of Strathclyde, 199 Cathedral Street, Glasgow G4 0QU, UK*

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## Abstract

Whilst there is much research material on buyer and supplier performance assessment and management, a relationship perspective can bring an added dimension, especially to the performance of close, mutual relationships. This article aims to bring a relationship performance understanding to the study of buyer–supplier exchange. Unfortunately, business-to-business relationships are assumed to enhance performance but what little research has been conducted is limited to a few dimensions reflecting a narrow theory or practice assumption. To remedy this we investigate a relationship performance definition that incorporates both non-financial and financial dimensions. The results are developed from seven qualitative interviews followed by a postal survey incorporating the views of 200 industrial buyer respondents in the UK. To examine the relationship among the performance variables, factor analysis was conducted on 21 dimensions of performance included in the research. On this basis, key dimensions of relationship performance are grouped and implications drawn for defining relationship performance and its measurement. The authors conclude that it is meaningful to take a relationship performance position when managing buyer–supplier interactions. However, not all the dimensions identified may be available to all types of relationships. © 2002 Elsevier Science Ltd. All rights reserved.

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## 1. Introduction

The study of relationships is now a well-developed stream of thought in the literature from both a buyer and supplier perspective. Relationships are seen as having positive links to performance but little is known about the nature of this performance. Relationships themselves can be seen as generic; applying to all buyer–seller exchanges. In this article, relationships are viewed as mutual, two-way, involved exchanges between buyers and suppliers. While it is accepted that most purchasing and supply relationships might not achieve this ideal, or it may not be relevant to their needs, it does provide insights into potential performance areas we believe are neglected in prior research.

The importance of relationships to the conduct of business is widely supported in the literature (Jackson, 1985; Kanter, 1994; Gummeson, 1999), a development that began in the 1970s in a European context within the

Industrial Marketing and Purchasing (IMP) group (Hakansson, 1982; Ford, 1997). Relationships between buyer and suppliers have also been underlined with themes such as partnership management (Johnson and Lawrence, 1988; Ellram, 1995), outsourcing (Mullin, 1996) strategic alliances, and supply chain co-operation and collaboration receiving emphasis (Christopher and Juttner, 2000). Indeed the supply chain management literature has linked the management of demand and supply empirically to firm performance (see, Tan et al., 1998; Vonderembse and Tracey, 1999, for recent examples). Authors such as Macbeth and Ferguson (1994) and Watts et al. (1995) have argued for the strategic role and potential of buyer–supplier relationships inherent in the development of co-operative relationships when compared to the traditional role that is directed by the benefits that accrue to one party only. It is apposite, therefore, to bring a relationship performance viewpoint to this key nexus of a firm’s operation.

Our objectives in this paper are:

1. To advance a more comprehensive definition of buyer–supplier relationship performance. To date,

\*Corresponding author. Tel.: +353-51-302025; fax: +353-51-302688.

*E-mail addresses:* totoole@wit.ie (T. O’Toole), b.donaldson@strath.ac.uk (B. Donaldson).

in our opinion, the conceptualisation of relationship performance has often been limited to a narrow set of output measures or normative rules for suppliers or buyers.

2. To identify and test a set of relational performance measures and to assess their relevance to managing buyer–supplier relationships.

This paper concentrates on measures of the output of relationships rather than on relational processes which may, in turn, determine these outputs. For the longer term, we would also like to be able to link performance to individual relationship structural types. Academics and practitioners alike can gain much from knowing that different forms of relationships can yield different performance outcomes for both parties in a relationship.

## 2. Business-to-business relationship performance

Often the conceptualisation of supplier or buyer performance is limited to easily identifiable bottom line cost savings for one party. Relationship performance is a wider view that incorporates the perspective of the other partner and measures the performance of a wider variety of relationship activities.

Lamming et al. (1996) were among the first to apply relationship principles to buyer–supplier relationship assessment. We extend the relationship paradigm to performance outcomes but in evaluating existing relationship performance research, we see three major problems. Firstly, the remarkable lack of a performance dimension in many of the main theoretical models of relationships. The second problem is the narrow nature of performance that emerges from many of the relational theory schools. The schools seem to rigidly adhere to a narrow performance definition that suits the purposes of their theoretical assumptions. The final problem is that the main contributors to the relational performance theory literature borrow concepts and measures from other literature. While this theoretical borrowing is welcome, it should be complemented by theory research specific to the area itself. Based on an analysis of these issues we develop a composite set of relationship performance dimensions.

### 2.1. Theme 1—exclusion of relationship performance from models

Relational performance is often excluded from models of relational development, interaction and indeed, networks. The assumption is made that relationships improve performance. The seminal IMP group's dyadic interaction model (Hakansson, 1982) does not contain a performance dimension but implicitly assumes

the performance enhancement quality of relationships. Dwyer et al. (1987) model of relational development neglects a performance motivation while recognising the importance of performance management. Morgan and Hunt's (1994) classic contribution to relationship theory failed to include a performance dimension in their commitment-trust model. Others who include relational performance in their models do so on a limited number of dimensions, such as Mohr and Spekman's (1994) model of partnership success, or Anderson and Narus's (1990) model of distributor-firm and manufacturing-firm working partnership. We conclude that performance needs to be addressed in its own right to determine its effects on relationship structure and strategy.

### 2.2. Theme 2—relationship theory schools pursue a narrow definition of performance

The empirical domain of research into relational performance has been limited. A selection of studies is listed in Table 1. Studies were evaluated on the basis of the performance dimensions included, whether performance was the major focus, and the theoretical base, if any, for the performance dimensions. As can be seen from the table the amount of studies with a specific theoretical background cited for the performance dimension is rare. Where a theoretical background is given, transaction cost economics is the main field of reference. This limits the conceptualisation of relational performance to a single actor and to an economic definition. Clearly, research using other theoretical schools is desirable.

By developing and testing a wider definition of performance, research can develop and expand the relational performance domain. Transaction cost economics (Williamson, 1985) assumes that performance is optimised in transactional efficiency, and through the performance maximisation efforts of a firm acting alone, a cost perspective. Agency theory, like transaction cost, examines the outcomes of relationships between principals and agents in terms of economic costs, particularly, the cost of potential relational abuses and the monitoring of a partnership (Ross, 1973; Bergen et al., 1992) and this is predominantly a risk perspective. The channel literature also sees economic benefits as the main outcomes of relationships with a particular focus on costs and profits of relationships (Heide and John, 1988; Noordewier et al., 1990). In particular, it concentrates on the power-dependency relationship and the outcomes balance of any change in this relationship; hence, this is a more political perspective. Again, performance is viewed from the perspective of the individual firm. While these benefits are important other schools also see more non-financial performance outcomes as being beneficial. The social exchange school of relationships

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