

Buyer–supplier relationship: perspectives between Hong Kong and the United Kingdom

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Abstract

The relationship between buyers and suppliers has received considerable attention in recent years. Traditionally, buyer–supplier relationships were considered as adversarial, arms-length transactions. However, this relationship is moving towards a more collaborative approach. This change is subject to the belief that suppliers are essential sources to gain competitive advantage in world markets in terms of their expertise, knowledge and their ability to share risks. This paper presents the initial findings from the responses of large companies in Hong Kong about their supplier criteria requirement. The results are also compared with a similar study conducted in the United Kingdom to obtain a clearer picture concerning Eastern and Western approaches to strategic purchasing. This paper illustrates some of the key reasons for the differences between purchasing practices in European and Asian companies. Such information is potentially useful since it can be used as a reference guideline for suppliers when initiating collaborative relationship with customers, who may come from different cultural backgrounds.

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1. Introduction

This paper aims at investigating the relative importance of requirements of Hong Kong large companies when initiating collaborative relationships with their strategic suppliers. In recent years, the relationship between buyers and suppliers has received considerable attention. With the globalization of markets combined with a restructuring of many firms, with a focus towards costs, quality, delivery, flexibility and technology, a new role for procurement has emerged [1]. Traditionally, purchasing was considered as a clerical function, where the relationship between suppliers and buyers tended to be adversarial. However, many organizations are now moving towards a more collaborative approach. Gadde and Hakansson [2] identified three key strategic purchasing issues as the make or buy decision, the supply base structure and the customer–supplier relationship. They and Briggs [3] emphasize the need for organizations to move towards closer cooperation in the buyer–supplier relationship. Market pressures for increased product complexity and variety based on a wide range of technologies and response at higher levels of

quality and reliability but declining cost have demonstrated that few, if any, organizations can do it all by themselves. Consequently, they need to supplement their core competencies by allying with other providers of complementary competencies to satisfy their customers. The real productivity, design and quality improvements are not obtainable unless the supplying partners innovate to the best of their abilities in conjunction with them. Hence, many manufacturers recognize that their ability to become world-class competitors is based to a great degree on their ability to establish high levels of trust and cooperation with their suppliers.

With higher standards of performance being demanded in each business environment, companies are of necessity looking to their suppliers to help them achieve a stronger competitive position. Furthermore, Ohmae [4] advocates that in a world of converging consumer tastes, rapidly spreading technology, escalating fixed costs and growing protectionism, more collaborative relationships with suppliers are critical instruments for serving customers in a global environment. For example, Done [5] highlights the case of Chrysler, the car manufacturer, which purchases 70% of its parts and materials and looks for suppliers who are on the leading edge of technology. This expertise

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is, in effect, purchased by Chrysler, who rewards its relatively small cadre of suppliers (500 supply 80% of purchased parts and materials) with contracts spanning several years. An implicit assumption underlying Chrysler's action is that loyalty must be rewarded and commitment must be encouraged.

In addition, in the face of increasing national and international competition, companies have begun to understand that global sourcing is a means to enhance a firm's competitiveness in the global market by means of cost reduction, quality improvement, increased exposure to world-wide technology and delivery and reliability improvements. Globalization, the development of new technologies, and the omnipresent threat of trade legislation are just some of the factors that have led to increased competition among manufacturers in recent years. One response to the pressures on margins generated by this highly competitive and changeable environment has been for purchasing organizations to cultivate strategic partnerships with their suppliers [6].

Hence, for some time now large manufacturing companies have been moving towards the incorporation of the purchasing function as a key component in manufacturing strategy whereas previously it was regarded as tactical/operational in nature. The purpose of this study was to investigate the extent to which large firms in Hong Kong are moving in this direction and the likely implications of such movement for local suppliers. This is an important issue since it is necessary to determine if large firms are adopting new ideas so rapidly that local small companies which one would have expected to be suppliers cannot deliver in terms of the more collaborative and complex relationships of modern purchasing. This has important implications for the local economy in terms of maintaining competitiveness to ensure employment and identifying strategies for the development and growth of local suppliers.

The objectives of this study are to:

- (i) outline the key differences between the traditional adversarial buyer–supplier relationship and the collaborative approach;
- (ii) determine the relative importance of criteria from Hong Kong large companies perspectives towards collaborative relationships with their strategic suppliers;
- (iii) examine the differences between Eastern (Hong Kong) and Western (UK) approaches towards collaborative relationships.

2. Literature review

There are two major types of relationship between buyers and suppliers as defined by most of the researchers: “adversarial competitive” and “collaborative partnership”.

2.1. Adversarial competitive relationship

Shapiro [7] argues that the primary goal of the traditional adversarial approach is to minimize the price of purchased goods and services. The approach is dependent on three major activities, i.e.:

- (i) The buyer relies on a large number of suppliers who can be played off against each other to gain price concessions and ensure continuity of supply.
- (ii) The buyer allocates amounts to suppliers to keep them in line.
- (iii) The buyer assumes an arms-length posture and uses only short-term contracts.

When such relationships are engaged, the buyer relies on a large number of suppliers and uses only short-term contracts in order to obtain a higher bargaining position compared to that of the suppliers. Under such circumstances, it assumes that there are no differences in suppliers' abilities to provide value-added services, technology gains, process innovations and other methods of gaining competitive advantage. Hence, it does not make direct use of the total resources of the supplier and results to engender long-term coordination or cooperation between buyers and suppliers.

Mayhew [8] suggested a movement away from price-based criteria, in many organizations, to other performance criteria, such as quality and delivery, for evaluating the purchasing decision. Nevertheless, these criteria are still focused on an adversarial purchasing relationship between buyers and suppliers.

2.2. Collaborative partnership

Collaborative relationships require trust and commitment for long-term cooperation along with a willingness to share risks. Implementing successful collaboration requires efficient communication at all levels, open information sharing and continuous inter- and intra-improvements. A significant body of research now exists on essential factors for successful implementation of collaborative relationship. Table 1 shows a summary of a list of these factors. It should be noted that due to space limitations, the supporting references are not complete. The criteria included in these categories tend to be long-term and more qualitative than factors included in traditional supplier selection models.

2.3. Regional comparison

The literature would seem to suggest that regional differences in purchasing perception do exist. Min and Galle [10] in their study of global sourcing practices have identified quality, service and price as the three primary selection criteria for multinational companies when sourcing globally as presented in Table 2. They found that a firm's overall performance is often influenced by the source country's economic conditions, level of technological development,

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