



Effects of supplier trust on performance of cooperative supplier relationships

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Abstract

This study tests a path analytic model of buyer–supplier relationships, linking the supplier’s level of trust to three categories of inter-firm cooperative behaviors and these behaviors to the buyer’s perception of the relationship’s performance. Data was used from a survey of 164 dyads composed of a purchasing manager and a counterpart in a firm that they identified as their most cooperative suppliers. Higher levels of inter-organizational cooperative behaviors such as shared planning and flexibility in coordinating activities were found to be strongly linked to the supplier’s trust in the buyer firm. However, not all of the types of cooperative behaviors, particularly joint responsibility for problem solving, had significant impacts on the buyer’s perceptions of the relationship’s performance.

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1. Introduction

In the competitive game of differentiation to achieve customer satisfaction and loyalty, success for individual firms depends on how well the supply chain functions as a whole. A critical element in achieving supply chain effectiveness is establishing and nurturing trust across the organizational boundaries, particularly for relationships such as alliances between buyers and suppliers in a supply chain. Despite much discussion about the need for trust in buyer–supplier alliances, there is a paucity of empirical evidence showing that trust really has any impact on the performance of inter-organizational activities. Furthermore, there is a lack of operationalization of related concepts, such as trust and trust-dependent behaviors.

Without these, we cannot test empirically whether trust actually influences the broad range of potential inter-organizational behaviors and whether these behaviors, in turn, affect performance outcomes. More importantly, there is a limited amount of research that simultaneously examines both supplier and buyer perspectives of the issues. Information needs to be drawn from both parties to validate trust concepts and their linkages to possible impacts on inter-organizational performance (Smith and Barclay, 1997).

This paper presents the results of an exploratory modeling of trust’s effects in buyer–supplier relationships. We utilize concepts from the supply chain management, strategy, marketing and organizational behavior literatures, then use partial least squares (PLS) to aid our modeling. In this study, we examine 164 dyads of buyers and suppliers sampled from a cross-section of industries. This group includes private and public organizations as selected from

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the Purchasing Management Association of Canada (PMAC) membership database. Each dyad consists of a buying organization and a supplier selected by the buyer as being its most cooperative supplier. The key respondent for the buyer was the purchasing manager and for the supplier, the account manager or equivalent. By using data drawn from both sides of the buyer–supplier relationship and the PLS modeling technique, we can test the predictive power of a path-analytic model that encompasses all of these groups of constructs simultaneously.

We will first provide background about trust's assumed role in buyer–supplier relationships, particularly its role in highly cooperative relationships (those that tend more to the “supplier alliance” or partnership approach than to the traditional arm's length contractual approach). We then outline our conceptual model, the rationale for the included elements and the hypothesized relationships implicit in the model's paths. Next, we explain the operational measures used for the model's constructs and describe the methodology. We then provide the results of the PLS tests of the model. We summarize the findings and what this study says—and what it cannot say—about the effects of trust in cooperative supplier relationships. We conclude with some suggestions for further research.

2. Trust, cooperative behaviors and performance in buyer–supplier relationships

Of the three critical components to a supply chain management strategy (i.e., information flows, product flows and relationship management), Handfield and Nichols (1999) describe relationship management as “perhaps the most fragile and tenuous” (p. 10). This is because of the high importance placed on “*trusting* relationships where each party in the chain has mutual confidence in the other members' capabilities and actions” (p. 67). Thus, developing the intended partner's trust is an important concern in managing the relationship.

The model of trust building and its effects, shown in Fig. 1, is composed of three groups of constructs. The first group represents the supplier's level of trust in the buyer, based on the supplier's observation of the buyer's dependability and benevolence. The trust dimensions are expected to impact the second group of constructs dealing with the level of cooperative buyer–supplier behaviors, as assessed by both buyer and supplier. These behaviors are the use of joint responsibility for common operational tasks, undertaking shared planning activities and being flexible and responsive with respect to changes in demands placed upon the relationship's requirements. The final

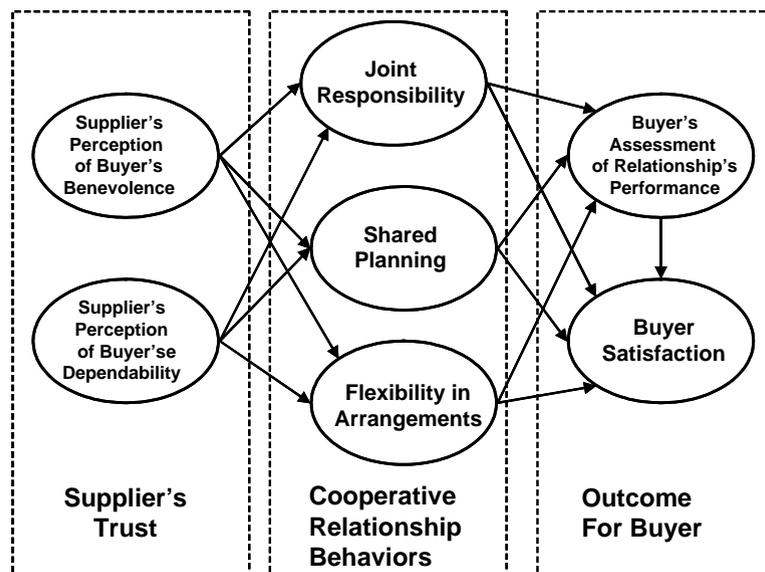


Fig. 1. Conceptual model of trust effects on perceived performance.

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