



# Relationship stability and supplier commitment to quality

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## Abstract

This study explores the link between relationship stability and supplier commitment to quality, and the contingency of the link on characteristics of transactions within the framework of transaction cost analysis. Data collected from 358 suppliers of a globalized firm suggest that supplier firms regard a stable relationship as being positively linked to their commitment to quality for the focal buyer firm. It was also found that the link is stronger when the suppliers' perceptions of a certainty of supply with the buyer firm are greater, while asset specificity and transaction frequency have no impact on the link. A discussion of the results and of the implications of the findings is provided.

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*Keywords:* Buyer–supplier relationships; Transaction cost analysis; Commitment; Quality assurance; Supplier management

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## 1. Introduction

During the last decade, supply chain management (SCM), a management approach that emphasizes the importance of building and managing relationships among partner firms in a supply chain, has received considerable attention in research and practice. SCM is concerned with managing the upstream and downstream relationships between suppliers and customers, to deliver superior customer value at the least cost to the chain as a whole (Christopher, 1998). On the other hand, the importance of quality and its associated

benefits such as improvements in customer satisfaction and in the bottom-line have been well acknowledged (e.g., Hendricks and Singhal, 1997). For instance, the quality of logistics services has been recognized as an area in which firms can attain a competitive edge (Mentzer et al., 2001). Given the growing trend towards developing and maintaining mutually beneficial exchanges in buyer–supplier relationships, the aspect of quality management of the supply chain is receiving increased attention in the literature (e.g., Forker, 1997; Stanley and Wisner, 2001).

The success of a supply chain depends not only on efficiency from optimizing resources but also on the effectiveness of partner firms in carrying out mutually beneficial activities, i.e., meeting customer requirements at the lowest possible cost (Lai

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et al., 2002). To achieve business success, it is imperative for firms to excel in quality, on which the efficient and effective flows of goods and information in the supply chain depend. We therefore attempt to fill this gap in the research by developing and testing a framework that looks into how relationship stability is linked to the supplier's commitment to quality for the buyer firm in a two-stage supply chain within the framework of transaction cost analysis (TCA). The impact of various transaction characteristics that take place between the supplier and buyer firms and how they might affect the strength of the link are empirically examined.

## 2. Theoretical framework and hypotheses

### 2.1. *Quality and the supply chain*

The successful implementation of SCM requires integrating internal functions of a firm and effectively linking them with the external operations of its partner firms in the supply chain (Holmberg, 2000). To ensure quality in these processes, it is necessary to understand the meaning of quality because different parties in the supply chain might view quality differently. Garvin (1984) suggested that definitions of quality could be classified into the following categories: transcendent, product-based, user-based, manufacturing-based, and value-based. Reeves and Bednar (1994) viewed quality differently as excellence, value, conformance, and meeting and/or exceeding the buyer's expectations. Although there are different interpretations of quality, they are all geared towards the goal of meeting the customer's requirements. Stanley and Wisner (2001) examined the association between the implementation of cooperative purchasing/supplier relationships, the quality of internal services, and an organization's ability to provide quality products and services to its customers. Their study found support for the view that strengthening the relationship between the buyer and the supplier improves an organization's ability to deliver quality to customers. They suggested that managers should assess buyer–supplier relationships and take action where necessary

to increase communication, solve problems, and increase general awareness of the relationship between internal and external services and product quality. From this perspective, quality in the supply chain can be defined as conformance to mutually agreed-upon requirements among the partner firms with the aim of improving the performance of the transactions taking place in the chain. It involves agreements on specifications, exchanges of information, coordination and control between the buyer and supplier firm at the inter-organizational level that could affect the quality (conformance to requirements) of the delivery of the product or service, and the ability to achieve quality in the supply chain.

### 2.2. *Relationship stability and supplier commitment to quality*

As a supply chain consists of a network of suppliers, their input is essential to ensuring the quality of the products/services desired by the customers. The main challenge for the buyer firm is to develop dependable buyer–supplier relationships and to elicit the commitment of suppliers to assure the quality of the products/services they provide. Because stability in the buyer–supplier relationship may affect a supplier's commitment to quality, it is important that such a relationship be properly understood. The link between relationship stability and supplier commitment to quality and the contingencies of the strength of the link to transaction characteristics are illustrated in Fig. 1 and are detailed below.

The importance of interorganizational relationships to achieving cost and service advantages has been widely acknowledged in the literature (e.g., Cannon and Homburg, 2001). For instance, in his concept of lean supply, Lamming (1993) emphasized closer working relationships and transparent flows of information along the supply chain such that buyers can obtain the right quality of products/services at the right price, while suppliers can provide a quality supply profitably. Maloni and Benton (2000) tested a model on the influence of power in the supply chain. Their findings suggest that a stronger buyer–supplier relationship boosts performance throughout the supply chain.

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