



# Hybrid buyer–supplier relationships in global electronic markets

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## Abstract

Research on the mechanisms for conducting business with suppliers has traditionally centred on the nature of arm's length and embedded relational models. While such models provide a basis for understanding market and closely integrated approaches to supply chain management it has been recognised that a variety of hybrid models occur in practice. This paper identifies and examines a hybrid model of buyer–supplier relationships that forms part of a portfolio of relationships managed by a large Australian organisation. The hybrid model takes a local community perspective within a market based mechanism. The characteristics of the hybrid model are underpinned by the motivation to maintain goodwill in the supplier community and employ a global competitive electronic marketplace for procurement. Strategies to manage local suppliers and consideration of their role and standing in the local community are important factors that large organisations need to incorporate in hybrid procurement arrangements.

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## 1. Introduction

Buyer–supplier relationships have been theorised in terms of arm's length and embedded relationships (Uzzi, 1997). Loose collections of companies that maintain impersonal

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and shifting exchange ties are characteristic of arm's length relationships and markets (Powell, 1990). At the opposite end of the relationship continuum are stable networks that maintain close social ties termed embedded relationships. This model has been accepted in much of the debate on the use of information technology to support these relationships (Schultze & Orlikowski, 2004), although increased attention has been given by researchers to alternative relational forms (Baker, 2002). This paper examines a particular type of buyer–seller relationship that serves the needs of local constituents and can be viewed as a hybrid relationship model. The research purpose is to identify the characteristics and benefits associated with hybrid models that consider local constituents. Within this context our main research question is: How can a large company effectively involve local suppliers within a global procurement system?

The motivations for answering this question are related to the problems faced by large companies that wish to take advantage of global procurement systems but avoid alienating local suppliers. For most companies it is important to maintain some local suppliers, firstly, because of the speed with which deliveries of products or parts can be made or services provided for time critical purchases and secondly, to maintain socially responsive practices that support business in the local community. Although the literature has examined the benefits of electronic marketplace participation, few studies have examined the strategies and complexities of maintaining a supportive local supplier culture when adopting a global procurement platform. If a company does not address this local/global challenge with effective strategies then it may lose goodwill in the local supplier community that could result in a lack of cooperation related to the supply of critical goods and services. From a broader community perspective a loss of goodwill can result in difficulties related to obtaining planning permission, trade union support or government subsidies.

There is a danger when implementing global procurement platforms that the wider organizational implications are overlooked. The adoption of global e-auctions is a highly strategic venture where the corporate social responsibilities need to be considered. Corporate social responsibility (CSR) is almost universally adopted by senior managers as an integral part of their executive roles, and can be motivated by self-interest, altruism, strategic advantage or political gain (Pearce & Doh, 2005). The debate on CSR centres around how a company can benefit society beyond the direct interests of shareholders? Some companies have focused for example on the support of community groups, approaches to the environmental issues and ethical marketing (Maignan & Ferrell, 2004). The role of electronic marketplaces and how they can be used to support local suppliers is also an issue of similar significance.

## **2. Network relations**

The benefits of hierarchy and market mechanisms for conducting business activity have been extensively debated from an economic perspective (Malone, Yates, & Benjamin, 1987; Williamson, 1975). The development of information technology has been viewed as a primary factor in the reduction of transaction costs and one which allows for a greater number of suppliers in electronic markets (Malone et al., 1987). Transaction costs are the costs associated with finding someone with whom to do business, reaching an agreement about the price and other aspects of the exchange, and ensuring that the terms of the agreement are fulfilled (Williamson, 1975). Electronic markets (e-market) have the potential to streamline and manage these activities. Moreover, they can reduce the transaction

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