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Journal of Purchasing & Supply Management 13 (2007) 26–41
JOURNAL OF PURCHASING AND SUPPLY MANAGEMENT
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Shaping buyer–supplier relationships in manufacturing contexts: Design and test of a contingency model

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Received 4 July 2006; received in revised form 16 March 2007; accepted 22 March 2007

Abstract

Although the idea that buyer–supplier partnerships can yield considerable benefits to firms is largely diffused among researchers and practitioners, the approach adopted in this paper is that no ''one best way'' exists in buyer–supplier relationships, but rather a ''best way'' for each specific exchange context. Hence, this paper proposes a contingency model for shaping and managing buyer–supplier relationships in manufacturing contexts. In order to test the model, an empirical study was performed on a sample of 45 buyer–supplier relationships within the Italian white goods industry. A three-dimensional performance indicator was computed to compare supplier performance achieved within relations matching the model's suggestions with those set differently. The results strongly suggest that suppliers involved in relationships set accordingly to the contingency model are likely to enjoy superior performance.
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Keywords: Buyer–supplier relationships; Contingency model; Performance

1. Introduction

As competitive forces induce firms to outsource an increasing part of their business in order to focus on core competencies, partnering with suppliers becomes a major strategic lever (Ellram, 1995). Notable cases of supplier-management practices, rewarded by performance premiums, were recently reported in the literature. They include Toyota (Dyer and Hatch, 2004), Harley–Davidson (Asmus and Griffin, 1993), Kodak (Ellram and Edis, 1996), Dell Computer (Magretta, 1998), and Chrysler (Dyer, 1996b). Partnerships support the creation of competitive advantage both at the buyer (Stuart and McCutcheon, 2000; Landeros et al., 1995) and at the supplier sides (Kalwani and Narayandas, 1995), that may lead to increased market share and profitability (Frolich and Westbrook, 2001; Ellram and Edis, 1996). Table 1 presents an overview of the potential advantages of partnerships for buyers and suppliers, as reported in literature.

Partnerships, however, present potential pitfalls and risks, sometimes overlooked in literature (Goffin et al., 2006). First of all, partnerships usually require parties to incur relation-specific investments (Hallikas et al., 2005), such as dedicated production equipment or interface software, exposing one party to the risk of an opportunistic behaviour by the other party. For instance, if the supplier invests in dedicated machinery, the customer might exploit supplier's dependency by imposing excessive price reductions (Akacum and Dale, 1995). On the other hand, long-term commitment to a supplier may decrease the buyer's flexibility and responsiveness to changes in the supply or demand market. For instance, a manager of a large European television sets manufacturer, who was interviewed in this study, told us that the company recently found itself at odds with its newly established long-term partnership with an eastern European manufacturer of kinescopes due to the flat screen technology outburst. Moreover, partnerships may fail due to cultural differences or absence of the managerial expertise needed in complex inter-organisational configurations (Ellram, 1995). Obstacles to effective coordination are poor communication, lack of managerial support, lack of total quality commitment by

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doi:10.1016/j.pursup.2007.03.003

Table 1
Potential advantages of partnerships (C = advantage for customer firms; S = advantage for supplier firms; B = advantage for both partners)

Process	Benefit	Ellram (1991)	McCutcheon and Stuart (2000)	Heide and John (1990)	Dyer (1996b)	Watts and Hahn (1993)	Frolich and Westbrook (2001)	Sako (1992)	Cooper et al. (1997)	Akacum and Dale (1995)	Kalwani and Narayandas (1995)	Shin et al. (2000)	Stuart and McCutcheon (2000)	Dyer and Hatch (2004)	Ellram and Edis (1996)
New product development	Increased access to technology/ information	C	C	C	C	C	C	C							
	Reduced time	B	C	C	C	C	C	B		S	S				
	Reduced cost	C	C	C	C	C	C	C							
	Improved quality	C	C	C	C	C	C	C							
	Reduced risk	B	C	C	C	C	C	B		S	S				
	Joint investments	B	C	C	C	C	C	B		S	S				
Logistics	Improved customer service	S				C	C		B	C	B	C		S	
	Reduced costs	S				C	C		B	C	B	C		S	
	Reduced risks	S							S		S			S	
Production	Increased quality								C	C	C				
	Reduced costs				S				B	C	C				
	Increased flexibility								C	C	C				
	Reduced risk				S				S						
Management and strategic planning	Reduced costs	B			C				B	B			C	S	S
	Increased customer/ supplier loyalty	C			C				C	C			C	S	
	Focus on core competencies and capabilities	C			C				C	C			C	S	
	Longer horizon planning of investments	S							S	S				S	S

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