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Mutual adaptation in buyer–supplier relationships

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Abstract

In buyer–supplier relationships, effective partnerships require mutual adaptation to execute strategies effectively. Using LISREL, we test a model of relational exchange factors that includes dependence, joint action and trust and their influence on the mutual adaptation of supplier and buyer firms in the U.S. automotive industry. The results of the study indicate that both economic and social dimensions of the relationship impact mutual adaptation, but that these two are not necessarily complementary. Specifically, supplier adaptation is negatively impacted by trust between supplier and buyer, but positively impacted by dependence and joint action. Buyer adaptation, on the other hand, is positively impacted by trust between the two, joint action and the adaptation undertaken by the supplier. The negative relationship between trust and supplier adaptation may be symptomatic of deeper issues in the U.S. automotive industry that should merit concern.
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Over the last several years, there has been a growing interest in inter-organizational relations both in research and practice. In today's highly competitive environment, there is intense pressure to improve the efficiency and effectiveness of manufacturing and procurement activities. When faced with revenue and cost concerns that are compounded by shortening product life cycles, changes in process and product technology, and evolving business practices, firms are looking for new ways to address business problems (Cannon and Perreault, 1999). Managers and researchers, in the interest of determining how to develop more effective inter-firm relationships, in the interest of determining how to develop more effective inter-firm relationships have enlarged the focus from formal contracts to more behavioral and relational approaches. Managers believe that these latter approaches can create more flexible, responsive partnerships thereby improving a firm's performance.

While we know that inter-firm relationships are undergoing change, researchers are studying in more detail their components, structure, and context. One primary issue of interest concerns the mutual adaptation that takes place between buyer–suppler firms as they develop more effective relationships. Mutual adaptation is defined as the mutual investment by two or more organizations to adapt to specific organizational needs by modifying products and production to suit the requirements of the other (Hallen et al., 1991). It is expected that mutual adaptation would allow each to better fit together and improve the performance of both (Hagberg-Andersson, 2006).

Buyer–supplier relationships are a particular form of alliance, which include both formal and social governance elements. In relationships where there is mutual adaptation, these firms typically develop close, frequently lasting relationships. They are somewhat different from other partnerships because they involve a vertical dynamic in which a supplier relies economically upon its buyer and is motivated toward maintaining a satisfactory relationship. These relationships include elements of economic power as well as social elements such as trust and commitment. We expect that supplier firms who depend significantly on buyers are likely to be influenced to adapt. Buyer adaptation may also take place in inter-firm relationships, but the element of economic dependency as a driver is absent.

It is this issue within the broader context of mutual adaptation that our study investigates. We ask: under what conditions would adaptation take place by suppliers and buyers in order to suit the

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needs and capabilities of its partner? While aspects of supplier adaptation have been studied, there is limited research in understanding buyer adaptation. We examine the influence of social elements in relation to economic dependence on mutual adaptation to test whether these are substitutes or complements in the confines of the relationship.

1. Conceptual background

1.1. Inter-firm relations

Understanding inter-firm relationships in economic exchange has been a central research issue in social sciences, including economics (Bendor and Mookerjee, 1990), political science (Axelrod, 1986), and social psychology (Thibaut and Kelley, 1959) utilizing various theoretical perspectives. Transaction costs theory, which emphasizes the formalized nature of governance in partnerships (Heide and John, 1992) has held a primary role in developing our understanding of relationships. However, many scholars have argued that inter-firm relationships involve more than formal contracts and that governance emerges from values embedded in social relationships (MacNeil, 1980; Noordewier et al., 1990; Heide and John, 1992).

From a social exchange perspective, inter-firm relationships are interactive processes where the interaction is any set of observable behavior on the part of two or more individuals when there is reason to believe that some parts of these individuals are responding to each other (Hallen et al., 1991, 29). The implication here is that organizations or parts of organizations are impacted by the social exchange between partners. Social processes due to the solidarity and mutual cooperation that develop over time, strengthens the alliance between firms (Poppo and Zenger, 2002). Ultimately, any behavior, associated with relational exchanges, is based on the expectation of mutuality of interest and is designed to enhance the well being of the relationship (Dwyer et al., 1987; Macneil, 1980; Noordewier et al., 1990).

An important outcome of social exchange is mutual adaptation. In relationships where two or more entities are simultaneously affecting and are affected by each other in relatively enduring ways, an adaptation process is occurring (Newcomb et al., 1952). This includes the adaptation and redesign of production processes, production schedules, information systems, product design, etc., to accommodate the needs of the partner. If interactions take place for any period of time, then individuals (or entities) continue to adapt to each other's needs (Hallen et al., 1991). Information exchange, operational linkages, legal bonds, cooperative norms, adaptations by buyers, and adaptations by sellers are all considered critical in the practice of buyer–supplier relationships (Cannon and Perreault, 1999). When these occur, they create incentives for both partners to make specialized investments, thereby adapting to each other.

The importance of mutual adaptation lies in the performance gains result. For example, productivity gains in value chain activities are possible when firms are willing to make transaction-specific investments (Williamson, 1985). Dyer (1996b) notes that inter-firm specialization might be a source of relational quasi-rents and competitive advantage. Hagberg-Andersson (2006) finds that when suppliers adapt they reach stronger positions in the market.

1.2. Inter-firm relationships in the automotive industry

Several studies on buyer–supplier relationships have focused on the auto and auto-parts industry. The automotive industry context is a prime field for research trending away from short-term contracts with numerous suppliers and towards longer-term commitments (Mudambi and Helper, 1998). America's big three automobile manufacturers have aggressively reduced the number of suppliers they deal with, relating to them in fundamentally different ways. Chrysler, for example, involves suppliers in the design of new cars and components in order to lower costs and share savings (Dyer, 1996a). Close partnerships in the industry are characterized by: (1) fewer direct suppliers resulting in lower transaction and production costs; (2) customized investments; and (3) forced competition among suppliers with assistance being provided to the weaker suppliers allowing experience curve pricing (Dyer and Ouchi, 1993, 52–53; Shimokawa, 1999). There are important implications when these types of strategic objectives are pursued within partnerships. Before these objectives can be realized a number of critical processes and changes must be put into place and close communication, cooperation, and coordination is required between supplier and buyer.

When buyers choose to move away from intra-company component operations, they necessarily have to rely on the "market" as a source for components. This reliance on the "market" in a social exchange context is distinctly different from traditional arm's length trading. This reliance requires buyers to increasingly depend on outside suppliers over which buyers may not typically have equity control. In order to safeguard against possible adverse situations, firms must create a level of dependability and reliability based on various governance mechanisms. Buyers can attempt to exercise control through the buying power they possess. However, social exchange theory suggests that commitment and trust are necessary for developing enduring relationships where both partners require increased flexibility and responsive. Therefore, it is likely that buyers would also attempt to exercise control from a behavioral perspective using social knowledge. Social knowledge, built around the clan concept (Ouchi, 1980), is considered an effective alternative to the more traditional forms of control such as equity ownership, formalized contracts, or economic dependence.

Social governance was initially observed in Japan, where trusting relationships with long-standing suppliers were involved with development as well as production of components (Asanuma, 1989; Womack et al., 1990; Dyer, 1996a; Helper and Sako, 1995). In the U.S. automotive industry, Mudambi and Helper (1998) found a combination of adversarial and social elements within cooperative relationships. The perception that buyers were likely to switch suppliers was high due to traditional competitive factors. However, there was evidence that a small group of firms had increased reliance on informal commitment and higher trust. Initially it appeared that these types of

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