



# Control mechanisms across a buyer–supplier relationship quality matrix

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## ABSTRACT

This study develops a buyer–supplier RQ matrix and explores changes in the use of selected control mechanisms, including coercive power, non-coercive power, contracts, and relational norms, across this matrix. The results indicate, under four distinct contexts of RQ, that coercive power execution is relatively low and has no significant differences in different quadrants of the matrix; that contract execution is relatively high and likewise has no significant differences; and that execution of non-coercive power and relational norms increases as the level of RQ improves. These findings reveal the important roles of contracts, the limited roles of coercive power, and the changing roles of non-coercive power and relational norms, as displayed in four distinct contexts of RQ. They make new contributions to the buyer–supplier relationship management literature and provide insightful theoretical guidance for buyer–supplier relationship managerial practice.

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## 1. Introduction

RQ can reflect the partners' cooperation and adaptation, as well as the atmosphere present, in a buyer–supplier relationship (Ananda and Francis, 2008; Håkansson and Snehota, 1995; Woo and Ennew, 2004). Quality is an important precondition for the success of a long-term exchange relationship (Bejou et al., 1996; Ford, 1980; Ryu et al., 2007a), and determines the likelihood that transactions among relationship partners will continue. Since risks and uncertainties always exist in any exchange relationship no matter what its quality, control mechanisms are indispensable for reducing opportunistic behavior and for improving relationship performance (Huntley, 2006; Jap and Ganesan, 2000; Rauyruen and Miller, 2007; Williamson, 1985, 1993).

In the realm of buyer–supplier relationship management, control mechanisms consisting of the use of coercive power, non-coercive power, contracts, and relational norms have received considerable attention because of their effective roles in governing the activities of participants in the relationship (Koza and Dant, 2007; Luo et al., forthcoming; Liu et al., 2009; Ryu et al., 2008; Weitz and Jap, 1995). Although relevant literature about dimensions of RQ is not unanimous, scholars do agree that mutual trust and commitment between parties in an exchange relationship are two important dimensions of RQ (Bejou et al., 1996; De Cannière et al., 2009; Huntley, 2006; Leuthesser, 1997; Rauyruen and Miller, 2007). Research investigates the antecedent and consequent variables of RQ (Anderson and Weitz,

1992; Kumar et al., 1995; Leonidou et al., 2006; Morgan and Hunt, 1994; Ryu et al., 2007b) but neglects to investigate whether or not the use of control mechanisms changes under different contexts of RQ. Thus, until now, the kinds of control mechanisms parties in an exchange relationship tend to use under different levels of RQ remain unclear, and therefore no guidelines exist for managers already involved in a buyer–supplier relationship, or for managers looking for new partners, who want to know about their partners' preference for type of control mechanisms and who want to help firms to design a control mechanism structure in different contexts of RQ.

To explore the issues above, this article develops a  $2 \times 2$  RQ matrix based on distinct levels of mutual trust and on the commitment of both buyer and supplier in an exchange relationship, and explores the extent to which the two parties' use of these control mechanisms—coercive power, non-coercive power, contracts, and relational norms—changes across four types of RQ. This research tests the matrix and the hypotheses proposed, using cluster, ANCOVA and SEM analysis of 220 pairwise data. The contributions of the research involve developing a  $2 \times 2$  matrix, and revealing the changes resulting from employing coercive power, non-coercive power, contracts, and relational norms under four distinct contexts of RQ. The results offer new theoretical and managerial insights into connections between the use of control mechanisms and RQ, and make further contributions to buyer–supplier relationship management literature and practice.

## 2. Theoretical framework

### 2.1. RQ

Existing definitions of relationship quality (RQ) come from studies in relationship marketing (Crosby et al., 1990; Dwyer et al., 1987;

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Farrelly and Quester, 2005; Huntley, 2006). In the context of business to business relationships, the concept of RQ reflects both parties' overall evaluation of relationship strength and the degree the trading partners' needs and desires are satisfied, as well as the depth and atmosphere of an exchange relationship (Johnson, 1999). RQ amounts to an overall evaluation of relationship attributes (Naudé and Buttle, 2000; Woo and Ennew, 2004). Relevant literature about dimensions of RQ has not been unanimous because scholars have approached the question from different perspectives (Dwyer et al., 1987; Johnson, 1999; Kumar et al., 1995; Leonidou et al., 2006), but most studies consider the relationship partners' mutual trust and their commitment to the relationship to be two important dimensions of quality (Bejou et al., 1996; Leuthesser, 1997).

Trust in a partner and commitment to an exchange relationship are two central constructs of relationship marketing which reflect the partners' positive emotional feeling toward participating in the relationship. Trust and commitment are also important factors for establishing, developing, and maintaining good inter-firm relationships (Anderson and Narus, 1990; Liu et al., 2008; Liu et al., forthcoming; Simpson et al., 2002). Trust–commitment theory indicates the reason that trust and commitment are key factors and that they encourage enterprises to engage in (1) protecting a specific investment by cooperating with their exchange partner; (2) resisting short-term distractions, maintaining the relationship with exchange partners, and recognizing expected long-term interests; and (3) being cautious about latent high risk behavior, because of being confident that the exchange partner will not engage in opportunistic behavior (Morgan and Hunt, 1994). Thus, the existence of trust and commitment in an exchange relationship will help bring improved results in the efficiency, productivity and validity of the relationship.

The exchange partners' mutual trust and willingness to maintain a long-term exchange relationship can reflect the essence of RQ, and that RQ can be defined as the extent of both parties' willingness to pursue common interests, mutual understanding, reciprocity, loyalty to each other, and long term cooperation. Trust, as a kind of friendly and heartfelt emotion, makes enterprises believe that their partners will be sincerely concerned about their interests and will not carry out unfavorable or unexpected behavior under unforeseen circumstances (Kumar et al., 1995; Lui et al., 2006; Moorman et al., 1992). Partners' spontaneous mutual understanding and help are the core ties that maintain an existing relationship.

Anderson and Weitz (1992) argue that inter-organizational commitment builds from an assumption that the relationship is stable and will last long enough for the parties realize long-term benefits from it. In accord with their study, commitment in this research is “a desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship” (Anderson and Weitz, 1992).

2.2. Matrix of RQ

Existing literature shows that trust, as one important dimension of RQ, will be affected by various factors such as opportunism, specific investment, communication, and goal consistency (Anderson and Narus, 1990; Anderson and Weitz, 1989; Coote et al., 2003; Ganesan, 1994; Morgan and Hunt, 1994). Under the influence of these factors, exchange partners in an enterprise will present high or low levels of trust. Similarly, commitment, as another important dimension of RQ, will be affected by various factors, such as conflict, specific investment, and satisfaction (Anderson and Weitz, 1992; Coote et al., 2003; Goodman and Dion, 2001), and will show a high or low level of commitment as well. Cooley and Dwyer (1998) indicate that the level of trust and commitment is different in various stages of the development of an exchange relationship. At some stages the level of trust will be high and the level of commitment will be low, but at other stages the level of trust will be low and the level of commitment will be high. The levels of trust and commitment increase or weaken as an exchange relationship evolves. Thus, RQ based on trust and

commitment will be different due to changes in factors such as opportunism, specific investment, communication, goal consistency, conflict, special investment, and satisfaction. By using the method of permutation and combination in mathematics, a 2 × 2 RQ matrix based on different levels of mutual trust and commitment can be developed (Fig. 1).

Type I (high level trust and high level commitment) is a “buddy”. A buddy relationship means both parties in an exchange relationship have close ties, a willingness to sacrifice their own interests for long-term common interests, and a commitment to long-term cooperation. Type I is an ideal RQ, a very cooperative relationship many partners seek.

Type II (high trust and low commitment) is a “relier”. A relier means both parties in an exchange relationship may be willing to sacrifice their own interests for long-term common interests to some extent, but for some reason they are not willing to commit to long-term cooperation. Since mutual trust established between them could generate mutual commitment, this type of relationship has a great potential for realizing the transition from “relier” type to “buddy” type once conditions mature.

Type III (low trust and low commitment) is an “arm’s-length” relationship. Arm’s-length means both parties in an exchange relationship will have low levels of mutual trust and commitment. Parties in such a cold exchange relationship care little about their partner’s feelings, are unwilling to sacrifice their own interests, and don’t wish for long-term cooperation. An “arm’s-length” relationship is the worst type of relationship and is often the reason why cooperation between partners fails. But with improvement in mutual trust between partners or in the parties’ commitment to the exchange relationship, the arm’s-length type may transform into the relier type or “initiative” type.

Type IV (low trust and high commitment) is an “initiative”. An initiative means both parties in an exchange relationship will be willing to maintain long-term relationships, but mutual trust between them has not been established. Although both parties want to maintain the relationship and continue the cooperation due to business reasons, they cannot easily do so because of lack of mutual trust and the potential for conflicts between them (Zaheer and Venkatraman, 1995; Zaheer et al., 1998). If the conflicts cannot be handled properly, the parties’ willingness to establish long-term cooperation will be destroyed, and their relationship will change from an “initiative” type into an arm’s-length type. Of course, the initiative type also has an opportunity to transform into the buddy type as mutual trust between partners increases.

2.3. Coupling between control mechanism and RQ

Control mechanism is a kind of basic relationship management tool (Huntley, 2006; Jaworski, 1988), which can minimize partners’ opportunism (Brown et al., 2000), protect specific investment (Jap and

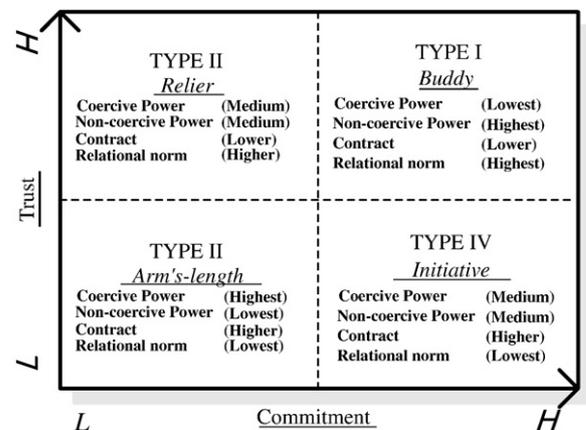


Fig. 1. A theoretical model of relationship quality and control mechanisms coupling in buyer–supplier dyads.

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