



# Inter-organizational cooperation in buyer–supplier relationships: Both perspectives

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## ABSTRACT

Most empirical investigations of inter-organizational cooperation within channel dyads investigate the phenomenon from the perspective of only one partner. However, because investigating from both partners' perspectives is important especially when interdependencies exist between the channel partners, this study attempts to examine both perspectives in buyer–supplier relationships and explain why differences, if any, arise. The data that this study requires were collected from buyers responsible for supplier relationships in a Korean telecommunication service provider and from their partners. The results show that switching costs and inter-organizational trust are significant determinants of cooperation for buyers; technological uncertainty and the reciprocity of the relationship are significant determinants for the suppliers. In both sample sets, goal consistency significantly affects inter-firm cooperation.

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## 1. Introduction

In the new economy, as firms become more dependent on outside partners to meet sophisticated customer needs, managing inter-organizational relationships effectively becomes important to gaining a competitive advantage. Consequently, inter-organizational cooperation receives considerable research attention. However, most empirical investigations of inter-organizational cooperation within channel dyads have investigated the phenomenon from the perspective of only one partner (e.g., Bensaou, 1997; Kim and Umanath, 2005). Investigating inter-organizational cooperation from the perspective of both partners is important, especially when channel partners depend on each other. Channel relationships that are asymmetric in dependence and power are more dysfunctional and less stable than symmetric relationships (Kumar and van Dissel, 1996). When dependence asymmetries occur, factors that influence the partner's cooperative actions differ according to the partner's status in the channel, that is, whether they have relative power or relative dependence.

While the buyer's perspective in buyer–supplier relationships receives much attention (for exceptions, see Helper (1991) who focuses on the supplier's perspective), prior studies have shown a discrepancy in the perspectives between buyers and suppliers. For example, Forker et al. (1999) report that both parties have different views on the buyer's implementation of the supplier's development

activities. Arkader (2001) has found that buyers' perspectives are different from suppliers' in regard to both the facilitators and the barriers of buyer–supplier relationships. For instance, buyers identify “problems due to environmental factors (especially, adverse logistics and tax systems)” as important barriers to cooperative relationships, while suppliers identify “organizational barriers (mainly, the existence of functional resistance and the loss of power by buyers in the purchasing departments)” (p. 92). Therefore, this study attempts to accommodate both partners' perspectives in the buyer–supplier relationships to determine whether the perspectives differ, and, if so, to explain why.

This study develops a comprehensive model of the determinants of inter-organizational cooperation by synthesizing various theories relevant to inter-organizational relationships. The study then tests this research model by using matched samples from a buyer and supplier in the Korean telecommunication industry. The telecommunication industry includes the telecommunication equipment manufacturing industry as well as the telecommunication service industry. The manufactures of telecommunication equipment produce components that can be integrated into a whole system based on a certain agreed-upon protocol. Meanwhile, telecommunication service providers deliver services through an integrated system with these components. Effective service delivery requires mutual adjustments and cooperation between the telecommunication service providers and their equipment manufacturers, because modular technologies must be integrated. Further, customer needs are constantly evolving in this industry, as is the technology required to meet customer needs. In this type of environment, both trading partners benefit from cooperation because of the considerable interdependence between the buyers and suppliers.

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## 2. Literature review

### 2.1. Resource Dependence Theory (RDT)

According to the RDT, few firms can internally control all the resources required to function effectively (Reid et al. 2001). Sourcing inputs from the market makes the firm dependent on other firms for critical resources and thus increases the likelihood of unpredictable events. This resource dependence perspective suggests that bilateral relationships emerge as individual organizations attempt to secure necessary resources (Pfeffer and Salancik, 1978). If a firm is deficient in a particular resource domain and possession of that resource is deemed essential for gaining a competitive advantage, then the firm will take purposive actions to acquire the resource (Reid et al., 2001). Alliances are more likely to form for firms with a mutual need to exchange resources (Eisenhardt and Schoonhoven, 1996).

Supply relations are crucial for any organization that subcontracts portions of component design and production. Telecommunication equipment manufacturing, for example, involves a number of complex production activities that require capital-intensive investments as well as the development of an extensive sector of smaller firms that are devoted to component manufacturing. Existing studies based on RDT perspectives identify antecedents for the successful cooperation between firms and their partners such as a firm's dependence on its partner (e.g., Kumar et al., 1995) and the governance mechanisms of these relationships (e.g., Dyer and Singh, 1998).

### 2.2. Transaction Cost Economics (TCE)

TCE provides important theoretical background for decisions about whether the activities of a firm's value chain should be placed within the corporation or outsourced in a contractual relationship. Coase (1937) asserts that the most efficient governance mechanism for an exchange interaction is determined by minimizing the sum of the production and transaction costs. Williamson (1991) also explains why transaction costs occur by using a model of market failure. Two factors, human factors and environmental factors, may contribute to market failure. Human factors include limited rationality and opportunistic behavior, while environmental factors consist of uncertainty resulting from technological changes and the complexity of external markets.

TCE explains that inter-firm cooperation can overcome the limitations of restricted rationality, secure economic efficiency with reduced transaction costs, and realize transaction stability from opportunistic threats. That is, a hybrid form of inter-organizational governance, such as a mixture of complete market transactions and hierarchy transactions, leads to efficient transaction costs or resolves uncertainty. In buyer–supplier relationships, TCE asserts that uncertainty can arise from the environment and/or from the trading partner (Bensaou, 1997). Uncertainty in regard to the environment results from factors that are outside the inter-firm relationship. Uncertainty in regard to the trading partner occurs from the structural–economic features of the relationship and consists of two dimensions: the governance structure of the relationship and the state of the relationship originating from the climate of socio-political behavior.

### 2.3. Social capital theory

Social capital theory asserts that relationship networks are a valuable resource for social interactions (Bourdieu, 1986). Social capital is defined as “the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit” (Nahapiet and Ghoshal, 1998, p. 243). Social capital perspectives encourage cooperative behavior such as inter-firm alliances. Specifically, a desire to

access valuable partner-held resources motivates inter-organizational exchange.

Social capital theorists have focused much attention on the structural properties of these relationships (Adler and Kwon, 2002), such as the tie strength at the dyadic level (Granovetter, 1973). While strong ties are important conduits of resource exchange, Levin and Cross (2004) assert that the relational dimension of social capital, for example, organizational trust, mediates the relationship between tie strength and resource exchange. Tsai and Ghoshal (1998) likewise find that at the department level the structural dimension of social capital stimulates trust and the perceived fairness of the relationship, which, in turn, leads to the exchange of more resources between departments. In high-trust relationships, organizations tend to be more open to the potential for value creation through exchanging and combining resources. Social capital enables supply chain participants to become more engaged in social exchange and to take actions that would otherwise be considered risky (Putnam, 1993). Furthermore, the relational dimension of social capital refers to resources that provide shared representations, interpretations, and systems of meaning among the parties (Nahapiet and Ghoshal, 1998). When the participants in a dyad have the same goals and values, they are more likely to form a cooperative relationship. Social capital theory identifies the antecedents for cooperative relationships such as inter-organizational trust, goal consistency, and reciprocity.

In summary, RDT suggests that firms seek to reduce uncertainty and manage dependence by structuring their exchange relationships through various governance mechanisms. Thus, switching costs are considered a proxy for dependence, and technological uncertainty is considered a proxy for uncertainty. TCE asserts that opportunistic trading partners could exploit relationship-specific investments, since these investments increase the firm's dependence. To protect these investments, TCE maintains that hierarchies such as vertical integration and/or goal alignment with proper incentive mechanisms can serve as safeguards. Thus, in addition to the RDT variables, equity ownership and goal consistency are considered determinants of inter-firm cooperation. Social capital theory identifies inter-organizational trust, reciprocity, and continuity as essential for inter-organizational relationships.

## 3. Hypotheses formulation

### 3.1. Technological uncertainty

Environmental uncertainty refers to (1) the degree of change that is unpredictable in the external environment (Huber and Daft, 1987) and (2) the lack of information about environmental factors that affect decision-making. Among the many environmental factors that contribute to uncertainty in the telecommunication industry, technological change is the most significant. In the telecommunication device market, predicting which technology standards or services will dominate in the future is not easy. Rapid change in technology requires companies to process more information, which increases uncertainty for a company (Guimaraes et al., 2002).

The literature contains opposing views of the relationship between technological uncertainty and inter-organizational cooperation. Bensaou (1997), for example, expects a negative relationship between the two variables for the following reasons: “The inability to forecast accurately new technical or design requirements for the parts and components exchanged within the relationship may be managed more efficiently through no or loose coupling...and therefore less investment in joint efforts, such as joint planning and development. By not engaging in such expensive cooperation, firms retain the flexibility to terminate a relationship and switch to partners with more appropriate technological capabilities” (p. 110). Perry et al. (2004) also expect that technological uncertainty has a negative effect on investment commitment. Meanwhile, Paulraj and Chen (2007) predict a positive relationship between

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