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# The mediating role of key supplier relationship management practices on supply chain orientation—The organizational buying effectiveness link

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ABSTRACT

The role of key supplier relationships and their link with purchasing performance are poorly recognized in current business-to-business marketing literature. Given the predominance of collaborative supply chain relationships, purchasing must be considered to be providing value, thereby implying its effective nature. This study introduces a conceptual model of the relationship between supply chain orientation (SCO) and key supplier relationship management (KSRM) with organizational buying effectiveness (OBE) as a measure of effective purchasing behavior. To extend the model's nomological network, we link OBE with firm profitability. We find that SCO and KSRM have a strong positive influence on OBE. Furthermore, KSRM is demonstrated to be a significant mediator in the SCO–OBE relationship. Finally, OBE significantly and positively influences firm profitability, suggesting that it adequately addresses the aspects of effective purchasing behavior. We also discuss theoretical and managerial implications as well as future research directions in light of the limitations of this study.


## 1. Introduction

During the past two decades, there has been a growing interest among researchers in collaborative buyer–supplier relationships (Cannon & Perreault, 1999; Ganesan, 1994Kalwani & Narayandas, 1995; Morgan & Hunt, 1994). Previous studies have provided empirical evidence that key partner relationships must be considered to be the source of competitive advantage (Wisner, 2003) and a platform for value differentiation (Ulaga & Eggert, 2006) in the supply chain context. Thus, supply chain success depends on the ability of management to integrate the diverse goals and strategies of member firms. Integrative efforts are achievable by developing relationships with supply chain members. Therefore, the endorsement of both the supplier and customer's efforts in the value creation process is required. This perspective has been defined as *supply chain orientation* (SCO) (Mentzer et al., 2001). SCO supports the concept that value creation is a process in which all members of the chain must invest their resources, capabilities, and know-how. As a subsystem, an organization interacts with other subsystems (suppliers and customers), and together they compose one large system (the supply chain). Consequently, the goal of the supply chain system is to provide value to the ultimate customer.

Esper, Defee, and Mentzer (2010), and Esper, Ellinger, Stank, Flint, and Moon (2010) suggested that the marketing paradigm plays a vital role in supply chain management by providing a platform for supply and demand chain integration. Eventually, supply and demand integration engenders the value stream from the first-tier supplier to the ultimate customer. Notably, previous studies have identified SCO as an important antecedent to organizational performance that links the upstream and downstream processes (e.g., Hult, Ketchen, Adams, & Mena, 2008; Min & Mentzer, 2004; Min, Mentzer, & Ladd, 2007). Although these studies have followed different conceptual traditions, their findings suggest the same implication: a firm with SCO recognizes the role of its suppliers and customers in the value creation process.

Recent literature on business-to-business marketing has been devoted to exploring the role of supplier relationship management issues, particularly in the supply chain setting. Previous studies have confirmed that there is a growing trend of research on supplier relationship management topics such as supply base consolidation (Eggert & Ulaga, 2010), supplier portfolio management (Wagner & Johnson, 2004), value creation through key relationship status (Ulaga & Eggert, 2006), and the supplier relationship management framework (Moeller, Fassnacht, & Klose, 2006). The extant literature in this area recognizes the importance of key supplier relationship management (KSRM) activities in buyer–seller exchanges (Pressey, Winklhofer, & Tzokas, 2009). However, the field suffers from serious gaps, which suggest the need to further investigate the antecedents and consequences of KSRM (Corsten & Felde, 2005). KSRM focuses on the management of strategic relationships, and it is based on the assumption that the firm's overall

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portfolio is composed of relationships that may have different levels of importance (Ivens, Pardo, Salle, & Cova, 2009). Therefore, relationships must not be treated in a "one-size-fits-all" manner, and firms must make a distinction between strategic (key) and transactional partnerships (Lambert, 2004).

Previous studies have reported on the significant impact of SCO and KSRM concepts on organizational outcomes (e.g., Corsten & Felde, 2005; Min & Mentzer, 2004). However, the main purpose of the present study is to examine the influence of SCO and KSRM on purchasing behavior. We argue that purchasing plays a more strategic role in the supply chain system, thereby influencing customer value creation. In order to address these concerns, we provide a conceptual model to gain greater insight into the relationships between SCO, KSRM, and organizational buying effectiveness (OBE). Further, we suggest that the link between SCO and OBE is better explained by the mediating role of KSRM. A managerial framework that monitors the key supplier relationships within a firm's supply chain will make the purchasing process more effective and pragmatic. In our model, we rely on OBE as a measure of effective purchasing behavior within the supply chain. Furthermore, we consider OBE to be an important construct based on the view that purchasing is a process that directly influences value creation for the direct downstream member of the supply chain (i.e., the buying firm's customer). In this case, by influencing the value creation process, we propose that OBE significantly influences the firm's bottom-line profitability.

The remainder of our paper is structured into six parts. Firstly, we present the conceptual development, which encompasses the model and research hypotheses. The next section outlines the methodological principles of the study, survey development, research setting, sampling procedures, bias testing, and measurement issues. This section is followed by the findings with respect to measurement and the properties of the structural model. Thereafter, the theoretical and managerial implications of the research findings are considered. Finally, limitations and suggestions for further research are provided.

## 2. Conceptual development

A few previous studies have positioned purchasing as a secondary and supportive service activity in the traditional corporate value chain (Leenders, Nollet, & Ellram, 1994; Ramsay, 2001). In contrast, some theoretical approaches claim that purchasing must play a more pivotal role in customer value creation (e.g., Lindgreen & Wynstra, 2005; Rozemeijer, 2008). Hence, purchasing processes act as value nodes that connect key members of the supply chain.

Most purchasing performance models deal with efficiency outcomes based on accounting principles (e.g., Rossler & Hirsz, 1996). Undoubtedly, efficiency is an important purchasing issue; however, it is not sufficient for clarifying the value-adding role of purchasing in the supply chain context. Unlike efficiency, the goal of effective purchasing is to provide value for the direct downstream customer in the supply chain. Along this line of reasoning, Janda and Seshardri (2001) defined *purchasing effectiveness* as the metric concerned with rather intangible dimensions, such as supplier relations and value procurement (in terms of quality and service).

In order to address issues of effective purchasing behavior, this study applies a broader organizational buying perspective that has a substantial foundation in the business-to-business marketing literature (Sheth, 1973; Webster & Wind, 1972). OBE is a new concept in the literature and we define it as a metric concerned with an organization's effectiveness in achieving purchasing outcomes (i.e., customer value creation).

In previous studies, researchers have attempted to explore the aspects of effective purchasing behavior (e.g., Hult, Ketchen, & Chabowski, 2007; Janda & Seshardri, 2001). However, these studies have investigated only certain aspects of effective purchasing behavior. Consequently, they have failed to answer the key questions of what goals purchasing should achieve and by what means these goals are achievable in the supply chain context. In the present paper, we argue that effective purchasing behavior should be more closely related to customer value creation. Following this line of reasoning, we aim to extend the theoretical content of effective purchasing behavior through theoretical triangulation. Theoretical triangulation is a useful tool to employ when theories from relatively discrete areas explain a certain concept inadequately (Denzin, 2006). Because previous purchasing and business-to-business marketing studies have failed to provide a comprehensive framework to measure effective purchasing behavior, theoretical triangulation is a suitable approach for this study.

The early organizational effectiveness literature defined effectiveness in terms of the extent to which organizational goals are accomplished. In the triangulation process, we relied on the competing values model (Quinn & Rohrbaugh, 1983), which represents the most comprehensive approach to determining organizational effectiveness. This model comprises the following two dimensions: external vs. internal attention orientation and participation in decision making vs. centralization. By combining these two dimensions, a $2\times2$ matrix of competing values emerges (Quinn & Rohrbaugh, 1983). According to previous empirical studies, the quadrant that combines external attention orientation with participation in decision making results in increased profit, growth, and flexibility (Walton & Dawson, 2001). In addition to external attention orientation and participation, we also embraced Galbraith's (1974) idea that effective organizations must process information. Consequently, information sharing was added as the third dimension of organizational effectiveness in the present study.

Because of systemic linkages (i.e., organizational buying centers are organizational subsystems that deal with purchasing-related issues), it is appropriate to triangulate these three organizational effectiveness dimensions in the context of organizational buying behavior. As a result, we transformed the above-mentioned three dimensions into related constructs from the business-to-business and purchasing fields: value-oriented purchasing, lateral involvement, and purchasing-related information sharing. Table 1 presents the theoretical rationale behind the selection of these OBE dimensions.

These OBE dimensions significantly influence customer value creation in the following manner:

(1) Value-oriented purchasing—apart from the natural focus on the upstream side of the chain, purchasing managers must be aware of the downstream (customer) side of the chain when conducting procurement activities.
(2) Lateral involvement—employees from various departments have specific knowledge on the nature of purchased products. Hence, they offer valuable insight within the purchasing process by indicating which product attributes could be valuable to the firm's customers.
(3) Purchasing-related information sharing—different functions/employees within a firm possess unique information on various aspects of customer value. In this case, information sharing enhances purchasing effectiveness.

Further, we investigate the theoretical linkages between OBE and its related antecedents (SCO, KSRM) and consequences (firm profitability) in our research model.

### *2.1. Research hypotheses*

Very little research has been conducted on the SCO concept. However, the marketing literature has shown a great interest in the concept of market orientation since 1990s. The link between market orientation and business performance has been widely researched in the marketing literature, and recent findings have revealed that there is a positive, direct, and significant relationship between these two constructs (Kirca, Jayachandran, & Bearden, 2005). However,