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Engaging suppliers in CRM: The role of justice in buyer–supplier relationships

Rachel Duffy[a], Andrew Fearne[a], Sue Hornibrook[a,*], Karise Hutchinson[b], Andrea Reid[b]

[a] Centre for Value Chain Research, Kent Business School, University of Kent, Canterbury CT2 7PE, Kent, United Kingdom
[b] Department of Business, Retail & Financial Services, Ulster Business School, Coleraine, Co. Londonderry BT52 1SA, Northern Ireland, United Kingdom

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ABSTRACT

Given the crucial role of suppliers in collaborative supply chains, it is surprising that little attention has been paid to the nature and management of supplier relationships in the implementation of a retailer's Customer Relationship Management (CRM) strategy. To address this gap in the extant literature, the theory of organizational justice is used to explore the extent to which perceived fairness in buyer–supplier relationships supports or inhibits supplier engagement with the CRM process. The rationale is that suppliers who feel fairly treated by key retail customers are more likely to invest resources in the acquisition and use of data central to the retailer's CRM strategy. By empirically testing a conceptual model linking downstream CRM to upstream SRM, the results provide evidence to indicate that customer data use is significantly influenced by perceptions of fairness, particularly with respect to the distribution of rewards, and the transparency of decision-making processes. As a key criticism of CRM centers upon the failure of organizations to exploit the full potential of customer data, the results highlight the usefulness of understanding the relational linkages between buyers and suppliers and the consequential behavior of suppliers in terms of engagement with customer data vital to the success of retailers' CRM strategies.

1. Introduction

Customer Relationship Management (CRM) suggests that firms must not only develop a knowledge base, but also develop capabilities in knowledge management to allow modified responses to customers on a continual basis (Campbell, 2003; Garrido-Morreno & Padilla-Meléndez, 2011). Customer loyalty data is one such source of customer-specific insight, and if utilized, can result in increased competitiveness, improved customer satisfaction and retention (Leenheer & Bijmolt, 2007). Grocery retailers, in particular, collect and utilize customer loyalty card data to tailor product categories according to customer wants and needs. However, this requires the engagement of suppliers, whose knowledge of design and manufacturing should be utilized in order to facilitate superior value and competitive supply chain advantage (Barrett & Barrett, 2011; Tseng, 2009).

Notwithstanding this, little is known regarding the role suppliers play in the CRM implementation by retailers, and specifically the extent to which buyer–supplier relationships support or inhibit supplier engagement. In particular, there is a lack of empirical research (Chen & Huang, 2007) into the role of social interaction amongst individuals in intra-firm knowledge management, resulting in calls for research to utilize theoretical knowledge from other fields, such as psychology, in order to understand the behavioral aspects of supplier innovativeness within collaborative relationships (Schiele, Veldman, & Huttinger, 2011). The primary purpose of this paper, is therefore to empirically investigate how behavior by buying organizations, at both the individual and the organizational level, impacts upon the use of CRM data by suppliers within close, collaborative relationships. The main contribution of this research is the finding that suppliers are significantly influenced in their use of customer data by how fairly they perceive they have been treated by the retailer.

The paper begins by linking the literature on CRM and Supplier Relationship Management (SRM), and providing a conceptual framework using the theory of organizational justice to explain the relational linkages between buyers and suppliers, and the consequential behavior of suppliers in terms of use of loyalty card and other customer data. The paper then presents empirical evidence of the level of knowledge and engagement exhibited by suppliers of the CRM policies of Supermarket A, and the importance of SRM as a barrier or enabler to supplier engagement in the CRM process. Thereafter, a discussion of the contribution of this study to the field of CRM is presented in the concluding section of the paper.

* Corresponding author at: Centre for Value Chain Research, Kent Business School, University of Kent, Canterbury CT2 7PE, Kent, United Kingdom.
Tel.: +44 1227 827731.
E-mail address: s.a.hornibrook@kent.ac.uk (S. Hornibrook).

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2. Linking CRM and SRM

Supplier relationship management involves the management of upstream and downstream relationships to create enhanced value in the marketplace (Christopher, 1998; Rinehart, Eckert, Handfield, Page, & Atkin, 2004). The importance of external linkages between downstream customers and upstream suppliers by retailers is highlighted by Barrett and Barrett (2011) who found that if business processes are integrated and managed effectively across the supply chain, retailers will accrue benefits such as improved responsiveness, improved planning and replenishment capabilities and improved decision-making. Specifically, SRM is defined as "the mirror image of Customer Relationship Management" (Croxton, Garcia-Dastugue, Lambert, & Rogers, 2001, p. 24); whereby CRM involves the structure for how the relationship with the customer is developed and maintained, and SRM defines how a company interacts with its suppliers.

In examining the nature of buyer–supplier relationships, a well-established stream of literature identifies a continuum ranging from discrete to relational behavior (Dwyer et al., 1987; Siguaw, Simpson, & Baker, 1998). However, firms are struggling to develop and sustain collaborative initiatives towards the end of the relational continuum (Spekman & Carraway, 2006) as many buyers continue to abuse their position of power and strangle suppliers with short term, cost-driven decisions (Rossetti & Choi, 2005), particularly with regards to retailer–supplier relationships (Corsten & Kumar, 2005). Ultimately Giunipero and Eltantawy (2004) warn that this is detrimental to long term competitiveness given that the full capabilities of a supplier, necessary to effectively implement CRM, will be undermined. Therefore, effective collaboration requires more than just co-ordination at the operational level of the relationship, but intent on the part of boundary spanners in buyer organizations to build strong relationships, whereby attitudes such as trust and commitment can exist. This positive behavioral intent is critical to developing and sustaining collaborative initiatives such as CRM, as it encourages partners to dedicate assets on behalf of others in the chain, thus creating economic value (Spekman & Davis, 2004).

One important dimension affecting an individual's actions and reactions is how fairly they perceive treatment by the other, often more powerful party. The theory of organizational justice (or fairness) has been used extensively in the intra organizational literature, where the traditional focus has been on the role of fairness in the workplace. The assumption is that employees' perceptions of fairness will impact upon their behavior, and therefore on organizational outcomes and performance (Colquitt, 2001; Konovsky, 2000; Masterson, Lewis, Goldman, & Taylor, 2000; Thibaut & Walker, 1975). Employees who perceive they are treated fairly contribute to performance through positive behaviors, such as long term commitment or discretionary behaviors. Likewise, for those employees who feel they are being treated unfairly, resultant damaging retaliatory behaviors will negatively impact upon organizational performance (LePine, Erez, & Johnson, 2002; Podsakoff, MacKenzie, Paine, & Bachrach, 2000).

In the context of this study, the theory of organizational justice is applied to inter-organizational relationships. It is proposed that the concept of fairness, or justice, will influence the strength of buyer–supplier relationships and in particular, supplier engagement with a CRM strategy. The conceptual framework assumes an unequal power relationship between buyers and suppliers, and we therefore locate our empirical investigation in a context that is characterized by a small number of monopolistic, powerful buying organizations, and a fragmented supply base consisting of smaller organizations, namely the UK supermarket industry. The literature on power in supply chains is extensive, but in this research, the integrated model of power is adopted (Meehan & Wright, 2011), whereby power is a complex synthesis of organizational context, individual personal characteristics of buyers and sellers, and relationship interactions. The theory of organizational justice also accommodates an integrated view of power, by examining fairness at the contextual level, at the individual level and at the relationship level. In particular, we posit that engagement of suppliers in the process of CRM implementation is contingent upon the nature of the relationship between the custodian of the CRM strategy, in this case, Supermarket A and their suppliers. The rationale is that suppliers who feel fairly treated by Supermarket A are more likely to engage in their CRM strategy and invest in the acquisition and use of their loyalty card and other data than those who perceive their relationship with Supermarket A to be unfair.

3. Theoretical framework

The theoretical framework for measuring the management of supplier relationships draws primarily from the work of Greenberg (1993) and Colquitt (2001) who propose that fairness can be conceptualized according to four distinct components: the fairness of outcome distributions (known as Distributive Justice), the fairness of the processes that led to such outcomes (known as Procedural Justice), the fairness of the interactions between individuals (known as Interpersonal Justice), and the fairness in the exposure of evidence or reasoning for decisions taken (known as Informational Justice).

To date, research on inter-organizational justice remains limited with most studies combining different justice dimensions into a single variable (i.e. Kumar, Scheer, & Steenkamp, 1995; Suh, 2004; Yilmaz, Sezen, & Kabaday, 2004) or focusing only on the consequences of a limited number of justice components (Brown, Cobb, & Lusch, 2006; Griffith & Lusch, 2000). Therefore a gap remains in the inter-organizational literature for an empirical study that specifically investigates the consequences of all four dimensions of justice on behavioral or performance based outcomes.

Of particular interest to the role of fairness in the management of supplier relationships, are the positive organizational outcomes of commitment and citizenship behaviors. In an inter-organizational context, commitment is the willingness of suppliers to commit to the relationship in the long term, whereas citizenship behaviors are those actions that are over and above that which is formally expected within the terms of supply (Hornibrook, Fearne, & Lazzarin, 2009). One manifestation of such positive behavioral outcomes would be the willingness of suppliers to invest in the acquisition and use of customer data to inform and support the development of innovative new products that could be offered to the retailer in accordance with a CRM strategy.

In the case of retail customer Supermarket A, which is the largest supermarket in the UK and the third largest in the world, downstream data to support their CRM strategy is collected from a panel of 14 million UK supermarket shoppers. At the upstream level, suppliers may purchase this data. Suppliers are also able to freely access operational data via the Supermarket A Link, a web based information portal.

Fig. 1 shows the relationship between the management of supplier relationships and consequential supplier engagement with data critical for the sustainable development of a retailer's CRM strategy.

3.1. Components of inter-organizational justice

Distributive justice refers to the perceived fairness of the outcomes received (Griffith, Harvey, & Lusch, 2006; Kumar, 1996) and is most commonly defined in terms of the equity rule, which