Industrial Marketing Management 42 (2013) 1295–1306

Contents lists available at ScienceDirect

Industrial Marketing Management

Decomposing the effect of supplier development on relationship benefits: The role of relational capital

Agnieszka Blonska [a,*], Chris Storey [b,1], Frank Rozemeijer [a,2], Martin Wetzels [a,*], Ko de Ruyter [a,2]

[a] Maastricht University, School of Business and Economics, Department of Marketing and Supply Chain Management, P.O. Box 616, 6200 MD Maastricht, The Netherlands
[b] Cass Business School, City University London, 106 Bunhill Row, London EC1Y 8TZ, UK

ARTICLE INFO

Article history:
Received 22 March 2012
Received in revised form 2 April 2013
Accepted 11 June 2013
Available online 10 July 2013

Keywords:
Relational capital
Supplier development
Buyer–supplier relationship

ABSTRACT

Buyers invest considerably in developing their suppliers, yet the performance effects of such investments are not universal. Drawing on social capital theory, this research investigates whether the relationship between supplier development and relationship benefits may be facilitated by the generation of relational capital. The authors examine mediating and moderating roles of relational capital in the relationship between two aspects of supplier development (capability development, supplier governance) and two dimensions of relationship benefits (supplier benefits, buyer benefits), using survey data collected from 185 suppliers of a large manufacturing firm. Investment in supplier development does not automatically result in benefits for the supplier or reciprocated benefits for the buyer. Rather, relational capital "bridges" supplier development and relationship benefits. Without relational capital, benefits from capability development do not accrue, and the impact of a supplier governance regime can be even detrimental. In conditions of high relational capital, capability development results in lower perceived buyer benefits. The results can help managers ensure that the benefits from their supplier development efforts fully materialize.

1. Introduction

"To score big with suppliers, you have to win their hearts."
[–Dave Nelson, former vice president of purchasing, Honda of America[3]]

Competition is daunting, and firms operate with increasingly volatile supply chains, in which both buyers and suppliers recognize the benefits of collaborative partnerships (Hales, Perrilliat, & Bhardwaj, 2011). With the shifting focus from transactional to collaborative relationships, buyers have grown increasingly aware of the strategic importance of developing programs to further their suppliers' knowledge, capabilities, and market insights, in combination with effective governance mechanisms for streamlining relationships (Schoenherr et al., 2012). For example, because Toyota is a top customer for most of its suppliers, the firm receives far more attention and innovative offerings from suppliers than its competitors (Marksberry, 2012).

Yet mounting anecdotal evidence indicates that supply chain partners are not receiving the benefits they expected, because suppliers appear reluctant to implement improvements (Krause, Scannell, & Calantone, 2000). Supplier development activities thus do not translate into supplier performance improvement (Prahinski & Benton, 2004); some firms note that their supplier development efforts actually decrease satisfaction (Handfield, Krause, Scannell, & Monczka, 2000), perhaps due to misconceptions, misunderstandings, or mistrust in buyer–supplier partnerships (McDuffie & Helper, 1997). But supplier development represents a relation-specific investment by the buyer, which is difficult or impossible to redeploy to other relationships (Anderson & Weitz, 1992), leaving the buyer open to opportunistic behavior (Williamson, 1985).

To address some of these issues, we turn to social capital theory and specifically its insights into relational capital. Firms may seek to invest in and cultivate non-economic features of their buyer–supplier exchange if they perceive a risk of partner opportunism (Wang, Li, Ross, & Craighead, 2013). Relational capital then offers an appropriate theoretical lens, because supplier development encapsulates two building blocks of relational capital: shared knowledge and shared transaction-specific investments (Krause, Handfield, & Tyler, 2007). We therefore consider supplier development an antecedent of relational capital. Furthermore we note emerging evidence that relational capital in turn strengthens the impact of relational investments by overcoming free-riding behavior and facilitating knowledge sharing to create mutual understanding (Chang & Gotcher, 2007; Kohtamäki, Vesalainen, Henneberg, Naudé, & Ventresca, 2012). Supplier development

* Corresponding authors. Tel.: +31 43 388 3839; fax: +31 43 388 4918.
E-mail addresses: agnes.blonska@gmail.com (A. Blonska), c.d.storey@city.ac.uk (C. Storey), f.rozemeijer@maastrichtuniversity.nl (F. Rozemeijer), m.wetzels@maastrichtuniversity.nl (M. Wetzels), k.deruyter@maastrichtuniversity.nl (K. de Ruyter).
[1] Tel.: +44 207 040 8728; fax: +44 207 040 8328.
[2] Tel.: +31 43 388 3839; fax: +31 43 388 4918.
[3] See Laseter (1998).

0019-8501/$ – see front matter © 2013 Elsevier Inc. All rights reserved.
http://dx.doi.org/10.1016/j.indmarman.2013.06.007

appears particularly effective in well-established relationships with high levels of trust and commitment (Wagner, 2011). However, to account for diverging returns on supplier development programs, and the complexities and challenges faced by both buyers and suppliers, we need more managerial-level insights into the nature of this asset. Without understanding the mechanism by which supplier development delivers benefits, its returns will be negligible at best and detrimental at worst, perhaps even leading to the premature abandonment of supplier development initiatives.

Taking a supplier perspective, this article examines whether the relationship between supplier development and relationship benefits can be facilitated by relational capital. In turn, we seek to make three substantive theoretical contributions. First, prior research focuses on benefits such as operational or efficiency measures of buyer performance, rather than the creation of mutual value from a resource exchange (Tsai & Ghoshal, 1998; Villena, Revilla, & Choi, 2011). We examine instead the extent to which supplier development provides benefits to both the supplier and the buyer. *Supplier benefits* refer to direct rewards of doing business with the buyer and measure the value of the relationship from the supplier's point of view. *Buyer benefits* entail the preferential treatment a supplier gives to a specific buyer in exchange for its past actions or future loyalty. Granting preferential buyer benefits is a key weapon in the arsenal of relationship marketing activity (Palmatier, Scheer, Houston, Evans, & Gopalakrishna, 2007b). In addition, we conceptually delineate capability development and supplier governance as two dimensions of supplier development and assess whether they independently translate into benefits for suppliers or buyers.

Second, we explicate how supplier development leads to enhanced performance, by examining the mediating role of relational capital. We empirically test the proposition that relational capital represents a supply chain asset, in which additional resources can be invested with the expectation of reciprocation, in the form of mutual benefits for buyers and suppliers. Researchers acknowledge the importance of relational capital for supply chains (Kohtamäki et al., 2012) but offer few insights into how organizations might build this form of capital. It is suggested that relational capital can derive from relational investments, such as those inherent to supplier development activities, which should benefit both partners (Villena et al., 2011).

Third, whereas previous research regarded relational capital as a mediating construct, no research considers its moderating role, specifically from the supplier side (Kohtamäki et al., 2012). We explore whether relational capital might account for heterogeneity in the relationship between supplier development and performance and thereby respond to a recent call to examine the moderating effects of contingent variables on the activities–outcome relationships (Mahapatra, Das, & Narasimhan, 2012). In this sense, we combine the transactional approach of supplier development investment with the reciprocal approach of relational capital building (Mahapatra et al., 2012).

We next define and review literature on supplier development to develop our conceptual framework, which includes multiple dimensions of supplier development, relational capital, and relationship returns. To assess these intricate relationships empirically, we collected survey data from 185 suppliers of a large manufacturing firm. Although focusing on suppliers' perceptions of the benefits of supplier development is a rare approach (Ghijsen, Semeijn, & Ernstson, 2010), we consider the supplier an appropriate unit of analysis, because supplier development effectiveness depends on the suppliers' own commitment. We conclude with a discussion of our findings, which offer both theoretical and managerial implications.

2. Supplier development

Supplier development is any activity or resource investment initiated by a buying organization to improve the performance of its supplier (Krause, Handfield, & Scannell, 1998). The cooperative effort between a buying firm and its suppliers aims to upgrade suppliers' technical, quality, delivery, and cost management capabilities and foster ongoing improvements (Handfield et al., 2000; Krause, 1999). Substantial research explores such supplier development activities from the buyer's perspective, without considering suppliers' perceptions of their benefits. The limited research that takes the supplier's perspective also offers mixed results. Prahinski and Benton (2004) find that supplier development activities do not translate directly into supplier performance improvement, and Ghijsen et al. (2010) note that activities geared toward capability development enhance suppliers' commitment to the relationship, whereas those centered on influencing suppliers' behavior drive satisfaction with the benefits accrued from the relationship.

It is important to delineate the different aspects of supplier development activities, because their impact on relationships is not universal (Ghijsen et al., 2010; Payan & McFarland, 2005). The activities aimed at developing suppliers' capabilities differ conceptually from those aimed at influencing the supplier's behavior by governing certain relationship aspects (Krause et al., 2007; Wagner, 2006).

Capability development refers to the buying firm's investments and efforts to increase a supplier's capabilities, so that it can meet the buyer's short- or long-term needs. The buying firm may help the supplier by investing in human and capital resources (Krause et al., 1998; Mahapatra et al., 2012). Capability development investments might include (onsite) training to suppliers, offering technical and quality expertise and advice, site visits or personnel exchanges between the supplier's and the buyer's facilities, involvement in the buyer's new product design and development, and information sharing (Krause, 1999; Krause et al., 1998). Because capability development aims to enhance the efficiency of supplier operations, it has a direct effect on performance-related benefits, such as reduced costs, greater quality and flexibility, more reliable delivery, and faster product development cycle times (Krause et al., 2007). Carr and Kaynak (2007) also find that supplier investments likely increase provided product quality, which should result in better sales for the supplier. In this sense, capability development is a relational investment that can improve the buyer–seller relationship (Li, Humphreys, Yeung, & Cheng, 2012).

Supplier governance instead implies that the buying firm invests limited resources to encourage or reinforce the supplier's improvement. Governance requires the systematic collection of information by the buyer, so that it can establish the extent of the supplier's compliance with its process or performance requirements. The main steps in supplier governance thus are setting supplier performance improvement goals, evaluating suppliers, providing performance feedback, offering rewards and recognition for improved performance, and establishing supplier certification programs (Krause et al., 2007; Modi & Mabert, 2007). This process encourages important information exchanges that ultimately should help buyers and suppliers improve their own performance (Krause et al., 2007).

Investments in supplier development by the buyer also are specific to each relationship (Anderson & Weitz, 1992). Relationship-specific investments include training and/or dedicating personnel to service a specific partner, adopting a common order processing system, building specialized facilities, and linking the supplier and buyer in the customer's mind through promotions. Such idiosyncratic investments are difficult or impossible to redeploy, and they add unique texture to the focal relationship (Anderson & Weitz, 1992). The expected returns from these investments cannot accrue though unless suppliers are willing to commit substantial financial, capital, and personnel resources and share timely and sensitive information (Handfield et al., 2000; Krause et al., 2007). The nature of the buyer–seller relationship therefore should have significant impacts on the effectiveness of supplier development.