Business Horizons (2014) 57, 203—213

Available online at www.sciencedirect.com

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Robust supplier relationships: Key lessons from the economic downturn

Lisa M. Ellram [a,*], Daniel Krause [b]

[a] Farmer School of Business, Miami University, 800 E. High Street, Room 3057, Oxford, OH 45056, U.S.A.
[b] College of Business, Colorado State University, 217 Rockwell Hall, Fort Collins, CO 80523, U.S.A.

KEYWORDS
Buyer-supplier relationships;
Alliances;
Economic downturn;
Social capital;
Bounded rationality

Abstract Recent events in the economic and natural environments have tested buyer-supplier relationships like never before. Based on dyadic buyer-supplier case data from a variety of industries that were deeply affected by the 2008—2009 recession, this article explores how long-term relationships responded to an economic downturn. Prior to the downturn, these mutually dependent relationships all appeared to be very similar to each other and were characterized by significant value-added and social capital stores. However, due to varying degrees of bounded rationality, the relationships were affected differently and responded differently to the downturn. Based on the characteristics of the relationship, we develop a framework of three types of close supplier alliances. This framework can be used to assess such relationships and likely responses to adversity to reduce unpleasant surprises for the alliance partners. This article also provides a set of lessons learned for managers.

1. An opportunity to explore relationships under severe financial stress

The economic downturn of 2008—2009 was the most severe and longest economic decline the United States has faced since the Great Depression. The Great Recession officially lasted 18 months, covering the first quarter of 2008 through the second quarter of 2009, and the recovery has been slow. Metals (company names changed to protect confidentiality), one of the firms we studied, was experiencing record growth and profitability entering 2008. It had recently opened its fifth metal stamping facility and sales were strong. That changed dramatically at the end of 2008 when Metals' fourth-quarter sales dropped by 45%. The first quarter of 2009 was even worse, with a 60% sales drop versus the prior year. To stay afloat, the firm reduced its operations from five to three plants and its headcount from approximately 300 to 120. Still, it fared better than companies that went out of business. The popular press and interviews conducted by researchers

* Corresponding author
E-mail addresses: ellramlm@miamioh.edu (L.M. Ellram), dan.krause@business.colostate.edu (D. Krause)

0007-6813/$ — see front matter
http://dx.doi.org/10.1016/j.bushor.2013.11.004

indicated that a number of companies laid off large numbers of people and shuttered their doors temporarily to minimize variable costs. U.S. annual unemployment more than doubled from pre-recession levels of 4.6% in 2007 to 9.7% in 2010. Virtually all industries were negatively affected (''The American Car Industry,'' 2009; Chandra, 2010; Khan, 2009; Raleigh, 2009; Terreri, 2010).

The economic downturn provided a unique opportunity to observe key supply chain relationships under conditions of a virtual stress test and to learn about their weaknesses, their resilience, and the value they bring to the respective parties. It created the opportunity to talk with managers who experienced unexpected—and sometimes unwelcome—changes in their most important supply chain relationships. It has been widely acknowledged that good supplier relationships can contribute favorably and significantly to firm success (Bensaou, 1999; Chen, Paulraj, & Lado, 2004; Lawson, Cousins, Handfield, & Petersen, 2009).

2. Research questions and data gathering

This research takes on the challenge of examining and understanding the effect of significant economic turbulence on key supply chain relationships. More specifically, the research question explores: What is the impact of a significant economic upheaval on buyer-supplier relationships, and are organizations prepared for the fallout? These questions were the primary drivers for this study—launched in late 2008 and continuing well into 2010—as we talked to several large firms and their most important suppliers. The results indicate that not all close buyer-supplier relationships are equal. Likewise, they weather such storms and emerge in different ways. Buyer-supplier alliances may appear to be solid and balanced, but our research suggests the balance is delicate; a stressful event like the recent downturn may reveal surprising relationship vulnerabilities. The results also suggest that some of these relationships may not be as enduring or partnership-like as previously thought.

2.1. Method: How this research was conducted

This research uses targeted, in-depth case studies from a variety of industries to build an understanding of the impact of a severe economic downturn on supply chain relationships. It considers both the buyers' and suppliers' perspectives in exploring buyer-supplier relationship resiliency during a period of severe stress, specifically the economic downturn that began in mid-2008 and ran through early 2010. All of the organizations included were experiencing economic pressures, reduced demand for their products or services, and a need to adapt their supply chains in a way that would likely negatively affect their suppliers.

The buyers selected an item of central importance to their organization's value-added that had a major impact on operations, and where they had what they considered to be an alliance or partnership with a supplier. The importance of the relationship was independently confirmed with their key suppliers. These relationship dyads were characterized by a high level of interdependence and were considered long-term relationships. The relationship pairs studied and the items purchased are overviewed in Table 1. A more detailed description of the data analysis is included in the Appendix at the end of this article.

3. A deep view of strategic buyer-supplier relationships during a recession

Both parties to the dyads in this study agreed that they entered into the recession with very strong, mutual relationships based on the purchase of an item that the buying firm viewed as essential to its end item or service, as summarized in Table 1. These types of relationships are often referred to as *strategic*, *evergreen*, and *long-term* alliances, and contribute significant portions of the value ultimately provided to end customers. They are built on social capital, ''the goodwill that is engendered by the fabric of social relations and can be mobilized to create action'' (Adler & Kwon, 2002, p. 17). Social capital can closely link the organization with suppliers and other external parties to gain knowledge and skills that would not be available without the expectations of balanced returns in ongoing relationships (Adler & Kwon, 2002; Petersen, Handfield, Lawson, & Cousins, 2008). In a business setting, social capital holds relationships together and strengthens buyer-supplier relationships as each party works to support the other and recalls how the other has supported them, or 'gone the extra mile' in times of need. Social capital is one of the key factors that differentiates closer, long-term buyer-supplier relationships from other types of relationships. Like other forms of capital, social capital requires maintenance and renewal or it loses its value (Adler & Kwon, 2002).

At the same time that social capital exists, all human beings are subject to the phenomenon of 'bounded rationality' to varying degrees. Bounded