



# Supplier evaluations: communication strategies to improve supplier performance

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## Abstract

As firms increasingly emphasize cooperative relationships with critical suppliers, executives of buyer firms are using supplier evaluations to ensure that their performance objectives are met. Supplier evaluations, one type of supplier development program (SDP), are an attempt to meet current and future business needs by improving supplier performance and capabilities. The purpose of this study was to determine how suppliers perceive the buying firm's supplier evaluation communication process and its impact on suppliers' performance. Three communication strategies (indirect influence strategy, formality and feedback) were tested separately and one in unison (collaborative).

Using structural equation modeling (SEM) and data collected from 139 first-tier North American automotive suppliers, the results of this research have shown that, contrary to the SDP literature from the buying firm's perspective, the supplier's perceptions of the buying firm's communication does not directly influence suppliers' performance. Specifically, the supplier evaluation communication process does not ensure improved supplier performance unless the supplier is committed to the buying firm. Buying firms can influence the supplier's commitment through increased efforts of cooperation and commitment. The results also indicate that when a buying firm utilizes collaborative communication, the supplier perceives a positive influence on the buyer–supplier relationship.

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## 1. Introduction

In today's business environment, there is an emphasis on developing long-term cooperative relationships with critical suppliers. Business managers are reducing their supply base and thereby increasing the buying volume with the remaining suppliers.

Many executives are hesitant to rely on an untested supplier without first taking the time to build an effective relationship to ensure specific performance objectives.

When a supplier is unable to conform to the buying firm's expectations, the buying firm manager must determine the most appropriate action to resolve the issue. To maintain the working relationship, the manager must find a way to communicate the problem and motivate the supplier to change its results. The research framework herein will focus on the suppliers' perceptions of a buying firm's attempts to motivate

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suppliers through supplier development programs, and in particular, supplier evaluations. The buying firm develops the supplier evaluation, or report card, and communicates the results to its suppliers with the hope and expectation that the supplier will address noted shortcomings (Morgan, 2001; Purdy et al., 1994).

Many supplier development programs (SDPs), however, are not successful (Krause et al., 2000; Monczka et al., 1993; Porter, 1991; Purdy et al., 1994; Watts and Hahn, 1993). A number of studies have emphasized the need to determine the contributing factors of SDP success or failure (Krause et al., 2000; Purdy et al., 1994). To our knowledge, a study by Krause et al. (2000) was the only study that considered the importance of SDPs on supply chain performance. Two studies have addressed the buying firm's perspective of the impact of supplier evaluations on the buyer–supplier relationship (Krause, 1999; Carr and Pearson, 1999). To date, there has been little investigation of the suppliers' reactions to SDPs and the impact of supplier evaluation communication on the suppliers' performance. It is not known whether SDPs are effective in improving the supplier's performance.

The purpose of this research is to assess the supplier's perceptions of four buying firm's supplier evaluation communication strategies (indirect influence strategy, formality, feedback and collaborative communication) and determine how specific communication strategies influence suppliers' performance. The supplier's perceptions of the buyer–supplier relationship and the supplier's commitment to the buying firm are tested as possible mediators. This study is important because a buying firm's performance increasingly hinges on the capabilities of its supply base.

The following research questions are investigated from the supplying firm perspective: (1) is the impact of the buying firm's strategy for communicating supplier performance evaluations mediated by the buyer–supplier relationship and supplier's commitment? (2) Do suppliers perceive that the buying firm's communication of the evaluation affects their performance?

In the following section, the relevant literature is reviewed. The conceptual model and research hypotheses are then developed. Subsequently, the research methodology is described. The analysis and results are

presented in section five. The paper concludes with a comprehensive discussion and conclusions.

## 2. Literature review

The literature review is organized into five sections: supplier development programs with an emphasis on supplier evaluations, inter-organizational communication strategies, buyer–supplier relationships, supplier's commitment, and supplier's performance.

### 2.1. *Supplier development programs—supplier evaluations*

SDPs are defined as activities undertaken by the buying firms in their efforts to measure and improve the products or services they receive from their suppliers. From the buyer's perspective, SDPs are warranted when the buying firm perceives that the current supplier base is unable to meet short and long-term business objectives (Handfield et al., 2000). The buying firms' typically selects a small number of critical suppliers to focus their improvement effort (Watts and Hahn, 1993).

Although there are several different types of SDPs (Krause, 1997), the supplier evaluation process was selected as the main focus of this research because the buying firm's assessment of the supplier's performance was considered a catalyst for all SDP's. Based on the evaluation process, the buying firm can determine if the supply base is capable of meeting current and future business needs. The buying firm needs to quantify and communicate the measurements and targets to the supplier so that the supplier is made aware of the discrepancy between its current performance and the buying firm's expectations. Without an effective measurement and communication system, the inter-organizational coordination and improvement initiatives would be ineffective.

To our knowledge, no research has directly addressed different supplier evaluation communication strategies. Supplier evaluations could include both process and content (Hartley and Choi, 1996; Porter, 1991; Purdy et al., 1994), however, many recent studies emphasize only the quality performance aspect (e.g., Forker et al., 1999; Park et al., 2001). There has been no comprehensive survey research

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