

The impact of specific supplier development efforts on buyer competitive advantage: an empirical model

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Abstract

This paper examines the relationships between supplier development efforts and buyer competitive advantage from the buyer's perspective, and seeks to understand how specific supplier development efforts may impact on a buyer's operational performance. We conducted a survey of 142 electronics manufacturing companies in Hong Kong, and applied structural equation modeling (SEM) to test a structural model that postulates the impacts of various efforts of supplier development on buyer competitive advantage. The results indicate that each effort of supplier development has a different effect on different dimensions of buyer competitive advantage. Specifically, we found that joint actions and trust appear to be the two most critical elements to enhance the operational effectiveness of a buyer, while asset specificity improves the market responsiveness of a buyer slightly. However, supplier development efforts like increasing supplier performance goals and recognizing supplier progress do not appear to be an effective means and thus should be practised with caution. This study provides significant insights into the specific impact of various supplier development efforts for both academics and practitioners.

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1. Introduction

Supplier development can be defined as any effort a buying firm expends on a supplier to increase the performance and capabilities of the supplier to meet the buying firm's own short-term or long-term

supply needs (Krause and Ellram, 1997a). This study investigates the impacts of supplier development efforts on buyer competitive advantage. The primary research objective is to develop a descriptive model that postulates the possible relationships between supplier development efforts and buyer competitive advantage. The model adopts the buying firm's perspective as a basis for understanding the performance implications of supplier development and investigating how different characteristics of supplier development efforts influence buyer competitive performance outcomes.

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As more and more manufacturing firms have realized the importance of the performance of their suppliers to the establishment and sustaining of their competitive advantage (Goffin et al., 2006; Li et al., 2006), purchasing research has begun to focus on supplier development programs and study how these initiatives impact on buyer and supplier performance (Hahn et al., 1990; Monczka et al., 1993; Hartley and Choi, 1996; Goffin et al., 2006). Of interest to this study are the findings in the purchasing literature that improvement in buyer and supplier performance occurs as a result of implementing effective supplier development programs (Watts and Hahn, 1993; Krause, 1997; Gunasekaran and Ngai, 2005).

However, what specific efforts of supplier development will uniquely contribute to buyer competitive advantage? The extant literature has indicated that supplier development activities (Li et al., 2005), among others, include: (i) increasing supplier performance goals (Monczka et al., 1993); (ii) providing suppliers with training (Galt and Dale, 1991); (iii) providing suppliers with equipment, technological support and even investments (Galt and Dale, 1991; Monczka et al., 1993); (iv) exchanging personnel between buyer and supplier organizations (Newman and Rhee, 1990); (v) evaluating supplier performance (Giunipero, 1990; Watts and Hahn, 1993); and (vi) recognizing supplier progress in the form of awards (Galt and Dale, 1991; Curkvoic et al., 2000).

The purchasing literature on supplier development has extensively discussed the issues concerning the establishment of supplier development programs, and the characteristics, benefits, and management of such programs (Liker and Choi, 2004). It provides valuable information for managers and practitioners to understand the reasons for becoming involved in supplier development, the process of establishing supplier development programs, and the possible benefits that can be gained from supplier development (Reed and Walsh, 2002; Goffin et al., 2006).

However, there is still a limitation in the current research on supplier development. Although the literature has provided extensive research support for the assertion that supplier development is an integrated means of achieving and sustaining competitive advantage (Hahn et al., 1990; Monczka et al., 1993; Hartley and Choi, 1996; Burt et al., 2003), these studies have not identified the specific efforts of supplier development that contribute

to buyer competitive advantage (Robinson and Malhotra, 2005). In addition, the literature has not empirically examined the specific impacts of various key supplier development efforts on buyer competitive advantage. The key issues to be addressed in the present study concern the examination of the role played by supplier development efforts in predicting buyer competitive advantage, and the interpretation of the relationships between supplier development efforts and buyer competitive advantage in the context of Hong Kong's electronics industry.

We begin with a comprehensive review of the theoretical expositions of supplier development. We then describe how to use SEM to develop and analyze measurement models and structural models that link supplier development efforts to buyer competitive advantage based on the theoretical framework proposed in this study. The results of structural modeling are presented and analyzed, and finally the implications of the findings for future research and practice are discussed.

2. Literature review and hypothesis development

There is considerable theoretical support for the assertion that buyers' performance is enhanced through supplier development, especially investments in specialized assets (Williamson, 1985; Asanuma, 1989; North, 1990; Buvik and Gronhaug, 2000). Barney (1991) argued, based on the resource-based view of the firm, that firms that are able to accumulate resources and capabilities that are valuable, non-substitutable, and difficult to imitate will achieve a competitive advantage over competing firms. Supplier development could be considered as actions taken by a buying firm to strengthen the competitive capability of its suppliers. Improvements in performance will happen within the unique exchange relationships developed between the buyer and supplier firms. This will become unique resources and capabilities of the buying firm (Chen et al., 2006). Hence, ultimately, the buying firm will reap benefits from its supplier development efforts.

Economists have long recognized that "resource owners increase productivity through cooperative specialization" (Achian and Demsets, 1972). Perry (1989) pointed out that gains from trade between trading partners are enhanced by investments in assets that are specialized to their exchange. This suggests that a firm can choose to seek efficiency advantages by creating assets that are specialized in

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