



# Supplier satisfaction and commitment: The role of influence strategies and supplier development

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## ABSTRACT

Although considerable research is dedicated to influence strategies and supplier development, a lack of empirical support exists of their effects on supplier satisfaction and commitment. This exploratory study aims to fill this gap by investigating first-tier suppliers in the German automotive industry. Supplier reactions to three different influence strategies and two types of supplier development efforts are examined. Results indicate that supplier commitment is affected by the use of promises and both human- and capital-specific supplier development, while supplier satisfaction is affected by indirect, other direct influence strategies and capital-specific supplier development.

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## 1. Introduction

Manufacturers have become aware of the role suppliers play in achieving competitive advantage, and have started to rethink their sourcing relationships, characterized as being at arms' length transaction in the past (Maloni and Benton, 2000). Supply chain management literature stresses that supplier commitment and satisfaction are important elements to establish successful exchange relationships (Andaleeb, 1996; Wong, 2000). Tracey and Tan (2001) state that manufacturers should build relationships with suppliers, and encourage their involvement in the supply chain. They recommend further study of how to involve suppliers in supply chain activities and its effect on performance. Kannan and Tan (2002) analyze the effect of supplier selection and assessment to business performance, while Swink and Zsidisin (2006) link focused commitment strategies with business performance.

Influence strategies as well as supplier development efforts are used to affect supplier behavior and improve supplier performance. Influence strategies center on the communication of a firm to associated chain members (Frazier and Rody, 1991) in order to influence the behavior or decision-making process (Bandyopadhyay, 2004; Simpson and Mayo, 1997). Supplier development is characterized as any effort of a buying firm with a supplier to increase its performance and/or capabilities and meet the buying firm's short- and/or long-term supply needs (Krause and Ellram,

1997). Wagner (2006) distinguishes between direct and indirect supplier development. The latter depicts situations in which the buying company only invests limited resources to a supplier in order to enforce supplier improvement and offer incentives. Direct supplier development includes the investment of human and capital resources of the buying company in a particular supplier.

Several studies have shown the impact of influence strategies and supplier development efforts on suppliers' and buyers' performances and buyer-supplier relationships from the buyer perspective (Humphreys et al., 2004). However, the examination of influence strategies and supplier development and buyer-supplier relationships from the perspective of the supplier is still scarce (Cousins and Lawson, 2007; Goffin et al., 2006). Also, the outcomes of direct influence strategies, especially promises, seem inconclusive (Bandyopadhyay, 2004). Promises have been associated with both positive and negative relationship outcomes (Boyle et al., 1992; Frazier and Rody, 1991). Gelderman et al. (2008) recently reported that dominant suppliers regard promises as very effective, contributing to a more positive image of the supplier. Therefore, the focus of our study is an analysis of the impact of promises and other direct and indirect strategies on supplier commitment and supplier satisfaction in a highly competitive network of mutual dependences. Our study provides new insights into the effect of influence strategies and supplier development on supplier commitment and supplier satisfaction.

The next section provides a literature review, resulting in hypotheses to be tested. A description of the methodology is presented, followed by a discussion of the results and the implications. Finally, conclusions are presented as well as limitations and directions for future research.

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## 2. Literature review

### 2.1. Influence strategies

The concept of power has been extensively studied for decades (Benton and Maloni, 2005). Various approaches can be distinguished in the literature with regard to the definition and the operationalization of power (Mayo et al., 1998). This study focuses on aspects of power that relate to “influence strategies”, which are “the alternative means of communication available to a firm’s personnel in their influence attempts with associated channel members” (Frazier and Rody, 1991, p. 52). In this context, communication can be described as a means to apply power (Frazier and Summers, 1984). The phrase influence strategy refers to the structure and content of the communication with which a firm (source) tries to control or to change the behavior of another firm (target).

Frazier and Summers (1984) summarized the six most commonly studied influence strategies and their underlying power bases:

*Information exchange:* The source supplies information with no specific action required or otherwise indicated. *Recommendation:* The source stresses that specific target action is needed for the latter to achieve desired outcomes. *Request:* The source asks the target to act without mentioning any subsequent positive or negative sanctions. *Promise:* The source offers a specified reward to the target if the latter complies with the source’s stated desires. *Threat:* The source informs the target that failure to comply will result in negative sanctions. *Legalistic plea:* The source contends that target compliance is required by formal agreement.

Furthermore, indirect and direct influence strategies can be distinguished (Bandyopadhyay, 2004). Indirect strategies, such as information exchange and recommendations, aim to change the perception of the target about the desirability of the required action. A change in attitude/behavior is a means to achieve the desired results or to circumvent undesirable ones. Direct strategies, i.e. requests, promises, threats, legalistic pleas, focus on changing the behavior of the target directly, while giving minimal importance to the target’s perception. Explicit or implicit rewards or punishments are used. The source mediates the motivation to comply.

Influence strategies are studied primarily in two areas: inter-firm organizational settings in distribution channels and the area of relational outcomes. Most studies on distribution channels analyze the kind of influence strategies that are used by a focus organization to make a downstream firm to behave in a certain way and whether there is reciprocal use of these strategies (Bandyopadhyay, 2004; Boyle et al., 1992; Frazier and Rody, 1991; Tikoo, 2002). Channel dependence structure, inter-firm power symmetry and inter-firm cooperation are seen as antecedents to the use of influence strategies, whereas dyadic trust and relationship continuity are considered moderators (Frazier and Rody, 1991; Kim, 2000).

The impact of influence strategies on relational outcomes relates to effects of strategies on member attitudes, moral and system performance (Boyle et al., 1992; Scheer and Stern, 1992). Hoegl and Wagner (2005) argue that promoting mutual respect and providing assistance lead to successful buyer–supplier collaboration in new product development initiatives. The attempt to exert a direct influence, by means of dominating and pressuring the other party, should also be prevented. A cooperative partnership-climate is considered desirable, and counteracts the misuse of buyer dominance over suppliers (Hoegl and Wagner, 2005; Sanchez-Rodriguez et al., 2005). In general, the use of indirect strategies leads to more positive outcomes, whereas direct influence strategies tend to weaken relationships (Payan

and McFarland, 2005; Simpson and Mayo, 1997). The outcomes of direct influence strategies, including promises, seem inconclusive (Bandyopadhyay, 2004). Promises have been associated with both positive and negative relationship outcomes (Boyle et al., 1992; Frazier and Rody, 1991). Krause et al. (2000) found that promises have an indirect influence on performance improvement through direct involvement. Gelderman et al. (2008, p. 225) state that promises are frequently used by dominant suppliers. The promise strategy is perceived as very effective and contributes to a more positive image of the supplier. Promises can be used pro-actively towards buying organizations at contract renewal. These findings call for an analysis of the impact of indirect strategies, promises and other direct strategies on supplier commitment and supplier satisfaction.

### 2.2. Supplier development

In case of an underperforming supplier, a buyer can decide to look for alternative suppliers or to help the existing supplier to improve its performance (Krause and Ellram, 1997). This decision depends, among others, on the availability of alternative suppliers, on the costs of searching and evaluating new sources, switching costs and the importance of the purchased input (Krause and Ellram, 1997; Wagner, 2006).

Buyers start supplier development efforts to improve the current supplier base when suppliers are unable to meet short- and long-term business objectives (Prahinski and Benton, 2004). Previous studies show that buying firms make use of a variety of supplier development practices, which range from limited to extensive efforts of the buying firm (Hines, 1994; Krause and Ellram, 1997; Monczka and Trent, 1991; Sanchez-Rodriguez et al., 2005). Wagner (2006) distinguishes between direct and indirect supplier development. The latter depicts situations in which the buying company only invests limited resources to a supplier by enforcing supplier improvement and offering incentives. Direct supplier development includes the investment of human and capital resources of the buying company in a particular supplier.

Sanchez-Rodriguez et al. (2005) report that the implementation of supplier development practices positively contributes to purchasing performance and in turn to supply chain performance. They analyze three different approaches: basic, moderate and advanced supplier development. In an attempt to improve the supplier–buyer relationship, the basic approach is first to be implemented. The basic supplier development practice is characterized by low buyer involvement and a minimal investment of the buying company’s resources. The moderate construct implies moderate use of resources and involvement of the firm. The use of company resources and buyer involvement are high in the advanced supplier development construct. The latter, more advanced, supplier development initiative leads to an atmosphere of collaboration and cooperation and is the activity which should improve supplier performance and their capabilities the most (Sanchez-Rodriguez et al., 2005). These types of supplier development are not mutually exclusive and can occur at the same time.

Although the terminology may vary, the supplier development processes described in various studies are quite similar: supplier evaluation (Krause and Ellram, 1997), supplier certification (Krause, 1999), supplier reward and recognition (Krause et al., 2000), site visits to suppliers and inviting suppliers to the buyer’s site (Humphreys et al., 2004), training and education of suppliers (Krause et al., 2000), technical assistance (Forker and Hershauer, 2000), providing equipment, tools and capital (Humphreys et al., 2004; Wagner, 2006), collaboration with suppliers in improving their parts and materials, and supplier involvement in the buyer’s

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