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Supplier and customer exchange in international industrial markets: An integrative perspective

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Abstract

A significant body of knowledge pertaining to the management and organization of international distribution channels has evolved over the last three decades. More recent foci have been on relational forms of exchange and models that accommodate efficient exchange management within the context of supply chain systems. This review provides a framework for furthering knowledge along important dimensions that have received limited attention and offers a series of propositions for future scholarly work in the area. Key themes pursued in this study include (1) the impact of the international dimension of exchange; (2) the distinction between upstream and downstream forms of exchange; and (3) the influence of electronic commerce on the future of international exchange. We conclude this review by highlighting research challenges facing scholars.

1. Introduction

Research on the management and organization of channels of distribution has grown rapidly over the last two decades with particular attention focused on buyer–seller relationships in business-to-business (B2B) markets (e.g., Anderson & Narus, 1990; Cannon & Perreault, 1999; Dwyer, Schurr, & Oh, 1987; Heide, 1994). To a large extent, this interest reflects the recognition of the importance of distribution functions and strategies in the value chain. For example, increasingly concerned with growing competitive and cost pressures, many firms have sought to outsource products and services where they lack a competitive edge. Likewise, greater emphasis is now placed on supply chain systems (SCS) to address the firm's desire to achieve greater efficiencies in managing inventory without sacrificing product availability. A move in these directions necessarily demands greater involvement and relational interaction with suppliers and customers which, in turn, have raised the significance of such factors as trust and commitment for relationship development and channel performance.

Concurrently, as markets are increasingly internationalized, greater attention is being paid to managing channels in a global context. Firms are increasingly aware that physical and cultural distance impact management methods and styles and have implications for the organization of international supply chains. A testimony to the perceived significance of global supply chain issues is provided by a recent series of articles in the *Harvard Business Review* around the theme of the "The 21st Century Supply Chain" (2004).

Despite the richness of the literature dealing with the broader supply chain issue, scant attention has been paid to the firm's entire or complete supply chain, that is, the linkage between a supplier, its intermediary, and the intermediary's customer/end-user. Instead, the overwhelming majority of studies focus on either upstream or downstream relationships and exchanges. For example, a recent review of international relationship marketing literature uncovered 24 published papers, *none* of which examined the complete supply chain (Samiee & Walters, 2003). It is further noteworthy that only 8 of these articles were reported to be truly international in scope (3 upstream and 5 downstream). Concurrently, insufficient attention has been given the impact of communication and trust on global supply chain management. For example, developments in real-time communication have important implications for international supply chain systems, particularly with respect to the functioning of markets.

Therefore, the aim of this study is to review the literature and the relevant conceptual frameworks on international supply

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chain management (SCM) and to offer propositions with a view of the supply chain as a complete system, that is from the supplier to the customer from the perspective of the channel intermediary. The propositions provide a road map for ongoing scholarly activity and empirical inquiry, with particular attention focused on exploring the nature and the characteristics of upstream versus downstream exchange and market versus relational transactions. Given the critical importance of certain antecedents to relational exchanges, we shall also explore the role of culture, trust, and commitment in an international context as well as the notion of the "information-rich" intermediary and the significance of communication and learning activity in the global supply chain.

2. Study contexts

The nature of exchange transactions will be affected by key features of the international business environment. In addition, a number of dimensions of what one might broadly term the "operational" environment for exchange are also important. Thus, the potential significance of variables such as the direction of the exchange relationship, the importance of the exchange partner, and information technology are briefly reviewed.

2.1. The international context

Several issues make the international context a particularly challenging dimension. For one thing, the increasing number of firms entering the international marketplace has made supply chain arrangements much more competitive. For another, difficulties posed by greater physical distance between suppliers and customers and the problems of managing distribution across national boundaries need to be addressed. Variance of cultural distance between markets and differences in critical dimensions of the local infrastructure and the institutional and managerial contexts result in additional challenges that do not normally need to be addressed in managing the domestic supply chains (Levy, 1997).

One response to the problems of managing entire international supply chains (i.e., upstream and downstream) is to seek to get the best deal available in the market with respect to such factors as price, quality, and service on a discrete transaction basis. In this way there is no particular interest in ongoing relationships unless the future deal offered is at least as good as what is available elsewhere. However, markets often suffer from imperfections that limit their effectiveness. For example, information asymmetry is likely to be a major barrier, particularly in global markets, when seeking to match buyers with sellers. It has thus been suggested that discrete exchange suffers in comparison with relational transactions (Nevin, 1995; Rosson & Ford, 1982). However, a move away from arms length transactions to relational arrangements in the international marketplace is not unproblematic (Bello & Gilliland, 1997). Thus, physical distance makes rich communication modes, such as face-to-face contact, difficult and cultural variance can lead to misunderstanding (Levy, 1997; Root, 1994). Research also identifies further challenges in areas such as differing objectives and related agency problems (Morgan & Katsikeas, 1998).

In order to facilitate the integration and coordination of international channel activity, in both the upstream and downstream interfaces, it is suggested that relational exchange of an enduring nature between partners will enhance efficiency as common norms evolve and trust and commitment are enhanced (Cavusgil, 1998; Piercy, Katsikeas, & Cravens, 1997). Although much research has been focused on dyadic relationships, an important body of scholarship emphasizes the significance of broad industrial networks (i.e., complete SCS) between a firm and multiple suppliers and customers (Anderson, Hakanson, & Johanson, 1994; Levy & Grewal, 2000).

Empirical research on relationship marketing in an international context indicates that relationships are complex and have been evaluated using multiple constructs from a variety of perspectives (Samiee & Walters, 2003). A number of studies identify benefits from relational exchange in regard to relationship longevity (Haugland, 1999), perceptions of suppliers (Ford, 1984), various dimensions of task performance (Abramson & Ai, 1998; Chadee & Zhang, 2000; Smith & Barclay, 1997), and conflict level (Sachdev, Bello, & Verhage, 1995). Key factors associated with relationship building include commitment (Grayson & Ambler, 1999; O'Malley, Patterson, & Evans, 1997; Skarmeas, Katsikeas, & Schlegelmilch 2002; Söllner, 1999), trust (Chien & Moutinho, 2000; Hallen, Johanson, & Seyed-Mohamed, 1999), and a variety of other variables which include conflict, information exchange, perceived fairness and power (deRuyter, Wetzels, & Lemmink, 1995; Elg & Johanson, 1996; Kumar, Sheer, & Steenkamp, 1995; Pressey & Mathews, 2000).

2.2. Operational context

Firms can be expected to develop a variety of exchange interactions with their suppliers and customers with key determinants including the significance of the exchange partner and the direction of the business engagement. Thus, it is likely that many firms are eager to develop ongoing exchange relationships with their largest customers to better anticipate demand and market needs, to lower outbound inventory costs, and to raise their level of service through customization. Expenses associated with the initial setup, maintenance, and management of these relationships are typically large and often cannot be economically justified for smaller customers.

Likewise, ongoing relational exchanges with suppliers are pursued to reduce inventory carrying and spoilage costs. Suppliers often do not follow customer-friendly product roll-over policies and may introduce new products without customer safeguards and provisions for managing channel inventory (Billington, Lee, & Tang, 1998). Consider, for example, that Dell Computer's early success was due to its ability to maintain very low inventory levels which afforded the firm the latitude to lower prices as production levels, competition, and newer technologies rapidly drove down component prices. In the absence of a highly coordinated and well-managed supply chain, Dell's success would have been unlikely.