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Buyer–supplier partnership quality and supply chain performance: Moderating role of risks, and environmental uncertainty [☆]

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Summary In this paper, we examine the relationship between buyer–supplier partnership quality, and supply chain performance, in the presence of supply and demand side risks and environmental uncertainty. Based on the theoretical underpinnings of resource-based view, relational capital theory, and transaction cost economics, we propose a positive relationship between partnership quality and supply chain performance, which is strengthened in the presence of high demand and supply-side risks, but weakened in the presence of high environmental uncertainty. Empirical evidence, based on the survey data of 127 US firms supports a majority of our arguments. We discuss theoretical and practical ramifications of these findings and offer future avenues of research.

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Introduction

In today's networked economy most organizations depend on external suppliers for critical resources and complementary capabilities (Holweg, Disney, Holmstrom, & Smaros, 2005; Johnsen, Johnsen, & Lamming, 2008). The supply chain of a firm entails all activities associated with the flow

of goods and information from sourcing of raw materials through to the end user. The 'Supply Chain Performance' (referred to as SCP hereafter) of a firm refers to the performance of the various processes included within the firm's supply chain function. Supply chain models have predominantly utilized two different performance measures: cost and a combination of cost and customer responsiveness (Beamon, 1999). Examples of measures specifically used to assess supply chain performance of a firm include supplier performance (Davis, 1993), customer satisfaction (Christopher, 1994), inventory costs, number of on-time deliveries, product availability performance and customer response time (Beamon, 1999). We take a more holistic approach

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on SCP by adopting a view that SCP includes not only having superior in-bound logistics capabilities, but also superior customer satisfaction.

Since effective and efficient collaboration with external entities is crucial in the context of supply chains (Bidault & Salgado, 2001) researchers have examined the role of key partnership components, for example, trust, commitment (Johnston, McCutcheon, Stuart, & Kerwood, 2004), mutual adaptation (Mukherji & Francis, 2008) in models explaining SCP. However, with the exception of a few (Fynes, de Búrca, & Marshall, 2004; Fynes, de Búrca, & Voss, 2005), scant attention has been paid to explore how the *partnership quality*, which refers to the perceived realization of expected outcomes arising out of interorganizational relationship between the focal firm and its supplier (Lahiri & Kedia, 2012), affects SCP.

A good partnership quality between the buyer and its supplier, based on mutual trust, joint problem solving, and fulfillment of pre-specified promises, helps in avoiding complex and lengthy contracts, that are costly to write and difficult to monitor and enforce (Fynes et al., 2004, 2005; Zaheer & Venkatraman, 1995). Firms that rely on high quality partnerships with suppliers are better equipped to adapt to unforeseen changes, identify and produce well-crafted solutions to organizational problems, and reduce monitoring costs, all of which help improve the economic outcomes (Ryu, Park, & Min, 2007). Given that firms' supply chains are often comprised of multiple actors (e.g., Cravens, Piercy, & Shipp, 1996; Harland, Zheng, Johnsen, & Lamming, 2004; Hult, Ketchen, & Slater, 2004) empirical research exploring the nature of the partnership of the focal firm with its suppliers and the performance effect of such relationship is an important topic that deserves further attention (Cousins & Lawson, 2007; Stuart, 1997). To address this gap in the literature, we examine how the partnership quality between the focal firms and its supplier affects focal firm SCP.

In addition, we also argue that the relationship between partnership quality and SCP may not be the same under all conditions. Some scholars argue that the relationship between various partnership dimensions of the exchange partners and subsequent performance may be contingent on other factors (Carson, Madhok, Varman, & John, 2003; Fynes et al., 2005; Krishnan, Martin, & Noorderhaven, 2006). For example, Carson et al. (2003) argued that the effect of trust on performance in vertical R&D collaborations strengthens with the clients' ability to understand the tasks involved. Similarly, Lahiri, Kedia, and Mukherjee (2012) found that higher partnership quality between the buyer and the supplier leads to increased performance benefits when the management capability of the focal firm is also high. Collectively, these studies suggest that the benefits derived from a higher level of partnership quality, or relational governance may increase under certain circumstances and diminish under other conditions. Indeed, as evidenced in the recent call for research (Gaur, Mukherjee, Gaur, & Schmid, 2011) there is a greater need to understand and identify the boundary conditions of relational governance. Consequently, we investigate the contingent effects of supply risk, demand risk, and environmental uncertainty on partnership quality–SCP relationship.

In an environment of risk, future events have probable outcomes, i.e., the probability of occurrence of future events is known and is given by some probability distribution (Milliken, 1987). Uncertainty, as compared to risk, is a condition in which it becomes very difficult to predict the likelihood of various future events (Gaur et al., 2011; Milliken, 1987; Sutcliffe & Zaheer, 1998). It is widely posited that risks and uncertainty are inherent in supply chain relationships (Hult, Christopher, & Ketchen, 2010). Exploring their contingency effects can help us better understand why certain supply chain partnerships result in higher SCP, while others do not. This research contributes to the extant literature in several important ways. First, by integrating resource-based view (RBV) and relational capital view, we emphasize the importance of partnership quality in determining superior SCP for the focal firm. Previous research has analyzed the impact of some relational attributes such as trust, fit, information and risk sharing, commitment, mutual adaptation, etc. on the relational and organizational performance (Mukherji & Francis, 2008; Su, Song, Li, & Dang, 2008). We add to the previous literature by considering partnership quality as a higher order construct and recognizing it as an important determinant of SCP. Second, we identify supply chain risks, demand risks, and environmental uncertainty as crucial contingencies that may affect the relationship between partnership quality and SCP. In doing this, we answer the call made by researchers to examine the boundary conditions that limit the effectiveness of relational governance (Gaur et al., 2011). Third, we contribute to the existing body of knowledge by untangling the differential moderating impact of risk and uncertainty on the above relationship (Blackhurst, Craighead, Elkins, & Handfield, 2005; Craighead, Blackhurst, Rungtusanatham, & Handfield, 2007). We posit that the presence of risks will accentuate the positive effects of buyer–supplier partnership quality on focal firm SCP. However, an environment fraught with higher levels of uncertainty will weaken the partnership quality–SCP relationship. Our empirical findings, based on a sample of 127 US firms largely support our results.

The remainder of the paper is presented as follows. First, we conduct a focused literature review and underscore the importance of pertinent constructs used in this study. We develop specific hypotheses based on the theoretical tenets of RBV, relational capital theory, and TCE literature. Second, we detail the research design and the data analysis process utilized in this study. Thereafter, we report the empirical results and present the theoretical and practical implications of the empirical findings. The final section of our paper spells out the limitations of this study and identifies potential avenues for future scholarly enquiries.

Literature review

Partnership quality as a relational resource

The RBV of the firm and the relational capital perspective serve as the foundation for our study. RBV of the firm argues that differential firm performance is fundamentally due to firm resource heterogeneity (Barney, 1991; Wernerfelt, 1984). Resources are defined as stocks of available factors

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