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Antecedents and performance outcomes of flexibility in industrial customer–supplier relationships☆

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ABSTRACT

This paper deals with the impact of suppliers' flexibility in the industrial markets and presents empirical results from the market research sector including outcome variables (market-uncertainty, relationship-specific investments, mutuality, opportunism, long-term orientation, planning, conflict management). We examined the antecedents of supplier flexibility. Buyers need to know whether supplier will modify existing agreements in cases where environmental factors change. Insufficient flexibility can lead to problems, such as having to accept services which no longer meet the buyer's needs. Accordingly, identifying indicators of supplier flexibility is an important objective for managers involved in the purchasing process of services.

Empirical results suggest that supplier flexibility is an important determinant of buyer satisfaction, relationship quality, trust, and commitment. We also discussed the managerial implications and limitations of the results of the study.

1. Introduction

Business-to-business markets are often in the form of long-term business relationships. While discrete transactions are governed by formal mechanisms such as written contracts, informal mechanisms play an important role in relationships (Cannon, Achrol, & Gundlach, 2000; Heide, 1994). Norms are expectations about behaviors which are at least partially shared by a group of actors (Heide & John, 1990). They form the comparison level for evaluation of the other actors' behaviors. In the relational contracting literature, several frameworks of relational norms have been developed. Flexibility, another relational contracting norm, has been identified as an important and relevant relational norm by several authors (Kaufmann & Dant, 1992).

Flexibility is relevant in the industrial market. Because the customers and suppliers are not able to anticipate all possible changes in environmental factors, adaptations of the contract during the fulfillment phase of the contract are necessary. Contracts are not being concluded on the basis of perfect information, they often govern more than one single transaction and they are incomplete (MacNeil, 1981). Particularly in long-term business relationships, both parties do not only plan the next economic transaction ahead. They develop expectations covering a longer period of time (Heide & Stump, 1995). These joint expectations for the future manifest themselves in implicit or explicit agreements in which objectives are being fixed, means for the achievement of these objectives defined, and rights and obligations specified.

At the same time, agreements between the two parties can only be concluded on the basis of today's information. Hence, the probability that at least one party is going to perceive a need for adapting the initial agreement to new circumstances increases with the planned duration of the relationship (Ganesan, 1994). To cope with this problem, the parties may adjust the initial agreement to a changing environment. In the relational contracting literature (Calantone, Di Benedetto, & Rubera, 2012, Noordewier, John, & Nevin, 1990), an actor's willingness to modify an agreement in order to bring it in line with environmental conditions is referred to as flexibility.

The flexibility construct represents a complex, multi-dimensional concept which is difficult to grasp. The extant literature contains numerous definitions. They refer to three different dimensions: an actor's capability of reacting to another actor's demand for modifications in a flexible manner, the actor's willingness to do so, and the actual behavior that the actor shows (Ivens, Haas, & Pardo, 2005). From a marketing perspective, it can be assumed, however, that for a buyer asking for adjustments to existing agreements, a supplier's behavior is the most pertinent flexibility dimension.

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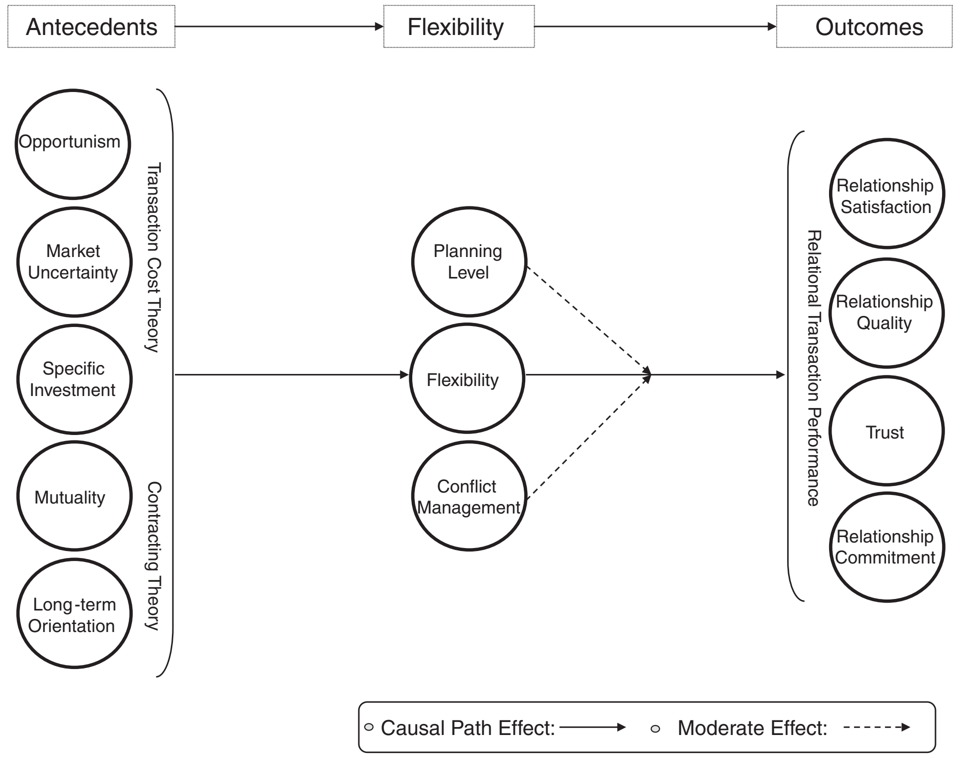

Fig. 1. Research model of flexibility.

Relational contracting theory claims that in situations of discrete exchange both parties perceive the terms of the exchange agreement to have binding character. In relational exchange, on the other hand, flexibility becomes a common mutual expectation. It represents insurance that the relationship will be subject to good-faith modification if a particular practice proves detrimental (Heide and John, 1990) for one actor. From the vantage point of transaction cost economics (Rindfleisch & Heide, 1997; Williamson, 1991) and the relational contracting theory, different arguments exist as to why economic actors would consent to modify an existing agreement. For example, specific investments turn into sunk costs if the other party decides not to continue the exchange relationship.

A lack of flexibility on the part of one actor increases the risk that the relationship loses its value for the other actor. As a consequence, they might decide to switch to a more interesting alternative. Also, the timing of activities is of critical importance and suppliers may find it more difficult to show flexibility than the companies producing physical goods. Hence, in order to remain flexible, a supplier would have to assure an increased availability of the resources that he relies upon. This may imply considerable costs. Finally, in the production process, suppliers are not independent from their buyers. The integration of an external factor is required. A lack of supplier flexibility can lead the buyer to renounce the business and, in turn, to terminate the relationship. Against this background, it is particularly surprising that flexibility has received so little attention.

Different studies have examined the importance of flexibility in business relationships. The results prove the impact that flexibility has on outcome variables considered critical in the marketing literature, such as satisfaction, trust, and commitment (Ivens, 2005), strategic buyer integration (Johnson, 1999), and transaction costs (Cannon & Homburg, 2001; Kim, Di Benedetto, & Hunt, 2012). Other articles have identified antecedents of flexibility, for example the suppliers' power position (Heide, 1994), long-term orientation (Johnson, 1999) or market uncertainty, specific investments, and mutuality (Ivens, 2005).

However, the extant literature is fragmentary and a more detailed analysis is still lacking. Furthermore, existing research has exclusively focused on channel relationships and industrial supplier–buyer relationships. This study is the first to study the flexibility construct in the context of the industrial supplier–buyer market in Asia.

The purpose of our study is to examine the consequences of flexibility on relationship quality. For a supplier, remaining flexible in buyer relationships can be difficult because keeping the resources required in the production process available is a complex and costly task. Responding to buyer requests for adjustments may create value for the buyer while reducing value for the supplier if it has a negative impact on operative efficiency or effectiveness in the focal relationship or in other buyer relationships. Hence, managers want to know whether such investments into flexibility will pay off.

In addition, we examine the antecedents of supplier flexibility. Buyers need to know whether the supplier will modify existing agreements in cases where environmental factors change. Insufficient flexibility can lead to problems, such as having to accept services which no longer meet the buyer's needs. Accordingly, identifying indicators of supplier flexibility is an important objective for managers involved in the purchasing process of services.

2. Research hypotheses

2.1. Antecedents of flexibility

While the discrete end of the relational contracting continuum is comparable to market governance in the transaction cost framework, relational exchange corresponds to Williamson's hybrid form (Williamson, 1991). Because of their complementarity, the relational contracting theory and the transaction cost framework have been combined in several studies. One assumption often made is that the three main dimensions discussed in the transaction cost framework (opportunism, market uncertainty and relationship-specific investments) are important