



2nd International Conference on Materials Manufacturing and Design Engineering

Strategies for Buyer Supplier Relationship Improvement: Scale Development and Validation

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Abstract

It is not possible for an Own Equipment Manufacturer to manufacture all components in house, due to which need of outsourcing of some components/process to supplier base occurs. For being competitive in market supplier base of buyer should be self-efficient and developed one. This development of supplier can be achieved by implementing different supplier development practices as per the requirement. Now days along with supplier development, relationship improvement between buyer and supplier plays a vital role for taking competitive advantages. In this article a frame work of achieving buyer supplier relationship improvement through development of a supplier is discussed and scale required for measuring all construct is being validated. To examine the impact of buyer supplier relationship improvement through supplier development practices and buyer supplier relationship practices, a survey was conducted for manufacturing companies mainly including Auto Ancillaries, Engine Manufactures, Generator Manufactures and Machine Tool Manufactures. Researcher approached 628 respondents, out of which 536 respondents showed interest to response, data from 512 respondents were used as 24 respondents filled information incompletely. Reliability Analysis, Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA) are applied for reliability and validity of scale with use of SPSS and AMOS software. The multi-item scale shows strong evidence of reliability and validity.

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Peer-review under responsibility of the scientific committee of the 2nd International Conference on Materials Manufacturing and Design Engineering.

Keywords: Supplier Development Practices; Buyer Supplier Relationship Improvement; Reliability; Validity

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1. Introduction

The term “Supplier Development” describes efforts by manufacturers (Buyer) to increase the number of viable suppliers and improve supplier's performance. More specifically supplier development has been defined as any effort by an industrial buying firm to improve the performance or capabilities of its suppliers [1, 2]. Cooperation with suppliers can make buyer more efficient and thus enable goods to be purchased at lower prices and also makes buyer to look for his core competency to remain more competitive [3]. Supplier development is a kind of cooperation between a buyer and a supplier to seek continuous improvement in supplier performance to make buyer competitive [4-6]. Supplier development can further linked with relationship development, improvement in competitive advantage and these efforts will lead to profitability of buyer and supplier. More focus of these efforts for supplier development is towards supplier performance, buyer competitive advantage, and buyer-supplier relationship improvement [5]. Supplier development is an emerging and feasible solution for the buyer, as procuring a new supplier every time and manufacturing all products in-house is a feasible solution [2, 4]. Strong relationship between buyer and supplier positively affects supplier performance, which is positively related to organisational performance. There is an increased need for buyers and suppliers to strategically collaborate to build a stronger and long-term relationship [6, 7].

2. Literature Review

By critical review of literature following factors found to contribute primarily for supplier development practices (SDP) and relationship practices 1-7 factors are for SDP and 8-10 are for buyer supplier relationship practices (BSRP).

Training and education: Programs for supplier development that receive assistance from buyers can be regarded as buyer supported training. The right type of training could then lead to an increase in performance for the supplier which would in turn encourage an increase in buyer-supported training [8, 9]. Automotive companies have used training and education aspect in their supplier development programmes, where suppliers have the opportunity to directly experience new production methods [10].

Evaluation: First step of supplier development is supplier's evaluation because after this buyer can identify areas of supplier where improvement is needed. Supplier evaluation and feedback has been used to improve supplier's capabilities [11-14]

Reward: Recognition and awards for outstanding suppliers can serve as an incentive for improved supplier performance [15]. Appropriate incentives for improvement should be developed to ensure that the improvement effort is not limited to a single process [16-17].

Effective communication: Effective Communication between buyer and supplier leads to minimize misunderstanding and clarity in goal. Buyer-to-supplier information sharing, buyer-to-supplier performance feedback and buyer investment in inter-organizational information technology are key enablers of buyer-to-supplier communication openness [18, 19].

Asset Specificity: Dedicated investments offer tangible evidence that a partner can be believed, cares for the relationship, and is willing to make sacrifices through such investments which lead to improvement in trust and relationship [20, 21].

Joint action: Then the concept of joint action with early involvement of suppliers has come which also gives additional advantage of supplier's innovativeness to buyer [22]. To achieve better result of joint actions, supplier should be capable, committed and faithful. Early supplier involvement benefits in time and cost saving with improved quality [23, 24].

Top management support: Involvement and continuous follow of supplier development programme from top management leads to success of SD programme [1-5]. Top management has been found to be a key enabler in initiating a supplier development program based on the firm's competitive strategy [7-8].

Trust: High level of trust is necessary in competitive environment to build relationship for result oriented process [8-11]. Trust has been recognized in the literature as important in supply chain relationships [3-5]. Trust refers to the extent to which relationship partners perceive each other as credible and benevolent [10].

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