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Re-examining the link between fairness and commitment in buyer-supplier relationships

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ABSTRACT

By re-examining the link between fairness and commitment in supply chain relationships, this study elaborates on the existing theory that views fairness only as an antecedent. It proposes that commitment can also precede perceived fairness, thus redefining the link between the concepts as bidirectional in buyer–supplier relationships. The study examines both the buyer and supplier perspectives. Based on interviews at 24 technology industry firms in Finland, this empirical study demonstrates that buyer commitment has a positive impact on how suppliers perceive distributive fairness in the relationship. In turn, this effect is reciprocated by the suppliers through a commitment in the form of relationship-specific investments and continuous improvements that are perceived as fair by the buyer. As a managerial implication the study emphasizes the importance of fairness evaluation to the relationship parties.

1. Introduction

Firms recognize that solid relationships form the basis for the viable operation of a supply chain, although different forms of opportunistic behavior can hamper the functioning of these relationships (Wathne and Heide, 2000; Williamson, 1985). Supply chain management practice is challenged by coping with controversial objectives that are often encapsulated by "doing more with less", i.e., seeking growth and innovation at the cost of fair compensation (Schleper et al., 2017). However, the ways in which fostering an ethically and morally fair approach can contribute to maintaining and developing these buyer-supplier relationships has been surprisingly scarcely studied (Schleper et al., 2017). The promise of fairness by large corporations (fair trade practices; Yamaha, 2015) and the desire for such fairness by suppliers (Boyd et al., 2007) point toward a growing managerial interest. Acknowledging the challenges of applying fairness practices due to the nature of firms as individual, profit-seeking entities, we believe these practices should take a fundamental position when firms strive for sustainable supply chain management (Carter and Rogers, 2008; Quintens et al., 2006; Touboulic and Walker, 2015).

In the relationship literature, *fairness* is referred to as the fair treatment of business partners, including the fair sharing in financial terms and impartiality in both decision making and in the interpersonal relationships between business organizations (Jap, 2001; Luo, 2009). This conceptualization, based on equity theory, provides the respective dimensions of distributive, procedural and interactional fairness (Adams, 1965; Greenberg, 1987; Messick and Cook, 1983). Fairness is essentially an evaluative judgment; it is a perception that is based on the other party's actions and behaviors in a buyer-supplier relationship. Supporting ethical considerations in relationship management, existing studies indicate that fairness has the ability to enhance buyer-supplier relationships due to its economic and social components. Through its association with relationship quality, fairness can lead to *commitment* between partners, and can serve as a precondition for improving operational efficiency in manufacturing or service processes (Cox et al., 2001) and for success in obtaining the targets of cooperation, such as sales growth or increased value to the customer (Anderson and Weitz, 1992; Liu et al., 2012; Luo, 2009; Zaefarian et al., 2016). The role of commitment in maintaining long-term cooperation and relationship stability has been widely studied (Gundlach et al., 1995; Morgan and Hunt, 1994), whereas its association with fairness has received only limited attention.

In the existing studies, fairness is primarily considered an antecedent that leads to commitment (Hornibrook et al., 2009; Liu et al., 2012; Zaefarian et al., 2016). For example, the failure to meet what is perceived as just and fair in a relationship can erase commitment and lead to the dissolution of the relationship (Duffy et al., 2013; Samaha et al., 2011). In turn, fairness is a necessary element for ensuring that the relationship continues through actions that strengthen each party's contribution to it (Luo, 2006, 2009). However, we consider that

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presenting fairness only as preceding commitment provides a limited view of the link between these concepts and fails to capture the important role of fairness evaluation in supply chain relationships. By also examining commitment as preceding fairness, we attempt to extend the existing view and learn more about the impact of both fairness and commitment on relationships.

The purpose of this study is to explore the link between fairness and commitment in buyer-supplier business relationships. For this purpose, a specific research question is posed:

How do fairness and commitment link to each other in reciprocal buyer-supplier relationships?

The re-examination of the link between the two concepts is based on the interactive nature of buyer-supplier relationships and the observed reciprocal behavior between the parties concerning fairness and commitment (Griffith et al., 2006; Liu et al., 2012). Fairness studies suggest that parties first evaluate the fairness of the behavior of their partner when making decisions concerning their own commitment. We suggest that the parties can also assess the opposite, i.e., how committed partners are based on their observed behavior and whether this behavior is perceived as fair or unfair. The result of the fairness evaluation can be reciprocated by each party, and it can either enhance the commitment or undermine it. Thus, we propose *that the relationship between the concepts of fairness and commitment is bidirectional.*

We also suggest that studying both buyer and supplier perspectives in a relationship setting is required to understand the proposed link between the concepts and to reveal the nature of this link in greater depth. Apart from a few studies (e.g., Liu et al., 2012) in which fairness and commitment are examined from both perspectives, most research has primarily focused on one side of the relationship, i.e., buyers in marketing channels (Duffy et al., 2013; Griffith et al., 2006; Kumar et al., 1995; Samaha et al., 2011). This focus provides a limited view of the proposed link because it neglects the view of the other supply chain members. After all, fairness is always evaluated in a business relationship and is therefore dependent on both parties. Therefore, investigating the perspectives of both upstream suppliers and their (often larger) customers in the hypothesized bidirectional link will arguably add to our understanding of these two constructs and their significance in supply chain context (Brown et al., 2006; Zaefarian et al., 2016).

To shed light on the research question, we conducted an explorative, qualitative case study in the technology industry, specifically, in the metal and machinery industries in Finland in which both buyers (manufacturers) and suppliers were interviewed for their perspectives on fairness and commitment. The study contributes to the current research knowledge of fairness in supply chain relationships. Through its qualitative input this study notes the significance of fairness evaluation in supply chain relationships and reveals its mediating role in assessing the preceding commitment and defining the future commitment of relationship parties. This study shows the importance of fairness evaluation both for the firms seeking highly performing and effective long-term relationships and those interested in making the most of their buyer-supplier relationships in terms of efficiency. With its empirically grounded approach in which the manifestation of fairness and commitment are studied in connection with key exchange activities (such as competitive bidding and contract negotiations), this study is able to describe what fairness means to the exchange parties in an everyday business setting. Additionally, by specifying the link between the concepts the study provides a new understanding of how fairness perceptions are created and how they can be influenced in a buyer-supplier relationship.

The paper progresses as follows. First, we introduce the concepts of fairness and commitment, discuss their relationship, and provide a theoretical framework of their bidirectional relationship. Secondly, we describe the methodology, followed by the presentation of the findings. The final sections of the paper contain a discussion of the findings, their managerial implications, the limitations of the study, and avenues for further research.

2. Conceptual development

2.1. Fairness in inter-organizational relationships

Fairness in a business relationship is described as the firm receiving what it is entitled to in financial terms and being treated right in relational terms. This view originated in the social exchange theory (Homans, 1961) and the equity theory (Adams, 1963, 1965), the first forms of which primarily emphasized the economic aspects of fairness. In their terminology, distributive justice is realized if an individual's compensation assessment is observed to be equal to that received by others making similar efforts (Adams, 1965; Greenberg, 1987; Huseman et al., 1987). With the growth of outsourcing and external supply relationships, the related benefits of relational exchange and close cooperation between parties are also acknowledged in scholarly studies in which there is an empirically grounded rationale to apply fairness, equity, and commitment to the context of business relationships (Gundlach and Murphy, 1993; Kumar et al., 1995).

Although justice and fairness are treated as separate concepts in their original theoretical underpinnings, in studies of inter-organizational relationships they have often been used interchangeably due to their close association (e.g., Hornibrook et al., 2009; Kumar et al., 1995; Schleper et al., 2017; Shaikh, 2016; Zaefarian et al., 2016). Both concepts have a certain standard or criterion at their core that *defines what is morally right when an evaluative judgement is made*, and both refer to impartiality and the objective treatment of others (Beugré, 1998; Furby, 1986). Justice, however, has been regarded as a somewhat wider concept than fairness due to its legal connotation (Beugré, 1998). In this study, we adopt this line of thought and use the concepts interchangeably. We approach fairness through the three main dimensions of distributive, procedural, and interactional fairness, which are widely acknowledged by the extant research (Kumar et al., 1995; Luo, 2009; Tyler and Lind, 1992).

Distributive fairness, in the context of buyer-supplier relationships, follows an original line of thought that refers to the fairness of sharing the economic outcome and matching the reward to each party's input (Kumar et al., 1995). According to Schleper et al. (2017), the fairness of a buyer-supplier relationship is closely associated with applying just prices (Aquinas, 1920) in the exchange. This approach implies that even in competitive markets, prices should always be at such a level that ‘a non-disadvantaged party’ would accept them (Mayer, 2007, p. 145). However, we know that in a supply chain, disadvantages created by power imbalances or related size differences may challenge this principle, even leading to exploitation (Schleper et al., 2017). Distributive fairness can also include one party's willingness to take responsibility for the costs that occur in relationships, e.g., joint R & D projects (Kumar et al., 1995). In a wider sense, we suggest that distributive fairness can include all the economic-related issues in a relationship that touch upon both parties.

Procedural fairness, which lies at the junction of the economic and the social, focuses on the perception of the fairness of procedures that involve both parties in an exchange. This dimension of fairness suggests that a need exists to control the procedures that are associated with outcomes (Leventhal, 1980; Thibaut and Walker, 1978; Tyler and Lind, 1992). Among the proposed elements of procedural fairness are issues such as the parties’ willingness to engage in bilateral communication, the consistency of the parties’ policies toward each other (referred to as impartiality), and the extent to which one party can challenge these policies (Kumar et al., 1995; Tyler and Lind, 1992). In the context of buyer-supplier relationships, procedural fairness involves the parties having the ability to influence their counterpart's processes that involve both firms. Such influence can include expressing their views and being heard as well as having a say in the decision-making process with