Expanding the Buyer-Supplier Relationship Definition: Its Antecedents and Relationship with Performance Outcomes

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Abstract

This paper aims to contribute to current buyer-supplier relationship literature through conceptually examining associations between the buyer-supplier relationship itself, organisational antecedents and the external environment. Whilst the presence of relational components within the transaction has been acknowledged, there is, has been, and remains, great difficulty in defining and understanding the dynamics of the buyer-supplier relationship itself. This study aims to address current research limitations and further develop understanding of the dynamics between buyers and suppliers, through a grounded theory research approach. The core focus is to understand the basic motivations and considerations for organisations when potentially considering relationship development with a trade partner. Thus, the organisational attributes that must be apparent and those preferred by potential trade partners are studied. Development of a conceptual model leads to the recognition of three key research questions that are to be addressed in future empirical investigation of the model.

Introduction

As the relationship marketing concept has developed, there has been a movement away from the traditional adversarial transaction cost analysis approach to buyer-supplier relationships towards a new form of relationship based upon cooperation (White, 2000; Wilson, 1995). Whilst the presence of relational components within the transaction has been acknowledged, there is, has been, and remains, great difficulty in defining and understanding the dynamics of the buyer-supplier relationship itself. This study aims to address current research limitations and further develop understanding of the dynamics between buyers and suppliers, through a grounded theory research approach. The core focus will be to understand the basic motivations and considerations for organisations when potentially considering direct relationship development with a trade partner. Both buyer and supplier organisations are considered in the context of the Australian fresh produce industry, as research indicates that both groups hold vastly different views in their definition of relationships (Perrien and Ricard, 1995; White, 2000).

Literature Review

Over the last decade, the fresh produce industry has undergone significant transformation. Key drivers of this recent change include developing supermarket strategies, food safety legislation (Grant, 1995), supply chain integrity, rationalisation of the supply base, innovation (Fearne and Hughes, 2000), the pursuit of growth strategies for both retail buyers and their suppliers (Knox and White, 1991), changing consumer concerns and demand (Grant, 1995) and the preferred avoidance of confrontation (Hughes and Merton, 1996). This turbulence has led to a reconsideration of strategy for buyers and suppliers within the Australian fresh produce industry.
For example, the predominance of two major retailers and the vast number of relatively small suppliers has led to an inequitable power balance between suppliers and the major retailers, Coles and Woolworths. From initial industry discussion, this is seen to have a great impact on the motivation to develop closer vertical coordination from the supplier viewpoint as suppliers desire access to heightened security, additional information, feedback on variety acceptability and new product development and programming advice (Hughes and Merton, 1996). For the buyers, the recognised value in using fresh fruit and vegetable departments as a key strategic category (White, 2000), and opportunity to improve gross sales and profitability (Hughes and Merton, 1996) is a key motivation to work cooperatively with suppliers. With the perishable nature of the product involved (Bennett, 1994) exacerbating perceived risk (Hobbs and Young, 2000), the aforementioned drivers and potential value of the fresh produce industry, lead to closer vertical coordination. Research to date has not addressed the key issues of consideration and preferred arrangements in direct buyer-supplier relationships and provides the foundation for this paper.

When considering the buyer-supplier relationship, some research has refuted a replication strategy in preference for the examination of a relationship aspect previously not considered. As such, literature within the buyer-supplier relationship arena is largely scattered and disjointed (Wren and Simpson, 1996). Considered in terms of their key defining constructs, performance outcomes, antecedents and development process (Dwyer, Schurr and Oh, 1987), research has rarely considered a holistic view of the buyer-supplier relationship, favouring a more focussed inquest into particular defining constructs and causal relationships. Additionally, much of the buyer-supplier relationship literature has been developed through quantitative research and thus lacks the depth of understanding that a complex phenomenon such as a relationship requires. Subsequently, there is much research that must still be conducted within the buyer-supplier relationship area. It is necessary to investigate and understand the key constructs and preferred attributes that an organisation requires a trade partner to exhibit before entering a direct buyer-supplier relationship. Whilst many attributes are considered by different researchers as antecedents, relationship constructs or performance outcomes, there is conflicting information regarding which are most relevant to the development of a buyer-supplier relationship (Wilson, 1995). As such, Wilson (1995) suggests that the defining constructs of a buyer-supplier relationship are perhaps context specific, subsequently recommending further study of situational variables that may influence relationship development. Omission of the external environment as a moderating factor is an issue of increasing importance, especially within highly regulated or tumultuous economic climates, such as the Australian fresh produce industry.

By considering a holistic view of the buyer-supplier relationship, clarification of the confounding nature of the relationship constructs should be facilitated. That is, by considering an organisational model of antecedents and the buyer-supplier relationship, greater understanding should enable both buyers and suppliers to establish requisite antecedents for the development of a relationship and those attributes that are preferred from both parties, to enhance the relationship. The consideration of the aforementioned research limitations has led to the development of the following research question: *What are the key issues of consideration for the buyer and supplier when entering and maintaining a direct buyer-supplier relationship and how do these impact the relationship that develops?* This research question is posed to capture an understanding of both the buyer and supplier viewpoints when operating in a direct relationship with each other.
Relationships are built on the offering of both parties involved (Turnbull et al, 1996). Within the Australian fresh produce industry, there has been minimal research with regard to antecedents of buyer-supplier relationship development. They are, however, deemed of particular importance, as they outline the organisational offer on which it is perceived that buyers and suppliers place the majority of importance. Trading and strategic offer are considered within this context. Based on an extensive review of the literature, we propose that trading offer refers to the actual product characteristics deemed of importance to the buyer and supplier. These are considered mandatory before a relationship is considered, however, in certain circumstances, such as limited product availability, their importance is reduced. Key trading offer antecedents include price, quality and communication. Formerly, the transaction cost analysis approach to relationship marketing (Robicheaux and Coleman, 1994) stated that relationships were formed on the basis of minimising transaction costs. This remains a benefit of relationship development, however, in most circumstances, this is not the sole motivator. As in many other contexts, price is often not considered in isolation, but in terms of a quality / price ratio (Kim, Park and Kim, 1999; Hatton and Matthews, 1996). White (2000) emphasises the importance of quality, ranking it as 'essential' for business / relationship success. Packaging is also an important consideration for buyers and suppliers as manufacturers are increasingly discovering how important packaging is as a promotional vehicle (Gettis, 1997), as well as an imperative factor in retaining quality standards within the fresh produce industry (White, 2000). The importance is highlighted in the increasing number of growers that are vertically integrating into the packaging and processing business.

We propose that strategic offer refers to the more intangible basic offerings of the buyer and supplier. Within this context, flexibility, value and communication are considered of most importance. It is becoming increasingly necessary to offer flexible solutions (Fearne and Hughes, 2000) and create value and new product development (Grant, 1995), providing a significant motivator for remaining within a relationship. Holding multiple contracts also affords buyers and suppliers an additional degree of flexibility (Grimsdell, 1996). Closely tied to flexibility is the notion of value which is largely met by an organisation's knowledge capabilities (Dawson, 2000). The ability to exploit market information is a key competitive advantage for the buyer and supplier as market information can be fed back and forth between the two parties to keep each other abreast of industry trends and changes (Zsidisin and Ellram, 2001). Communication is also crucial to the buyer-supplier relationship as without it, there can be no relationship. Communication must occur on an extremely frequent basis within the Australian fresh produce industry as demand and supply requirements and opportunities change daily and there are no formal contracts held. The acknowledgement of so many antecedents within the relationship literature leads to the development of the following proposed research questions.

\[ RQ1. \] What attributes of the grower (supplier) are perceived as mandatory by the retailer (buyer) when developing and maintaining a buyer-supplier relationship?

\[ RQ2. \] What attributes of the retailer (buyer) are perceived as mandatory by the grower (supplier) when developing and maintaining a buyer-supplier relationship?

It is proposed that organisational antecedents (trading and strategic offer) will be deemed of most importance by buyers and suppliers when considering relationship development. Whilst these
may be deemed mandatory, those attributes which are not considered mandatory for a relationship to exist, but are considered important for a relationship to flourish should now be considered.

As detailed by Wilson (1989), there have been numerous buyer-supplier relationship models developed that have been both conceptually and empirically based. These models often focus on different components or aspects of the relationship, however, quite often use similar key concepts to develop the structure of the model (Lindgreen, 2001; Wilson, 1989). Often the constructs are taken individually to measure their influence on performance and / or the influence antecedents have on the attribute (Morgan and Hunt, 1994). Whilst this is the case, it is proposed that the current consideration of individual constructs is somewhat limiting buyer-supplier relationship knowledge. Subsequently, to gain a more holistic understanding of what factors actually enhance the relationship between buyers and suppliers, six of the most commonly cited buyer-supplier relationship constructs have been considered. Each will be discussed in turn to outline their definition and highlight the interrelated nature of the constructs.

Trust is defined by Wilson and Moller (1988) as "...expecting one's partner to take actions that will result in positive outcomes for the firm and lead to trusting behaviour for each partner" (p.5). Throughout the literature, the construct of trust is considered in association with commitment (Morgan and Hunt, 1994) and dependence (Ganesan, 1994; Wilson and Moller, 1988), as an antecedent to long-term orientation (Ganesan, 1994) and as a performance outcome. It is posited as one of the most important variables. Similarly, commitment is also deemed very important, as long-term intentions of both parties to continue the relationship are important antecedents to the buyer-supplier relationship. Lack of long-term intention from either party will result in the disintegration of any relationship that may exist. Perry, Cavaye and Coote (2002) differentiate between the social and technical bonds associated with commitment based upon whether parties 'want' to continue the relationship and the switching costs associated with its termination.

Cooperation of the buyer can occur in different forms including entering into long-term contractual agreements, divulging personal information and adapting buying processes to assist the supplier (Palmer, 2000). From the supplier's viewpoint, cooperation may also encourage production and delivery adaptation to meet the needs of the buyer (Palmer, 2000). Morgan and Hunt (1994) posit cooperation as a performance outcome of trust and commitment, which has been proven theoretically and empirically. Wilson (1995) states that the interaction between commitment and cooperation results in cooperative behaviour which subsequently allows heightened performance benefits. Thus, cooperation is inextricably linked to many of the other defining constructs, deeming it imperative to the foundation of a buyer-supplier relationship. Dependence can be considered in relation to trust, commitment and subsequent investment, where dependence is measured by the degree of commitment to the relationship Wilson (1989). Similarly, Skinner, Gassenheimer and Kelley (1992) consider dependence as positively impacting cooperation. Wilson and Moller (1988) also consider dependence as a construct, however they look at it from a relative stance. Dependence is of great importance as a defining construct of the buyer-supplier relationship. Lusch and Brown (1996) cite mutual dependence as a precursor to long-term orientation as it infers that both parties have a high stake in ensuring the relationship’s success. Alternatively, if dependence is not apparent, there will be little incentive for either party to invest in the relationship. Subsequently, no relationship will develop. "A retailer's long-term orientation is the perception of interdependence of outcomes in which both a vendor's outcomes
and joint outcomes are expected to benefit the retailer in the long run" (Ganesan, 1994). Ganesan (1994) considers long-term orientation as an outcome of dependence and trust.

Power dependency is considered by Knox and White (1991) who look at the behavioural characteristics of 'obligation' or 'loyalty' originating from past transactions and the bond between buyer and supplier. Whilst the retailer can be considered more powerful, Knox and White (1991) ascertain that buyers and suppliers recognise their interdependence and the potential of harmonious relationship development. Organisations state a perception of low power or dependency is consistent with a lower level of satisfaction (Robson and Rawnsley, 2001). However, dependency can have positive effects on perception as it can indicate greater levels of commitment. This holds significant bearing upon the development of buyer-supplier relationships, especially within the turbulent environment of the fresh produce industry. Consideration of the former buyer-supplier relationship constructs leads to the generation of the following research question.

**RQ3. Are there any attributes to a buyer-supplier relationship which are not necessarily mandatory, but enhance the relationship that exists between the buyer and supplier?**

Whilst much research focuses on the specific constructs composing the buyer-supplier relationship literature and how it impacts the relationship, this paper aims to question whether these constructs, within this specific context, are of significant importance. Current theory suggests that when considering the advantages and disadvantages of a buyer-supplier relationship, the ultimate goal for both buyers and suppliers is to evaluate and subsequently enhance their performance outcomes. Whilst performance may be quantified in terms of sales volume, profit contribution and return on assets (Wren and Simpson, 1996), it may also be measured subjectively as objective measures overlook the fact that what occurs within a relationship is largely unquantifiable and that temporal considerations do not regard the long-term intentions of either party involved (Wren and Simpson, 1996). Within this study, performance is considered in terms of whether the individual deems the relationship successful. Thus, the performance construct is measured qualitatively.

**Conclusion and Contributions**

The relationship has been identified as a core opportunity to provide the desired competitive position in today’s global marketplace (Morgan and Hunt, 1994). Whilst of increased interest, the elusive nature of 'the relationship' has created difficulties for theorists to determine a concrete understanding of its dynamics. Buyer-supplier relationship characteristics, organisational antecedents and performance outcomes have previously been examined in isolation or in association with other variables to develop causal relationships. However, to advance understanding of this complex phenomenon, there is a need to fully understand the key constructs and preferred attributes that an organisation requires a potential trade partner to exhibit before entering a buyer-supplier relationship. Whilst it is necessary to further investigate the mandatory and desired attributes of buyers and suppliers when entering a relationship with a trade partner, it is proposed that this is highly context specific. Thus, this paper sought to provide a holistic conceptual examination of the forces at play within a complex environment such as the Australian fresh produce industry. Empirical examination is currently underway.
References


