



## What type of cooperation with suppliers and customers leads to superior performance?



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### ABSTRACT

This research evaluates cooperation with key suppliers and customers, correlating cooperation to financial performance. Four cooperative behaviors represent cooperation as a multidimensional concept and the research explores the effect of each of these different dimensions of cooperation on performance. Results show that not all cooperative behaviors have similar and positive impacts on performance. Flexibility has no significant effect while shared problem solving has a negative effect. The other two cooperative behaviors, information exchange and restraint in the use of power, have positive impacts on performance. Results also indicate that cooperation with customers affects mostly firm growth while cooperation with suppliers affects firm profitability. Based on a survey of 124 packaging manufacturers, the analysis uses CFA (Confirmatory Factor Analysis) to validate the measurement of constructs and multiple regressions to analyze the relationships between the cooperative behaviors and financial performance.

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### 1. Introduction

The marketing literature describes opportunities for value creation and performance outcomes that can result from improved coordination and a better understanding of customers (Jap, 1999; Lindgreen & Wynstra, 2005; Morgan & Hunt, 1994; Palmatier, Dant, Grewal, & Evans, 2006). Scholars researching supply chain (Heikkilä, 2002; Krause, Handfield, & Tyler, 2007; Simatupang & Sridharan, 2005), operations management (Cao & Zhang, 2011; Carr & Pearson, 1999; Chen, Paulraj, & Lado, 2004), and those adopting the relational view of strategy (Dyer, 1997; Dyer & Hatch, 2006; Dyer & Singh, 1998; Mesquita, Anand, & Brush, 2008) reinforce the benefits of cooperative relationships.

Despite conceptual and empirical support for the existence of a positive relationship between cooperation and performance, several scholars partially dispute it. Turnbull, Oliver, and Wilkinson (1992) report the difficulty that companies from the United Kingdom face in replicating Japanese cooperative practices; Burnes and New (1997) warn against exaggerating the beneficial effects of cooperative relationships; Combs and Ketchen (1999) identify that the effect of cooperation on performance is dependent on the relationship context; and Vereecke and Muylle (2006) find only a weak relationship between cooperation and performance. Villena, Revilla, and Choi (2011) identify an inverted-U relationship between cooperation and performance

showing that too much cooperation may have a negative effect on performance.

Research design and definition of constructs and their indicators can account for some of these inconsistencies. One of the underexplored topics is the definition of cooperation. Although cooperation is a rich and complex concept with several dimensions (Heide & Miner, 1992) most studies focus on a specific aspect of cooperation and treat it as unidimensional. This research uses four cooperative behaviors as Heide and Miner (1992) propose to represent the idea of cooperation – information exchange, flexibility, joint problem solving, and restraint in the use of power. These cooperative behaviors represent different types of cooperation that can have different effects on performance as results of this study indicate.

The relationship between cooperation and performance is probably context-dependent in terms of whether it relates to suppliers or customers. In addition, different economic activities can vary in terms of their propensity to foster cooperative behavior among organizations, since institutional environment has been recognized as a determinant of cooperation (Lui & Ngo, 2005; Mesquita, Lazzarini, & Cronin, 2007). Organizational culture, individual and organizational values among other aspects, also influence cooperative behavior (Bercovitz, Jap, & Nickerson, 2006; Koza & Dant, 2007). Different research settings and samples can produce different results. This paper investigates a very specific industry context – packaging for consumer goods – and considers both cooperation with customers and with suppliers. It also evaluates the effect of cooperation in two different financial performance dimensions: growth and profitability. The sample consists of 124 Brazilian packaging manufacturers. The data analysis uses CFA (Confirmatory factor analysis) to validate the

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scales and multiple regressions to evaluate the relationship between the scores for the four cooperative behaviors with suppliers and with customers with financial performance. The results indicate that the cooperative behaviors have different effects on financial performance and that not all behaviors have positive effects. Cooperation with suppliers affects mainly profitability while cooperation with customers affects mainly growth.

## 2. Cooperation

This section defines cooperation, discusses its dimensionality, reviews the relationship between cooperation and performance, and formulates the hypotheses of this study.

### 2.1. Defining cooperation

Cooperation is a widely used term in academic business literature discussing the relationship between economic agents. It refers to the joint activity between partners to accomplish mutually compatible goals that would otherwise be unfeasible or costly (Chen, Chen, & Meindl, 1998; Maloni & Benton, 2000; Metcalf, Frear, & Krishnan, 1992; Palmatier et al., 2006; Parkhe, 1993; Stern & Reve, 1980). Each agent believes the other to be necessary in achieving a goal. Stern and Reve (1980) explain that values must be compatible and the benefits of joint activity shared by the agents involved.

Behaviors and goals are central to the definition of cooperation. Most studies (e.g., Cravens, Shipp, & Cravens, 1993; Geyskens, Steenkamp, & Kumar, 2006; Morgan & Hunt, 1994) treat cooperation as unidimensional considering that it is one single phenomenon with different levels. Some researchers, however, measure cooperation through the idea of cooperative behaviors and they conceptualize cooperation as a multidimensional phenomenon. Multidimensionality implies that there are several types of cooperation or cooperative behaviors. The number and types of cooperative behaviors vary in different researches. The behavior most studied is information exchange because of the influence of two fields: supply chain management and industrial marketing.

Heide and Miner (1992) propose four types of cooperative behaviors: information exchange, restraint in the use of power, shared problem solving, and flexibility. Information exchange refers to agent action of sharing both proprietary and public information. It also refers to the unplanned, voluntary, and informal communication characteristics of a cooperative relationship. Restraint in the use of power refers to the degree to which agents refrain from taking advantage of opportunities that may negatively affect partners. This behavior differs from altruism because it reflects concern for ongoing, future, and long lasting partnerships. Shared problem solving refers to the search for solutions and the acceptance of joint responsibility for undefined problems by the agents concerned, in an effort to maintain the relationship. Flexibility assesses the degree to which agents adjust their own behavior to accommodate the needs of others. Managers can revise contract conditions if one party becomes disadvantaged.

Johnston, McCutcheon, Stuart, and Kerwood (2004) measure three different cooperative behaviors – shared planning, flexibility and response with respect to changes in relationship dynamics, and joint responsibility for common operational tasks. Mesquita and Brush (2008) also use three cooperative norms – information exchange, flexibility, and solidarity. Solidarity refers to reciprocity and fairness in joint activities between partners. Wilson and Nielson (2001) propose four types of cooperative behavior – information sharing, flexibility, harmony between firms, and joint working between firms, which are closely related to the behaviors proposed by Heide and Miner (1992). Nyaga, Whipple, and Lynch (2010) examine both supplier and customer perspectives and use three cooperative behaviors – information sharing, joint relationship effort, and dedicated investments. While information sharing and joint relationship effort are cooperative behaviors included

in the Heide and Miner (1992) conceptualization, the behavior of dedicated investments is related to the creation of specific assets covered in the transaction cost theory.

Although no consensus exists about the number and types of cooperative behaviors, Heide and Miner (1992) proposition of four cooperative behaviors seems to be the most comprehensive approach including most aspects covered by other authors.

### 2.2. Cooperation and performance

Firms engage in cooperation because of the potential gains from joint action between agents. Most studies claim that cooperation can increase the competitive advantage for the firms involved in a cooperative endeavor (e.g., Cravens et al., 1993), or they can provide enhanced operational performance (e.g., Frohlich & Westbrook, 2001; Simatupang & Sridharan, 2005). Cooperative inter-organizational relationships allow firms to take advantage of dissimilar assets held by partners to improve growth and profitability (Combs & Ketchen, 1999), and to better manage environmental uncertainty (Cravens et al., 1993). With fewer resources a firm can achieve the same or even better performance. Joint action can speed-up market entry (Combs & Ketchen, 1999). Kalwani and Naranyandas (1995) confirm a positive performance benefit for those suppliers that establish a cooperative relationship with customers. Cooperation can foster the creation of relational resources that can provide relational rents for both partners (Dyer, 1996, 1997; Dyer & Hatch, 2006; Mesquita et al., 2008).

A few studies fail to confirm the benefits of cooperation. Vereecke and Muylle (2006) explore cooperation with both suppliers and customers and find only a weak relationship between cooperation and operational performance. Prahinski and Benton (2004) find no association between cooperative buyer–suppliers relationships and supplier's performance. Fynes, Voss, and Búrca (2005) find only partial support for the impact of supply chain relationships (including cooperative elements) and performance. Villena et al. (2011) use social capital theory to argue that there are disadvantages to excessive cooperation, confirming inverted-U shape relationship between social capital and performance.

Turnbull et al. (1992), based on an exploratory study of the automotive industry, believe that gains derived from cooperative behaviors are context dependent and that factors such as industry structure, rivalry, and culture and moderate cooperative gains. Combs and Ketchen (1999) and Mesquita et al. (2007) also confirm the context dependency of cooperation effects. Context can explain some of the mixed findings, but the operationalization of cooperation can be another relevant reason. Almost all studies do not consider the multidimensional nature of cooperation.

The few studies that consider cooperation as multidimensional using the cooperative behaviors do not investigate the effects of the cooperative behaviors on performance. Heide and Miner (1992) explore the relationship characteristics that promote the cooperative behaviors. Cooperation is their dependent variable. Wilson and Nielson (2001) use the cooperative behaviors as formative variables of a global cooperation construct. This global cooperation promotes strategic benefits and trust. They do not explore the direct and differential effects of the cooperative behaviors on performance. Mesquita and Brush (2008) use the cooperative behaviors as components of an aggregated construct: relational governance. They find that relational governance has positive impact on production and negotiation efficiency. Nyaga et al. (2010) investigate the effect of cooperative behaviors on trust and commitment. Trust and commitment are positively related to satisfaction with results, satisfaction with relationship, and operational performance. Johnston's et al. (2004) study is the only study that attempts to investigate the direct effect of cooperative behaviors on performance. They use only three cooperative behaviors – flexibility in arrangements, shared planning, and joint

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