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Strategic purchasing and supplier partnerships—The role of a third party organization

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ABSTRACT

This study explored how a credible third party facilitated the development of supplier partnerships. By identifying qualified potential suppliers, serving as a surrogate for legitimacy for supplier firms and providing a market place for the potential partners to meet, the third party organization provided key compensating mechanisms to reduce the power and social distance and overall transaction costs associated with collaborating to effect supplier relationships between the parties. The study contributes to the supply and purchasing literature by integrating the role of third parties into research on buyer–supplier relationships that have so far been viewed predominantly as dyads and by demonstrating how third parties may actually influence relationships between buyers and suppliers. Our findings also provide firms with some guidelines on building successful buyer–supplier partnerships.
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1. Introduction

Strategic purchasing and supply chain management have become a critical competency and a source of competitive advantage in firms (Ellram and Liu, 2002). One of the most important ways through which firms manage their supply chains is through the building of strategic supplier partnerships (Leenders et al., 2002; Chen et al., 2004). The growing importance of strategic supplier partnerships has spurred on-going research into their dynamics (Anderson and Rask, 2003; Paulraj et al., 2006). Most of the existing research, however, has focused predominantly on the dual nature of buyer–supplier relationships despite some recognition that third parties can sometimes play constructive and important roles in dyadic relationships (Brown et al., 2002; Obstfeld, 2005; Gebrekidan and Awuah, 2002).

This study extends the strategic purchasing and supply chain management literature by focusing on the role of a third party in the development of supplier partnerships, and in so doing fills an important gap in the extant literature. The integration of third parties into a dyadic relationship may be important given the evolution of networked supply systems in which other organizations maintain relationships with suppliers and purchasing organizations (Jap, 2001; McLoughlin and Horan, 2000). Indeed, there is some suggestion that third parties may be playing integrative roles within supply networks (Brown et al., 2002). More importantly, Bitran et al. (2007, p. 30) note that firms may, in fact, be welcoming such an active role of third parties as they "move away from hierarchical, integrated supply chains in favor of fragmented networks of strategic partnerships with external entities."

The article makes at least three important contributions to the field of strategic purchasing and supply management research. First, we integrate the role of third parties into research on supplier-buyer relationships that have so far been viewed predominantly as dyads. In so doing, we may be responding to earlier calls for a greater understanding of the role of third parties in inter-firm relationships in general (Zaheer and Harris, 2006). Second, and most important, we demonstrate *how* third parties may influence relationships between buyers and suppliers. Although we know that third parties can play a role in supplier relationships (Shah and Ram, 2006) there are presently hardly any first-hand accounts of how third parties actually influence the development of supplier relationships. We show that third parties can provide key compensating mechanisms that allow potential partners to overcome some of the existing issues identified in the literature as obstacles to building successful supplier partnerships. For example, there are costs associated with building supplier relationships (Ellram, 1995) and third parties may help mitigate some of these costs. Prior research suggests that when making decisions under risk conditions, organizational actors rely on trust—that is, confidence in an exchange partner's reliability and integrity, but trust in supplier relationships may not be easy to find (Sako, 1992) and third parties can contribute to trust development at a dyadic level (Coleman, 1990). Worse yet, power differences between

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two potential partners such as buyers and suppliers can derail an otherwise productive inter-firm relationship (Harrigan, 1988; Noteboom, 2004) and third parties can be a means for moderating power differences (Obstfeld, 2005). Finally, our findings may provide firms with some guidelines on building successful buyer–supplier partnerships.

1.1. Research objectives

Clearly, the role of third parties in buyer–supplier partnerships is becoming increasingly important, but gaps remain in our understanding of how exactly third parties influence dyadic buyer–supplier relations. Based on the existing gaps in the literature, the following two research questions underpin the present study:

(1) What role do third parties play in buyer–supplier partnerships?
(2) How and what specific mechanisms do third parties deploy to foster buyer–supplier partnerships?

What follows is a review of the literature, a description of the research method including data collection and analysis, a reporting of key findings and conclusions including the theoretical and practice implications as well as the research limitations.

2. Literature review

We present the literature review in two parts. First, we present the existing literature on buyer–supplier relationships and highlight the key obstacles identified in the extant research and then review the literature on third parties, showing how a third party may help reduce some of the obstacles identified.

2.1. Literature on buyer–supplier relationships

According to Lee and Humphreys (2006), the traditional purchasing function in organizations seems to have evolved into a strategic one. The authors note that purchasing is strategic when a buying firm manages the process strategically to meet specific corporate goals, to gain competitive advantage, or to attain some social responsibility objective. Purchasing managers in firms that treat purchasing as a strategic function seek suppliers that are able to have a positive effect on a firm's performance. Freeman et al. (1990) note that firms in which purchasing is treated as a strategic function often elevate the function to be an equal of other major managerial functions.

Although buyer–supplier partnerships are known to create benefits to both buyers and suppliers (Frolich and Westbrook, 2001), building supplier relationships is a challenging undertaking. Ellram (1995) argues that firms need to have some critical competencies in order to have a productive supplier relationship. Among others, the author suggests that buyer firms need to have top management support for the idea by designating a central coordinator, provide appropriate boundary personnel for the role and develop goodwill and trust to help in the maintenance phase of the relationship. Related research on strategic alliances and supplier alliances has documented other challenges in building a successful supplier relationship.

There is first a need to find a desirable supplier to reduce the risk to failure of the relationship (Das and Teng, 2002). Characteristics that make a firm desirable as a partner include the prospective firm's financial resources, technological expertise, market position, reputation or uniqueness (BarNir and Smith, 2002), a history of prior partnerships (Gulati, 1995) and the firm's capabilities. From the buyer's perspective, finding and selecting the “right” supplier in terms of their capabilities may be one of the most important functions in strategic purchasing (de Boer et al., 2001).

Supplier firms on the other hand may have a harder time finding buyers if they lack access to a network of social ties with other firms (Larson, 1992; BarNir and Smith, 2002) or have limited access to capital and resources. A lack of a history of prior ties may be a disadvantage since firms are known to prefer transacting business with those with whom they have had prior relationships (Gulati, 1995). In this respect, several studies on inter-organizational relationships have documented the fact that relationships are often based on prior ties (Larson, 1992; Kamann et al., 2006) with purchasing organizations more likely to do repeat business with those with whom they have had prior ties (Min, 2009). Indeed, the evidence on purchasing seems to support this temporal embeddedness of relationships. Min (2009) suggests that an “old boy network” exists in which purchasing officers prefer dealing with established suppliers with whom they have had prior experience. Of course, buyers disadvantaged by a lack of prior ties can seek to check the credibility of new prospective partners by investigating background information on such prospects (Larson, 1992).

Second, power asymmetry between partners in an exchange can affect outcomes of relationships (Gulati and Sytch, 2007; Harrigan, 1988). Such asymmetries may arise due to inequality in size, competencies and capabilities and when compared to larger firms, small firms may lack access to resources. Social differences between actors may also complicate the process of building mutually beneficial partnerships (Clay, 1997). Social distance is the extent to which groups or individuals share beliefs, customs, practices and appearances, and other characteristics that define identity (Akerlof, 1997). Socially distant actors share few or none of these categories; they are heterogeneous and so cooperation amongst them can be difficult (Zerbe and Anderson, 2001). However, socially distant actors can reduce the distance between themselves and “outsiders” through the choices they make (Leeson, 2008). Indeed, there is some evidence that dissimilarities between parties in inter-firm relationships may create problems in judging the other's competences and intentions (Nieto and Santamaria, 2007).

Third, interfirm relationships, including supplier partnerships, need to minimize the costs associated with partnerships. Collectively, such costs have been referred to as transaction costs, following Williamson's (1985) Transaction Cost Economics (TCE). Hill (1995) defines transaction costs associated with inter-organizational relationships in terms of these sources: (1) the costs of identifying a partner; (2) negotiating costs, including the costs of providing incentives to a counterpart to reduce the temptation to avoid responsibility; (3) monitoring costs; and (4) enforcement costs. Of course, actors in an inter-organizational relationship can mitigate these costs by designing both ex- and post-ante arrangements such as carefully choosing who they ally with (Kamann et al., 2006) or by writing effective contracts (Williamson, 1985). TCE treats transactions as the basic unit of analysis and posits that decision makers would choose arrangements that are most cost effective (including using intermediaries) when compared with other alternatives.

Finally, partners in any inter-organizational relationship, including supply chains need to build trust (Fisher, 2013). Trust is often mentioned as a lubricant in economic exchange (Zucker, 1986). Trust may emerge within the context of an ongoing relationship when partners demonstrate good faith behavior (Rousseau et al., 1998), or perform competently (Sako, 1992). Of course, trust may sometimes emerge because parties to an exchange have shared identity or interests and goals (Zucker, 1986).

2.2. Review of the role of third parties in inter-firm relationships

The role of third parties in inter-firm relationships is often recognized but not systematically explored (see BarNir and Smith (2002), McEvily and Zaheer (2004) for some examples). The role of third parties has, however, been explored in some related research

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