



How to enhance supplier performance in China: An integrative view of partner selection and partner control☆



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ABSTRACT

Whereas effective supplier management necessarily involves both partner selection and partner control, extant literature considers each issue separately. With an integrative perspective, this study instead examines the joint effects of two selection mechanisms (i.e., public and social) and two control mechanisms (i.e., contractual and relational) on supplier performance. The results of an investigation of 208 buyer–supplier exchanges in China provide novel insights into how to adopt formal and informal approaches of partner selection and control to improve supplier performance. We find that mixed approaches (i.e., public selection and relational control, social selection and contractual control) enhance supplier performance. In contrast, relying on combinations of either formal (i.e., public selection and contractual control) or informal (i.e., social selection and relational control) means impairs supplier performance.

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1. Introduction

As firms increasingly procure their component parts and services from external suppliers, how to enhance supplier performance constitutes a central challenge for buyer firms (Huang, Cheng, & Tseng, 2014; Joshi, 2009; Kotabe, Martin, & Domoto, 2003; Mesquita, Anand, & Brush, 2008; Mols, Hansen, & Villadsen, 2012). Among various drivers of supplier performance, governance mechanisms—the tools used to establish and structure buyer–supplier relationships (Brown, Dev, & Lee, 2000)—are identified as a primary determinant (Faems, Janssens, Madhok, & Van Looy, 2008; Heide, 1994; Huang et al., 2014). As the adoption of governance mechanisms shapes various features of buyer–supplier exchanges, it significantly affects supplier performance, including inter-partner communication quality, suppliers' trust toward the buyer, and suppliers' on-time delivery (Joshi, 2009; Poppo & Zenger, 2002). Thus, designing suitable governance mechanisms is a critical strategic decision for successful supplier management (Faems et al., 2008; Hoetker & Mellewigt, 2009; Jap & Ganesan, 2000).

Because buyer–supplier exchanges involve both the initiation and structuring of the relationships (Heide, 1994), researchers have devoted

substantial efforts to understanding supplier management from two different angles: *partner selection* and *partner control*. The research stream on partner selection focuses on the types of partner selection and their performance implications (Choi & Hartley, 1996; Dekker & Van den Abbeele, 2010; Hoetker, 2005; Xie, Peng, & Zhao, 2013). Scholars have identified *public selection* (defined as selecting partners on the basis of public information and channels) and *social selection* (defined as selecting partners on the basis of social relationships) (Baum, Rowley, Shipilov, & Chuang, 2005; Gulati, 1999; Zhou, Li, Zhao, & Cai, 2003). Public selection may enable the buyer to identify the most qualified supplier, yet it may also lead to high levels of opportunism (Baum et al., 2005). Social selection may ensure that the supplier is trustful, yet it may create a social burden on the buyer (Wuyts & Geyskens, 2005). Given the advantages and limitations of social and public selection, firms often employ them together in their partner selection (Heide, 1994; Uzzi, 1999; Xie et al., 2013).

Another stream centers on how various partner control mechanisms affect supplier performance. Researchers have emphasized the role of *contractual control*, which relies on contractual agreements to regulate relationships, and *relational control*, which coordinate exchanges based on informal, social ties (Li, Xie, Teo, & Peng, 2010; Poppo & Zenger, 2002; Ryall & Sampson, 2009). Scholars have contended the necessity to examine how the two types of control mechanisms interactively shape supplier performance: whereas some suggest that they function as substitutes (Dyer & Singh, 1998; Gulati, 1995), others posit that they are complements (Poppo & Zenger, 2002; Ryall & Sampson, 2009). To solve the debates, scholars increasingly view interactive effect

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of contractual and relational control on supplier performance as context-dependent (Lumineau & Henderson, 2012; Zhou & Poppo, 2010).

Although this rich research development has generated important insights on how to align governance mechanisms to ensure supplier performance, gaps still remain. First, existing literature diverges in the sense that received studies focus either on partner selection or partner control. Yet effective supplier management involves both partner selection and control (Heide, 1994); buyers must decide how to select qualified suppliers and determine how to regulate supplier behavior in their ongoing relationships (Dekker, 2008; Holcomb & Hitt, 2007; Kotabe et al., 2003; Wuyts & Geyskens, 2005). Therefore, knowledge about the interplay between selection and control mechanisms is necessary for buyers to achieve superior supplier performance (Dekker & Van den Abbeele, 2010). However, few studies probe the joint effects of various selection and control mechanisms, so the lack of an integrative approach to selection and control represents a research gap to be filled.

Another gap pertains to the interplay between formal and informal governance, two distinct means to govern buyer–supplier relationships (Connelly, Miller, & Devers, 2012; Wuyts & Geyskens, 2005). A rich discussion and ongoing controversy centers around whether formal and informal governance function as substitutes or complements (cf. Li et al., 2010; Poppo & Zenger, 2002; Zhang & Zhou, 2013). For example, Uzzi (1999) posits that combining formal selection with social selection results in better partner performance, whereas Dyer and Singh (1998) argue that informal, trust-based governance supplants the need for formal controls, because trust reduces transaction costs through handshakes. But again, extant studies generally have examined the interaction of formal and informal governance in either partner selection (e.g. Anderson & Jap, 2005; Baum et al., 2005; Beckman, Haunschild, & Phillips, 2004; Uzzi, 1999) or partner control (e.g. Connelly et al., 2012; Li et al., 2010; Liu, Luo, & Liu, 2009; Mesquita et al., 2008; Poppo & Zenger, 2002) contexts, not in combination. How formal (or informal) selection and informal (or formal) control jointly affect performance remains unknown.

To fill these two research gaps, we develop an integrative perspective that examines how formal/informal partner selection and partner control jointly affect supplier performance. We assess four combinations of selection and control: (1) public selection and contractual control, (2) public selection and relational control, (3) social selection and contractual control, and (4) social selection and relational control. As such, our study contributes to supplier management literature by: (1) providing insights on how to align supplier selection and control mechanisms to ensure supplier performance, and (2) offering nuanced understanding on the interactions between formal and informal partner selection and control mechanisms.

Our empirical setting is 208 buyer–supplier relationships in the Chinese manufacturing sector. China provides a suitable context because both formal and informal mechanisms are evident for partner selection and control. As *guanxi* (i.e., social ties) constitutes the lifeblood of business conduct in China, managers tend to adopt social selection to find suitable partners and relational control to coordinate their exchanges (Sheng, Zhou, & Li, 2011). Yet as China moves steadily toward a market-based economy, companies increasingly look beyond their social relationships and rely on public selection and formal contracts to manage their exchanges (Zhou & Poppo, 2010; Zhou et al., 2003). The prevalence of both formal and informal mechanisms thus makes China a rich context for studying the interplay between partner selection and control.

2. Theory and hypotheses

2.1. Partner selection and control: formal and informal mechanisms

Buyer–supplier exchanges involve not only economic transactions, but also the social relationships in which economic transactions are

embedded. Accordingly, transaction cost economics (TCE) and relational exchange theory (RET) are highly influential in research on buyer–supplier relationships (Heide, 1994; Huang et al., 2014; Williamson, 1985; Zhou et al., 2003). Because the governance of buyer–supplier relationships encompasses the initiation and maintenance of exchanges, both partner selection and control are important strategic decisions (Dekker, 2008; Heide, 1994). Partner selection focuses on selecting qualified suppliers and partner control concentrates on regulating suppliers' behavior in ongoing relationships (Wathne & Heide, 2004; Zhou et al., 2003).

TCE posits that firms must employ appropriate governance methods to reduce transaction costs. In organizing buyer–supplier relationships, both information asymmetry in partner searching and potential opportunism in ongoing collaboration would result in substantial transaction costs (Zhou et al., 2003). On partner selection, TCE highlights the role of *public selection*: By collecting information from the marketplace (e.g., media, trade information) and requesting potential partners to provide detailed information, public selection facilitates the direct comparisons of the motivations, capabilities, and reliability of potential partners (Dyer, 1997). Based on competitive market mechanisms, the buyer firm can select highly qualified firms as suppliers (Zhou et al., 2003). On partner control, TCE suggests that *contractual control* is an effective governance form for handling exchange hazards. By specifying the roles and responsibilities of exchange partners, contracting provides a framework for cooperation and restrains each partner's motivation to pursue its private goals at the expense of common benefits (Mayer & Argyres, 2004; Reuer & Arino, 2007). For example, when buyers employ contractual provisions, they may gain quasi-unilateral authority against the suppliers like that in intra-firm settings (Heide, 1994).

RET pinpoints the pivotal role of informal, social governance for facilitating exchanges, because economic transactions are embedded in social relations (Granovetter, 1985; Uzzi, 1997). On partner selection, RET highlights the role of *social selection* (Meuleman, Lockett, Manigart, & Wright, 2010): Social relations represent a repository of information on quality of prospective partners; selecting partners through social relations provides valuable information that may not be available in the open market, such as their capabilities, trustworthiness, and reliability, which is critical to partner evaluations (Zhou et al., 2003). Previous ties also lead to partners' expectations of future interaction, which constrain potential opportunisms in future collaboration (Heide, 1994; Poppo, Zhou & Ryu, 2008). On partner control, RET emphasizes *relational control*: Establishing and maintaining close social relations between partners (Poppo & Zenger, 2002; Rindfleisch & Moorman, 2001). Through increased interactions, social relations breed trust and mutual identity in interfirm exchanges; accordingly, partners would emphasize the gains from long-term collaboration rather than short-term individual interests (Jones, Hesterly, & Borgatti, 1997).

Whereas TCE and RET examine buyer–supplier exchanges from different angles, the use of formal and informal mechanisms are not mutually exclusive. For example, buyers can use both public and social selection approaches in a particular supplier selection decision. As Heide (1994) suggests, buyers take efforts to ensure that selected suppliers possess both adequate capabilities and motivations for prospect collaborations. Because public selection helps find quality suppliers and social selection ensures the suppliers having sufficient motivation, buyers employ both approaches when selecting suppliers (Hoetker, 2005). As our in-depth interviews with Chinese managers reveal, for a supplier candidate, managers use objective criteria to assess the candidate's capabilities as well as take social elements into consideration, including whether the candidate has previous collaboration experience or common third-party with their firms. As such, the buyer can select a supplier with both public and social approaches. Similarly, firms could employ both contractual and relational control in coordinating exchanges, as evidenced by numerous empirical studies (e.g. Connelly et al., 2012; Li et al., 2010; Liu et al., 2009; Mesquita et al., 2008; Poppo & Zenger, 2002).

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