



Inter-organizational relationships and strategy quality in green supply chains – Moderated by opportunistic behavior and dysfunctional conflict

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ABSTRACT

This paper presents a new research model to examine the factors influencing the quality of strategies developed and implementation in inter-organizational relationships in a green supply chain. In this study, we examine how attitude toward relationship orientation affects inter-organizational strategy quality, and how this association is affected by the opportunistic behavior and dysfunctional conflict. Relationship orientation, measured by relational benefits, relational proclivity, and connectedness, refers to the desire to develop and maintain relationships with green supply chain partners. Data are collected from 451 manufacturing firms that are among the top 1000 Taiwanese manufacturing firms of 2010 listed by *Business Weekly*. Relationship orientation, or the desire to develop and maintain relationships with collaborative partners, was found to be positively associated with the strategy quality. Our results show that opportunistic behavior and dysfunctional conflict decrease the willingness and damage efforts to establish relationships to enhance the strategy quality for the green supply chain.

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1. Introduction

Inter-organizational relationships are built, maintained, and enhanced to achieve corporate goals. In a supply chain setting, inter-organizational relationships are usually reflected through terms such as partnerships or buyer–seller relationships. The social and political concerns on environmental issues have encouraged manufacturing firms to “green” their supply chains (Vachon & Klassen, 2007; Van Hoek, 1999). To improve both economic and environmental performance simultaneously throughout their supply chains, green manufacturing firms have created a partnership of suppliers or subcontractors to purchase environmentally superior products and developed comprehensive programs to build environmental practices and operational efficiencies (Sheu, Chou, & Hu, 2005; Vachon, 2007; Zhu & Cote, 2004). Specifically, to be successful in a supply chain, collaborative behavior and activities need to be promoted to build value-based relationships among members (Ross & Robertson, 2007; Wang & Wei, 2007).

The performance of an organization in inter-organizational relationships such as green supply chains for achieving its business goals often depends on the quality of business strategies that it develops and implements with its partners. Numerous practical cases have indicated that bonding and reciprocity with partners to achieve complementary synergism are the keys to the success of green supply chain management (General Electric, 2008; Honda, 2009; Nokia, 2008). One

striking example is that Honda Company helps its green supply chain partners to collectively develop environmental management capabilities, thus enhancing mutual understanding and expectations (Honda, 2009). Therein, Honda Company can develop environmentally superior business strategies by providing training programs and sharing their green knowledge with partners in the green supply chains, such as subcontractors or suppliers. With environmentally superior quality of business strategies between manufacturing firms and their partners in the green supply chains, green manufacturing firms can improve effective and efficient environmental decision-making (Cheng, Yeh, & Tu, 2008; Koh, Gunasekaran, & Tseng, in press), increase the quality of planning to waste reduction (Carter & Jennings, 2002; Sheu et al., 2005; Zhu & Cote, 2004) and higher the quality and implementation of the environmental business strategy (Chen & Sheu, 2009; Vachon, 2007; Zhu & Sarkis, 2007). To improve green supply chain performance, a company often demands that its partners implement common processes, which requires a high degree of strategy quality (Sarkis, Zhu, & Lai, 2011). Inter-organizational strategy quality within a green supply chain has thus become a common practice, because it enhances the competitive advantage of the green supply chain as a whole.

To achieve the advantages of strategy quality, it is of strategic importance for the manufacturing firms to understand those factors influencing inter-organizational strategy quality. Existing research has paid little attention to the causes of the strategy quality in an inter-organizational context, despite being an important issue in inter-organizational research (Menon, Bharadwaj, & Howell, 1996; Rose & Shoham, 2004). In particular, few have examined the interactive effects that affect strategy quality and these relationships. Strategy

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quality is determined by the trade-offs among factors including uncertainty (or risk), exchange efficiency, social satisfaction, and dependence, among others (Dwyer, Schurr, & Oh, 1987). To achieve the benefits of inter-organizational strategy quality, it is essential for all the parties involved to be in cooperative relationships. Thus, value-based relationships become part of relational governance, which involves the evaluation of the risk and value that a company incurs through the relational exchange.

Relational governance is a major perspective for the maintenance of inter-organizational relationships in supply chains (Benton & Maloni, 2005; Carr & Pearson, 1999; Liu, Luo, & Liu, 2009). It has been shown to solve exchange problems and enhance performance (Heide & John, 1988). Resource-based view (RBV) concentrates on the specific relational resources, which can be measured based on the benefits gained through relationships, among other factors. From the political economy perspective, inter-organizational linkages facilitate exchanges and reduce conflicts in supply chains (Stern & Reve, 1980; Cannon & Perreault, 1999). Because partners that deliver superior value will be highly valued, firms will commit themselves to establishing, developing, and maintaining relationships with such partners (Morgan & Hunt, 1994). As such, both partners in a relationship begin to value the relationships and will diminish the probability of opportunistic behavior or relational risk behaviors (such as dysfunctional conflicts). Consequently, this study draws on the theories of relational view (such as resource-based view, political economy perspective and relational risk), supplemented by the TCE, to examine what value-based relationships can decrease the effect of relationship orientation on inter-organizational strategy quality in green supply chains.

To verify this new research model, we conduct an empirical study on green manufacturing firms and their partners (e.g., green components suppliers and subcontractors) in Taiwan's green supply chains. Taiwan is an island-based economic entity and its prosperity is highly dependent on export trade. To deliver products with good quality in global green supply chains, Taiwan's green manufacturing firms cannot ignore the environmental issues on the limited use of harmful substances and recovery rate of waste at the end of environmental products in the US, European Union (EU), Canada, Japan, Brazilian and other markets (Ball & Craig, 2010; Sarkis et al., 2011; Yu, Welford, & Hills, 2006). Taiwan's green manufacturing firms and their supply chain partners are thus enthusiastic about developing environmentally friendly activities in order to maintain and promote their competitiveness. Due to the on-going development of green technologies and regulations, sharing green resources (e.g., experience) and up-to-date capability between manufacturing firms and their supply chain partners has become a necessity. With the new research model, we first examine how the relationship orientation of a company affects its attitude toward inter-organizational strategy quality with a view to providing insights into how effective superior quality of strategies can be facilitated in green supply chains. Relational benefits, relational proclivity, and connectedness are used to measure the benefits derived from relationships, the predisposition to form relationships, and the level of dependence of relationships, respectively. Then, we look into how factors of economic and relational view affect the connection between relationship orientation and inter-organizational strategy quality. Specifically, we examine how opportunistic behavior (in relation to the transaction cost economics (TCE)) and dysfunctional conflict (in relation to the relational risk view) affect the interaction between relationship orientation and strategy quality.

The rest of this paper is organized as follows. Section 2 provides a brief review of inter-organizational strategy quality in green supply chains, and Section 3 presents the research model and hypothesis development. The data collection method and research design are described in Section 4, and the study findings are presented in Section 5. Section 6 provides a discussion of the results, and Section 7 concludes the paper and offers directions for future research.

2. Relational governance and inter-organizational strategy quality in green supply chains

Supply chains are formed to achieve a sustainable competitive advantage for all parties involved (Cheng et al., 2008). With the increased environmental concerns over the past decade, green supply chains have recently emerged to comply with regulations for environmental protection. Green manufacturing firms and their supply chain partners are encouraged to purchase environmentally superior products and to build common practices to waste reduction and operational efficiencies (Zhu & Cote, 2004). To improve inter-organizational coordination and product quality, green manufacturing firms often encourage their supply chain partners to develop an environmental management system (EMS) consistent with the ISO 14000 standards and to obtain the ISO 14001 certification (GEMI, 2001; Vachon & Klassen, 2007). The successful implementation of the EMS involves identifying new techniques and opportunities for effective management of environmental impacts. As such, green manufacturing firms should focus on environmental management to facilitate effective superior quality of strategies among green supply chain members.

To improve supply chain performance, green manufacturing firms often depends on the quality of business strategies that it develops and implements with their green supply chain partners such as subcontractors and green components suppliers. With collaborations between partners enables better strategy quality and as a result greater competitive advantages for each one. A primary objective of strategy quality is to improve the efficiency and effectiveness of the supply chains and respond to the changes and risks more appropriately (Bonoma & Clark, 1988; Menon et al., 1996), which is important in the maintenance of good relationships.

Relational governance is a key determinant of competitive advantage, which concerns the maintenance of the relationship of a company with its supply chain partners (Benton & Maloni, 2005; Carr & Pearson, 1999; Claro, Hagelaar, & Omta, 2003; Heide & John, 1992; Liu et al., 2009; Wang & Wei, 2007). Relational governance is embodied in both the structure and the process of inter-organizational relationships, especially the exchanges between organizations (Zaheer & Venkatraman, 1995). Several prevailing theories have recommended relational governance for managing supply chain relationships. Resource-based view, political economy perspective, and relational risk are relative to theories of relational view. TCE is relative to theories of economic view. Resource-based view and political economy perspective emphasize the collaboration for generating value from resource-based and political economy frameworks, and others concentrate on relational risk behaviors and opportunistic behaviors from the social environment. The establishment of a high degree of strategy quality through close relationships among supply chain partners enhances the competitive advantage of the supply chain as a whole (Holland, 1995).

Relationship orientation is related to the desire for relational governance, which concerns the development and maintenance of the relationship of a company with its partners (Palmatier, Scheer, Evans, & Arnold, 2008). In this study, we use widely recognized factors related to partner dependence in inter-organizational relationships, including relational benefits, relational proclivity, and connectedness, to determine relationship orientation. Resource-based view is a major theoretical perspective for analyzing specific relational resources in green supply chains (Gold, Seuring, & Beske, 2010; Sarkis, Gonzalez-Torre, & Adenso-Diaz, 2010). Relational resources are key determinants of competitive advantage because they provide a firm with a unique resource barrier position in the green supply chain (Sarkis et al., 2011). Relational benefits as a key facet of relational resources are consistent with the value-based perspective (Ullaga & Eggert, 2006). According to this perspective, creating superior customer value is fundamental to a firm's long-term survival and success in supply chains (Woodruff, 1997; Slater, 1997). The critical role of relational benefits in interfirm collaborations is supported by Ullaga and Eggert's (2006) findings that

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