



Buyer–supplier relationships on environmental issues: a contingency perspective



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ABSTRACT

Our study analyzes the effectiveness of governance mechanisms (transactional or relational) in managing buyer–supplier relationships with respect to environmental issues. Based on data from 170 firms located in Hong Kong, this study empirically identifies the mechanism that enhances suppliers' commitment towards environmental protection, and hence allows buying firms to improve their environmental performance. In addition, we have adopted a contingency perspective to investigate the conditions (namely product complexity, relationship stability and relationship adaptability) under which these governance mechanisms are more effective in nurturing supplier commitment. Our results suggest that while both mechanisms lead to suppliers' commitment with environmental issues, their effectiveness can be leveraged if they are applied under specific conditions. In particular, transactional mechanisms are more effective in situations of high product complexity and high relationship stability and adaptability. Relational mechanisms show higher effectiveness if they are used in the context of low product complexity and low relationship adaptability. Furthermore, implications for managers are also derived from this study.

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1. Introduction

One of the key challenges companies face with respect to environmental sustainability is its extension to other supply chain members. In fact, suppliers' poor environmental management can jeopardize the buying firm's environmental performance (Faruk et al., 2002). It is therefore important that buying firms properly govern their relationships with suppliers to foster their suppliers' commitment to green initiatives. Many firms use similar mechanisms to govern the environmental management of their suppliers but they seem to provide different results. For example, Hitachi, a Japanese multinational in the electronic sector that was awarded with the 2012 Green Award and is known for its active involvement in environmental initiatives, asserts that it collaborates with its suppliers to guarantee that they are environmentally responsible in their operations. However, other companies, such as Nike, which followed the same approach failed to achieve the same positive

results, and its suppliers were found to have environmentally irresponsible behaviors. Other firms have opted to contractually specify their suppliers' environmental requirements. For example, Mattel, an American toy manufacturing company, in its contracts clearly states its environmental policy and requests its suppliers to abide by the policy. Yet, Mattel has been forced to recall nearly 1 million products because a supplier had used lead paint in the products. These real-life case examples suggest that there are different governance mechanisms in terms of explicit and implicit control that firms can use to green up their suppliers and that each governance mechanism may be effective only under certain circumstances.

The green supply chain management (GSCM) literature has emphasized the use of mechanisms to green up suppliers, ranging from codes of conduct, assessment tools, to collaborative practices (e.g., Simpson et al., 2007; Rao and Holt, 2005; Zhu and Sarkis, 2004; Lee and Lam, 2012). However, the effectiveness of specifying suppliers' environmental obligations in contracts has been underexplored. This paper draws on the buyer–supplier relationship (BSR) literature and examines environmental governance in supply chain relationships from two key governance mechanisms: transactional (in terms of explicit contract) and relational mechanisms (in terms of implicit control). It is important to mention that

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the effectiveness of these governance mechanisms on relationship outcomes (e.g., operational performance, satisfaction, opportunism) has been widely studied (e.g., Li et al., 2010; Liu et al., 2009; Lumineau and Henderson, 2012; Mahapatra et al., 2010; Nyaga et al., 2010). However, to the best of our knowledge, the study about the effectiveness of governance mechanisms in the context of GSCM, though highly important to ensure suppliers being environmentally responsible, has been largely neglected. Hence, it is worthwhile to investigate under which circumstances the traditional means of governance are effective in enhancing suppliers' environmental behavior.

In this paper, our objective is to determine the effectiveness of governance mechanisms (transactional or relational) in managing BSR with respect to environmental issues. Specifically, this study empirically identifies the mechanism that enhances suppliers' commitment towards environmental protection, and hence allows the buying firm to improve its environmental performance. We adopt the contingency approach and investigate under which contingencies these mechanisms are more effective in nurturing supplier commitment. Understanding the impact of key contextual variables (i.e., operational and relational contingencies) is crucial for identifying the appropriate governance structure to manage environmental issues in a BSR. As such, this study aims to answer the following research questions: (1) what are the appropriate governance mechanisms to gain supplier commitment on complying to environmental requirements? and (2) what are the conditions under which these mechanisms are effective in achieving supplier commitment?

By drawing on prior BSR literature, this study contributes to and provides new insights into the GSCM literature. In particular, we examine the neglected role of explicit contract and implicit control on supplier commitment in environmental management. This study extends the current understanding about the effectiveness of transactional and relational mechanisms in terms of explicit contract and implicit control in environmental governance by examining the effect of different contextual variables. In addition to these contributions to the existing research, we provide key managerial guidelines to managers in managing green supply chains. For instance, the findings inform managers the circumstances under which it is more advisable to manage their suppliers' environmental relationship explicitly by using an explicit contract or implicitly by building mutual understanding of how to carry out solutions and improve the environmental performance.

The paper is structured as follows. In Section 2 we provide the theoretical background on transactional and relational mechanisms as well as the development of the hypotheses. The methodology used is described in Section 3. In Section 4 we present the hypotheses testing and the obtained results. The discussion of the results together with the theoretical and managerial implications are presented in Section 5. Finally, in Section 6 we provide some conclusions, state the limitations of the paper and suggest future lines of research.

2. Theoretical background and hypotheses development

2.1. Governance of buyer–supplier relationships

Goal differences, opportunistic behavior, and different operational routines make the governance of BSR essential (Birnberg, 1998; Jap and Ganesan, 2000; Mohr and Spekman, 1994). Governance between business partners refers to the mechanisms in a relationship that guide the parties' behavior with the aim of fulfilling some common objectives (Liu et al., 2009). In the BSR literature, there are two traditional sets of mechanisms to govern such relationships, namely transactional and relational mechanisms

(Aulakh et al., 1996; Brown et al., 1995; Heide and John, 1992; Jap and Ganesan, 2000; Lumineau and Henderson, 2012). While transactional mechanisms govern exchanges amongst parties through the use of explicit and detailed contracts (Heide and John, 1992; Heide and Stump, 1995; Lusch and Brown, 1996; Williamson, 1985), relational mechanisms govern such exchanges through shared behavioral expectations that imply implicit control and mutual understanding between parties (Gibbs, 1981; Heide and John, 1992; Lusch and Brown, 1996; Macneil, 1980).

Transactional and relational mechanisms are generally considered in previous research as effective governance mechanisms in curtailing opportunism, mitigating conflict and enhancing performance (Cannon et al., 2000; Cavusgil et al., 2004; Jap and Ganesan, 2000; Li et al., 2010; Liu et al., 2009; Nyaga et al., 2010; Poppo and Zenger, 2002). For instance, Cavusgil et al. (2004) found that relational norms are an effective tool for deterring opportunism. Similarly, Liu et al. (2009) suggested that both relational and transactional mechanisms are effective in alleviating opportunism, yet, transactional mechanisms are more powerful than relational mechanisms.

Regarding the effectiveness of these mechanisms on performance, prior studies have considered performance from different perspectives. Some of them have looked at the traditional measures of operational performance (i.e., quality, delivery, flexibility and cost) in their research (Cannon et al., 2000; Jap and Ganesan, 2000; Liu et al., 2009; Nyaga et al., 2010), while others have considered relationship performance (e.g., satisfaction with the relationship, achievement of common goals) (Jap and Ganesan, 2000; Li et al., 2010; Poppo and Zenger, 2002). Cannon et al. (2000) found that transactional (i.e., contracts) and relational (i.e., social norms) mechanisms were both effective in enhancing operational performance. Similarly, Liu et al. (2009) found that although both mechanisms are effective in contributing to performance improvements, relational mechanisms are more profound in improving performance than transactional ones. As an explanation of the different performance impacts of the two mechanisms, Jap and Ganesan (2000) suggest that the effectiveness of these governance mechanisms on enhancing operational performance, preventing conflict, and improving relationship satisfaction is contingent on the relationship phase. While relational mechanisms are vital in the maturity phase of the relationship, transactional mechanisms are essential in the decline phase. These results indicate the important role of contingencies in a BSR that may affect the performance impacts of different governance mechanisms.

To answer the research questions of this study, we examine the impact of transactional and relational mechanisms on relational performance (i.e., supplier commitment) by drawing on the transaction cost economics (TCE) and social exchange theory. TCE, whose primary objective is to design effective governance mechanisms to govern exchanges between exchange parties, prescribes formal contracts as a governance tool. According to TCE, transactional mechanisms are derived from economic rationality that governs BSR through the use of explicit contracts (Heide and John, 1992; Lusch and Brown, 1996; Williamson, 1985). As stated by Williamson (1985), explicit contracts “entail comprehensive contracting whereby all relevant future contingencies pertaining to the supply of a product or service are described and discounted with respect to both likelihood and futurity” (p. 69). In that sense, a detailed contract, which stipulates the rights and obligations of exchange parties and limits acceptable behavior between them, can effectively protect the relationship against opportunistic behavior and bounded rationality since it (1) specifies rewards and sanctions, (2) provides details about the resolution of conflicts and disputes, and (3) helps establish the longevity of the relationship (Coase, 1937; Williamson, 1985).

On the other hand, social exchange theory describes BSR as social interactions and socially embedded relationships in economic

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