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Buyers' perceptions on the impact of strategic purchasing on dyadic quality performances

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ABSTRACT

Carr and Pearson (1999 J. Oper. Manage. 17 (5), 497–519) find that strategic purchasing has direct and indirect positive associations with buyer financial performance. An important question arises, however, as to whether the impact of strategic purchasing is equally appropriate for supplier performance. An inequity perception may affect transaction-cost calculus and lead to alliance failure if ignored. Using survey responses from 163 firms, we posit and first show that negative inequity perceptions really exist from buyer's perspective and the strategic purchasing—quality performance relationships are mediated by buyer–supplier relationship. The findings not only indicate that inequity perception assumption should be augmented to the basic transaction cost economics framework, but also suggest supplying firm managers help buying firm purchasing function to become a strategic weapon.

1. Introduction

Purchasing is increasingly recognized as a strategic function (Paulraj et al., 2006) and a strategic weapon (Krause et al., 2001). Strategic purchasing enables firms to foster close and ongoing working relationships with a limited number of suppliers and promotes open communication between suppliers and buyers (Agarwal et al., 2010; Chen and Paulraj, 2004), which in turn, improves business performance. Studying the relationships among strategic purchasing, supplier evaluation system, buyer–supplier relationship, and firm's financial performance, Carr and Pearson (1999) find that strategically managed long-term relationships with key suppliers have direct and indirect positive associations with buyer firm's financial performance. Many subsequent studies have drawn conceptually on their framework and related insights, attesting to the popularity of the concept (see, e.g., Carr and Pearson, 2002; Chen and Paulraj, 2004; Chen et al., 2004; Devaraj et al., 2012; Gonzalez-Benito, 2007).

However, some researchers criticize that strategic purchasing induces instability because it entails greater interdependence between the supplying and buying firms (Baily et al., 2008; Burt et al., 2004), which is prompt to high failure rates (Agarwal et al., 2010; Arino and Ring, 2010). Other studies find that an alliance member may exercise its power during negotiation to reap most of the direct benefits (Cheung et al., 2011; Pfeffer and Salancik, 1978; Shervani et al., 2007). Indeed, while many alliance activities (e.g., making specific investments) can generate common benefits, they may spawn a host of problems such as distributive justice (Griffith et al., 2006), engaging in learning races (Agarwal et al., 2010), self-interest with guile behaviour, and perceived opportunism (Williamson, 1975).

Whether strategic purchasing and buyer–supplier relationship are universally desirable and help supply chain members create "a rising tide that lifts all boats" is uncertain (Arino and Ring, 2010; Carter and Hodgson, 2006; Crook and Combs, 2007; Luo, 2007; Scheer et al., 2003). Incidentally, Carr and Pearson (1999: 516) suggest that future studies should test strategic buyer–supplier relationship models based on data collected from firms operating outside of the U.S. to help practitioners better understand strategic purchasing and buyer–supplier relationship in the global context. Indeed, Scheer et al. (2003) found that U.S. firms reacted differently from Dutch firms when they perceived under-compensated in a relationship. Understanding why some alliances succeed while others fail is perhaps the central question in alliance formation and management, yet it remains an under-studied research topic (Arino and Ring, 2010; Griffith et al., 2006; Luo, 2007).

More recently, justice (or fairness) is found important in alliance management (Liu et al., 2012; Narasimhan et al., 2013). The more significant issue seems to deal with "pie sharing" itself (Cheung et al., 2011) or distributive justice (Griffith et al., 2006; Kaynak et al., 2015; Liu et al., 2012). Yet, it is still unclear whether the buyer or the supplier will benefit more from strategic purchasing. When one partner outlearns the other, the original alliance agreement may become obsolete (Xia, 2011: 248), leading to equivocal results (Carter and Hodgson, 2006). According to

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equity theory, when one partner perceives under-compensated, it will react negatively by re-determining the optimal allocation of resources or decreasing its performance, leading to under-achievement of the potential benefit in the strategic alliance (Cheung et al., 2011; Luo, 2007). As the negative perception of fairness grows stronger, there is less incentive for the partners to actively resolve their conflicts (Arino and Ring, 2010; Griffith et al., 2006). The relevant transaction costs such as resolving dispute cost and enforcing cost will increase. Extant literature corroborates this theoretical logic with different research methodologies. Based on case studies, Arino and Ring (2010) find that perceptions of fairness influence alliance continuity. However, their study lacks generalizability. Based on experiments, Agarwal et al. (2010) find that whether decision makers are similar to each other in terms of the perceived benefits of a strategic alliance significantly impacts alliance success. However, their study cannot confirm that inequity perception exists in strategic alliances of firms in the real world. Based on survey research, Cheung et al. (2011) find that buyers reap a larger share of the pie. While informative, their study provides no information as to whether or not a buyer's adoption of strategic purchasing is related to the performance of the supplier.

Our study aims to advance strategic management research by adding more precision, generalizability, and novel insights to Carr and Pearson (1999)'s original study on strategic purchasing. Here, applying transaction cost economics (TCE), we argue that the buyer perceives strategic purchasing to have a higher positive association with the supplier's quality performance. Transactions require trading partners to behave in a just manner to be beneficial (Narasimhan et al., 2013). Buyer–supplier relationship is not only concerned with economic transactions, but also with social interactions (Griffith et al., 2006; Kaynak et al., 2015; Liu et al., 2012). On the one hand, closer buyer–supplier relationship, less competition, and higher buyer specific investment create greater visibility, certainty, capability, and stability in many areas of a supplier's operations, which in turn improves supplier quality performance significantly (Alcacer and Oxley, 2014; Arend, 2006; Kaynak and Hartley, 2008; Schoenherr and Swink, 2012). On the other hand, common benefits likely trigger the buyer's suspicion, negative inequity perception, and perceived opportunism (Agarwal et al., 2010; Shervani et al., 2007). So buyers may view suppliers as competitors for margin rather than partners to improve efficiency (Cheung et al., 2011).

Advising that whether inequality perception exists between partners should not be ignored, Williamson (1975) long supposes that the development of convergent expectations between partners is a crucial managerial role. Yet the literature on inequality perception is scanty (Liu et al., 2012), nascent (Narasimhan et al., 2013), and surprisingly insufficient (Griffith et al., 2006). To fill this research gap, we study inequality perception with a view to addressing the following research questions: (1) Are the impacts of strategic purchasing on buyer quality performance and supplier quality performance perceived differently by the buyer based on TCE prediction? (2) Is the relationship between strategic purchasing and partners' quality performance mediated by buyer–supplier relationship? These two research questions extend the work of Carr and Pearson (1999) by incorporating consideration of the performance of the supplier. In addressing these two questions, we also seek to re-validate the conceptual model of Carr and Pearson (1999) theoretically and empirically. The rest of the study is organized as follows: We begin by reviewing the theoretical foundations of TCE and developing the research hypotheses. Next we introduce the research methodology, describe the data collection method, and discuss the development of the measurement scales. Results are then presented. Last, we conclude with a discussion of the results and their practical implications for managers and suggest topics for future research.

2. Theoretical background and hypotheses development

2.1. Theoretical background

Carr and Pearson (1999) apply TCE to theoretically relate strategic purchasing with performance. They propound that specific investments made by the buying firm in the selected supplier, e.g., the setting up of a supplier evaluation system, may increase the level of integration between the two parties, which will improve the buyer's transaction costs and financial performance. The primary reason is that selecting capable suppliers is an important strategic purchasing function—an essential part of the firm that impacts the firms' ability to achieve its strategic goals. Buyers cultivate their selected suppliers through investing resources, sharing of knowledge, and joint problem solving (Carr and Pearson, 1999). Specific investments in setting up supplier evaluation systems help gathering, disseminating, and applying valuable information. Sharing of knowledge and joint problem solving not only improve cooperation and communication among partners, but also enable the co-alignment with partners' operations and processes (Kang et al., 2009; Schoenherr and Swink, 2012). Subsequently, suppliers search for ways to meet the needs of the buying firm's product design and development, which in turn alleviate the safeguarding problem. Krause et al. (2001) concur that setting up a supplier evaluation system is a fundamental strategic purchasing task that can manifest the competitive priorities of the purchasing function. Therefore, firms that regard strategic purchasing as a strategic weapon are more likely to implement supplier evaluation systems. Thus, there should be a positive relationship between strategic purchasing and supplier evaluation system.

TCE predicts that environmental uncertainty is positively related to level of integration (Williamson, 1991). Strategic purchasing is critical for firms seeking to develop long-term buyer–supplier relationship (Chen et al., 2004). Two plausible reasons are that if purchasing is viewed by top management as a strategic weapon, it can exercise legitimate authority, monitor behaviour, or offer effective incentives, which can facilitate communication, information sharing, commitment, and trust between internal customers and external suppliers (Paulraj et al., 2006). If top management considers ideas and suggestions from purchasing as equally important as other functions, purchasing will attend corporate strategy meetings regularly and participate in cross-functional teams actively (Narasimhan and Das, 2001), which will enhance medium to long-term planning and goal-setting between internal production schedulers and suppliers to support those strategic plans (Krause, 1999; Schoenherr and Swink, 2012). Thus, there should be a positive relationship between strategic purchasing and buyer–supplier relationship.

Suppliers play an important role in assuring that incoming materials are defect free (Kaynak and Hartley, 2008). The extant literature suggests that with routine and formal communication, the supplier evaluation process will create a more effective conduit for communicating the buyer's product specifications to the supplier (Krause, 1999) with the hope and expectation that the supplier will address the noted shortcomings jointly (cf. Prahinski and Benton, 2004). Suppliers will be more willing, careful, and systematic in responding to buyers' changing requirements, which strengthens the buyer–supplier relationship (Narasimhan and Das, 2001). Thus, there should be a positive relationship between supplier evaluation system and buyer–supplier relationship. Taken collectively, since strategic purchasing reduces production and transaction costs for the firms involved in the business relationship, it should be a significant predictor of the performance of both the buyer and supplier (Carr and Pearson, 1999, 2002; Chen et al., 2004; Paulraj et al., 2006).