



Buyer-supplier relationship decline: A norms-based perspective



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ABSTRACT

Positive buyer-supplier relationships rely on a set of underlying behavioral expectations held by individuals. These 'norms' regulate partner behaviors through a set of implicit (dis)incentives. Despite the importance of norms, few studies consider their role in relationship decline. Drawing on an in-depth ethnography, this study focuses on norms at the inter-personal level and at the inter-firm level to uncover how these subtle social rules affect relationship decline. The study identifies three key phases of relationship decline: unawareness, divergence and degeneration. The study also considers the role of individuals' bounded reliability and its contribution to norms violations. We identify two new elements (perceptual inconsistencies and divergent schema) that appear active early in relationship decline and that contribute to other elements of bounded reliability. The findings yield a theoretically grounded, empirically informed framework of relationship decline, with direct relevance to complex buyer-supplier relationships, particularly in capital and technology intensive industries.

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1. Introduction

Functional buyer-supplier relationships can have many benefits. Supplier firms can expect greater profitability and better buyer insights while buyers can experience tailored solutions and exchange efficiencies (Palmatier, 2008; Palmatier, Houston, Dant, & Grewal, 2013). However, buyer-supplier relationships are diverse. Rather than a cure-all, relationships can also be sources of frustration and resentment for one or both parties (Hibbard, Kumar, & Stern, 2001). Relationships can be very costly for the supplier and pose excessive risks to buyers (Musalem & Joshi, 2009; Ryals & Holt, 2007). Therefore, relationships are often finite. They tend to pass through a lifecycle that begins with initial investments by both parties fueled by positive expectations, a middle stage where both parties engage in repeated interactions and are generally satisfied with the existing arrangements, and, then, a final stage where the relationship ends (Terawatanavong, 2007).

Transaction Cost Economics (TCE) (Williamson, 1979, 1988, 1991) has become an important theoretical lens to study buyer-supplier relationships. A central tenet of TCE is that partner behaviors are governed by norms, which differ from formal contracts as means to affect relational outcomes (Cannon, Achrol, & Gundlach, 2000; Heide & John, 1992; Macneil, 1980). Indeed, norms explain the majority of partner behaviors by conveying what behaviors are acceptable and by associating non-compliant behavior with various penalties (Kaufmann & Stern, 1988; Wan, Hui, & Wyer, 2011). The absence of supportive norms has

been shown to reduce the economic efficiency of relational exchange (Heide & John, 1992). Norms have been conceptualized as context-dependent, multi-level and dynamic and, as a consequence, it is unclear what norms are relevant and to what extent (Blois & Ivens, 2006; Ivens & Blois, 2004; Macneil, 1980). This issue is particularly acute when considering relationship decline. While most studies in this area focus on resource or systemic misalignment and opportunistic behaviors, few consider the influences of norms (Jean, Sinkovics, & Cavusgil, 2010; Mishra, Chandrasekaran, & Maccormack, 2015). By considering the role of norms, there is scope to identify and explain subtle yet profound social rules that current studies do not yet capture fully.

Moreover, the cognitive and behavioral constraints facing key individuals are likely to affect how norms manifest. Indeed, these constraints are central assumptions about the behavior of individuals within TCE (Williamson, 1975, 1991, 2005). However, there has been relatively little exploration of how these constraints relate to relational norms in relationship decline. The concept of bounded reliability can help explain this. Bounded reliability refers to the efforts of individuals to being reliable, but only boundedly so, with these efforts being imperfect due either to opportunism, benevolent preference reversal (i.e. where the preferences of decision-makers shift over time in accordance with new and emergent priorities) and inconsistent behaviors (i.e. where individuals' behaviors contrast with an agreed set of requirements) (Kano & Verbeke, 2015; Verbeke & Greidanus, 2009). These considerations could help explain the root causes of relationship decline and, as such, there is a need to explain how and why this is so.

In this study, we focus on the impact of norms in relationship decline. The study offers two major theoretical contributions in this domain. First, the study develops a longitudinal perspective of

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relationship decline in terms of norms violations. Present studies mostly consider norms as discrete and non-dynamic, with cross-sectional empirical processes often informing these findings. Consequently, the subtleties of norms violations emergence receives limited attention despite their apparent importance (Blois & Ivens, 2006; Heide & John, 1992; Heide, Wathne, & Rokkan, 2007; Wathne & Heide, 2000). In this study, we identify three broad phases of relationship decline (unawareness, divergence and degeneration) and describe the major elements of each phase. We also draw on relational contracting theory (Macneil, 1978, 1980, 1987) and an analysis of our empirical findings, to highlight three primary forms of relevant norms violations. 'Role integrity' refers to the ability of an individual to retain a specific domain of activity while also feeling confident to disregard formal structures in order to achieve a specific outcome. 'The preservation of the relation' refers to maintaining a positive working relationship through productive planning, problem-solving, managing power, and ensuring agreement to contract terms. The 'harmonization of the social matrix' refers to the active alignment between the interests and actions of individuals working together across inter-firm boundaries. Through the identification and explication of these norms in terms of their violations, the study articulates some fundamental social mechanisms that have subtle, yet profound influences in relationship decline.

Second, the study provides insight into the interplay between norms at the inter-firm level and those at the individual level. The underlying intention behind this goal is to understand how these two levels of aggregation interact in relationship decline, an area often overlooked in current studies (Blois & Ivens, 2006; Heide & John, 1992; Heide et al., 2007; Wathne & Heide, 2000). The study finds broad support for the bounded reliability notion (Kano & Verbeke, 2015; Verbeke & Greidanus, 2009) while also extending it by first identifying two additional elements of bounded reliability and, then, by defining the sequencing of each element of bounded reliability during relationship decline. At the very early stages of relationship decline (i.e. the 'unawareness stage'), the most important elements appear to be what we describe as perceptual inconsistencies and divergent schema. These then contribute to benevolent preference reversal and inconsistent behaviors (i.e. at the 'divergence' stage). Lastly, opportunistic behaviors become dominant as the relationship ultimately deteriorates. These developments appear to mirror individual forms of norms violations during the earlier stages of relationship decline (i.e. role integrity and the preservation of the relation) before gradually contributing towards the de-harmonization of the social matrix at the inter-firm level (i.e. where opportunistic behaviors were most obvious).

To achieve these outcomes, the study draws on an in-depth ethnography in the Aerospace industry. The empirical process involves a three-year investigation of a buyer-supplier relationship. More specifically, the relationship had entered a new stage at the beginning of the study. The buyer firm decided to reorient its role and, subsequently, led the supplier firm to accept a new relationship paradigm. This involved establishing a new 'risk-sharing partnership', where a substantial proportion of the buyer firm's research and development assets and activities were reassigned to the supplier. This also involved a new relationship agreement involving fairer sharing of risk and investment responsibilities between the partner firms. With this in mind, the findings of the study are most relevant to industry contexts where risk-sharing partnerships are more typical. Indeed, capital goods industries such as aerospace, mining, infrastructure, construction and manufacturing are more comparable with our empirical context (Brady, Davies, & Gann, 2005; Gebauer, Paiola, & Saccani, 2013; Neely, 2014; Töllner, Blut, & Holzmüller, 2011). For managers, the study offers insights into the subtleties of relationship decline. The findings suggest a need for more consultation and information clarity when a relationship paradigm shifts. The study also identifies the specific mechanisms that underpin relationship decline, where targeted management interventions may help to mitigate or alleviate norms violations and, ultimately, ensure an altered relationship remains positive and productive.

2. Conceptual background

2.1. Current approaches to explaining relationship decline

The current literature offers several pertinent reasons for buyer-supplier relationship decline. One of the major explanations is that partners are no longer compatible. This generally relates to the inability for inter-dependent resources, systems, processes and procedures that operate across inter-firm boundaries to fulfill their requirements (Jean et al., 2010; Mishra et al., 2015). This results from a severing of specific ties or linkages. For example, the upgrade of an IT system by one partner often places a burden on a counterpart to update their own systems to ensure smooth information flows. Depending on the incentives, the partner may choose not to do so; hence, a lower level of compatibility emerges. This sort of decision often relates to another cause for relationship decline: a reduction in complementarity. While partners may initially invest in a relationship to access specific resources or new market opportunities, once these are no longer forthcoming, the decision to continue in the relationship may become difficult to justify (Glenn Richey, Tokman, & Dalela, 2010). With reductions in compatibility and complementarity, the costs associated with the relationship are likely to increase and, hence, support a decision to terminate the relationship (Wang, Kayande, & Jap, 2010).

Perhaps the most widely discussed reason for relationship decline is opportunism (Wathne & Heide, 2000). On one extreme, blatant opportunism is "self-interest seeking with guile" (Williamson, 1975: 7). This suggests an individual may lie, cheat, steal, mislead, distort, disguise, obfuscate or otherwise confuse (Williamson, 1985). However, the manifestation of opportunism can be passive or active and relate to existing or new circumstances (Wathne & Heide, 2000). Hence, nuance characterizes opportunistic behaviors. While opportunism is a broad concept, more specific instances that contribute to relationship decline emerge as punitive actions, destructive acts and unresolved conflict (Hibbard et al., 2001; Kumar, Scheer, & Steenkamp, 1998). Indeed, the decisions to conduct these activities and the nature of related behaviors rests with specific individuals and, as such, many of the causes of opportunism are likely to relate more closely to the micro-foundations of relational contracts, with many scholars acknowledging a need to understand these to a greater extent (Wathne & Heide, 2000; Williamson, 1975, 1985). In this study, we go beyond simple opportunism to unpack a wider range of underpinning factors and subtle mechanism that contribute to relationship decay.

2.2. Norms and relationship deterioration

Norms offer a means to understand the micro-foundations of relational contracts. While norms encompass the rules of the social engagement between partner firms and the associated incentives for compliance, they have many potential applications. In the present study, we focus on two main dimensions. First, we consider the nature of norms. Our empirical process centers on a buyer-supplier relationship and, as such, involves the expectations from both parties commonly associated with these roles. In a very basic sense, buyers would expect to pay money to the supplier in exchange for products and services that meet their expectations whereas suppliers would expect to receive money from the buyer in exchange for product/service delivery. We suggest the nuance associated with this process is likely to increase in situations with complex products and services that involve multiple interactions across a broad hierarchy.

Overlaying the norms associated with the specific roles of buyer and supplier firms are a range of others. In this study, we concentrate on three of the major norms dominant in relational exchanges since these emerged most strongly in our data (see Macneil, 1978, 1985, 1987, 2000) and have also received the least attention in previous studies of relational contracting (Ivens & Blois, 2004). Role integrity relates to the ability of an individual to retain a specific domain of activity

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