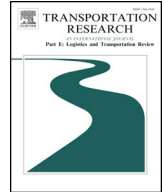


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# Buyer-supplier exchange relationship: How do exchange partners behave across the relationship life-cycle?

Booi H. Kam<sup>a,\*</sup>, Manh Khang Lai<sup>b</sup><sup>a</sup> School of Business IT and Logistics, RMIT University, Australia<sup>b</sup> Faculty of Business Management, National Economics University, Hanoi, Viet Nam

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## ABSTRACT

This study examines the behavioral differences between farmers and farm produce buyers on seven relationship-shaping constructs – use of contracts, transaction-specific investments, trust, cooperative norms, social bonds, long-term orientation, and information quality – at the exploration, expansion, and maturity phases of their relationship life-cycle. Findings from two independent surveys conducted in Vietnam's agricultural heartlands show farmers and buyers holding comparable collaborative stance during the exploration and maturity phases, but behaving differently at the expansion stage. Triangulating these behavioral traits, we conclude that asymmetric trust in a dyadic relationship can converge to mutual trust through a process of reciprocal trust building.

## 1. Introduction

A stable relationship, such as that between buyers and suppliers, is essential to achieving supply chain sustainability and value growth (Kanter, 1994; Hastings et al., 2016). Relational stability requires buyers and suppliers to have compatible goals (Carruthers, 1996; Jap and Anderson, 2003). When goals are compatible, collaborative partners would view their joint actions as mutually beneficial (Naudé and Buttle, 2000), and would be predisposed to bring the relationship closer (Wilson and Jantrania, 1994), resulting in commitments to invest in resources to produce higher quality products and enrich client services, lower costs and increase delivery reliability (Goffin et al., 2006). While collaborative business relationship may engender a “win-win” situation for both parties (Rokkan et al., 2003), the “wins” of both parties could differ (Whipple and Frankel, 2000).

Studies exploring buyer-supplier perceptions of relationship benefits generally found existence of inequity at varying levels (e.g., John and Reve, 1982; Scheer et al., 2003; Nyaga et al., 2010). Existence of inequity is largely due to perceptual differences on relational attributes between the two parties. For instance, Nyaga et al. (2010) found differences between buyers and suppliers in their emphasis of the antecedents and outcomes of collaborative relationships: suppliers concentrate largely on collaborative activities, such as information sharing and co-branding, while buyers focus more on relationship outcomes, such as demonstrating trust and commitment to improve performance.

While attempts to understand perceptual, and behavioral, differences between buyers and suppliers on relational attributes are mounting, how these differences vary across the relationship life-cycle remains understudied. Since the nature of business interactions, and outcomes, between exchange partners does not stay constant (Wagner, 2011), the level of efforts the exchange partners put into a relationship also change over time (Dwyer et al., 1987; Jap and Ganesan, 2000; Caniëls et al., 2010). The dynamics of business collaboration necessitates that the perceptual and behavioral differences between buyers and suppliers with respect to factors that

\* Corresponding author at: RMIT University, GPO Box 2476, Melbourne, VIC 3001, Australia.

E-mail addresses: [booi.kam@rmit.edu.au](mailto:booi.kam@rmit.edu.au) (B.H. Kam), [khanglm.neu@gmail.com](mailto:khanglm.neu@gmail.com) (M.K. Lai).

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shape their relationships be studied at each phase of the relationship life-cycle, as [Korsgaard et al. \(2015\)](#) had found in their review of the literature on dyadic trust.

We examine the behavioral differences, and similarities, between buyers of agricultural produce (referred to as traders in this paper) and farmers (or farm produce suppliers) in Vietnam, a country where social relationships pervade business exchanges, on seven constructs known to affect buyer-supplier relationships: use of contract, transaction-specific investments (TSIs), trust, cooperative norms, social bonds, long-term orientation, and information quality ([Wilson, 1995](#); [Monczka et al., 1998](#); [Jap and Ganesan, 2000](#); [Claro et al., 2003](#); [Jap and Anderson, 2003](#); [Lee and Dawes, 2005](#); [Liu et al., 2009, 2010](#); [Wiegel and Bamford, 2015](#); [Zhou et al., 2015](#)). We investigated the behavioral inclinations of farmers and traders at each of the first three stages of the relationship life-cycle – exploration, expansion, and maturity – toward these seven constructs. To accomplish that, we carried out two surveys – one on farmers and the other on traders – in the agricultural heartland of Vietnam.

Grounded in the rural setting of a developing economy where social bonding is embedded in most, if not all, strategic business operations, our study complements the current stock of knowledge on buyer-supplier relationship management that has been built primarily in contexts of developed economies. Our findings extend current buyer-supplier relationship research in four aspects. First, by contrasting farmer and trader behavioral inclinations toward seven relationship-shaping constructs at different stages of their exchange relationship, we reveal, in an aggregated manner, how buyers and suppliers in a developing economy relate to their exchange partners with the aim of trialing, nurturing, extending and blooming their relationship. Second, we shed light on why farmers and traders hold dissimilar views on their exchange relationships and explain how such relationships could still be sustained despite the incongruent perceptions and contrasting behavioral inclinations between the two parties. Third, we offer an explanation on how the opposing attitudes between farmers and traders eventually converge, laying the theoretical foundation for building a theory of trust breeding in buyer-supplier relationships in a developing economy. Lastly, findings from this study offer insights on how buyer-supplier relationships might be nurtured, maintained and managed in practice in a business environment underpinned by a culture of social bonding.

## 2. Literature review

### 2.1. Factors affecting buyer-supplier relationship development

Trust is at the heart of a dyadic exchange relationship. As [Sullivan and Peterson \(1982\)](#) put it: “where the parties have trust in one another, then there will be ways by which the two parties can work out difficulties ...” (p. 30). Trust, however, does not always exist in an exchange relationship, especially at the initial stages of transaction ([Caniëls et al., 2010](#)). With alternatives available to either partner in an exchange relationship, firms typically resort to some forms of formal governance mechanisms, e.g., contracts, to safeguard their interests from their partner’s opportunistic behaviors ([Liu et al., 2009](#)). [Jap and Anderson \(2003\)](#) developed a list of governance mechanisms that firms often adopt to preserve their benefits and minimize partners’ opportunism. Among them, transactional and relational mechanisms are most commonly employed ([Caniëls et al., 2012](#); [Poppo and Zenger, 2002](#)).

Transactional mechanisms refer to the use of formalized and legally binding agreements to protect firms’ interests against exchange hazards and mitigate opportunisms ([Lee and Cavusgil, 2006](#)). Transactional mechanisms are realized in practice as formal written contracts and TSIs ([Liu et al., 2009](#)). Formal written contracts specify rights and obligations of exchange partners by stating rules in detailed terms ([Liu et al., 2010](#)). As formally signed contracts are enforceable, they provide a legal framework for firms to deal with risks associated with partner’s opportunistic behaviors ([Yang et al., 2011](#)), protecting a partner’s specialized investments made to generate benefits for the exchange relationship ([Yu et al., 2006](#)).

TSIs are investments made by parties to facilitate the staging of collaborative activities in an exchange relationship. These investments range from physical equipment to training and processes established specifically to meet the needs of the exchange relationship ([Cai and Yang, 2008](#)). Investments made exclusively for transactions with a particular partner thus increase a firm’s dependence on that partner and the cost of leaving the relationship. TSIs, therefore, are signs of commitment to grow the relationship. They bind the exchange partners, creating barriers to exit the relationship due to the diseconomies of seeking alternatives and difficulties in redeploying physical assets to alternative uses or to use in other exchange relationships ([Yu et al., 2006](#)). Partners who invest specifically in a relationship thus have little or no incentive to behave opportunistically.

In an exchange relationship, relational mechanisms are exemplified by trust and cooperative norms ([Lee and Cavusgil, 2006](#)). Trust depicts the faith and confidence one party has on the other party’s motives, intentions, reliability, integrity and commitment to maintain and grow the relationship ([Wilson and Jantrania, 1994](#)). In a dyadic exchange relationship, trust reduces the uncertainty associated with either partner’s tendency to engage in opportunistic activities that could harm the relationship, and hence lowers the cost of relationship management and governance ([Sodhi and Son, 2009](#)). Research on trust generally views the construct as comprising two distinctive dimensions: competence (e.g., technical capabilities and experience) and integrity (e.g., honesty and motives) ([Connelly et al., 2015](#)). Through a meta-analysis of 37,366 inter-organizational relationships, [Connelly et al. \(2015\)](#) found that integrity-based trust is about 10 times more effective at reducing transaction costs than competency-based trust. In industries where technical competency is an expectation, [Connelly et al.’s \(2015\)](#) findings suggest that integrity-based trust should be the focus of analysis.

[Cai and Yang \(2008\)](#) defined cooperative norms as “the shared belief and expectation of two parties that they must work together to achieve mutual goals” (p. 56). Unlike contracts or TSIs, cooperative norms are self-motivated and self-regulated, rather than externally enforced ([Zhou et al., 2015](#)). [Liu et al. \(2009\)](#) argued that once cooperative norms are established, exchange partners would be unlikely to behave opportunistically. Cooperative norms, as such, could foster partners’ commitment to an exchange

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