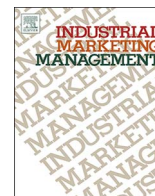




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Target and position article

## The burden of rank: The impact of preferred supplier status on excessive buyer requests

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## ABSTRACT

Supplier attempts to ascend the supplier pyramid of buying firms are ubiquitous. Yet, it is unclear whether these attempts might entail undesirable consequences. To address this gap, this research theoretically and empirically examines the effect of preferred supplier status on excessive buyer requests. The results show that preferred supplier status indeed entails so far unaccounted relationship costs as it enhances excessive buyer requests. Alarmingly, this effect is subject to increasing rates as preferred supplier status grows. The results show as well, however, that suppliers can reverse this relationship if they are willing to adhere to relational norms in terms of voluntarily participating in the buyer's supplier development program. This means that initial status gains enhance excessive requests, but at a certain point suppliers can reduce excessive requests through increasing their status when they adhere to relational norms. These results offer new directions both for researchers and practitioners.

## 1. Introduction

As manufacturers are increasingly consolidating their supplier base, achieving and sustaining preferred supplier status—an elevated standing within a focal buyer's supplier hierarchy—is generally viewed as critical for suppliers (Anderson & Narus, 2003; Ulaga & Eggert, 2006). Industry reports, however, indicate that increasing status may actually represent a threat to suppliers as it resides with increasing demandingness of buying firms. For instance, in the automotive industry, prime suppliers like Continental, Denso, and Magna are the very targets of excessive requests for service and delivery concessions. As a result, key auto suppliers typically bear 55 to 65% of the multi-billion cost cutbacks of manufacturers (BCG, 2015).

While the dark side consequences of relationship partner status at the demand side (i.e., preferred customer status) has received considerable attention in marketing research (e.g., Eggert, Steinhoff, & Garnefeld, 2015; Wetzel, Hammerschmidt, & Zablah, 2014; Wieseke, Alavi, & Habel, 2014), research concerned with its counterpart at the supply side (i.e., preferred supplier status) is in its nascent stage (Ivens, Vijver, & Vos, 2013). The related literature has focused on how to gain and sustain preferred supplier status (Ulaga & Eggert, 2006), thereby illuminating potential antecedents to such status and implying that the

achievement of such status is, all else equal, a very desirable state. Despite the ongoing calls for research on the dangers of close buyer-supplier relationships (e.g., Ivens et al., 2013; Kalwani & Narayandas, 1995; Sheth, 1996), however, we are not aware of a single study that examines the negative repercussions preferred supplier status may entail for suppliers.

This study fills this gap by asking (1) whether preferred supplier status is associated with adverse relational consequences for suppliers, (2) if so, what is the nature of the relationship between preferred supplier status and such adverse consequences, and (3) which levers suppliers can use to mitigate or avoid adverse consequences of gaining preferred supplier status.

In order to accomplish these goals we build on social exchange theory (SET). According to SET, having control over conferring status as a valuable and desired asset for suppliers endows buyers with the power to request extra-contractual concessions (Shah, Kumar, Qu, & Chen, 2012; Wetzel et al., 2014). Given that elevated supplier status becomes a more valuable asset for a supplier the higher it gets, we propose the buyer's power to request those concessions rises as well. This, in turn, results in the expectation that the effect of preferred supplier status on excessive requests is progressively positive. Further and also in line with SET, we suggest that a potential lever for suppliers to mitigate this

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undesirable effect is to demonstrate the willingness to adhere to relational norms, for instance, by voluntarily participating in a buyer's supplier development program (Wang, Lee, Fang, & Ma, 2017).

We make the following contributions to the literature on buyer-supplier relationships. First, while much has been written about the beneficial outcomes of gaining supplier status (e.g., Ivens et al., 2013; Ulaga & Eggert, 2006), we are the first to discuss supplier status-driven buyer behaviors that create relational damage for a supplier, or even put the entire relationship at risk. Specifically, we contribute to the literature on supplier-buyer relationships by introducing excessive buyer requests as an important category of relationship costs that has not been examined. This is a crucial shortcoming of extant research as this component can constitute a high share of relationship costs for suppliers. Second, we spotlight the possibility that growing status levels trigger an upward spiral of excessive requests, i.e., that at the top of the supplier pyramid the demands become particularly onerous, as a decreasing number of suppliers stand out of the crowd as targets for squeezing out extra concessions. We do so by examining a non-linear relationship between preferred supplier status and excessive requests. Third, we are the first to nail down the suppliers' bottom-line consequences of adhering to relational norms, which is frequently proposed by recent literature as an effective way for shaping buyer-supplier relationships (e.g., Wang et al., 2017). Specifically, we examine whether suppliers that climb up the pyramid can shield from excessive requests through participating in a buyer's supplier development program and so demonstrating cooperative behaviors.

The empirical results show that suppliers' relational norm adherence strongly shapes preferred supplier status' effect on excessive requests. Given no adherence to relational norms (i.e., sole reliance on transactional coordination mechanisms), excessive buyer requests grow at a progressive rate at higher levels of preferred supplier status. If suppliers are willing to adopt relational norms in terms of close cooperation, however, the results imply that from a medium status level on, excessive requests over-proportionally decline with increasing status. Thus, for suppliers willing to adhere to relational norms, the chance is high that the beneficial effects of preferred status are not overshadowed by costly excessive requests.

## 2. Conceptual framework

The model that we present in this research features the effect of preferred supplier status on excessive buyer requests, while also examining the moderating role of relational norm adherence. Fig. 1 provides an overview of the model. We next provide precise definitions of each of these key variables.

Preferred supplier status is the starting point of the model. Purchasing departments increasingly focus relationships with those

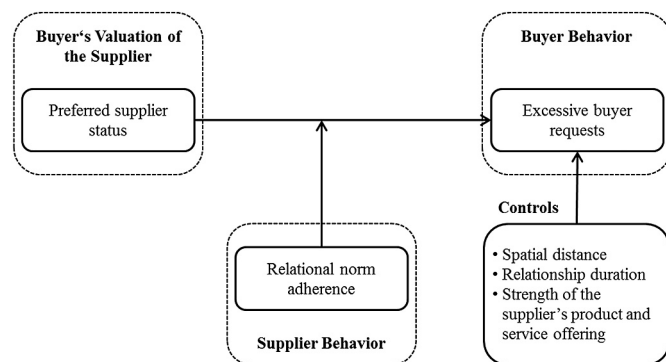


Fig. 1. Conceptual framework.

Notes: The main effect hypothesized in this study is nonlinear in nature. We therefore concentrate on the general relationship to be considered in the framework and detail the form and direction of the effect in the hypotheses section.

suppliers they consider most important by granting them preferred supplier status (Ulaga & Eggert, 2006). Status is a precious exchange resource as it accrues not only concrete advantages, but also entails high symbolic meaning through association with rank or station in a hierarchy (Cropanzano & Mitchell, 2005; Foa & Foa, 1980). Consequently, we define *preferred supplier status* as the standing a buyer has designated to a supplier within its supplier hierarchy, regardless of the supplier's standing in other (social) hierarchies. Thus, preferred supplier status captures the degree to which a buyer has a preference for a particular supplier.

Next, "squeeze-out" concessions have been discussed in the light of elevated status (Emerson, 1976; Molm, 1997). Indeed, making these concessions is often seen by buying firms as something that suppliers have to give in return for the status received (BCG, 2015). We term those requests imposed by the party that grants the status (i.e., buying firm) on the status-receiving party (i.e., supplier) as excessive requests. We define *excessive buyer requests* as a customer's overt and persistently inflated demands toward a supplier to make exaggerated relationship investments and cost concessions.

The model further suggests that in order to reduce buyer-imposed costs in terms of excessive requests, preferred status suppliers will demonstrate buying firms the willingness to adhere to relational norms that go beyond transactional governance mechanisms like control or arm's-length coordination (Gundlach & Murphy, 1993; Wang et al., 2017). Accordingly, the moderator *relational norm adherence* captures whether a preferred status supplier closely cooperates with buyers through bilateral mechanisms, like sharing of information and capabilities, to achieve jointly determined outcomes (Lambe, Wittmann, & Spekman, 2001).

Finally, the model contains several control variables to isolate the effects of preferred supplier status on excessive request above and beyond typical drivers of buyer behaviors. We include three additional predictors of excessive requests that are frequently considered as predictors in studies on buyer-supplier relationships and that should be accounted for in order to rule out alternative explanations. We consider *relationship duration* because the length of a relationship may affect the outcomes of buyer-supplier relationships, regardless of the status a supplier has achieved as a relationship partner (Doney & Cannon, 1997; Kotabe, Martin, & Domoto, 2003; Wagner, 2011). We also consider the *strength of supplier's offerings* as the contributions a supplier makes to a buyer's goal achievement through valuable product and service offerings, which might be more meaningful for predicting the extent of excessive buyer requests than preferred supplier status (Palmatier, Houston, Dant, & Grewal, 2013; Ulaga & Eggert, 2006). Finally, the spatial distance between both firms affects coordination and delivery between the two parties. In addition, physical distance makes communication per se more difficult due to cultural differences, time differences, availabilities, and a more difficult development of trust when face-to-face meetings are not possible or occur more seldom (e.g., due to using online alternatives for personal meetings). These aspects might influence buyer demands toward a supplier (Cannon & Homburg, 2001). We therefore account for *spatial distance* between the supplier and the buyer.

## 3. Theoretical foundation

This study focuses upon exchanges that have an "instrumental function" for gaining rewards. Put simply, this is a setting where parties maintain a series of interactions in order to achieve beneficial arrangements that are not available elsewhere, which are the core of social exchanges (Blau, 1964; Emerson, 1976; Homans, 1974). According to SET, two constituting premises of exchanges are (1) the use of power and (2) the emergence of relational norms that curtail the use of power (Emerson, 1976; Lambe et al., 2001; Wieseke et al., 2014).

The first premise is that, initially, relationship outcomes are mainly shaped by power, which emerges if one exchange party controls a

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