

Buyer expectations in small and medium enterprise interactions

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Abstract

This research attempts to capture the nature of dyadic buyer-supplier relationships in small and medium enterprises in Malta. The main objective of the study is to understand the expectations that manufacturers have of their interactions with key local suppliers. An interdisciplinary approach is followed based on several research streams amongst which Supply Chain Management, Purchasing, and Industrial Marketing are major disciplines. A multiple case-study approach is favoured and guided by grounded theory principles in order to identify how SME managers construct their paradigm of interactional management.

Keywords: Buyer-Supplier Relationships, Interactions, Trust, Commitment

Introduction

Small firms acquire many of their resources from external sources and therefore the successful management of their supplier relationships is critical. Strong buyer-supplier relationships have a significant positive effect on manufacturing performance and a positive impact on the performance of the entire supply chain (Maloni and Benton, 2000). The rationale for the choice of suppliers remains a key issue in supply chain management research (Monczka et al, 1998).

Business relationships are a challenging research area because of the multifaceted characteristics of relationships, the inherent presence of a time element and the complex interactions that cover a wide range of functions and activities in the firm. Academics and practitioners have recognized that a firm's relationship orientation is critical to its market competitiveness and has a positive impact on its entire supply chain (Tan et al, 1998).

The traditional approach to studying business activities focused on the type of product being exchanged and this directs attention towards the activities performed inside the firm. From a relationship perspective, the focus is on the two firms engaged in business activities and how they perform interdependently. The development of buyer-supplier relationships and interaction between partners in a

relationship has been conceptualised by researchers working on interaction, relationships and network in the fields of purchasing, supply chain management, and industrial marketing (Ford, 1980, Hakansson and Snehota, 1995, Cunningham, 1980).

The size of organisations has been found to be an important and distinctive determinant of the characteristics of dyadic relationships. Small and medium enterprises have been found to be particularly influenced by the personal and social acquaintances of the owners and managers (Dickson and Hadjimanolis, 1998). Such businesses face problems of economies of scale and dependence because of their smallness but geographical and psychological proximity facilitates learning and the diffusion of knowledge (Loasby, 1998).

Background: The nature of buyer-supplier interactions

This study has been mainly influenced by four distinct yet complementary multi-disciplinary approaches: transaction cost theory (Williamson, 1975), resource dependence theory (Pfeffer and Salancik, 1978), relational exchange theory (Macneil, 1980) and, power dependence theory (Emerson, 1962). This theoretical base provides different perspectives as to the reasons why relationships are

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formed. Furthermore, they offer a more holistic view of the research questions under examination.

Within a transaction cost perspective (Williamson, 1985) buyers view relationships as a governance mechanism aimed at safeguarding against the potential opportunistic behaviour of suppliers (Heide and John, 1988). An interorganisational relationship is an alternative mode to a market or an organisational hierarchy of organising transactions (Williamson and Ouchi, 1981). The transaction cost framework focuses on mechanisms that support economic transactions.

The resource dependence theory (Pfeffer and Salancik, 1978) argues that organisations have limited resources and must acquire these from external sources in order to survive. Interorganisational relationships are one way of engaging with the external environment. The role of resources affects the behaviour within relationships. It provides the impetus for, and determines the level of, buyer-supplier interaction.

In his writing on relational exchange theory Macneil (1980) distinguishes between *transactional* and *relational* exchanges. Transactional exchanges are characterised in terms of narrow content, short-term goals and limited communication, whilst, relational exchanges are multidimensional in nature. Lambe et al (2000) further subdivides each type of exchange along a continuum. Transactional exchanges vary between *discrete* and *repeated* transactions. Relational exchanges vary between two polar types depending on the number and levels of relational attributes: *interimistic* and *enduring* exchanges. Interimistic relational exchanges have fewer attributes because they are fast-developing and short-lived. Partners entering such relationships would have had prior experiences in other relationships, a reputation for fair dealing or would have given pledges of commitment. Enduring relational exchanges are long-term and have developed attributes such as trust, commitment and adaptations which have developed gradually.

Three elements constitute the dependence that one organisation has on another: (a) the importance of the required specific resource, (b) the extent to which one party exercises control over the resources,

and (c) the extent of available alternatives or substitutes (Pfeffer and Salancik, 1978).

Levine and White (1961) define exchanges between organisations as any voluntary activity which has consequences, actual or anticipated, for the realization of respective goals or objectives. Such activities between organisations occur because economic exchange and is motivated by resource dependence (Ford, 1998).

Penrose (1995) views an organisation as a bundle of resources which teams up through relationships with outside resources. A relationship is a resource (Hakansson and Snehota, 1995) viewed as an interface between organizations; a *quasi-organisation* (Blois, 1972) emerging as a governance mode for organising and coordinating the resource ties between the two interacting organisations. Gadde and Hakansson (1993) claim that a well developed relationship is one of the most important resources that an organization can possess. It is one of the most valuable resources (Hakansson, 1987). Relationships are a means through which resource bundles are combined to create efficient processes. It should be treated as an investment (Johanson and Mattsson, 1987).

Portier (2001) distinguishes between exchange and relationship. He contends that an exchange is a *quid pro quo* (something for something) and differs from a relationship, a *qui pro quo* (who for what? Or what for who?) which is founded on the promises every individual directs to another. The involvement of participants is implied in the meaning of *interaction* which signifies *to act between*.

Relational exchanges consist of interactive encounters between buyer and supplier that develop into an ongoing sequence of events which incrementally form into a relationship (Ford, 1980) characterised by economic, social, legal, technical, informational, and procedural bonds. (Moller and Wilson, 1995)

Hakansson and Snehota (1995) define a *relationship* as being a mutually oriented interaction between two reciprocally committed parties. Therefore, for a relationship to exist, it has to be perceived and acknowledged by both parties. Partners will know when one exists (Duck, 1993). A relationship is a *future* orientation founded on the

belief that long-term co-ordinated activities with a partner would lead to economic gain.

The underlying assumption that there are two active parties in a dyadic relationship, each *co-creating* value forms the basis of the IMP work. Cunningham (1980) states that interaction between companies occurs when both parties recognise their mutual interdependence and are interested in each other's resources. This interaction takes place within the context of a relationship between the companies (Turnbull et al, 1996). The IMP model provides a useful framework for understanding buyer-supplier relationships.

The interaction is influenced by four variables (Cunningham, 1980):

- (a) variables relating to the *elements and processes* of interaction, such as products, information, financial and social exchange episodes.
- (b) Variables characterising the *parties involved*, both as organisations and as individuals.
- (c) Variables describing the *environment* in which the interaction takes place, such as economic and social variables.
- (d) Variables serving to portray the *atmosphere* affecting and affected by the interaction, such as power, dependence, conflict, cooperation and social distance.

Relationships are understood by considering the interaction that takes place between counterparts (Hakansson and Snehota, 1995). This involves many individuals performing a variety of commercial and technical tasks.

Relationships have both structural and process elements (Hakansson and Snehota, 1995). Structurally, relationships are often characterised by continuity, complexity, symmetry and informality. The processes characteristics are adaptations, co-operation and conflict, social interaction and routinization. Narus and Anderson (1995) contend that a clear understanding of business-to-business relationships depends on an examination of communication, coordination, negotiations, problem solving and adaptation activities between the partners.

Ford (1980) views relationship as a process that develops through time in five stages: pre-relationships, early, development, long-term and final stage. Dwyer et al (1987) consider that relationships evolve through awareness, exploration, expansion, commitment and dissolution. Relationship development is a process of bonding which leads to mutual commitment to the relationship (Wilson and Mummalaneni, 1986)

Three layers of entities determine the value outcome of a relationship: resources, activities and actors (Hakansson and Snehota, 1995). Each of these layers consists of a number of entities which are related to each other. In the resource layer, individual resources are tied up together in resource collections and constellations. Activities are linked together in chains and structures in the activity layer. Actors are bound together in actor networks. The elements within each layer are related and the layers themselves are interrelated.

A relationship is a mutual alignment of self and collective interest (Bengtsson and Koch, 2000). It is at the individual level that interactions between buyers and suppliers take place and it at this level that the well-being of buyer-supplier relationships is affected (Brennan and Turnbull, 1999). Actors pursue self-interest and have individual goals but collectively they share interests and develop relationships through common goals. It is this collectiveness that drives the relational capabilities of buyers.

In personal interaction actors assume six different roles: information exchange, assessment, negotiation, adaptation, and crisis insurance (Cunningham and Turnbull, 1982). During the initial stages of a relationship individuals act within their organisational roles which are increasingly supplemented by personal relations as the relationship develops (Van de Ven, 1994).

Relationships are frequently long-term and often involve complex interaction (Ford, 1980). Firms conclude that forming closer working relationships with *key* suppliers leads to long-term cost reduction (Harland et al, 1999). Firms have different relationship types which form a relationship portfolio (Bensaou, 1999) and they manage their portfolio in an integrated, co-ordinated manner taking into account their internal resources (Moller and Halinen, 1999)

Research design

Research context

This study took place within an environment that has the following characteristics:

- Relative geographic isolation
- Limited market size
- The larger majority of organisations are micro-SMEs
- Few local suppliers per sector
- Limited technological knowledge

Research aim

The research examined the key business to business interactions that occur between manufacturers and their local suppliers. This study explored the existence of a relationship that envelope SME business interactions and attempts to characterise their nature. In particular it attempts to answer the following research question:

- What expectations do buyers have of their interactions with their key suppliers?

Methodological approach

A case-study methodology was considered to be the most appropriate because of the qualitative nature of the data collected. Relationships are complex and dynamic by nature and their study necessitates an in-depth knowledge of the organisational context. Yin (1994) defines a case study as an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.

This investigation is an inductive exploratory research into the interactional processes that take place between buyers and suppliers in Maltese manufacturing organisations.

A multi-case, multi-site approach was used to allow for increased generalisability (Yin, 1994). The unit of analysis was the inter-firm dyad.

Semi-structured, in-depth interviews were conducted with five buyer organisations in the manufacturing sector in Malta. The choice of cases was based on the researcher's pre-understanding

(Gummenson, 2000) of the local manufacturing base and on the knowledge that firm established for over ten years would most likely have created a network of key reliable suppliers and would have a track record of interactional experience. In addition, the researcher was guided by grounded theory principles (Glaser, 1978; Strauss & Corbin, 1990) as to the theoretical relevance of cases in the light of the ongoing analytical process.

Four interviewees were approached in each organisation. The selection was based on their position and duties within the organisations. The informants had responsibilities for external relations with regard to purchasing and supply and their position varied along the hierarchical structure. These provided multiple sources of evidence bearing in mind that the complex interactions that take place between organisations cover a wide range of functions and activities in the firm. The researcher was aided by an interview framework. This facilitated the triangulation of data (Denzin, 1989), warranted internal validity (Yin, 1994); and ensured the comparability of data collected.

In order to ensure internal validity (Yin, 1994) and avoid subjective and personal held views by the interviewees, the researcher ensured that the documented perceptions were supported with evidence.

Each participant at the buying organisations was interviewed for about one hour and invited to answer questions about the interactions that they have with their key suppliers. They were asked to focus on their main suppliers and to reflect on the interactions they have with them. The questions aimed at capturing the nature of the overall relationships as distinct from the individual episodes which comprise it (Ford, 1980).

The research centred around two important concepts:

1. The *perceptions* that buyers have of their relationships with main suppliers. These were fundamental in order to understand the orientation that they have towards conducting relationships. Their perceptions are "what they are aware of and what appears as reality to them" [Husserl (1859-1938)]. A relationship is a reality for individuals that form part of it and they know when it exists. Understanding this social reality is therefore

grounded in people's experiences and their behaviour reflects on how people interpret their world. This interpretive paradigm *Phenomenology* forms appropriate data for operations management research (Meredith et al, 1989).

2. The *expectations* that buyers have of their relationships with the suppliers. In this research, expectations is viewed as *what buyers feel a supplier should provide*. This is in line with the service management quality literature which contrasts the consumer satisfaction literature where expectations are viewed *predictions*. *Should* expectations (Zeithmal et al, 1993) represent a normative standard that corresponds to *what ought to happen*. These expectations are formed through the buyer's experience of such relationships. Within social theory Parsons (1951) contends that an individual's expectations concern both one's own behaviour and that of others. One's expectations about another have an important influence on one's own behaviour (Parsons and Shils, 1952). The term *expectation*, he states, involves a time aspect in the orientation towards future social development, and relates to the memory of past action.

Research findings

Firm profiles

The five firms studied in this research are briefly introduced. A concise description of their background is presented due to limitations of space. For reasons of confidentiality, the identity of case-organisations is expressed anonymously.

Alpha is in the furniture-making business and has a history that goes back thirty years. It has around forty employees and has a well-known brand name. The firm manufactures to its own designs and clients can choose from a large array of show-piece units that are displayed in various showrooms. The firm is very effective in its delivery and always manages to keep delivery dates as promised to its clients. *Alpha* is wholly Maltese owned and is organised along a rigid hierarchical structure. The firm purchases timber, finishing materials and products used in the production process on a JIT basis

exclusively from local suppliers. Every purchase is registered through a purchase order with the supplier who then delivers as per specific instructions. Their key suppliers receive around twelve purchase requests every month. They have dealt with these suppliers for over twenty years.

Beta is a pharmaceutical producing firm employing around one hundred employees and is a fully owned subsidiary of a multinational organisation. The majority of its staff is technical personnel. *Beta* produces its own quality brand and has a strong R&D department. It has been established for fifteen years. *Beta's* purchases from the local suppliers consist mainly of laboratory equipment, consumables, spare parts and packaging material. It also buys technical expertise in the form of maintenance and calibration for all its equipment. *Beta* is "ready to build a supplier/customer relation" because time is an important factor especially when technical expertise is required.

Gamma is a multinational organisation involved in the manufacture of plastic products. *Gamma* has been established for twenty-five years and employs around three hundred highly skilled employees. The firm main purchases from Maltese suppliers consist of packaging material, machine tools and printed-matter. They consider it easier to make these purchases from local firms both from an operational point of view (JIT) and because they can solve occurring problems faster and with less hassle because suppliers can visit in a relatively short time. They compare this to a "doctor on call" process due to the small geographic size. They believe that their key suppliers are their partners in their continual effort to deliver quality products to their clients world-wide. They work "hand-in-hand" with their suppliers and expect them to be involved in the R&D of their product and in the reengineering of their processes.

Delta is an organisation that is inclined to establish "working business relationships" with its main suppliers and aim to remain in partnership with their suppliers for the long-term. They manufacture electronic equipment. They have been established for over fifteen years and they form part of a multinational organisation. The key Maltese supplier relationships go back "many" years and they feel a certain "loyalty because the supplier has been honest over many,

many years". Their main purchases from local organisations include packaging, spare parts, machine tools and soldering products.

Epsilon is a large multinational organisation employing around eight hundred highly skilled personnel. They manufacture electronic sub-assemblies for the international market. *Epsilon* has a strong inclination towards long-term relationships and considers its key suppliers as partners "ready to give and take as the need arises". *Epsilon* operates in a very volatile market and they expect their main suppliers to understand the firm's specific needs in their volatile market. They expect their suppliers to adopt their culture "as if they are company employees". Their main purchases from local firms are requirements for packaging, spare-parts and soldering products.

Data Analysis

Reliability was enhanced through the taping of each interview. This ensured the traceability of data (McCutcheon and Meredith, 1993). These were later transcribed, documented and coded. Profiles of each case study were drawn from the structured notes taken during the coding process in the 'within-case' data reduction process.

The data was analysed using an inductive approach, specifically guided by grounded theory analytical techniques (Strauss and Corbin, 1990). The patterns observed across all five firms allowed the drawing of inferences regarding factors which characterise the buyer-seller relationships. Guided by the literature, analysis yielded two main themes each with sub-categories. The themes are: interaction extent, and behavioural elements. The themes and corresponding categories as identified in this research are reproduced below.

Themes	Categories
Interaction extent	Participative decision making, encouragement towards commitment and loyalty, gaining of up-to-date knowledge, decrease in perceived risk
Behavioural elements	<p><u>Trust</u> Expertness, predictability, consistency, fairness, discreetness, competence, respectfulness, competence, honesty, benevolence</p> <p><u>Commitment</u> Expected longevity, involvement of suppliers, disclosure by buyer of strategic information, affective commitment, instrumental commitment, affective attachment, responsive to buyer's needs</p>

Interaction extent

This concerns (a) the number of times individuals meet in face-to-face technical meetings and their communication by phone, and (b) the quality of the interaction which is a measure of the knowledge and information interchanged. It reflects the value derived by the buyer as a result of personal contacts with the seller.

Participants highlighted the extent of interaction through (a) the extensive personal contacts, (b) the very frequent personal visits, and (c) the accessibility to all supplier personnel. The buyers comment was that they 'know their suppliers well'. When asked to describe communication quality, respondents commented about the relevance, timeliness and reliability of communication.

The evidence that there is a high level of interaction extent is shown through (i) the encouragement of suppliers towards commitment and loyalty (Anderson and Weitz, 1992); (ii) the fostering of participative decision making (Anderson and Narus, 1990); (iii) the gaining of up-to-date knowledge about the market (Cunningham and Turnbull, 1982); (iv) the decrease of perceived risk (McQuiston, 1989).

Trust

Trust is a firm's belief that another company will perform actions that will result in positive outcomes for the firm and will not engage in unexpected behaviours with negative outcomes (Anderson and Narus, 1990). Trust is a belief, a sentiment, a willingness to rely on an exchange partner in whom one has confidence (Moorman et al, 1993). It shifts

the focus to future conditions and leads to long-term orientation (Ganesan, 1994).

Trust is based on expectations (Barber, 1983). It is not a behaviour or choice but a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another (Rousseau et al, 1998). A trustworthy supplier is described by Smeltzer (1997) is one that does not act in a purely self-serving manner, accurately discloses relevant information when requested, does not change supply specifications, standards or costs to take advantage of the other parties and generally acts according to normally accepted ethical standards.

The dimensions expressed by the buyers that are relevant to the multi-dimensional concept of trust were: Expertness (Giffin, 1967), predictability (Luhmann, 1979), consistency, fairness, competence, discretion (Butler, 1991), respectfulness (Jackson, 1985),

Competence (Sako, 1997), honesty (Rempel et al, 2001) and benevolence (Mayer et al, 1995)

Commitment

Commitment to a relationship is an enduring desire to maintain a valued relationship (Moorman et al, 1992). It is a kind of lasting intention (Walter et al, 2000) and implies the perceived importance of a relationship (Dweyer et al, 1987) and the desire to ensure its continuance (Morgan and Hunt, 1994) assuming it will bring future benefits to the partners.

Gundlach et al (1995) state that commitment is essential to having a successful relationship. Morgan and Hunt (1994) contend that commitment is central to every relational exchange between firms and it increases with higher levels of trust. Their findings reveal that trust is positively related to commitment which in turn leads to cooperation. They propose that when commitment by one of the partners fades there is a strong likelihood to leave the relationship. Dwyer et al (1987) describe commitment as the highest stage of bonding in a relationship.

The dimensions expressed by the buyers that are relevant to the commitment construct were: Expected longevity (Scanzoni, 1979); the involvement of the suppliers in the upgrading of production processes implying the disclosure of strategic planning

information (Anderson and Narus, 1990); affective commitment by showing a positive attitude – loyalty, giving information on looming problems and the offering of improvements to products (Walter et al, 2003); instrumental commitment by spending a lot of time giving continual feedback (Walter et al, 2003); the adaptation in product specifications and modification to the delivery process as required by the buyer (Ford, 1980); the affective attachment to the values of the buyer by adopting its culture (Buchanan, 1974)

These findings stimulate a process of inductive theory development and generate propositions which necessitate further focused research. The behavioural elements findings are similar to Morgan and Hunt's (1994) research that identified the centrality of trust and commitment in business-to-business relationships. Interaction extent bears a similarity to the research by Anderson and Narus (1990) on communication as a necessary antecedent of trust.

Managerial implications

These research findings hold several implications for managers. In general this exploratory study provides managers of SME firms with important guidelines on the constructs required in order to facilitate the management of their supplier relationships. When a small organisation searches for a working partner its decision should lean towards a partner with which it could establish elements of trust and commitment which is facilitated by a high interaction extent. This study identifies the relevant behavioural constructs which best define these two constructs in SMEs. The mediation of the level of interaction extent serves as a valid indicator of how a relationship is developing. The presence of such constructs measures the on-going performance of a supplier. Moreover, buyers could benchmark their level of satisfaction around them. Furthermore, firms could develop their capabilities around these important constructs with the knowledge that their expectations will be satisfied. Relationships are built around the capabilities of both parties (Turnbull, Ford, Cunningham, 1996).

Conclusions

The case studies chosen were organisations that had well developed relationships because they have been in operation in Malta for over ten years. Their key relationships were all

mature and well past their developmental stage. The buyers have passed through a long learning process and therefore have a good knowledge of their suppliers' perceptions. This experience contributes to the knowledge of what constitutes for them an effective and close relationship. This exploratory study is therefore a valid insight into buyer expectations. Buyer expectations are a reflection of their value orientation (Ford and McDowell, 1999).

This study focused on the key established relationships of the firms. But such relationships exist in the context of other relationships with which they may be connected.

They form part of a portfolio of the firm's relationships (Bensaou, 1999) and are embedded within a network of relationships (Granovetter, 1973). These concepts were not considered in this study and further research could examine how the results obtained have any relevance to the way firms build up their portfolio. Such research would take into account the temporal dimensions of relationships.

This study focuses on the perspectives of the buyer. While perceived similarity and complementarity is relevant in relationships, further research should aim to consider the perceptions from both partners in a dyad. The element of buyer-supplier adaptation or *mutual* adaptation (Ford, 1980) was not addressed in this study. The levels of trust and commitment affect the adaptive behaviour of the partners (Brennan and Turnbull, 1999).

Taking into account the well developed relationships, research could focus on what mutual adaptations must taken place in order to attain the identified constructs.

The results of this exploratory research must be seen as preliminary. More research is required to test the completeness of the identified constructs. Further study would establish if these constructs are particular to the industries and context investigated. This research did not consider the operational variables that might have an effect on the nature of these relationships. Hallen et al (1991) state that most

business relationships are based on a matching process of organisational operations. The relationship characteristics can be further explored as to how they have been conditioned by other relationship dimensions: symmetry, cooperation, interdependence and socialisation.

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