

Type of Relationship between Buyer and Key-input Supplier: Exploring via CIT Approach

Rashi Taggar

Assistant Professor, School of Business,
SMVD University, J&K

Abstract

In supply chains, to reduce the uncertainties and to enhance sustainability, the relationships are developed and managed between buyer and supplier. As it becomes difficult to maintain close relationship with all the suppliers, the buyers tend to choose the 'best' ones. The conceptual characteristics of these best relationships have been explored in this study with the help of critical incident technique, an inductive and flexible approach of analyzing the type of relationship between buyer and key-input supplier. Although the key-input supplier is the one who provides the strategic goods to the buyer but the type of relationship explored in this study of 150 organizations have not depicted the strategic relationship. Thus, the suggestions deliberated on the characteristics of relationship have been made.

Keywords:

Critical Incidents, Key-input Supplier, Relationship

Introduction

Relationship with suppliers is a critical component of managing the Supply Chain. Global Supply Chain Forum identified supplier relationship management as one of the eight core supply chain processes. The leading organizations along with basics are using differentiating processes like supply planning with key suppliers and effective supplier management to reduce complexity and volatility risks. For sustainable supply chain, collaboration with suppliers and managing key suppliers professionally, are required.

The focus of procurement has shifted from encouraging competition among many suppliers in order to drive down process, to long term relationships with fewer suppliers and deeper investments in relationships. Buyer-supplier Relationship (BSR) management is one of the most important parts of supply chain management. Effective relationship management and improving qualitative and quantitative levels of suppliers could be a competitive advantage of every company (Cusumano and Takeishi, 1991).

Supplier Relationship Management (SRM) is a comprehensive approach to managing how an enterprise interacts with the organizations that supply its goods and services. The goal of SRM is to streamline the processes between an enterprise and its suppliers. SRM

often is associated with automating procure-to-pay business processes, evaluating supplier performance, exchanging information with suppliers, and supplier certification.

Stadler and Kilger (2004) say that Supplier Relationship Management encompasses strategic sourcing, collaborative design and manufacturing, and collaborative e-procurement both for direct and indirect goods. It enables to create and sustain sourcing strategies across areas of design and strategic sourcing responsibilities.

It takes time to build strategic relationships; to manage them involves the contribution of many elements and the organizations have realized the importance of focusing on this issue because of the competitiveness it may generate for the efficiency and responsiveness of the whole supply chain. The concept of managing relationship with the supplier became notable gradually.

Relationship Link

Cooperative relationships between a buying firm and its industrial suppliers are characterized by information sharing, long-term contracts, and collaboration for mutual advantage (Tully, 1995). In contrast, the transactional buyer-supplier relationship is characterized by the purchasing from multiple suppliers, the use of competitive bidding, fully developed bidding specifications, and short-term contracts to achieve a low purchase price (Hahn et al., 1986). In the proposed study, the relationship between the buyer and the key input supplier only is considered as it is not feasible to invest and maintain relationship with all suppliers. To understand the concept of differentiation between different products and suppliers and relationship to be developed the most prominent models have been taken. Using purchasing portfolio models to differentiate different types of suppliers (Kraljic, 1983; Sinclair et al., 1996; Bensaou, 1999) companies increasingly devote their efforts to developing and managing a small number of critical, or strategic, supplier relationships. These are typically well-established, mature relationships developed over a long period of time.

The portfolio matrix (Kraljic, 1983) is a useful tool to classify purchased goods and the suppliers involved. Taking the complexity of the supplier market and the financial relevance or impact into account, goods and suppliers can be classified as leverage, routine, strategic and bottleneck items. The strength of the instrument is that it enables the purchaser to differentiate between the various supplier relations and strategies that are appropriate for each category. Kraljic (1983) suggested different ways of managing relationship with the suppliers of different goods classified in categories of leverage, non-critical, bottleneck and strategic.

Sinclair et al. (1996) extended the Kraljic approach by

accommodating the perspectives of both the buyers and suppliers and demonstrating that buyers seek closer relationships with their suppliers when business is of high value; the business need is based on common technology; product specifications are bespoke; firms are culturally aligned; and relationships have had time to become established. Specifically, Sinclair et al. (1996) stress that buyer/supplier relationships will be influenced by the importance of business relationships to both the buyer and supplier.

Bensaou (1999) reported four types of manufacturer – supplier relationship based on buyers' and suppliers' specific investments. According to Bensaou (1999), the market exchange relationship (adversarial) exists when neither supplier nor manufacturer has made any specific investments in working with the other and, therefore, both the buyer and supplier can decide to work with whoever offers the best price. The strategic partnership reflects the collaborative style, with greater technology transfer, trust, and commitment. Two additional types of relationship that suggest intermediate positions are the captive buyer and the captive supplier. The captive buyer relationship reflects high investment by buyers and low investment by suppliers. Under this relationship, suppliers are few in number, with proprietary technology and strong bargaining power over buyers. The captive supplier reflects high investment by the supplier and lower investment by the buyer.

All the above discussed models have taken into consideration the performance of relationship and not the relationship characteristics. Johnsen et al. (2008) proposed a conceptual model and has presented improved set of relationship characteristics. These characteristics are more relationship specific than performance oriented. Thus, the conceptual characteristics along with the primary information collected have been analysed and discussed.

Research Methodology

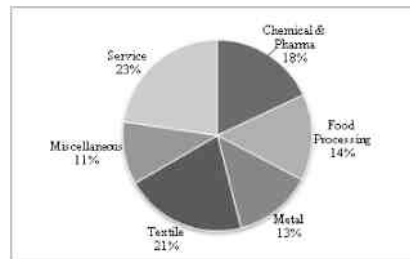
The objective of the paper has been tried to be placated by discussing the type of relationship existing between the buyer and the key input supplier. The structural data of the surveyed sample is cited followed by the relationship characteristics chosen for finding the relationship type and the way of collecting the information to present the deduction.

Structural Data

The surveyed sample consists of total 150 organizations from various manufacturing and service sectors which are depicted in Table 4.1 and Figure 4.1.

Table 1: Organizations Categorized Sector Wise

SECTOR	FREQUENCY
Textile	31
Chemical and Pharmaceutical	27
Food Processing	22
Metal	20
Miscellaneous	16
Service	34
TOTAL	150

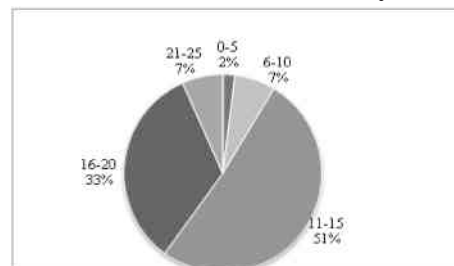
Figure 1: Organizations Categorized Sector Wise

The average of years of association between the buyer and key-input supplier is 14.6. Monckza et al. (2005) have defined long term relationship having the association of three years or beyond between the buyer and supplier. The

minimum years of association is 4 and maximum 25 representing the sample having long term relationship of buyers with key-input suppliers. The year wise distribution is depicted in Table 4.2 and Figure 4.2.

Table 2: Years of Association of Buyer-Supplier

YEARS	FREQUENCY
0-5	3
6-10	10
11-15	77
16-20	50
21-25	10
TOTAL	150

Figure 2: Years of Association of Buyer-Supplier

The respondents were the purchasing managers responsible for managing the relationship with the supplier. So the respondents profile in terms of qualification (Table 4.3), age

(Table 4.4) and experience (Table 4.5) is depicted to ensure the credibility of the ones providing the required information for the study.

Table 3: Respondents categorized qualification wise

QUALIFICATION	FREQUENCY
Graduate	14
Engineering Graduate	77
Post-graduate	10
MBA	35
Others	14
TOTAL	150

Table 4: Respondents categorized age wise

AGE OF RESPONDENTS	FREQUENCY
25-30	3
30-35	49
35-40	46
40-45	28
45-50	10
50-55	5
55-60	9
TOTAL	150

Table 5: Respondents categorized experience wise

YEARS	TOTAL EXPERIENCE	EXPERIENCE IN PRESENT ORGANIZATION
5-10	41	66
11-15	62	49
16-20	22	23
21-25	12	8
26-30	4	3
31-35	9	1
TOTAL	150	150

Critical Incidents Collection

The critical incident technique has been used to find out the type of relationship existing between the buyer and key-input supplier. The critical incident technique (CIT) was first devised and used by Flanagan (1954). The validity and reliability of this technique has been presented by Ronan and Latham (1974). It is an encounter based measurement method which has the advantage of both qualitative and quantitative features. Those specific events (which have actually happened) are identified with the use of this technique which makes an encounter either positive or negative. This technique allows a holistic approach to collecting data that are very context dependent.

The critical incident technique (CIT) is a well-established methodology (Sweeney and Lapp, 2004) used by many researchers (Lockshin and McDougall, 1998; Backhaus and Bauer, 2000; Friman and Edvardsson, 2003; Zhang et al. 2010).

This technique has been used because of its inductive nature and flexibility. The information obtained directly has also

helped in recording and understanding clearly and holistically the set of cognitive and emotional perceptions of the buyer for the supplier. To measure the buyers' perspective of relationship quality with their meaningful transaction partners, the approach used in the work of Fynes et al. (2005) was adopted, where respondents were asked to reply to questions with respect to the relationship they were having with the key-input supplier.

The critical incidents have been generated by face to face or telephonic conversation with the head of the organization or the purchasing executive using semi structured interview enquiring about the positive incident and negative incident influencing the existing relationship with the supplier. The respondent was asked to report a positive incident which has enhanced the credibility of the supplier in the buyer's eye, then a negative incident which has decreased the level of satisfaction in relationship. On an average an interview took 40 minutes. All the positive as well as negative incidents reported have been classified on the basis of similarity in different groups as shown in Table 4.1.

Table 6: Grouping of the Incidents Reported

CHARACTERISTICS	CRITICAL INCIDENTS					
	Positive		Negative		Total	
	N	Percent	N	Percent	N	Percent
Mutuality	11	7.9	2	5.9	13	7.5
Particularity	12	8.6	2	5.9	14	8.1
Co-operation	16	12	5	15	21	12
Conflict	19	14	4	12	23	13
Intensity	9	6.5	2	5.9	11	6.4
Interpersonal/ inconsistency	32	23	6	18	38	22
Power/dependence	21	15	12	35	33	19
Trust	19	14	1	2.9	20	12
Total	139	100	34	100	173	100

The grouping of the critical incidents has been done on the basis of relationship characteristics given by Johnsen et al. (2008). They have defined these characteristics as follows:

- i. **Mutuality:** Extent to which two actors demonstrate their interest in the well-being of one another and how they seek common goals or interests.
- ii. **Particularity:** Direction, uniqueness and commitment in a relationship, when compared to other relationships of the companies, or the extent of standardization/adaptation of interaction.
- iii. **Co-operation:** Extent of working together towards a shared aim or direction for the relationship.
- iv. **Conflict:** Extent of perceived differences between parties, causing friction and disputes, but also potential for creativity.
- v. **Intensity:** Extent of contact and resource exchange between firms in a relationship.
- vi. **Interpersonal Inconsistency:** The personal expectations and individual interests influencing interaction and the extent of perceived variation in other actor's approach to interaction between individuals or departments.
- vii. **Power/dependence:** Extent to which a member implicitly or explicitly can get another member to do something that they would not otherwise have done.
- viii. **Trust:** The expectation held by one actor about

another that the other responds in a predictable and mutually acceptable manner.

Critical Incidents Grouped

19.6% of the total 173 reported incidents are quoting the negative encounters of the buyers with respect to key input suppliers.

- i. **Mutuality** (7.5% of the total incidents reported are grouped under mutuality of which 11 are positive and 2 are negative): Flynn et al. (2010) considered strategic collaboration to represent an ongoing partnership via mutuality. Thus a cooperative, voice-based relationship between two firms predicate on mutuality (Uzzi, 1997). The incidents reported by the buyer included the concern for the welfare of the buyer and help in pursuing the needs, interests and goals of the buyer.
- ii. **Particularity** (8.1% of the total incidents reported are grouped under particularity of which 12 are positive and 2 are negative): The dedicated individual efforts by the supplier have showed the extent of commitment in comparison with relationship with other suppliers towards the buyer. Chang (2011) also observed particularity in the mother board manufacturer demonstrated by their behavior in the degree to which they foster collaborative activities by investing efforts in promoting continuous interaction, communication, and activities with their partner and foregoing other available alternatives.
- iii. **Co-operation** (12% of the total incidents reported

are grouped under co-operation of which 16 are positive and 5 are negative): More incidents of co-operative behavior than the contentious ones have been reported. Tiwana (2008) showed that strong ties that facilitate cooperation and coordination act as complements in alliance tie portfolios. Alignment of interests (cooperation) as well as alignment of actions (coordination) benefits relationship performance (Gulati et al., 2005).

- iv. **Conflict** (13% of the total incidents reported are grouped under conflict of which 19 are positive and 4 are negative): Inter firm conflict can impede the collaborative relationship (Barratt, 2004). Das and Teng (2002) strongly recommend taking this dimension into account in analyses of cooperation agreements because conflicts arise for various reasons and their sources may affect relationship in different ways. More number of positive incidents verify that whenever the conflicts arisen they have been solved by both the partners.
- v. **Intensity** (6.4% of the total incidents reported are grouped under intensity of which 9 are positive and 2 are negative): A strong relationship is an important conduit of resource exchange. Levin and Cross (2004) assert that the relational dimension of social capital, mediates the relationship between tie strength and resource exchange. One of the benefits of the intensity between partners is that a shared understanding emerges (Koulikoff-Souvion and Harrison, 2007). High degree of involvement of supplier or his people lead to higher satisfaction level as observed in positive incidents quoted.
- vi. **Interpersonal Inconsistency** (22% of the total incidents reported are grouped under interpersonal inconsistency of which 32 are positive and 6 are negative): Supplier Relationships (Giannakis,

2007) are considered as developing between the individuals involved in the exchange i.e. at interpersonal level. The areas of interpersonal skills are relevant for supplier relationship management as observed in interviews conducted for US Air force (Chenoweth et al., 2012) procurement section. It was also identified that several particular interpersonal skills facilitated work while procuring products and services.

- vii. **Power/dependence** (19% of the total incidents reported are grouped under power/dependence of which 21 are positive and 12 are negative): Emerson (1962) cited in his exchange theory that every organization occupies a social exchange position, which can be characterized in terms of both dependence and its inverse, power. Exchange relationships (Malatesta et al., 2011) are characterized by either dependence or power, the status of which is determined by whether the party needs or possesses the resources in question. Indeed, all organizations face the potential of dependence (or possess power). The positive use of power and not exploiting the dependency of the partner lead to close relationship.
- viii. **Trust** (12% of the total incidents reported are grouped under trust of which 19 are positive and 1 is negative): Trust has been considered by Littler et al. (1995) as a critical factor for successful collaboration. The presence or absence of trust acts as driving or restraining force respectively in relationship (Ojanen and Hallikas 2009). Only one negative incident has been quoted thus verifying the satisfaction of buyer in terms of trust in the supplier.

The following table provides sample narratives for the each of the eight characteristics.

Table 7: Some Reported Incidents

Characteristics	Positive Incidents	Negative incidents
Mutuality	"Once there was an urgent need of the order to be filled before time and the supplier fulfilled the need."	"The supplier didn't comply with the defect free norms verbally conveyed."
Particularity	"At the time of collapse of technical equipment, the supplier extended help to recover the damages."	"The supplier did not send the expert to install the machines asked for."
Co-operation	"Our supplier helped us to contact with other suppliers for procurement as we were new in the industry."	"The supplier delayed the order delivery when the payment was delayed."
Conflict	"The team was formed to resolve the malfunction problem of the product."	"The supplier wanted his close associate to be our supplier of furniture in office to which we didn't agree."
Intensity	"Our people were helped when the new composition of material had to be formulated."	"We organize regular meetings but most of the times no one comes from the supplier side."

Interpersonal inconsistency	"The newly recruited purchasing executive was allowed to visit the site of the supplier."	"When there was a delay, the supplier's people didn't attend the call."
Power/dependence	"First time no agreement was signed then also the supplier supplied on time with quality conformance."	"The casts delivered were discolored and no other supplier could provide them so soon, then also the supplier did not agree to replace."
Trust	"When we were late in placing order, the supplier committed to deliver at the usual time."	"The experienced engineer of our company was recruited by the supplier's firm."

Concluding Depiction

The maximum number (38) of incidents has been reported for interpersonal encounters followed by 33 incidents reported for power/dependency issues. The minimum number (11) for intensity and (13) for mutuality have been reported. From this available data it can be concluded that the type of relationship existing between the buyer and key-input supplier is 'close' but not close enough for mutual understanding and intensity to put a step forward to have a strategic facet to the type of relationship existing.

Thus the results depict that the type of relationship existing between the buyer and the supplier has made the buyer elicit more of the positive responses grading 'close' satisfying relationship between the buyer and the supplier. Although the key material or the strategic product is procured from the supplier but still the relationship cannot be named as 'strategic' as there is a lack of mutuality and intensity perspective.

The strategic relationships are built when the two parties are ready to exchange the skills to develop each other. It is possible when the organizations collaboratively plan and develop on same lines. The auto companies like Ford, Harley Davidson and Toyota develop their suppliers' skills also so as to reduce the wastage and enhance efficiency. Just like happy customers augment brand equity, in the same way happy suppliers promise efficient supply chain!

Limitations and Future Scope

This study has its limitations, which provide opportunities for further research.

- Only monadic data has been taken with no reference to the views of the counterparts in the relationship. The methodological difficulty and complexity of adopting a dyadic approach, the one sided perception of relationship (buyers' perspective) has been taken whereas a dyadic approach would have yielded greater insights into understanding and establishing the buyer-supplier relationship.
- Additionally, the study makes use of cross-sectional data which limits the interpretation of findings. A more

rigorous test of the relationship requires a longitudinal study or field experiment.

- The relationship of buyer with key input supplier only has been taken into consideration which further narrows the generalization of the buyer-supplier relationship.
- The generalization of the findings should be treated with care because of an explorative character of the study and all possible features may not have been identified and included.

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