Partnership Relations and Success: Do Purchasers and Suppliers Agree? - Results from a study of 15 dyads in the North American automobile industry

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Abstract

Do purchasers and suppliers have the same opinion as to whether their relation is a partnership and/or a success? Is there a connection between partnership and success? The purpose of this study is to analyse the correlation between partnership relations and performance success. The study confronts both the buyer and the supplier in matched dyads with the same issues. The empirical data is from a study of 15 dyads in the North American automobile industry. The results show that both purchasers and suppliers think that partnership and success correlate. However, win-win relations and/or partnerships seem to be hard to find. Most often, one of the parties seems to be more of a winner. In the majority of our dyads, the parties have different opinions as to whether the relation is a partnership and/or a success.

Introduction

Buyer-supplier partnership is a concept that has been extensively treated in the literature lately. Buyer-supplier partnership is considered a long-term relation between buyer and supplier based on trust, open communication and close interaction. It is argued that buyer-supplier partnership has a potential for improving e.g. manufacturing and product development performance, by early supplier involvement in product development projects.

In the extensive IMVP research program in the late 1980s a large number of researchers made a comparative study of the automotive industry world-wide. Womack et al (1990) summarise the conclusions and explain why Japanese car corporations were superior to Western. In the Japanese lean production system, compared to the Western mass production system, a lower number of suppliers were used. The suppliers had a responsibility for larger modules and joined the product development work at an earlier stage (cf. Clark & Fujimoto 1991). The Japanese way of working with suppliers requires a high level of integration between the supplier and the car manufacturer. An approach to achieving the necessary integration has been labelled buyer-supplier partnership.

But the Japanese example could be misleading. The Japanese context with carefully shaped keiretsus and other environment-specific demographics fosters or even forces relationships into what could be seen as close relations or partnerships. However, in a
Western context the benefits from partnership relations are mainly related to aspects that in the long run hopefully would contribute to performance success. Holt (1999, p 405) believes that “partnerships can yield better value for money, an open culture, a drive for improvements, higher long-term investments, reduced confrontation, better communications and a clearer apportionment of risk and reward”. By focusing on shaping the relation there is a risk that performance criteria are left behind. The purpose of this study is to analyse the correlation between partnership relation and performance success.

Partnership relations and performance success in the literature

Aspects of buyer-supplier relationships

During recent years we have seen renewed interest in the purchasing function in the form of supply chain management and value chain management. Most of the traditional literature about purchasing (cf. Ellram, 1991; Matthyssens & Van den Bulte, 1994) regards the supplier as a more or less passive party in buyer/supplier relations. The importance of the vertical relationship becomes apparent especially when the high degree of accommodation between supplier and buyer, not only in the Swedish automotive industry, is discussed (q.v. inter alia Womack, Jones & Roos, 1990; Lamming, 1993; Söderlund; Brege et al, 1993). The most important thing for the buyer is to ensure supplies to the company. A basic starting point, according to Axelsson & Häkansson (1984), is that the way purchasing is carried out affects the supplier’s market structure and way of operating. They argue from the perspective of the purchasing function’s various roles vis-à-vis the supplying company. The buying company is seen to assume considerable responsibility for the supplier’s development opportunities. Axelsson & Häkansson’s study is one which focuses on the relationship between buyer and supplier.

Support for the need and importance of suppliers and groups of suppliers can also be found in the literature (Turnbull et al, 1993; Nishiguchi, 1994). They all show supplier involvement at different stages and to a different extent. The sourcing decision from the buyer’s point of view comes down to the question: to make or to buy. Sourcing could then be seen as a continuum based on transaction economics (Parker & Hartley, 1997) or assets specificity (Cox, 1996). Ring & Van de Ven (1992) identify four forms of transactions in the continuum from open market to vertical integration (see Figure 1). In this continuum there are various forms of relationships, and two areas that have captured most of the interest and even been seen as each other’s opposites are competition and partnership sourcing.

Figure 1. Types of transactions (Source: Ring & Van de Ven, 1992)

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If summarised the interorganisational literature points to various basic assumptions, or principal arguments, which leave their mark on relationships between buyer and supplier. Three aspects can be identified. First. From a resource perspective, the main aim of interaction is to ensure a certain volume of supply (inter alia Thompson, 1967; Pfeffer & Salancik, 1978). Second. From a relationship perspective, the aim is to take advantage of the co-operation to which the relationship can lead. Relationships are seen as long-term and based upon trust between the parties (cf. Hammarkvist, Hakansson & Mattsson, 1982). The social aspects of contacts between organisations, within the relationship perspective, are emphasised. Third. The economic perspective is influenced mainly by approaches to transaction costs (Williamson, 1975). The starting point within this area is that resource distribution or economic exchange is governed by market prices. Each of these aspects is argued to be a driving force or even a building block in a successful relationship.

Outcome of partnership relations

According to Lamming & Cox (1995) partnership sourcing has the following advantages over competitive supply: avoidance of unnecessary costs, fewer dedicated suppliers, long-term contracts, co-ordinated strategies between buyers and suppliers, sharing of risks and rewards, trust relationships, single sourcing and resulting mutual benefits. Even though partnership sourcing in most of the literature is treated as superior, the concept is challenged. Parker & Hartley (1997, p. 124) assert after a comparison based on economic issues, that "suppliers may be much more at risk from margin erosion due to the price setting behaviour of buyers under conditions of partnership sourcing than so-called adversarial competition"

From our own earlier studies (Brandes, 1994; Lilliecreutz, 1998) we can agree that during changing purchasing and supplier strategies successful partnerships are very hard to find and that major problems and disappointments are easy to find. The Japanese way of working with suppliers requires a high level of integration between the supplier and the car manufacturer. An approach to achieving the necessary integration has been labelled supplier partnering or supplier alliances (Monczka, 1996). Partnership has been defined in numerous books and articles, usually by contrasting it with a traditional approach to supplier-buyer relations (Stuart, 1993; Matthysen & Van den Bulte, 1994). Ellram (1990) defines a strategic partnership between a buying and a supplying firm as "a mutual, ongoing, relationship involving a commitment over an extended time period, and a sharing of information and the risks and rewards of the relationship". This definition indicates the need of integration on all levels of the company if the outcome is going to be the expected on. Mohr & Spekman (1994, p. 135) define partnership as a "purposive strategic relationship between independent firms who share compatible goals, strive for mutual benefit, and acknowledge a high level of mutual interdependence. They join efforts to achieve goals that each firm, acting alone, could not attain easily".

By focusing on compatibility between the parties Mohr & Spekman extend the discussion outside the organisational boundaries of just two companies, focusing instead on the supply chain. Landeros, Reck & Plank (1995) identify not just the partnership itself, but also the partnership environment with external elements, demand base, supply base, buying firm and selling firm. There are various reasons for moving towards a partnership relation. Reduction in cost for material (Stuart, 1993; Magrath & Hardy, in McLoughlin, Damien and C. Horan (eds.). Proceedings of The 15th Annual IMP Conference. University College. Dublin 1999
1994), quality improvements (Brown et al, 1994; Magrath & Hardy, 1994), reduction of the supplier base (Brown et al, 1994; Butterworth, 1996), growth in outsourcing and increased requirement of systems solutions (Brandes, 1994; Butterworth, 1996; Lilliecreutz, 1998) are examples of driving forces for partnership relations. Based on a study that examined the current partnership sourcing practices of 11 companies, Akacum & Dale (1992) found several benefits of long-term relationships (see Figure 2).

<table>
<thead>
<tr>
<th>Benefits of the partnership relationships with suppliers</th>
<th>Benefits of long-term relationships with customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Flexibility in terms of scheduling</td>
<td>• Reputation and credibility, which helps the firm expand in the marketplace and develop a competitive edge</td>
</tr>
<tr>
<td>• Improved inventory management</td>
<td>• Customer loyalty</td>
</tr>
<tr>
<td>• Improved resolution of problems (i.e. technological and cash-flow)</td>
<td>• Market security</td>
</tr>
<tr>
<td>• Improved quality in terms of reliability, function, and cosmetic details</td>
<td>• Opportunity to get to know customers and improve the quality of the product or service according to the customers needs and requirements</td>
</tr>
<tr>
<td>• Reduction in non-conforming products</td>
<td>• Helps develop sustainable growth</td>
</tr>
<tr>
<td>• Improved service</td>
<td></td>
</tr>
<tr>
<td>• Security of supplies</td>
<td></td>
</tr>
<tr>
<td>• Improved specialisation of core business activities</td>
<td></td>
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<tr>
<td>• Faster delivery</td>
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</table>

Figure 2. Benefits of partnership and long-term relationships (Based on Akacum & Dale, 1992, p. 43)

In most cases the discussion is based on case stories regarding success or failure. The main factors Ellram (1995) presents as those believed to be most important for the success of a purchasing partnership are two-way information sharing, top management support and that the parties have shared goals. Furthermore she discusses success factors like early communication to suppliers of specification changes of new products and that supplier adds distinctive value. The main factors contributing to partnership failure were poor communication, lack of the own company top management support, lack of trust, lack of total quality commitment by supplier and poor up-front planning. According to Landeros et al (1995), a partnership is working when there is a fit between the parties regarding expectations, perceptions, understanding, commitment, activity and corrections. According to Stuart (1993), partnership is about committed resources, problem solving, sharing of benefits, purchasing capability, competitive priorities and pressure, and importance of purchased inputs. Stuart also discusses the importance of corresponding attitudes and top-management involvement (see also Ellram, 1995). Magrath & Hardy (1994) add to the list the need of measuring the partnership, investments, and the importance of frequent exchange.

In a definition by van Weele & Rozemeijer (1999) the importance of a performance-oriented business perspective in the definition of a partnership is proposed. They argue for the need and possibility to “jointly work on continuous optimisation of processes and products throughout the entire chain of production”.

**Indicators of success**

To summarise, satisfaction concerning a buyer-supplier relationship could be founded on numerous variables such as purchasing personnel, technical issues, changes during
production, changes regarding economic issues, sharing of competitive advantage, sharing of economic proprietary information, overall opinion. Benefits of a partnership relationship regarding performance are in this study concentrated to reduced total cost, shortened product development time, increased competitive advantage and product quality, and shortened time to market.

Methodology and empirical context

We have used a method called dyad studies. It involves an analysis of a number of matched sets of buyer-supplier pairs or dyads. Our study started with six case studies of buyer-supplier dyads, were Volvo CC was the buying company in all dyads. Based on this pre-study, on previous work in the research group (cf. Brandes, 1994; Brandes et al. 1996; Lilliecireutz, 1998), and on a literature review a questionnaire was developed that could be used in other buyer-supplier relationships. The questionnaire was pre-tested with four persons, two from industry and two from academe. The next step was to identify purchasing of commodities at a large American car manufacturer's and corresponding supplier companies and names.

The result was that 22 dyads were identified (22 purchasers and 22 suppliers). In each case one person in the buying and in the supplier organisation was contacted and a questionnaire was sent out. The first round resulted in that 45 per cent of the suppliers answered and 35 per cent of the buyers. After the second round the figures were 60 and 45 per cent. A final round resulted in a total response rate of 82 per cent. 18 purchasers and 18 suppliers answered the questionnaire, mapping up in total 15 dyads.

Analysis of Empirical Data

We have analysed the data in different perspectives. On the one hand we are focusing on the correlation between the purchaser's and supplier's opinion of to what extent the relationship is a partnership and a success. On the other hand we are looking at the correlation between partnership and success (Figure 3).

![Figure 3. Model for Data Analysis](image)

The question concerning degree of partnership was worded in the following way: “Would you describe your organisation's relationship with GM as a partnership?” The answer was on a five-point scale, where 1 = strongly disagree and 5 = strongly agree.
Degree of success is defined with the same five-point scale as above, in five perspectives:
- Overall view of relationship
- Reduced total cost
- Increased competitive advantage
- Increased product quality
- Shortened time to market

**Partnership**

How do purchasers’ and their suppliers’ opinions correlate concerning to what extent the relation can be defined as a partnership? The answer is – hardly at all! As we can see in Figure 4, there is no significant correlation in the dyads between purchasers’ and their suppliers’ opinions about whether the relationship can be considered a partnership. In only one dyad out of 15 do both parties agree that they have a partnership (both parties either answered four or five on the five-point scale). In only two dyads out of 15 both parties agree that they don’t have a partnership (both parties either answered one or two on the five-point scale). In seven of the cases the two parties have different opinions (gap of two scale steps or more on a five-point scale).

Purchasers also believe that they have a partnership to a higher extent than suppliers do (mean 3.1, as compared to 2.1). Both purchasers and suppliers think that the other party has about the same opinion as themselves concerning the degree of partnership (especially purchasers with correlation 0.98 between own opinion and what they believe about the supplier’s opinion). Neither suppliers nor purchasers are right in their guesses about what the other party thinks (no significant correlation).

![Diagram showing correlation between suppliers' and purchasers' opinions regarding partnership](image-url)
**Figure 4:** Correlation in 15 dyads concerning the opinion of to what extent the relationship is a partnership (Pearson’s two-tailed significance, * significant on p-level =0.05).

**Success**

Do the two parties have the same opinion about whether the relationship is a success? The answer is – to a very limited extent! In five dyads out of 15, both parties are overall satisfied with the relationship (both parties either answered four or five on the five-point scale). In none of the 15 dyads are both parties are overall dissatisfied with the relationship (both parties either answered one or two on the five-point scale). None of the success factors correlate significantly.

The purchasers are more satisfied with the relationship than are the suppliers.

<table>
<thead>
<tr>
<th>Success factor</th>
<th>Supplier mean</th>
<th>Purchaser mean</th>
<th>Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall view</td>
<td>2.9</td>
<td>4.1</td>
<td>0.38 (p=0.16)</td>
</tr>
<tr>
<td>Reduced total costs</td>
<td>2.7</td>
<td>3.8</td>
<td>0.33 (p=0.23)</td>
</tr>
<tr>
<td>Increased competitive advantage</td>
<td>2.7</td>
<td>3.6</td>
<td>0.30 (p=0.27)</td>
</tr>
<tr>
<td>Increased product quality</td>
<td>3.0</td>
<td>3.8</td>
<td>0.29 (p=0.30)</td>
</tr>
<tr>
<td>Shortened time to market</td>
<td>2.5</td>
<td>3.2</td>
<td>0.32 (p=0.25)</td>
</tr>
<tr>
<td>Aggregated mean</td>
<td>2.8</td>
<td>3.7</td>
<td>-</td>
</tr>
</tbody>
</table>

**Figure 5:** Correlation in 15 dyads concerning the opinion of to what extent the relationship is a success (Pearson’s two-tailed significance, * significant on p-level =0.05).

**Partnership and success**

As we can see, purchasers and suppliers do not very often agree that they have a “win-win” relation and/or a partnership. Can we find any correlation between partnership and success? The answer is – yes, but in different terms for the two parties. For suppliers, partnership correlates with success factors such as reduced total costs and increased competitive advantage (as well as with the overall view of the relationship). For purchasers, partnership correlates with shortened time to market. It seems that both purchasers and suppliers have the opinion that partnership and success are connected, but the definition of success is slightly different.

<table>
<thead>
<tr>
<th>Success factor</th>
<th>Supplier</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall view</td>
<td>0.50 (p=0.04)*</td>
<td>-0.20 (p=0.42)</td>
</tr>
<tr>
<td>Reduced total costs</td>
<td>0.45 (p=0.06)*</td>
<td>-0.11 (p=0.66)</td>
</tr>
<tr>
<td>Increased competitive advantage</td>
<td>0.47 (p=0.05)*</td>
<td>0.00 (p=1.00)</td>
</tr>
<tr>
<td>Increased product quality</td>
<td>0.22 (p=0.38)</td>
<td>0.09 (p=0.73)</td>
</tr>
<tr>
<td>Shortened time to market</td>
<td>0.27 (p=0.27)</td>
<td>0.57 (p=0.01)*</td>
</tr>
</tbody>
</table>

**Figure 6:** Correlation between degree of partnership and success for 18 suppliers and 18 purchasers (Pearson’s two-tailed significance, * significant on p-level =0.05).

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Conclusions, theoretical and managerial implications

It seems that both purchasers and suppliers believe that partnership is connected to success. The parties have different opinions about in what way success correlates with partnership. Suppliers seem to value partnership as an indicator of success in terms of reduced costs and increased competitive advantage. Purchasers connect partnership to success in terms of reduced time to market. Purchasers and suppliers rarely agree that they have a “win-win” relation and/or a partnership. In only a few of our 15 dyads do the parties agree about whether they have a partnership or not. In about 50% of the cases the two parties have almost opposite opinions. The results from our pre-study of Volvo also indicate large gaps between purchasers’ and suppliers’ opinions about whether the relationship is a partnership and/or a success. Purchasers seem to classify the relationship as a partnership and as a success to a higher extent than supplier do. The results from the pre-study of Volvo do not support this. In the Volvo study the concept of partnership was communicated at a strategic level, while the dyads in the US study did not have that background.

Buyer-dominated networks do not imply that the large end-product manufacturer is dominating all dimensions in the relation. The buyer domination is often based on the buyer's control of a complex system like a car assembly plant or unique end-products. Even in situations like these, there are dimensions, which are dominated by small suppliers, e.g. those who are located close to the assembly plant and therefore have relative logistic advantages and close personal contacts. These advantages are sometimes so important that suppliers locate production sites close to the buyer's assembly plants or firms in the stage of internationalisation acquire production units close to buyers who are co-ordinating their purchasing internationally. Our study supports the contention that partnership relations are based on soft issues such as trust, confidence and mutual commitments. Even if a partnership relation is established it does not have to lead to a win-win situation. One problem seems to be the procedure to find factors on the basis of which the relationship is measured. Partnership relationship would probably benefit from mutually agreed measures or definition of performance success.

Previous studies show that buyer and supplier have different views on partnership relations and the benefits of them. The problem is when the partners in the same dyad have different opinions on the benefits and success indicators. van Weele & Roomeijer (1999) highlight the importance of identifying performance criteria even in partnerships relations, but is it possible to handle multiple success indicators in the same relationship if they by definition could be treated as merely opportunistic? Could it also be argued that a successful partnership must be based on altruistic behaviour? Each organisation has its own driving forces, but treated according to the elements of supply chain management, the driving forces or success criteria should be agreed upon.

We also found elements in our results that indicate the importance of having a balance between different theoretical aspects: resource-based, relationship-based and economic-based. It is at the crossroads between these aspects that new and competitive models and theories can be found, theories that can capture the dynamics in the business context of tomorrow. Theories regarding partnership relations must to a larger extent focus on
competitive aspects. Partnership relations would benefit from performance-oriented dialogues on both strategic and operational levels. Mudambi & Helper (1998) show that a relationship can exist even if it is characterised as close but adversarial.

To summarise, win-win relations and/or partnerships seem to be hard to find. Most often, one of the parties seems to be more of a winner. Both purchasers and suppliers think that partnership and success are connected, but in slightly different ways.

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