International Journal of Economics, Commerce and Management
United Kingdom Vol. III, Issue 6, June 2015
http://ijecm.co.uk/ ISSN 2348 0386

BUYER-SUPPLIER RELATIONSHIP AND FIRM'S PROCUREMENT PERFORMANCE: EVIDENCE FROM KENYA MEDIUM AND LARGE SCALE ENTERPRISES

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Abstract

Buyer-supplier relationship in the context of medium and large scale firms has been examined by a number of researchers in respect to relationship elements such as cooperation, commitment, and trust among others. Few studies have addressed the competitive advantages that a buyer derives from partnering with one major supplier. However, there is lack of empirical evidence that address the competitive advantages attributable to a buyer as a result of their collaborative relationships with several major suppliers. The main purpose of this study was to investigate the effects of information sharing and idiosyncratic partner investment on buying firm competitiveness in medium and large scale hotels and restaurants. The study is informed by resource based view theory (RBV). Explanatory research design was used. Data was collected from a sample of 162 purchasing/procurement officers. Questionnaire was used to collect the

data. From the multiple regression analysis, it was found that there is a postive and significant effect of information sharing and idiosyncratic partner investment on buying firm competitiveness.

Keywords: Information sharing, idiosyncratic partner investment, firm competitiveness, procurement performance, buyer supplier relationship

INTRODUCTION

Firm's competitive advantage can be gained by offering the consumer a greater value than the competitors, such as by offering lower prices, providing quality products or other benefits (Li *et al*., 2006). Similarly, Porter (1985) claims that fim's competitive advantage is the extent to which an organization is able to create a defensible position over its competitors. This results from the creation and maintenance of resources that are not easily replicated by rival firms. Competitive advantages that a buyer derives from partnering with one major supplier (Daniel, 2012). However, there is lack of empirical evidence that address the firm's competitive advantages attributable to a buyer as a result of their collaborative relationships with several major suppliers.

Lyson and Farrington (2003), In the recent past, firms have been faced by ever changing economy, globalization, technological changes, reduced product margins which have all promoted to the need for buyer-supplier relationships and other business partners throughout the business value chain. Since companies can no longer possess all competencies themselves, strategic partnerships between buyers and suppliers are becoming more and more essential; suppliers are becoming a value added resource to the firm when managed strategically. In fact, buyers rely on strategic partners to achieve and sustain a competitive position (Wagner and Boutellier, 2002).

This study is anchored on the resource-based view (RBV) theory. The RBV of the firm and the industrial marketing and purchasing approach supports relationship building unlike adversarial approach. The RBV defines resources as the tangible and intangible entities available that enable a firm to produce a market offering that has value for some market segment(s) (Hunt, 1997). This theory states that, one of the main reasons for a firm to form relationships with other firms is to gain access to the resources that the firm does not possess (Sousa, 2003).

When buyers treat their suppliers as allies and share strategic information with them, they can achieve better lead times and quality, increase operating flexibility, and establish long-term cost reductions, all of which could help these firms enhance value for the ultimate

customer. According to Chin-Chun (2008), the benefits that result from collaborative relationships come in the form of a firm's ability to engage suppliers and other partners in mutually beneficial value exchanges. Indeed, relationships are considered to be resource and therefore form part of a buyer-supplier relationship firm's capital.

Unfortunately, most firms have not taken seriously the concept of inter-firm relationship; they use the most common and most basic type of a relationship that is adversarial in their procurement processes. Adversarial relationships are arms length in nature and do not focus on long-term relationships. This has compromised quality and driven up procurement costs brought about by multiple contract administration, monitoring suppliers' performance, and educating the suppliers on firm's processes. More time is also consumed in soliciting different suppliers and this has led to late deliveries of materials/products (Jared, 2009).

Today, organizations have realized that the way to gain value from their suppliers is by enhancing collaboration throughout their supplier base. The ease of communication through internet connectivity, mobile phones, and other modern ways of communication have defined ways of identifying, negotiating, and engaging with suppliers worldwide and regularly (Lindgreen and Wynstra, 2005). Research in this area provides a clear link between relationship characteristics and partner competitive edge. Daniel (2012) identified that majority of these studies focus on only a few identified relationship elements at any one time. Relationships are comprised of a range of elements. First, interpersonal elements include those factors involved in interactions between individuals. This element considers factors such as trust, commitment, mutual goals and social engagement. Few studies address the competitive advantages that a buyer derives from partnering with one major supplier (Daniel, 2012). However, there is lack of empirical evidence that address the firm's competitive advantages attributable to a buyer as a result of their collaborative relationships with several major suppliers. This study therefore hypotheize that:

Ho_1: *Information sharing has no significant effect on buying firm competitiveness in medium and large scale hotels and restaurants.*

Ho_2: *Idiosyncratic partner investment has no significant effect on buying firm competitiveness in medium and large scale hotels and restaurants.*

EMPIRICAL REVIEW

Buyer-Supplier Information Sharing

One of the most important strategic weapons for modern firms is the capability to integrate strategic activities with those of supply chain partners, with specific focus placed on the integration of information and business processes across firm boundaries (Bowersox et al.,

1999). Information sharing between buyer and supplier firms is essential for building long-term trusting relationships (Doney and Cannon, 1997). Communication lies at the heart of any organizational relationships, as it is a critical component of the function of organizations and supply chains (Burgess *et al*., 2006).

In addition, organizations and suppliers need to communicate in order to coordinate the flow of products from suppliers to buyers. Products' prices and contractual arrangements require discussions; delivery schedules and information about technical adaptations need to be exchanged; and occasionally make developments on other strategic issues (Zhou and Benton, 2007). Cannon and Perreault (1999) also emphasizes that buyers and suppliers communicate about common, routine and operational issues such as logistical matters of order status, delivery information and productions schedules, and innovation issues such as product design, future product development plans and market development.

The information and communication tools can enable the business activities to be integrated across the whole supply chain through the information flows which is required to coordinate the business process as a whole; this is through the acquiring, sharing and accessing of data useful for all parties in the same supply chain (Rippa & Capaldo, 2009). Ryu *et al*. (2009) argue that managing information and information flow in an effective manner means not only the availability of information exchanged, but also a more accurate and detailed body of information which will influence the supply chain partners' performance as well as leading to successful relationships. Thus, with the growing technological advances and the emergence of the global information infrastructure, the companies should possess the suitable competitive inter-organizational information systems to enable them to achieve the rapid and effective response to the customers' needs and changing expectations.

Among the benefits of sharing information are that all the supply chain partners can develop more opportunities such as matching the available information to modify their courses of actions and future planning, which can have positive and direct effect on the company and its supplier relationships (Hsu *et al*., 2008). When buyers and suppliers share important information relating to materials and product design issues, they are likely to improve the quality of their products, reduce customer response time, and increase cost savings through greater product design and operational efficiencies. Some of these cost savings are then passed on to the customers in the form of higher perceived value and lower prices (Carr & Pearson, 1999).

Moreover, the operational benefits of information sharing between supply chain members are established and numerous: it can mitigate the bullwhip effect (Chatfield *et al*., 2004), improve new product design (Brown and Eisenhardt, 1995), improve cost (Choi *et al*.,

2008), and enhance competitiveness in the marketplace on a variety of dimensions, including delivery, quality, and cost (Li *et al*., 2006).

Lastly, frequent and collaborative communication with key suppliers will benefit the buying firms in the long run, as it fosters a climate of mutual support, thereby improving customer responsiveness among channel partners. Clearly, effective communication improves the buying firm's performance (D'amours *et al*., 1999), and is an important factor in the development of supply management capabilities. Feedback is essential in communication between the organization and supplier so as to know whether one party has understood the message in the same terms as intended by the other party and whether he agrees to that message or not.

Idiosyncratic Partner Investments

Idiosyncratic investments are assets that are committed specifically to the relationship at hand. These assets cannot be redeployed easily outside the relationship and, therefore, their value depreciates in the event the primary relationship is discontinued (Bensaou and Anderson, 1999). Powers and Reagan (2007) identified that there are costs that are associated with ending the relationship and starting a new one with another partner.

Matsuno (2006) defines specific investments as financial, time and other resource allocations that are made in a manner that can be used only in conjunction with a relationship partner, Buvik & Reve (2001) concurs by stating that buyer or supplier specific adaptations refer to the investments made by the buyer or supplier, in physical assets, production facilities, tools, and knowledge tailored to a specific relationship.

When an organization or supplier makes idiosyncratic investments, a lock-in situation is established as they not only create value for all the actors involved, but also build the costs of switching from that relationship and increase the level of obligation between parties (Nahapiet *et al*., 1998). Competitive pressures in the global market, shortened product lifecycles, rapid technological change, increased demand for innovations, and the changing nature of industry have forced companies to rethink their strategic position and focus on leveraging their supplier relationships (Leek *et al*., 2003).

Moreover, stiff competition, rapidly changing technologies and increasing customer expectations have seen strategic relationships between a buyer and its suppliers become vital to a competitive advantage (Monczka *et al*., 2002). Rowley (2003) stresses the role of relational embeddeness in deepening and strengthening inter-firm relationships. Consistent growth theory recognizes that no relationship starts out as a strong tie, but inter-firm embeddedness works as a priming mechanism through which small initial offers of trust and assistance strengthen into a

resilient tie, provided that they are reciprocated. Inter-firm relationship acquires a social character above and beyond the technical characteristics of the exchange at hand (Heugens and Zyglidopoulos, 2008).

Therefore, inter-firm relationships represent some kind of assurance that allow idiosyncratic investments from the part of the supplier and possibly also the buyer. Consider the case of a furniture manufacturer as customer getting into a partnership to a supplier of veneer. Besides low cost, the veneer is to be of superior finish, requiring a specific investment by the supplier. At the same time the furniture manufacturer is required to invest in special material handling equipment to apply this veneer in his manufacturing process. Both partners of this arranged relationship will be bonded by structure of technology. With such a bonded relationship the business-to-business customer can outsource those value-creating activities that are simply done more effectively by a supplier (Rowley, 2003).

Bensaou and Anderson (1999) examined the extent to which partners believe their firm has made major investments specifically for its relationship with a supplier: in tooling; on tailoring its products to using this supplier's component; in time and effort to learn this supplier's business practices; in time and effort to develop the relationship with this supplier.

However, they concluded that there is a risk of a buyer being a captive buyer. In a captive buyer relationship the supplier dominates the buyer and the buyer depends on the supplier. In these particular captive buyer relationships this dependence of the buyer is due to the unique intellectual property of the supplier. Because of this intellectual property the buyer has limited or no substitutes to turn to creating a dependence on the supplier.

Despite this dependence, a high level of trust plays an important role in making this relationship fruitful for both parties. Apparently the dominance of the supplier is limited to the extent that the mutual trust stays intact. But the level of trust also has its limits from the supplier's perspective. The supplier is not willing to trust the buyer with its intellectual property. The obvious reason for this is the risk that the supplier would lose its dominating position. Thus, the supplier has a special interest in maintaining its dominant position.

Jap (1999) uses a four item scale to examine competitive advantages that exist jointly between partners; idiosyncratic investments, goal congruence, interpersonal trust and complementary capabilities. Relational competitive advantages are those strategic benefits gained over competing dyads that enable the focal dyad to compete more effectively in the marketplace. This view is more consistent with the competitive asymmetry focused approach mentioned above. Relational competitive advantage is seen as an outcome of the relationship and is seen as comparable with profit performance.

Daniel (2012) provide a model of relationship-based competitive advantage rooted on four major variables; trust, information sharing, commitment, and idiosyncratic investments. He employs the following competitive advantage variables; customer satisfaction, market effeciency, market effectiveness, and product innovation. His analysis shows a direct link between the relationship the firm has with its largest supplier and its competitive position in its customer market, but it failed to consider the impacts of relationship elements on a number of suppliers, rather it concentrated on only one large supplier.

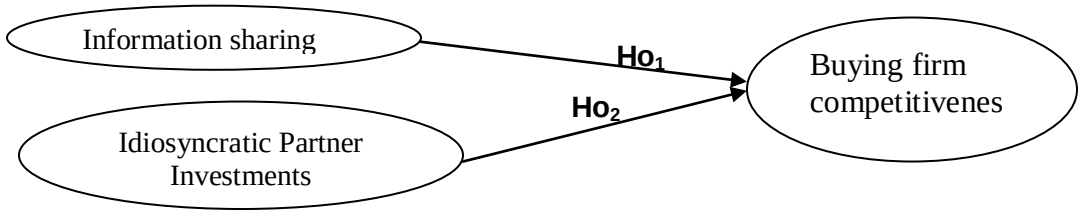
Another reseacher, Palmatier *et al*. (2007) came up with a model of relationship performance based on five major theoretical interpretations of relationship-based advantages; the commitment-trust perspective, the dependence perspective, the transaction cost economics perspective, the relational norms perspective, and the resource-based perspective. Their analysis reveals that there are variables that impact on inter-firm relationships and their performance outcomes. However, their study didn't directly compare relationship variables.

Most of these authors provide insight into the role of competitive advantage. They adhere to the 'competitive advantage equals performance argument', since they illustrate a direct, causal relationship from competitive advantage to performance. Other studies of relationship-based competitive advantage examine one, or a combination of relationship elements, in terms of their effects on identified performance criteria. In general terms, these relate to better quality and low cost. Studies that use this indicators as dependent variable consider the primary advantage of interfirm relationships to be the provision of superior value propositions to specified relationship partners. This results in increased loyalty and, consequently, has a positive relationship with other performance indicators (Li *et al*., 2006).

Conceptual Framework

The figure below shows a scheme of research model. It is hypothesized that there is no significant relationship between information sharing, idiosyncratic partner investment and buying firm competitiveness.

Figure 1: Conceptual Framework



Source: Adopted from (Li *et al*., 2006; Doney and Cannon, 1997; Kingshott, 2006; Anderson and Weitz, 1992; Bensaou and Anderson, 1999)

Conceptualization of Variables

Buying Firm Competitiveness

The DV in this case is indicated by two constructs namely *quality* and *cost* which were measured using a 10 item scale as adapted from (Li *et al*., 2006). the items measuring cost are; ability to maintain low cost of operation in the industry, ability to keep costs of replacements low as a result of quality supplies, ability to offer prices as low or lower than their competitors, keeping cost of holding inventory low as a result of efficient suppliers, and their ability to offer competitive prices.

Buyer-Supplier Information Sharing

The third independent variable is information sharing. It is sourced from (Anderson and Weitz, 1992). The items measured whether the buying firms let their suppliers know what they expect of them at all times; suppliers are provided with any information that might help them, relational partners keep each other informed about events or changes that may affect the other party, unforeseen challenges are properly communicated to the suppliers, and whether exchange of information takes place frequently.

Idiosyncratic Partner Investment

The fourth independent variable is idiosyncratic partner investment. This adapted from Bensaou and Anderson (1999). Constructs of idiosyncratic partner investment includes; whether buying firms have made major investments, specifically for these relationships, in time and effort to learn about the business practices of their suppliers whether stopping to work with their suppliers would be wasting a lot of knowledge regarding the suppliers' method of operation; and whether buying firms have made major investments, specifically for these relationships, in time and effort to develop the relationships with their major suppliers.

RESEARCH METHODOLOGY

The researcher specifically employed explanatory research design because it analyses the cause-effect relationship between two or more variables. The total number of target respondents in this survey was 176 procurement/purchasing officers working for hotels and restaurants in Nakuru municipality. Census was preferred because of their small numbers. Census is where the whole population is selected as the target population to arrive at respondents.

Five point likert scale questionnaire was used to ensure that sensitivity of respondents' perceptions and attitudes are captured. With the scale, respondents indicate how strongly they

agree or disagree with a statement. The scale normally ranges from 'strongly agree' = 5, 'agree' = 4, 'neutral' = 3, 'disagree' = 2 to 'strongly disagree' = 1. In this way, the variability of the responses may be captured more accurately and the questionnaire become more sensitive to responses.

Cronbach alpha coefficient was then used to test the reliability of items. After calculating this researcher made some corrections in order to make the questionnaire reliable. Cronbach alphas for the scales ranged between 0.720 and 0.792 clearly exceeding the standard of α = 0.70. To test reliability of the questionnaire, Cronbach's alpha measurement was used and the reliability coefficients of each independent variables are as follows, (X_1 = 0.755 and X_2 = 0.705). The reliability coefficients of all independent variables are above 0.70, which means they meet the acceptable limits (Nunnally, 1978). These results are shown in table 1.

Table 1. Reliability analysis

Item	Crobanch Alpha
Information sharing	0.755
Idiosyncratic partner investment	0.705
Buying firm competitiveness	0.770
Average	**0.751**

Data Analysis Approach and Model specification

The following Multiple Regression Analysis Model was used to analyze data.

$$\mathbf{Y = \alpha_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon}$$

Where:

Y- The dependent variable (buying firm competitiveness), $\boldsymbol{\alpha_0}$ - The constant, $\boldsymbol{\beta_1}$, $\boldsymbol{\beta_2}$, -are regression coefficients or change induced by each X on Y,

$\mathbf{X_3}$ = Information sharing $\mathbf{X_4}$ = Idiosyncratic investments **ε** = Error term

ANALYSIS AND RESULTS

Buyer-Supplier Information Sharing

Findings in table 1 show that buyer firms agreed that they properly communicate unforeseen challenges to their major suppliers ($\bar{X}$ = 4.49, σ = 0.501), and let them know what they expect of them at all times ($\bar{X}$ = 4.42, $\sigma = 0.495$). Moreover, the results showed relational partners keep each other informed about events or changes that may affect them ($\bar{X}$ = 4.38, σ = 0.524), and buyers provide any information that might be of help to suppliers ($\bar{X}$ = 4.03, σ = 0.501). Frequent

exchange of information between suppliers and company was found to be neutral ($\bar{X}$ = 3.96, σ = 0.818).

In overall, empirical findings indicated that there was adequate level of information sharing between buyers and their major suppliers as evidence ($\bar{X}$ = 4.2073 $\sigma = 0.$29973). This was supported by Skewness of -1.453 and kurtosis of 2.835 implying that data was normally distributed. Buying firm competitiveness is therefore enhanced as a result of buyer-suppliers information sharing. These results are shown in table 1.

Table 1. Buyer-Supplier Information Sharing

Information sharing	Mean ($\bar{X}$)	Standard Deviation (σ)	Skewness	Kurtosis
We let our suppliers know what we expect of them at all times	4.42	0.495	0.328	-1.916
Suppliers are provided with any information that might help them	4.03	1.024	-1.503	1.983
We keep each other informed about events or changes that may affect the other party	4.38	0.524	-0.171	0.661
Unforeseen challenges are properly communicated to our major suppliers	4.49	0.501	0.050	-2.023
Exchange of information takes place frequently	3.96	0.818	0.069	-1.503
Sharing of information	**4.2073**	**0.29973**	**-1.453**	**2.835**

Cronbach Alpha =0.755

Idiosyncratic Partner Investment

The results on idiosyncratic partner investment are shown in table 4.5. Buying firms have made major investments in time and effort to develop the relationship with their suppliers ($\bar{X}$ = 4.24, σ = 0.470$\sigma = 0.58$). Moreover, buyers would be wasting a lot of knowledge regarding their suppliers' methods of operation if they stopped working with them ($\bar{X}$ = 4.02, σ = 0.654) and somehow neutral reaction was observed concerning their investments in time and effort to learn about the business practices of suppliers ($\bar{X}$ = 3.98, σ = 0.955). The average findings revealed that buying firms have invested on their supplies as recorded by $\bar{X}$ = 4.1002, σ = 0.41136, skewness of -1.114 and kurtosis of 1.394. This reveals that buying firm competitiveness can be enhanced through idiosyncratic partner investment. These results are shown in table 4.5.

Table 2. Idiosyncratic Partner Investment

Idiosyncratic partner investment	Mean ($\bar{X}$)	Standard Deviation (σ)	Skewness	Kurtosis
We have made major investments, specifically for these relationships, in time and effort to learn about the business practices of our suppliers.	3.98	0.955	-1.564	2.505
If we decided to stop working with these suppliers, we would be wasting a lot of knowledge regarding suppliers' method of operation	4.02	0.654	-1.500	4.197
Our firm has made major investments, in time and effort to develop the relationship with our major suppliers	4.24	0.470	0.304	2.114
Idiosyncratic investment	**4.1002**	**0.41136**	**-1.114**	**1.394**

Cronbach Alpha =0.705

Correlation Results

Pearson correlation analysis was conducted to examine the relationship between the variables. Correlation findings in 2 which show the association between two interval-ratio variables, reported that information sharing between the buyer and its suppliers has the highest positive relationship with buying firm competitiveness (r = 0.539). In similarly, inter-firm investment in relational exchanges was revealed to have positive association with firm competitiveness (r = 0.397). To deduce further from the correlation results, there was linear relationship between the independent variables and dependent variables, hence linearity of the data.

Table 3. Correlation Results

Variables	Firm Competitiveness	Information sharing	Idiosyncratic investments
Firm competitiveness	1		
Information sharing	.539**	1	
Idiosyncratic investments	.397**	.117	1

** Correlation is significant at the 0.01 level (2-tailed).

Hypothesis testing

In table 4 below, hypotheses testing was conducted using 0.05 significance level. Findings show that none of the variance inflation factor (VIF) value exceeded the thumb value of 4 (X_1 = 1.086; X_2 = 1.020) implying absence of multi-colinearity. Tolerance indicator for all the independent variables are all greater than 0.2 (X_1 = 0.921; X_2= 0.981) hence, there is no multi-colinearity problem (Longnecker *et.al*., 2001; and Hui *et al*., 2008)

Ho$_1$: *Information sharing has no significant effect on buying firm competitiveness in medium and large scale hotels and restaurants in Nakuru municipality*

Findings in table 4 provides enough evidence to reject $\mathbf{H_{03}}$ that sharing information between buying firm and its suppliers has no significant effect on buying firm competitiveness in medium and large scale hotels and restaurants ($\boldsymbol{\beta_3}$ = 0.421) which is statistically significant at $\boldsymbol{P} < 0.05$ ($\boldsymbol{t}$ = 7.206) and supports the notion that sharing of information between supplier and the firm has positive and significant effect on firm competitiveness. This implies that the higher the level of information sharing between suppliers and buyers improves buying firm competitiveness.

Ho$_2$: *Idiosyncratic partner investment has no significant effect on buying firm competitiveness in medium and large scale hotels and restaurants in Nakuru municipality*

Finally, $\mathbf{H_{04}}$ stipulates that idiosyncratic partner investments has no significant effect on buying firm competitiveness in medium and large scale hotels and restaurants was rejected as shown by ($\boldsymbol{\beta_2}$ = 0.326), ($\boldsymbol{t}$ = 5.769), which is significant at $\boldsymbol{p} < 0.05$ level. This infers that inter-firm investments have positive and significant effect on buying firm competitiveness. Therefore the more the buying firms invest on their relational exchanges the more it is able to compete against its competitors. These results are shown in table 4.

Table 4. Estimated Coefficients

Variables	Unstandardized coefficients		Standardized coefficients			Colinearity statistics	
	B	Std. Error	Beta	T	Sig.	Tolerance	VIF
(constant)	2.414	0.159		15.223	0.00		
Sharing information	0.203	0.028	0.421	7.206	0.000	0.921	1.086
Idiosyncratic investment	0.115	0.20	0.326	5.769	0.000	0.981	1.020

Dependent variable: buying firm competitiveness

CONCLUSION AND RECOMMENDATIONS

This study concludes that information sharing element plays an important role in enhancing the buying firm competitiveness. Letting suppliers know what the firm expects of them at all times, and providing suppliers with any information that might help them is crucial for the buyer in improving its undertaking. In addition, keeping each party informed about events or changes that may affect the other party, and properly communicating any unforeseen challenges to suppliers encourage responsiveness to the customer such as better quality, and reduced costs, thus, providing the buyer firm with a better competitive edge. In respect of how frequent the buyers communicate with their suppliers there was a neutral reaction, it's therefore concluded that this won't affect the buyer's firm competitive edge.

Finally, the study findings make positive conclusions concerning idiosyncratic partner investments. Investing on inter-firm relationships may directly affect buyers' firm competitive edge. Resource based view theory explains how external resource, which in this study refers to suppliers, can help a firm reduce costs and improve product's/service quality. Therefore, more inter-firm idiosyncratic investments between buyer and its suppliers means more access to external resource leading to cost reduction, hence giving the buyer a competitive advantage. For instance, investing more time and effort to learn about the business practices of suppliers and developing the relationship with suppliers, gives the firm an opportunity to offer high quality products and be in a better position to deliver what the customers want.

Information sharing is one of the vital tools of enhancing buyer-supplier relationships, thus, buyers should let their suppliers know what is expected of them at all times and provide their suppliers with any information that might help them. In addition, partners should keep each other informed about events or changes that may affect the other party and properly communicate any unforeseen challenges. Inter-firm communication should also be frequent.

Firms need to build idiosyncratic investments specifically for their relational exchanges. Findings showed that firms have to make major investments, in time and effort to learn about the business practices of their suppliers, specifically for relational exchange. It is also recommended that buyers should stick to their major suppliers if they add value to them. Buying firms should also make major investments in time and effort to develop supplier relationships.

Conceptualisation of the relationship elements may be improved through the development of a more refined typology that better encompasses relationships in a holistic manner. Four elements used in this study (trust, information sharing, commitment, and idiosyncratic investments) appears to be a bit arbitrary in its design. It was not originally designed to facilitate construct definition in empirical studies. Nonetheless, it has been used in this manner in this and at least five other studies.

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