THE IMPACT OF RELATIONAL FACTORS ON SUPPLIER PERFORMANCE

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ABSTRAK

Bahan kajian di dalam projek ini ialah faktor-faktor yang boleh mempengaruhi prestasi pembekal. Antara faktor-faktor ini ialah keyakinan dan kepercayaan, komunikasi dan juga kerjasama. Sejumlah 67 firma dari 150 yang dikenalpasti (45%) telah memberikan maklumbalas. Hasil kajian ini menunjukkan bahawa tahap kepercayaan mempunyai keupayaan mempengaruhi tahap prestasi pembekal. Begitu juga dengan kerjasama yang erat. Bilamana terdapat tahap kepercayaan yang tinggi dan kerjasama yang rapat, didapati prestasi pembekal juga turut meningkat. Kuasa tawar-menawar diantara kedua-dua pihak dijangka menyederhanakan keupayaan dan prestasi pembekal. Hasil yang didapati ialah, fenomena ini hanya bertindak sebagai penyederhana kepada kualiti pembekal sahaja tetapi mempunyai pengaruh terus terhadap prestasi pembekal keseluruhannya.

ABSTRACT

This study investigates factors that may influence supplier performance, particularly the factors of trust, communication and cooperation, in Supply Chain Management. Survey using questionnaires obtained a return of 67 out of 150 (45%). Analysis of the result shows that the level of trust and cooperation do have a positive impact on supplier performance. The higher the level of both factors, the more supplier performance will improve. Bargaining power between buyer and supplier was hypothesized as a moderator, however it acts as an independent predictor on the overall performance. It only moderates the relationship between trust, communication and cooperation and quality.

Chapter 1

INTRODUCTION

1.1 Background of the Study

Dramatic changes are affecting the global economy and making the world more important as a global marketplace. Wrought with these changes, the competitive landscape has been substantially affected and significantly altered. According to Prahalad (1998) there are several emerging challenges that firms have to contend with. They are globalisation, deregulation, volatility, indeterminate industry boundaries, standards, disintermediation and eco-sensitivity. These challenges which he termed 'discontinuities' will impose new competitive demands and constraints on firms. Rapid and fast acquisition of new skills, knowledge and competencies are required to survive in such business scenario. The advent of multicultural environment will make most tasks a daunting one. Integration of information has to be made across cultures and deployment of resources among strategic business units. In response to these challenges firms are forced to internally assess their contemporary competency makeup. Some of the more urgent issues requiring immediate action are firms to become lean, efficient and responsive.

Global changes are seen from the expansion of customer base to incorporate worldwide consumers. Consumptions are no longer limited to local and domestic. Furthermore, emerging nations like South Korea and established one like Japan are making an impact due to their aggressive strategy. The world has also seen changes in the economic regime where planned economies like the former USSR are being abandoned and 'closed' economy like China and India are opening doors to capital and technological flow. Opportunities are created for firms intending to seek newer and fertile ground. The growth dispersion creates a global asymmetry where its impact can be felt in the shifting of resource allocation. With multinational corporations (MNCs) focusing their strength and strategic assets in China, India and South East Asia, it would seem natural that assets and human resources will have to be managed differently. Management position and its composition would bear the repercussions as well. Not only resources but also expertise have to now be focused geographically. Computer related parts and accessories are no longer the province of North America alone, but will be based at India for software development and Taiwan with its 50% of world production of computer monitors. This focus requires the presence of a firm in all the so-called 'hot' areas. In summary there will be a shift not only in production, expertise but also capital and technological investment. The changes must be equally met with the better resources and skills configuration of a firm.

Developing countries are now following suit the example set by the developed nations in aggressively establishing privatization of institutions, that were heavily regulated or even managed by government previously. The exercise is further fueled by deregulating various sectors to achieve better management and operation. The various sectors affected include utilities like electrical and water supply, telecommunications and to some extent, health care. With deregulation and privatization of the public sectors reverberations are felt on capital sourcing, growth rate and unemployment as well as profitability. Finance departments will be under greater pressure to be efficient in order to absorb the significant changes in operation with shedding of those obsolete and inefficient assets as well as retraining of personnel.

With the threat of potential new entrants coming up with better and newer products looming over the horizon, firms are immediately forced to invest in research and development activities. The research and design team must be able to produce not only newer product but also reduce the lead-time for market introduction. Volatility of demand and supply further compound the situation. One of a firm's strategic alternatives is investing in focused production, placing particular emphasis on 'flexible factory'. In essence the objective is to set up factories that are able to sustain demands for various and multiple products. A direct result of this will be the emergence of supplier importance.

The boundaries separating various industries are now fast disappearing. Events and advances in one industry can be felt in another. Changing demand may well hasten in blurring the boundaries further. Financial services may no longer be the sole domain of institutions such as Citibank or Chase Manhattan but may be exploited by information giant such as Microsoft and AT&T. The direct result of which will give rise to unclear competitors and inapplicability of traditional analytical tools. Since the changing demand and various opportunities existed, the challenges that have to be managed may lead to more collaboration between partners of even different industries. Alliances may be the answer and interfirm partnering could be the norm.

Technologies are rapidly advancing, with new product incorporating newer technologies that are different or more advanced standards may have to be set or even regulated. Technologies such as DVD and Minidisk have no set standards before. With e-commerce and e-business transaction and information exchange are made online strict security and efficient privacy laws and method are becoming necessary. Firms will have to fight to introduce their own version of communication. Firms will then have to reassess their core competencies to make them attractive for coalition. A powerful coalition will be able to force the acceptance of the industry and consumer alike on their standards.

The global scenario is demanding a much more efficient distribution channel. Appropriate steps were taken in order to reduce the channel provider and the distance and the time between producer and end-user. The target is a single distribution step. With advanced information and communication technology, disintermediation is possible. Impact can be felt on the cost structure of all the competing firms and their inventory management.

Consumer awareness is at its peak. Ecological concern has now become a part of external environment that firms have to contend with. Eco-sensitivity is forcing firms that practice consumer driven strategy of marketing to make their products more eco-friendly. The greater awareness of environmental importance is now creating opportunities rather than becoming a hindrance. Not satisfied with merely complying with environmental laws, firms' are now fast producing products hailed as eco-friendly. Growing affluence of the Asian and south Asian region will change the demand for food in terms of livestock, marine fishery and edible agricultural produce. This will change the world consumption focus, the amount consumed and the issues of providing these sustenance. Import and export of harmless food is becoming a major concern. The recent mad cow disease is a good example.

All the issues point to the need of a firm to incorporate better resource base as a competitive advantage. Outlays and investment must be directed to areas of strength. Moreover, concerted and serious efforts must be directed towards better management of transaction cost. Thereafter firms are to outline competitive priorities embedded in low cost, quality product and/or service, improved delivery time and flexibility.

One of the areas where firm's can manage cost is by streamlining transaction cost. This is because according to streamlined transaction cost is the cost inherent in trading exchanges of buying and selling. Transaction cost must first be differentiated from production cost. Production cost is the direct cost to produce the product. Meanwhile transaction cost is the cost of getting the product to end users, which involves coordination cost, operations risk and opportunism risk (Clemons & Row, 1992). Example of good transaction cost management is adopting certain techniques such as interorganisational system that is aimed towards reducing the cost of exchanging and processing information, enabling better monitoring and in the end reducing operational risk. With open standards in interorganisational system, there will be reduction in relationship specificity and assist better suppliers' and customers' relations. In the end the firm manages to decrease miscommunication risk. The objective of course is to be competitive in terms of value pricing. By managing the transaction cost well firm can reduce part of the overall cost.

Resource based theory states that firms consist of heterogeneous and imperfectly mobile resources that are historically situated in space and time. Its demand is significantly heterogeneous as well. Different market offerings are required for different market segments even in the same industry. Because of this, marketplace provides numerous and various opportunities in competitive advantage where superior financial performance gained becomes evidence of success (Porter, 1980). Therefore the role of management is to recognize, understand, create, select, implement and modify their strategy by competing for resources that may explode into innovation, creative destruction, productivity increment and economic growth. Hence the competition for a comparative advantage in resources is inevitable.

Firms need to understand and meet these challenges. Now companies are forced by innovative competitors to look deeper into their business processes. They have to develop new methods to keep a competitive edge. One option is to use global supply chain management. With this strategy, firms can optimize costs in an integrated fashion along the entire manufacturing and delivery system worldwide.

There are advantages of resorting to supply chain management (SCM) as a defensive and offensive weapon. Rethinking the supply chain management will result in innovation, as it requires devising a new order on business processes in trying to optimize operations and reduce cost. For example DuPont manages to achieve a $1 billion price cut due to the reengineering of its purchasing function (Krenek, 1997). SCM is preferable to firms as it provides cost savings benefit. SCM allows firm to identify global sourcing and selling options and enhances a firm's customer service.

In summary with SCM, a firm would also be in a better position to increase value and optimize inventory performance through a reduction in total delivered cost and lead-time. With SCM comes flexibility through interfirm partnering leading to customization of product to be done in a more practical manner.

1.2 Problem Statement

With all the benefits brought about by SCM, more and more firms have adopted this technique to effectively manage and reduce their transaction cost while at the same time achieving resource based advantage and retain competitive edge. However there are issues arising in the implementation of SCM.

According to Krenek (1997), devising a supply chain stratagem requires translating competitive imperatives into cohesive, achievable objectives that must be in line with the corporate strategy. To sustain global position, customer service must at least be maintained if not improved, across worldwide markets. Better management of relations is a crucial prerequisite as reliance on interfirm partners and distribution channels is a part of SCM. This must be done on a global basis, amidst multicultural environments using different infrastructures as well as balancing the ever-increasing array of products with seasonal demand. However with regard to any improvement made ultimately the firm must be able to remain as the lowest cost supplier in the market.

There are some barriers to achieving good SCM. They can especially impact the success of the supply chain. One of the barriers is that of high initial investment. SCM requires substantial investment into information technology and maintaining the various dyadic linkages along the supply chain. These investments are direct competition of structural changes such as mergers and acquisitions that applies strains on firm's time and attention. In the end management will forego SCM's investment and concentrate on the latter.

With intensive investment needed into managing relations and advanced information and communication technology (ICT) system, it will not be a surprise to see lack of commitment and even champions of SCM from among the top-level management. Added to that will be the inadequate understanding of the perceived importance of the supply chain. When minimal attention is paid to changed job requirements and responsibilities, good management of change and dealing with conflicts are needed in order to foster and promote change in firm's behaviour. Another important aspect that poses a threat to good SCM is the attitude adopted that minimise supply chain performance measurement. According to Krenek what gets measured gets done. However most companies when it comes to this exercise usually made inaccurate measurement on the key items and parameters. They tended to neglect exerting control over key activities needed for success.

Another concern of SCM is the management of external relations. Good management of external relation is one of the eight common core concepts of supply chain management. According to Krenek (1997) supplier partnership and alliance based on multiyear agreements provide value in reduced costs or enhanced services through collaborative efforts and being implemented as leading practices.

The factors mentioned above pose as threats to effective SCM. While it may not be entirely impossible to discuss all the factors, it is the intention of this study to limit the focus for further analysis. Management of relations is a central issue. Effective supply chain ensures that value is created and provided at every supply nodes. There comes the need that factors that affect relationship are managed well so as to ensure better supplier performance through competence, loyalty and compliance. In order for supply chain to be successful both buyer and supplier have to pay attention to both external and internal factors that may impact supplier performance. However what appears to be more important is the relationship between buyer and supplier as failures can be associated with lack of communication, misunderstanding, lack of trust and lack of interdependence.

A major problem is the possibility where there is a lack of understanding of human relational factors that affect supply chain management. On account of these it is the objective of this paper to add to the literature in understanding these human relations among Malaysian firms that would have impact on supplier performance. Thus more specifically the study looks at how supplier performance can be improved by focusing on the buyer-supplier relationship.

1.3 Objective of the Study

The study focuses on a few aspects of buyer-seller relationship in the Malaysian context. In particular, this study seeks;

- To identify factors that affect supply chain management relationships,
- To explore the impact of these relational factors on supplier performance,
- To examine whether bargaining power in buyer-supplier relationship moderates the impact of relational factors on supplier performance.

1.4 Research Questions

The above objectives raise a few questions on the influence of human relationship, their interaction and its impact on supplier performance. These are:

- How does the quality of communication influence supplier performance?
- How does the level of trust influence supplier performance?
- How does the extent of cooperation influence supplier performance?
- Do bargaining power in buyer-supplier relationship moderates the impact of the above relational factors on supplier performance?

1.5 Scope of the Study

This study focuses on buyer-supplier relationship from the aspects of trust, cooperation and communication and their impact on performance of supplier. The study will be used to support the fact that supplier performance can be achieved if there is positive relationship between buyer and supplier. Some emphasis will be placed upon the orientation of the relationship and see whether good communication, high level of cooperation and a high level of trust will indirectly bring about improvement in supplier performance.

1.6 Organisation of the Report

This report includes five chapters that are organized as follows;

Chapter 1 is where an introduction and an overview are provided on the focus of the study highlighting the current trend in question, objective and significance of study while research questions and problems are stated.

Chapter 2 presents literature review on supply chain management, with special emphasis on current trend, observation and practices. Relational factors are also dwelled upon in order to identify key characteristics of buyer-supplier relationships that the level of performance will be contingent upon. Theoretical framework as the model of the study and relevant hypotheses are proposed to test the model.

Chapter 3 discusses the method used to develop measures and collect data on which the research findings are based and also the data analysis method used to validate the hypotheses and test the model.

Chapter 4 presents the findings of the analysis based on the results of the measurement work and relationship between variables by using statistical analysis output.

Chapter 5 concludes with a discussion of the results, their implication and contribution to theory, practice and research of buyer-supplier relationship.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review on supply chain management, social exchange theory and relational factors. The extract on theory observations and practices will assist in identifying key relational factors that impact supplier performance. Theoretical framework as the model of the study and relevant hypotheses are proposed to test the model.

In order to understand the discussion on SCM and social exchange theory, one must understand that firm seeks to obtain competitive edge amidst changing global makeup. Firms are always competing for resources to make them better survivors. These are the basic premises underlying the Resource Based Theory (RB).

RB theory is a theory of competition. Each firm in an industry is unique in itself. According to Dodgson (1993), firms and resources are the heritable, durable units of selection and competition among firms is the selection of the locally fitter. Firms are always in constant struggle for comparative advantage in resources that will yield marketplace position as well as superior financial performance. Under RB, the view is the firm acts as an efficiency seeker in production and distribution. Its dual focus is on efficiency and effectiveness. Increases in productivity can result from more efficiently creating value or efficiently creating more value. Therefore in a market-based economy superior rewards will flow to those firms that engage in specific kinds of innovative activities (such as supply chain management). This will lead to the discovery, creation or assembling of resource assortments that enable the innovating firms to efficiently and/or effectively produce valued market offerings in such a manner that they will occupy top position (Hunt and Morgan, 1997).

Hunt and Morgan (1997) also proposed a few foundations for RB theory. Resource characteristics are heterogeneous and imperfectly mobile. The firm's resources are relational, human, organizational, informational, financial, physical and legal. Therefore the role of management is to recognize, understand, create, select, implement and modify strategies. These are all done within a competitive dynamics of disequilibrium-provoking and endogenous innovation.

In summary understanding the view on RB is essential because it acts as a starting point that focused the view of firms upon SCM concept as a mean of becoming better competitors.

2.2 Supply Chain Management (SCM)

2.2.1 Supply Chain

Prior to the advent of the importance of supply chain, manufacturers are relying on the traditional approaches of gaining superiority. They focused on internal supremacy by incorporating the best system of manufacturing such as Manufacturing, Planning and Control System (MPC). The objective was to achieve a lean organization. But to their dismay it was not enough. The changing business forefront has forced firms to find better ways of operation, that of collaboration with suppliers that lend a more concerted effort at operating.

There are weaknesses that could be improved upon. These improvements are by the way of improving linkages between the company, its suppliers and customers. The target is to increase coordination along the whole of supply chain, from suppliers' suppliers to customers' customers.

Pesch (1996) defined supply chain as the effort involved in producing and delivering a final product. McCormack and Johnson (2001) also defined supply chain as the flow and transformation of raw materials into products from suppliers through production and distribution facilities to the ultimate consumer. The activities involved are managing processes, supply and demand, sourcing of materials and parts, production and assembly, warehousing, inventory tracking and order management, distribution channels and delivery to end user.

2.2.2 Supply Chain Management (SCM)

Early trace of the concept can be found from the Japanese where their car assemblers managed their relationship in a collaborative and proactive way when compared to western practices (Sako, 1992; Hine, 1994). It is focused on the eradication of waste and inefficiency so as to ensure better value of products could be passed to final consumer. Better value refers to products with lower price but better quality. This is achieved via extended network of dyadic exchange.

SCM provides firms with a way of competing through concentrating resources towards managing the supply chain so that value is added and passed further down the line. SCM also allows firms to reduce transaction cost. Information flow will be more advanced and freely disseminated allowing for lower operation risk.

2.2.3 Strategic View of SCM

According to McCormack and Johnson (2001), during the past several years, the concept of supply chain management has been maturing in its theory and practice. Integrated supply chain management, supply chain optimization and supply chain collaboration have become the focus of many organizations around the world. As a result the SCM became a key competitive strategy. They define SCM as the process of developing decisions and taking actions to direct the activities of people within the supply chain toward common objectives. According to Hicks (1999), the goal of strategic planning is to gain the most efficient and highly profitable supply chain system. SCM's role in strategic planning is crucial because capital investment decisions for SCM is the largest for a firm, therefore having higher risks. SCM strategists view SCM as a facilitator to enhance the ability to supply markets involving coordination, product movement and information transmission. Hicks (1999) provide another perspective on this view. He said that the side that promotes strategic advantage of SCM is actually logistic oriented. This view has a smaller following, because they view the strategic importance of applying traditional methods in SCM. This method is usually grounded on numerical analysis to large data in order to seek solution to planning problems. Their goal is to achieve planning success through analysis and optimization, basically a technical view to gain competitive advantage.

McCormack and Johnson (2001) found in their research that practicing a business process orientation could result in a key competitive advantage in the supply chain. Some of the best-known companies like 3M and Dell have taken the approach of process management as they view it as a strategic asset.

Because processes are easily measured and jobs are focused on process instead of functions, sustaining competitive advantage is possible. Corporate survival especially in the Internet economy will be determined upon the effectiveness of internal processes and their integration with supply chain partners and customers. Trust and credibility are built over time. Creating this environment is a critical success factor in implementing successful supply chain management.

2.2.4 Interfirm Relation View of SCM

Another view of SCM focuses on the structure and governance of interfirm relationships. This approach stems from the dyadic interaction approach to SCM. It is mainly concerned with transaction cost theory and resource dependency theory (Peck and Juttner, 2000).

Interactive relationships are of material here in the sense that they are able to garner competitive advantage as SCM will assist in reducing transaction cost as well as accommodate a firm with resources it does not possess through allying itself with other parties in the supply chain, mainly suppliers. These combined resources can be a force to be reckoned with, if it is properly managed. According to Williamson (1957) as cited in Peck and Juttner (2000) the transaction cost theory can be used as discussion of market structures where it allows two questions to be asked;

1. Which activities should a firm keep within its boundaries and which activities should it outsource from outside?
2. How should it manage its relationship with its customers, suppliers and other business partners?

Premkumar (2000), stated that firms make specific decision based on organizational design that is based on several factors. Some of the decisions are types of investment to be made specific to the relationship, what activity is critical for effective business performance of the firm and also uncertainty in the relationship with partners. Moreover the decision originated from the cost structure of the firm consisting of direct and transaction cost. According to Clemons and Row (1992) transaction cost includes coordination cost, operations risk and opportunism risk. Coordination cost is about search cost, negotiation cost, financing cost and distribution cost. Operations risk has to do with the risk that your partner may under-perform on the contract or withhold information stemming from differences in objectives and information asymmetry. Opportunism risk arises out of lack or loss of bargaining power because of a relationship of a specific investment.

Implementing supply chain management would require investment in relations and interorganisational system. Interorganisational system can reduce the coordination cost of exchanging and processing information.

In resource based theory, (Yucthman & Seashore, 1967) firms operate in an open system environment. The theory rests on the following premises:

1. Firms resources are not sufficient,
2. They are unable to generate those resources internally, and
3. They must rely on other resources from other firms in their environment to survive

According to Pfeiffer and Salancik (1978), interaction with other parties will bring about the acquirement of the much-needed additional resources. As suppliers and other partners of the firm will have these resources, the firm will suppliers and other partners of the firm will have these resources, the firm will be dependent upon them to ensure survival. Survival of the firm in a SCM setting requires interaction, there is the relationship factor that must be discussed and considered and this falls under the purview of social exchange theory.

Hicks (1999) classified proponent of this view as information technology (IT) oriented and has a larger following. They view SCM benefits through external focus, especially on firm interactions with other firm. Collaborative planning and synchronizing information, they argued, will make departments and suppliers and customers alike to be centrally controlled and thus exerting better coordination.

In conclusion both views are important and complementary rather than competing in nature. What management needs to do is to balance the external and internal and thus creating a caucus that allows for benefit to be reaped from both views. However it is the intention of this study to focus on the management of external relations as it involves ensuring that dyadic nature of two parties working in tandem to achieve synergistic outcomes.

2.2.5 SCM Performance

A successful SCM will be able to get the right product to the right place at the least cost. The system can also accommodate the lowest inventory but still offer superior customer service. SCM can also bring about reduced cycle times through better ways of order processing, material acquisition and delivery. According to Ferguson (2000), SCM should be implemented by firms because it has powerful impact on short and long-term goals such as profit, market share and customer satisfaction. Brooker (1997) claimed that companies that have implemented SCM have a 45% supply chain cost advantage over their competitors. A study by Pittiglio, Rabin, Todd and McGrath (as cited in Ferguson, 2000) found that companies that implemented SCM had an order-cycle time and inventory days of supply that were 50% lower than their competitors, delivery days are also 17% faster than competition. This is consistent with studies by Knutton (1996) and Brass Craft (1996) (both cited in Ferguson, 2000), which found that adoption of SCM has resulted in important tangible benefits such as reduced inventory, increased fill rates and reduced response time.

2.2.6 Issues and Problems of SCM

According to Premkumar (2000) there are 5 issues of SCM dealing with interorganisational system. One issue is commonality of objectives. If it is not present, it may create major obstacles to SCM implementation as information flow will be delayed and not instantaneous, leading to misinformation and causing deterrence in the form of poor quality of information.

SCM relies heavily on instantaneous and free flow of reliable, unobstructed, uncorrupted and confidential data. However with extranets being one of the communication foundation for SCM, data security is an issue. Partners in the chain will be duly concerned about leakage of strategic informations to competitors such as commission price, tender price and market value.

The third issue is alignment with business strategies. In order for SCM to work a firm is going to have to design an interorganisational system that establishes a long-term relationship with its supplier. An example is periodic replenishment of inventory would necessitate the firm to provide supplier with requirement information. The firm may even have to let the supplier manage its inventory. As such mutual agreement is needed that supplier will supply at a certain price and the firm should not undermine the agreement by resorting to buying in bulk during promotions from alternative channels. Hence, there is a need to align business strategies and commitment among the firms for the system to succeed. If there is any misalignment then the interorganisational system as well as SCM will fail.

The fourth issue is internal systems and performance measures must be developed and maintained in a clear manner. If a buyer's performance is evaluated on the level of savings achieved through sales promotion, then the internal structure has to be modified to reflect the new buying arrangement. The concern is on the consistency of evaluation.

The last issue is technical compatibility issue. If a firm is planning to enhance its SCM through tighter integration of system with its trading partners, there must be compatibility in terms of technology. Problem will arise when the supply chain parties utilize a vendor-specific hardwares and softwares. To avoid this, it is suggested that an open system be developed and employed such as extensible markup language (XML) with networks that provide translation capabilities, be used in conjunction with electronic data interchange (EDI) to ensure problem-free exchange of information.

2.2.7 Factors Influencing SCM Performance

Sako (1992) and Hine (1994) agreed that factors influencing SCM performance are relational in nature. These factors enable better relationship management. They find that competence, trust and dependence should lead to supplier's competence, loyalty and compliance. The buyer's core management objective is to work with a supplier who can provide low cost, high quality and on-time delivery. Integrated supply chain management brings about competitive benefits because cycle time is reduced, product quality improved and labor costs can be lowered. Administrative complexities could also be reduced.

Some of the factors common to SCM initiatives are the development of trust, commitment and long-term understanding in the supplier-manufacturer dyad. Supply chain relationship is probably the most fragile, and the most susceptible to breaking down. A weak link in any part of the supply chain can have disastrous consequences for all members of the chain (Ferguson, 1999).

The factors that appears to influence SCM performance also appears as relational factors that are essential in a dyadic relationship. These factors are discussed next under the purview of the social exchange theory.

2.3 Social Exchange Theory

SCM can also be considered as a social exchange process since an extension of dyadic or more exchange relationship is maintained and developed between parties specifically buyer and supplier. According to Blau (1964) social exchange is a relationship between two parties through a series of mutual although not necessarily simultaneous exchanges that obligated a pattern of reciprocal obligation in each party.

Hewett (2001) is of the opinion that trust and dependence between parties are central in motivating each party to participate and engage in successful and beneficial exchange relationship. Homans (1961) also argued that the incentive to reciprocate is the vulnerability inherent in cooperative behaviour if exchange partners are found to be dependent on each other.

Anderson and Narus (1990) cited that social exchange theory stresses on managing dependence and uncertainty where cooperation is found to be an important outcome. The theory emphasizes that as one party makes contribution or provides a service to another party that is of value, resulted in an expectation of returning the favour from the receiving party at a later date. The receiver is under obligation to reciprocate in turn.

2.4 Conceptual Discussion

SCM requires management of external relations. Recent studies have supported the fact that close monitoring of the relationship of buyer and supplier is needed. Analysis of relationship characteristics is needed as it does impact key performance outcomes (Mohr & Nevin, 1990). Several factors have been identified by researchers to influence relationships. Factors such as trust, commitment and dependence (Doney, 2000; Morgan and Hunt, 1994; Anderson and Weitz, 1992). Building on this literature collection from researches can now hypothesise and test various linkages of relationship.

Literature review has helped in identifying some of the factors influencing SCM performance are relational in nature. Building from theories of relationships and empirical findings from multi disciplines, this study will narrow and specify the understanding of three relationship dimensions and explore their roles as predictors that affect supplier performance. Measures of these relationship factors; communication, trust and cooperation are linked to an evaluation of supplier performance.

2.5 Supplier Performance

Pearson and Ellram (1995) stated that supplier selection is widely considered to be the most important responsibilities of the purchasing department of a firm. This is because suppliers directly affect the price, quality, delivery reliability and availability of its product hence the impact on customer satisfaction and gaining competitive advantage.

Dickson (1966) (as cited in Pearson & Ellram, 1995) found that there are three factors affecting suppliers selection, that are also important for their performance evaluation. They are quality, on-time delivery and the supplier's performance history. Dempsey (1978) found that the top three criteria for selection of capital equipment suppliers are delivery capability, technical capability and quality. Dempsey also found that the electronic industry is also looking at delivery capability, quality and price. According to Kumar and Stern (1992) customer satisfaction is conceptualised as the level and the quality of services a reseller provides to the supplier's customers. The concept can be adapted for this study as the intent of buyer is to achieve customer satisfaction in the end through better supplier performance.

2.6 Communication

Managing relationship between buyer and supplier must incorporate communication as a relevant relational dimension. According to Anderson and

Narus (1990), communication is the process where firms exchange meaningful and timely information between them. Communication between all businesses is vital (Ferguson, 1999). As the communications grows so can further improvements can be made in the supply chain relationship.

Relationships need structures that facilitate mutual and constant exchange of information and effective communication (Sivadas and Dwyer, 2000). Informal as well as formal communication holds as much importance because people use communication as one mean of sharing experience and knowledge where value can be shared and added.

2.7 Trust

Doney and Cannon (1997), commented that rapidly changing competitive environments are forcing business marketing firms to seek more creative and flexible means of competing. Some of the responses were building collaborative relationships and suppliers networks. Such collaboration and relationships rely on relational means of exchange characterized by high level of trust (Morgan and Hunt, 1994; Dwyer, Schurr and Oh, 1987).

The concept of trust is taken to signify and represent a coordinating mechanism based on shared values and norms supporting collective collaboration within the environment (Reed, 2001). However it is a necessary ingredient for a highly complex form of social relations and processes that are necessary for the generation and maintenance of collective action. In simpler context, Sivadas and Dwyer (2000) defined trust as the confidence an organization has in the ability and motivation of the alliance partner or other departments to produce positives outcome for the firm. The climate for