

Managing Services Supply Chains: The Relationship between Supplier Relations and Supply Chain Performance

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Abstract

Supply chain management has increasingly been recognized as a key driver of overall operational and financial performance. However, empirical studies in this area have been conducted primarily in manufacturing and/or at the SBU or firm level. It is unclear whether the results of these studies generalize to services and/or intra-firm processes. Thus, in this study we focus specifically on supplier relations in financial services processes and empirically examine the relationship between supplier relations and supply chain performance using a unique database with a sample of 108 financial services processes. Our results show that, after controlling for supplier efficiency and responsiveness, use of information technology, electronic information-sharing, and supplier type (including both internal and external suppliers), better supplier relations are associated with satisfaction with overall supplier performance. However, the “partnering” components of the relationship (i.e., cooperation and long-term commitment) are correlated with satisfaction with overall supplier performance, while the “operational” components of the relationship (i.e., high degree of coordination, information-sharing, and feedback) are not. We discuss the implications of these results for supply chain management in financial services and then conclude with the limitations of our study.

1. Introduction

In this study we empirically examine the relationship between supplier relations and supply chain performance with a sample of 108 financial services processes. The study is unique because supplier relations and supply chain performance have previously been examined at the SBU or firm level rather than at the process level. In addition, most empirical supply chain studies have been done in a manufacturing context, e.g. [1] [2] [3] [4], while this study examines satisfaction with supplier performance in a service (i.e., financial services) context. Because the “product” in financial services tends to be information rather than something more tangible (thereby, greatly impacting the ability of service processes to respond to demand uncertainty through the use of inventory), and specifications and performance criteria for intangible products are typically more ambiguous [5], supplier relations management and its relationship to supply chain performance may not be generalizable from manufacturing to services.

Our results show that, after controlling for supplier efficiency and responsiveness, use of information technology, electronic information-sharing, and supplier type, better supplier relations are associated with satisfaction with overall supplier performance. However, the “partnering” components of the relationship (i.e., cooperation and long-term commitment) are correlated with satisfaction with overall supplier performance, while the “operational” components of the relationship (i.e., high degree of coordination, information-sharing, and feedback) are not.

2. Hypotheses

We consider supplier relations to be represented by five key dimensions – coordination, cooperation, commitment, information-sharing, and feedback [6] [7] [8] [9] [10]. Overall, previous findings suggest that better supplier relations should be positively associated with supplier performance. However, these five dimensions are often, but not always, individually found to be positively associated with supplier performance. In this study, we further explore supplier relations as an overall construct while also considering the dimensions individually. In addition, we focus on *satisfaction* with overall supplier performance, which captures not only objective performance but may also include the perceived value of the relationship in terms of the costs versus the benefits. Thus, we state the following two hypotheses.

H1: Better supplier relations will be positively associated with satisfaction with overall supplier performance.

H2: Different dimensions of supplier relations will have varying associations with overall supplier performance.

3. Sample

We selected a random sample of 350 professionals in the financial services industry (NAICS code 52) from a population of graduates of a university in the northeastern region of the United States who were employed in the financial services industry. Each person was contacted by telephone and/or email to request their participation. Although 320 people agreed to participate, we eventually received 108 completed surveys from 87 different firms.

The represented processes covered diverse processes in small to multibillion dollar corporations. The sample included companies from all three-digit NAICS codes in the finance and insurance sector, approximately matching the comparable U.S. distribution as a whole. About 75% of the processes appeared once or twice in the sample, with the rest consisting of five general processes: financial planning, selling insurance, selling securities, managing assets and trust services, and managing portfolios. The average process had 39 employees and had a median time from start to finish of approximately one week. Forty-seven of the processes have an internal supplier, and 61 have an external supplier.

4. Hypothesis Testing

We used the standard version of SPSS for Windows, Release 14.0 to perform all analyses, and cases with missing values were deleted listwise. To test *H1*, we conducted a regression analysis, including the control variables and supplier relations construct. To test *H2*, we correlated each of the items in the supplier relations construct with satisfaction with overall supplier performance.

5. Results and Discussion

Overall, the supplier relations construct is positively associated with satisfaction with overall supplier performance ($p < 0.05$, one-tailed test), providing support for *H1*. To test *H2* we computed the correlations between the individual items that make up the construct and satisfaction with overall supplier performance. Having a cooperative relationship with suppliers, as well as a long-term commitment are highly positively correlated ($p < 0.01$) with satisfaction with overall supplier performance, while a high degree of

coordination, information-sharing, and feedback with suppliers are not. These results support *H2*, which states that different supplier relations dimensions will have varying associations with satisfaction with overall supplier performance. The former two characteristics (i.e., cooperation and long-term commitment) represent the “partnering” aspects of the relationship, while the latter three characteristics (i.e., coordination, information-sharing, and feedback) are more “operational” in nature and typically require that specific systems be in place to facilitate them. The benefits of coordination, information-sharing, and feedback mechanisms may be considered to be offset by their costs (in terms of time, energy, and systems). In addition, the significant positive association between the use of information technology and satisfaction with overall supplier performance may be indicative of the use of intra-organizational information systems in combination with a favorable partnering climate to manage the supply chain.

6. Conclusions

In this study we examined the relationship between supplier relations and satisfaction with overall supplier performance. We first hypothesized that better supplier relations will be positively associated with satisfaction with overall supplier performance and then hypothesized that different dimensions of supplier relations will have varying associations with overall supplier performance. Both hypotheses were supported. With respect to the second hypothesis, in particular, we found cooperation and long-term commitment, two characteristics of supplier relations that describe the partnering aspect of the relationship, are significantly positively correlated with satisfaction with overall supplier performance, while coordination, information-sharing, and feedback, which are more “operational” in nature, are not correlated with satisfaction with overall supplier performance. Because the context of our study is in services, one possible explanation for the results is that the more ambiguous nature of service products (compared to manufactured products) increases the importance of the partnering aspects of supplier relations.

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