SUPPLIER RELATIONS AND SUPPLY CHAIN PERFORMANCE:
AN EXPLORATORY EMPIRICAL STUDY OF FINANCIAL SERVICES PROCESSES

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ABSTRACT
Supply chain management has increasingly been recognized as a key driver of overall operational and financial performance. In this study we focus 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, better supplier relations are associated with satisfaction with overall supplier performance. However, the “relational” components of the relationship (cooperation and long-term commitment) are correlated with satisfaction with overall supplier performance, while the “operational” components of the relationship (high degree of coordination, information-sharing, and feedback) are not.

Keywords: Supply chain management, Supplier relations, Financial services, Service processes

INTRODUCTION
Supply chain management has increasingly been recognized as a key driver of overall operational and financial performance [6]. As such, researchers have been examining various aspects of supply chain management, including managing supplier relations. Arguably, better supplier relations should result in better supply chain performance. However, research has shown that the “obvious” relationship between supplier relations and supply chain performance is, in fact, nuanced, and depends on what is being done under the umbrella of “supplier relations” and how it is being done.

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 has previously been examined at the SBU or firm level and not at the process level. This is particularly important for service processes because, unlike manufacturing, services are often not procured and managed centrally [3], so the process may be a more appropriate level of analysis. Further, using a database that includes intra-firm as well as inter-firm supply chains allows us, for example, to include internal/external supplier as a control variable before determining the association between supplier relations and perceptions of overall supplier performance. In addition, most empirical supply chain studies have been done in a manufacturing context [15] [16] [20] [21], 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 (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 [3], supplier relations management and its relationship to supply chain performance may not be generalizable from manufacturing to services.

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**LITERATURE REVIEW AND HYPOTHESES**

The operations management literature has a number of studies examining the relationship between supplier relations and supply chain performance. While supplier relations are often discussed as a general concept, most of the empirical studies look at specific aspects of managing supplier relations, such as collaboration and cooperation, with few looking holistically at the relationship between the supply chain partners. In this section, we review this literature stream as a basis for the hypotheses we then test.

Based on our review of the literature, we consider supplier relations to be represented by five key dimensions – coordination, cooperation, commitment, information-sharing, and feedback [2] [5] [8] [14] [18]. Overall, previous findings suggest that better supplier relations should be positively associated with supplier performance. However while these five dimensions are often individually found to be positively associated with supplier performance, this is not always the case. Moreover, satisfaction with overall supplier performance may also be subject to 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.

To test these hypotheses we need to include a number of control variables that the literature suggests have a bearing on satisfaction with overall supplier performance. First, the actual supplier performance, in terms of efficiency and responsiveness [4], should have a positive association with satisfaction with overall supplier performance. Second, researchers have suggested that high-performing supply chains are information intensive and that the use of information technology is essential for managing supply chain activities [6] [12] [22]. However, other findings are less conclusive. Hill and Scudder [10] find that firms consider electronic data interchange (EDI) more as a tool for improving efficiencies than as a tool for facilitating supply chain integration. The scope of information technology use is a significant predictor in Japan but
not in the U.S. [1]. Thus, based on this literature we control for the use of information technology by the respondent’s process and electronic information-sharing in the supply chain. In addition, IT infrastructure integration has been found to affect performance [19]. As such, we include an interaction between electronic information-sharing and the use of information technology to determine if the effect of electronic information-sharing on satisfaction with overall supplier performance depends on the level of information technology use.

As mentioned above, the supplier type (internal to the firm or external to the firm) is also included as a control variable. It has been argued that the external customer’s satisfaction is related to the performance of all the internal processes for producing the product [7] [23] [24]. Thus, meeting the needs of internal customers helps ensure external customer satisfaction. However, Lee and Billington [11] note that discrimination against internal customers occurs because, unlike external customers, internal customers do not bring in real revenue. Thus, internal suppliers may consider them less valuable and of lower priority, resulting in poorer performance. In the vertical integration literature, researchers suggest that dulled incentives and reduced flexibility to change partners in vertically integrated firms could result in higher costs, poorer quality, or poorer performance in general [13] [17]. This argument has been made at the internal process level as well, with negative performance implications for internal customers [7]. This suggests that the customer’s satisfaction with overall supplier may be different depending on whether the supplier is internal or external to the firm.

METHODS, RESULTS AND CONCLUSIONS

To test \( H_1 \), we conducted a regression analysis, including the control variables and supplier relations construct. To test \( H_2 \) we computed the correlations between the individual items that make up the construct and satisfaction with overall supplier performance.

The results show that the supplier relations construct is positively associated with satisfaction with overall supplier performance (\( p<0.05 \), one-tailed test), providing support for \( H_1 \). Regarding \( H_2 \), having a cooperative relationship with suppliers, and having a long-term commitment are highly positively correlated (\( p<0.01 \)) with satisfaction with overall supplier performance; having a high degree of coordination, information-sharing, and feedback with suppliers are not. These results support \( H_2 \), which states that different supplier relations dimensions will have varying associations with satisfaction with overall supplier performance.

With respect to the second hypothesis, in particular, we found cooperation and long-term commitment, two characteristics of supplier relations that are more “relational” in nature, 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 the more ambiguous nature of service products (compared to manufactured products) increasing the importance of the relational aspects supplier relations.

From a managerial perspective, our study suggests the importance of improving supplier relations to increase satisfaction with supplier performance in a services industry. What is perhaps more interesting is that a focus on the operational aspects of managing supplier relations,
while not hurting satisfaction, does not necessarily increase satisfaction. It may be that the information and other systems that are used for coordination, information-sharing, and feedback are considered “order qualifiers” (i.e., a necessary and expected part of supply chain management), thereby having little association with satisfaction with supplier performance [9]. While operational aspects of supplier relations are certainly necessary for the smooth functioning of the supply chain, it appears that a more important source of satisfaction is associated with building relationships within the supply chain through cooperation and long-term commitment. Thus, managers need to focus not only on the technical aspects of supply chain management but also facilitate relationship-building as well.

REFERENCES


