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“The Moderating Effect of Supplier Benevolence on the Relationship between Unilateral Governance and Supplier Performance”_학술논문
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The Moderating Effect of Supplier Benevolence on the Relationship between Unilateral Governance and Supplier Performance

Sungmin Ryu*, Chang Hee Park**

The purpose of this study is to improve our understanding of the moderating effect of interfirm benevolence on the relationship between interfirm governance and interfirm performance. 192 purchasing managers from manufacturing companies participated in a survey. Through these, the moderating role of benevolence in the relationships between a buyer’s unilateral governance and supplier performance is identified. A buyer’s perception of a supplier’s benevolence is observed to weaken the effect of the buyer’s unilateral governance on supplier performance. Thus, this study demonstrates that firms do not always rely on unilateral governance when they can nurture interfirm benevolence in the relationship between exchange partners.

Keywords: Interfirm Relationship, Interfirm Benevolence, Unilateral Governance, Supplier Performance, B2B Marketing

I. Introduction

Interfirm benevolence, the extent to which a buyer believes that the supplier has the intention and motivation to act beneficially to the buyer (Ganesan 1994), is an important dimension of trust, along with credibility and honesty (Doney and Cannon 1997). Trust has been a key concept explaining interfirm relationships (Mayer, Davis, and Shoorman 1995; Wilson 1995; Oh et al. 1997; Kim and Lee 2009; Kim, Kim, and Lee 2009). Interfirm trust indicates the willingness to rely on an exchange partner whose behavior is not under its control (Doney and Cannon 1997). Researchers have found that trust in a partner’s reliable behavior allows the party to accept short-term disadvantages and seek long-term benefits from the relationship (Doney and Cannon 1997; Ganesan 1994; Zaltman and Moorman 1988).

There are a couple of governance mechanisms in interfirm relationships, such as vertical integration (Stump and Heide 1996), vertical control (Bello and Gilliland 1997), monitoring (Lal 1990), contracts (Lusch and Brown 1996), and relational norms (Heide and John 1992). Despite having advanced knowledge of control mechanisms, prior research has exposed several gaps that must be addressed.

First, few studies have investigated the effect that benevolence has on interfirm performance regarding...
the cost of interfirm governance. Since interfirm trust plays an important role in interfirm relationships (Elangovan and Shapiro 1998), the use of interfirm governance could be affected by interfirm benevolence. Trust allows firms to reduce transaction costs (Zaheer, McEvily, and Perrone 1998), increase cooperation (Schurr and Ozanne 1985), and build commitment (Geyskens et al., 1996) in the relationship with transaction partners. Therefore, it is necessary to identify the level of interfirm governance with which benevolence reduces an exchange party’s need to use interfirm governance.

Second, prior research on interfirm performance does not investigate the conditions under which interfirm governance results in higher performance. Since benevolence reduces the need to use interfirm governance, interfirm performance could improve. However, there is no research done on how interfirm benevolence improves interfirm performance.

The purpose of this study is to improve our understanding of the moderating effect that interfirm benevolence has on the relationship between interfirm governance and interfirm performance. This study accomplishes this by discussing the role of benevolence that may increase interfirm performance in the relationship between a buyer and a seller. In the next section, the theoretical background for trust and control mechanisms will be discussed. Then, the research hypotheses are developed.

II. Theoretical Backgrounds and Hypotheses

1. Interfirm Governance

Interfirm governance refers to the extent to which a firm has control over another firm’s key decisions (Heide 1994). Interfirm governance controls the exchange party through the party’s effort to influence a partner’s action (Bello and Gilliland 1997; Stump and Heide 1996). For example, a buyer’s interfirm governance may involve control over the supplier’s activities, such as the quality of parts or on-time delivery. Interfirm governance enhances a buyer’s ability to detect opportunistic behavior by a supplier, which leads to positive improvements in performance (Leenders and Fearon 1993).

Interfirm governance is based upon the premise that a buyer possesses the power to force its supplier to follow a given request (Weitz and Jap 1995). If the buyer does not have any power, it cannot force its partner to observe its direction. For instance, a manufacturer should be able to force a supplier to deliver products on time or adhering to a certain quality (Noordewier, John, and Nevin 1990). Without power, the buyer does not govern the relationship with its partner.

Researchers have identified two types of governance mechanisms (Heide, 1994; Weitz and Jap, 1995): unilateral and bilateral. The difference between bilateral governance and unilateral governance is whether both exchange partners actively participate in the decision-making process (Weitz and Jap, 1995). Unilateral governance is solely based on a powerful party’s decision-making
ability. In contrast, bilateral governance relies on both exchange parties' participation in decision-making. In this study, we confine ourselves to unilateral governance.

Unilateral governance is exercised by external measures, such as output produced by exchange parties or behavior by exchange partners (Celly and Frazier 1996). An example of unilateral governance is to monitor the output or behavior of an exchange partner. For instance, a buyer’s monitoring over a supplier is related to a review of the supplier’s performance. The buyer can check the delivery performance or the quality of supplied items. Monitoring the supplier as such provides the buyer with valuable, crucial information. With information achieved by monitoring the supplier, the buyer can pursue its own interest and protect itself from potential risks.

### 2. Performance

The manufacturer’s buying performance is a result of its relationship with the supplier. When the supplier’s performance is excellent, the manufacturer can enjoy a high buying performance. For example, when a supplier provides a manufacturer with a low price and the least defective components on time, the manufacturer’s buying performance in relation to the supplier will be great. Thus, the manufacturer’s buying performance is closely related to performance of the supplier.

The exchange parties’ performance can be measured via multidimensional measures. Studies of buyer-seller relationships have used various output measures to evaluate the exchange parties’ performance. Outcome-based performance can be assessed by considering several dimensions, including profitability, effectiveness, and efficiency (Mohr and Nevin 1990).

Profitability is the financial information that can be easily obtained to compare it against the performance of the other parties. Companies use the return on investment (Brown, Lusch, and Nicholson 1995) and profits (Reve and Stern 1986) as performance measures.

Effectiveness is how well an exchange party can achieve its goals (Kumar, Stern, and Achrol 1992). In the buyer-seller relationship, buyers try to decrease the rate of defective parts that are delivered (Noordewier, John, and Nevin 1990), and increase the rate of on-time delivery (Noordewier, John, and Nevin 1990).

Efficiency is the maximization of outputs relative to costs (Quinn and Rohrbaugh 1983). Manufacturers try to improve their efficiency in terms of profits and sales compared to their effort (Kumar, Stern, and Achrol 1992).

In addition to this outcome-based measurement for performance, there is another approach to assess performance (e.g. Bello and Gilliland 1997; Yan and Gray 1994): evaluation the partner’s performance. This evaluation is a cognitive performance measure since the party evaluates the performance according to its degree of contentment. While an outcome based performance measure is an objective measure, a cognitive-based measure is a more subjective approach. In studies of buyer-seller relationships, the buyers can be satisfied with the partner’s overall performance (Yan and Gray 1994) or can evaluate the partner’s performance (Bello and Gilliland 1997).
Among these various indicators that can be used to measure performance, the effectiveness of the buying performance and satisfaction with the supplier’s performance are considered here for the following reasons.

First, since this research broadens the scope of the control mechanism through which manufacturers rely to increase their purchasing effectiveness, the effectiveness of the buying performance is also relevant. Second, the effectiveness of the partner is the reason why an exchange party interacts with its partner (Kumar, Stern, and Achrol 1992). For example, an effective supplier provides what buyers want. Thus, the supplier’s effective performance increases the manufacturer’s buying performance. Third, since the effectiveness of the buying performance is an objective measure for performance, it is best to supplement this objective measure with a subjective measure to tap the performance better.

While the arithmetic numbers used as objective measures might not reflect comparative factors such as the increased effectiveness of the overall supplying performance, a subjective measure could reflect that factor, and the respondents will thus consider that factor when they evaluate the buying performance. For example, even though the arithmetic number of a supplier’s delivery performance is high, the buyer could devalue its performance when competing vendors’ supply performance is higher than that of the supplier. For these reasons, these two indicators are included in this research.

### 3. Benevolence

Benevolence is an important dimensions of trust (Doney and Cannon 1997). Benevolence focuses on motives and intentions of the exchange partner (Doney and Cannon 1997), and it is an exchange party’s belief that the exchange partner will perform actions that will result in positive outcomes for the party (Anderson and Narus 1990). Voluntary dependence of the party on a partner is based on optimistic expectations of the outcomes (Hosmer 1995).

Benevolence is a belief that a trustee does not take actions that would harm trustor (Hosmer 1995). Thus, there is a possibility that trustor will be worse off if trust is not fulfilled than if it does not trust its trustee. Since a trustee is not under the control of a trustor, trust contains the feature of vulnerability of the trustor to its trustee (Coleman 1990). For instance, a buyer who expects the quality of delivered parts might be in trouble in case the supplier fails to meet the expected level of quality.

Benevolence matters only when a trustor’s expected outcome is crucially important to the trustor and does not control the trustee over the outcome (Das and Teng 1998). For instance, if a buyer can easily obtain parts in markets other than those of incumbent suppliers, it does not have to trust the supplier. It is not important whether the buyer trusts its supplier for benevolence or not since the buyer will easily obtain the parts.

 Buyers are vulnerable to opportunistic behavior by their suppliers (Elangovan and Shapiro 1998; Andaleeb 1992), and a supplier could get short-term benefits out of opportunistic behavior, such as
cheating or lying by hiding information. For instance, when a part is in volatile supply in the market, a supplier may take advantage of the situation. The supplier can sell the parts to other buyers who could offer higher prices for the parts and then lie to the current buyer that the parts are still in short supply. Such opportunistic behavior on the part of supplier makes it difficult for the buyer to reach optimal outcomes, thereby reducing the buyer’s commitment to the relationship.

H1: When a buyer’s perception of supplier benevolence is low, the buyer’s governance over the supplier will lead to an improved supplier performance.

A buyer’s belief on its supplier’s benevolence is derived by assessing the (calculation) supplier’s benevolence (Madhavan and Grover 1998). Thus, the higher the buyer’s trust in its supplier for benevolence, the higher the prediction of the supplier’s benevolent intention and behavior (Moorman et al., 1992). Also, when a buyer feels supplier’s benevolence, there is a low probability that the supplier betrays the buyer (Moorman et al., 1992). Calculating the benevolence made by the buyer therefore reduces the decision-making uncertainty of supplier performance.

When a buyer believes its supplier regarding the supplier’s performance, the buyer does not need to control the supplier to improve the performance. For instance, when a buyer trusts the supplier for its benevolence, the buyer does not have sufficient reason to maintain a high level of control. Thus,

H2: When a buyer's perception of supplier benevolence is high, the buyer’s governance over the supplier will not necessarily lead to an improvement in the supplier’s performance.

III. Methodology

1. Research Setting and Data Collection

This study was conducted within the context of a buyer-supplier relationship, with the supplier as a major supplier. A major supplier is defined as the one from which the respondent’s company made the largest purchases during the past year. This major supplier serves as the referent for all questions in the mail survey. The reason to select this particular context lies in the fact that the major supplier is the one for which the buyer is likely to have the most intense interactions that rely on the development of benevolence as well as the opportunity to exercise a governance mechanism.

The buyers in this study were selected randomly from a Dun and Bradstreet mailing list. The sample was randomly drawn from the SIC codes: 3679 (electronic), 3469 (metal), and 3499 (steel) from Dun and Bradstreet mailing list. The rationale for sampling in the three different industries is to eliminate industry-specific factors that may influence governance choices.

Since this research is concerned with buyers’ governance over the supplier, the heads of purchasing departments of the buying companies were chosen as key informants. Purchasing managers are responsible for securing materials from suppliers, hence they can be expected to be knowledgeable about resources dealt with and also about the nature
of the relationships that can be cultivated with suppliers (Hutt and Speh 1992).

A total of 980 questionnaires were mailed. 955 were delivered, and 25 questionnaires were undelivered while 192 were completed and returned to produce a response rate of 20.10%. All returned questionnaires were reviewed for completeness, and three questionnaires with numerous missing answers were dropped from the sample. The remaining 189 questionnaires were used in the analysis.

2. Nonresponse Bias

Corporate Affiliations Plus (2000) was used as a source of secondary data for the company’s characteristics, both for responding and nonresponding firms. Comparisons across the numbers of employees and total sales also produced no significant differences (p<.52 for sales volume). The response rates were compared across industry groups (electronics, metal, and steel), and were found to not differ.

3. Measure Development

All items used a 7-point Likert scale with 1 meaning “strongly disagree” and 7 meaning “strongly agree” (See Table 1). Benevolence was assessed with the items adopted from Doney and Cannon (1997). The items for benevolence include supplier’s concern regarding business success and the welfare of a respondent’s company. The items to measure the level of unilateral governance assess the extent to which a manufacturer monitors the suppliers inventory level, quality control procedures, and performance (Noordewier, John, and Nevin 1990). Finally, the supplier’s performance was defined as the manufacturer’s overall evaluation of the supplier’s performance in such areas as product quality, services, and delivery speed (Doney and Cannon, 1997).

4. Construct Validity

Each variable that was measured with multiple items was subjected to scale development and purification, and the process will be described in two steps. First, exploratory factor analyses were run for each set of constructs (i.e., trust, monitoring, and the norm of information sharing). Second, reliability analyses were run for each construct to ascertain that all the measures show satisfactory reliability. Several ill-fitting items were dropped due to low factor loadings (see Table 1). The resulting reduced sets of items were subjected to a confirmatory factor analysis using AMOS.

After the scale purification process, a measurement model with acceptable fit indices was identified ($\chi^2$= 131.25, df=98, p=.01, GFI=.92, CFI=.93, RMSEA=.054). The square multiple correlation of each item was between .30 and .65, which indicates convergent validity. All factor loadings were highly significant (p<.01), which shows convergent validity and unidimensionality of the measures (Anderson and Gerbing 1988). Further, the reliabilities of all constructs were above .70, and these measures effectively demonstrate adequate convergent validity and reliability.

The discriminant validity for all 3 latent constructs was put through $\chi^2$ difference tests. All constructs in
<Table 1> Confirmatory Factor Analysis and Scale Reliability

<table>
<thead>
<tr>
<th>Measurement Items</th>
<th>Std. Alpha</th>
<th>Std. Factor Loading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benevolence</strong></td>
<td>.84</td>
<td></td>
</tr>
<tr>
<td>When making important decisions, the supplier is concerned for our welfare.</td>
<td>.88</td>
<td></td>
</tr>
<tr>
<td>When it comes to things that are important to us, we can depend on the supplier’s support.</td>
<td>.79</td>
<td></td>
</tr>
<tr>
<td>We can count on the supplier to consider how its decisions and actions will affect us.</td>
<td>.85</td>
<td></td>
</tr>
<tr>
<td>Though circumstances change, we believe that the supplier will be ready and willing to offer us assistance and support.</td>
<td>.78</td>
<td></td>
</tr>
<tr>
<td><strong>The Unilateral Governance</strong></td>
<td>.82</td>
<td></td>
</tr>
<tr>
<td>Major supplier’s production processes are to a large extent determined by your firm’s requirements.</td>
<td>.85</td>
<td></td>
</tr>
<tr>
<td>Major supplier’s engineering changes are to a large extent determined by your firm’s requirements.</td>
<td>.68</td>
<td></td>
</tr>
<tr>
<td>Major supplier’s level of inventory is to a large extent decided by your firm.</td>
<td>.77</td>
<td></td>
</tr>
<tr>
<td>Major Supplier’s quality control procedures are to a large extent decided by your firm</td>
<td>.88</td>
<td></td>
</tr>
<tr>
<td><strong>Supplier Performance</strong></td>
<td>.73</td>
<td></td>
</tr>
<tr>
<td>Your firm is satisfied with Major Supplier’s product quality.</td>
<td>.79</td>
<td></td>
</tr>
<tr>
<td>The service provided by Major Supplier is satisfactory.</td>
<td>.60</td>
<td></td>
</tr>
<tr>
<td>Your firm is satisfied with the overall supplying of Major Supplier.</td>
<td>.68</td>
<td></td>
</tr>
<tr>
<td>Your firm is satisfied with the on-time delivery performance of Major Supplier.</td>
<td>.71</td>
<td></td>
</tr>
<tr>
<td><strong>Buyer Power</strong></td>
<td>.79</td>
<td></td>
</tr>
<tr>
<td>It would be difficult for a major supplier to replace the sales and profits realized from your firm with another customer.</td>
<td>.77</td>
<td></td>
</tr>
<tr>
<td>Major supplier’s total costs of switching to another comparable customer would be prohibitive.</td>
<td>.85</td>
<td></td>
</tr>
<tr>
<td>Major supplier could not find other customers to replace your company in your trade area,</td>
<td>.72</td>
<td></td>
</tr>
<tr>
<td>Major supplier is strongly dependent on your company.</td>
<td>.75</td>
<td></td>
</tr>
</tbody>
</table>

Fit statistics: \(c^2 = 131.25, df = 98, p = .01, GFI = .92, CFI = .93, RMSEA = .054\)

pairs (3 tests altogether) were tested to ascertain the extent to which the restricted model (in which the correlation was fixed as one) was significantly worse than the freely-estimated model (in which the correlated was estimated freely). All \(\chi^2\) differences were highly significant, which serves as evidence of the discriminant validity (Anderson and Gerbing 1988). The results of the CFA, such as goodness-of-fit index, factor loading, and reliability are reported in Table 1.

Control Variables: buyer power was used as control variables. A buyer’s power over a supplier is assessed via supplier replaceability, supplier switching costs, difficulty in changing supplier, and overall
dependence on the supplier (Lusch and Brown 1996). The rationale behind including testing models with buyer’s power over supplier is that the power allows a manufacturer to potentially have control over its supplier (Frazier and Antia 1995; Gaski 1984). The correlation matrix for all variables in the test model is presented in Table 2.

### IV. Hypotheses Testing

The hypotheses were tested via multiple regression analysis. First, to test Hypotheses 1 and 2, performance (PERFORMANCE) was used as the dependent variable, and the independent variables included unilateral governance (UNIGOV) and benevolence (BENEVOLENCE).

UNIGOV and BENEVOLENCE were mean centered to eliminate potential multicollinearity (Aiken and West, 1991). The variance inflation factors (VIF) were well below 10, suggesting no multicollinearity. The equations for the hypothesis testing were structured as follows:

\[
\text{PERFORMANCE}_H = b_0 + b_1 \text{UNIGOV} + b_2 \text{POWER} + \epsilon_H; \\
\text{PERFORMANCE}_L = b_0 + b_1 \text{UNIGOV} + b_2 \text{POWER} + \epsilon_L, 
\]

H indicates the high benevolent group (TRUST > 5.45); L indicates the low benevolent group (TRUST < 5.45).

The results in Table 3 show that the effect of unilateral governance on performance in the low benevolent group is significant and positive (t=2.311, p<.05) as in H1. In contrast, in the high benevolent group, the relationship between unilateral governance on performance does not show a significant result (t=1.011, p>.05). These results support H1 and H2. Concerning the control variables, the buyer’s power was not statistically significant in both high and low benevolent groups (t=.140, p>.05, t=1.412, p>.05).

### V. Conclusion and Discussion

#### 1. Summary

The test results confirm that benevolence has a moderating role in the relationships between a buyer’s unilateral governance and supplier performance. Thus, a buyer’s perception of its supplier’s benevolence may reduce the buyer’s reliance on unilateral governance over its suppliers to
improve performance. Benevolence may thus reduce a buyer’s concern regarding its supplier’s performance. Thus, when a buyer is confident that a supplier will not behave opportunistically, the buyer does not have to waste time and resources to unilaterally govern its supplier.

2. Theoretical Implications

This study offers evidence that benevolence works in the relationship between a buyer and its supplier. The results of this study provide supplement transaction cost theory in explaining interfirm performance. According to transaction cost theory (Williamson 1985), a buyer should act as if no party can be trusted because it is hard to identify benevolent partners who behave in the partner’s interest. However, this study shows that a buyer relies on unilateral governance when it does not develop benevolence in the relationship with its supplier. Therefore, interfirm benevolence should be treated as an essential part of a buyer-supplier relationships.

This study demonstrates that firms do not always rely on unilateral governance when they can nurture interfirm benevolence in their exchange partners. Considering the TCA view that exchange parties tend to behave opportunistically, unilateral governance should be used to reduce transaction costs (Williamson 1985). This finding offers a view that TCA should add interfirm benevolence as a key variable to explain buyer-seller performance.

3. Managerial Implications

There are two managerial implications of this study. First, when a buyer needs to increase supplier performance, unilateral governance is not necessarily the best option. Since unilateral governance negatively affects buyer-supplier relationships, a buyer should find a way to avoid unilateral governance. For instance, when a buyer unilaterally control its supplier’s inventory or product quality, it could hurt the supplier since the supplier might feel that it does not have autonomy over its inventory.

Second, when a buyer feels that it does not trust its supplier benevolence, it should unilaterally control its supplier. Since a buyer feel that its supplier does not take care of the buyer’s business, the buyer should monitor the supplier behavior or output to...
prevent the supplier from behaving opportunistically. Otherwise, the buyer might face a low level of supplier performance. Thus, a buyer should identify the level of benevolence in the relationship with its suppliers.

### 4. Limitations and Future Research

This paper has a theoretical limitation. This study focuses on testing the moderating effect of benevolence in the relationship between unilateral governance and performance. However, it is possible that interfirm performance could be affected by other factors, including environmental uncertainty or relational norms including the norm of information sharing and the norm of flexibility. For example, when a buyer feels environmental uncertainty, the uncertainty creates information asymmetry which could negatively affect company performance. Thus, other factors should be included in future research.

This study is limited regarding its managerial implications. Although this study shows that unilateral governance is not necessarily the best option, this study does not indicate which factors might improve supplier performance in the existence of interfirm benevolence. Further research should be done to identify crucial factors which enhance the exchange party’s performance.

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공급자의 호의성이 일방적 통제와 공급자 성과의 관계에 미치는 조절효과

뷰성민*, 박창희**

ABSTRACT

본 연구는 공급자의 호의성이 일방적 통제와 공급자 성과의 관계에 미치는 효과에 관한 이해를 높이고자 하는 목적으로 실행되었다. 기업간 관계에서 성과측정은 무척 중요하며 본 연구는 192명의 구매담당자들 대상으로 신뢰의 한 단면인 기업간 호의성이 구매자의 일방적 통제가 공급자의 성과에 미치는 영향에 대해 조절효과를 갖는 것을 확인하였다. 좀 더 구체적으로는 공급자의 호의성이 높은 경우에는 구매회사가 성과를 높이기 위해 사용하는 일방적 통제의 효과가 사라지는 것을 보여주었다. 결국 기업들은 항상 일방적 통제 메카니즘을 사용할 필요가 없다는 것을 확인하였다. 또한 기업의 호의성이 약할 때에는 일방적 통제 메카니즘의 사용을 고려해야 한다는 것을 보여주었다. 하지만 본 연구는 기업간 호의성이 강할 때에는 어떤 통제 메카니즘을 사용해야 하는지에 대하여 답하지 않은 한계점을 내포하고 있다.

주제어: 기업간 관계, 기업간 호의성, 일방적 통제, 공급자 성과, 기업간 유통

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