Effect of Trust, Satisfaction and Other Relationship Dimensions on Supplier Relationship Management

— Review of — Integrative Business & Economics — Research —

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ABSTRACT

Supplier relationship management is working collaboratively with those suppliers that are vital to the success of the organization, to maximize the potential value of relationships. This in turn increases the overall effectiveness of the organization as well as that of supplier that further on results in the overall value of the product/ service generated. Many growing companies focus on the price of their suppliers, along with the price there are many factors to be considered in the supplier relationship like trust, benevolence, satisfaction, communication and commitment. A questionnaire was prepared based on the literature review so select the most prevailing attributes in the Indian scenario, followed by a survey among the Indian organizations. This paper reports the findings of a survey carried out in 28 Indian organizations to ascertain the impact of various relationship dimensions in buyer-supplier relationship. The main findings of this survey are that in spite of the present globalized competitive environment there exit a feeling of trust, satisfaction and commitment among both the partners. It has been reported by the respondent organizations that they are satisfied with the overall performance of their suppliers and thus try to maintain a long term relationship with them.

Keywords: Supplier relationship, Supplier selection, Relationship dimensions, Supplier Relationship Management.

I INTRODUCTION

In the present economical market conditions, the organizations have to change many challenges in their business activities related to product quality, product price, product warranties and product deliveries. Due to the immense pressure from the competitors and due to globalization, the price of the product is decreasing day by day, whereas increasing the quality and performance of the product along with improved delivery services and reduced lead times. Thus to sustain this pressure organizations have to

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follow cost effective production methods with latest technology and adopt theories for optimization and effective utilization of resources such as Just-in-Time, Agile Manufacturing, Lean Manufacturing, Total Quality Management, Six Sigma, Supply Chain Management, Supplier Relationship Management, Enterprise Resource Planning, Electronic Commerce, Electronic Business, Electronic Procurement and many more. In this light supplier relationship management (SRM) provides a new direction to the organizations. It aims at searching for potential suppliers, improving relationships with existing suppliers, increase in length of relationship with supplier by developing trust, confidence, commitment, communication, satisfaction, and cooperation among the two parties. Supplier relationship is the one of the major issue in the global competitive market. Organization have to rethink their way of doing business, based solely on their internal resources toward a more dynamics strategy, benefiting from their internal improved operations and closer communication with their business partners to overcome above mentioned challenges [9]. There exits number of critical factors and issues that affect the buyer-supplier relationship as reported in the available literature. Some of the important relationship drivers are: trust, benevolence, communication, competency, conflict handling, co-operation, satisfaction, and commitment etc. Some of these drivers have been discussed in detail in this paper and others have already been discussed in the previous paper of the authors [19].

II LITERATURE REVIEW

In the present competitive environment, organizations rely on their trusted key suppliers for quality and complex products and enter into new relationship with other suppliers for procuring simpler and small items. A buyer–supplier relationship's strength in future periods is a function of both the present strength of the relationship and consequent performance increases or decreases achieved as a result of a firm's inclusion as a party to it [6]. There exits five types of supplier relationships: (i) 'buy the market'- short term contracts at arm's length, (ii) 'ongoing relationship'- medium term contracts, (iii) 'partnership'- long term contracts, (iv) 'strategic alliance'- long term relationships, and (v) 'backward integration'- ownership of the supplier [18]. Three factors have a consistently strong effect on a buyer's long-term orientation: (i) a supplier's performance, (ii) the buyer's trust of the supplier, and (iii) the buyer's dependence on the supplier [15]. In collaborative relationships between buyer and supplier, joint relationship effort plays an important role, and the impact of such effort is directly related to trust and not to commitment [12].

Many researchers have suggested number of theories in supplier relationship since long time. The role of competence, communication, commitment and conflict handling are likely to be different in decision related to relationship continuity and decision related to relationship enhancement [11]. The communication between buyer and suppliers is significant predictor of business relationship. Open and frequent communication between buying firm personnel and their suppliers are identified as a key approach in motivating suppliers [23]. The collaborative communication positively influences buyer supplier relationship along with commitment and cooperation in business relationship [3]. The buyer and supplier generally feel satisfied with collaborative relationship [12]. The collaborative activities like information sharing, conflict handling, joint relationship effort and dedicated investment lead to trust and commitment. Trust and commitment lead to improved satisfaction and performance of the relationship. The quality of buyer supplier interaction has great impact on business performance and collaborative/ cooperative

relationship [13]. Trust and commitment encourage firms to work at preserving relationship investment by cooperating with exchange partners and resist short term alternatives in favor of expected long term benefits [22]. Once a high degree of trust is established between the buyer and supplier firms, the level of communication, cooperation and coordination increase between the firms [1]. The presence of trust can reduce the specification and monitoring of contracts, provide incentives for cooperation and reduce uncertainty [25]. Indian organizations are giving importance to collaborative relationship with their suppliers that leads to better communication and interaction between the buyer organization and suppliers on every issue [20].

In the growing competitive environment, besides managing the relationship with its suppliers, the organization needs to proactively manage the relationships between suppliers [33]. This type of relationship has been termed buyer-supplier-supplier relationship. Another important practice that is being followed by many organizations to improve the performance and capability of their suppliers is 'suppler development' so that the supplier in return can meet the needs of the organization. Wagner [26] has considered trust, communication, information exchange, and relation-specific investments as the critical constituent and building-blocks of supplier development. Successful partnerships are expected to be characterized by higher levels of interdependence [30]. Shared goals and business values coupled with social events, and other efforts (training workshops, supplier site visits, and the creation of cross-organizational teams) that involve social interaction between firms tend to characterize buyer-supplier relationship as exhibiting high levels of trust, respect and reciprocity and these in turn are associated with performance enhancements for the buying firms [24]. Liu et al. [32] have concluded that transactional mechanisms (contracts and transaction specific investments) and relational mechanisms (inter-organizational trust and relational norms) are both important in curtailing opportunism and improving relationship performance in buyer-supplier dyads.

Increasingly, the boundaries between an enterprise and its suppliers are disappearing making the suppliers a part of the enterprise. At the same time, organizations now have increasing flexibility to use alternative mechanisms, such as electronic markets, to choose their suppliers, at a global level and with very low coordination and switching costs [5]. Many buyer organizations attempt to nurture feelings of positive identification among their suppliers by influencing their perception towards a feeling of belonging that refers to extended enterprise [8]. Zailani and Rajagopal [30] have suggested that buyer-seller relationships may develop at two levels: (i) industry level (that is reflected in the legal contracts), and (ii) cognitive level (that reflects the buyer's true assessment of the supplier) and these two dimensions vary in terms of influence on the development of the inter-organizational relationships. Rao et al. [29] have defined two types of bonds that produce positive interpersonal relationships between buyer-supplier and these are: (i) 'Social bond'that are non economic investments of time and energy, and (ii) 'Technical bonds'that are forged when two organizations adapt to each other in some economic or technical way and finally concluded that these bonds are positively affected by the extent of use of Internet, resulting in increased trust, commitment, and satisfaction that thus can be linked with improved business performance of the organizations and partners.

In order to enhance supplier performance and the buyer's satisfaction with the relationship, it is necessary to understand perceptions of the relationship. The development of satisfaction follows a similar process to that of trust. Satisfaction

shows a favorable attitude of the consumer. This is a response to long-term consistency of company behavior [2]. The satisfaction is defined as affective consumer conditions that result from a global evaluation of all the aspects that make up the consumer relationship [4]. The money, time, long-term relationship, communication, quality, trust, commitment, innovation and flexibility are the elements for the supplier satisfaction [27]. For achieving buyer trust, it is necessary to have buyer satisfactions at different levels. Higher levels of trust in the buyer organization lead supplier firms to greater involvement in behaviors that facilitate better performance [7]. Buyers and supplier's deceitful practices produce a significant, negative effect on relationship.

In today's competitive marketplace, companies focus on new resources with the strategy to get success in their business. Supplier relationship has become increasingly important in ensuring their success. In SRM, collaborating organization integrates their resources for strategic business objective. It is an approach between two parties to work towards the integration of their organizations, where that integration will bring greater value for money for the customer, enhanced margin for the supplier and will assist in meeting the strategic objectives of both. The quality of relationship with supplier is important for a business to be successful. SRM, a subset of supply chain management, is concerned with understanding, the most important suppliers and how to focus time and energy on creating and maintaining more effectively strategic relationships with the supplier.

III TRUST IN SUPPLIER RELATIONSHIP

Trust is considered as one of the component of the quality of relationship and has been widely studied. Trust indicates a person's credibility in a business situation as well as his/her reputation for trustworthiness at the professional and personal levels both. The reputation of the supplier's fairness has a significant effect on its credibility in the business, and consequently satisfactory credibility will create higher level of trust [28]. Trust may arise from the frequent sharing of proprietary information and the face-to face contact [12]. Through trust, the buyer dependency in business relationship increases due to the increase in transaction and specific investment. The trust influences the cooperative behaviors of the buyer and supplier relationship [23]. These behaviors are useful in: joint responsibilities for common operational tasks, undertaking shared-planning activities, and being flexible and responsive with respect to change in demands placed upon the relationship's requirements.

The propensity to trust or willingness to relay upon others depends on varying quality of trustworthiness such as reliability, competence, benevolence and integrity or honesty [14]. The trust has positive association with relationship satisfaction, thus emphasizing the trust in building and sustaining faithful, long term relationship [16]. Trust is considered as the main aspect of the continuity in relationship. This aspect is identified when a partner develops a certainty of integrity and trustworthiness towards the other partner. This integrity is associated with reliable quality, ability, honesty, justice, responsibility, attendance and benevolence [10]. The buyers and suppliers' perception differences can have a large impact on the effectiveness of their communications [21]. The information richness effects buyer supplier trust. The choice of communication tool during sourcing process should be based upon the relative of various variables [31].

To achieve supplier relationship effectiveness, the nature of trust plays a major role in business relationship. Trust is not simply an input to relationship; it is both a

preconditions and an outcome of relationship development [7]. As the relationship develops, the buyer starts to feel safe with supplier and thus trust develops [11]. The relationship strength are defined as the degree to which both parties in a relationship are engaged in an active and long term working relationship and operationalize the construct using indicators of communication, trust, commitment, interdependence, solidarity, satisfaction and co-operation [25].

IV RESEARCH METHODOLOGY

For the purpose of this survey, a structured questionnaire was framed to collect responses. A total of 38 questions were included in the questionnaire. The main aspects covered in the questionnaire included demographic profile of the organizations, questions relating to satisfaction, communication, commitment, competence, cooperation, conflict handling and trust. All the questions were either developed specifically or adapted from previous research. The survey instrument was initially pre-tested by the academician. Data for this research was obtained from survey distributed among the Indian industries. The survey questionnaire was transferred in to an online survey. In order to ensure that a wide range of industries included in the respondent base, the mailing list of Indian industries was collected from the internet. The respondent base consisted of executives from contacted Indian industries. SPSS (Statistical Package for Social Sciences) has been used for analysis of the questionnaire. An initial email message inviting potential respondents to participate in the survey was send, and the email massage provided a link to the online survey. The questionnaire was also dispatched by courier to the organizations. The contacts have been made with the potential respondent by telephone and personal meeting to participate in the survey. The survey questionnaire was sent to 130 potential organizations in India. A total 31 responses were successfully returned yielding a 24% overall response rate, 28 responses were usable yielding 22% useful response rate.

The frequency distribution and percentage of the respondent persons of the organizations, respondent organizations and size of the organizations are shown in Table I. It shows that maximum 50 % of the respondents are from middle management level and rest 25% each are from senior management level and lower management level. Table shows that 60.7% respondent organizations are private sectors, 21.4% are public sector organizations and 17.9% are government organizations. Most of the respondent organizations (50%) are large scale industry followed by 32.1% medium scale industry and 17.9% small scale industry.

TABLE I
DEMOGRAPHIC PROFILE OF THE ORGANIZATION

DEMOGRAPHIC FROMES OF THE ORGANIZATION			
Profile of the organizations	N	Percent	
1 Level of Respondent			
Junior level management	7	25.0	
Middle Management level	14	50.0	
Senior Management level	7	25.0	
Total frequency	28	100	
2 Type of Organization			
Govt. Sector	5	17.9	
Private Sector	17	60.7	
Public Sector	6	21.4	
Total frequency	28	100	

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3 Organization by size		
Large scale industry	14	50.0
Medium scale industry	9	32.1
Small scale industry	5	17.9
Total frequency	28	100.0
4 Product segment		
Manufacturing sector	16	57.10
Machine tools	2	7.10
Electronics and communications	2	7.10
Power generation	2	7.10
Others (construction, software and oil		21.60
exploration)	6	21.60
Total frequency	28	100
5 Number of employees		
< 50	1	3.60
51-100	2	7.10
101-500	7	25
501-1000	4	14.30
> 1000	14	50.0
Total frequency	28	100
6 Annual Sales Turnover (in millions)		
< 50	1	3.60
51-500	4	14.40
501-1,000	4	14.30
1,001-5,000	9	32.10
> 5,000	10	36.0
Total frequency	28	100
7 Trend in annual sales turnover		
Increased more than 10%	21	75
Increased upto 10%	7	25
Constant	0	0
Decrease	0	0
Total frequency	28	100

V MEASURES FROM SURVEY DATA

Starting with the survey, the first question seeks the business objectives of the respondent organizations. As shown in Figure 1 the four most important (having a mean value greater then 4) business objectives of the organizations as reported by the respondent organizations are: produce better quality products, maximize customer satisfaction, increase turnover (sales), and maximize profit. The other three less favored business objectives are: increase return on investment, deliver value to shareholders, and increase earnings per share. It can be seen from the above data that in the present scenario the organizations main focus is to produce better quality products and hence to maximize satisfaction. Organizations try to retain their customers by providing them the quality products with enhanced services at reduced costs [19]. It can be seen from the figure that profit maximization, increase in return on investment and increase in earnings per share tends to the less preferred business objectives of the Indian organizations.

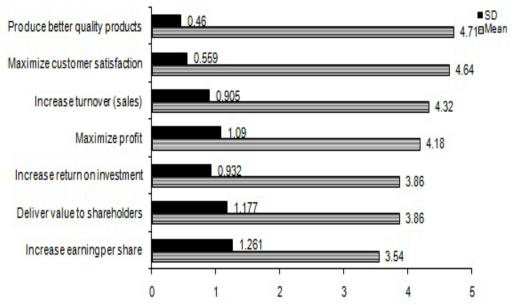


Fig. 1 Business objectives of the organizations

In the present scenario supplier selection and supplier integration is undoubtedly a critical issue for all the organizations. Supplier selection plays a key role in an organization because the cost of the raw material constitutes the main cost of a final product. Supplier selection is one of the very important parameter in supplier relationship because it involves resources that affect many of the production activities such as inventory management, quality control, demand forecasting, aggregate planning etc. Selection and evaluation of suppliers is one of the most critical activities of a company and a strategic purchasing decision that commits significant resources (about 40-80% of total product cost) and impacts the total performance of the firm. The supplier selection is a multi-objective criteria problem because it includes both qualitative and quantitative factors and the main criteria for the supplier selection and key partners are: quality, delivery, performance history, production capability, service, engineering and technical capability, business structure, price, integrity, warranties, honesty, reliability, reputation, commitment and financial position [20].

There exists some main concerns in the supplier selection and some of them have been investigated in Figure 2. The organizations are concerned with getting right quality of product at right price. It is also found that net price, quality, communication, and delivery are considered on priority. Price is generally the primary barrier for the supplier selection. Reliability and communication are also found as crucial factors for supplier selection. Clear and fluent information flow is essential in the supplier selection. The organizations also recognize that the delivery scheduled and delivery locations are the major barriers in supplier selection. The ultimate goal of supplier selection is to identify the optimal suppliers that will offer the best price, quality products in shorter delivery time at desired location. Results show that the distance is not a major barrier in supplier selection. It was identified as a major barrier in few years ago. Organization gave average response for the culture of the supplier. In the beginning, culture was a problem; there was problem in understanding the requirements and organizational business activities [27]. It can be seen from the figure that quality, reliability and pricing of the product are the main concern of the respondent organizations in the Indian scenario. It may be due to the reason that to sustain the competitive market pressure, the organizations tend to select a supplier who is reliable and provides the organization with a high quality product at reduced cost.

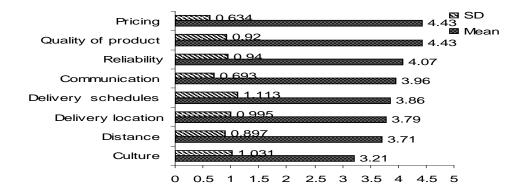


Fig. 2. Major concerns in supplier selection

The organizations may face number of challenges in business activity such as product quality, product delivery and warranties. Through the survey, psychological relationship behaviors of organizations by different factors are measured. The organizations gave their views for trust and satisfaction in relationship. Trust is defined as the positive feeling for others. Figure 3 shows the factors affecting trust and benevolence. Results show that most of the organizations consider that their suppliers keep promises and they can rely on the selected suppliers. Their selected suppliers are trustworthy, open in dealing and honest. The organizations believe in the information which provided by their suppliers.

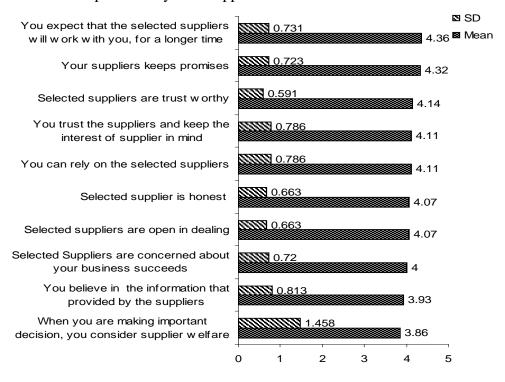


Fig. 3. Factors affecting trust and benevolence

Most of the Indian organizations expect that the selected supplier will work for a longer time and selected suppliers are concerned about their business succeeds [19]. Organizations trust the suppliers and keep best interest of supplier in mind. It is to be highlighted through this data that although in an era of globalization and open market, organizations are provided with an opportunity to interact and trade with number of

suppliers across the global but the organizations restrict themselves with reduced number of supplies (that are in their approved vendor list and have been doing business with the organization since years) so as to have a long term relationship with the suppliers.

Communication plays a major role in buyer supplier relationship. Open and frequent communication between buying firm personnel and their suppliers are identified as key approach in motivating suppliers [23]. The quality of communication also affects the supplier relationship. The frequent and timely communication could assist in resolving disputes as well as in aligning perceptions and expectations between buyers and suppliers [17]. The honest and timely communications with the buyer have a strong effect on both trust and satisfaction [11]. Figure 4 shows some of the factors affecting communication between organization and supplier. Findings show that most of the organizations communicate with their suppliers well in advance if there is any change in requirement. The respondent organizations also agree that timely and good channels for communication are available to their suppliers and that the supplier can communicate at different levels of management [19]. In the present scenario very cheap mode of communication are available (such as internet and messaging) that involves low cost and time. The medium of communication such as: face-to-face, letter, telephone, e-mail, fax, message etc. also affects the buyer supplier relationship. In the initial relationship stages the rich mode of communication (such as face-to-face, telephone) is required and as the relationship strengthens the mode of communication may be shifted from rich to light.

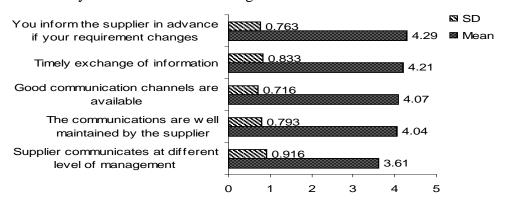


Fig. 4. Factors affecting communication

Commitment refers to an exchange partner's belief that ongoing relationship with another firm is so important as to warrant maximum effort at maintaining it; the committed party believes the relationship is worth working on to ensure it endures indefinitely [12]. The commitment played a major role in the performance of supplier relationship. The commitment is defined as actions or communications leading to adaptation to specific customer needs and thus has a positive influence in the relationship satisfaction [11]. The commitment had a direct and positive impact on buyer and supplier performance. Picking up the thread further the next question enquired about the most prominent factors that affect commitment. As shown in Figure 5, it has been found that suppliers maintain their commitment and are flexible enough to make suitable adjustments to fulfill the needs of the organization. Now days, organization consider their supplier as the part of the organization, and thus comes the word 'extended organization' for the suppliers. The suppliers are involved

in the policy decisions of the organization as well as in the various planning related to the product such as design, production, inventory, forecasting, aggregate planning etc. This is turn makes the supplier feel more committed towards the organization. This feeling of commitment within the suppliers makes them work more efficiently with increased loyalty.

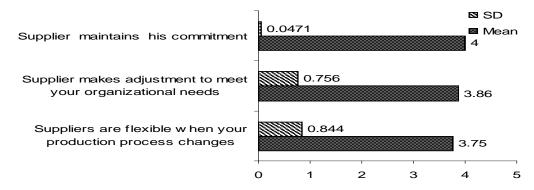


Fig. 5. Commitment of supplier

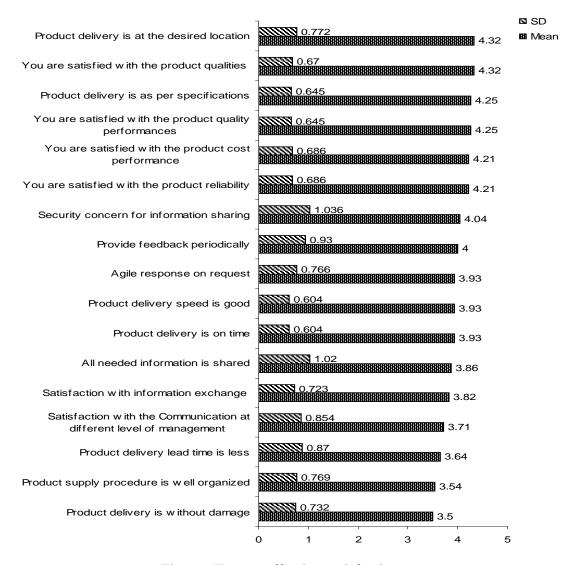


Fig.6. Factors affecting satisfaction

Satisfaction occurs when one party believes that the other party's relationship maintenance behaviors are positive and thus satisfaction can be described as the positive feeling that results from an evaluation of all aspects of an exchange relationship [4]. In addition, the principle of reciprocity in exchange theory suggests that each member of a dyad must perceive the other to be trustworthy in order to ensure a stable and continuing relationship [4]. A frequent and qualitative communication results in effective communication which in turn increases the satisfaction between the buyer and supplier. The gaps between a buyer and supplier's perceptions of the buyer's unethical behavior negatively influence the supplier's satisfaction with the relationship [4]. Figure 6 shows some of the factors that affect satisfaction of the organization from suppliers in terms of product, product deliveries and communication and from the survey it has been found out that respondent organizations are quite satisfied with the product quality, performance, and product delivery. The above data shows that the buyer supplier relationship in India is quite strong and therefore lasts for a long time. It is one of the reason that instead of selecting new suppliers, organizations continue with those suppliers who are in business since years.

VI CONCLUSION AND LIMITATIONS

In the pace of globalization the major barriers in the supplier selection like distance, communication and cultural differences have been replaced by reliability, quality, and pricing. Trust and benevolence are considered to be the main relationship dimensions that drive the buyer-supplier relationship. As the extent of these dimensions increases, the length of relationship between buyer and supplier also increases. Other relationship dimensions that are considered in this study are: communication, satisfaction, benevolence, and commitment. organizations have reported that their suppliers are trust worthy and honest and always keep their promises. Majority of the organizations have reported that they are satisfied with the working of their suppliers in terms of product quality, delivery, performance and cost. Majority of the organizations have reported that their exits good communication channels for timely exchange of information with their suppliers. Further ahead organizations have reported that their suppliers always maintain their commitment and are flexible enough to make changes to meet the needs of the organizations. Respondent organizations have reported that they and their suppliers are jointly responsible to make sure that the task is completed in time.

This study has several limitations that are open for future study. The fist limitation is that the literature reported many types of trust like contractual trust, calculative trust, inter organizational personals trust and buyer supplier perception of satisfaction. In study, only inter organizational trust and satisfaction in supplier relationship is discussed. Future study may address and enhance the impact of these trust and satisfaction in buyer supplier relationship. Another limitation is by using mail survey methodology; there is not rich interaction with events and factors like length of relationship, and CPOs (chief procurement officer) interviews, that produces significant effects in measure score. The future study in this area could investigate the effect of such events and factors as the length of relationship for building trust and satisfaction in supplier relationship. Lastly, the ethical and psychological behaviors in supplier relationship are not included. The future study should attempt to identify these factors and contribution in supplier relationship.

ACKNOWLEDGMENT

We would like to acknowledge our sincere thanks to the anonymous reviewers' for their valuable comments that helped us in improving the quality and presentation of this paper. We would also like to extend our open heartily thanks to the various respondent organizations which participated in the survey and also to those executives who shared their valuable experiences with us.

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