

# Managing for Success: The Role of Transactional and Relational Mechanisms in Buyer-Supplier Relationships

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Firms are collaborating more in supply chain network and identified the importance of business relationships. This idea was embraced by academic and empirical research in operations management since last decade. Therefore, the purpose of this study is to develop a comprehensive integrated conceptual and empirical framework which elaborates the role of transactional and relational factors to highlight buyer-supplier relationship performance. While, limited studies explored these factors separately neither provide the dynamic interactive role of transactional and relational factors in an integrated framework. Through multiple case studies, findings reveal that impact of relational factors of trust and communication has constructive influence in reducing the transaction cost and improving relationship performance. This study contributes to debate on managing complex business network relationships by providing a combined theoretical setting (transaction cost economics and social exchange theory) and empirically proven integrated model. Managers can enhance the operational performance by selecting the most suitable constructs.

*Key words:* buyer-supplier relationship, transactional mechanism, relational mechanism, case study, operational performance, transaction cost

## Introduction

Pressures to build and sustain global competitive advantage during the last two decades have changed the way firms engage in business.

Strategically management of buyer-supplier relationships have become most important drivers of sustainable competitive advantage and observed in both academic and practitioner literature. Particularly, the role of transactional mechanisms and relational mechanisms in supply chain network is becoming more and more crucial (Roden and Lawson 2014). As a result, there is a shift from 'hierarchical capitalism' to 'business networks' (Li et al. 2010). Buyer-supplier relationships have become a panacea for foreign firm's competitive and innovations anguishes; resource constraints; rising costs and risks (Corsten, Gruen, and Peyinghaus 2011).

However, despite their popularity and importance, research and anecdotal evidence show that managing buyer-supplier relationships have become a challenge in supply chain network (Dyer 1997). This has led researchers to investigate a wide range of factors that ensure the success of these relationships. Recently, meta-analysis studies have been conducted on purchasing and supply chain management (PSM) and supply chain integration (SCI) linking these factors positively related to firm's performance (Leuschner et al. 2013; Zimmermann and Foerstl 2014). While these limited studies have richly probed the role of transactional and relational factors on buyer-supplier performance, there is need to develop a comprehensive framework that explains transactional as well as relational forces within an integrated theoretical and empirical model to explain the performance of buyer-supplier relationships.

Therefore, the purpose of this study is to examine the underlying impact of transactional and relational factors in buyer-supplier relationships through multiple case studies. Two theoretical perspectives; transaction cost economics (TCE), and social exchange theory (SET) are integrated in this study to see how effectively firms manage their relationships with their suppliers. Such a theoretical pluralistic approach will help to uncover rich explanations about the management of buyer-supplier relationships. In order to get in-depth understanding about the impact of transactional and relational factors on buyer-supplier relationship performance and transaction cost, this study is based on qualitative investigation. For the purpose, three Finnish companies were interviewed in 2014 that are involved in developing business relationships with their key suppliers (local and international). Thus, this study contributes in a discussion of managing and developing business relationships by providing empirical explanation of combined transactional and relational factors and their impact on transaction cost and performance.

As a consequence, we investigate the following research question:

*How do the transactional factors of contract completeness and interdependence, and relational factors of trust and communication affect the buyer-supplier relationship outcomes?*

The main research question can further be divided in the following sub-questions. First, *how and why do transactional factors effect transaction cost between buyer and supplier?* Second, *how and why do relational factors influence cost between buyer and supplier?* Third, *how can transactional and relational mechanisms and reduced transaction cost enhance the overall firm's performance?*

The remainder of this study is organized as follows. In the next section, literature review is presented. This is followed by a description of empirical section which presents research methodology. Next section provides results with discussion of these factors. After presenting the discussion and implications of the results, the paper concludes with some managerial implications, limitations and suggestions for further research.

### Literature Review

Over the past decades, several theories have been applied to explain the rationality of buyer-supplier relationships. Among the utmost, transaction cost economics, resource based view, institutional theory and social exchange theory are the most important and vibrant theories in this field commonly. In this study, theoretical framework is drawn from the transaction cost economics and social exchange theory. In general, both theories have a common aim of explaining how buyer-supplier relationships are managed. However, the tools, each theory proposes to manage the buyer-supplier relationships are different. Transaction cost economics focuses on the structural mechanisms (i.e., contract between buyers and sellers, specific asset investments between buyer and supplier) to efficiently manage the buyer-seller relationships (Williamson 1985; Brouthers and Hennart 2007). On the other hand, social exchange theory focuses on the social mechanism of trust and level of information sharing to manage the buyer-supplier relationships (Madhok 1995; Johnson et al. 1997; Muthusamy et al. 2007; Lin and Wang 2008).

As the purpose of this study is to find out how transactional and relational factors regulate buyer-supplier relationship outcomes, these factors can be justified rationally by integrating these two theories together. Similarly, structural mechanisms are principally rooted in TCE (Williamson 1985), and social mechanisms mainly exist in SET (Blau 1964). Choice of theory depends upon the nature of problem that is why; this paper integrates both perspectives (TCE and SET) to

encounter the objectives. In the supply chain literature, transaction cost economics (TCE) and social exchange theory (SET) provided a rich explanation of transactional and relational factors. Several researchers highlighted and used the theoretical perspectives of transactional (structural) and relational (social) rationale separately but in detail (Dyer 1997; Liu, Luo, and Liu 2009; Li et al. 2010; Nyaga, Whipple, and Lynch 2010; Corsten, Gruen, and Peyninghaus 2011; Roden and Lawson 2014). Consequently, resource-based view was not integrated because the factors under research question cannot be addressed according to the objectives of the study.

Sillanpää and Sillanpää (2014) developed a strategy framework explaining supply chain which combines corporate strategy, supply chain demand strategy, and business environment together. While the framework by Sillanpää, Shahzad, and Sillanpää (2015), explains the analysis of supplier development and buyer-supplier relationship strategies (supplier assessment, competitive pressure, supplier incentives, and direct involvement) influencing the business performance. Therefore, several researchers have highlighted the important role of supplier selection, and supplier's involvement in strategic decision making process (Choy, Lee, and Loo. 2002; Song and Di Benedetto 2008; Ho, Xu, and Dey 2010; Hammami, Temponi, and Frein 2014) to achieve effective supply chain.

Dyer (1997) study on United States and Japan supplier-automakers international cooperative alliances depict that trust and mutual hostages help to reduce automakers transaction costs and enhance transaction value. In the same vein, Zaheer, McEvily, and Perrone (1998) study on United States buyer-supplier relationships depict that presence of organizational trust reduces negotiation costs and increases performance of buyer-supplier relationships. Similarly, Artz and Brush (2000) study on 393 original equipment manufacturer (OEM) supplier relationships in United States depict that presence of collaboration, continuity expectation, and communication strategies lower negotiation costs in OEM-supplier relationships. Finally, the Dyer and Chu (2003) study on 344 Supplier-automaker relations in United States, Japan, and Korea show that presence of trust reduces monitoring and enforcement costs and positively relates with buyer's profit performance.

Hence transaction costs are measured as negotiation costs (Zaheer, McEvily, and Perrone 1998; Artz and Brush 2000), and contractual costs, monitoring and enforcements costs (Dyer and Chu 2003). In some studies, (1) the presence of trust is considered to reduce transaction costs (Dyer 1997; Zaheer, McEvily, and Perrone

1998; Artz and Brush 2000; Dyer and Chu 2003), (2) and trust and the presence of hostage are considered as both reducing transaction costs (Dyer 1997) and enhancing performance. Apart from measuring transaction cost in these few empirical studies, there are some studies which have identified the structural mechanism (i.e. contract, symmetric dependence, hostages) to manage the buyer-supplier relationships and linking them with buyer-supplier performance (Poppo and Zenger 2002; Woolthuis, Hillebrand, and Nooteboom 2005; Williamson 1985).

#### TRANSACTIONAL AND RELATIONAL MECHANISMS

Transactional mechanisms explain the economic rationality and governing these relationships through monitoring and incentive based structures (Heide and John 1992; Jap and Ganesan 2000). Moreover, the relevant literature of buyer-supplier relationship performance and the factors involve including the literature of transactional mechanisms inspired by the transaction cost economics (TCE) of Williamson (1985). On the other hand, relational mechanism focuses on governing and managing these relationships through moral control and in cooperative environment (Liu, Luo, and Liu 2009). Further, relational mechanisms manage and supervise the social connection and cooperation based on relational norms in business relationships. In this way, trust and relational norms from social exchange theory (SET) are to find out the impact on performance and opportunism (Liu, Luo, and Liu 2009; Heide and John 1992). This contributes in the literature by highlighting the relative effectiveness of these mechanisms in reducing the opportunism and enhancing the relationship performance and explores these mechanisms (Liu, Luo, and Liu 2009; Heide and John 1992; Jap and Ganesan 2000).

Li et al. (2010) highlighted the important antecedents that lead to the adoption of social and formal control in long term buyer-supplier relationships. Control mechanisms are the structural arrangements between the organizations to manage the behaviour of both parties in the relationship (Fryxell, Robert, and Maria 2002). Further, Li et al. (2010) used formal control (relies on contracts) and social control (relies on informal means) to find out their impact on the performance. In this paper, the authors filled the research gap by adding the view of social network theory and institutional view in addition to transaction cost economics (TCE). Most of the existing literature has been applying transaction cost economics and identified several control factors in buyer-supplier relationship (Poppo and Zenger

2002; Reuer and Ariño 2002; Williamson 1985; Wuyts and Geyskens 2005).

Moreover, existing literature has been generated the significant insight into the control mechanisms but the findings are not consistent over time. In this vein, Zhou et al. (2003) highlighted three logics to manage the behaviour of firms in relationship 1) transactions costs, 2) social relations, and 3) institutional constraints. Existing literature argue that formal control and social control mechanisms are substitute (Dyer and Singh 1998; Gulati 1995; Uzzi 1997). On the other hand, some argue that these control mechanisms are not substitute but complementary in explaining the firm's performance (Luo 2002; Mesquita and Brush 2008; Poppo and Zenger 2002; Wuyts and Geyskens 2005).

Similarly, Corsten, Gruen, and Peyinghaus (2011) presented the understanding of buyer-supplier identification role in operations management. They applied the construct of buyer-supplier identification in the relationship by using social identity theory by mentioning different constructs of buyer-supplier identification like trust, information sharing, knowledge sharing, and relation specific investment. This factor of supply chain which provides competitive advantage, theoretically proposed (Ireland and Webb 2007) but not empirically tested and analysed so widely. Recently, some scholars have extended the conceptual framework of identification in supply chain research (Dyer and Hatch 2006; Ireland and Webb 2007).

Moreover, Corsten, Gruen, and Peyinghaus (2011) argued that supplier-to-buyer identification has an impact on the behaviours between the organizations which lead towards the operational performance. On the other hand, this identification of inter-organizational partners can be linked with information exchange which helps to explain the operational performance of the firms. Furthermore, if there is a trust in place between these notions, it would impact directly in both relationship factors by enhancing the operational performance. Importance of management of trust has become more vibrant in the organizations. Paliszkiwicz (2011) evaluated the advancements and setbacks of trust management in organizations. There is a comprehensive consensus among trust scholars that trust is clearly a sociological phenomenon which principally emerges among individuals, however, it can also be established between organizations if 'the positive expectations of the intentions or behaviour of another [organization]' are shared by a dominant coalition of the individuals in both organizations engaged in the collaborative transaction (Zaheer, McEvily, and Perrone 1998).

Transactional and relational factors still can be seen in literature as both complements and substitutes in buyer-supplier relationship. However, prior empirical studies have been unsuccessful to reveal *how* and *why* these transactional and relational factors are substitutes or compliments in buyer-supplier relationship. Several studies have presented quantitative and cross sectional data about the buyer-supplier relationship development but *how* and *why* these relationships can be developed are not uncovered explicitly. This study provides an insight of this phenomenon in a case study method where three cases were analysed profoundly to identify the impact of transactional and relational factors in buyer-supplier relationships.

#### RESEARCH FRAMEWORK

Prior literature presents clear understanding of transactional and relational mechanisms, widely used in several supply chain research papers. A rhetoric discussion of successfully managing supply chain management and business networks provides a concrete knowledge of significant factors supported by different theories. Though, these factors are scattered on the canvas of rich supply chain literature with different behaviours but today's need is to collate those factors in order to streamline and develop strategic buyer-supplier relationship. The framework combines all the mentioned significant features that help companies to enhance the operational performances in inter-organizational relationships and to reduce the transaction cost. Figure 1 presents the research framework based on the research objectives and collate transactional and relational factors from prior literature.

The important factors in research framework do not only have interaction between them but also have a significant impact to hinder opportunism and transaction cost (Williamson 1985) in explaining the performance of relationships. Moreover, this study not only advances the understanding and importance of inter-organizational networks but also provides an analytical framework as a synthesis of significant transactional and relational mechanisms.

#### Research Design and Methods

This study employs a case study approach (Yin 1994; Eisenhardt 1989; Eisenhardt and Graebner 2007) to get insight under question phenomenon. This study is framed within the background of TCE and SET to testify how the identified key variables behave in different business environments. Similarly, the research question is strictly scoped within the context of TCE and SET to get an insight of

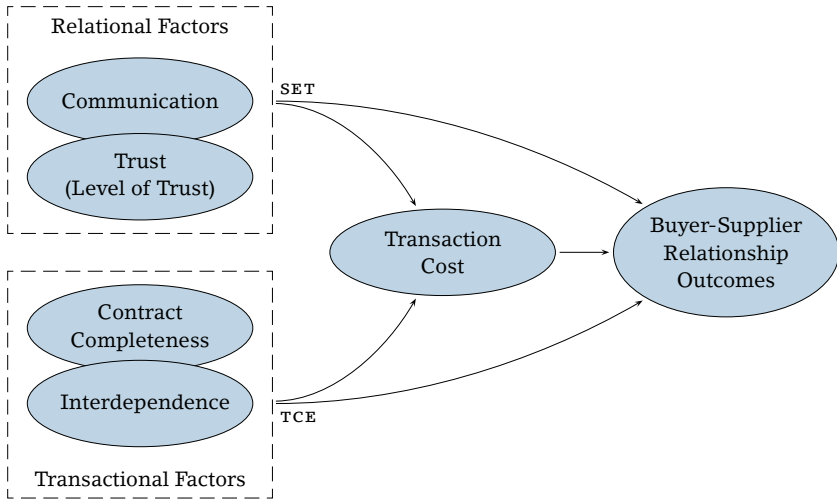


FIGURE 1 Research Framework

transactional and relational mechanisms (Eisenhardt and Graebner 2007). Therefore, this research design helps us to get a better understanding and real-world context of buyer-supplier relationship outcomes in natural setting (Bonoma 1985; Yin 1994; Eisenhardt and Graebner 2007).

A multiple case study provides the external validity because of comparative analysed results by within case and cross case analysis thereby employing replication logic (Yin 2003; Eisenhardt 1989). It provides the advantage in increasing the likelihood of developing accurate findings extracting from collected data and better information to identify the transactional and relational factors and their pattern in particular (Ghauri 2004; Yin 2003). The lack of qualitative research in this topic led to identify the significant factors and select an exploratory method based on grounded theories (Glaser and Strauss 2009).

#### THE THREE CASE STUDIES

Three manufacturing cases from Finland were selected based on the equal level of operations, cultural closeness and suitability of relationship factors which prevails the logic among constructs (Eisenhardt and Graebner 2007). The cases are not selected to be representative of the population of buyer-supplier relationships, but as explanatory substance to validate the testability of transactional and relational factors.



*Case A* is a global leader based in Finland and compelled by an urge to produce, manufacture, and sell electric drives and inverters in the world. It has a huge suppliers' network with hundreds of key suppliers selected based on quality level, costs and capability to handle 'high mix low' volume that provide capital component supplies to run their daily operations. *Case company B* based in Finland leads in power and automation technologies and success was driven by a strong concentration on research and development along with long track record of innovation. This case started relationship with this key supplier three years ago and selected based on quality assurance, cost, and dynamic capability. *Case company C* is engaged in products and services for customer's value and effectiveness globally and one of the global leaders in their operations and serves a huge number of customers. They have established a supplier development system to enhance the operational performance between buyer and supplier to strengthen their supply base. This relationship was started in 2000 and case company considered many parameters during the selection (e.g. outsource production facility, quality, cost, delivery time etc.).

#### DATA COLLECTION

As purpose of this research is to find out insight impact of transactional and relational mechanisms in developing buyer-supplier relationship, data was collected from selected cases keeping the importance of these mechanisms in mind. Semi-structured interviews including measurement items (see appendix 1) were conducted to collect data in order to achieve a certain level of comparability (Bryman 2004). Each interview was held face to face with voice recording and then transcribed to ensure high degree of reliability and traceability (McCutcheon and Meredith 1993).

This study contains a high level of dependability and reliability because of the process followed recommended by Miles and Huberman (1984) and Hill, Thompson, and Williams (1997), where two authors collected data from the cases in order to enhance the creative potential. One informant (top management level) from each selected case company was picked up for interview (three interviews in total). Interviews lasted an average of two hours where each interview was recorded and transcribed. The primary focus was to obtain the information regarding transactional and relational factors in their buyer-supplier relationship that could not be retrieved from secondary sources. The informants in selected case companies were at top level managerial positions, all of whom were typically respon-

sible in daily operations, and having direct strategic interaction with suppliers. Anonymity of company sources was confirmed in report findings to communicate openly with the respondents which provided a comfort level to respondent.

#### CONSTRUCT OPERATIONALIZATION AND DATA ANALYSIS

A case protocol was written as recommended by Yin (1994) to establish a comparison between selected cases and quality of case analysis. The idea of case protocol was written to identify the transactional and relational factors and their impact on relationship outcomes and to measure these factors through in-depth interviews.

*Contract completeness* was measured by asking overall nature of the contract in terms of its importance between two parties, operating procedures, types of conflict resolution clauses, termination, unanticipated contingencies, and quality of distributed resources between buyer and supplier. Further, *interdependence* was measured using a systematic approach in buyer-supplier relationship where the amount and ratio of resources invested by two parties were analyzed. *Communication* was measured by asking quality, frequency, and openness of communication between the parties. *Trust* was measured by inquiring the overall assessment of this phenomenon between the parties in respondent's perspective. *Transaction cost* was measured by asking the frequent cost occurred in terms of negotiation, consumed time in handling conflicts, and monitoring the supplier's operations. On the other hand, *relationship outcomes* have been measured by using the criteria of overall performance, profitability, just in time delivery, manufacturing/quality, cost control, cost compared with other suppliers, and satisfaction level of this relationship.

The collected data was analyzed using qualitative data analysis techniques: data-driven thematic analysis and putting all the information in classified chronological order to uncover the detailed elements of transactional and relational mechanisms in relationship outcomes (Miles and Huberman 1994). We followed the recommended steps to analyse the collected data where recorded interviews were broken down in the context of constructs accordingly. Each case was analyzed separately, then a cross-case analysis done to identify the similarity and differences of these mechanisms in different cases (Ragin 1994; Eisenhardt 1989). The consistency analysis between empirical findings and theoretical arguments across cases were utilized to draw conclusions. Figure 2 elaborates the complete process of research methodology employed for this research.

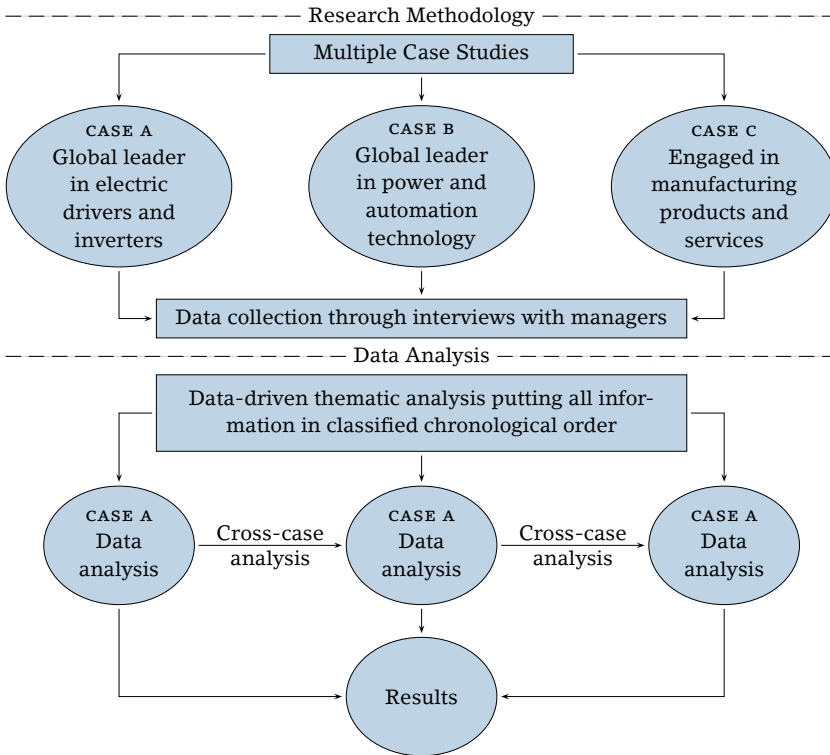


FIGURE 2 Research Design

### Research Findings

Supplier and respondent names were decided to keep anonymous, so with analyzed results of transactional and relational factors in buyer-supplier relationship outcomes are presented. This section describes how these mechanisms are perceived and operationalized case by case, and then comparative analysis findings are presented.

#### CASE A

##### *Transactional Characteristics of Relationship in Case A*

Interview with respondent from Case A has revealed that they trust their key supplier significantly which makes their position very strong in this relationship, they deal and negotiate openly in the time of crises. A written contract is emplaced between buyer and supplier but at the same time they prefer the organizational culture and communicate openly if they need to resolve a conflict between them. In this case, they have very strong bonding with their key sup-

plier and contract has a low impact in managing this relationship which effectively influences the relationship outcome positively.

In this cooperation, both parties have invested massively to manage and to keep the operations smooth. Both parties have invested in knowledge transfer, know-how, quality testing systems, automated order transactions, lean production, training, engineering drawings etc. This huge investment by both parties makes the more independent on each other. Interdependence is quite high in this case where both parties have invested capital resources for the relationship. The ratio of these resources is about 50–50% by investing financial, managerial, technological, and physical resources for relationship development.

#### *Relational Characteristics of Relationship in Case A*

The quality, frequency, and openness are considered to be important while communicating with their suppliers. Similarly, in this case communication employed is formal and informal to solve the conflicts timely which always help for better operational results. So, this shows the high frequency level of communication between two parties in this particular case. In this particular case, trust was not built from very first day but developed gradually. Similarly, trust has developed and become a strong reason to eliminate several problems and costs.

#### *Relationship Outcomes in Case A*

The impact of transactional and relational factors on reducing the transaction cost show that situations may differ case by case. Transactional and relational factors provide the opportunity to run the business smoothly and build strong bonding with suppliers. Following this approach, they are helpful in reducing the cost but sometimes negotiations on different issues can be a reason to bear extra costs. Because this relationship started in 1999, they have therefore built trust, communication, asset specific investments, and action plans in their operations. The opportunism factor has been almost vanished from this relationship. In the following table 1, respondent's view upon transactional and relational factors in Case A is stated.

### CASE B

#### *Transactional Characteristics of Relationship in Case B*

In this case, interdependence is asymmetric in nature even both parties have invested little resources for this relationship and they are

TABLE 1 Respondent's View upon Transactional and Relational Factors in Case A

Respondent's view upon Contract	'Of course contract has a significant value in any of the relationship and sometimes it becomes really important when unanticipated events happen but in our case, the most important thing is relationship and way of thinking rather contracts.' The respondent further explained that: 'Contracts do not contain everything so, we only need to come on table to discuss about any unpredicted situation.'
Respondent's view upon Interdependence	'Both of us (buyer and supplier) have invested in a huge amount of resources for this relationship where dependence level is very high because they have our product drawings (tailor made product) and we are their giant customer.'
Respondent's view upon Communication	'We communicate with our key supplier very frequently about any specific issues in our monthly meetings and I do not find any problem while communicating with us from their side.'
Respondent's view upon Trust	'Trust is everything in personal level relationship as well as in company level relationship and we are happy that our supplier fulfils the promises in time and we have a great confidence on its integrity.'
Respondent's view upon Relationship Outcomes	'Sometimes, companies need to bear the costs of continuous improvement in operations while dealing with their key suppliers.'
Respondent's view upon Relationship Outcomes	'Communication atmosphere is quite open to improve the operations and to solve the problem which means we are not bearing the high level of negotiation, decision making, monitoring, and information sharing cost but we have to be more cost effective tomorrow than today. Costs, quality, time, and technology are the elements that should be improved all the time to build strong and long term relationship.'

one of the main customers for the supplier. The reason behind of being asymmetric interdependence is that the age of relationship is just three years and both parties want to share their resources more. Further, if relationship dissolves, the tangible resources can be recovered and used again. Most important issues regarding operations, management, conflicts, and contingencies plans are being followed in this relationship as stated in the contract.

*Relational Characteristics of Relationship in Case B*

Both parties carry quite the same organizational culture, so they are familiar with each other's way of working where they can trust on. This shows that there is a medium level of trust developed in this relationship which is quite obvious due to lesser years of this relationship. Moreover, communication in this relationship is also integral part and they usually do not face problems because of same cultural

values in communication and understandings. Both parties are quite accustomed with organizational norms. In this buyer-supplier relationship, communication part is more open and frequent because of turbulent business type where product and production line change in short time and they need frequent and open communication to keep it updated.

### *Relationship Outcomes in Case B*

In this specific relationship, both parties carry some costs in terms of negotiations, combine decision making, monitoring quality of supplied components and information sharing cost. So, the transaction cost overall is a bit higher because of newly made relationship. The relationship performance is at the medium level even the supplier in this relationship is a capital supplier. They have good relationship but both parties still want to improve their operations between them and trying to balance between the cost, just in time (JIT), quality and dynamic capability in a way that they achieve a reasonable level of relationship performance. In the following table 2, respondent's view upon transactional and relational factors in Case B is stated.

### CASE C

#### *Transactional Characteristics of Relationship in Case C*

It is already stated that Case company C owns 50% of the shares of its key supplier, so quite obviously they have invested a huge amount of resources in terms of financial, managerial, technological know-how, and physical resources in this relationship. Similarly, in this relationship, both parties are dependent on each other and an asymmetric dependence exists because it is quite difficult for both parties to find new supplier and buyer respectively. Huge investments do not allow both parties to dissolve this relationship and recover the invested resources which reduce the fear of opportunism at the same time. Exploiting the invested resources seems difficult in this relationship because of a high level of investment for the relationship. Contract also describes the situations therefore, if any conflicts between parties arise, both parties try to solve a conflict by negotiation or by court in worse situation.

#### *Relational Characteristics of Relationship in Case C*

In case C where communication between parties is the key factor, it always tries to be open and keep informed their supplier about changes that may affect other parties to avoid any ambiguity and vagueness. This fluent and frequent communication poses that both

TABLE 2 Respondent's View upon Transactional and Relational Factors in Case B

Respondent's view upon Interdependence	'We want to share our knowledge and resources with our suppliers but it will be built gradually. Our supplier also has reformed their production to fulfil our quality requirements.'
Respondent's view upon Contract	'Contract is very complicated and in detailed all about the operations and management but still we do business according to the written clauses of the contract for most important issues but I still believe that in a problem situation, trust plays an important role.'
Respondent's view upon Trust	'Trust is not of course enough, operations must be transparent to build up trust in a relationship. Suppliers need to be very open in any situation and if they are transparent, then trust comes in the relationship.'
Respondent's view upon Communication	'According to my understanding, we try to fulfil our promises and I think due to same norms and values, our supplier also do the same. Our supplier communicates honestly and openly if they are not able to fulfil promises and they do their best for it.'
Respondent's view upon Relationship Outcomes	'It depends upon the conflict, but we put all the related issues under considerations and try to solve it as soon as possible. Our supplier is expert but if we are unhappy with the operations, we consider negotiating for related issues and decision is made by the managements of both parties.'
Respondent's view upon Overall Performance	'I cannot see big issues in this relationship overall and we are quite happy and satisfied but we expect that our supplier will improve their operations in future to prolong the relationship and to develop good terms.'

parties provide important and timely information each other to avoid any unprecedented conflicts. Further, trustworthiness in a relationship is significant and no relationship could be developed without trust. Case company C has a high degree of trust on their supplier and vice versa.

### *Relationship Outcomes in Case C*

This case however faces challenges in strategic decision making for being global company but supplier is very efficient and it compensates the transaction cost. Quality standards are already agreed between them, which means no extra cost for monitoring the quality level of components exists. Thus, this relationship has developed already a certain level of understanding between the parties for their capital transactions and interfaces for supplier integration are developed for information sharing that allows both parties to reduce their transaction cost. The respondent rated high for overall performance and both parties are quite satisfied with their relationship. They are

TABLE 3 Respondent’s View upon Transactional and Relational Factors in Case C

Respondent’s view upon Transactional Characteristics	‘All the clauses regarding termination and operating procedures of contract are agreed between the parties but we cooperate and build relationship with our supplier based on trust and fair communication which we consider is a key aspect for relationship development.’
Respondent’s view upon Transactional Characteristics	‘Both of parties need to solve a conflict if any by negotiating or compromising otherwise we can follow the legal clause of the contract by knocking the court’s door but it has been very seldom in our case because we never face this kind of situation in this relationship.’
Respondent’s view upon Communication	‘Both of the parties try to be open in communicating any changes in procedures or operations to avoid conflicts and we do not feel any resistance or hesitation because relationship is working perfectly for last 11 years and further we do not spend a lot of time for meetings etc.’
Respondent’s view upon Trust	‘First of all, our supply chain is integrated and of course there are issues every now and then but they do not affect our relationship because we understand each other’s operations and mostly our supplier fulfil all of its promises which enhance the trust level in our business relationship.’
Respondent’s view upon Relationship Outcomes	‘We have developed supplier integration program where both of the parties have easy access to the technical documents, product drawings, information sharing etc., and overall transaction cost between the parties is very low.’

committed to continue the relationship for longer term and want to enhance the transaction value.

COMPARATIVE CASE FINDINGS

Table 4 summarizes the comparative impact of degree of transactional and relational mechanisms in three analyzed case companies. It describes the level of these mechanisms in their operations for relationship outcomes. Based on the results, we have described the degree of these mechanisms in buyer-supplier relationship as low, medium, and high which identify the factors need to be improved. This rating of low, medium, and high in table 4 was achieved and determined by particular existence level of transactional and relational mechanisms in the cases. This is followed by Woolthuis, Hillebrand, and Nooteboom (2005) who selected the extremes of low versus high to discover the research question. Hereby, we have divided the degrees into three extremes low, medium, and high to achieve the comprehension and rationale of research objectives. Further, the answers were analyzed and transcribed into the ratings to make it more clear and understandable. This clarifies not only the developed per-



TABLE 4 Degree of Transactional and Relational Mechanisms in Cases

Mechanism	Category	Case A	Case B	Case C
Transactional mechanisms	Interdependence	Symmetric	Asymmetric	Symmetric
	Contract	Low	High	Low
Relationship Mechanisms	Communication	High	Medium	High
	Trust	High	Low	High
Buyer-Supplier Relat. Outcome	Transaction cost	Medium	High	Low
	Overall performance	High	Medium	High

ception of these mechanisms into respondents’ mind but also identify what the significant factors to be improved.

Based on the analyzed results summarized in table 4, this study provides comparative findings of transactional and relational factors. As we can see that in Case A, interdependence between parties is symmetric which help to reduce the opportunism level in relationship. Further, the impact of contract is quite low which illustrates that both parties try to resolve their conflicts based on the trust. Similarly, communication and trust in Case A have high impact in developing the relationship that posits the positive impact on relationship performance. Finally, transaction cost has a medium impact in this relationship, which recommends that they need to further think about their transactions with supplier more in detail to evaluate how they can reduce transaction cost.

Case B posits results unlike Case A, where transactional mechanisms need to be improved. These results endorse the both parties to invest more for the relationship, which will affect their interdependence level and reduce opportunism between the parties. Because this relationship is newly made (3 years), they need to develop trust between each other to enhance the transaction value of relationship. If relational mechanisms have developed in an organization, companies mutually solve conflicts and unpredicted situations. Symmetric interdependence provides the opportunity for both parties to prolong relationship with good terms and to enhance relationship performance.

On the other side, Case C is quite unique between three cases because it does not only have good relationship with supplier but it also has ownership in supplier’s assets. In this situation, interdependence will always be symmetric and fear of opportunism will be very low. Contract between both parties will exist but they will try to solve all the problems and conflicts in a win-win situation. In this case, trust and communication has a high impact on relationship

performance because they do not need to negotiate frequently for certain issues. Trust always reduce the possibility of negotiation and transaction cost.

### Conclusion

This paper empirically demonstrates the impact of transactional and relational mechanisms on transaction cost and buyer-supplier relationship performance. To examine the role of these mechanisms in relationship performance, this study produces an empirically tested research framework based on two major theoretical perspectives: transaction cost economics and social exchange theory. Previous research lacks in identifying generally the role of transactional and relational factors in developing buyer-supplier relationship and more specifically measuring the transaction cost. It also lacks in evaluating these mechanisms together for a specific relationship in multiple case study where the knowledge can be acquired in detail.

This study uncovers that relational mechanisms are more effective than transactional mechanisms on relationship performance. Trustful atmosphere between parties facilitate to resolve the conflicts and safeguard the contingencies that in result enhances transaction value and reduces transaction cost. The collected data from Finnish cases with same organizational culture indicate that trust and communication are the most important factors in developing long-term relationships with business partners. Findings also show that transactional factors have significant effect in developing buyer-supplier relationship. This means that symmetric interdependence reduces the potential of uncertainty of outcomes, replicates a level of competitive and synergetic relationship nature and develops higher transaction value (Mahapatra, Narasimhan, and Barbieri 2010; Hendrikse and Windsperger 2011; Pfeffer and Salancik 2003, 41).

Most importantly, this study presents empirically tested integrated framework which combined significant factors of *TCE* and *SET*. This kind of combination does not only highlight the importance of these factors but also to answer the question of how and why these factors influence the buyer-supplier operations. Our findings show the impact of transactional and relational factors on transaction cost between buyer and supplier and how to hinder the opportunism. Because this study examines these factors from buyer perspective, it provides a new dimension to buyers to integrate and reconsider these factors while making decisions to get competitive advantage.

The findings contribute to existing research on the management of buyer-supplier relationship by developing an integrated framework

of social exchange theory and transaction cost economics. Moreover, a case study explores the significance of transactional and relational mechanisms for buyer-supplier performance. This finding provides an insight for the managers to understand the importance of these mechanisms in their operations to build up strong relationships not only to improve performance but also to reduce transaction cost. Managers can enhance the operational performance by selecting the most suitable construct in developing long-term relationship with their suppliers.

#### FURTHER RESEARCH

It is important to note that this study contains limitations which provide future research prospects. Our study focuses on Finnish manufacturing industry by selecting three case companies. Interesting future research can be done by adding more cases to get a comprehensive overview of the constructs used in the study. Future research can be developed a full set of characteristics within the model along with a strong aspect of culture to be tested in Nordic countries. This viewpoint will provide more generalized and interesting findings due to different cultural norms. For example, *trust* and *communication* play a crucial role in developing buyer-supplier relationship in Finnish organizational culture. It would be interesting to see the extent and effectiveness of this framework in other countries too. Finally future research should attempt to identify some other supplementary factors contributing to reduce transaction cost and to develop buyer-supplier relationships. Quantitative study with a sufficient number of respondents is quite an interesting idea to test the proposed integrated framework in further research.

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## Appendix 1: Measurement Items

### BUYER'S BACKGROUND INFORMATION

1. Name of your company?
2. Type of the industry?
3. Number of employees (in 2014)?
4. Ownership: (family-owned, state-owned, local Plc. MNE)?
5. When was your company formed?

### SUPPLIER'S BACKGROUND INFORMATION

1. Name of the key supplier?
2. Supplier's home country?
3. Number of employees in your supplier company approximately (in 2014)?
4. Supplier ownership type: (Family-owned, state-owned, local Plc. MNE)?
5. When did relationship start with supplier?
6. Why did your firm select this supplier?

### TRANSACTIONAL CHARACTERISTICS OF RELATIONSHIP

1. What kind of resources have your firm and supplier invested in this relationship (e.g., financial, managerial, technological, physical, or others)? If yes, then what is the ownership ratio?
2. Suppose if your relationship with this supplier dissolves today, to what extent you and your supplier can recover the invested resources: (a) very low, (b) moderately low, (c) slightly low, (d) medium, (e) slightly higher, (f) moderately higher, (g) very high?
3. If your relationship with this supplier dissolves today, can your firm find another supplier for same components?
4. If your relationship with this supplier dissolves today, can your supplier find another buyer for the same components?



5. What is importance of contract in your relationship with supplier and what sort of things you have included in contract (operate and manage the relationship, resolve conflicts, terminate the relation, unanticipated contingencies, quality of resources contributed, and avoiding exploitation)? What is the impact of contract on actual dealings between companies?

#### RELATIONAL CHARACTERISTICS

1. Communication is very important ingredient for developing the relationship between buyers and suppliers. How do you describe the quality, frequency, and openness of communication between your firm and supplier:
  - (a) keeping informed each other about events or changes that may affect the other party,
  - (b) providing important and timely information that might help the other party,
  - (c) exchange of information in this relationship takes place frequently and informally.
2. How important is trust in your relationship with supplier? How do you describe the overall trustworthiness of supplier in this relationship? Does he fulfil his promises? Does he sometimes try to hide some important information from you?
  - (a) Cannot be trusted at times
  - (b) Is perfectly honest and truthful
  - (c) Can be trusted completely
  - (d) Can be counted on to do what is right
  - (e) Is someone I have great confidence in
  - (f) Has high integrity

#### RELATIONSHIP OUTCOMES

##### *Transaction Cost*

1. Developing relationship always carry some cost in terms of negotiations, combine decision making, monitoring the quality of supplied components, and sharing information. How efficiently your relationship handles these kinds of costs?
  - (a) How effective your meetings are with your suppliers in terms of time spent and making important decisions?
  - (b) Do you spend a lot of time in monitoring the quality of supplier's deliveries?
  - (c) Do you spend a lot of time together with supplier in order to solve conflicts?
  - (d) How easy it is to understand the information provided by supplier?

##### *Buyer-Supplier Relationship Outcome*

1. How do you evaluate the performance of your relationship? (Overall performance, profitability, just in time delivery, manufacturing quality, cost control, achieving goals, performance compared to



other suppliers, and relationship with supplier)? How satisfied is your firm with this relationship:

- (a) Has the relationship been satisfactory?
- (b) Has the relationship been very successful?
- (c) Has the relationship met your firm expectations?
- (d) Has your firm achieved the set objectives?



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