

## **A dyad perspective of buyer-seller relationships – the case of Taiwan agribusinesses**

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### **Abstract**

The research reported in this study investigates how agribusinesses in Taiwan evaluate their existing business relationships and identifies the areas for improvement. These areas were examined in terms of the variables of the five-stage buyer-seller relationships development process from the existing literature and this was achieved through a series of 20 in-depth interviews conducted with 10 agribusinesses from a dyadic perspective. The findings revealed that at the early stages of the relationship, organisations were concern with achieving product and service reliability and quality. Whilst trust, commitments, co-operation, shared goals, social and structural bonds were regarded as more critical in the later stages of the relationship for the development of a closer long-term relationship. The research findings also highlighted five areas for improvement in a buyer-seller relationship that could vary in their relevance and importance at each level of the relationship.

### **Introduction**

Increasing demand for agribusiness products has led to market conditions across this sector to be more challenging and competitive, and at the same time cost pressures are building up with channel members expressing great concern. This indicates that inefficient channel members are unable to remain viable and in many cases, supply chains have become increasingly reliant on fewer (ie more concentrated) but more efficient suppliers who are willing to establish a longer term relationships with buyers, to stay in business within an increasingly globalise environment of decreasing real returns. Therefore, establishing, maintaining and improving buyer-seller relationships are critical to agribusiness enterprises in order for them to value add and seek out long-term sustainability in the highly competitive industry (Weber, Current and Benton, 1991).

The key to a successful channel partner relationship is to develop, maintain and seek improvement on the dynamics of a relationship within the supply chain. This relationship evolves over time and requires careful management to achieve best possible value outcomes. Although business-to-business relationships had been investigated (eg Gronross, 1990; Perry, Cavaye and Coote, 2002) in great depth in the last decade, however very limited studies (eg Duffy and Fearne, 2004; Masuku and Kirsten, 2004) have been conducted to evaluate the relationship as a whole, in particular addressing dyadic issues between the buyer and seller in the agribusiness industry. The purpose of this paper is therefore to investigate current long-term relationships from both sides of the dyad by exploring the relation between the evaluation and areas of improvement. This study draws from both the theory and the preliminary empirical knowledge gained from interviewing stakeholders responsible for the business relationships process in the Taiwanese agribusiness industry. Hence, this paper will address the question *'How to develop good working buyer-seller relationships'*.

## Literature Review

In a business-to-business environment, a buyer-seller relationship is developed over a period of time that requires more than just monetary transactions and should also include a range of other activities (including investment in time and resources) that helps to build a close long-term relationship (Axelsson and Easton, 1992; Ganesan, 1994; Webster, 1992). According to Ford (1980), the process of establishment and development of buyer-seller relationships are based on the variables of experience, uncertainty, co-operation, commitment and mutual adaptation and this itself is complex in its own nature. Through this, a five-stage buyer-seller relationships evolution process (namely pre-relationship stage, early stage, development stage, long-term stage and the final stage) is identified (as shown in Table 1). During this evolutionary process, the buyer (or seller) learns more about one another. These five stages of the evolution process will each be briefly discussed next.

**Table 1: Five-stage buyer-seller relationships evolution process**

Stage of relationship development	Authors	Activities
Stage 1 Pre-relationship stage	Dwyer, Schurr and Oh (1987); Ford (1980)	<ul style="list-style-type: none"> <li>• Search for potential partners from outside and inside sources.</li> <li>• Evaluate and select potential partners based on social and economic aspects.</li> <li>• Finding more information and cross-checking partners' competency.</li> <li>• Matching needs and capabilities.</li> </ul>
Stage 2 Early stage	Anderson and Narus (1990); Wilson (1995)	<ul style="list-style-type: none"> <li>• Make initial contact.</li> <li>• Establish rapport with partners.</li> <li>• Testing for compatibility of partners.</li> <li>• Determining and defining mutual goals.</li> </ul>
Stage 3 Development stage	Dwyer, Schurr and Oh (1987); Ford (1980); Morgan and Hunt (1994)	<ul style="list-style-type: none"> <li>• Joint planning of activities, responsibilities and relationships.</li> <li>• Develop personal relationship and trust.</li> <li>• Direct involvement through regular contact and socialisation.</li> <li>• Little commitment towards trial trading activities.</li> <li>• Adaptations and adjustments through agreement, negotiation and self control.</li> </ul>
Stage 4 Long-term stage	Gundlach, Achrol and Mentzer (1995); Morgan and Hunt (1994)	<ul style="list-style-type: none"> <li>• Increased commitment and recognition of mutual benefits through institutionalised conflict resolution process.</li> <li>• Development of inter-organisational and member adaptations.</li> <li>• Ongoing trading activities.</li> </ul>
Stage 5 Final stage	Ford (1980); Hakansson (1982)	<ul style="list-style-type: none"> <li>• Long term rewards based on mutual behaviour and trust</li> <li>• Termination based on extent of mutual interest and cost benefit analysis of continuing in the relationship</li> </ul>

*Source: adapted from Anderson and Narus (1990); Dwyer, Schurr and Oh (1987); Ford (1980); Gundlach, Achrol and Mentzer (1995); Hakansson (1982); Morgan and Hunt (1994); Wilson (1995)*

The first stage of the evolution process, *pre-relationships* concerns with the evaluation of new potential suppliers. At this stage, buyers begin to gather information on potential suppliers and evaluating the contents to determine if a relationship can be developed (Anderson, 2001; Dwyer, Schurr and Oh, 1987; Ford, 1980). In the *early* stage, relationships between both buyers and sellers are likely to have minimal experience of one another but through direct contact with each other, this provides the opportunity for them to exchange information in order to make tangible and intangible investment (Ford, 1980; Fynes, Burca and Marshall, 2007). Doing so can further explore the potential of the relationship and reduce the buyer's perceived risk and improving supplier's creditability (Hakansson, 1982; Turnbull, 1987).

At the *development* stage, commitments to the learning processes and investments are agreed between buyers and sellers, to ensure the relational continuity (Ford, 1980). During this phase, communication and trust continue to grow, leading to increased co-operation and established common goals (Fynes, Burca and Marshall, 2007; Morgan and Hunt, 1994). The *long-term* stage describes the adoption of on-going business exchanges routines between buyers and sellers that can only be achieved through mutual attraction, trust and commitment (Anderson and Narus, 1990; Dwyer, Schurr and Oh, 1987; Lindblom, Lindblom and Tuominen, 1998).

The *final* stage aims to manage the interactions in order to minimise uncertainty and to apply sanctions (such as termination) that discourage the interruption of the business relationship (Ford, 1980). Often if the termination of a relationship is to occur, it will be based on the level of dissatisfaction, the switching cost involved and the cost benefit effects (Rokkan, Heide and Wathne, 2003; Tahtinen, 2002). On the whole, the buyer-seller relationship is seen as an evolution process to: (1) increase experience of both buyers and sellers, (2) minimise uncertainty in the relationship, (3) the development of both actual and perceived commitment, and (4) the formal and informal adaptations, and investment and savings involved in both buying and selling organisations (Ford, 1980).

Previous studies (eg Aijo, 1996; Anderson and Narus, 1990; Dwyer, Schurr and Oh, 1987; Gruen, 1995; Morgan and Hunt, 1994; Nielson, 1998) revealed that a number of key factors such as trust, commitment, communication, shared norms, quality service and reliability, product quality and co-operation contribute to the development of long-term relationships. However, these factors and their level of importance vary at different stages of the relationship (Ford et. al., 1998; Lindblom, Lindblom and Tuominen, 1998). This research will evaluate current buyer-seller relationships in the agribusiness sector of Taiwan and investigate on what improvements can be made on such relationships.

## **Research Methodology**

This study was exploratory in nature and was conducted in the form of case study research that aimed to replicate or extend the emergent theory in the literature reviewed (Donellen, 1995; Parkhe, 1993; Yin, 2003). The adoption of case study methodology was justified mainly on two grounds. Firstly, through case studies, this research sought to explore the complex business environment in the agribusiness industry that would allow a real-life account of the research issue raised in this study and builds on theory for further conclusive research (Carson, Gilmore, Perry and Gronhaug, 2002; Perry, 1998; Yin, 2003). Secondly, case study research focuses on an organisation or industry to rigorously explore and analyse contemporary real-life experiences and events in depth while retaining the holistic and meaningful characteristics of these real-life experiences and events, to allow the richness and depth of contextual meaning (such as the areas for improvement in a buyer-seller relationship) that can give raise to the possibility of new perceptions (Yin, 2003).

Ten cases within the agribusiness industry were selected judgmentally, of which five cases were buying organisations while the remaining were supplying organisations (ie suppliers to those five buying organisations). Two interviews were conducted in each case (buying and supplying organisations) with the managing director or equivalent and a middle level manager or operational staff. These interviews were semi-structured with flexible and informal discussion which gave the interviewer greater insights about the topic addressed. An

interview protocol was developed and used throughout the interviewing process, to ensure all relevant issues were addressed and consistently conveyed to the interviewees. The findings of this research are discussed in the next section.

## Results

Twenty interviews were conducted with 10 agribusiness cases, represented by five buying organisations and five supplying organisations. The majority of interviewees (17 out of 20) were male whilst only three females were interviewed. Eighteen out of 20 interviewees had more than five years of experiences in agribusiness, whilst the remaining interviewees had at least two years of relevant experiences. However, all interviewees had direct involvement in activities related to buyer-seller relationships in their respective organisation.

Overall, the findings were consistent with interviewees agreed that finding an appropriate partner is a critical step in the relationship development process. Organisations tended to concentrate on achieving product and service reliability and quality in the early stages of the relationship. Whilst trust, commitments, co-operation, shared goals, social and structural bonds were regarded as critical in the later stages of the relationship, in order to develop close long-term relationship. The research findings also revealed five areas for improvement in a buyer-seller relationship that could vary in their relevance and importance at each level of the relationship.

Although at the *pre-relationship stage* where the searching of potential partners begins and information about one another and cross-checking potential partners' competence were sought, but interviewees highlighted that there was often a lack of *communication* and *information sharing* between buyers and sellers at this early stage of the process. This had caused unnecessary delay in the decision-making process, in determining if a relationship should be established. One interviewee supported this by commenting "*We need to keep talking to gain some sort of understanding (on each other) and see if a relationship is possible*".

At the *early stage* of the relationship, the lack of *understanding towards mutual goals* was highlighted as requiring further improvement. Interviewees indicated that this lack of understanding could lead to potential conflict resolution and thus making it very difficult to move the relationship to the next higher level. Furthermore, it was acknowledged that mutual goals were the bond holding a relationship together but this could be difficult to achieve when either one party (buyer or seller) was unwilling to open up for sharing. This could possibly be explained by the lack of *trust* on the other party or to some (buyer or sellers) it was simply just too early for discussion and sharing their goals, and would rather wait for an appropriate time at a later stage. However, most interviewees agreed that the understanding and sharing of common goals was essential and important at this early stage to determine if the relationship should proceed to the next level. An interviewee commented "*It takes two hands to clap. What's the point of continuing this (relationship) if we share nothing in common*".

*Adaptations* appeared to be a major concern for the interviewees during the *development stage* of the relationship. Although both buyers and sellers were expected to make adaptations to the other and create a closer bond between them, however interviewees argued that this often required alteration to the somewhat established process and changes made would incur further cost and resources. Furthermore, there existed disagreements on what adaptations to make and who (buyer or seller) should make those adaptations. It was often the view that the

party (buyer or seller) with a lesser bargaining power should make the necessary adaptations. This was further supported by an interviewee commenting “*Often we have to make changes in order to adapt to them. We can’t do anything except to accept this since they are our biggest buyer*”.

At the long-term stage, *non-retrievable investments* had received much attention from the interviewees and were regarded as an area that could be improved. Non-retrievable investments involved commitment towards specific resources (such as capital improvements, training, equipment and software) that a partner invests in the relationship, to increase value creation and help build stronger social and structural bonds between buyers and sellers. Nevertheless, interviewees argued that anyone (buyers or sellers) who had made substantial non-retrievable investment could be at risk if the relationship was to be terminated. This could result in the reluctance of such investment by some buyers or sellers. This could also be further explained with that the buyer-seller relationship had not reached the mature stage where trust and confidence had not been fully established.

### **Conclusions, Implications and Limitations**

In conclusion, twenty interviews were conducted with agribusinesses in Taiwan with most of them highlighted similar issues in evaluating their relationships. This study revealed that whilst organisations might differ in their approach and progress towards the relationship process, it was essential for them to recognise the importance to establish and build a good foundation in the early stages of the process, in order to develop close long-term relationships. Organisations were likely to concentrate on product and service reliability and quality in the early stages of the relationship, whereas trust, commitments, co-operation, shared goals, social and structural bonds were regarded as critical in the later stages of the relationship process. The findings also identified five areas (communication, information sharing, understanding mutual goals, adaptations and non-retrievable investments) of which improvements could be made to the existing buyer-seller relationships, though the relative importance of these areas of improvement could vary from organisation to organisation.

This study investigated the buyer-seller relationships within the context of agribusiness in Taiwan and thereby constrains the applicability of the findings to other markets. Further exploratory research is needed to provide comparisons between other Asian markets to ascertain the similarities or differences between such markets. From the findings, organisations could also evaluate the relationship process and identify key areas of improvements so that a close long-term relationship could be developed.

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