COMBINED EFFECT OF TRUST, COMMITMENT AND SUPPLIER DEVELOPMENT ON BUYER-SUPPLIER PERFORMANCE IN TEXTILE INDUSTRY

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UNIVERSITI TEKNOLOGI MALAYSIA
COMBINED EFFECT OF TRUST, COMMITMENT AND SUPPLIER DEVELOPMENT ON BUYER-SUPPLIER PERFORMANCE IN TEXTILE INDUSTRY

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A thesis submitted in fulfilment of the requirements for the award of the degree of Doctor of Philosophy (Management)

Faculty of Management
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MAY 2013
To my beloved parents
ACKNOWLEDGEMENTS

Praise is due to ALLAH, the Compassionate, the Merciful, the Source of all knowledge and wisdom who bestowed upon me health and thought. During the preparation of my thesis, many persons, researchers, academicians and practitioners supported me to complete the task of research. Particularly I wish to express my sincere appreciation to my thesis supervisor, Professor Dr. Abdul Hamid Abu Bakar for encouragement, guidance, advices, valuable critics, motivation and friendship. Without the persistent guidance and support of my supervisor, it would not have been possible to complete this thesis.

I express my sincere gratitude to Universiti Teknologi Malaysia (UTM) for providing world class research facilities and conducive environment for research. The support of my fellow postgraduate students is very well appreciated. Therefore, I offer my deepest felicitation to all my colleagues and others for their kind guidance to ensure the quality of work. I am grateful to all my family members for their support as well.
ABSTRACT

Large scale manufacturing organizations in developed and developing countries utilize supplier development practices to cope with increased competition and cost pressure. Understanding the effect of supplier development approaches on buyer-supplier performance remains a critical problem for these large scale manufacturing buying firms. There is a need to understand the effects of supplier development approaches combined with buying firm’s trust and commitment on the buyer-supplier performance in the textile industry of a developing country. This study investigates the effect of supplier development approaches on buyer-supplier performance, combined effects of buying firm’s trust with supplier development approaches on buyer-supplier performance, and combined effects of buying firm’s commitment with supplier development approaches on buyer-supplier performance. A research framework was developed by integrating indirect supplier development approach through goal-setting theory and influence strategy, direct supplier development approach through transaction cost theory and knowledge-based view on buyer-supplier performance, the moderation of buying firm’s trust on relationship of indirect and direct supplier development with buyer-supplier performance, and the moderation of buying firm’s commitment on relationship of indirect and direct supplier development with buyer-supplier performance. Regression analysis was performed on a cross-sectional data of 345 firms in the textile industry of Pakistan and the findings showed that the supplier development approaches were positively related to the improvement of buyer-supplier performance. Moreover, the buying firm’s trust and commitment positively moderated the relationship of supplier development approaches with buyer-supplier performance. The combined effects of buying firm’s trust and commitment with supplier development approaches resulted in the improvement of buyer-supplier performance. The findings are significant in order to understand the effect of supplier development approaches on buyer-supplier performance, and the combined effects of supplier development approaches with buying firm’s trust and commitment on buyer-supplier performance specifically in the context of the textile industry.
ABSTRAK

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<td>APTMA</td>
<td>All Pakistan textile mills association</td>
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<tr>
<td>BCA</td>
<td>Buyer competitive advantage</td>
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<tr>
<td>BP</td>
<td>Best practice, process, and performance</td>
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<td>BSP</td>
<td>Buyer-supplier performance</td>
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<td>BSR</td>
<td>Buyer-supplier relationship</td>
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<td>CICT</td>
<td>Corrected item-total correlation</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>HIWP</td>
<td>High involvement work practices</td>
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<td>Hierarchical regression analysis</td>
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<td>ISD</td>
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<td>Knowledge based view</td>
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<td>Kaiser-Meyer-Olkin</td>
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<td>Statistical package for social science</td>
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<td>Total quality management</td>
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<td>(\beta)</td>
<td>Beta (Regression weight associated with predictors)</td>
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<td>(\alpha)</td>
<td>Cronbach’s Alpha (reliability measure)</td>
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<tr>
<td>(Y)</td>
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<td>(=)</td>
<td>Equal</td>
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<tr>
<td>(\varepsilon)</td>
<td>Error term</td>
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<tr>
<td>(X)</td>
<td>Independent variable</td>
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<tr>
<td>(XZ)</td>
<td>Interaction/multiplicative term of independent and moderator</td>
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<tr>
<td>(\alpha_0)</td>
<td>Intercept/slope</td>
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<tr>
<td>(M)</td>
<td>Mean</td>
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<td>(Z)</td>
<td>Moderator variable</td>
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<tr>
<td>(r)</td>
<td>Pearson correlation coefficient</td>
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<td>(\mu)</td>
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CHAPTER 1

INTRODUCTION

1.1 Introduction

Importance of supply chain management (SCM) is acknowledged academically. It is considered as an important emerging field of management. SCM studies encompass various categories and mostly conducted for the automobile industries of developed economies. Few other industries are investigated for distinct research problems encompassing various categories of SCM. Research investigations for supply chain management (particularly supplier development which is a category of SCM) have been conducted for several industries of developed economies. This study attempted to investigate indirect supplier development (ISD) approach and direct supplier development (DSD) approach particularly for textile industry of a developing economy to compensate the research gap for investigation of supplier development approaches in textile industry (Rajput and Bakar, 2011a, 2011b). Supplier development is described as an effort of a buying firm to develop its supplier for performance and capability improvement to accommodate supply requirements (Krause and Ellram, 1997b). Buying firm and its supplier mutually extract the benefits of supplier development. Supplier development contains the benefits such as performance improvement, capability improvement, delivery improvement, quality improvement, and product
development improvement (Talluri et al., 2010). Furthermore, supplier development can bring in improvement in buyer-supplier performance (BSP) with three dimensions such as supplier performance, buyer’s competitive advantage and buyer-supplier relationship (Humphreys et al., 2004a).

Manufacturing organizations are engaged in supplier development practices due to increased competition and cost pressure. Manufacturing organizations are heavily depending on specialized competencies existing in supplier network in order to minimize costs, enhance customer value and improve buyer-supplier performance (Humphreys et al., 2011; Reuter et al., 2010). The utility of supplier development is discussed in various contexts such as cost reduction, delivery, new technology adoption and quality (Humphreys et al., 2011; Monczka et al., 1995; Siguaw and Simpson, 2004). Buying firm can employ supplier development practices directly or indirectly. Buying firm may invest resources to bring improvement in supplier performance. Despite supplier development the buying firm can engage itself in backward integration and start producing in house or to search for an alternative supplier. This study is concerned with development of supplier through ISD and DSD approaches despite the other two options.

Practice of indirect and direct supplier development approach tends to improve performance of the buyer and supplier. The improvement in buyer-supplier performance is considered a desired outcome when supplier development approaches are employed (Humphreys et al., 2011). This study has considered buyer-supplier performance as a dependent variable through functioning it with three indicators such as supplier performance, buyer’s competitive advantage and buyer-supplier relationship. These three indicators for buyer-supplier performance are considered as operational performance measures for the buying firm and supplier. Financial performance is not considered in this study (Venkatraman and Ramanujam, 1986).

Buying firms have a propensity to improve buyer-supplier performance by practicing supplier development approaches. The relationship of supplier development with buyer-supplier performance is intensified with the inclusion of buying firm’s trust and buying firm’s commitment. This is because buying firm’s trust is documented as effective and inexpensive way to safeguard investments when
practicing supplier development approaches (Humphreys et al., 2011). The presence of trust in inter-firm relationship can enhance performance (Sako, 1992). Buying firm’s trust is widely discussed in management, marketing and supply network research in the context of inter-firm relationship. However, very little research was found that discussed buying firm’s trust as the moderator variable on the relationship of supplier development with buyer-supplier performance. This scarcity has provided the impetus to investigate buying firm’s trust with conjunction of supplier development approaches on buyer-supplier performance. This study investigates buying firm’s trust as the moderator variable on relationship of supplier development approaches with buyer-supplier performance to advance the insights for supplier development approaches. This thesis canvases the effects of supplier development (ISD and DSD) approaches on buyer-supplier performance.

The importance of commitment in the context of inter-firm relationship is widely discussed in management and marketing research. Mostly studies have reported positive impact of buying firm’s commitment on various dependent variables (Saleh, 2006). However, very little research was found that discussed buying firm’s commitment as the moderator variable on the relationship of supplier development with buyer-supplier performance. This scarcity has provided the impetus to investigate buying firm’s commitment with conjunction of supplier development approaches on buyer-supplier performance. This study investigates buying firm’s commitment as a moderator variable on relationship of supplier development approaches with buyer-supplier performance to advance the insights for supplier development approaches. Furthermore, this thesis through empirical observation examines the combined effects of buying firm’s trust and buying firm’s commitment with supplier development (ISD and DSD) approaches on buyer-supplier performance.

Studies pertaining to supply chain management and particularly supplier development have been conducted for several industries of developed economies. There is lack of research for supplier development approaches in textile industry (Rajput and Bakar, 2011b). Supplier development approaches are investigated particularly for the textile industry of Pakistan in this study. The preceding discussion is to highlight the significance of the textile industry with its importance
to the economy of Pakistan. Pakistan’s economy is twenty-eighth biggest in terms of purchasing power. The economy is divided into two major sectors of commodity production and services. Commodity production sector contains the industries of agriculture, mining, large plus small scale manufacturing, construction, electricity and gas. The services sector comprises of wholesale and retail; transportation; storage and communication; insurance and public administration. Last five years’ growth performances with percent growth at constant factor cost for the commodity production sector and services sector represents a declining trend for gross domestic product (GDP) and gross national product (GNP). Growth performance of the industries in Pakistan with contribution to the economy over a period of five years till 2010 is presented in Table 1.1.

**Table 1.1 : Growth performance of industries for Pakistan**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity producing sector (I)</td>
<td>5.1</td>
<td>6.6</td>
<td>1.3</td>
<td>0.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Agriculture</td>
<td>6.3</td>
<td>4.1</td>
<td>1.0</td>
<td>4.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>4.6</td>
<td>3.1</td>
<td>4.4</td>
<td>-0.2</td>
<td>1.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8.7</td>
<td>8.3</td>
<td>4.8</td>
<td>-3.7</td>
<td>5.2</td>
</tr>
<tr>
<td>Large scale manufacturing</td>
<td>8.3</td>
<td>8.7</td>
<td>4.0</td>
<td>-8.2</td>
<td>4.4</td>
</tr>
<tr>
<td>Small scale manufacturing</td>
<td>8.7</td>
<td>8.1</td>
<td>7.5</td>
<td>7.5</td>
<td>7.5</td>
</tr>
<tr>
<td>Construction</td>
<td>10.2</td>
<td>24.3</td>
<td>-5.5</td>
<td>-11.2</td>
<td>15.3</td>
</tr>
<tr>
<td>Gas and electricity</td>
<td>-26.6</td>
<td>4.7</td>
<td>-23.6</td>
<td>30.8</td>
<td>0.4</td>
</tr>
<tr>
<td>Services sector (II)</td>
<td>6.5</td>
<td>7.0</td>
<td>6.0</td>
<td>1.6</td>
<td>4.6</td>
</tr>
<tr>
<td>GDP (factor cost)</td>
<td>5.8</td>
<td>6.8</td>
<td>3.7</td>
<td>1.2</td>
<td>4.1</td>
</tr>
<tr>
<td>GNP (factor cost)</td>
<td>5.6</td>
<td>6.7</td>
<td>3.7</td>
<td>1.7</td>
<td>5.5</td>
</tr>
<tr>
<td>Growth rate</td>
<td>36.1</td>
<td>15.7</td>
<td>15.6</td>
<td>6.9</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: Sherani (2011, p. 6)
The manufacturing sector contributes as third major player of the economy. It comprises the small scale manufacturing (SSM) firms and large scale manufacturing (LSM) firms. LSM sector surrounds thirteen industries such as textile and apparel; food-beverage and tobacco; petroleum; pharmaceutical; non-metallic mineral products; automobile; fertilizer; chemicals; electronic; leather products; paper and paper board; engineering products; tyres and tubes. The textile industry with maximum weights of 26.40 is leading other manufacturing industries. Negative and positive trends for industries are shown with growth and point of contribution for LSM in Table 1.2.

Table 1.2: Growth rate of LSM

<table>
<thead>
<tr>
<th>Categories</th>
<th>Weights</th>
<th>Contribution percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2008-09</td>
</tr>
<tr>
<td>Textile and apparel</td>
<td>26.40</td>
<td>-0.18</td>
</tr>
<tr>
<td>Food, beverage and tobacco</td>
<td>14.35</td>
<td>-1.51</td>
</tr>
<tr>
<td>Petroleum group</td>
<td>5.23</td>
<td>-0.48</td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>5.03</td>
<td>0.05</td>
</tr>
<tr>
<td>Non-metallic mineral products</td>
<td>4.19</td>
<td>0.20</td>
</tr>
<tr>
<td>Automobile</td>
<td>3.95</td>
<td>-1.54</td>
</tr>
<tr>
<td>Fertilizers</td>
<td>3.38</td>
<td>0.73</td>
</tr>
<tr>
<td>Chemicals</td>
<td>2.88</td>
<td>0.11</td>
</tr>
<tr>
<td>Electronic</td>
<td>2.48</td>
<td>-0.78</td>
</tr>
<tr>
<td>Leather products</td>
<td>2.27</td>
<td>0.07</td>
</tr>
<tr>
<td>Paper</td>
<td>0.60</td>
<td>0.00</td>
</tr>
<tr>
<td>Engineering products</td>
<td>0.44</td>
<td>0.00</td>
</tr>
<tr>
<td>Tyres and tubes</td>
<td>0.30</td>
<td>-0.01</td>
</tr>
</tbody>
</table>

Source: Habib-ur-Rehman (2011, p. 42)

Economy of Pakistan is characterized as textile based (Maqbool, 2006). Textile contributions are encompassing international business, earnings of foreign exchange, value addition, investments and employment. Textile as the largest
prominent manufacturing category account for forty-six percent in the entire production (Maqbool, 2006). The textile industry contributes 8.5 percent of national income to the economy. It grants sixty-seven percent of merchandise exports earnings for the economy of the country. The textile industry gives work to thirty-eight percent of the manufacturing labour force with half production of output for industrialized sector. There is nine percent share of the textile industry in GDP of the country. This industry is rendered to be potentially capable to compete in a highly competitive global market (Rashid, 2011).

The textile industry is contributing for future growth of the economy. All the other industries have less contribution to support the economy through earnings of foreign currency. The textile industry showed significant performance in the global market for last several years (Habib-ur-Rehman, 2011). The textile industry’s proven performance in the global textile market over a period of five years is presented in Table 1.3. The effective role of the textile industry to the economy makes it worthy for research investigation in supply chain management contextualizing supplier development approaches. The textile industry is a major sector for both developed and developing economies to contribute for wealth generation as well as employment. However, supply chain management is neglected for the textile industry (Bruce et al., 2004). The effective role of the textile industry to the economy makes it worthy to investigate SCM contextualizing supplier development approaches.

**Table 1.3 : Pakistan’s textile share in world trade (US $ million)**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Textile</td>
<td>456,110</td>
<td>479,479</td>
<td>529,509</td>
<td>586,194</td>
<td>613,086</td>
</tr>
<tr>
<td>Pakistan Textile</td>
<td>39,151</td>
<td>10,691</td>
<td>11,376</td>
<td>11,177</td>
<td>11,092</td>
</tr>
<tr>
<td>Percentage of World trade</td>
<td>2.01%</td>
<td>2.23%</td>
<td>2.15%</td>
<td>1.91%</td>
<td>1.81%</td>
</tr>
</tbody>
</table>

Source: Habib-ur-Rehman (2011, p. 43)
Literature provides some reasons for negligence of supply chain research for textile industry. Several processes of textile make supply chain complicated. Textile supply chain is relatively complex (Cao et al., 2008). The complex nature of textile supply chain persisted in the negligence to investigate supply chain management for the industry (Fernie and Azuma, 2004). This discussion briefly introduces the textile industry and its part to the economy of Pakistan and the scarcity of supply chain management investigation in the textile industry. The subsequent discussion is to present background of the problem to investigate supply chain management (SCM) (ISD and DSD) approaches. It is based upon the problem of understanding supplier development approaches with conjunction of buying firm’s trust and buying firm’s commitment that needs to be sought and set forth in the context of the textile industry for improvement of buyer-supplier performance. This study tries to provide insights about supplier development (ISD and DSD) approaches with combination of buying firm’s trust and buying firm’s commitment as moderator variables on the relationship of supplier development approaches with buyer-supplier performance. This investigation endeavours to contribute to literature through enhancing insights about supplier development (ISD and DSD) approaches in conjunction with buying firm’s trust and buying firm’s commitment on improvement of buyer-supplier performance.

1.2 Background of the Problem

Supply chain management with respect to supplier development approaches is a growing phenomenon for the Pakistani manufacturing sector. Yet, there are numerous impediments that restrict the application of supply chain management in the manufacturing sector of Pakistan. Understanding of supply chain remains a critical problem to majority of manufacturing industries in Pakistan (Khan, 2010). The concept of supplier development significant to this study is to be investigated based upon the problem of understanding the effects of supplier development (ISD and DSD) approaches on buyer-supplier performance as well as the problem of
understanding the effects of supplier development (ISD and DSD) approaches with conjunction of buying firm’s trust and buying firm’s commitment on buyer-supplier performance for the textile industry of Pakistan. Firms in the twenty-first century are acclimatizing to modifications that happened during the last decade. A highly competitive global economy is created due to changes in technology, communication systems, political structures and organizational structures (Ireland and Hitt, 1999). The firms are continuously striving to improve performance to survive in a highly competitive global environment with improved management of supply chain. Importance and recognition of supply chain management is acknowledged globally (Cousins et al., 2006; Rajput and Bakar, 2011a, 2011b) whereas some aspects of supply chain management are emerging for several industries across the globe as well as for industries of Pakistan (Bhutta et al., 2007).

Supplier development is a particular aspect of supply chain management (Giunipero et al., 2008; Rajput and Bakar, 2011a). Firms are utilizing supplier development practices for a consistent supply base that can improve buyer-supplier performance i.e., supplier performance, buyer competitive advantage, and buyer-supplier relationship (Humphreys et al., 2011; Krause and Handfield, 1999). Furthermore, firms engage on supplier development practices either directly or indirectly to improve performance (Wagner, 2010). Supplier development is a narrowly studied category of supply chain management in comparison to other categories of supply chain management (Ghijsen et al., 2010; Giunipero et al., 2008). The buying firm expects improvement in buyer-supplier performance after the compliance to supplier development activities. Literature describes BSP with three dimensions such as supplier performance, buyer competitive advantage and buyer-supplier relationship (Humphreys et al., 2004a). Several eminent studies reported numerous substantial benefits for buying firm and supplier through utilization of supplier development (Humphreys et al., 2011; Krause et al., 2007; Krause et al., 2000; Rogers et al., 2007; Toni and Nassimbeni, 2000; Wagner, 2010; Watts and Hahn, 1993).

Few studies are conducted to investigate supply chain management in the textile industry as compared to other industries such as automobile and electronics (Bruce et al., 2004). Additionally, investigations of supply chain management are
mostly conducted in developed economies of America and Europe (Bozarth et al., 2007; Bruce et al., 2004; Bruce and Moger, 1999; Cárdenas et al., 2009; Chen et al., 2007; Jørgensen et al., 2010; Kogg, 2003; Masson et al., 2007; Romano and Vinelli, 2001; Teng and Jaramillo, 2005, 2006; Thaver and Wilcock, 2006) while few studies are conducted in Asia (Au and Danny, 2002; Cao et al., 2008; Lam and Postle, 2006). There is scarcity of SCM studies for textile industry of a developing economy. Turkish textile industry was explored to examine the benefits and barriers linked to supply chain collaboration (Cetindamar et al., 2005). Recently, Bangladeshi textile industry is explored to create competitive advantage in business procedures with the utilization of SCM (Nuruzzaman et al., 2010). The literature depicts that SCM investigations are predominantly prevailing for the developed economies. There is dearth of discussion about SCM in textile industry of a developing economy like Pakistan (Ghouri et al., 2011; Majid et al., 2010); this dearth initiated the research project to expand insights for supplier development (ISD and DSD) approaches. In the new global economy, supplier development has become a central issue for investigation (Reuter et al., 2010). This study is an attempt to complete the empirical research gap of literature through investigation of supplier development (ISD and DSD) approaches in textile industry of Pakistan.

Supplier development is described as the struggle of an industrial buyer for enhancing the effectiveness and competencies of a supplier in such a way that the industrial buyer’s temporary or permanent supply requirements are to be fulfilled (Krause and Ellram, 1997a) and the industrial buying firm tries to improve BSP through supplier development (Humphreys et al., 2004b). There are few studies which are conducted specifically in the textile industry to investigate supplier development (ISD and DSD) approaches. Some of the studies are reported here with varying objectives. These studies were conducted in the textile industry to investigate supplier development activities. Johnsen and Ford (2008) conducted an investigation for size asymmetric buyer-supplier relationship in the textile industry of UK. The study concluded that asymmetry balanced the buyer and supplier relationships. Size asymmetry in buyer-supplier relationship reflects one dimension of supplier development. Normally, buying firms are larger than suppliers in the context of supplier development. Alptekin and Alptekin (2009) proposed a methodology for the buying firm to select the optimum suppliers set for maximizing
quality, performance and delivery time as well as minimizing cost in the textile industry. The study discussed the effective purchasing system for the buying firm. The study lacked the depiction of supplier development context. Additionally, Chen (2011) utilized enterprise competitive strategy to integrate various suppliers of Taiwanese textile industry to manage the suppliers for increasing product development capability to increase product marketability of the buying firm. Irrefutably, little research has been found that surveyed supplier development approaches with divergence of indirect and direct approach in relation to buyer-supplier performance for the textile industry of a developing country. Next part is to justify statement of the problem to discuss research gap that is to be completed with this study.

1.3 Statement of the Problem

LSM buying firms have recognized the importance of buyer-supplier performance improvement through supplier development. Buying firms have also recognized the importance of instituting and maintaining their competitive advantages, supplier performance improvement and buyer-supplier relationship. Purchasing research had the propensity to focus on supplier development approaches and to explore the impact of the indirect supplier development and direct supplier development approaches on buyer-supplier performance. Several attempts have been made to examine the use of supplier development activities, performance implications, the antecedents and influential factors (Krause and Ellram, 1997b; Watts and Hahn, 1993). The existing literature of supplier development is mainly descriptive and case-based, with fundamental focus on commonly used supplier development practices particularly in North America and European countries (Galt and Dale, 1991; Newman and Rhee, 1990).

Additionally, there is a growing consensus that supplier development has a critical role to promote performance improvement and it contributes strategically to
overall buying firm’s effectiveness (Hartley and Choi, 1996; Monczka et al., 1993). However, little research has empirically investigated the effect of indirect supplier development approach on buyer-supplier performance with a relational approach grounded on goal-setting theory and influence strategy. Goal setting theory is selected as relationship approach for the theoretical foundation for ISD approach. Few authors had advocated the importance of goal setting for successful indirect supplier development approach (Krause and Scannell, 2002; Sako, 2004; Sánchez-Rodríguez et al., 2005; Taj and Berro, 2006). Moreover, concept of influence strategy is also used to describe indirect supplier development approach. Influence strategies are to be utilized to bring in improvement in suppliers’ performance and suppliers’ behavior. The indirect supplier development approach studied from pertinent literature corresponds with influence strategies. Thus, the effect of indirect supplier development approach on buyer-supplier performance improvement is grounded on relational approach of goal-setting theory and influence strategies to compensate research gap.

There is dearth of empirical investigation for the effect of direct supplier development approach on buyer-supplier performance with a relational approach grounded on transaction cost theory (TCT) and knowledge based view (KBV). Transaction cost theory provides more explanatory power for DSD approach. The long-term buyer-seller relationship is stronger than ‘the arms-length buy and sell’ relationship and it reduces the cost of transactions (Williamson, 1985). Collaborative relationships in the context of DSD approach are seen as powerful organizational arrangements that expose organizations to knowledge they did not possess earlier (Choi and Lee, 1997; Grant and Baden-Fuller, 2004). Direct supplier development approach is also grounded on KBV for its effect on buyer-supplier performance. Buying firm transfers the knowledge to the supplier through unitization of direct supplier development approach (Wagner, 2010). Therefore, the effect of direct supplier development approach on buyer-supplier performance improvement is grounded on relationship approach of transaction cost theory and knowledge based view to compensate research gap.

Butler (1991) conceptualized that the literature on trust has converged on the beliefs of contracting parties and impact on commitment. One of the central
assumptions of transaction cost theory is the trust between partners because a situation of distrust is viewed as misleading, distorting and confusing as well as risking opportunism (Hill, 1990). Conversely, a trusting situation is viewed as one which reduces transaction cost (Kwon and Suh, 2004) and demonstrates strong commitment between partners (Coote et al., 2003). Trust and commitment prevail for interfirm relationships in perspective of supplier development (ISD and DSD) approaches (Humphreys et al., 2011; Humphreys et al., 2004b).

Trust is associated to relationship success (Nyaga et al., 2010), immutability (Handfield and Bechtel, 2002), and performance (Zaheer et al., 1998) in due course of supply chain partnership (Chen et al., 2011a). Wagner (2010) suggested a future direction for investigation of supplier development in association with classical moderator variables such as trust. However, no study has investigated the moderated effect of buying firm’s trust on relationship of supplier development approaches with buyer-supplier performance. This study compensates for this drawback through combining the buying firm’s trust with ISD approach and statistically testing combined effect on improvement of buyer-supplier performance with a sample of LSM buying firms from the textile industry of Pakistan. This study also compensates a research gap through combing the buying firm’s trust with DSD approach and statistically testing combined effect on improvement of buyer-supplier performance with a sample of LSM buying firms from the textile industry of Pakistan.

Additionally, commitment leads to persistent relationship between buying firm and its supplier (Heide and John, 1990). Commitment specifies the belief that, an exchange firm in a sense of assurance to put in maximum efforts for sustaining the continuation of relationship with the partner (Morgan and Hunt, 1994). Buying firm’s commitment supports to achieve the expected outcomes for the supplier. It has a positive impact on the performance (Prahinski and Benton, 2004). Wagner (2010) declared commitment as a classical moderator and suggested future direction to investigate it as a moderator variable for supplier development approaches. However, no study has investigated the moderated effect of buying firm’s commitment on relationship of supplier development approaches with buyer-supplier performance. This study compensates for this drawback through combining the
buying firm’s commitment with ISD approach and statistically testing the effect on improvement of buyer-supplier performance with a sample of large scale manufacturing firms from the textile industry of Pakistan. This study also compensates a research drawback through combining the buying firm’s commitment with DSD approach and statistically testing the effect on improvement of buyer-supplier performance with a sample of LSM buying firms from the textile industry of Pakistan. The following portion is to propose research questions for this investigation.

1.4 Research Questions

This investigation addresses the following four research questions. This study develops and tests a research framework to answer the following research questions.

1) Does buying firm’s indirect supplier development approach positively relate to BSP in textile industry?
2) Does buying firm’s direct supplier development approach positively relate to BSP in textile industry?
3) Does combined effect of buying firm’s trust with supplier development approaches result in improvement of BSP in textile industry?
4) Does combined effect of buying firm’s commitment with supplier development approaches result in improvement of BSP in textile industry?

These are the questions to be investigated in the study. The subsequent discussion is to elucidate research objectives.
1.5 Research Objectives

The elucidation of problem statement necessitates to state research questions and research objectives. The research questions and research objectives are put forward to understand the effects of supplier development (ISD and DSD) approaches on buyer-supplier performance in the textile industry, as well as to understand the combined effects of supplier development (ISD and DSD) approaches with buying firm’s trust and buying firm’s commitment on buyer-supplier performance in the textile industry. Therefore, four research objectives are initiated for this study in consideration to the research questions.

1) To investigate the effect of buying firm’s indirect supplier development approach on BSP.
2) To investigate the effect of buying firm’s direct supplier development approach on BSP.
3) To investigate combined effects of buying firm’s trust with supplier development approaches on BSP.
4) To investigate combined effects of buying firm’s commitment with supplier development approaches on BSP.

1.6 Research Scope

This quantitative research surveyed the LSM buying firms in the textile industry of Pakistan to investigate the effects of supplier development (ISD and DSD) approaches on buyer-supplier performance in buying firm’s perspective for extension of knowledge. Cross-sectional data was collected from the textile industry of a developing country Pakistan. Unit of analysis was firm level in this study and respondents were mostly from top management of the firms with designations such as chairman, chief executive officer, direct procurement, general manager and purchasing manager. This study investigated supplier development (ISD and DSD) approaches’ using buying firm’s trust and commitment as moderator variables on
BSP in the textile industry. The combined effects of buying firm’s trust with supplier development (ISD and DSD) approaches on BSP were investigated to fill the research gap. As well as, the combined effects of buying firm’s commitment with supplier development (ISD and DSD) approaches on BSP were investigated for the textile industry to compensate the research gap.

This research focuses on LSM buying organizations of the textile industry to investigate buying firm’s supplier development (ISD and DSD) approaches. Small scale textile firms were not included. There are 991 large scale manufacturing firms in the textile industry of Pakistan. The survey for buying firm’s supplier development (ISD and DSD) approaches targets LSM organizations of the textile industry. Scope of this research covered LSM firms under categories of spinning, weaving, finishing, knitting and apparel/garments. There are 445 large scale spinning firms to produce yarn for the industry. Pakistan textile industry contains 140 large scale weaving manufacturing firms. Those firms are producing cloth for the industry. There are 106 finishing LSM firms. Those firms are providing their services to the industry. LSM knitting units comprise of one hundred firms and there are two hundred large scale apparel/garments firms performing in the textile industry. The proposed research framework for supplier development (ISD and DSD) approaches with conjunction of buying firm’s trust and buying firm’s commitment on buyer-supplier performance was tested to understand the moderation effect of buying firm’s trust and buying firm’s commitment for the textile industry of Pakistan.

1.7 Significance of Study

Practical and theoretical significance of this study is discussed with a number of ways in section. Among other business sectors of Pakistan the textile industry is applying supply chain management (Khan, 2010). This is particularly evident in the textile industry of Pakistan where this industry serves as one the most important contributor for economic growth (Majid et al., 2010). Various sectors of the textile
industry are employing various innovations along with SCM strategies so as to operate successfully in local and global settings with improved performance (Khan, 2010). Research on supplier development is conducted mostly for automobile and electronic industries of developed economies and it lacks the investigation for textile industry of developing economy (Rajput and Bakar, 2011a, 2011b). This study is conducted to investigate supplier development (ISD and DSD) approaches in the textile industry of Pakistan that contributes to knowledge enhancement. It is also the initiation of a new stream of research for supplier development (ISD and DSD) approaches particularly for the textile industry of a developing country. The textile industry of Pakistan is immensely contributing to the economy. The contribution to economic growth and utilization of supply chain management (Bhutta et al., 2007; Majid et al., 2010) by Pakistani textile industry makes it commendable for investigation of supplier development (ISD and DSD) approaches.

The lack of evidence for investigation of supplier development in the textile industry enhances the significance. This study is an attempt to put forward new insights for supplier development (ISD and DSD) approaches. This study presents positive effects of supplier development (ISD and DSD) approaches on improvement of buyer-supplier performance. This study has compensated the lack of investigation for combined effects of buying firm’s trust with supplier development (ISD and DSD) approaches on BSP. This survey has sought the opportunity to investigate its understanding in enhancing the significance of this study. No study has been found for the investigation of combined effects of buying firm’s commitment with supplier development (ISD and DSD) approaches on BSP. So, this study strives to develop new knowledge for academic world with conceptual prescriptive literature and valuable insights for supplier development practitioners of the textile industry. Buying firm’s managers need to combine trust and commitment with supplier development (ISD and DSD) approaches to achieve higher level of improvement in buyer-supplier performance. The existing assortment of supplier development knowledge is elevated with the contribution of this study. This study seeks to determine the utilization of supplier development (ISD and DSD) approaches in the textile industry through the effects of the approaches on buyer-supplier performance. As well as, the moderation of buying firm’s trust and buying firm’s commitment on the relationship of supplier development (ISD and DSD)
approaches with buyer-supplier performance in the context of buying firm. Finally, this research makes an effort to open up new avenues for future research in the field of supplier development approaches. Next section arranges some terms with brief explanation of variables which are being exercised in this study.

1.8 Definition and Description of Terms

This section is to define and describe supplier development, indirect supplier development, direct supplier development, buyer-supplier performance, trust, and commitment.

1.8.1 Supplier Development

Supplier development is an attempt of buying organization to develop a supplier for the sake of performance and capability enhancement to accommodate supply requirements. The definition of supplier development is adopted as “any effort of buying firm with a supplier to increase the performance and/or capabilities of supplier and to meet the buying firm’s short and/or long term supply needs” (Krause and Ellram, 1997b, p. 39).

1.8.2 Indirect Supplier Development

Buying firm’s efforts to do supplier evaluation, auditing supplier, and communication with the supplier are considered as indirect supplier development approach (Wagner, 2006b). This definition of indirect supplier development can be
explained further through description of some practices which are undertaken by buying firm while developing the supplier. Indirect supplier development approach entails practices such as the buying firm sets improvement targets for its supplier and supplier firm is desired to achieve those targets set by the buying firm. The buying firm commits itself with its supplier to audit the supplier in context of quality and performance of the product delivered by the supplier. The buying firm can take on indirect supplier development by providing feedback about the performance of the supplier. Another practice of indirect supplier development approach can be when a buying firm obligates strong formal supplier evaluation of the supplier. The discussion of the practices related to supplier development introduces the concept of indirect supplier development approach.

1.8.3 Direct Supplier Development

Direct supplier development corresponds to buying firm’s efforts to do human specific and capital specific investments in supplier to improve performance (Wagner, 2006b). This definition is described further with description of practices related to direct supplier development approach. Direct supplier development occurs when a buying firm gives manufacturing related advices to its supplier. The manufacturing related advice is related to supplier firm’s processes, machining processes and machine set up. Buying firm can engage itself for the training of supplier firm’s employees and this practice lies within the sphere of direct supplier development approach. Direct supplier development exists when a buying firm transfers its employees to its supplier’s production plant for a specified time period. Direct supplier development prevails when a buying firm gives product development related advice to its supplier. The product development related advice can be about supplier’s processes or project management. Direct supplier development can be taken on by a buying firm through giving technological advice to its supplier. The technological advice can be related to materials and software. Buying firm can occupy direct supplier development through giving quality related advice to its supplier. The quality related advice can be use of inspection equipment and it can be
an advice about the quality assurance processes of the supplier’s firm. Lastly, direct supplier development encompasses a practice when a buying firm transfers its implicit knowledge to the supplier’s firm. The description of these practices related to supplier development elucidates the understanding of direct supplier development approach.

1.8.4 Buyer-Supplier Performance

Buyer-supplier performance is explained with three indicators: supplier performance, buying firm’s competitive advantage and buyer-supplier relationship (Humphreys et al., 2004b). The buying firm expects improvement in these three areas after complying with any supplier development approach. Buyer-supplier performance is described further through description of supplier performance, buying firm’s competitive advantage and buyer-supplier relationship. Supplier performance is explained with seven indicators such as the circumstances for percentage of orders meeting design specification entail supplier performance. Supplier performance is described with the improvements in orders meeting quality requirements due to practicing supplier development. Supplier performance is described through indication of on-time deliveries. The improvement in cost of purchased products specifies supplier performance. Supplier performance can be described through indication of improvement in average investment in purchased parts inventory. Supplier performance is described through pointing out improvement in lead time for special/rush orders occurring. Lastly, supplier performance is described by signifying improvement in time requirement for supplier to take a new item from development to production after the inclusion of supplier development.

Buying firm’s competitive advantage is described with five statements. Buying firm’s sales are increased due to supplier development that can be linked to buying firm’s competitive advantage. Buying firm’s competitive advantage is assured when buying firm’s production cost is reduced by employing supplier
development. Buying firm’s improvement in quality of product is linked with buying firm’s competitive advantage. When buying firm is capable to produce the product faster due to supplier’s product quality improvement then buying firm can have competitive advantage. Additionally, buyer competitive advantage is described with a situation. When buying firm’s capability to respond to change in the market has been improved due to supplier development then the buying firm has competitive advantage over its competitors.

Third dimension of BSP is buyer-supplier relationship. To elucidate description of buyer-supplier relationship some indicators are explained. The relationship of buying firm with supplier’s firm can resemble a strong bond like a marriage and both of the parties try to strengthen their relationship. The strong relationship between buying firm and its supplier can generate renewal of agreements between both parties. In other words it can be said that buying firm tries to have an evergreen relationship with its supplier. Buying firm and its supplier try to continue their business relationship regardless of their current purchase transaction. These indicators of relationship grasp the understanding of buyer-supplier relationship. The following discussion is to elucidate buying firm’s trust with a definition and with description of some bases.

1.8.5 Trust

In this study trust pertains to buying firm’s trust on the supplier during supplier development. Trust prevails when buying firm has confidence in supplier’s reliability and integrity (Morgan and Hunt, 1994). Some bases are discussed here to describe buying firm’s trust vividly such as buying firm expects its supplier to be perfectly honest and truthful so the buying firm might trust its supplier completely. Buying firm can count on its supplier to do what is right. Buying firm expects from its supplier to be faithful. Buying firm has great confidence upon its supplier. Buying firm also believes that high integrity is prevailing in its supplier. These explanations describe trust of a buying firm for its supplier. The following
discussion is to define commitment as well as some bases of buying firm’s commitment with its supplier.

1.8.6 Commitment

The term of commitment is utilized for buying firm’s commitment during supplier development and it is defined as “an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts to maintain it. That is, the commitment party believes the relationship endures indefinitely” (Morgan and Hunt, 1994). Some bases are discussed to comprehend buying firm’s commitment while practicing supplier development such as buying firm really commits itself with the supplier.

Buying firm keeps high regards for its relationship with the supplier. Buying firm always tries to maintain the relationship definitely with its supplier. To some extent buying firm believes the relationship as of a family. In other words, buying firm really cares about its relationship with its supplier. Lastly, it can be said that buying firm considers the relationship very important and it gives maximum attention to maintain the relationship. These representations describe buying firm’s commitment. The following discussion is to document the layout of this thesis.

1.9 Layout of Thesis

Perry (1998) suggested structural presentation of a doctoral thesis that was compiled to write up of this thesis. This chunk of thesis describes and outlines thesis composition. This thesis consists of six chapters; description of each chapter is briefly demonstrated next.
Chapter 1: Introduction describes briefly supplier development approaches, an overview of textile industry of Pakistan, background of the problem, statement of the problem, purpose of the study, research objectives, research questions, research scope and significance of the study, definition of terms, summary and layout of thesis.

Chapter 2: Literature Review describes theoretical foundations of the study initially. It explores supplier development, buyer-supplier performance, trust and commitment with detailed literature survey. This chapter starts with an overview of theoretical foundations of the study grounded on relational approach of goal-setting theory, influence strategy, transaction cost theory and knowledge based view. SCM its existence in various industries was explained. Categories of SCM are presented, supplier development as a category of SCM is described for its background, definition, elements, benefits, outcomes, issues, barriers and its existence in various industries. Buyer-supplier performance is considered with three dimensions such as supplier performance, buying firm’s competitive advantage and buyer-supplier relationship. Additionally, trust and commitment are reviewed. Lastly, summary of the chapter is presented.

Chapter 3: Initially, previous frameworks of supplier development research are described from pertinent literature. Research framework is developed with hypothesised relationship of supplier development (ISD and DSD) approaches, buyer-supplier performance, buying firm’s trust and buying firm’s commitment. It presents a framework for investigation of supplier development (ISD and DSD) approaches with combination of buying firm’s trust and buying firm’s commitment as moderators on buyer-supplier performance on basis of quantitative data. Theoretical foundations are also provided for the research framework of this study.

Chapter 4: Research methodology encompasses applicable concerns for quantitative research approach to be applied for this study. This chapter justifies the application of quantitative approach for this study, operational models of research framework, population, sampling procedure, sample size, research instrument, data collection method, questionnaire, instrument test, reliability, validity and data analysis techniques.
Chapter 5: Findings presents descriptive analysis, assessment of data, profile of firms, normality test, non-response bias, reliability analysis, validity analysis, assessment of multicollinearity, correlation analysis, results of research questions and results of hypotheses testing.

Chapter 6: Discussion and conclusion describes findings for effects of supplier development approaches on buyer-supplier performance, combined effects of buying firm’s trust with supplier development (ISD and DSD) approaches on buyer-supplier performance, combined effects of buying firm’s commitment with supplier development (ISD and DSD) approaches on buyer-supplier performance, contribution of study, implications, limitation of research, future research and conclusion.

1.10 Summary

This chapter describes supplier development and presents an overview of Pakistani textile industry with its importance and effective role to the economy of the country. This chapter dealt with the objectives of this research project. It gives an overview of supplier development (ISD and DSD) approaches in connection to the textile industry of Pakistan and role of textile industry for the country’s economy. The textile industry is targeted population for this study and large scale textile manufacturing buying firms make up the sample. This chapter described the background of the problem and statement of the problem with available research gaps grounded on theories of goal-setting, influence strategy, transaction cost theory and knowledge based view. This chapter discussed research approach with research questions in line with research objectives. This chapter presented scope and significance of the study. Some terms being used in this thesis were described in the chapter. Lastly, the chapter presented outline of this thesis. Subsequent chapter reviews the literature pertaining to theoretical foundations on goal-setting theory, influence strategy, transaction cost theory, knowledge based
view, supplier development, supplier development (ISD and DSD) approaches, buyer-supplier performance, buying firm’s trust and buying firm’s commitment.
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