THE RELATIONSHIP BETWEEN SUPPLIER DEVELOPMENT AND FIRM PERFORMANCE: UTILIZING THE MARKET-BASED ASSET FRAMEWORK

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ABSTRACT

The last few decades have seen a fundamental shift in the source of a firm's competitive advantage from physical assets such as plant and machinery to market-based assets (intangible assets) such as brands, knowledge, innovation and supplier relationships (Eisenhardt & Martin 2000, Wernerfelt 1984). As a result, there has been a substantial increase in the contribution of market-based assets toward the market capitalization of firms (Ramaswami et al. 2009). The value of market-based assets is hard to measure since they are intangible and typically not recorded on a firm's balance sheet (Sharp 1995) and to help determine the contribution of market-based assets to a firm's performance, Srivastava et al. (1999) developed a conceptual framework that links market-based assets to performance. The framework argues that market-based assets must be transformed and leveraged as part of an organization's processes if they are to generate economic value to the organization. Thus, to assess the contribution of market-based assets, the framework links market-based assets, to firm performance through the processes and routines utilized to develop those assets (Srivastava et al. 2001).

While there has been a recognition in the literature that market-based assets contribute to a firm's performance through improvements to its business processes, the exposition has largely been conceptual and very few studies have actually empirically tested the framework (Ramaswami et al. 2009). This paper empirically tests the framework and extends the market-based asset framework to a firm's supply chain. The paper focuses on an important market-based asset, a firm's suppliers, and examines how a buyer firm's supplier development efforts contribute to the buyer firm's performance. Drawing from the market-based asset framework this paper asserts that a firm's supplier development programs contribute to the buyer firm's performance through its marketing processes. Thus a buyer firm's investments in its supplier development programs will lead to improvements in its marketing processes which will in turn lead to better performance for the buyer. The study finds that marketing process improvements mediate the relationship between supplier development and firm performance thus providing support for the market-based asset framework.

References Available on Request.