Value Creation and Appropriation in Buyer-Supplier Relationship: Evidence from Brazilian Firms

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Abstract
The present study investigates the value creation process in buyer-supplier relationship using the Social Exchange Theory (BLAU, 1964). Based on 28 interviews with buyers and suppliers of the Personal Care and Cosmetics (PC&C) and Food and Beverage (F&B) industries, the results provide evidence that value is created in a dynamic and continuous process, where both parties benefit and realize the gains in different moments. Expected and perceived results according to both sides of the dyads are identified, suggesting that parties have a misunderstanding of the expectation of its partner. Finally, mechanisms adopted to promote continuous adjustments are identified.
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Introduction

The buyer-supplier literature in the Operations Management field emphasizes the importance of a collaborative relationship as a source of value creation and competitive advantage for the company and for the chain (COOPER; LAMBERT; PAGH, 1997; COUSINS; LAWSON; SQUIRE, 2006; MENTZER et al, 2001). The empirical research testing the impact of relational governance mechanisms, based on trust and commitment on the firm performance has grown in the last two decades, however just a few studies have focused on both sides of the dyads.

Value creation and competitive advantage are key concepts in the business strategy field, although there is still no consensus on their definition and boundaries (LEPAK; SMITH; TAYLOR, 2007). In recent consensus, competitive advantage has been defined in terms of superior economic value creation in comparison to competitors (PETERAF; BARNEY, 2003). Value is created by a firm in its relationships with its customers and suppliers and can be measured as the difference between the customer’s willingness to pay and the supplier’s opportunity cost (BRANDENBURGER; STUART, 1996).

Such definition considers a triad of relationship customer-firm-supplier, in which little attention has been given to understand how economic value is created in the firm-supplier relationship over time, herein referred as buyer-supplier. One important theoretical perspective that might explain the evolution of the performance of the buyer-supplier relation is the Social Exchange Theory (SET) (BLAU, 1964). SET states that organizations engage in a transaction based on expected rewards and on the stability of the social exchanges. The stability will depend on each member’s evaluation of the social profit, measured in the difference between costs and the perceived benefits (HOMANS, 1958).

Focusing on dynamics the buyer-supplier relationship, the present study had three important objectives: to understand how value is created in the relationship over time; to compare expected and perceived benefits of the organizations involved; and to analyze the mechanisms that promote the continuous adjustment after each transaction round.

In order to achieve these goals, 28 in-depth interviews were conducted with key respondents in buyer and supplier companies of two industries: Personal Care and Cosmetics (PC&C) and Food and Beverage (F&B), in Brazil. The interviews were analyzed and the outcomes were categorized as per the context of interactions and the strength of the evidence provided. The main contribution of the research was in providing a complementary explanation to the existent theories.

This paper is structured as follows: Section 1 presents a literature review of value creation and appropriation in buyer-supplier relationships. Section 2 discusses the social exchange theory, while section 3 integrates both debates to propose the research objectives. Section 4 discusses the methodology and data analysis, while sections 5 to 7 present the discussion for each objective. Finally, section 7 presents the conclusions of the research.

1. Value Creation and Competitive Advantage

One of the earliest uses of the term “competitive advantage” can be tracked back in Ansoff’s work (1965, p. 188 - 194) in describing firm’s ability to detect trends and opportunities ahead its competitors. Along the subsequent decades, competitive advantage became popular and has turned into a mandatory component of strategy formulation (AAKER, 1984). Following discussions and publications about competitive advantage definition were not always clear or
consensual (PETERAF; BARNEY, 2003; PORTER, 1985; POWELL, 2001). However slowly, there has been a growing consensus in defining competitive advantage as superior value creation (RUMELT, 2003). Value creation is given on the transformation of tangible and intangible resources (BOWMAN; AMBROSINI, 2000), which involves human and social capital, assets and time (HELFAT; PETERAF, 2003). The development of resources and capabilities pervades the firm boundaries, involving suppliers and customers’ relationships (HELFAT; PETERAF, 2003). The circumstances under which resources and capabilities are developed fall into the complexity of relations that define the firm as a ‘nexus of contracts’ (JENSEN; MECKLING, 1976). Therefore, the management of those relations aims to maintain the company’s competitiveness in time.

Thus value creation is defined between the customers’ willingness to pay (WTP) and the suppliers’ opportunity cost (BRANDENBURGER; STUART, 1996). Such boundaries are also referred as use value, that is, specific characteristics of goods and services perceived by the transaction partners (BOWMAN; AMBROSINI, 2000; BRANDENBURGER; STUART, 1996). The WTP is a subjective concept and depends on the perception of each user about the benefits offered, that varies among clients and contexts (LINDGREEN; WYNSTRA, 2005). Similarly, the opportunity cost also depends on the circumstances of interaction between the parties, as well as the alternative market conditions for suppliers’ goods and services.

Both WTP and opportunity cost are theoretical concepts that try to capture the perception of value from clients and suppliers respectively. The perceived value is influenced by social and cultural characteristics as well as the relationship specificities (DYER; SINGH, 1998; PRIEM, 2007). The way resources are combined and the choice of transaction partners influence the perception of value created, where property rights are not clear (FOSS; FOSS, 2005). Within the boundaries of value creation, there is more than one share of value. Apart from the firm’s stake, there is the supplier’s share and the client’s surplus (BRANDENBURGER; STUART, 1996). Therefore, advantage position depends on the success of those relationships in time.

The quest for a sustained competitive advantage suggests that managers invest in the development of resources and capabilities the medium-long term. For the firm it is important to manage carefully the suppliers’ share and customers’ surplus, maintaining its market position. Focusing in the dyadic interaction between buyer-supplier, there are important concerns regarding how the created value is appropriated by the parties involved and how the dynamics of value appropriation affect the investments in resources development.

1.1. Value appropriation

The moment of value creation is followed by the process of bargaining for value appropriation (BRANDENBURGER; STUART, 1996). In the decision of price and cost, the players define the exchange value for their goods and services and the firm defines its profits. Therefore the different definitions:

- Value created (use value): Customers’ willingness to pay – Opportunity cost
- Value appropriated (exchange value): Price – cost

A firm with competitive advantage have better opportunities for value appropriation, yet firms may not be able to (or may not choose to) appropriate value depending on the competitive context (COFF, 1999). The appropriation strategy is certainly influenced by all levels of context, from managerial agency, industry rivalry, up to institutional structure (COFF, 1999; LIPPMAN; RUMELT, 2003). As a consequence, competitive advantage depends on the competitive environment.
As opposed to value creation boundaries, value appropriation limits are objectively defined in the process of bargaining. The bargaining process for distribution of value cannot be completely detached from the circumstances of value creation, however they are distinct moments.

1.2. Implications for buyer-supplier relationship dynamics
Firms create value by coordinating economic exchanges among a network of stakeholders (BOSSE; PHILLIPS; HARRISON, 2009). The process of resource deployment is cumulative and time consuming, where business’ partners contribute with their resources and experiences, generating synergies and complementarities (ADEGBESAN, 2009; LIPPMAN; RUMELT, 2003). These synergies and complementarities are responsible for creating value for the players. Considering a firm (1) resources value $v(R1)$ and firm (2) resources value $v(R2)$, the combination results in a value surplus ($S$) that exceeds the simples sum of resources, therefore: $v(R1 \cup R2) = v(R1) + v(R2) + S$ (ADEGBESAN; HIGGINS, 2010, p. 189). As resources are bundled, complementarity is a result of co-creation, and the same resource can assume different values depending on the player involved (COFF, 2010).

The perception of the value created has implications for the bargaining process, bringing different possibilities for the process of ‘pie-splitting’ (ADEGBESAN, 2009; BLYLER; COFF, 2003). Value is perceived differently depending on the market context, the bargaining power and the expectations of the players (ADEGBESAN; HIGGINS, 2010; COFF, 1999; LIPPMAN; RUMELT, 2003). In terms of market context, the scarcity of business partners and the level of complementarity impose restrictions to the randomness of buyer-supplier matching (ADEGBESAN, 2009). That has important implications towards the formation of alliances and collaboration between firms, as well as for the bargaining process.

Much of the studies and modeling procedures about the bargaining process are based on game theory, where there are open sources of suppliers (CHATAIN; ZEMSKY, 2011). In such models, firms have no impediments in negotiating freely with all players and there are no transaction costs (BRANDENBURGER; STUART, 1996). However, the thread of opportunistic behavior poses limits to the development of co-specialized assets which are the source of complementarities in buyer-supplier relations (WILLIAMSON, 1981). To the extent that partnerships generate dependencies, they become a potential for holdup problem for the firms. In some cases, governance instruments and property rights cannot be fully applicable due to the circumstances of value creation (ADEGBESAN; HIGGINS, 2010). In the process of bargain, suppliers may search for appropriation above their opportunity costs, therefore their capacity to holdup. Specialized assets and information asymmetry compose the scenario that inhibit collaboration in face of the menace opportunistic behavior in value appropriation process (WILLIAMSON, 1981).

On the other hand, the collaboration with suppliers offers opportunity for rent generation (DYER, 1997; DYER; SINGH, 1998). Alliances can reduce the cost of doing business and, consequently, reduce opportunity cost (BRANDENBURGER; STUART, 1996). Along the supply chain, value creation is responsible for operational performance and continuous collaboration (DYER; SINGH, 1998). Moreover, in the overall firm interaction, value created brings results such as technology development and innovation (INKPEN; TSANG, 2005; THOMKE; VON HIPPEL, 2002).

The intensity of buyer-supplier relationship has impacts in the process of value appropriation. Under a collaborative approach, the partners may seek a process of “fair share” and maintenance of competitiveness (HARRISON; BOSSE; PHILLIPS, 2010). In the bargaining process, partners should make sure that ‘pie-splitting’ will not obstruct ability to create value in future (BRANDENBURGER; NALEBUFF, 1996; DAGNINO; PADULA, 2002). For that purpose, the manager has to adjust the utility function of the various partners involved,
identifying the marginal utility and the value perceived by each party. The notion of fairness and reciprocity is compensated by trading partners in the maintenance and strength of partnerships and collaboration alliance (BOSSE; PHILLIPS; HARRISON, 2009; HARRISON; BOSS; PHILLIPS, 2010). Therefore, in buyer-supplier relationship, value appropriation is contingent to the circumstances of value creation (ADEGBESAN; HIGGINS, 2010) and vice-versa. This dynamic interferes in the level of investment and specialization of business partners, who act under the expectation of a positive response from the other side.

2. Social Exchange Theory
The Social Exchange Theory (SET) was developed based on both sociological and economical perspective (BLAU, 1964; EMERSON, 1996; HOMANS, 1958). It was grounded on the assumption that individuals (and organizations) are attracted to a relationship based on expected returns and that long term relationships depend on the balance between expected results and perceived benefits (BLAU, 1964; HOMANS, 1958). The SET assumes the existence of power asymmetry and interdependence between the members in a relationship, and considers that the strongest partner should suppress the bargaining power exercise in order to maintain a long term relationship (BLAU, 1964). The social transaction can be seen as a dynamic and evolutionary process, where the action of one side influences the reaction of the other (BLAU, 1964; EMERSON, 1976; HOMANS, 1958). In the beginning of a relationship, there is small volume of transactions, which minimizes risk for the parties (BLAU, 1964). After each transaction, each player evaluates the profit of the social transactions, considering the perceived benefits and the costs (HOMANS, 1958). If the perceived return of the transaction is equal or higher than that expected, the players are motivated to engage in new transactions and allocate more efforts and resources to continue the relationship. On the other hand, if results are bellow expectation, one may quit the relationship. Blau (1964) also highlights that expectations and capabilities vary in time and that, in order for a relationship to proceed in time, it is necessary that player carry on continuous adjustments in their actions.

In recent studies, SET has been applied to explain the buyer-supplier relationship development (BOSSE; PHILLIPS; HARRISON, 2009). In the operations field, Griffith, Harvey, Lusch (2008) used SET to understand how procedural and distributive justices influenced the distributor responsiveness. Narasimhan et al (2009), Zhang, Henke and Griffith (2009); Nyaga, Whipple and Lynch (2009) also based their research on how the perceived justice influence the continuity of the relationship. None of these empirical studies however explained how value is created and shared between the firms in time, so that a new cycle of transactions occurs.

3. How is value created and appropriated in a collaborative buyer-supplier relationship?
Firms are attracted to a collaborative relationship if they recognize that it can reduce risk or maximize value to all members of the chain. As discussed earlier, the total value created in a dyad is the sum of the value created by each firm and a surplus that is the result of resources complementarity (ADEGBESAN; HIGGINS, 2010) The total value will be shared between the parties depending on their interdependence and their bargaining power. According to the SET, organizations are not attracted in the same way to a social exchange and, consequently, they are rewarded differently (BLAU, 1964). At the very beginning, as the parties to do not know each other very well, the choices are dependent on their past experience and the available alternatives, there is no trust and only small volumes are transacted (BLAU, 1964). Normally, transactions are initiated by the strongest member of the
dyad (GRiffITH; HARVEY; LUSCH, 2006). The expected benefits of the relationship are also limited. As the parties compare the real result of the exchange to their expected benefits, they evaluate the social profit based on the actual rewards and the costs associated to the transactions (HOMANS; 1956). If results are positive, organizations are motivated to engage in a new round of transactions (HOMANS; 1956; EMERSON; 1976). Autry and Golicic (2010) empirically tested this process in a longitudinal survey and confirmed that the relationship becomes stronger (or weaker) depending on the performance results. Therefore we propose there is a dynamic of collaborative value creation in buyer-supplier relations. First organizations transact small volumes and analyze the value created at the enterprise level. If the focal company (buyer) recognizes the value surplus as the result of the partnership, it might decide to increase the transactions volume (considering market conditions are favorable). The supplier will benefit from the relationship in terms of process improvement and scale economies, which is the way supplier appropriates value. The increase of the share of the supplier encourages the re-engagement in the relationship and a new cycle of value creation starts.

On the other hand, the SET is based on the assumption of power asymmetry. Blau (1964) affirms that the interdependence between organizations and their bargaining power determine the value each firm is attributable and the commitment to the relationship. Although the weakest member of the relationship recognizes and accepts that the other company has the right of a larger share of the value, care must be taken to avoid the perception of unfairness or inequality (BLAU, 1964), that might end a long term relationship (BOSSE; PHILLIPS; HARRISON, 2009).

Crook and Combs (2007) suggest that both companies can have benefits in a collaborative relationship. The strongest member of a chain is able to appropriate higher share of value, as a consequence of lower costs and increased customers surplus (innovative products, reduced time to market, improved quality). On the other hand, the weakest partner of the chain will also benefit, in a different manner: increasing volumes and the probability of survival and higher bargaining power inside (higher switching costs increase dependency) and outside the relationship (spillover) (CROOK AND COMBS, 2007).

Blau (1964) also affirms that each organization has a limited capacity of providing benefits to the other company and that the expected result of a transaction varies over time. So the author proposes that, in order to maintain a relationship in the long run, parties should promote an ongoing process of adjustments and rewards.

Considering the former discussion, this study aims to address three important questions that might contribute to the current buyer-supplier debate:

i. Does the value creation in a buyer-supplier relationship occur in a dynamic and incremental process?

ii. What are the expected and perceived benefits of each member?

iii. How do companies promote the continuous adjustment to create value?

4. Methodology

In order to understand how value is created in dyads, a qualitative research was conducted with 28 in-depth interviews with key respondents of buyer and supplier companies of two industries: Personal Care and Cosmetics (PC&C) and Food and Beverage (F&B). The first industry was chosen as it is characterized by high innovation rates and new product development, increasing the value perceived by customers (ABIHPEC, 2011). On the other hand, despite of the efforts in the F&B industry to increase the customers’ willingness to pay,
the customer surplus is dependent on the price of the final product. Both industries share suppliers among competitors.

Our cases sample consisted of 10 leading buying companies (A to J) and 15 suppliers (1-16). In each company, one or two in-depth interviews were conducted with the responsible for relationships; that is, executives (managers or directors) of the areas of Purchasing or Supply Chain in buying companies, Sales and Supply Chain or the suppliers. In addition, complementary interviews with the representative associations (ABIPHEC, ABIA, ABIFRA) aimed to improve the knowledge about the specificities of each sector. From the initial interviews, new contacts were identified by the snowball method.

We developed a total of 28 semi-structured interviews, with questions on the respondents’ perception about the value creation in dyads, the benefits of the relationship for each party and power and trust in the relation. Most of the interviews were face-to-face (lasting between 1 to 2 hours) and recorded upon agreement. In cases where the recording was not possible, the researcher notes were the source for data analysis. Table 1 and Figures 1 and 2 show the respondents profile and the relationships between the companies.

### Table 1 – Cases studied

<table>
<thead>
<tr>
<th>Buyer</th>
<th>Number of companies</th>
<th>Number of interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>PC&amp;C</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>F&amp;B</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Suppliers</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>Fragrance and Scents</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Packaging</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Others</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

*Figure 1 – Dyads in PC&C Industry  
Figure 2 – Dyads in F&B Industry*

In the current study, the buyers are the focal firms and do have the bargaining power compared to the suppliers. As a supplier strategy, all focal firms had a base of qualified suppliers and, when possible, had at least two suppliers for each raw or packaging material. All organizations had signed contracts for two to five years with regular suppliers and reviewed the requested volume on the basis of frequent bidding processes. Supplier selection process consisted of a new request for quotation, based on an estimated volume. If a new product is required, suppliers are encouraged to present an innovative product, but prices ranges are previously stipulated.

### 4.1. Data analysis
Data analysis was performed concomitantly to data collection, always confronting evidence and prior literature, which allowed the refinement of issues throughout the study. A deductive approach was adopted as the main goal of the research was to extend the theory using a complementary theoretical perspective (BARRATT; CHOI, 2001). The analytical procedure (COLLIS; HUSSEY, 2005, p. 247) consisted of the following steps: (i) general analysis of the interview, identifying main ideas; (ii) detailed analysis of the data, identifying the context, conditions, and their agents interactions; (iii) data coding according to previously defined constructs based on the literature and classified according to the power of the evidence provided (weak, moderate and strong); and (iv) analysis of the results to verify patterns, similarities and differences. A discussion of data analysis is presented in the next sections.

5. The process of value creation in a buyer-supplier relationship

In order to evaluate how is the process of value creation in the selected dyads, using the SET perspective, it is important to analyze, the level of attractions between the organizations and their expectations at the very first moment. Despite of the bargaining power, buyers were are willing to engage in medium to long term relationship with the suppliers in three situations: (a) when the raw or packaging material impact the customers’ willingness to pay; (b) when there were risks due to resources scarceness; (c) and when the goal was to minimize operational and transactions costs. The majority of the buyers (70%) realized the importance some suppliers had on their finished product and on the customers’ final decision; while, in 20% of the interviews, there was only medium evidence of this aspect according to the respondent perspective. In the PC&C industry, all buyers recognized the importance of fragrances and packaging suppliers. In the F&B industry, the respondents were more concerned about the importance of the scents and taste of their products to their final market. The second driver for buyers was the scarceness of the resource in the market. 60% of the respondents mentioned that, in cases there is low offer for products or short supply for a specific material, suppliers deserve more attention and a more collaborative approach is adopted. Another 20% of the respondents indicated that supply uncertainty is one important criterion to segment suppliers. 100% of the buyers were also encouraged to engage in a more collaborative relationship when they realized that transaction costs and operational costs could be reduced by recurrent supply process, avoiding new contracts development and maintenance and allowing economies scales. Suppliers, on the other hand, were attracted to the relationship by the reputation of the stronger partner and also by the potential volume that could help them achieve financial health and also minimize survival risks. This was a consensus in the interviews. It’s important to highlight that, suppliers were more willing to engage in a collaborative relationship than the buyers. According to their perspective, a long term and more committed relationship can bring more value to both partners of the dyads. On the other hand, buyers feared that stronger cooperation could result in more dependence, reducing their bargaining power in the relationship. Buyers and suppliers were classified in terms of their propensity to relational or transactional governance mechanisms (Table 2).

Table 2: Propensity to relational mechanisms

<table>
<thead>
<tr>
<th>Organization</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyers</td>
<td>4 (40%)</td>
<td>2 (20%)</td>
<td>4 (40%)</td>
</tr>
<tr>
<td>Suppliers</td>
<td>10 (62.5%)</td>
<td>4 (25%)</td>
<td>2 (12.5%)</td>
</tr>
</tbody>
</table>

According to 70% of the respondents, when a new supplier was selected, only a small share of volume is allocated to him as there is no history or trust established. Normally, a new supplier
was given a chance when another supplier failed or presented higher costs compared to current supplier base. The new supplier, on the other hand was eager to conquer that buyer, reducing its opportunity cost. Decisions in this case were driven by the expectation that the new buyer-supplier transaction could result in higher value surplus and it could be appropriated by both organizations.

Only after the first round of transactions, it was possible to compare expectations and actual returns. And a second round of transactions happened in a new bidding to suppliers. In all the interviews with buyers, respondents confirmed that, in a process of development of new products, organizations considered the different alternatives they had among the already qualified suppliers, and selected the one that offered the highest surplus, considering a subjective criterion. This was especially true for products such as fragrance and flavoring, malt and packaging that had strong appeal to the final customer. This decision-making process was part of a commercial bidding open to more than one supplier where the prices were usually stipulated previously in request for quotation (RFQ). Many suppliers saw the RFQ and the bidding processes as buyers’ tools to exercise their bargaining power to reduce prices, but many of them agreed that the final choice was based on the perception of the material (raw or packaging) increment to the customer’s willingness to pay. At this moment, both companies had signed formal contracts about prices and expected volumes. In this case, there are two possibilities for the buyer to capture value: either by reducing its costs or by increasing the prices, positioning the final product as an innovation.

The supplier, on the other hand, was eager to increase (or at least to keep) its volume with the buyer and to invest in the relationship, proposing incremental improvements such as innovative raw material, optimization of the current material process or projects to reduce logistics and fiscal costs. The supplier perceived the benefit in providing for the buyer compared to the other alternative. This was the moment that the supplier captured a larger share of the value. None of the suppliers suggested that they intended to capture more value by increasing the exchange value, their expectation was related to volume. Figure 3 provides some evidences of the expectation of the suppliers.

**Figure 3** – Evidences of Supplier Expectation

"I think it takes more work (to maintain) than to conquer. Because we have to do more ... [...]struggled to recover the historical (with company A) and to participate in the briefings as we are now participating in 50% (briefings), our goal is to reach 100%, we'll have to work triple of what we had worked to reach 50% in order to reach 100%. And to keep the 50, it is better that we do a little more because at least we are guaranteed 50, if we have 100, we have to do even more, will have to be even more present in daily from all areas always taking ideas, attending everything always in record time we also measured the time it takes us to meet. So it's crazy. So if we want, we have to do everything. "(Interviewee 2 supplier 2).

"We normally have to give something more to them, a discount ... Normally the volumes increase and we have to…or gives you a few extra days to pay, takes another proposal, it is easier. When you already have a contract and you provide a good, it is easy to renew the contract. Of course, always to renew a contract, we will have to give something, that's life, no way. "Supplier (10).

In the third moment, the buying company again perceived the value added by the supplier and appropriated it. For the majority of respondents (60%), the experience with other organizations was helpful as it expedited the joint learning and the consequently reduced time of new developments. The common knowledge enabled companies to make joint adjustment continuously. For those buyers, the history of the relationship and the knowledge acquired increased surplus for pay for that supplier.

**Figure 4** – Evidences of buyer’s recognition of the importance of past experience
When buyers did not realize that the relationship resulted in a value surplus, the choice of the supplier is purely based on price. In this case, the use of bargaining power was more important than the trust established between the parties. In those cases, buyers did not perceive any possible interdependence. Such cases were not new developments, but a replication processes and the relational governance mechanisms were not as critical to the continuity of the relationship.

In renegotiating with the supplier, the buyer used its bargaining power to demand additional discounts for that same type of product and offers, as counterpart, of exclusivity or extra volume. Upon receiving increasing volumes, the supplier again reduced its opportunity cost to that customer initiating a new process of creation of incremental value.

The processes of contracts renegotiation upon volume discount were common for these segments, as mentioned in the interviews with at least 6 suppliers. The suppliers invested in expectation of a future return, as described by SET (BLAU, 1954). It is important to highlight that the opportunity cost of a supplier to the buyer sometimes was not appropriated in that specific relationship. Combs and Crook (2007) mentioned that the weaker organization in a dyad, sometimes capture the value outside that chain. This is especially true when the buyer is a leading company or the power asymmetry is too large. The supplier may not appropriate the gains in terms of profitability in a new project, but the benefits in terms of innovative capacity are expanded to other clients and their financial health is guaranteed.

For 50% of the buyers respondents (especially those that were more prone to collaborative relationship) and for 80% of the suppliers interviewed, the buyer-supplier relationship followed a cyclical dynamics and the gains were commonly associated to market conditions. However, the interviewers agreed that, when both parties assumed a long term relationship and were committed to its continuity, both parties won from the partnership.

5. Expected and perceived benefits
As discussed in the previous section, buyers and suppliers engaged in collaborative relationship for different reasons and with different expectations. According to the interviews, buyers and suppliers also differed in terms of their perceptions of the benefits achieved. Tables 3 and 4 present the most important aspects highlighted by the respondents.
Table 3 – Benefits to buyers

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Buyers’ perspective</th>
<th>Suppliers’ perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost reduction</td>
<td>70%</td>
<td>55%</td>
</tr>
<tr>
<td>Loyalty and prioritization (risk reduction)</td>
<td>60%</td>
<td>18%</td>
</tr>
<tr>
<td>Logistics and fiscal projects</td>
<td>40%</td>
<td>18%</td>
</tr>
<tr>
<td>Relational development, transparency and conflict resolution</td>
<td>30%</td>
<td>27%</td>
</tr>
<tr>
<td>Operational efficiency</td>
<td>30%</td>
<td>45%</td>
</tr>
<tr>
<td>Innovation</td>
<td>20%</td>
<td>36%</td>
</tr>
<tr>
<td>Final customer willingness to pay</td>
<td>10%</td>
<td>45%</td>
</tr>
<tr>
<td>Improved learning curve</td>
<td>30%</td>
<td>9%</td>
</tr>
<tr>
<td>Trust development</td>
<td>10%</td>
<td>27%</td>
</tr>
<tr>
<td>Joint growth</td>
<td>10%</td>
<td>45%</td>
</tr>
<tr>
<td>Benefits outside the dyad</td>
<td>10%</td>
<td>0</td>
</tr>
</tbody>
</table>

Table 4 – Benefits to supplier

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Buyers’ perception</th>
<th>Suppliers’ perception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation</td>
<td>60%</td>
<td>36%</td>
</tr>
<tr>
<td>Volume (growth)</td>
<td>50%</td>
<td>73%</td>
</tr>
<tr>
<td>Competitiveness</td>
<td>40%</td>
<td>18%</td>
</tr>
<tr>
<td>Financial health and survival</td>
<td>30%</td>
<td>45%</td>
</tr>
<tr>
<td>Operational efficiency</td>
<td>20%</td>
<td>9%</td>
</tr>
<tr>
<td>Relational development, transparency and conflict resolution</td>
<td>10%</td>
<td>27%</td>
</tr>
<tr>
<td>Exclusiveness</td>
<td>10%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Although the main benefits mentioned during the data collection are the same, the weight each echelon gives to the benefit is completely different. These results suggest that organizations may be prioritizing their efforts in order to improve the partnership, without being recognized by that.

Figure 6 – Evidences of supplier’s value appropriation

"Our company has a completely different relationship with this customer in terms of innovation. This customer demands more, it is constantly challenging the supplier. Often the project is not financially good... For example, we developed a packaging made of resin for client A at a given price. The project enabled us to develop technology and financial expertise to offer to other customers, but did not result in financial gains with this customer. The whole gain was captured outside the dyad." (Interviewed supplier 9 referring to the client A).

"... The fruit pulp supplier [...] so you see that the producers that were used to provide only the pulp, now they have diversified, they produce jam and compotes. Today some of our fruit pulp producers had already been asked to quote for the international market. ... These producers grew enormously. [...] They realize that this gain comes from the relationship with our company." (Company H)

6. Mechanisms to promote the continuous adjustment to value creation

According to SET, even strong organizations have limited capacity to provide benefits to the other. If companies desire a long term relationship, they should strive for continuous adjustments in order to maintain the other’s attraction. In collaborative relationships, the results also influence the strength of the partnership (AUTRY; GOLICIC, 2010).

The present study investigated the mechanisms used by both buyers and suppliers to maintain or reinforce the attraction to the other. It was a consensus among buyers’ respondents that, in order to promote suppliers’ competitiveness and avoid opportunism, both relational and transactional mechanisms of governance should be used, meaning that all of them balanced...
the levels of trust with the use of regular biddings instruments. According to one of the respondents, “The use of frequent biddings (and the bargaining power) forces the supplier to look for innovation and costs reduction. It is also an opportunity for the buyer to be kept up-to-date”.

On the other hand, in order to maintain the buyer’s interest, suppliers were always looking for new technologies, opportunities to reduce costs and to create dependency. They regretted that joint developments were not a warranty of exclusivity, but they felt that it was the role of the supplier to apply higher effort than the stronger member of the dyad, the buyer.

7. Conclusions

The present study used the social exchange theory to analyze the process of value creation in buyer supplier relationships. Based on interviews with key respondents, including both buyers and suppliers, the research contributes to the knowledge advance by explaining the guiding forces that motivate buyers and suppliers to engage in a long term relationship and their initial expectations and the process by which both parts analyze the return after each round of transactions.

Buyers were less prone to engage in such collaborative relationship unless they faced resources scarcity, or recognized the importance of the sourced material to willingness to pay of the final customer, or when they foresaw opportunities for costs reduction. Suppliers, on the other hand, were willing to develop closer relationships, in order to create dependencies, assure their survival and appropriate value outside the dyad. Once companies engaged in the relationship, they evaluated the value appropriated in each transaction in order to decide if a new round of transaction was worth it. Buyers evaluated the relationship in terms of potential increase in customer’s willingness to pay and in terms of cost reduction. When value is created downstream, the organization might reward the suppliers, increasing their volume, inviting them to participate in other businesses or giving exclusiveness. Although the buyer recognized the importance of the supplier in the value created, it used its bargaining power to ask for new advantages, like discounts, innovative projects or better payment conditions, among others. The majority of the suppliers interviewed felt rewarded by the relationship in terms of growth and reputation, which resulted in more opportunities outside the dyad. In order to engage in a new exchange, both buyers and suppliers needed to adapt their expectations and also request new benefits. If their evaluation of benefits and costs was still positive, they started a new round of transactions and therefore, a new round of value creation. This result corroborate with the findings of Autry and Golic (2010) that suggest that the relationship’s strength and the firm performance impact each other in a spiral cycle.

Expected and perceived benefits were also compared in this research. Although both echelons identified the same benefits, the importance given to the relational gains according to each perspective was significantly different. It means that firms are trying to accomplish to the different objectives. This finding has important managerial implications as the lack of alignment between the organizations may constrain the process of value creation.

Finally the research also identified the mechanisms that promote the continuous adjustments to reinforce the continuity of the relationship. Buyers used both relational and transactional governance mechanisms to motivate suppliers to commit to new projects and to invest in technology while reducing costs.

At this moment, it is important to highlight the limitations of the current research. First of all, although interviews allow an in-depth analysis of a phenomenon, the results are limited to the individuals and organizations studied. Future research should extend the present study by replicating it in different contexts, such as other industries, other types of power balance relationships or where dependencies differ from the present scenario.
As future research opportunity, we suggest the investigation of a focal company with more suppliers or suppliers with different buyers to evaluate how organizations behavior change due to cultural, social and economic situations.

8. References: