

Hypothesis Development on Relationship of Power, Trust and Relationship Commitment among Dealer-Supplier of Automobile Industry in Thailand

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Abstract: In many organizations, creating successful working relationships at various levels is important to ensure effectiveness. In a distribution business environment, establishing and maintaining a network of satisfied dealers is crucial to allow business organizations to complete successfully, because forging effective partnerships with suppliers and dealers can be beneficial to both buyers and sellers. The main objective of this study was to investigate the role of relationship commitment between dealers and suppliers in Thai automobile industry and this study develop the hypothesis within the relationship of power, trust and relationship commitment among dealer-supplier of automobile industry in Thailand.

Key words: Power • Trust • Relationship Commitment • Automobile Industry • Dealer • Supplier

INTRODUCTION

Competition in the automobile industry not only at the brand level but more sophisticatedly at the final and local market level among dealers. This is because all automobile suppliers have similar level of advanced technology and capabilities in producing cars. In this circumstance dealers differentiate among themselves in terms of sale and after-sales services the supplier provides in the retail business [1]. Similarly, in Thailand, due to the increasing competition and the new entrance in the Thai automobile market, suppliers must find new ways to influence dealers in selling their products [2].

The automobile industry in Thailand has been controlled by the franchise system [3]. The franchised dealership is a form of contractual arrangement between a franchisee (dealer) and a franchisor (supplier) for the right to sell the supplier's product and/or use its trademarks and business format in a given location for a specified period of time [4]. It is self-financed and serves as an extension of the supplier [5]. With this distributing channel, the suppliers need to recognize the importance of creating relationship with their dealers to cooperate in strategic planning in terms of administration marketing and brand creating, which will lead to an increase in sales and improvement in profit margin.

The partners in a dealer franchise system are mutually dependent on the supplier's objective to achieve their goals. The supplier sets performance standards and manages brand image and economics efficiencies and has the power to terminate the dealer or force dealer to purchase inputs. The dealer must be content with the restraints of the supplier

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franchise control, contractual specification and cost associated with the franchise system and agrees to pay out portion of profits in the form of base fee and royalty [6], [7]. Thus, the dealer may dependent on the supplier and this dependence is the basis for use of power by the supplier.

Success benefits not only the dealer, but also the end-customers; hence, the dealer can be motivated to change their strategies by focusing on the end-customers. A product is delivered to the end-customer via a supply chain of firms consisting of manufacturer, supplier and dealers. Most firms are simply a link in the supply chain and chain can only be as strong as its weakest link. Thus, a dealer cannot be responsive without a responsive supplier and the benefits of such reaction cannot be transferred to the end-customer unless the distributors align with this strategy as well. In the automobile franchising system, the dealer's significant investment allows the supplier to spend its resources on research and development of product while the dealer spends its resources on sales, marketing and customer handling. Thus, the relationship between dealer-supplier generally involves retailing of a supplier's product directly to end-user. Both parties (dealer and supplier) are involved in the business-to-business relationship as well as strong and extensive social, economic, service and technical ties over time, with the intent of lowering total costs and/or increasing value, thereby achieving mutual benefits [8]. Because the main goal of the dealer and supplier is mutually beneficial, developing and maintaining marketing relationship may help inter-organizations to achieve their goal. In the automobile industry, the dealer plays a very important role in the distribution channel and is the 'face' with which the customer identifies and through whom he/she experiences the brand. However, not much has been studied about dealers and their role in the distribution channel even though significant research has been conducted on the upstream supply chain management in the automobile industry.

Problem Statement: In Thailand, business-to-business relationship especially in the franchise dealership system is built on mutual benefit, which involves shared effort, enhanced profit, maximized market share, product sales and growth for both parties [9]. From the preliminary interviews conducted with some dealers, the distribution structure consists of the transfer sales from the manufacturer to their own branch or distribution via authorized car distributors (herewith referred to as supplier). The cars are then sold through the supplementary car dealers whether owned by supplier or other independent companies (herewith referred to as dealer).

Automobile dealers can be considered commercial ambassadors for automobile suppliers. They are responsible for making sales of automobiles and other products as well as servicing customers both before and after sales. The success in sales by the dealers reflects the success of the owner of the brand, which is characteristic of the dealer franchise system [10].

During 2010-2012, the Department of Business Development [11] recorded a steady decrease in the number of dealers. The reduction means that the company representatives have cancelled or do not continue to be dealers. The decreasing number suggests that misunderstanding or contradiction in policy administrations or conflict may play a role. The conflict between inter-organizations may occur as a result of power dynamics between the supplier and the dealer, which have a negative impact on the relationship commitment of both parties. As a result of the decrease in the number of dealerships, a negative impact on the brand image ensues which lead to reduced sales and lower market share.

In the Thai automobile industry, power dynamics in the supplier-dealer relationship have been a subject of debate. For instance, while the dealers perceive the issue of opening of outlets that overlap in one area is problematic because the dealers' profit will be thinner, the suppliers believe that such overlapping is a good opportunity to promote the product by opening more showrooms and offering customer services. Furthermore, the opening of more outlet or branches can increase the supplier's market share by 10 percent [11].

Another issue of concern is the requirement for maximum sales by the supplier, which increases the costs of keeping too many stocks. This problem was heightened especially in 2013 when the Thai government launched a policy that allowed people who bought their first cars in 2012 to get a tax refund of not more than 100, 000 Baht per person per car,

resulting in a vast number of reservations for car purchases. As a result of this policy, the suppliers urged the dealers to market and get maximum reservations from the buyer before the end of 2012. With a large number of orders, the dealers had to plan on making the payment to the suppliers. Unfortunately, when the country faced economic and household consumption slowdown in 2011, a number of customers cancelled their reservations and postponed from buying a car. As a result, there were up to 13, 000 cars that remained in stock. When this happened, the dealers faced a cash flow problem and ended up selling the cars at a cheaper price, prompting a price war that might damage the market [12].

According to [10], in marketing channel relationship, research have revealed that a channel member's satisfaction increases long-term orientation and continuity. Under such a scenario, channel members, like dealer, must develop good working relationships with their suppliers in order to provide merchandise efficiently and effectively to the consumer. This is because the dealers and its suppliers are interdependent upon one another and this relationship is one of the keys to successful channel distribution. In relation to that, building strong relationships between manufacturers, suppliers, distributors, retailers and customers appears to become an important channel strategy in both industrial and consumer markets. Through the utilization of a relationship element, dealers and suppliers could coordinate various functions spread over different areas within them which at the end of the day lead to greater levels of channel trust and commitment. This effort could increase their ability to deal with today's worldwide trend towards building closer and more integrated relationship between channel intermediaries and suppliers.

Research Objectives: The general objective of this study is to investigate the antecedents of relationship commitment. Accordingly, the specific objectives are delineated as follows:

- To determine the level of relationship commitment toward the suppliers in the Thai automobile industry.
- To investigate the relationship between trust and relationship commitment among car dealers in the Thai automobile industry.
- To examine the relationship between the mediated (legitimate, reward and coercive) and non-mediated power (expert and reference) on relationship commitment of car dealers in the Thai automobile industry.
- To examine the mediating effect of trust on the relationships between use of powers and relationship commitment.

Literature Review: The marketing environment has become so dynamic and fierce that a new approach to marketing is necessary. As customers have become more empowered, developing a good relationship with them determines business success. Hence, relationship marketing has become a new marketing tool and strategic vehicle to achieve the bottom line [13]. As the business and customers interact with each other in various partnerships [14], [15], relationship marketing ensures involvement and integration of customers, suppliers and other related parties into a firm's developmental and marketing activities [16]. In this context, relationship marketing plays a role in "... attracting, maintaining and-in multi-service organisations--enhancing customer relationships" [17].

Relationship marketing changes the way personal selling and sales management are being practiced in order to develop a long-term buyer-seller relationships [18]. To create value for the marketers and buyers, this relationship management [19] sees increased involvement of various sales-related individuals such as customer partner, team coordinator and service provider [19]. Furthermore, [20] identified various factors such as technological advancement, total quality programs and increased competition in the service industry as the key forces to the growth and development of relationship marketing.

As relationship marketing is gaining prominence, this calls for major changes in the theory of marketing fundamentals. Instead of the traditional adversarial transaction cost analysis approach to buyer supplier relationships, cooperation now becomes the basis [21]. This is particularly emphasized by the Nordic schools, which view marketing as an interactive process between a buyer and a seller where relationship building and management is a vital cornerstone. Such active relationship is in direct opposition of the traditional marketing paradigm where the seller is active while the buyer is passive. Such a traditional view of marketing does not reflect the current reality of retail marketing practices.

Strategically, relationship marketing results in the versatile relationships in the B2B settings, particularly in retail. According to [22], retailer-supplier partnerships can be categorised into three: (a) planned and coordinated partnership but on a very limited basis and for a short term period; (b) partnership involving integration of business activities between retailers and suppliers; (c) partnership based on ongoing and stable integration with adequate significance. To [23], another form of relationship involves operational partnering on one side and strategic partnering on the other side. The strategic variations in relationship marketing that moves from a short-term oriented transaction to a long-term relationship signifies the changes in the business environment. As succinctly stated by [24], “What I think we are witnessing today is a movement away from a focus on exchange – in the narrow sense of transaction and toward a focus on building value chain relationships and marketing networks...we start thinking mostly about how to hold on to our existing customers...our thinking therefore is moving from a marketing mix focus to a relationship focus”.

Historically, in ancient trading, creating and maintaining relationships were very important, as reflected in a very popular saying in the Middle East, “As a merchant, you’d better have a friend in every town”. But, in contemporary times, [17] was the one who first introduced the concept of relationship marketing from the services marketing perspective. For him, relationship marketing primarily aims to create mutual benefits and values between a buyer and a seller. He advocated a number of relationship strategies, including a core service strategy, customization, relationship pricing and internal marketing. He stressed that the attraction of new customers should be viewed only as an intermediate step in the marketing process. Solidifying the relationship, transforming indifferent customers into loyal ones and serving customers as clients also should be considered as marketing.

Hypothesis Development

Trust and Relationship Commitment: [25] found that trust directly influenced relationship commitment. The result suggests that trust in the main supplier appears to increase car dealer commitment in three countries (Finland, Belgium and the Netherlands). Dealer commitment was expected to play a major role in the perception of threats from the competitive environment and to influence expansion intention within and beyond the current supplier’s network. They found that dealers were highly dependent on their main supplier. In a similar vein, [26] revealed that increased trust positively impacted affective commitment. Therefore, the following hypotheses were formulated.

Hypothesis 1: There is a positive relationship between trust and relationship commitment.

Use of Power and Relationship Commitment: Previous studies examined the relationship between the use of power and relationship commitment [27] in which the power bases were dichotomized to mediated (reward, coercive and legal legitimate) and non-mediated (expert and referent). It was found that the use of mediated power by the supplier decreased the commitment between two parties (buyer and supplier). However, when the supplier held more power, the use of mediated power was not significantly related to the buyer commitment to the relationship. As a weaker member of the channel expects its powerful counterparts make use of the mediated power, the use of it by the supplier will not improve the commitment of the retailer to the relationship.

On the other hand, it was found that non-mediated power and relationship commitment were positively related. When the supplier uses non-mediated power the retailer’s commitment to the relationship increases and the retailer’s assessment of the supplier’s performance is enhanced. The result indicates that the positive impact of the supplier’s non-mediated power over the retailer’s attributions of the supplier’s performance is heightened when the supplier is more powerful than the retailer. Thus, the following hypotheses were formulated.

Hypothesis 2: Mediated power (reward, coercive, legal legitimate) has a negative influence on relationship commitment.

Hypothesis 3: Non-mediated power (expert, referent) has a positive influence on relationship commitment.

Mediating Relationship: Past researchers have found trust to mediate the relationship between power use and commitment. For example, [28] revealed that the use of power (coercive and non-coercive power) played a significant proactive role in building trust and enduring commitment in the supplier-retailer relationship. In their framework, trust was taken as mediator. In [29] study, power, trust and commitment relationship was straightforward. They investigated the influence of a supplier's exercising power on a buyer's trust in and commitment to the supplier in Iran. Therefore, the following were formulated:

Hypothesis 4: Trust mediates the relationship between mediated power (reward, coercive, legal legitimate) and relationship commitment.

Hypothesis 5: Trust mediates the relationship between non-mediated power (expert and referent) and relationship commitment.

DISCUSSION AND CONCLUSION

The present study found the importance of trust and non-mediated power (expert, referent power) in enhancing relationship commitment. The result of this research will help dealers and suppliers understand the importance of establishing long-term relationship and apply a long-term orientation strategy with their partner. Relationship marketing helps buyers and sellers to build, develop and maintain the relationship. The goal in the dealer-supplier relationship is to establish and maintain the relationship with the dealer for long-term sales instead of maximizing short-term sales. Dealers and suppliers devote their attention to long-term relationship in order to increase the pie rather than divide the pie [17]. Both dealers and suppliers look for effective relationships in order to maximize their profits, minimize their costs, which ultimately lead to long-term trust and commitment [27]. Relationship commitment and trust are the major variables of relationship marketing model in many research works [1], [30]. Based on the research findings, firms must build relationship commitment and trust their customers to have long-term businesses. The model shows that the use of power by supplier is the most important. Of the five types of power, expert and referent power is especially important in improving relationship commitment. Therefore, suppliers should strive to enhance their expert power by hiring knowledgeable people and managing their expertise and skill to influence their dealers.

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