

Exploring factors affecting satisfaction with the relationship between supplier and retailer

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Introduction

Relationship marketing refers to the set of marketing activities oriented to establishing, developing, maintaining, and terminating successful relational exchange (Morgan and Hunt 1994; Eiriz and Wilson 2006). It is somehow a new paradigm in marketing practice especially in developing countries. Before the paradigm of relationship marketing, most of marketing theories and practice were focused on selling transaction in what was known as transactional marketing. In contrast, relationship marketing adds another dimension and focuses on building long-term relationships with customers and other partners in order to satisfy their needs.

In distribution channels, relationship marketing studies the effect of commitment and trust on satisfaction of the relationship between different channel members. It also explores the antecedents of commitment and trust such as communication quality, strategic integration, and information exchange.

In this paper, researchers explore these factors in supplier-retailer channel of distribution in developing countries such as Saudi Arabia. Researchers also examine whether suppliers and retailers conduct relationship marketing with each other and the benefits of exercising relationship marketing.

Research objectives

This research aims to examine the level of communication between suppliers and retailers and investigate whether suppliers and retailers have strategic integration in goals and values shared between them. Communication quality, strategic integration, and information exchange can be considered as antecedents of trust and commitment that affect satisfaction in the relationship between supplier and retailer.

Literature review

Communication quality

Communication can be defined as the formal and informal sharing of meaningful and timely information between firms. It can be described as the “glue” that holds together a channel of distribution (Morgan and Hunt 1994). Communication is the human activity that creates and maintains relationships between the different parties involved. For communication to occur, people must not only exchange information, but also be able to decipher each other’s codes (Lages et al. 2005).

Communication quality is an important factor in achieving satisfaction between channel members. Higher level of communication quality is associated with more successful partnership (MacNeil 1981; Anderson and Narus 1990; Mohr and Nevin 1990; Boyle et al. 1992; Mohr and Spekman 1994; Weitz and Jap 1995; Lages et al. 2005).

A number of studies found positive relationships between communication and trust in distribution channel (e.g., Anderson and Weitz 1989; Anderson and Narus 1990; Geyskens et al. 1997). They further argued that effective communication has the greatest positive effect on trust which supports cooperation between channel members.

Mohr and Spekman (1994) used five-step, bipolar scale to assess communication quality between computer manufacturers and dealers in United States. This scale is used in the present study to assess the communication quality between suppliers and retailers in Saudi Arabian market. Channel members are asked about the extent to which they feel that the communication with other partner is timely/untimely, accurate/inaccurate, adequate/inadequate, complete/incomplete, and credible/not credible. (The full questionnaire items are listed in Appendix A)

Strategic integration

Strategic integration can be understood as the shared goals and values. Morgan and Hunt (1994) proposed that shared values can be direct precursors of both relationship commitment and trust. Shared values have been defined as the extent to which channel members have beliefs in common about future goals and objectives and whether they are in agreement to fulfill these goals and objectives (Morgan and Hunt 1994).

Strategic integration is the long-term relationship orientation that evolves cooperation, goal sharing and risk sharing (Lages et al. 2005).

A channel member will seek to develop relationships with firms offering synergistic capabilities and have similar values, beliefs and operating practices (Weitz and Jap 1995). When channel members set common goals, they can be expected to act instinctively for the benefits of one another (Achrol 1997).

Strategic integration between firms begins when the exchange relationship becomes important and moreover becomes beneficial to the firms in strategic ways (Johnson 1999). The present study measures the strategic integration between suppliers and retailers in Saudi Arabian market using five-point likert scale developed by Johnson (1999).

Information Exchange

Information exchange strategy is the extent to which the source firm's boundary personnel use discussions on general business issues and operating procedures to enhance the profitability of target firm (Frazier and Summers 1984).

Many studies found a high positive correlation between the amount of information exchange and channel members agreement and relational satisfaction (e.g. Frazier and Summers 1984; Boyle et al. 1992; Mohr and Spekman 1994; Kwon and Suh 2004; Lages et al. 2005; Müller and Gaudig 2011).

Information sharing (exchange) reduce the level of behavioral uncertainty which in turn increase the level of trust in supply chain context (Kwon and Suh 2004).

Information exchange is an important factor in relationship marketing. Internet and new information technologies changed the way that channel members communicate and exchange information. Retailers now can connect directly to suppliers' information systems and order the required quantities or get some insights from data stored in suppliers' information systems.

Trust

Trust has been studied extensively in the social exchange literature. The literature on trust suggests that confidence on the part of the trusting party results from the firm belief that the trustworthy party is reliable and has high integrity which is associated with honesty, fairness, responsibility, helpfulness and benevolence (e.g., Morgan and Hunt 1994; Kwon and Suh 2004; Hausman and Johnston 2010).

Relationships characterized by trust are highly valued that parties will desire to commit themselves to such relationships. Therefore, trust is considered to be the cornerstone of any strategic partnership (Spekman 1988).

A number of studies found a significant relationship between trust and satisfaction between channel members (e.g., Mohr and Spekman 1994; Weitz and Jap 1995; Achrol 1997; Geyskens et al. 1997; Lindgreen 2001). Moreover, trust found to be a key mediating variable along with commitment in the key mediating variable (KMV) model of relationship marketing (Morgan and Hunt 1994). Trust was also completely mediating the relationship between fairness and loyalty in symmetric interdependence relationship between supplier and buyer in pharmaceutical supply chain (Jambulingam, Kathuria, and Nevin 2011).

Commitment

Relationship commitment is the exchange partner's belief that an ongoing relationship with another partner is so important as to warrant maximum effort and maintain it, that is the committed party believes the relationship is worth working on to ensure that it endures indefinitely (Morgan and Hunt 1994; Kwon and Suh 2004; Hausman and Johnston 2010; Chao et al. 2013).

Commitment and trust are key factors because they encourage marketers to work at preserving long-term relationship and to view potentially high-risk actions as being prudent because of the belief that their partners will not act opportunistically. Therefore, when both commitment and trust present, they produce outcomes that promote efficiency, productivity, and effectiveness. In short, commitment and trust lead directly to cooperative behaviors that are conducive to relationship marketing success (Morgan and Hunt 1994).

Satisfaction with the relationship

Geyskens et al. (1999) distinguished between two types of satisfaction, economic satisfaction that focus primarily on economic aspects of the relationship such as member satisfaction resulted from increasing sales volume or profit margin. A satisfied channel member considers

the relationship with its partner to be satisfied, as well as with the resulting financial outcomes.

The second type of satisfaction is non-economic satisfaction that can be defined as the channel member's positive affective response to the non-economic, psychosocial aspects of the relationship with its partner. A channel member satisfied with the non-economic aspects of the relationship appreciates the contacts with its partner and, on a personal level, likes working with it because it believes the partner is concerned, respectful, and willing to exchange ideas.

Legas et al. (2005) focused primarily on non-economic satisfaction in measuring satisfaction with the relationship between exporter and importer. They used three items for measuring satisfaction with the relationship. The first item is related to the fact that a satisfied channel member considers association with its partner to be successful. The second item assesses the extent to which the channel member is overall satisfied with its partner. And the third item refers to the degree to which the channel member's expectations were achieved in terms of the results of the relationship with the channel member's partner.

Conceptual model

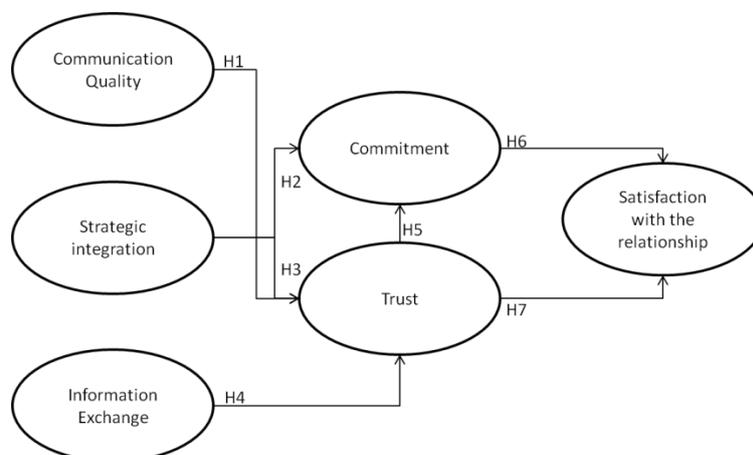


Figure 1. A conceptual model of communication quality, strategic integration, and information exchange effects on satisfaction with the relationship

Research Hypotheses

Communication Quality. In reviewing previous studies, one can find that most of the studies that addressed the relationship between communication quality and trust in distribution channels clearly found a positive relationship between those two concepts (e.g., Anderson and Weitz 1989; Anderson and Narus 1990; Morgan and Hunt 1994). Therefore, the first hypothesis is:

H₁: There is a positive relationship between communication quality and trust between supplier and retailer

Strategic Integration. Morgan and Hunt (1994) found that shared goals and values that we refer here as strategic integration can be an antecedent of both commitment and trust. Therefore, the two hypotheses related to strategic integration are:

H₂: Strategic integration between supplier and retailer is positively correlated with commitment

H₃: Strategic integration between supplier and retailer is positively correlated with trust

Information Exchange. Previous studies addressed the relationship between information exchange and trust and found highly positive correlation between them (e.g., Boyle et al. 1992; Kwon and Suh 2004) therefore; the following hypothesis is to be tested in this study:

H₄: Information exchange between supplier and retailer is positively related with trust

The following three hypotheses have been discussed extensively in trust-commitment theory of relationship marketing (Morgan and Hunt 1994) and also in other studies (e.g., Mohr and Spekman 1994; Weitz and Jap 1995; Achrol 1997; Chao et al. 2013) therefore, they are to be tested in Saudi Arabian context:

H₅: Trust is an antecedent of commitment in supplier-retailer distribution channel

H₆: Satisfaction with the relationship is positively related with commitment in supplier-retailer distribution channel

H₇: Satisfaction with the relationship is positively related with trust in supplier-retailer distribution channel

Research Methodology

Sampling framework

The present study sheds light on relationship marketing concepts in developing countries such as Saudi Arabia. The study focuses on the relationship between supplier and retailer. Therefore, retail sector is the best place where study hypotheses can be tested.

Saudi Arabia is one of the fastest growing retail markets. It is ranked (16th) in the 2013 Global Retail Development Index. The GRDI ranks the top (30) developing countries based on their attractiveness in retail sector (Moriarty 2013).

New business registration process in Saudi Arabia goes through four mandatory steps: first, ministry of commerce and industry issues a commercial register that will be used as a reference for all business activities. Second, municipality issues licenses for each business location (e.g. office, showroom, or warehouse). Third, new businesses need to issue a certificate from chamber of commerce and industry for general business correspondence. Finally, business organization needs to be registered in general organization for social insurance that acts as pension fund for business employees.

Business sector in Saudi Arabia consists of more than 330,000 organizations with retail organizations as the biggest share of around 30 per cent concentrated in three major cities namely, Riyadh, Jeddah, and Dammam. These three cities account for 20, 16, and 15 per cent

respectively of total economic activities in Saudi Arabia (general organization for social insurance report 2012).

There are more than 19,000 retailers in Riyadh most of them are small or medium size businesses. These small and medium size businesses account for 90 per cent of retail organizations with the majority owned by individual owners who are responsible for managing all business activities such as sales, inventory control, replenishment, and customer support.

The present research seeks to investigate communication quality, strategic integration, and information exchange in a long-term relationship between retailers and their suppliers in Saudi Arabian market. Therefore, the sample should include retailers and suppliers who have long-term relationships.

The sample will be selected randomly from retailers listed in Riyadh chamber of commerce database. Selected retailers will be asked to nominate three major suppliers in order to study the dyadic relationship factors of this research.

Measurement instruments

All research constructs will be measured by 5-point Likert scale. The research constructs are: communication quality, strategic integration, information exchange, commitment, trust and satisfaction with the relationship. (Appendix A contains the questionnaire that includes all measurement items)

Data Collection

Researchers use self-administered questionnaire in collecting sample data. Sample of 300 retailers and their major suppliers in Riyadh will be contacted by e-mail and informed about the study and then they will be mailed the questionnaire. A follow-up calls are needed to enhance response rate.

Data will be analyzed using SPSS 18 package. In analyzing data, researchers will use factor analysis to validate research constructs. Internal reliability of items will be tested using Cronbach Alpha test.

After validity and reliability checks, research hypotheses will be tested using the appropriate test (i.e. correlation between different constructs will be tested using simple regression, antecedents of trust and commitment will be analyzed using structural equation modeling).

Appendix A

The following question will measure the communication quality between supplier and retailer:

To what extent you feel that the communication with other partner is :(adapted from Mohr and Spekman 1994)

Untimely	1	2	3	4	5	Timely
Inaccurate	1	2	3	4	5	Accurate
Inadequate	1	2	3	4	5	Adequate
Incomplete	1	2	3	4	5	Complete
Credible	1	2	3	4	5	Not credible

The following items will measure strategic integration between supplier and retailer (All items are anchored by strongly disagree (1) and strongly agree (5): (adapted from Johnson 1999)

1. Our firm's long-term strategy depends on maintaining a good, healthy relationship with our major supplier.
2. It is very important for our organization to maintain the relationship with our major supplier.
3. A strong cooperative relationship must be maintained between our firm and our major supplier for us to remain competitive in our industry.
4. When developing our firm's strategy, we consider our major supplier as a large part of the picture.
5. We do not think about our own firm's long-term strategy when we make plans with our major supplier. (Reverse)
6. If our major supplier went out of business, our firm would immediately have to change our competitive strategy.

The following items will measure information exchange between supplier and retailer (All items are anchored by strongly disagree (1) and strongly agree (5): (adapted from Boyle et al. 1992)

1. Our supplier focuses on general strategies (as opposed to specific tactics) as how to make our business more profitable.

2. Our supplier concentrates more on strategic, long-term issues, rather than specific courses of action our business should take.
3. Our supplier discusses the orientation our management personnel should take with regard to long-term planning, rather than daily activities.
4. Our supplier attempts to change our perspective by looking at how our business decisions affect the "big picture".

The following items will measure trust between supplier and retailer (All items are anchored by strongly disagree (1) and strongly agree (5): (adapted from Mohr and Spekman 1994)

1. We trust that our major supplier's decisions will be beneficial to our business.
2. We feel that we do not get a fair deal from our major supplier. (Reverse)
3. The relationship with our major supplier is marked by a high degree of harmony.

The following items will measure commitment between supplier and retailer (All items are anchored by strongly disagree (1) and strongly agree (5): (adapted from Mohr and Spekman 1994)

1. We'd like to discontinue carrying this supplier's product. (Reverse)
2. We are very committed to carrying this supplier's products.
3. We have a minimal commitment to this supplier. (Reverse)

The following items will measure satisfaction with the relationship between supplier and retailer (All items are anchored by strongly disagree (1) and strongly agree (5): (adapted from Legas et al. 2005)

1. Our association with this supplier has been a highly successful one.
2. This supplier leaves a lot to be desired from an overall performance standpoint.
(Reverse)
3. Overall, the results of our relationship with the supplier were far short of expectations.
(Reverse)

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