

Is Long Term Relationship Supplier Considered Significant By Indian Commercial Vehicle Industry?

Dr. T. Karthikeyan

Assistant Professor, Dept. of Business Administration,
Annamalai University, Chidambaram, India.
email: drtk74@gmail.com

D. Nagasamy

Research scholar, Dept. of Business Administration,
Annamalai University, Chidambaram, India
email: dnagasamy@yahoo.com

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Abstract

Indian Commercial vehicle Manufacturers exist in a competitive environment wherein only the manufacturer with best product and competitively priced can retain / grow their market share. In order to achieve this objective Buyers of Commercial vehicle manufacturer selects suppliers who can provide competitive price and premium quality. Once a supplier is selected, buyer of Commercial vehicle manufacturer evaluates whether the supplier can become a long term relationship supplier. Similarly the supplier try to become a long term relationship supplier with commercial vehicle manufacturer so that they can have mutually beneficial business. In this paper, analysis is done if Long term relationship is considered as a significant factor in commercial Vehicle Industry and factors which are considered more important in that relationship are analysed. Study has been conducted with respondents both from Buyers of commercial vehicle manufacturer and Suppliers (in Buyer's point of view). It was observed that Buyers give importance to Mutuality, Long term orientation, commitment and Innovation whereas from Supplier point of view Mutuality , commitment, Informal socialization and commitment are considered as important factors in Long term relationship.

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INTRODUCTION:

In Commercial vehicle Industry need arise either due to market need for new product or changes in existing one with different specification needed by market. Once the need is finalised based on Market requirement, the Vehicle specification is finalised by New Product development team of the commercial vehicle manufacturer. Commercial vehicle manufacturer is a Original Equipment Manufacturer (OEM). Sub components needed for the New vehicle are finalised and given to the Purchase department. Buyer in the Purchase department will circulate the component details to all relevant suppliers. Supplier can be an existing supplier who is supplying similar component or a new supplier who can potentially supply the required component. Based on the supplier selection process, the component is purchased from suppliers who have required capability and capacity to supply them. Various factors like Environment, Organisational, Interpersonal, Personal factors influence the decision making process of Commercial vehicle manufacturer. Sheth J.N.(1973).Though many competitors are available for same product., Buyer will evaluate if the supplier who can be a long term relationship supplier. Supplier too expect the buyer to treat them as long term supplier.

Factors of Long Term Relationship:

Long Term Relationship is built over time both by supplier and OEM. There are few major Expectations/factors which affect the Long term relationship between Buyer and Supplier.

Communication:

Communication is one of the main Expectation of both supplier and Buyer. Supplier should know all requirements of the Buyer and Buyer should have clear communication with supplier. All long term suppliers ensure that Buyers are always informed on regular basis. Communication is the building block for any relationship. In business-to-business relationship the main task of communication is to ensure partners' understanding of intentions and capabilities and laying the foundations for relationship development. The quality of information and its exchange affect the success of the relationship. It is also defined with accuracy, timeliness and adequacy of exchanged information as well as the way the information is exchanged. (Mohr, Spekman 1994).Communication is defined with the use of information content (Mohr, Nevin 1990, 36-51), Communication is also defined with amount, frequency, and quality (Palmatier et al. 2006, 138), Successful buyer-salesperson relationships involve firms which achieve a higher level of communication quality (Nunlee, 2005). Without good communication relationship between Buyer and seller cannot be effective. In commercial vehicle industry this is the reason the Buyers and sellers are in frequent interaction on new vehicle launches, alternative technology, cost reduction, value Engineering.

Fairness/Trust:

Both Buyer and Supplier expect fairness from other side. Fairness should be in aspects like pricing, Quality issues and support needed for changing supply chain requirement. Mayer Roger et al (1995) refer to trust as the willingness of the party

to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control the other party. According to Jemaa et al (2009), Sellers size and reputation, confidential information sharing as well as willingness to specific investment influence buyer to develop trust with seller. Seller's salesperson expertise, likeability, frequency of contact improves trust. Buyers trust is considered as intangible asset by seller. Both seller and Buyer should strive to increase the level of trust. According to Gounaris Spiros (2002), developing trust is valuable for maintain relationship with organisational client and ensuring its longevity. Trust is a result of quality of service offered and provider ability to tieup with client. Trust is an important antecedent to the achievement of enhanced relational performance, Bo Bernhard Nielsen (2011). In case of Commercial vehicle industry since development of new components take longer duration, suppliers are expected to fulfil the product development and be ready for series production on time. Hence, Trust is an important factor for development of Long term relationship in commercial vehicle Industry.

Commitment:

Commitment in honouring decision agreed upon by both sides. While from supplier side commitment normally includes regular supply of quality parts as per schedule and providing cost reduction and support in new product development from Buyer side it includes maintaining business share and providing additional business. Morgan and Hunt (1994) define relational commitment as existing when an

exchange partner believes that an ongoing relationship with another is sufficiently important to warrant maximum efforts at maintaining the relationship. Commitment encourages both partners to resist short-term benefits in favour of the expected long-term benefits in relationship. Commitment can be the result of emotional attachment or cognitive calculation, Geyskens et al (1996). As suggested by Lei-Yu Wu (2015), Commitment is stronger than trust for stimulating firm's loyal and cooperative behaviours. If transactional or cooperative relationship in insufficient to be a considered as a business partnership it is difficult to establish specific asset investment to enable firms to make further continual transactions and cooperation. When customers strongly feel that the other party is indispensable and a good partner in maintaining strong business relationship, the depth of mutual relationship inspires them to become more willing to make specific asset investments. Higher specific asset investment in a firm shows higher level of loyalty.

Innovation:

Both Suppliers and Buyer will have long term relationship if both have enough Innovative Freedom. Supplier's innovativeness should be accommodated by Buyer's company and Buyer Company's innovativeness should be accepted and accommodated at Supplier end and should be prepared to make changes in his product/product line to accommodate changes if needed. Suppliers have become important source of innovation especially within well-established buyer-seller relationship where supplier is with buying firms product and

operations (Henke & Zhang 2010).Every Firm expect suppliers to provide innovative solution in order to improve their competitiveness in the market. The level of knowledge sharing in the innovation depends on the level of trust in the relationship. Both Buyer and supplier have to develop trust on other so that innovative product can be developed. The extent supplier shares the technical knowhow and extent to which Buyer shares his technical knowhow with supplier depends on the level of Long term relationship than mere contractual requirements.

Mutuality:

Both Buyer and seller will enter into Long term relationship only if they find relationship mutually beneficial.. This mutual dependence is important factor favouring long term relationship. Both buyer and seller will like to make Specific investment in this regard to improve the relationship and to improve the transaction cost as suggested by Buvik et al (2011). As the supplier dedicates specific investment for a buyer unilaterally, buyer control will have major influence. In case where supplier specific investment made by buyer like quality control, training, Production control routines etc at supplier's site, this will influence more buyer control over supplier firms. The primary focus of the Resource based view is the role of strategic resources and capabilities as sources of economic rents and sustainable competitive advantage (Barney, 1991).This is the reason buyers try to convince suppliers for specific investments so that they can better product at lesser cost and suppliers try to get exclusive right to supply that part as a part

of their bargaining strategy to get best advantage of their investments.

Knowledge:

Long term relationship will flourish only if both the parties have sufficient knowledge on their business. In order to improve the knowledge both will try to have foreign collaborations, tie-up with international know-how, have access to international innovations etc. Knowledge is such an important decider particularly for suppliers. However Suppliers are concerned on the intellectual rights with OEMs (Buvik & John, (2000). They find ways to protect their exposure to OEMs. If OEMs can give them contractual cover, they will invest more to provide more profitable solutions to OEMs. Once the Buyer and Seller enter long term relationship, they will check if both meet above mentioned criteria. If there is more satisfaction, Buyer will acknowledge the supplier as Long term relationship Supplier and will provide them with more business. Supplier too will spend more investment, time and effort to satisfy the changing requirement of Buyer's company. This mutually beneficial relationship will result in more business for both and hence both will be benefitted. If the expectations are not met, Buyer will treat the supplier as Normal supplier, will limit business and their business share is not certain. Buyer will switch their business share to another better supplier who can turn out to be a long term supplier.

Socialisation:

Most Long term relationships between companies are accompanied by Socialisation between the respective employees with other. Unless there is

socialisation, both the Buyer and Supplier will not understand the actual reason for each requirement arising from other side. It provides deep understanding of other side's requirement. Socialisation is the process of converting existing tacit knowledge into new tacit knowledge. It is achieved by shared experience and interacting with other people within or beyond organisational boundaries. Knowledge is dynamic because it is created through social interactions among individuals and organisations (Chou, Shih-Wei. 2005). Socializing can increase the level of trust between the members of the relationship and give them greater time, opportunity, and motivation to strengthen and expand their relationship. The social capital concept highlights the idea that people with the "right" types of social connections can more effectively employ other types of capital they possess (such as financial resources, knowledge, skill, and abilities) to achieve their goals than others. People with the right connections occupy a position in the network of social exchanges that allows them to bring their resources to bear on problems in a more timely and effective manner (Oh, Hongseok, et al, 2004). Every supplier and Buyer tries to improve socialisation with other in order to achieve common goal of business growth. In commercial vehicle industry socialisation is done both Formal and informal.

RESEARCH METHODOLOGY:

The study is done with Buyers in OEM and Marketing team of suppliers. In case of Buyers, the subjects are selected who are handling multiple suppliers and components of high value. Buyers

handling miscellaneous items are not included as it would distort the analysis. Secondly in order to understand how response varies based on Hierarchy, questionnaire is sent to buyers from level of Manager to Senior Management level.. Similarly in order to understand the Supplier's response to the same questionnaire in Buyer's point of view, questions were framed accordingly. This questionnaire were sent to Middle and Top management level of suppliers .

Data Collection:

In order to understand the significance of Long term relationship between buyer and seller, questionnaires were sent to buyers in commercial vehicle manufacturers. Out of 120 questionnaires sent to all major OEMs 43 respondents replied back. In order to get suppliers response in view point on Buyer on Long term relationship, same questionnaire is framed for suppliers. Out of 250 questionnaires sent to all major suppliers to OEMs 131 respondents replied back.

FINDINGS:

Buyer Response:The respondents opine that Mutuality (Mean, 4.587 and Standard Deviation 0.439) as the importance factor for Long term relationship followed by Long term orientation (Mean 4.484 and Standard Deviation 0.426) ,commitment (Mean 4.483 and standard Deviation 0.524), Innovation (Mean 4.479 and standard deviation 0.386) and Knowledge transfer (Mean 4.433 and standard deviation 0.524). Respondents opine that low importance is given to Informal socialization (Mean 4.32 and standard deviation 0.444) followed by

communication (Mean 4.372 and Standard deviation 0.457), Formal socialisation (Mean 4.39 and standard deviation 0.473)

and Fairness (Mean 4.395 and Standard deviation 0.534).

Factors affecting Long term relationship	BUYER
	Mean (Standard Deviation)
Respondents' opinion towards Long Term Orientation	4.484(0.426)
Respondents' opinion towards Mutuality	4.587(0.439)
Respondents' opinion towards Commitment	4.483(0.524)
Respondents' opinion towards Fairness	4.395(0.534)
Respondents' opinion towards Innovation	4.479(0.386)
Respondents' opinion towards Knowledge Transfer	4.433(0.524)
Respondents' opinion towards Communication	4.372(0.457)
Respondents' opinion towards Formal Socialization	4.390(0.473)
Respondents' opinion towards Informal Socialization	4.320(0.444)

Supplier's Response: The respondents Opine that Mutuality (Mean, 4.439 and Standard Deviation 0.446) as the importance factor for Long term relationship followed by Commitment (Mean 4.302 and Standard Deviation 0.443) , Informal Socialization (Mean 4.271 and standard Deviation 0.468), Innovation (Mean 4.256 and standard deviation 0.449) and Long term Orientation (Mean 4.241

and standard deviation 0.465). Respondents opine that low importance is given to Communication (Mean 4.16 and standard deviation 0.534) followed by Formal socialization (Mean 4.189 and Standard deviation 0.497) and Fairness (Mean 4.198 and standard deviation 0.516) and Knowledge Transfer (Mean 4.211 and Standard Deviation 0.576)

Factors affecting Long term relationship	SUPPLIER
	Mean (Standard Deviation)
Respondents' opinion towards Long Term Orientation	4.241(0.465)
Respondents' opinion towards Mutuality	4.349(0.446)
Respondents' opinion towards Commitment	4.302(0.443)
Respondents' opinion towards Fairness	4.198(0.516)
Respondents' opinion towards Innovation	4.256(0.449)
Respondents' opinion towards Knowledge Transfer	4.211(0.576)
Respondents' opinion towards Communication	4.160(0.534)

Respondents' opinion towards Formal Socialization	4.189(0.497)
Respondents' opinion towards Informal Socialization	4.271(0.468)

MANAGERIAL IMPLICATIONS:

In commercial vehicle industry both the Buyers and Suppliers are looking for a long term relationship with other as Long term relationship is mutually beneficial and most helpful in sustaining a profitable business model. They always prefer few Suppliers rather than dealing with many suppliers. Suppliers too prefer dealing with full share of particular OEM rather than being a small supplier to many OEMs. From the study we find that Buyer's give importance to Mutuality, Long term orientation, commitment and Innovation while in Supplier point of view Mutuality, commitment, Informal socialization and commitment as important factors. Hence both Buyers and Suppliers should understand the expectation of their respective counterpart so that the strength of Long term relationship can be improved. This will result in improved business partnership.

LIMITATIONS:

Though many Buyer/Supplier have long term relationship with above mentioned criteria many other factors like technology availability, non-availability of competitor, Supplier of their parent company existing outside India. These conditions can also be a reason for having long term relationship with supplier. The research does not include buyers dealing with miscellaneous items being procured by commercial vehicle industry. Due to confidentiality, few of the Buyers of OEM and few Marketing managers from

supplier end did not answer to the questionnaire.

SCOPE FOR FURTHER RESEARCH:

Further research is needed individually on each factors mentioned above and how these factors are given relative importance both by Supplier and Buyer as each factor is very important. Study can be done on macro level with more participation from both commercial vehicle manufacturers and Component suppliers to Commercial vehicle industry

CONCLUSION:

The study has successfully achieved the objective for study. Long term relationship is considered to be significant in commercial vehicle industry and level of importance of various factors for Long term relationship are studied. The finding reported in the study has to be interpreted with caution due to limitations that warrant further research.

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