Power, Trust and Relationship Commitment in Dealer-Supplier Relationship in Thailand Automobile Industry

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Abstract: The automotive industry is one of the main industries in Thailand with significant contribution to the economy, employment, value added and automotive technology development in Thailand as well as supply chain related industries. The automotive industry is one of the main industries in Thailand that generates economic value for the country. Due to consistent economic and industrial growth in Thailand and Asia, in 2014, Thailand automotive production capacity manage to exceed 3 million vehicles each for automobile and motorcycles. The concept of relationship commitment between buyers and sellers has generated lot of interests and has been the central focus in relationship marketing research. The purpose of this study is to examine the power influence in the relationship commitment between dealers and suppliers in the Thai automobile industry.

Key words: Power · Trust · Relationship Commitment · Dealer-Supplier · Automobile Industry

INTRODUCTION

Thailand is a leading regional and global automotive manufacturer. It was ranked the first among ASEAN countries and 15th in the world in 2012. It is also a major regional production base for motorcycle and automotive parts. The car production has been steadily increasing since 1999. According to data from LMC Automotive, Thailand produced 1.92 million autos, including light, medium and heavy commercial vehicles this year and targeting to produce 3 million cars a year by 2017. Since 2000, Thailand has been the key exporter of automotive vehicles in Asia. The production and export are in the form of completely built-up (CBU) vehicles and completely knocked-down kits (CKD kits). The automobile industry has been so improved that Thailand can become the largest automotive market and assembler in Association of Southeast Asian Nations (ASEAN) market in three aspects.

In addition, Thailand has been long welcomed for automotive industry as it launched industry-friendly policies focused on investment privileges and excise-tax benefits, government support for environmental Friendliness and development of workforce. These factors lead the country to be the best hub for eco-car and one-ton pickup producers. In the past couple of years the Thai automotive industry has increasingly shifted its position in the world automotive market by turning from trade partner to competitor, influencing production base relocation and creating competitive advantage development through business collaboration.

According to [1] in domestic market, Thailand sales volume have been gradually increasing from 2000 to 2012, reflecting the ongoing recovery from the economic crisis in 1998. It grew in 2010 by 800,357 units, 2011 by 794,081 units and 1,401,387 units in 2012. Since 2013, domestic sales accounted 54 percent out of total production in Thailand, while export accounted around 44 percent. Thailand automotive growth is not significant between 2012 and 2013 but reached 2,600,000 million vehicles in 2014, with 55 percent for export and 45 percent for domestic consumption.

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 [2]. 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 [3].

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 [4]. 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 [5].

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 [6].

A dealer and a supplier need to cooperate for mutual benefits. Conflicts between both parties will have a negative impact on the products, sales and market share in the future. In the automotive industry, conflicts can result in the reduction of the number of dealers, which means reduced customer services. Hence, minimizing conflict and maximizing communication, mutual interdependence and shared motivation for success and profits need to be fostered [4]. If both parties are able to understand what is expected of the other, it can be said that mutuality has been reached. Understanding factors that influence the dealer’s relationship is therefore important for the supplier. This will help promote and develop the dealer commitment in the relationship and build long-term relationship for mutual benefit.

Literature demonstrates inconsistent results in trust and relationship commitment. While some studies found trust to positively influence relationship commitment [7-17], others found the contrary [18-20]. In recognition of the need to address this inconsistency in relationship commitment, this study contributes to the body of literature by examining the antecedents of relationship commitment in the automobile industry.

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 power, trust and relationship commitment among car dealers in the Thai automobile industry.

From the practical perspective, the findings of this study are important to the development of the automobile industry in Thailand. As Thailand has extensively developed its economy to achieve a total income of approximately 8.1% of 2009 GDP, it continues to evolve in an increasingly dynamic business environment. By focusing on the relationship between dealers and suppliers, it is hoped that the research can further to the effectiveness of this industry since dealership plays an importance role in the channel distribution in Thailand.

Literature Review

Relationship Commitment: Commitment is one of the most popular issues in relationship marketing research during the past decades because the marketplace has become more competitive. Many researchers realize the importance of commitment as a major determinant of long-term relationships and theorize that the presence of relationship commitment and trust is central to successful relationship marketing [21]. Commitment has been shown to lead to relationship maintenance [21], cooperation, long-term orientation, loyalty and decreasing propensity to terminate relationship [22]. It is a fundamental prerequisite for successful industrial marketing relationships and is considered to be central to all relational exchanges between the firm and its various partners and may well become a focal point of explanation in marketing, as the discipline moves further away from the transactional view of exchange and embraces the relational view.
There are several definitions of commitment within the literatures of distribution channel. [13] defined commitment as an exchange partner believing that an ongoing relationship with another person is so important as to warrant maximum efforts at maintaining it. Other scholars defined it as an attitude towards the act of maintaining a relationship with a partner [23], a desire to maintain a value relationship to both parties (buyer-seller) and an implicit or explicit pledge of relational continuity between exchange partners [24]. Relationship commitment has also been referred to as one member’s identification with another member and its internalization of common norms and values with another member. Commitment increases the efficiency of exchange relationships by establishing relational norms that include flexibility and solidarity as well as enhances effectiveness because the parties can maximize their returns over a series of transactions.

In supplier-dealer relationships, commitment is referred to as a desire to develop a stable relationship, a willingness to make short-term sacrifices to realize long-term benefits from the relationship. According to [13], commitment to the relationship is defined as a desire to maintain a valued relationship. Relationship value corresponds to the belief that relationship exists, only when the relationship is considered important. Enduring desire to maintain the relationship reflects a committed partner who wants the relationship to endure indefinitely and is willing to work at maintaining it. Based on the review of literature, commitment consist of two major aspects: importance and outcome of commitment.

Literatures indicate that commitment is important, resulting in the desire to maintain the relationship. Researchers commonly proposed that commitment is the positive feeling that buyers have toward their relationship with a seller, which in turn encourages them to maintain the relationship indefinitely. The key to develop a high level of commitment is to assist the buyer in realizing the importance of their relationship with the seller. As a result, there is a need to carry out a research to determine the factors that encourage a high level of commitment between the buyers and sellers, as a means to realize long-term benefits.

**Trust:** The literature on marketing has provided numerous definition of trust. Most definitions involve a belief that the exchange partner will act in the best interest of the other partner. For example, trust is defined as one party’s belief that its needs will be fulfilled in the future by actions taken by the other party. [19] viewed trust as a kind of willingness to rely on an exchange partner in whom one has confidence. [13] and [25] conceptualized trust in terms of confidence and reliability. According to [26], trust is a belief or conviction about the other party’s intention within the relationship. [27] demonstrated that trust is the dimension of business relationship that determines the level which each party feels they can rely on the integrity of the promise offered by the other. According to [19], trust is willingness to rely on an exchange partner in whom it has confidence. [28] mentioned that a betrayal of trust by the supplier could lead to defection, which means taking mutually agree words as fact and reducing one’s perception of the likelihood that either party will act opportunistically.

Morgan and Hunt, [13] argued that trust is the most important antecedent of commitment. When participants in an exchange relationship trust each other, they are more likely to resolve difficult issues such as conflict and low profitability. In other words, trust generates relationship commitment that may lead to a longer term relationship [24]. Trust can be defined as confidence in the partner’s honesty and belief [29]. Trust can thus be further defined as a willingness to rely on the partner for reliable exchange and transactions in a long term manner.

In relationship marketing literature, trust is generally considered as a key antecedent of relationship commitment [9]. Individuals are reluctant to commit themselves unless they have confidence in the service provider’s ability to constantly meet their expectations in the future (reliability) and in its willingness to avoid any behavior that could be detrimental to them (benevolence). When they distrust a supplier, consumers tend to become less involved in the service relationship and to decrease their potential vulnerability to the partner [30].

Several researchers have classified trust into two essential elements: trust in the partner’s credibility and trust in the partner’s benevolence [7]. [31] stated that trust occurs when a trusting party perceives that another party is trustworthy in terms of its credibility and benevolence. Credibility is based on the extent to which the retailer believes that the vendor has the required expertise to perform the job effectively and reliably. Benevolence is based on the extent to which the retailer believes that the vendor has the intention and motives beneficial to the retailer when new conditions arise.

Trust has been well discussed in business-to-business relationship literature in recent time. In a business-to-business relationship, trust is a firm belief that the customer (retailer/distributor) will attempt to reduce its perceived risk by selecting a supplier seen as
capable of performing reliably (credibility) and demonstrate its interest in the buyer’s wellbeing (benevolence). Trust can be traced as one party relying on or having confidence in other party [13]. In dealer-supplier relationship, both parties search for a trustworthy partner [8]. [32] investigated the effect of interdependence asymmetry and total interdependence on inter-organizational conflict, trust and commitment in the automotive industry among 417 USA car dealers. They found that dealers’ trust and commitment to supplier were decreased when the latter increased interdependence asymmetry. On the other hand, greater total interdependence was associated with higher trust and commitment and lower conflict. In their study, two types of trust were proposed: trust in dealer’s credibility and trust in supplier’s benevolence. Trust in the supplier credibility is based on the extent to which the dealer believes that the supplier’s word or written statement can be relied on and that the supplier will perform its role effective and reliably.

**Power:** The issue of “power” in the distribution channels has received considerable attention in both academic and practitioner journals. A number of power theoreticians have put emphasis on the importance of treating power not as an attribute, but as a relationship. [8] argued that when conflict happens power is used to solve it. Power is a fundamental inter-organizational influence phenomenon because influence is clearly defined as “the use of power” [31]. Earlier, [33] provided that power is the ability to get someone to do something he or she would not have done. For example, “A has the power over B to the extent that A can get B to do something that B would not otherwise do” or “When an agent, O, performs an act resulting in some change in another agent, P, it could say that O influences P. On the other hand, if O has the capability of influencing P, it could say that O has power over P”.

There are various sources of power (or sometimes called the power source and base of power), which are exercised via a multitude of strategies. French and Raven in 1959 were the first to offer the base of power research in the development of power consisting of: (a) expert (the source has knowledge, information and skills desired by the target); (b) referent (the target values to maintain identification with the source); (c) legitimate (the source has the legitimate right to influence behavior over the target. This is based primarily on traditional legitimate and legal legitimate); (d) reward (the sources retains the ability to mediates rewards to the target); and (e) coercive (the source has the ability to mediate punishment to target).

In the context of supply chain management involving retailer (dealer) and supplier, the sources of power explain why one party holds authority over the other.

The five sources of power seem to be the dominant paradigm in channel power theory and are utilized in many research endeavours [18,31,34].

In addition to the sources of power above, other dichotomizations of power sources have been used by researchers. The most commonly applied dichotomies in channel research are coercive/non-coercive [31], direct and indirect outcome control [35], contingent and non-contingent power [33], exercised and unexercised [31] and mediated and non-mediated power [34,35]. But, the most appropriate dichotomization of the business-to-business environment is based on mediated and non-mediated power sources [34,35]. Mediated power is when the source of the power decides whether, when and how to use power to influence the target’s decision and behavior, whereas non-mediated power occurs when the source of the power does not mediate the reinforcement of the power over the target.

**Methodology:** The study engaged in a cross-sectional study where data were to be gathered once to discover simultaneously the relationships between power, trust and relationship commitment. Furthermore, the present study selected cross-sectional over longitudinal design because of budget and time imposition. This study considered each car dealer’s response as a unit of data source.

**Data Analysis:** Level of Relationship Commitment among Car Dealers in Thailand

Table 1.1 shows that all the mean scores of the variables and dimensions were high, ranging from 3.50 to 4.27. The mean values suggested that mediated power, non-mediated power, trust and relationship commitment were highly important. Meanwhile, the standard deviation of .61 indicated that statistically the variations of relationship commitment of the dealers towards the suppliers tend to be high.
Although not part of the objective of the present study, the level of relationship commitment across the respondents was ascertained. In particular, this study was interested to know whether there are differences in relationship commitment across length of relationship and sales volume of the dealers. To test these, analysis of variance (ANOVA) was used. Table 1.2 show the results. It was found that level of relationship commitment of the dealers towards the suppliers did not vary by length of the relationship with the supplier ($F = 1.879; p = .133$) and sales volume of the dealers ($F = 1.076; p = .377$).

### DISCUSSION AND CONCLUSION

This study presented the findings based on several statistical analysis outputs using SPSS Ver.21 for Windows. The test of non-response bias revealed no statistically significant difference between early and late responses. Therefore, the issue of non-response bias did not significantly affect the generalizability of the findings in this study. To the best of our knowledge, there are a few studies on the relationship among dealers in Thailand. This study revealed that the level of relationship commitment among dealers toward their supplier was high. From the view of the dealers, they receive expected outcomes from the existing business relationship with the suppliers. The suppliers provide both initial and continuous services to their dealers in the automobile industry. Initial services include market survey and site selection, facility design and layout, lease negotiation advice, financing advice, operating manuals, management training programs, dealer employee training. Continuous services include field supervision, merchandising and promotional materials, management and employee retraining, quality inspection, national advertising, centralized planning, market data and guidance, auditing and record keeping, management reports, group insurance plans.

Another reason to explain this finding is perhaps because the dealers are more dependent on their suppliers. The dependence relies mainly on the notion that the suppliers are the possessor of a brand/idea/format (i.e. knowhow) and although the dealers invest their own money in the business, it is shaped according to the supplier’s accumulated experience. Another plausible reason is due to the nature of the dealer-supplier system, which in automobile industry is essentially a channel of distribution with a unilateral dependency relationship. The suppliers, being the strong channel member, have mediated and non-mediated power sources that can be exercised to control the dealers. The direction of power for most decisions has already been built into the relationship by means of the dealership contract.

Relationship commitment is considered to be one of the key constructs in the context of business-to-business, where several researchers are of the consensus that commitment is a crucial part in relationship development. It is crucial to create and maintain relationships that are long-term and focus on the inclination to continue such relationship [32] as this can result in relationship maintenance [21], cooperation, long-term orientation,
loyalty and decreased willingness to terminate the relationship [22]. Commitment is also a basic requirement for successful industrial marketing relationships and is deemed to be the core of all relational exchanges between the firm and its partners [24] and may well be considered as the source of explanation in marketing as the discipline shifts towards the relational view of exchange and away from the transactional view.

REFERENCES


