

## **Relational Effects of Supplier Communication upon Distributor Commitment**

*Russel P J Kingshott, Curtin University, [r.kingshott@curtin.edu.au](mailto:r.kingshott@curtin.edu.au)*

*Paul Pickering, Auckland University of Technology, [paul.pickering@aut.ac.nz](mailto:paul.pickering@aut.ac.nz)*

### **Abstract**

The main aim of this research was to determine the impact supplier relational communication has upon distributor commitment. A survey of 343 distributor firms in the Australian Automobile industry reveals that supplier communication determined to be relational in nature has a strong positive impact upon distributor commitment. These findings reveal communication can be regarded as a much broader nurturing tool in the development and maintenance of Social Exchange based relationships between suppliers and distributors. The wider implications of employing such a communication strategy this industrial context are discussed, together with important potential research directions.

Key Words: Distributor Commitment, Relational Communication,

# **Relational Effects of Supplier Communication upon Distributor Commitment**

## **Introduction**

Social exchange (SE) theory has become a dominant perspective in explaining how supplier-distributor firms are able to successfully structure their relationships (Anderson and Narus, 1984; Kingshott and Pecotich, 2007; Morgan and Hunt, 1994). Under SE relationships the risks from opportunism are reduced if firms are able to leverage the inherent presence of trust and norms as they engender reliance (Swan and Nolan, 1985) and relational stability (Berthon, Pitt, Ewing and Bakkeland, 2003). These constructs are highly temporal in nature and transpire as a consequence of the socialisation between parties (Axelrod, 1986; Doney and Cannon, 1997; Dwyer, Schurr and Oh, 1987; Williams, 2001), and the extent of interaction and sharing of information (Fontenot and Wilson, 1997; Kingshott and Pickering, 2004; Webster, 1992). However, the nature and extent of this communication is likely to present a double-edged challenge to decision makers. That is, information exchanges form an essential aspect needed to help strengthen relationships (Anderson and Weitz, 1992; Morgan and Hunt, 1994; Duncan and Moriety, 1998) but paradoxically, the sharing of sensitive information may inadvertently expose either relational party to vulnerability. But by working bilaterally, parties may facilitate mutual goals through joint inputs (Anderson and Narus, 1990; Heide, 1994) albeit exposing them to inherent risk. Mutual commitment and this mitigation of this risk can be demonstrated through the likes of reciprocal sharing of commercially sensitive information. In cognition of these issues, the main purpose of this research was to empirically examine the precise nature and impact of SE style supplier relational communication upon distributor relationship commitment.

## **Theory and Hypothesis Development**

Within business markets firms that employ relationship marketing (RM), there is a need to consider the nature of the governance interface. Governance, defined as “a multi-dimensional phenomenon, encompassing the initiation, termination, and ongoing relationship maintenance between a set of parties” (Heide, 1994, p.72), typically manifests in either unilateral or bilateral forms. Scholars have conventionally treated these forms interchangeably with Transaction Cost Analysis (TCA) or SE relational approaches respectively. The plethora of industrial RM studies have increasingly weighed in on the side of SE providing distinct advantages over TCA, including amongst others, flexibility, reduced monitoring, stability, and reliance (Berthon, Pitt, Ewing and Bakkeland, 2003; Brown, Dev and Lee, 2000; Cannon, Achrol, and Gundlach, 2000; Reindfleisch and Heide, 1999). This is due to SE relationships being highly temporal facilitating closeness (Axelrod, 1986; Dwyer, Schurr and Oh, 1987; Heide, 1994). Not only does this make the SE process highly attractive to value-chain stakeholder firms, but they can take advantage of the presence of these constructs as they help attract and secure the likes of distributor commitment (Garbarino and Johnson, 1999; Rexha, Kingshott and Aw, 2003).

The building and maintaining of distributor commitment is one of the hallmarks of enduring relationship success, and long term business continuity (Anderson and Weitz, 1992; Gundlach, Achrol and Mentzer, 1995; Moorman, Zaltman and Deshpandé, 1992; Wilson, 1995). Furthermore, if supplier managers are able to gain distributor commitment in the manner described, it effectively eliminates any incentive to seek substitute partners (Young and Denize, 1995), through engendering loyalty and creating barriers to alternatives (Gundlach, Achrol and Mentzer, 1995). Higher relational orientations (Kaufman and Stern, 1988; Leuthesser, 1997; Webster, 1992) simply mean that both supplier and distributor firms are more devoted to nurturing their relationship as reflected through emergent commitment.

Under SE, relational inputs during formation and maintenance help parties focus upon ultimate values rather than immediate returns of exchange (Huston and Burgess, 1979), also epitomising the bilateral governance approach reflected by highly interactive bargaining and communication (Duncan and Moriarty, 1998; Frazier, Spekman and O'Neal, 1988). In the value chain, such communication acts as the glue that binds parties together (Mohr and Nevin, 1990), helping coordinate the broad range of critical marketing functions needed to create customer and relational value (e.g., Anderson and Narus, 1984; Kingshott and Pickering, 2005). As communication is the platform on which successful relationships are built (Duncan and Moriarty, 1998; Mohr and Nevin, 1990; Sriram, Krapfel and Spekman, 1992), this commitment becomes deeply intertwined. Overall, the preceding discussion may be reflected through the following:

**Hypothesis 1: There is a positive (+) relationship between supplier relational communication and distributor commitment.**

This hypothesis was couched to reflect the level of relational orientation and bilateralism within the supplier-distributor relationship but from the perspective of the nature and structure of information communicated by the supplier firm. Hence, the structure and effects of such communication upon commitment has been modelled in figure 1, showing full results of the relationship between its various elements. The research method is now briefly discussed.

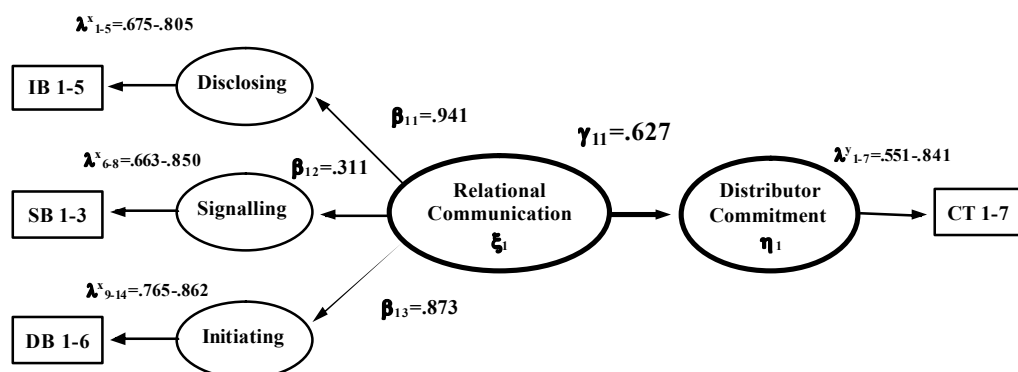
**Method**

The measures tapping supplier relational communication and distributor commitment are derived from existing scales. Communication has been defined herein as: “the formal [and] informal sharing of meaning and timely information between firms” (Anderson and Narus, 1990, p.44). This was measured using the 14-item scale developed by Leuthesser and Kohli (1995) to tap the extent of disclosing, initiating and signalling behaviours within relationships. The construct was conceptualised as the nature and extent of relational orientation being exhibited and manifested directly through these three communication facets. Collectively this higher order construct unveils the distributor’s view that open and candid relational information was given to them by the supplier. Commitment has been defined herein as: “an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it” (Morgan and Hunt, 1994, p.23). The Morgan and Hunt scale (7-items) was designed to tap distributor’s commitment in terms of their intention of remaining within the relationship – used herein as it reflected their attitude towards the supplier firm from a SE perspective. All 21 items were tapped with an 11-point Likert-type scale using 0=“strongly disagree” and 10=“strongly agree” as anchors. Output from the analysis (see table 1) reveals high levels of reliability in each of the measures as reflected through their alpha-indices, ranging between 0.83 and 0.92. A national sample of 1,500 distributor firms, generated from a commercial database, within the Australian motor vehicle industry was the focus of the study. This is an exemplar industry within the Australia context in terms of the need to link members of the value chain, through their relational building efforts, to effectively ‘service’ the retail customer. Given the complexity and ever changing nature of offerings in this industry, in order to remain competitive within the value chain, it is therefore critical that supplier and distributor firms work closely together. Prior to the major fieldwork, the questionnaire was pre-tested for interpretability on respondents from twenty local businesses. From this, the Dillman (2000) method was employed in the fieldwork. Respondents were contacted by mail on four separate occasions through a personally addressed letter to “the Spare Parts and Service Managers” within distributor firms. In two of

these were ‘data-collecting’ mail-outs with a particular focus on design to help increase response rate. This also facilitated the monitoring of late and early returns and, whilst not reported, indicates that non-response bias (Armstrong and Overton, 1977) was not problematic within the dataset. The fieldwork generated a total of 343 usable responses and this represented an effective response rate of 23 percent.

### Table 1: Summative Data

A stronger test of the hypothesised relationships stemming from the outlined theoretical model (see Figure 1) was conducted with the aid of AMOS 5. Full results of this analysis are shown in Appendix 1. The overall model provides evidence of suitable data-fit across the sample-frame through favourable fit statistics [ $\chi^2_{(179)}=321.54$ ; [ $\chi^2/\text{df}=1.79$ ; GFI=0.919; AGFI=0.896; RMSEA=0.048; and NFI=0.925]. These indicate a reasonably sound theoretical model. Furthermore, the robustness of this model is complemented through the favourable direction of path weightings between the latent variables and the significant *p*-values of these paths (Appendix 1).



As we can see the results offer support for hypothesis 1, inferred directly from the significant path weighting between relational orientation ( $\xi_1$ ) and commitment ( $\eta_1$ ) constructs ( $\gamma_{11}=0.627$ ;  $p=0.000$ ). This finding shows the existence of a strong positive (+) relationship between the two constructs. It thus provides clear evidence that supplier firms communicating a great deal with distributors are employing it as an effective strategy to ensure distributor firm relational commitment. Such commitment was operationalised as being attitudinal in nature. We see this as essential for relational success given the stability provided and the enabling value chain members to align their longer-term ambitions.

This does have some support in the literature insofar as expectations into the future will help invoke cooperation and commitment (Dwyer, Schurr and Oh, 1987; Heide and Milner, 1992). As it would be most evident through disclosing and signalling behaviours we see this in the relatively higher loadings the two sub-factors yield upon the latent relational orientation construct ( $\xi_1$ ). Also earlier literature grounded in SE does indicate that disclosing behaviours are one of the most critical elements for successful relationships (Cozby, 1973; Davis and Skinner, 1974) and these are clearly reflected herein. Whilst its presence exposes suppliers to vulnerability, such a disposition does indicate the presence of trust based relationships, and the positive effect they have upon distributor commitment (Morgan and Hunt, 1994). Initiating behaviours also display this as reflected in the extent suppliers have proactively taken in helping to better understand both the distributor and their customer/market environments. So, we can conclude SE relational implications in gathering and disseminating such information because suppliers are revealing that they are serious about the relationship, and in particular, the importance of joint inputs in creating overall customer value. Providing and gathering information through such behaviours contribute to both relational formation and maintenance, directly impacting upon mutual partner commitment. This has a number of implications for the manner we can model communication within supplier-distributor relationships and some of these are now briefly discussed.

### **Research Implications and Directions**

The main purpose of this research was to explore the effects that a supplier's relational communication had upon distributor commitment because of the critical need for firms in the chosen industry to create and maintain relationships. Our findings provide clear evidence of a positive linkage ( $\gamma_{11}=0.627$ ;  $p=0.000$ ) between such communication and commitment. Whilst distributor commitment results, suppliers can also feel at ease in the knowledge that communicating sensitive information is likely to be low risk. This is due to the inherent presence of trust and norms in SE based relationships (Axelrod, 1986; Davis and Skinner, 1974; Gouldner, 1960; Perguni, Galluci, Presaghi and Ercolani, 2003). Our focus was not to explore the effects of communication upon these critical relational constructs (i.e. trust and norms) but the findings we offer provide additional support for SE theory highlighting a number of avenues for further research. We do however acknowledge that this study forms part of a larger research project in which strong links between these constructs were found. To this end, we make the point that understanding the role that broader information exchanges between partner firms has upon their capacity to nurture these SE constructs is tantamount given their criticality in relationship success. Whilst we do concur with the view that communication represents the foundation for all forms of marketing relationships (Duncan and Moriety, 1998), it needs to be noted that despite the plethora of empirical studies highlighting the interactive effects between SE constructs, none to our knowledge specifically address the broader relational role of relational communication therein. We posit herein that relational orientation (under social exchange) is underpinned by interaction between parties and this will manifest through these different components of communication. In fact, in some

supplier-distributor studies a positive link between *open* communication and trust has been shown to exist (Anderson and Narus, 1990; Morgan and Hunt, 1994) albeit that communication was not specifically assessed as a component of a firm's relational building strategy. Studies like this have much to offer our understanding but need to be extended simply because communication, and in particular disclosure of information, is too complex and multi-dimensional in nature for a single study to cover (Jacobs, Hyman and McQuitty, 2001). In our study we decompose communication into disclosing, signalling and initiating behaviours, thus enabling a more detailed and contextualised exploration of the construct. Whilst we show the strong positive impact these have upon distributor commitment the analysis is limited from only examining the singular higher order construct effects. The independent effects of these dimensions of relational building communication upon key relational constructs need to be examined.

From a managerial perspective we reveal that decision makers within the supplier firm are quite willing to divulge various forms of information that potentially exposes them to elevated levels of risk. However, we suspect that through their experiences they are taking solace from the knowledge that this evidently leads to an increase in the level of distributor firm committed towards the relationship. They can now confidently draw upon our empirical findings as this reveals their communication efforts help strengthen bonds with distributors through elevated levels of commitment. Furthermore, they should recognise that it is the nature of information given that will achieve elevated levels of loyalty to the relationship. On this point, we need to add to our findings with the body of knowledge advocating that early within relationship formation individuals disclose less about sensitive topics but this gradually becomes more intimate as past and present rewards/costs, and, projected future exchange appear to offer benefits (e.g., Cozby, 1973; Berg and Archer, 1983; Falk and Wagner, 2001). It is likely that supply managers are leveraging the information divulged with the view to bring the supplier closer into their operations. Given such reciprocity underpins social exchange (Gouldner, 1960) it would also seem evident herein that the cumulative interactive experiences between the supplier and distributor firms we surveyed are benefiting from the outcomes of this process. We infer further and provide direction in our findings that both trust and relational norms are largely functions of the structure of this communication and this would seem to be congruous with Jacobs, Hyman and McQuitty (2001). In this respect, supplier managers are (inadvertently or knowingly) leveraging the range of information they have divulged beyond its functional coordination capabilities. This will result given socialisation therein inevitably yields SE constructs (e.g., Axelrod, 1986; Scanzoni, 1979; Williams, 2001), hence, the nature information supplied not only engenders but helps solidify relational commitment.

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# APPENDIX 1

## Construct Structural Model

Linkages in Model	Path	Weight	
Relational Orientation → Commitment (CT)	$\gamma_{11}$	0.627	
CM 1 → CT	$\lambda^y_{11}$	0.551	
CM 2 → CT	$\lambda^y_{12}$	0.751	
CM 3 → CT	$\lambda^y_{13}$	0.786	
CM 4 → CT	$\lambda^y_{14}$	0.841	
CM 5 → CT	$\lambda^y_{15}$	0.573	
CM 6 → CT	$\lambda^y_{16}$	0.648	
CM 7 → CT	$\lambda^y_{17}$	0.658	(0.87)
RO → Disclosing Behaviour (DB)	$\beta_{11}$	0.941	
DIS 1 → DB	$\lambda^x_{11}$	0.746	
DIS 2 → DB	$\lambda^x_{21}$	0.691	
DIS 3 → DB	$\lambda^x_{31}$	0.675	
DIS 4 → DB	$\lambda^x_{41}$	0.683	
DIS 5 → DB	$\lambda^x_{51}$	0.805	(0.86)
RO → Signalling Behaviour (SB)	$\beta_{12}$	0.311	
SIG 1 → SB	$\lambda^x_{62}$	0.850	
SIG 2 → SB	$\lambda^x_{72}$	0.663	
SIG 3 → SB	$\lambda^x_{82}$	0.863	(0.83)
RO → Initiating Behaviour (IB)	$\beta_{13}$	0.873	
INI 1 → IB	$\lambda^x_{93}$	0.727	
INI 2 → IB	$\lambda^x_{10-3}$	0.856	
INI 2 → IB	$\lambda^x_{11-3}$	0.827	
INI 4 → IB	$\lambda^x_{12-3}$	0.862	
INI 5 → IB	$\lambda^x_{13-3}$	0.765	
INI 6 → IB	$\lambda^x_{14-3}$	0.785	(0.92)
Model Diagnostics			
$\chi^2 = 321.54$	GFI = 0.919	NFI = 0.925	
df = 179	RMSEA = 0.048	AGFI = 0.896	
p = 0.000	NNFI = 0.959	$\chi^2/\text{df} = 1.796$	