

## **Antecedents of Supplier-Retailer Relationship Commitment: An Empirical study on Pharmaceutical Products in Bangladesh**

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### **Abstract**

Relationship marketing strategy is one of the effective options to strengthen firms' market position in this competitive age. Commitment plays central role in exchange relationships between supplier and retailer. Recent literature on antecedents of relationship marketing on inter organizational relations provide evidences that relationship commitment can yield significant benefits for firms. Although a large number of studies have been conducted on antecedents of relationship marketing, none of them covers how these antecedents influence relationship commitment between supplier and retailer. This study proposes and tests a model to examine how supplier-retailer relationship antecedents influence their relationship commitments. Collecting and analyzing survey data of 200 retailers of pharmaceutical products, this study finds significant influences of communication, trust, flexibility, reputation and dependence on relationship commitment. The findings prove that business relationships are more embedded where communication, trust, reputation and dependency can play vital roles. The correlation result shows that all the variables in this relationship are positively correlated. Based on regression results, it is observed that communication has the highest influence on supplier-retailer relationship. This result can be used as the central assumption of success for firms that reach to the top of the quality ladder.

**Keywords:** Relationship, Commitment, Pharmaceutical products

### **1. Introduction**

*The concept of relationship marketing in business literature has drawn huge attention to the scholars around the world. They argue that firms' successes depend on building and maintaining long-term and mutually supportive relationships with the stakeholders. Both academicians and businesses emphasize on how a firm achieves its organizational goals investing minimum efforts and resources. Firms find relationship marketing strategy as one of the viable options in this purpose. It is also a debate whether international actors (Håkansson & Johanson 1992) are emphasizing on building and maintaining relationship with B-to-B or B-to-C. Relationship marketing has emerged as a central tenet in the business-to-business literature (Tellefsen & Thomas 2005). Accordingly it is considered as the most effective strategy to retain customer in this heart-throat competitive age. However, the introduction of relationship marketing concept can be found if one goes far back of the history. The ancient people did*

*not have shelter, security, and even civilization but there were interaction in many regards among themselves. These interactions can suitably be defined as relationship. The academic recognition as well as research on relationship marketing has increased significantly since last decade. It is no longer considered as a concept only rather it is a strategic weapon of the firms.*

*In fact, actors are involved in the business-to-business relationship with the view of mutual benefits. Actors seek to cultivate close relationship between themselves with a sense of commitment (Gounaris 2005). Commitment plays pivotal role in exchange relationships. Sustainable relationship between retailer and supplier has been assumed as a competitive edge for the organizational performance (Sin et al. 2005). This becomes evident when marketing model has changed from product-centered stage to the customer-centered stage that pays much attention on relationship with suppliers than the traditional sales model (Xu et al. 2002). Most organizations therefore, pay much attention for building, maintaining and enhancing relationship (Gummesson 2002) with their stakeholders.*

Commitment is considered as the most important variable in relationship marketing study. A strong commitment between the exchange partners lead greater relationship performance. This study contributes to the B to B literature by expanding conceptualization of commitment and using an expanding role of exchange partner in relationship. Personal bondage of partners reflects the degree of relationship commitment. Trust is also an important determinant of relationship measurement. Scholars argue that both communication and exchange of information influences trust and commitment in retailer-supplier relationships (Coote *et al.* 2003). Hence, the study of relationship marketing issues is emerged in all aspect of business. It is observed that a wide variety of studies have been conducted on the field of buyer-seller relationship. However, this study put significant attention on how various antecedents affect the retailer-supplier relationship in pharmaceutical industry in a developing country like Bangladesh.

## 2. Objectives

Recognizing the importance of relationship strategy in buyer-seller exchange process, this study addresses the key factors that affect supplier-retailer relationship commitment. Thus the main purpose of this study is to suggest a suitable relationship marketing strategy between retailer and supplier of pharmaceutical products in Bangladesh. The specific objective of the study refers to develop a model in terms of retailer-supplier relationship commitment and to know their behavioral trends in the exchange process.

## 3. Literature Review

The increasing research attention to the concept of relationship marketing (Sin *et al.* 2005) has been expanded to the various dimensions of the field. Despite the academic recognition, researches on relationship marketing uncover a wide variety of aspects. Adamson *et al.* (2003) find a positive correlation between firm's marketing strategy and commitment and trust in relationship for corporate banking business sector. Gounaris's (2005) study addresses trust and commitment that have impact on perceived quality of service and customer bonding. This study also argues how customer's affective commitment towards relationship builds customers motivated to retain in relationship and also invest in relationship. A similar study is conducted by Wong & Sohal (2002) where the authors investigate the concepts of trust and commitment on relationship and their impact on relationship quality. They find significant role of trust and commitment on the relationship quality. The study of Sin *et al.* (2005) identifies six components (trust, bonding, communication, shared value, empathy and reciprocity) of the relationship marketing orientation between the businesses of mainland China and Hong Kong.

*Fontenot & Hyman (2004) focus on the development, enhancement, and maintenance of enduring relationships among exchange partners where the authors examine the role of antitrust in relationship marketing. Palmer (2002) attempts on buyer-supplier relationships where the impact of selfishness on relationship marketing is investigated. Palmer's study makes a comparison between individualism and collectivism (Hofstede 1980), and he finds relationship marketing represents a dynamic tension between the forces of individualism and collectivism and selfishness may be crucial to successful relationship.*

*The study of Tellefsen & Thomas (2005) examines the role of individual on relationship and identifies the antecedents of commitment, which made relational exchange between service receiver and service provider. This study can only give some concept on how relationship is made between business-to-business organizations. Wu (2008) investigates some Chinese family-owned manufacturing firms and examine the mediating role of information sharing in the relationship between social capital and firm competitiveness. The author finds significant role of information sharing in building relationship and as well as firm competitiveness. Author further argues that information benefit is one of the key benefits of social capital (trust, network ties and repeat transaction) that contribute firm performance, which direct the competitive strength of the firm.*

Saxena (2005) examines different attitudes of actors for partnership building and their perception of cross-sector networks. Further, drawing on network theory, Zhou *et al.* (2007) investigate how home-based social network play a mediating role in internationalization process and firm performance in born-global SMEs. The findings could be meaningful in integrating variables in investigating any theoretical framework in any developing country's manufacturer - supplier context. Many other authors focuses on commitment as a powerful construct in relationship which embodies a desire to develop a stable relationship, a willingness to make short-term sacrifices, and a confidence in the stability of the relationship (Anderson & Weitz 1992). While Morgan & Hunt (1994) define commitment as an exchange partner of an ongoing relationship.

The growing interest in supplier-retailer relationship variables has not been accompanied by consensus in the literature regarding the conceptualization of constructs and their dimensionality. The existing literature reveals that the relationship variables are measured widely across the world in different industry context, however none of the studies found in pharmaceutical products. Therefore, the research question stands as- Do the relationship variables influence retailer-supplier commitment and relationship performance?

#### **4. Conceptual Framework and Hypothesis:**

Drawing on the review of main stream literatures and their theoretical arguments, five factors have been identified as the most relevant to retailer commitment in this study. By consolidating findings of the existing literature and the theoretical basis of the commitment building process in an exchange relationship between supplier-retailer, this study proposes a research framework that integrates factors such as communication, trust, flexibility, reputation, and dependence to explore their relation to retailer commitment. This will help furthering the understanding of retailer commitment in relationship performance and provide guidance for building and managing long-term relationships for mutual benefits of the actors. To pursue the model given below, following constructs are measured to test the hypotheses developed-

**Communication:** Communication plays vital role in intensifying the relationship commitment as well as relationship performance. Communication between or among the partners, in most cases, makes them more committed to the relationship. Communication is greatly related to trust and commitment (Coote *et al* 2003). It is a prerequisite for building trust (Morgan & Hunt 1994) and commitment (Anderson & Weitz 1992; Zineldin & Jonson 2000) in the retailer-supplier relationship. Jonsson & Zineldin (2003) also support the above conception and signify that communication plays proactive role in building trust and enduring commitment in relationship. This provides argument that communication has an impact on commitment in the supplier - retailer relationship; therefore, the following hypothesis is drawn:

*H1: The greater the communication between retailer and supplier, the higher will be the retailer's commitment.*

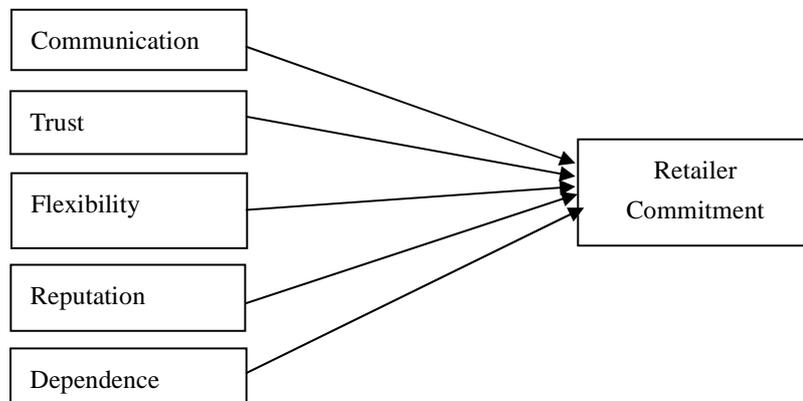


Figure: Conceptual framework

**Trust:** Trust has become well discussed issue in B to B and even B to C relationship literature in recent times. Trust is depicted as behavioral aspect that includes honesty, reliability and integrity (Coote *et al.* 2003). Trust can be traced as one party relies on or keep confidence in other party (Morgan & Hunt 1994). In supplier-retailer relationship, both parties search for trust worthy partner (Coote *et al.* 2003). This suggests trust is a critical construct explaining commitment. Therefore, the following hypothesis is developed-

*H2: The greater the trust to the suppliers, the greater the retailer commitment.*

**Flexibility:** In relation to supplier selection, flexibility is the most important consideration. Masella & Rangone (2000) argue that the resource and capability of supplier influences a potential retailer to evaluate the flexibility and performances of alternative suppliers. Thus the hypothesis is drawn as -

*H3: The greater the flexibility of the supplier with the retailer, the stronger the retailer's commitment to the supplier.*

**Reputation:** Reputation is another important variable in relationship performance. It offers a strong organizational image and goodwill (Islam & Ali 2009), which leads to increased satisfaction in relationship. From this perspective, the retail firm can achieve competitive advantage through partnering with reputed supplier in a collaborative network arrangement. As a result, supplier's reputation influences relationship commitment of retailer. Thus the hypothesis is drawn as-

*H4: The greater the perceived reputation of supplier, the stronger the retailer's commitment to the supplier.*

**Dependency:** The interdependency between the partners is crucial in developing relationship commitment (Izquierdo & Cillian 2004). Wetzels *et al.* (1998) stated that a company's dependence on a partner traditionally has been defined in channels as the company's need to maintain a relationship with the partner to achieve its goals. The higher level of dependence between two transacting parties (supplier-retailer) is seen when one party seeks the other party is to be achieved greater benefit from the relationships which ultimately leads to build commitment and thus relationship performance. This, in turn, increases dependency on supplying firm and increase commitment of the retailer. Therefore it is hypothesized as-

*H5: The greater the retailer's dependence on supplier, the stronger the retailer's commitment to the relationship.*

**Commitment:** Relationship commitment does not develop immediately rather it takes long time observation about relationship behavior of partners. Commitment is characterized by long time observation of the signals of goodwill, act in good faith, and prove their allegiance (Dwyer *et al.* 1987) of partners. Thus relationship commitment has significant impact on relationship performance.

## 5. Research Methodology

*5.1 Unit of Analysis:* The study concentrates on the antecedents of supplier-retailer relationship of pharmaceutical products in Bangladesh. For this purpose, all the retailer outlets of pharmaceutical products are considered as the population for this study.

*5.2 Sample Design:* Around 1000 retail outlets of pharmaceutical products were primarily considered from the databases of traders association in different regions of the country. Most of the respondents were selected from Dhaka, Rajshahi, Jessore and Jhenaidah districts as a convenient basis. With their prior consent, questionnaires were sent to 400 retailers to participate in the survey. Questionnaires were sent to the respondents through postal mail and in person. A follow up telephone call (where available) and personal contact with the respondents yielded 230 responses in four weeks time. From the collected responses, 30 were dropped due to respondents' inability to fulfill, unconscious responses and excessive missing data or any other errors. Finally the size of useable sample becomes 200 which amounts to 50% response rate.

*5.3 Measurement Development:* The Measures of all constructs in the questionnaire are developed based on existing literature. Multi-item scales (Seven point Likert scale) response formats are used to operationalize all the constructs. The measurements for each theoretical construct are described as follows:

*Communication:* Measurement of communication is based on five indicators of which four (timely communication, important information, emergency information and information exchange) are adopted from Coote *et al.* (2003) and one is adopted from Sin *et al.* (2005). A composite score was calculated from these five indicators. The reliability of the measure was satisfactory (Alpha = 0.62).

*Trust:* Trust is measured with five indicators. The measures such as believe, dependability, and rely on the promises are borrowed from Coote *et al.* (2003), honest and truthful are also borrowed from Coote *et al.* (2003) and Saleh & Ali (2009). The measure *speaks openly* is borrowed from Tellfsen & Thomas (2005); Saleh & Ali (2009); and Coote *et al.* (2003). All six indicators run in reliability test and their composite score was satisfactory (Alpha=0.66)

*Flexibility:* Flexibility is operationalized with five indicators (keeping request, accept changes, facing uncertain situation, financial flexibility, and flexible business) which are developed by the author. The total score of reliability of the indicators used to measuring flexibility was Alpha=0.42.

*Reputation:* The author develops five indicators such as product reputation, good product, well behaviour, timely supply and supply on demand to measure the reputation of supplier in determining relationship with retailer. The composite score of the five indicators shown a moderate result which was Alpha=0.51.

*Dependency:* Dependency is run with the help of six indicators measures, five of them (dependable, trustworthy, effective transactions, reliable price and maintaining promises) are developed by the author and the remaining one (achieving sales target) is borrowed from Saleh & Ali, (2009). The composite score of these six items was satisfactory (Alpha=0.73)

*Commitment:* Commitment is measured with six indicators. Three indicator measures such as involves long time, profitable relations and committed in relationship are adopted from Coote *et al.* (2003). Two indicators (supplier cooperation and response quickly) are borrowed from Skarmeas & Katsikeas (2002). The remaining one indicator (like to work long time) is taken from Tellfsen & Thomas, (2005) and Coote *et al.* (2003). The indicators used to measure dependency was acceptable with a composite score of Alpha=0.51.

*5.4 Model Specification:* This study develops a model based on the theoretical background and conceptual framework of relationship marketing. An econometric regression using ordinary least squares (OLS) method is designed as follows:

$$Y_i = \beta_0 + \sum_{k=1}^{13} \beta_k X_{ik} + U_i$$

Where  $Y$  is dependent variable- commitment of firm which is a categorical variable ranging from 1 to 7

indicating lower to higher degree of agreeance,  $i$  is retail firm,  $X$  is set of explanatory variables that includes communication, trust, flexibility, reputation, and dependency. All of them are categorical variables indicating higher values for strong agreeance. The supplier-retailer relationship is also measured by social and demographic factors of the respondents such as sex, age, marital status, number of years in business, job responsibility status, relation with supplier, business type and number of product. In the above model  $U$  is the error term.

**5.5 Questionnaire Preparation:** The structured questionnaire was prepared on the basis of supplier-retailer relationship dimensions which were constructed from extant literature. In case of all constructs, related measures were borrowed from literature; however, some of the measures were developed by the author. Seven point Likert scale was used in each measure where 1= strongly disagree and 7= strongly agree.

**5.6 Data Collection Method:** The study was mainly conducted based on primary data. Necessary secondary data were used to support the primary data which makes the analysis more authenticated. However, the source of data collection depends on the nature of data needed. Structured questionnaire was administered on randomly selected respondents from Dhaka, Rajshahi, Jessore and Jhenaidah districts to obtain their overall evaluation for each statement of measures. Questionnaire was mailed to the respondents with returned envelope giving them four weeks time to return it back after duly filled in. 20 percent of the questionnaires were personally supplied to the respondents of two cities i.e., Jessore and Rajshahi giving them time for one week. After one week, personally distributed questionnaires were collected in person. All the collected and mail received questionnaires were compiled and analyzed accordingly.

**5.7 Data Analysis:** The research setting and proposed hypotheses of the study endeavor that statistical tools and techniques need to be used to analyze empirical data. Hence, *STATA* software was used to test and signify the relations among the variables of the study. A pair wise correlation was used to observe the relationship among the variables. Similarly, regression analysis was run to determine the influence of each variable in this relationship.

## 6. Results and Analysis

**6.1 Descriptive Statistics:** In this study, the relationship commitment of supplier and retailer is measured based on five variables such as communication, trust, flexibility, reputation and dependency. Table-1 defines descriptive statistics where total number of case is 200.

The total value of each variable was computed in the beginning of the analysis. From the total value of each construct, mean value for communication, trust, flexibility, reputation and dependency is found 29.55, 28.25, 26.37, 28.66, 33.25 and 32.79 respectively on retailer-supplier relationship for pharmaceutical products in Bangladesh. The highest variance in this relationship is found in dependency which scores 25.68. On the contrary, the lowest variance is found in communication at a score of 11.59.

**6.2 Correlation:** In Table- 2, pair wise correlations among the variables are observed where results show that variables are positively correlated. In this observation communication and trust have relatively higher correlation with relationship commitment securing 0.43 score in both cases. However, flexibility has less influence among the observed variables in relationship commitment having score at 0.26.

Although a higher correlation (0.56) is found between dependency and trust, dependency has comparatively lower correlation value with commitment. A higher value (0.44) is also seen between dependency and reputation. Thus, dependency cannot be the influential as it is found in case of communication and trust in retailer-supplier relationship. This variable can be influential in other types of relationship or in case of other product category.

**6.3 Regression Analysis:** Table-3 reports results of regression equation which examines whether the hypothesized relationship is significant or not in the retailer-supplier relationship of pharmaceutical products in Bangladesh. Results show that communication is significantly related to the relationship commitment which can improve the relationship performance of retailer and supplier. It shows that per unit changes of Likert Scale, the commitment in this relationship is changed by 0.35 unit. Similarly, both trust and reputation have significant effects at 10% significant level where per unit changes of Likert scale

causes the change of commitment by 0.17 and 0.15 units respectively. On the other hand, dependency is marginally significant at 10% level with commitment. On the contrary, flexibility has negative impact on relationship commitment though the result is not statistically significant.

However, these regression results are very much consistent with the correlation results reported in table 2. Other explanatory variables in this observation such as sex, age, marital status, business experience, job status, years of relation with supplier, business type and product type do not have any significant impact on retailer-supplier relationship commitment.

The statistical results indicate that there is no significant variation among the explanatory variables. Hence, all the hypotheses of this observation are strongly supported which is shown in Table-4.

## 7. Discussion the Result

Relationship commitment has proven to be a central factor in the success of retailer-supplier interaction. As results show, all the explanatory variables except flexibility have positive impacts in retailer-supplier relationship; however, the degree of their influences can be varied. Each of the explanatory variables is measured with 5-6 items. The selected items in each variable category were verified by the reliability test and scores were satisfactory. A total of 32 items were included in this study under six variables along with demographic factors of the retailers. The results show that these variables promote retailer-suppliers relationship for pharmaceutical products in their exchange process. Communication between retailer and supplier has of its great influences that are found both in correlation and regression results. The results show communication and mutual trust positively influence long-term relationship commitment of retailer which may further endeavors their relationship quality. Retailer's commitment can encourage deeper involvement and interactions in the relationship with supplier which enables performance outcome (Anderson and Weitz 1992). Hypothesis testing results also show that all the explanatory variables support the relationship with a high degree of significant level. Hence, the variables undertaken for the study confirm the relationship. However, retailer's commitment to the relationship with supplier takes time to form expected outcome because many other factors influence this relationship. This is evident with the r-square value (0.31). The author discovers a variation in their influences among and between the observed variables when bivariate and multivariate regression is run separately. Relations between the variables (bivariate) secure higher value than multivariate observations. These results prove that retailer's commitment in each aspect of this relationship is stronger than their composite effect. However, the role of communication is found most significant in both analyses. It is therefore, recommended that both parties in this relationship should communicate on a regular basis regarding their business affairs.

Trust, mutual dependency and reputation of supplier are also significantly influenced relationship commitment. However, the role of flexibility regarding financial matter or any other new situations was found less significant in this study which means retailers of pharmaceutical products prefer routine business with their suppliers. This particular finding in fact, requires further investigation before its generalization.

In this study, relationship performance is considered as the final resting place of retailer-supplier relationship which is directly related to commitment and commitment in turn is influenced by communication, trust, flexibility, reputation and dependency. Other demographic factors of the retailers shown in this study have no significant influence on relationship commitment or relationship performance. So, demographic factors are not important in retailer-supplier relationship in pharmaceutical industry.

## 8. Conclusion

The findings of the study indicate that business relationships are more embedded where communication, trust, reputation and dependency play vital roles. This study provides a contemporary knowledge about the field of relationship marketing. The variables considered for the study will serve guidelines in developing retailer-supplier relationship. The research findings also contribute in fostering new insights and understanding for researchers and practitioners. This outcome may contribute researchers for their future research design hence, future researchers can undertake similar study in the field of relationship marketing.

All the facts and findings of the study come from empirical observations, therefore, these results can be generalized. Therefore, study results are recommended as a true observation for building and maintaining relationship in their exchange process. Finally, the outcomes of the study can help the actors in developing their business strategy.

## 9. Limitations and Future Research Scope

The categorical data was used in this study and later they were converted into numeric form. The role of each measurement item of the construct is not considered in the analysis. Author do not also find the most influential item in each construct category. Hence, author is not free from a little doubt about the ultimate outcome of the study. Due to time constraint author could not examine the relationship between retailer commitment and relationship performance. Author has an interest to examine the relationship between retailer commitment and relationship performance. Moreover, the r-squared value of 0.31 indicates that factors determining the commitment of firm have not sufficiently been captured in the regression equation. So there is ample opportunity to conduct future research incorporating other potential variables in the field of relationship marketing.

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#### **Table-1: Descriptive Statistics**

Variables	Number	Minimum	Maximum	Mean	Std. Deviation	Variance	Alpha
Communication	200	18.00	35.00	29.55	3.40	11.59	0.62
Trust	200	15.00	35.00	28.25	3.69	13.60	0.66
Flexibility	200	17.00	35.00	26.36	3.78	14.30	0.42
Reputation	200	18.00	35.00	28.66	3.65	13.35	0.51
Dependency	200	16.00	42.00	33.25	5.07	25.68	0.73
Commitment	200	20.00	42.00	32.79	4.09	16.69	0.51

**Table- 2: Correlation matrix**

	Commitment	Communication	Trust	Flexibility	Reputation	Dependency
Commitment	1.00					
Communication	0.43***	1.00				
Trust	0.43***	0.46***	1.00			
Flexibility	0.27***	0.34***	0.39***	1.00		
Reputation	0.34***	0.26***	0.39***	0.36***	1.00	
Dependency	0.35***	0.19**	0.56***	0.28***	0.44***	1.00

Note: \*\*\*p<0.001, \*\*p<0.01

**Table-3: Results of regression coefficient**

	$\beta$	t	P>t	[95% Conf.]
Commitment				
Communication	0.35*** (0.09)	4.00	0	0.18
Trust	0.17** (0.09)	1.83	0.07	-0.01
Flexibility	-0.00 (0.08)	-0.00	0.1	-0.15
Reputation	0.15** (0.08)	1.86	0.06	-0.01
Dependency	0.10** (0.06)	1.65	0.10	-0.02
Sex	1.66 (1.84)	0.90	0.37	-1.97
Age	0.01 (0.04)	0.36	0.72	-0.06
Marital status	0.08 (0.74)	0.10	0.92	-1.39

Business experience	0.08 (0.10)	0.80	0.43	-0.12
Job status	-0.17 (0.26)	-0.64	0.52	-0.68
Years of relations	-0.14 (0.14)	-1.00	0.32	-0.42
Business type	-0.25 (0.58)	-0.42	0.67	-1.40
Product type	0.00 (0.00)	1.09	0.28	-0.00
Constant	7.92 (4.10)	1.93	0.06	-0.18
<b>Model Summary</b>				
N= 200, R Square = 0.31, F Change= 8.21, p<0.001				

Note: \*\*\*p<0.001, \*\* p<0.01

**Table-4: Results of hypotheses**

Hypothesis		Regression Coefficient	Test Result
$H_1$	<i>The greater the communication between retailer and supplier, the higher will be the retailer's commitment.</i>	0.43***	Supported
$H_2$	<i>The greater the trust to the suppliers, the greater the retailer commitment</i>	0.43***	Supported
$H_3$	<i>The greater the flexibility of the supplier with the retailer, the stronger the retailer's commitment to the supplier.</i>	0.27***	Supported
$H_4$	<i>The greater the perceived reputation of supplier, the stronger the retailer's commitment to the supplier.</i>	0.34***	Supported
$H_5$	<i>The greater the retailer's dependence on supplier, the stronger the retailer's commitment to the relationship.</i>	0.35***	Supported

Note: \*\*\*p<0.001

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