Antecedents and Outcome of Relationship Value – Evidence from Vietnam

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This study explores key antecedents and an outcome of relationship value between manufacturers and distributors in the tile industry in a transition market – Vietnam. Using a sample of 317 distributors in the South of Vietnam, we found that relationship value is a key factor that drives the performance of distributors. In addition, product quality, information services, and delivery performance are key factors that nurture the value of relationships between manufacturers and distributors. These findings confirm the role of relationship value in transition economies.

Key words: Relationship value, Distributor Performance, Vietnam

Introduction

It is impossible for firms not to have relationships with other firms as they cannot operate in isolation (e.g., Hakansson, 1982; Nguyen, Barrett, and Nguyen, 2007). Research has shown that many firms are moving from transactional discrete exchanges to relational ones (Ganesan, 1994; Nguyen, et al., 2007). This is because loyal customers will bring more profits to firms than the price-sensitive and deal-prone switcher (Reicheld, 1996). In addition, committed relationships are among the most durable because they are difficult for competitors to understand, to copy, or to displace (Day, 2000). Consequently, scholars and practitioners have agreed that collaborative relationships between buyers and sellers represent a source of competitive advantage (Dwyer, Schurr, and Oh, 1987; Morgan and Hunt, 1994; Ulaga and Eggert, 2006; Cannon and Homburg, 2001). The quality of a business relationship is a core concept in research on buyer-seller relationships. This has led to several empirical studies which have explored the quality of business relationships, not only in advanced economies but also in transition markets like Vietnam (e.g., Ganesan, 1994; Nguyen et al., 2007).

Vietnam represents an under-investigated transition economy, especially in terms of business relationships. In 1986 the Vietnamese government initiated a new economic reform program, aiming to transform the economy from a centrally planned economy to a market-oriented economy under socialist guidance (Nguyen, 2005). The movement toward a market-oriented economy has pushed Vietnamese firms to change their traditional ways of doing business. Prior to the transformation, the business activities of production and distribution of Vietnamese firms had been primarily arranged by the planning system of the Vietnamese government, minimizing the role of business relationships between firms and their partners. The transformation of the Vietnamese economy has pushed Vietnamese firms to find new ways of doing business (Nguyen et al., 2007). Instead of focusing on production and relying on the government, Vietnamese firms are now required to find their own markets for their products. Therefore, establishing and maintaining high quality business relationships with their partners are important priorities for Vietnamese firms.

For a number of years, the concept of customer value has been the focus of research attention by many marketing academics (e.g., Kotler, 2003). In buyer-seller relationships, the purpose of firms - suppliers, customers, distributors - engaging in relationships, is to work together in order to create higher value for all parties involved (Walter, Ritter, and Gemunden, 2001). However, less attention has been paid to the value of business relationships, especially in transition economies like Vietnam. Establishing high value relationships with customers, suppliers and distributors will lead to superior value for firms. In addition, empirical work is needed to explore possible antecedents and outcomes of relationship value (Ulaga, 2001). To bridge this gap, this study attempts to investigate key antecedents and an outcome of relationship value in a transition market, Vietnam. The key antecedents are product quality, information service, and delivery performance, and the outcome is business performance of distributors. The rest of the paper is organized around four key points: literature review and hypotheses; method; data analysis and results; and, discussion, limitations and conclusions.

Literature Review and Hypotheses

We propose that product quality, information service and delivery performance are key antecedents and distributor performance is an outcome of relationship value. Figure 1 presents these relationships and hypotheses graphically.

Relationship value and distributor performance

Value is a core concept in marketing and has attracted attention from both academics and managers alike (Walter, Ritter, and Germunden, 2001). Creating superior customer value is a key to long-term survival and success for every business. There are a number of different perspectives of customer value in business markets (Flint and Woodruff, 2001). Traditionally, three perspectives are found in the literature: the buyer's perspective - value creation through products and services; the seller's perspective-value creation through customer equity; and, the buyer-seller perspective - value creation through networks (Ulaga, 2001). In the context of this study, we regard relationship value perceived by a distributor, as the trade-off between the benefits and sacrifices gained through the distributor's relationships with manufacturers (Walter et al., 2001), i.e., the buyer's perspective of value.

Figure 1: Conceptual model
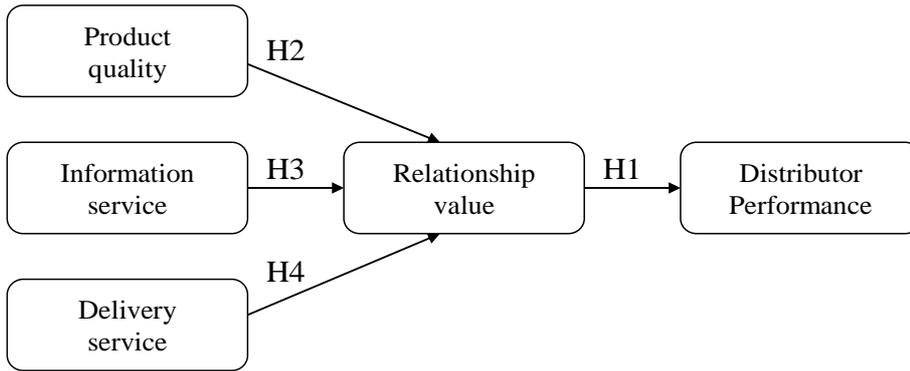
As a result of the government's efforts to liberalize the market, especially after joining WTO in 2007, the Vietnamese market is more competitive. This has forced Vietnamese manufacturers to move from arm's length relationships with their distributors to much stronger partnerships characterized by greater interdependence (Nguyen, 2002). Therefore, Vietnamese manufacturers should find ways to establish high quality relationships through providing their distributors with high relationship value. Creating such relationship value is essential for all business relationships such as those between manufacturers and distributors (Walter et al., 2001; Ulaga, 2001). Both parties will benefit from high relationship value. For example, a distributor perceiving a high relationship value with a manufacturer could be expected to increase the volume of purchases. Similarly, manufacturers can create higher value for distributors through the provision of high quality products and services (Ulaga, 2001).

Relationship value is expected to have a positive impact on distributor performance, which can defined as "the accomplishments - real and perceived - that have resulted from the manufacturer-distributor relationship" (Rosson and Ford, 1982: 61). In this study, we focus on distributor performance in dealing with its specific manufacturer. A high relationship value perceived by a distributor leads to efficient transactions such as shortened response time, advantages in logistics management, and marketing programs that contribute to the distributor's efficiency and effectiveness in serving its customers (Cannon and Homburg, 2001; Nguyen et al., 2007). These, in turn, can create a strong market position which will be reflected in the distributor's performance. When conditions required for a high relationship value are met, the manufacturer or its distributor (or both) is more likely to be attracted to an existing relationship, and such relationships can be expected to continue in the future, leading to increased mutual profitability through better understanding and servicing of customer needs (Anderson and Weitz, 1992; Kalwani and Narayandas, 1995). Thus,

H1: Relationship value has a positive effect on performance.

Product quality

Product quality is an important factor that drives relationship value in buyer-seller relationships. In the case of distributor-manufacturer relationships, distributors maintain relationships with manufacturers in order to receive high quality, consistent and reliable products over time (Ulaga, 2006). High quality products characterized by durability, reliability, and other product attributes perceived by consumers are important for a distributor's business. Product quality is central to what customers are willing to purchase. In their role of distributing products to end users, distributors have to deal with customer complaints about the quality of products. High quality products supplied by manufacturers will lessen their costs of dealing with distributors' customers and, thus, enhance the value of the relationship (Cannon and Homburg, 2001). Therefore,

H2: Product quality has a positive effect on relationship value.

Information service

Information plays a key role in business relationships (Cannon and Homburg, 2001). In addition to product quality, information service provided by manufacturers can create value for their relationships with distributors. An open and consistent flow of information from manufacturers will assist distributors in

anticipating manufacturers' future plans, as well as technological changes in the industry. Three key aspects of information service provided by manufacturers were identified by Ulaga (2003), i.e., information availability, speed, and appropriateness. Distributors require prompt responses from manufacturers when needed. They also require appropriate information. Thus,

H3: Information service has a positive effect on relationship value.

Delivery performance

Delivery performance is another factor that contributes to the value of distributor-manufacturer relationships. Ulaga and Eggert (2006) studied three aspects of delivery performance, i.e., on-time delivery, flexibility of delivery, and accuracy of delivery. Thus, manufacturers can add value to relationships with their distributors by meeting delivery schedules. Manufacturers also need to adjust delivery schedules to satisfy their distributors' requirements which vary according to changes in market demand. Accuracy of delivery is also important to manufacturers who want to add value to the relationship – the right types and quantity of products ordered will assist distributors in saving time and effort (Ulaga, 2003). Thus,

H4: Delivery performance has a positive effect on relationship value.

Research method

Sample

A sample of 317 distributors of tile manufacturers in Ho Chi Minh City and in several provinces in the south of Vietnam - Long An, Tien Giang, Ben Tre, Binh Duong, and Binh Phuoc - was surveyed via face-to-face interviews to test the model. The sample included 255 distributors in Ho Chi Minh City, 17 distributors in Long An, 17 in Tien Giang, 8 in Ben Tre, 14 in Binh Duong and 6 in Binh Phuoc. Four manufacturers were involved: Dong Tam; Whitehorse; My Duc; and, Taicera. Among the 317 distributors, 95 were selling Dong Tam's brands, 88 were selling Whitehorse's brands, 59 were selling My Duc's brands, and 75 were selling Taicera's brand. Respondents were distributor managers and/or owners.

Measurement

Product quality was measured by three items addressing the overall perception of distributors about the quality of the manufacturer's products. These items were: manufacturer X provides us with high quality products; manufacturer X meets our quality standards; and, manufacturer X provides us with reliable products. *Information service* was measured by three items focusing on the perception of distributors about the manufacturer's supply of information needed for their business. These items were: manufacturer X is always ready when we need information; manufacturer X provides us with appropriate information; and, manufacturer X responds very fast when we need information. *Delivery performance* was measured by three items asking distributors about the manufacturer's delivery performance. These items were: manufacturer X performs better in meeting delivery due dates; we rarely have delivery errors with manufacturer X; and, the deliveries from manufacturer X are always accurate.

Relationship value was measured by five items asking distributors about the value of the relationship between them with the manufacturer. These items were: our business relationship with manufacturer A provides us with the value we expected; we gain more in our business relationship with manufacturer A; our business relationship with manufacturer A creates more benefits than costs; the value created by our business relationship with manufacturer A is very high; and, overall, our relationship with manufacturer A makes our business better. These scales were based on Ulaga and Eggert (2006). Finally, *distributor performance* was measured by three items assessing the performance of distributors. These items were: our sales gained from manufacturer A's products increased as expected; our profits gained from manufacturer A's products increased as expected; and, our market share of manufacturer A's products increased as expected. These items were based on Homburg and Pflesser (2000). All items were measured by a 7-point Likert scale, anchored by 1: strongly disagree and 7: strongly agree.

Data analysis and results

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Analysis was undertaken in two steps. First, confirmatory factor analysis (CFA) was used to validate the measures and then, structural equation modeling (SEM) was utilized to test the theoretical models. The data exhibited slight deviations from normal distribution, however, all univariate kurtoses and skewnesses were within the range of [-1, 1]. Therefore, the maximum likelihood estimation method was used (Muthen and Kaplan, 1985).

Measurement validation

The CFA results indicate that the measurement model received an acceptable fit: $\chi^2_{(109)}$ = 240.21 (p = .000); GFI = .912; CFI = .963; and, RMSEA = .062. All factor loadings were substantial ($\geq$ .70) and significant (p < .001). All factor correlations were significantly below unity (p < .001) (Table 1). These findings supported convergent and discriminant validity between the constructs (Steenkamp and van Trijp, 1991). Further, all measures satisfied the requirement for composite reliability (Steenkamp and van Trijp, 1991): ρ_c(product quality) = .81; ρ_c(information service) = .88; ρ_c(delivery performance) = .82; ρ_c(relationship value) = .92; and, ρ_c(distrbutior performance) = .92). Finally, the requirement for variance extracted (Fornell and Larcker, 1981) was also satisfisfied: ρ_{vc}(product quality) = .58; ρ_{vc}(information service) = .70; ρ_{vc}(delivery performance) = .60; ρ_{vc}(relationship value) = .70; and, ρ_{vc}(distributor performance) = .79). These CFA results reveal that the measures of constructs used in this study satisfied the requirements for scale reliability and validity.

Table 1: Correlations between constructs

| Correlations	Estimate (r)	Standard error	1-r	t-stat (1-r)
Product quality ↔ Relationship value	.37	.073	0.63	8.61
Relationship value ↔ Distributor Performance	.73	.082	0.27	3.36
Information service ↔ Relationship value	.66	.080	0.34	4.28
Delivery performance ↔ Relationship value	.48	.078	0.52	6.71
Information service ↔ Delivery performance	.45	.077	0.55	7.13
Product quality ↔ Information service	.33	.073	0.67	9.29
Product quality ↔ Delivery performance	.28	.074	0.72	9.70
Delivery performance ↔ Distributor performance	.21	.066	0.79	12.02
Information service ↔ Distributor performance	.47	.071	0.53	7.53
Product quality ↔ Distributor performance	.38	.072	0.62	8.60

Structural results

The SEM results show that the model received a good fit to the data: $\chi^2_{[115]}$ = 340.01 (p < .001); GFI = .884; CFI = .936; and RMSEA = .079. We also found that all hypotheses were supported (p < .001) as follows: H1: Relationship value → Distributor performance (β = .70); H2: Product quality → Relationship value (γ = .19); H3: Information service → Relationship value (γ = .56); and, H4: Delivery performance → Relationship value (γ = .23). Table 2 presents the unstandardized estimates of the structural paths and Figure 2 shows the standardized estimates of the models. It is also noted that no improper solutions were found in any results of the tests: Heywood cases were absent and all standardized residuals were less than $\lvert 2.58 \rvert$.

Table 2: Unstandardized regression weights (Est) with standard error (se)

Path			Est (se)	t-statistic	p-value
H1: Relationship value	→	Distributor performance	.81(.070)	11.54	.000
H2: Product quality	→	Relationship value	.27(.078)	3.51	.000
H3: Information service	→	Relationship value	.40(.042)	9.32	.000
H4: Delivery performance	→	Relationship value	.21(.049)	4.20	.000

Figure 2: Structural results (standardized estimates)

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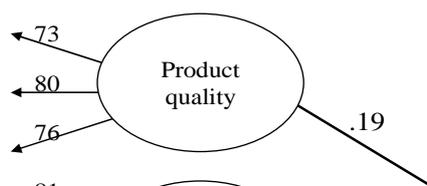
Discussion, Limitations and Conclusions

The focus of this study was on the exploration of key antecedents and an outcome of relationship value between manufacturers and distributors in the tile industry in a transition market – Vietnam. Using a sample of 317 distributors in the South of Vietnam, we found that relationship value is a key factor that drives the performance of distributors. In addition, product quality, information services, and delivery performance are key factors that nurture the value of relationships between manufacturers and distributors. These findings suggest several implications for academics as well as practitioners. Overall, the study's findings confirm the role of relationship value, its key antecedents, and outcome in a transition economy.

Relationship value is critical in relationships between manufacturers and distributors. A high relationship value created by a manufacturer with a distributor will improve the distributor's performance, in terms of sales, market share and profit, based on the manufacturer's products. This will benefit both parties. The distributor would be more likely to work more closely with the manufacturer, giving the manufacturer the opportunity to become a key supplier, resulting in several advantages for the both parties. For example, by working closely together, both have opportunities to serve their respective customers more effectively and efficiently e.g. to understand and respond more quickly than competitors to the market, to more readily adjust prices over time to match competition, and, to be in a better position to compete for new business due to their early involvement in new product development (Ulaga and Eggert, 2006).

The significant impacts of product quality, information service and delivery performance on relationship value allow manufacturers to better assess how they add value in a relationship with their distributors. Firstly, manufacturers should meet their distributor's quality standards. Manufacturers should also be ready when their distributors need information, and to quickly provide them with appropriate information. Finally, delivery is also an important determinant of relationship value. Therefore, manufacturers should be willing to flexibly meet their distributors' delivery schedules without errors or delay.

This study has a number of limitations. Firstly, we only tested the model in one industry, i.e., the tile industry. Other industries may reveal different perspectives of value drivers. Therefore, future research should test the model in other industries in order to compare and contrast the similarities and differences among industries. Secondly, the key informant approach was used in this study. Although the key informant approach is commonly used in organizational research (Kumar, Stern, and Anderson, 1993), other members of the distributing firms might have different perspectives and emphases on value drivers (Ulaga and Eggert, 2006). Therefore, collecting data from multiple informants is an alternative method recommended for future research. Finally, this study relies on the hypothetico-deductive approach. Business relationships of firms in transitional economies, due to differences in cultures and economies, might exhibit some differences in value drivers. Therefore, an inductive approach such as grounded theory (Strauss and Corbin, 1998) may be a suitable alternative method to explore relationship value and its determinants in transition economies like Vietnam.

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