

Factors influence trust and relationship commitment toward long-term orientation between manufacturer and distributor

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Abstract- The research purposes to (a) evaluate the implementation of long-term orientation between PT XYZ and its distribution channels and (b) analyze the relationship among trust, relationship commitment and its effect on long-term orientation. This study is involving 33 non-authorized tire shops and have cooperated for more than 15 years. The data are obtained through a questionnaire designed with closed questions with 5-point *Likert* scale and to be analyzed by structural equation modeling with approach of partial least square (PLS-SEM).

Index Terms- long-term orientation, relationship commitment, trust.

I. INTRODUCTION

Competition in the four-wheeled vehicle tire or car tire industry is increasingly rising. One of indications of such competition is the decline in each company's sales, one of which is PT XYZ. The sales decline in PT XYZ's replacement market is higher than the decline in OEM and Export markets. Compared to 2014, in 2015 there was decline in sales for replacement segments in Jakarta, Sumatra, East Java, West Java and Central Java, meanwhile in Kalimantan, the sales tended to increase. The sales decline were contradictory to the increase in the number of authorized tire shops as company's authorized dealers in areas outside Jakarta. This showed the increase in their trust and commitment as retail shops in marketing PT XYZ products.

General tire shops that turn into authorized tire shops are required to comply with the terms and conditions set forth in the agreement between tire shop owner and manufacturer, as well as agreements between manufacturer and distributor. The terms and conditions require the general tire shops to have high loyalty to the Company's products, be willing to prioritize the customers' interests, have good attitudes or behaviors, integrity, high spirit and professional attitude.

Research on the relationship between manufacturers and sellers or distributors has been widely performed. Morgan and Hunt (1994) tested the variable of relationship commitment and its effect on the decision to have cooperation. Ganesan (1994) tested the trust variable and its effect on the long-term orientation of retail stores. Meanwhile, Wonglorsaichon (2002) examined the variables of relationship satisfaction, trust, relationship commitment and their relationship with long-term orientation. Concha (2005) examined dimension of dealer's trust, relationship commitment and their effect on adaptation of technological interface.

PT XYZ as a qualified tire manufacturer has a commitment to ensure the product availability in the market for passenger car tires, off-the-road tires and commercial tires. To demonstrate that commitment, the company must be able to ensure the fulfillment of consumer needs through retailers such as product availability, speed and accuracy of delivery, product specifications and price relativity. In addition, as described earlier that the competition conditions in this industry is very strict, thus, this can affect the market environment. Therefore, to face such condition, the company must make various efforts to maintain the trust of its distribution channel members. Based on the aforementioned matters, this research aims to (a) evaluate the implementation of long-term orientation between PT XYZ and its distribution channels and (b) analyze the relationship among trust, relationship commitment and its effect on long-term orientation.

II. RESEARCH METHOD

The research was conducted between October - December 2016 at PT XYZ in Jakarta using secondary and primary data. The secondary data was collected from PT XYZ Company, while the primary data was collected from 33 retails that were independent on PT XYZ.

Structural Equation Model (SEM) was used to determine the relationship between the studied variables. The model was described in Figure 1.

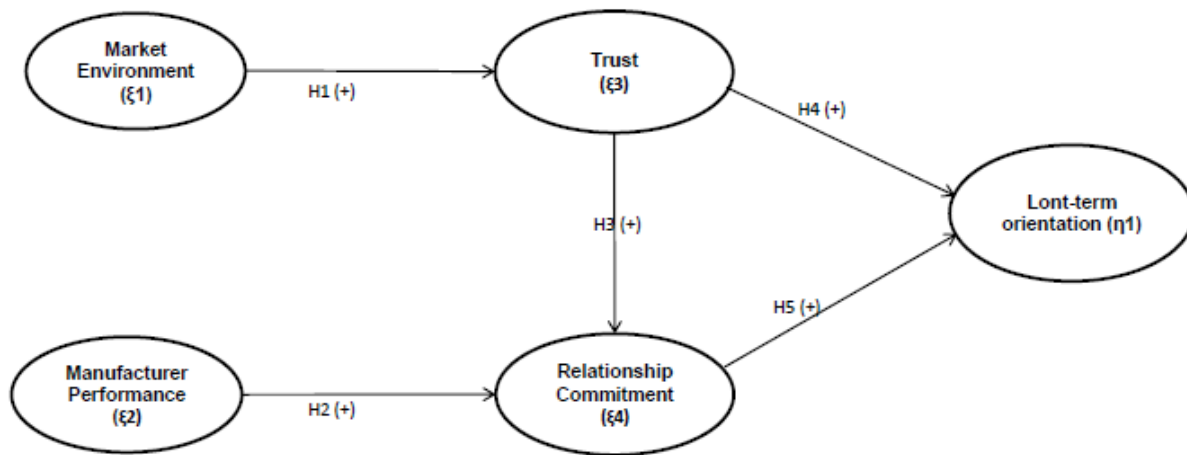


Figure 1 Structural equation model.

The variables in this research were grouped into two parts: (a) exogenous latent variables, namely market environment and manufacturer performance and (b) endogenous latent variables, namely trust to manufacturer, relationship commitment and long-term orientation. The variable indicators are presented in Table 1.

Table 1 Research variable identification

Variable	Indicator	Notation	# of question
Trust to manufacturer (Doney and Cannon 1997)	Manufacturer reputation	X.01	2 item
	Size of manufacturer	X.02	3 item
	Manufacturer willingness to customize	X.03	4 item
Market environment (Ganesan 1994)	Accuracy	X.04	2 item
	Certainty	X.05	1 item
	Complexity	X.06	1 item
Manufacturer performance (Doney and Cannon 1997)	Delivery performance	X.07	3 item
	Relative price/cost	X.08	2 item
	Product/service performance	X.09	3 item
Relationship commitment (Morgan and Hunt 1994)	Relationship termination cost	X.10	5 item
	Communication	X.11	4 item
	Opportunistic behaviour	X.12	2 item
Long-term orientation (Ganesan 1994)	Long-run profitability	Y.01	1 item
	Importance of long-term relationship	Y.02	3 item
	Long-term goal	Y.03	1 item

III. RESULT AND DISCUSSION

The characteristics of the 33 tire shops as respondents are presented in Table 2. Most of respondents were male (91%), domiciled in Jakarta (64%), and mostly were retail owners and 30% of them have cooperated for more than 15 years (average 13.2 years). Demographic description was not significant different from the data obtained from the manufacturer for Jakarta and surrounding area, in which the shop owners and managers were mostly male (82%) and domiciled in Jakarta (60%).

Table 2 Respondent characteristics

Description	Criteria	Frequency	%
Sex	Man	30	91%
	Woman	3	9%
Location	Jakarta	17	64%
	Bekasi	8	24%
	Tangerang	4	12%
Title	Manager	13	39%
	Owner	17	52%
Length of relation	No answer	3	9%
	≤ 5 th	1	3%
	> 5 – 10 th	3	9%
	> 10 – 15 th	19	58%
	> 15 th	10	30%

Respondent evaluation

Distribution of respondents' assessments on the indicators of each variable is shown in Table 3. From the initial assessment, it was known that in general, the respondent's trust perception to manufacturer was quite good (positive). This was shown in the assessment on the indicators of Company's reputation and size, in the other hand, there were 33% of respondents who were not sure that manufacturer would be willing to customize for distributors' demand. Similarly, perceptions of the market environment were indicated by the assessment on indicators of accuracy, certainty, and complexity with a high level of uncertainty, in which those indicators had value of 30%, 24% and 45% respectively and each of which disagree with each proposed statement by 6%, 3% and 6% respectively. Meanwhile, respondents' assessment on manufacturer's performance was responded well enough. Indicator of delivery performance and product performance showed agree and strongly agree answer by 81% and 82% respectively, in contrast, price relativity obtained bad assessment from respondent that was disagree by 6% and not sure by 42%. Meanwhile, relationship commitment obtained poor assessment (tended to be negative) from respondents. It was indicated by 72% of respondents to agree and strongly agree to do a fairly high relationship termination cost. On the other hand, there were 85% of respondents assessing the Company that they occasionally conducted opportunistic behavior, while there were 70% respondents found that the Company did not communicate as expected. The last was, the entire indicator of long term orientation obtained good assessment from the respondents.

Table 3 Respondent evaluation for each indicator

Notation	Indicator	SNA	NA	N	A	SA
Trust						
X.01	Manufacture reputation	0%	0%	9%	48%	42%
X.02	Size of manufacture	0%	0%	0%	61%	39%
X.03	Manufacture willingness to customize	0%	3%	33%	58%	6%
Market Environment						
X.04	Accuracy	0%	6%	30%	58%	6%
X.05	Certainty	0%	3%	24%	33%	39%
X.06	Complexity	0%	6%	45%	30%	18%
Manufacture Performance						
X.07	Delivery performance	0%	3%	15%	39%	42%
X.08	Relative Price/Cost	0%	6%	42%	27%	24%
X.09	Product/service performance	0%	0%	18%	58%	24%
Relationship Commitment						
X.10	Termination cost	0%	0%	28%	53%	19%
X.11	Communication	0%	0%	70%	30%	0%
X.12	Opportunistic behaviour	0%	0%	15%	55%	30%
Long-term relationship						
Y.01	Long-term profitability	0%	0%	3%	58%	39%
Y.02	Importance of LTR	0%	0%	3%	73%	24%
Y.03	LTR goal	0%	0%	18%	52%	30%

SNA=strongly not agree, NA=not agree, N=neutral, A=agree, and SA=strongly agree

Analysis of relationship among trust, relationship commitment, and long term orientation

Partial Least Square (PLS) is an alternative to covariance based structural equation modeling (CB-SEM). The PLS method has its own advantages such as: the data should not have multivariate normal distribution (such as, indicator by scale of category, ordinal, interval until the ratio can be used on the same model) and the sample size should not be large, (Ghozali 2011; Sarwono and Narimawati 2015). The stages of data processing using partial least square (PLS) based SEM approach are (1) evaluation of outer model or measurement model and (2) evaluation of inner model (structural model) measurement described in the section below.

Evaluation of Outer Model

The measurement model with reflective indicator was evaluated with three criteria: convergent, discriminant validity and composite reliability with its block (Ghozali 2011). In addition to the construct validity test, construct reliability test was also performed; it was measured by two criteria, such as composite reliability and Cronbach alpha from the indicator block measuring the construct. The construct was considered reliable if the value of composite reliability and Cronbach alpha were above 0.70 and 0.60 respectively according to the output in Table 4.

Table 4 *Composite reliability dan Cronbachs alpha*

No.	Construct	Composite Reliability	Cronbachs Alpha
1	Trust (TR)	0.825251	0.682016
2	Manufacture performance (MP)	0.882116	0.737185
3	Relationship commitment (RC)	0.866983	0.771977
4	Market environment (ME)	0.844475	0.725968
5	Long-term orientation (LT)	0.841615	0.723248

From the initial graphic output results, it was found that there was a reflective indicator having a loading factor under 0.50, which was X.08, considered as relative price/cost so it was necessary to do re-estimation because it had not met the requirement. The re-estimation results are shown in Figure 2; it showed that all the loading factors were already above 0.50. According to Ghozali (2011), an indicator is considered valid if it has a correlation value above 0.70. However, for loading of 0.50 to 0.60 is still acceptable by looking at the correlation output between the indicator and its construct.

Evaluation of Inner Model

Inner model or structural model test was performed in order to find the relationship among variables, significance value, and R-square from research model such as: (a) R square of 0.423 meant that the effect of latent variable of market environment with its indicator on trust was equal to 0.423 while the rest of 0.577 was affected by other variables not included in this research; (b) the effect of latent variable of manufacturer performance with its indicator on relationship commitment was equal 0,708, while the rest of 0,292 was affected by other variable not included in this research; and (c) the effect of latent variables of trust on manufacturer and relationship commitment with its indicator on long term relationship variable was equal to 0,549 and the rest of 0,451 was caused by other variable not included in this research.

Chin (1998) grouped R² values of 0.67; 0.33 and 0.19 as substantial, moderate and weak respectively. Therefore, the relationship between construct of trust and market environment, as well as the long-term orientation and its affecting constructs were at a moderate level, while the relationship between manufacturing performance construct and relationship commitment was at a significant level. Path coefficient value for the last model can be seen in Figure 2, while the results of t-statistical calculations can be seen in Table 5. The calculation result showed that the prepared model had the ability to predict the endogenous constructs (predictive relevance) because all of Q² value that was obtained was higher than zero.

The last stage of the PLS SEM analysis in this research was the validation of the entire model. Based on the convergence validity test results for the final model, it was obtained the average value of communality = 0.67638. From the calculation, it was obtained R² average = 0.5597, so that goodness of fit could be found to be equal to $\sqrt{(0.67638 \times 0,5597)} = 0.6153$. In accordance with the limitation of evaluation criteria, this value showed, overall, model had proper goodness of fit, with high value.

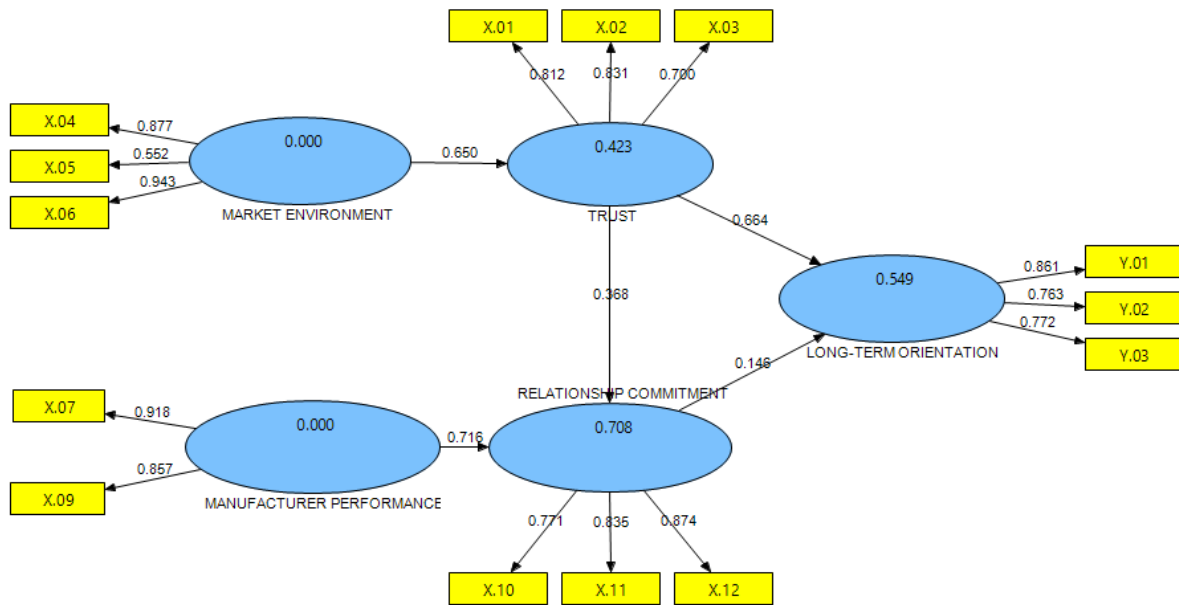


Figure 2: Final model after re-estimate result

Analysis Result of Relationship between Manufacturer and Distributor

Table 5 Path coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
ME → TR	0.650170	0.677477	0.107945	0.107945	6.023146
MP → RC	0.716371	0.699474	0.109988	0.109988	6.513183
TR → RC	0.368339	0.386986	0.126443	0.126443	2.910785
TR → LT	0.663995	0.642472	0.183526	0.183526	3.617984
RC → LT	0.145621	0.183888	0.201999	0.201999	0.720901

The market environment has a positive (0.650) and significant (6,023) effect on retail store’s trust in establishing long-term orientation between retail stores and manufacturer. The dimensions of the market environment can describe the dimension of trust properly. The most influential indicator variable on trust was the indicator of the complexity of market conditions. Theoretically, the result was also not contradictory that the higher the respondents' perception to the level of accuracy, certainty and complexity, the higher the level of trust to business partners and business relations itself.

Another finding indicated that manufacturer performance had positive (0.716) and significant (6,513) effect on relationship commitment. The higher assessment on manufacturer performance led to the higher level of manufacturer commitment in establishing business relationships. The most influential indicator variable on relationship commitment was the indicator of delivery performance including the speed and accuracy in delivery of goods and the availability of the product. In addition, so far, assessment on product specifications or features, product quality and after sales has received a positive response from respondents. Therefore, the result of research has been in accordance with the results of previous research (Concha, 2005: 56).

The subsequent results tests showed that trust in producers had a relationship and positively (0.368) and significant (2.911) effect relationship commitment in conducting business relationships. This was in line with the theory and initial assumption that the level of trust will support the level of partner commitments to run and maintain the business relationships (Doney and Cannon 1997, Moore 1998). The most influential variable of trust indicator was the indicator of the company size, which was the manufacturers’ assessment as a company engaging in the industry and dominating the car tires market.

While trust in manufacturer had positive (0.664) significant (3.618) effect on long term orientation. The level of trust and commitment in a partnership created positive outcomes (outcomes or impacts) on business continuity. The most influential indicator variable was the size of the firm, in which manufacturer played important role as market ruler in this industry. This finding was consistent with the results of Ganesan's (1994: 12) research that the credibility of suppliers will increase buyers' willingness to engage in long-term orientation.

Then, relationship commitment had a positive (0.146) but not significant (0,721) effect on long term orientation. This was in accordance with the initial assumption that theoretically, the termination cost provided positive effect on increased commitment. The indicator variables that the most affected relationship commitment was opportunistic behaviors, which were broken promise often made by manufacturer and manufacturer' behavior that could not deliver the service as expected.

IV. CONCLUSION

From the initial assessment before the data processing conducted using PLS-SEM analysis, it was found that in general, respondents' perception on trust to manufacturer was quite good (positive). Similarly, perceptions of the market environment and manufacturer' performance were also quite good although there were some statements obtaining negative responses (disagree). Meanwhile, the perception of relationship commitment obtained a poor assessment (tended to be negative).

The result of the analysis using PLS-SEM showed that the good fit-established model illustrated the partnership between the tire shop and PT XYZ among factors affecting trust on manufacturer and relationship commitment. Trust on manufacturer constituted a good mediation as a bridge between the factors affecting the long-term orientation with outcomes generated. The trust on manufacturer was positively affected by the market environment but not positively correlated with relationship commitment. Relationship commitment was positively affected by the manufacturer performance but it did not significantly affect long-term orientation.

Based on the results of the analysis, it is proposed some suggestions as follows:

1. It is necessary for manufacturer to maintain the partners' trust by always proving that manufacturer do not have opportunistic behavior.
2. It is necessary to maintain tire shop's commitment by fostering partners' trust in the manufacturers and ensuring that partners would feel that they have harmonized values, views and goals in order to have strong relationship with manufacturer.

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