THE IMPACT OF RELATIONSHIP MARKETING ON BUSINESS PERFORMANCE ACROSS THE STEEL PIPE INDUSTRY IN THAILAND

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ABSTRACT

This paper aims to verify empirically the impact of relationship marketing on the business performance of firms in the manufacturing sector, with special reference to the steel pipe industry in Thailand. A questionnaire survey of 166 sales persons in 30 steel pipe firms in Thailand was conducted. It was found that significant relationships existed between bonding, empathy, reciprocity and trust as independent variables, with performance as the dependent variable. Both the multiple regression analysis equation and the correlation matrix (Pearson Correlation) show that trust is the only variable that was significantly related to performance, the remaining independent variables were not significantly related to performance.

INTRODUCTION

Sheth (1992) characterizes relationship marketing as the process of creating and maintaining harmonious relationships between suppliers and customers through mutual cooperation and commitment. This directional change in marketing theory and practice towards relationship marketing stems from its conceptualized positive effects on the expectation and nature of future interaction. Consequently, several authors have conceptualized the advantages of the effective management of buyer relationships (Day & Wensley, 1983; Webster, 1994; Weitz, 1981). Others investigating the elements of the relationship development process have provided empirical evidence of its positive influence on organizational performance (Crosby et al., 1990; Dabholkar et al., 1994; Dwyer et al., 1987; Gundlach et al., 1995; Macintosh et al., 1992; Moorman et al., 1992; Morgan & Hunt, 1994; Sheth, 1992). However, Yau et al. (2000) compare a relationship marketing orientation (RMO) with a more traditional market orientation in terms of its relative impact on the business performance of firms in retail, wholesale and manufacturing industries based in Hong Kong. Their findings suggested that while relationship marketing is relevant to every industry, it is particularly important to the manufacturing industry. Following on from the Yau et al. research and in order to test whether these researchers’ observations can be generalized to the manufacturing sector in other countries, the present study aims to verify empirically the impact of relationship marketing on the business performance of firms in the manufacturing sector, with special reference to the steel pipe industry in Thailand.

Thailand’s manufacturing sector has been growing in recent years. Thailand’s Master Plan for Industrial Development includes as part of its vision for 2012 a statement that Thai industries must be able to maintain their competitiveness (Department of Industrial Promotion, 2000). This plan suggests that due to dynamic domestic and international environments, Thailand has to give up some of its comparative advantages, such as high-import export industries, and identify new comparative advantages which may be in the area of low-import export industries, high-tech and high value added products. The steel pipe industry is an example of a low-import export industry that the Thai government has identified as being able to compete with foreign counterparts. Because of this, this industry has been selected as a research sample for this study.
Furthermore, particularly in Thailand, relationship building and maintenance (pakpuak in Thai) is one of the cornerstones of Thai society (Holmes & Tangontavy, 1995). From the interviews of Thai managers, it was found that pakpuak is a key concept in relationship marketing because it builds strong social relationships as a prerequisite to developing a close business relationship; and business takes on strong social elements (e.g. Davies et al., 1995; Yeung and Tuen, 1996; Tsang, 1998). ‘Quality of product is important. Price is very important. But most important of all is ... a Thai wants to know if you are his/her kind of person. If he/she feels comfortable with you then he/she will be inclined to do business with you’ (Holmes & Tangontavy, 1995, p. 18).

This present study, by means of a questionnaire survey of key practitioners, will analyze the conceptual framework of relationship marketing with business performance in the Thai steel industry. Specifically, the study aims to answer the following three major research questions: 1) Are the key success factors of relationship marketing in the literature valid in the Thai steel pipe industry? 2) Do they verify empirically the impact of relationship marketing on the business performance of firms across the steel pipe industry in Thailand? 3) If not, what then are the variables that impact on the business performance of firms across the steel pipe industry in Thailand?

Literature Review

Biong (1994) developed and tested a theoretical framework in which satisfaction and loyalty (i.e. commitment) were the key indicators of relationship development. Sheth (1992) integrated the work of numerous scholars (e.g., Anderson & Narus, 1984; Crosby et al., 1990; Dwyer et al., 1987; Gronroos, 1990) to conceptualize a theory of relationships posited in his theoretical framework which were mutual trust, shared goals and commitment, and mutual interdependence. Similarly, in developing and empirically testing their KMV model of relationship marketing, Morgan and Hunt (1994) establish both theoretical and empirical support for trust and commitment as the key variables in successful relationship marketing. Further support for commitment being an essential component for the formation and maintenance of relationships is provided by the work of Gundlach et al. (1995).

Additional conceptual and empirical support for satisfaction, trust, and commitment being essential components in the process of relationship development is provided in the work of other marketing scholars. Noting that reducing risk and uncertainty—through the use of satisfaction with previous interactions as a basis for inferring the nature of future performances—is inherent to relationship quality, Croby et al. (1990) assert that relationship quality is composed of two dimensions: trust in and satisfaction with salespersons.

Marketing academics and practitioners have been examining relationship marketing for more than a decade (e.g. Berry, 1995; Gronroos, 1990; Levitt, 1983), yet most of the studies on relationship marketing have been criticized as overly simplistic because of their use of a uni-dimensional perspective (Yau, 1995). A common operational practice which has been susceptible to strong criticism is use of a single dimension, such as trust, reciprocity, bonding, or empathy, to encapsulate relationship marketing (Gronroos, 1989; Houston et al., 1992; Callaghan et al., 1995; Morgan & Hunt, 1994).

Much of the more sophisticated discussion of relationship marketing is qualitative, so it has not necessarily been operationalized and tested at all. Further, it may be necessary to look beyond the literature of relationship marketing towards marketing in general and, additionally, to literature from other disciplines that focus on relationships. This study, based on past literature, adopts the RMO construct originally proposed by Callaghan et al. (1995). The items used to measure the RMO constructs were further enhanced by Yau et al. (1998a) to operationalize the concept fully. The four common components are bonding, empathy, reciprocity and trust.

Conceptual framework

Many researchers (Gronroos, 1989; Houston et al., 1992; Callaghan et al., 1995; Morgan and Hunt, 1994) used a single dimension, such as trust, reciprocity, bonding, or empathy, to describe relationship marketing. This is a useful approach to look at relationship marketing elements. The key components of a relationship marketing orientation and business performance lead to the conceptual model shown in Figure 1. This model shows that business performance is affected by the four common components of relationship marketing, namely bonding, empathy, reciprocity and trust. Callaghan et al. (1995) defined the central component of relationship marketing as the creating and maintenance of an exchange relationship between two parties—
the supplier as an individual and the consumer as an individual—by means of mutual empathy, reciprocity, trust and bonding.

**Independent variables**

**Bonding** is defined as the dimension of a business relationship that results in two parties acting in a unified manner toward a desired goal (Callaghan et al., 1995). In the dyadic relationship of a buyer and a seller, bonding can be described as a dynamic process that is progressive over time (Dwyer et al., 1987; Ganesan, 1994; Levitt, 1983). The bonding process begins with the very basic force of the need for a seller to find a buyer for their product, and the desire for buyers to purchase a product that will satisfy their needs. The dimension of bonding as it applies to relationship marketing consists of the development and enhancement of consumer and brand loyalty and, as Levitt (1983) described, a long-term relationship (a bonded relationship) with the seller. Thus a long-term relationship requires bonding in order to exist.

**Empathy** is the dimension of a business relationship that enables the two parties to see a situation from the other’s perspective. It is defined as seeking to understand somebody else’s desires and goals. It involves the ability of individual parties to view the situation from the other party’s perspective in a truly cognitive sense (Hwang, 1987). The empathy dimension plays a major role in Chinese business relationships (Hwang, 1987; Brunner et al., 1989) and is also apparent in Western business relationships (Ferguson, 1990; Houston et al., 1992). These indicate that empathy is a necessary condition to foster a positive relationship between two parties. Thus, the inclusion of empathy as a dimension of relationship marketing must follow.

**Reciprocity** is the dimension of a business relationship that enables either party to provide favours or make allowances for the other in return for similar favours or allowances to be received at a later date (Callaghan et al., 1995). Houston et al. (1992), reinforced by Ellis et al. (1993) and acknowledged by Smith and Johnson (1993) have indicated links of reciprocity and empathy to relationship marketing and exchange. Reciprocity and bonding are linked in such a way that reciprocal arrangement is indicative of cooperation. Reciprocity is thus an appropriate dimension of relationship marketing.

**Trust** is defined as a belief or conviction about the other party’s intentions within the relationship. In the context of relationship marketing, trust is defined as the dimension of a business relationship that determines the level to which each party feels it can rely on the integrity of the promise offered by the other (Callaghan et al., 1995). It is a widely accepted basis for relationships (Sullivan & Peterson, 1982; Crosby et al., 1990; Gronroos, 1990; Andaleeb, 1992; Houston et al., 1992; Moorman et al., 1992). It has been documented in the form of an exchange relationship (Gronroos, 1990), considered by some (Moorman et al., 1992; Martin & Sohi, 1993) as a critical component of business relationships, and identified as a key construct in modeling relationship marketing (Morgan & Hunt, 1994).
Dependent variable

Business Performance

Previous research findings indicate that relationship marketing has a significant impact on the business performance of firms, in both service and industrial industries (Gummesson, 1994; Prabhaker, Goldhar & Lei, 1995; Yau et al., 2000; Lee, Pae & Wong, 2001), with particular importance in the manufacturing industry (Wagner et al., 1994; Prabhaker, Goldhar & Lei, 1995; Wong & Chan, 1999; Liu & Wang, 1999; Wang, Head & Archer, 2000; Yau et al., 2000). While it is apparent that relationship marketing has a direct impact on performance, it can be argued that a relationship marketing orientation should be more dominant in the determination of firms’ business performance in the manufacturing industry (Yau, 2000). Different from consumer marketing, buyer-seller interdependence can be seen as a unique aspect of industrial marketing, as industrial marketing and selling strategies are usually directed toward individual customer organizations. Hence efforts of industrial marketing should be focused on the buyer-seller relationship marketing rather than on products or on markets (Webster, 1984, p. 52). Sharma and Sheth (1997) studied the industrial buyer-supplier relationship in the USA and concluded that industrial buying is shifting from a buying (transaction oriented) process to a supplier relationship process. Likewise, a study of industrial networks in the USA (Low, 1997) also revealed that business transactions are conducted within the framework of an enduring business relationship, characterized by mutual cooperation and adaptation.

All these suggest that relationship marketing impacts on the determination of firms’ business performance in the manufacturing industry (Yau, 2000).

Empirical Findings

Table 1. uses the multiple regression equation for performance as follows:

\[ Y = a + b_1 x_1 + b_2 x_2 + b_3 x_3 + b_4 x_4 + e, \ a = \text{constant} \]

Or \[ Y \ (\text{Performance}) = a + b_1 \ (\text{Bonding}) + b_2 \ (\text{Empathy}) + b_3 \ (\text{Reciprocity}) + b_4 \ (\text{Trust}) \]

That is, \[ \text{Performance} = 3.879 + 1.322 \ (\text{Bonding}) + 2.860 \ (\text{Empathy}) + 6.308 \ (\text{Reciprocity}) + 0.220 \ (\text{Trust}) \]

Hypotheses examining the impact of the relationship marketing constructs on business performance were tested using multiple regression following the guidelines established by Hair et al. (1995). Prior to testing the actual hypotheses, correlations between the constructs were derived. There are two constructs, relationship marketing orientation (RMO) and business performance. The first regression analysis with business performance as the dependent variables and RMO as predictors was run. RMO items were factor analyzed into four factors. The four composite variables in the regression are sums of the concept measures.

The first regression analysis was performed on business performance, where the expectation was that the relationship orientation variable would be shown to be important.

Results in Table 1 show there is no significant correlation between bonding, empathy and reciprocity on business performance. However, there was a

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardised Coefficients (B)</th>
<th>Standardised Coefficients (Beta)</th>
<th>T-values</th>
<th>Sig.</th>
<th>Adjusted R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>3.879</td>
<td>-</td>
<td>6.233*</td>
<td>0.000</td>
<td>0.035</td>
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<tr>
<td>Bonding</td>
<td>1.322</td>
<td>0.012</td>
<td>0.117</td>
<td>0.907</td>
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<tr>
<td>Empathy</td>
<td>2.860</td>
<td>0.028</td>
<td>0.302</td>
<td>0.763</td>
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</tr>
<tr>
<td>Reciprocity</td>
<td>-6.308</td>
<td>-0.070</td>
<td>-0.742</td>
<td>0.459</td>
<td></td>
</tr>
<tr>
<td>Trust</td>
<td>0.220</td>
<td>0.239</td>
<td>2.890**</td>
<td>0.004</td>
<td></td>
</tr>
</tbody>
</table>

Note: * Significant at 0.000
** Significant at 0.004
significant correlation (0.004; p<0.05) between the trust construct and performance, suggesting some support for at least one relationship.

A further Pearson Correlation analysis was conducted by obtaining partial correlation coefficients, controlled for years of respondent professional sales experience. As was the case in Table 1, the correlation matrix (Pearson Correlation) analysis in Table 2 indicated only the trust construct produced a partial correlation coefficient (0.002; p<0.025) significantly related to performance. The individual hypotheses were then tested using a multiple regression prediction model (Hair et al., 1995) with performance as the dependent variable. The results obtained using actual performance only partially support the stated hypotheses in their proposition that a significant relationship exists between the relationship marketing construct that was found to be significant in the prediction model.

For this research, stepwise regression is used to reduce the 14 independent variables (from the four groups of bonding, empathy, reciprocity and trust) and to run the equation with performance as the dependent variable. Two models of equation can be derived from this method.

In the first step (see table 3) only one independent variable, ‘According to our past business relationships, I think he/she is trustworthy person’ (or trust) enters the equation. Results of stepwise regression analysis for the 14 independent variables with performance as the criterion variable show that only one independent variable is significant in the final regression with an adjusted R² of 0.058.

In the second step (see table 4) two independent variables, ‘According to our past business relationships, I think he/she is trustworthy person’ (or trust) and ‘We keep our promise’ (or reciprocity) enters the equation. The results from the second stepwise regression analysis show that the two independent variables above are significant in the final regression with an adjusted R² of 0.084.

The regression equation of this model is as follows: performance = 4.608 + 0.209 (trust) - 0.137 (reciprocity) of which reciprocity has partial negative correlation, and all independent variables including constant are significant at p<0.05. This result show

| Table 2: Correlation matrix between each independent variable and dependent variable (Pearson Correlation) |
|--------------------------------------------------|--------------------------------------------------|--------------------------------------------------|--------------------------------------------------|
| Bonding                                         | Empathy                                         | Reciprocity                                      | Trust                                            |
| Performance                                     | 0.047                                           | 0.069                                           | -0.011                                           | 0.237*                                          |

Note: *Significant (1-tailed) at 0.002

| Table 3: Stepwise analysis of coefficient         |
|--------------------------------------------------|--------------------------------------------------|
| Model                                            | Standardised Coefficients (Beta)                |
| Unstandardised Coefficients (B)                  | T-values                                         |
| Constant                                         | F-values                                         | Adjusted R²                                      |
| 3.927                                            | 0.058                                            |
| A 0.184                                          | 10.433***                                        |
| 0.253                                            | 3.230**                                          |

Predictors: (Constant), A = According to our past business relationship, I think he/she is a trustworthy person.

Note: *Significant at 0.000
**Significant at 0.002
***Significant at 0.002
Table 4: Stepwise analysis of coefficient

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardised Coefficients (B)</th>
<th>Standardised Coefficients (Beta)</th>
<th>T-values</th>
<th>F-values</th>
<th>Adjusted R2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>4.608</td>
<td>-</td>
<td>11.027*</td>
<td></td>
<td>0.084</td>
</tr>
<tr>
<td>A</td>
<td>0.209</td>
<td>0.288</td>
<td>3.652**</td>
<td>8.034****</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>-0.137</td>
<td>-0.182</td>
<td>-2.310***</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Predictors: (Constant), A = According to our past business relationship, I think he/she is a trustworthy person, B = We keep our promises.

Note: *Significant at 0.000  **Significant at 0.000  ***Significant at 0.022  ****Significant at 0.000

that “According to our past business relationships, I think he/she is a trustworthy person (or trust)” is the most significant variable related to performance and positive attitude of customers. “We keep our promise (or reciprocity)” is also a significant variable related to performance, since salespeople who cannot keep their promises will generate an immediate negative attitude in customers.

CONCLUSION

This study set out to investigate the impact of relationship marketing on business performance across the steel pipe industry in Thailand. Significant relationships were sought between bonding, empathy, reciprocity and trust as independent variables, with performance as the dependent variables. The multiple regression analysis equation shows, however, that trust is the only variable that was significantly related to performance, the remaining independent variables were not significantly related to performance.

Similar results for the correlation matrix (Pearson Correlation) show, again, that trust is the only independent variable significantly related to performance. The other variables are not significantly related to performance.

Following on from the study conducted by Yau et al., and in order to test whether their observations can be generalized to the manufacturing sector in other countries, this study verifies empirically the impact of relationship marketing on the business performance of firms across manufacturing industries, especially the steel pipe industry in Thailand. Although the sample of firms in this study show that RMO is an important factor in enhancing business performance (Question 1), only one variable – trust – has a positive relationship and significance related to business performance as shown in table 1 and table 2. The remaining variables do not show any significance related to business performance (Question 2).

Further data analysis is used in this study with stepwise regression method. Results of stepwise regression analysis confirmed with previous method that only one variable from the group of trust is the key independent variable significantly related with performance in the steel pipe industry. That is ‘According to our past business relationships, I think he/she is a trust worthy person’ (trust) is the only one independent variable which is significant in the final regression with an adjusted R2 of 0.058.

However, the second stepwise regression analysis shows that one independent variable from group of trust and reciprocity are significant in the final regression with an adjusted R2 of 0.084. It shows that reciprocity is the second independent variable which may be significantly related to performance in the steel pipe industry in Thailand but it is only equal R2 of 0.036 when compared with trust that is an adjusted R2 of 0.058. Therefore, it may be implied that trust is most important variable significant related with performance.

Table 3 shows that only two independent variables, ‘According to our past business relationships, I think he/she is a trustworthy person’
(trust) and 'We keep our promises' (reciprocity) have significance related to business performance (Question 3). That reciprocity has a partial negative correlation with performance, may be explained by the fact that if salespeople do not treat customers well, negative consequences will ensue.

**Implication for managers**

In discussing the results of the identified elements of relationship marketing impact on business performance, several aspects stand out. From the standpoint of practical implications for the sales manager, these results could provide potentially important direction. The trust dimension was significantly related to performance which suggests that providing the necessary training in, and monitoring of, such behaviors may be a key component in developing a successful sales organization. In managing a sales organization, this finding may provide support for the efficacy of training and development in attempts to improve productivity. This positive effect manifests itself in increased levels of customer trust in satisfaction with; and intentions of doing continued business with that salesperson.

At the same time, the other variables are bonding, empathy, reciprocity show no significant relationship with business performance. These variables are difficult to assess in terms of their actual impact on productivity. Trust, on the other hand, involves activities which are more generally applicable and subsequently easier to understand and teach in training sessions for salespeople. Further, as this study shows, a significant empirical relationship can be demonstrated between trust and performance. Thus, in seeking to sort through the many available alternatives, the sales manager faced with the challenge of creating and maintaining a productive sales force with limited resources may want to focus on cultivating a trust orientation among his/her sales team. However, it should be acknowledged that the scope of this study makes it difficult to draw any formal causal attributions related to bonding, empathy and reciprocity and these findings should not be interpreted as discounting important components of the relationship marketing.

From a managerial perspective, the relative ease in addressing trust issues in a training and development context, as opposed to bonding, empathy and reciprocity in buyer-seller interactions, does suggest that focusing on fostering a customer orientation within a sales organization may have more immediate and tangible results while using fewer resources.
References


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