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Supplier-Manufacturer Communication Behaviour and Trust Issues in Outsourcing Best Practices

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Abstract: Supplier-manufacturer relationship can foster innovation creative thinking productivity and profitability. However, how this relationship can be sustained to enhance continuous outsourcing best practices is yet to be studied. This present study, investigated two major factors in supplier-manufacturer relationship namely communication behaviour and trust. The study, made used of quantitative research approach. Questionnaire was used to collect data through a postal survey to 865 respondents and 224 respondents feedback were received making 25.2% response rates. The finding of the study, explicitly argues that communication behaviour is of vital importance even more than trust when it comes to the issue of outsourcing relationship among supplier and manufacturer.

Key words: Supplier, manufacturer, outsourcing, communication, behaviour trust

INTRODUCTION

Communication behaviour is the communication range that creates an important function to discover and sustain successful supplier-manufacturer connections in order to obtain highest collaboration values. Study (Large, 2005) explained the three dimensions of communication behaviour as information quality information sharing and information participation. Whereas it has been argued that this connection in business can only be sustain with trust. This implies that for supplier-manufacturer relationship to be continuous and successful, the factor of trust is vital.

Trust is the belief of the reliability of the word of one party and his fulfilment of the obligation and also it is significantly linked to the organization's inclination for collaboration. It can be summarized as a conviction that when a party develops a tacit understanding with another party they will believe that such party's actions and decision should be reliable and honest and will act for the sake of their joint and mutual benefits therefore reducing perceived risk (Franklin, 2014; Misztal, 2013; Sahay, 2003). It can be claimed that keeping other factors constant having trust in business relationships should help in withstanding greater business stress and risk which should lead to higher adaptation and productivity (Han *et al.*, 2014).

On the other hand lack of trust will be damaging to this productivity relationship which can lead to increase in perceived risk and hence harmful to business prospect. This was pointed out by study (Chen et al., 2014) that the lower the trust in business the more time everything takes the more everything costs and the lower the loyalty of everyone involved. This implies that greater trust in business brings about superior innovation, creativity, morale and productivity. Hence, everything of value in business is built on trust from financial systems to relationships.

Although, there have being many studies that investigate the factor of trust among supplier and manufacturer relationship (Hassan et al., 2015; Delbufalo, 2015; Dahlquist and Griffith, 2014; Liu et al., 2012; Monczka et al., 1998) however, as important as this issue is on successful and productivity of business there is lack of studies that Uniquely explore supplier-manufacturer communication behaviour and trust as its affects outsourcing best practices. This is because none of these studies explicitly investigate these factors (communication behaviour and trust) on outsourcing best practices. Therefore, this present study will focus on examining the effect supplier-manufacturer communication behaviour and trust on the success and productivity of outsourcing best practices.

Literature review: Organizations that cooperate to reach shared objectives are persuaded of their reliance on one another which is a justification which emerges from the business world (Cook, 1977). Organization reliance originates from business relationship which is built on trust and directed towards mutual business goal. Thus, it suggested that trust is the bedrock of any business relationship and cooperation (Ashnai et al., 2016). As a result of the importance of trust to business relationship and cooperation; many past studies have explored the rationale behind trust in business organization. For instance study (Blois, 1999) concluded that trust is displayed when one organization rely on another organization to perform a risky or valuable transaction in order for both organization to obtain a benefit. Study (Friman et al., 2002) argued that the concept of business trust is upon organization's reliance on each other promise or obligation to achieve shared mutual gains.

It was further maintained by study (Andersen and Kumar, 2006) that business trust is the degree by which organizations are willing to accept short-term discomfort or dislocation in order to share gains. Study Tyler and Stanley (2007) asserts that the concept of trust in business relationship is anchored on each organization's belief that their present and future need will be protected within the business relationship. This assertion was further strengthened by study (Wang et al., 2008) claiming that business trust is pivoted on organization's belief that another organization will perform (or not perform) tasks that will result in their shared gains. Likewise study (Castaldo et al., 2010) suggested that trust in business relationship is defined by organization's willingness to depend on an exchange partner by having faith and confidence in another organization capability to deliver on their shared gain. Study (Huang and Wilkinson, 2013) equally contributed to the concept of trust within organization relationship as the confidence by one organization in another organization's integrity and reliability. Also, more recently studies (Schoenherr et al., 2015) and (Eddleston and Morgan, 2014) referred to trust as organization's credibility integrity and benevolence on a mutual advantageous transaction.

The same scenario concept is expected within supplier and manufacturer relationship where their shared mutual interaction will lead to gains for both parties and any unforeseen misfortune will be balanced in order to achieve successful outsourcing good practices (Cummings, 1984). This will make both parties to work towards successful outsourcing gains which will promote productivity and efficiency that might not be achievable alone. Thus, the degree of dependence and trust of a supplier on a manufacturer influence their relationship

behaviour. This is because high dependence implies that a valued resource is available from the manufacturer which represents potentially gainful payoffs. To ensure continued supplies in a high dependence situation one should be expected to cooperate and trust even if it is non-voluntary in nature. For low dependence the level of relationship may be conditioned by other factors but is likely to be slower since desired payoffs may be perceived to be low and not immediately forthcoming. Drawing upon this argument previous empirical evidences and industrial applications the significance of trust between supplier and manufacturer is hypothesized to be positive. The above arguments lead to:

 H₁: Trust has positive significant influence on successful outsourcing relationship among supplier and manufacturer relationship

Apart from trust communication behaviour is another vital business concept relationship and it defines the expression of organization's competency need capability and skill within business circle (Lynch and Chernatony, 2004). In a competitive business market many organizations seek cooperation and relationship from other advantageous organizations in order to boost their profit and productivity. This usually makes organizations to portray their strength and advantageous edge in the business market (Mohr and Spekman, 1994). However what usually determine the success of such cooperation or relationship is how other organizations perceived their portrayed strength image and advantageous edge within the business market and is referred to as communication behaviour by study (Large, 2005). Thus, in this study communication behaviour is the creation of important functions to discover and sustain successful supplier-manufacturer connections in order to obtain highest collaboration values (Mohr and Spekman, 1994; Large, 2005; Voss et al., 2006; Kauser and Shaw, 2004; 2006; Thi, 2006). This was viewed from three standpoints namely information quality information sharing and information participation.

The first viewpoint is information quality which depicts the intense at which an organization can express her image to other organizations and earn their confidence in order to be able to rely on their ability and skill to deliver on any shared business target (Anderson and Weitz 1989). The supplier's commitment to the manufacturer may be enhanced following the organization's provision of greater information quality. In the context of inter-organizational level Study (Menon *et al.*, 1999) revealed that a strong relation exists between communication quality and two kinds of organizational commitment which are consensus and

resource. Information quality was also found to be related to the supplier-manufacturer relationship in a positive way (Humphreys *et al.*, 2004). The expectation is such that following the supplier's perception of the usefulness of information in a timely clear and thorough manner his commitment to the business relation will be reinforced.

Information sharing is the ability for an organization to be able to disseminate resources available to her in order to achieve shared business target (Konsynski and McFarlan, 1990). This is considered as critical organizational skills which can aid good relationship among organizations (Mohr and Spekman, 1994; Robson et al., 2006). Effective information sharing develops information value for people within and across organizations and reduces the potential conflict among collaborative supplier-manufacturer relationship (Kauser and Shaw, 2004). Both manufacturers and suppliers have perceived that communication behaviour contributes to operating efficiency and mutual benefit between business partners in cross-national collaboration thus, improving performance (Cheung and Myers, 2008). In summary communication behaviour has emerged as a key construct in area of strategic supplier-manufacturer relationship and therefore can be further studied if it can be a significant predictor of relationship success (Mohr and Spekman, 1994; Large, 2005; Voss et al., 2006; Kauser and Shaw 2004; Robson et al., 2006; Cheung and Myers, 2008; Monczka, 1998).

The last viewpoint is information participation which depicts the extent of the organization willingness on commitment responsibility and involvement on the relationship (Henderson, 1990). For example the purchasing executive has to be committed to offer superior and correct forecasts of requirements to suppliers to facilitate better planning of available capacity (Chapman and Carter, 1990; Handfield, 1993; Im and Lee, 1989; Raturi et al., 1990). This implies that supplier and manufacturer relationship is linked with information participation. Therefore based on the above viewpoints and previous empirical evidences the significance of communication behaviour between supplier and manufacturer is hypothesized to be positive. The above arguments lead to:

 H₂: Communication behaviour has positive significant influence on successful outsourcing relationship among supplier and manufacturer relationship

MATERIALS AND METHODS

A quantitative research methodology was viewed as a proper approach for this study. Questionnaire was utilized to gather data for this study through the means of a postal survey. So as to accomplish the expressed goal of the study the Malaysian Electrical and Electronic industries were chosen as the sample space or population for this study. The industry's listing was gotten from the directory of the Federation of Malaysian Manufacturer. The choice of selecting the corresponding industry took into account the International Standard Industrial Classification Code (ISIC).

The organizations included in this study are those with staff strength >100. This took after the choice made by study (Anderson and Katz, 1998) who recommended that in studies of outsourcing management one ought to just consider organizations that have more than 100 workers which are companies that are sufficiently substantial for active participation in outsourcing management practices. Taking into account the criteria for selection 865 organizations that are recorded as producers of electrical and electronic organizations were selected for participation in this study. Respondents' quality is a vital component and the picked respondents are required to be the most proficient in regards to the operation and organization. management of the outsourcing Subsequently the respondents are the managers in purchasing materials planning general managers or directors.

The questionnaire comprises of four areas: general information about the organization and the profile of the respondents Trust factor as the precursors of supplier-manufacturer relationship and the outsourcing performance. In the first section general information includes information on the profiles of the companies in relation to the ownership of the company the kind of manufacturing industry the sort of items produced the respondent's working knowledge with multinational organizations the respondent's involvement outsourcing the respondent's position in the organization the company's operation years in Malaysia and the company's size as per the staff strength. The goal of this section is to comprehend the general profile of the company.

Section two of the questionnaire probes the antecedents of supplier-manufacturer relationships related to social factor (trust) and communication behaviour (information quality information sharing and information participation). The objective of this section is to investigate trust factor as antecedents of supplier-manufacturer relationships. The measurement instruments for trust factor was taken from study (Morgan and Hunt, 1994) while information quality information sharing and information participation were taken from study (Mohr and Spekman, 1994). The items were measured on a 7-points Likert scale which investigates the extent of level ranging from 7 for "Strongly Agree" to 1 for "Strongly Disagree". The second section of the questionnaire tests the

predecessors of supplier-manufacturer relationships identified with trust (social factor) and communication behaviour (quality of information sharing of information and participation of information). The goal of this section is to research trust factor as forerunners of supplier-manufacturer relationships. The estimation instrument for trust factor was adopted from study (Mohr and Spekman, 1994) while quality of information sharing of information and participation of information were taken from study (Kotabe, 1998). The items were measured on a 7-points Likert scale which explores the degree of level running from 7 for "Strongly Agree" to 1 for "Strongly Disagree".

The third section is made up of two sub-constructs that are partners' intangible benefits and tangible benefits. This section is aimed to comprehend the advantages of outsourcing achievement procured by the partners in the relationship. The questions are adjusted from past studies by study (Elmuti, 2003) (Rajagopal, 2006) to be basically short and exact. Furthermore the sequencing of this section is done in a sensible way beginning from an organization's outsourcing achievement related to cost before endeavouring to discover more about the organization's outsourcing achievement identified performance/internal process performance and the relationship between the supplier and the manufacturer. The estimation is measured on a 7-points Likert scale going from 7 for "Strongly Agree" to 1 for "Strongly Disagree".

Upon the culmination of the instrument development in this study the instrument developed was subjected to a pre-test (content validity and reliability test). The findings from the validity test uncovered that the items of the instruments developed measured the content planned by the scholar while the reliability test of the gathered information uncovers that the instrument is consistent internally (Cronbach's alpha >0.7). In this way the main data gathered was analyzed by using the Statistical Package for Social Science (SPSS) Version 19.

RESULTS AND DISCUSSION

A total of 865 postal surveys were sent out in two waves to the respondents. The total responses received were 224. Six of the responses were rejected due to incomplete information in the responses. Hence the final number of completed and usable responses is 218. Based on this assumption the effective response rate is 25.2% (224-6)/865×100%]. The first wave yielded 147 responses and the second wave yielded 71 responses. Such response rate is within the acceptable range as previous studies from Malaysian manufacturing researches yielded a similar range between 1826% (Thi, 2006; Pin et al., 2006; Ying, 2006).

The findings of this study reveal that 35.7% of the responding organizations are owned by Malaysians whereas the remaining 63.8% are owned by foreigners. The foreign ownership countries includes United States and European owned companies constituting 59.7% and only about 40% are owned by Asians (Japanese Korean or Singaporean) implying that local electrical and electronic industry heavily rely on foreign partners as investors in Malaysia. The electrical sector constituted 51.4% whereas the electronic sector constituted 48.6%. The response rate distribution is balanced between both sectors. Also, it was discovered that 79% responding organizations have >150 employees while 20% have 50-150 employees. This reflected the earlier recommendation that organizations need to have >100 employees to be involved in outsourcing programs (Bahemia and Squire, 2010). All surveyed organizations acknowledged that they have been involved in outsourcing management. The statistic provided an assurance that the organizations surveyed have engaged in outsourcing activities and are valid for future statistical analysis.

The result further shows that only 28.6% of the target respondents have work experience in outsourcing for >5 years. About 71.4% of the respondents have work experience of <5 years and above. This adds credibility to the respondents' knowledge on outsourcing activities. In addition majority of the respondents (74.3%) have tertiary education. Only 25.7% of the respondents have lower than tertiary education. With this targeted respondents should not have a problem in understanding the contents of the questionnaire.

The finding shows that Trust (TR) factor is insignificant with = 0.0186 and = 0.3354 (critical value when = 0.05 is 1.96) indicating that trust has direct positive insignificant influence on successful outsourcing relationship among supplier and manufacturer in Malaysia electrical and electronics sector. Whereas communication behaviour (COM Beh) was found to be significant with = 0.3698 and = 6.3109). This indicates that communication behaviour has a direct positive influence on successful outsourcing relationship among supplier and manufacturer in Malaysia electrical and electronics sector as shown in Table 1. This study finding revealed that to ensure success and productivity in outsourcing best practices relationship between supplier and manufacturer should be based more on communication behaviour and not necessary trust. Therefore, the dimensions of communication behaviour such as information quality sharing and participation and relational-oriented exchange are of high preference to the issue of trust. Additionally this outcome is consistent with past literatures by Gligor and Autry (2012) to Vasudeva and Anand (2011). These studies highlighted

Table 1: Summary of the finding

| Hypothesis | Relationships | Path coefficient | Sample mean | SD | SE | t-statistics | Result |
|------------|---------------|------------------|-------------|--------|--------|--------------|--------|
| H_1 | TR | 0.0186 | 0.0178 | 0.0555 | 0.0555 | 0.3354 | Reject |
| H_2 | COM Beh | 0.3698 | 0.3693 | 0.0586 | 0.0586 | 6.3109 | Accept |

^{*}TR: Trust *COM Beh: Communication Behaviour

the positively impact of the partnership attribute and communication behaviour on the partnership success whereas partnership success will be improved with sufficient level of communication behaviour. Moreover communication challenges are connected with the failure of distrust (Kauser and Shaw 2004; Johanson and Vahlne, 2011).

CONCLUSION

This study has been able to explicitly argue that communication behaviour is of vital importance even more than trust when it comes to the issue of outsourcing relationship among supplier and manufacturer. The study specifically pointed out that trust relationship issue in outsourcing domain should be accorded with communication behaviour of the partners involved in the relationship. This study stands as a basis on which further empirical investigation can be done on other subsectors of manufacturing sector.

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