

Chapter 77

An Investigation Into the Personal Interaction Items Which Best Explain the Variation in Trust Within Automotive Supply Chains

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ABSTRACT

The sustainability of automotive component suppliers is under threat due to various global challenges. Literature suggests that only the actual personal relationship can differentiate suppliers within supply chains. Literature further encourages more insight into the conceptualization of personal interaction and trust within supply chains. This paper reports on research that tested the importance of trust and its directional linear relationship with personal interaction. Personal interaction revealed a significant correlation with trust, indicating that actions of the Tier 2 supplier during the sourcing process can substantially influence trust with the Tier 1 buyer. It is accordingly crucial for automotive component suppliers to invest in strategies to increase their personal interaction with their buyers in order to promote trust and in turn to promote perceived customer value and customer retention.

INTRODUCTION

Globally, automotive component suppliers are under pressure from their competition (Barry & Terry, 2008; Sun, Pan, Wu & Kuo, 2014, p. 80). The numerous challenges faced by automotive component suppliers include shorter life cycles and more intense global competition (Manzouri, Ab Rahman & Arshad, 2015, pp. 85-86). Customers also constantly demand more value (Saban & Luchs, 2011) and lower prices, and they are more knowledgeable (Ambe & Badenhorst-Weiss, 2011, p. 352). In addition, customers are drastically reducing their supplier numbers in order to foster closer relationships with fewer suppliers

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(Ambe 2014b, p. 1539; Tolmay 2012, p. 1). Consequently, Tier 2 South African automotive component suppliers (or smaller suppliers lower in the supply chain) find their competitive position threatened and it is therefore crucial that they seek ways to sustain business and to ensure profitability in the long run. As a result of the challenges that this situation presents, automotive supply chain role-players are encouraged to constantly seek solutions to optimize their supply chains and to ensure sustainability (Manzouri et al., 2015, p. 86; Sharma, Bhat, Kumar & Agarwal, 2017, p. 21).

Tier 2 suppliers provide components to Tier 1 suppliers (or buyers) who, in return, provide modules (complete units such as dashboards) to original equipment manufacturers (OEMs), also known as vehicle manufacturers. This seems to be a global phenomenon, because it is not only the competitive position of South African automotive component suppliers competitive that seems to be under threat: automotive component suppliers globally seem to face similar competitive sustainability challenges (Rugaff & Sass, 2016, p. 1403). Seeking solutions for this challenge in the South African context might also shed light on possible solutions to be applied by peers globally.

The current commoditized supply chain environment leaves little room for differentiation through price, product quality or logistics (Yeh, 2016, p. 137). It therefore seems that component suppliers are left with only the actual relationship through which to add value and differentiate themselves (Yeh, 2016, p. 137). It is with regard to these supply chain relationships that Tolmay (2017, p. 7) invites more supply chain research within automotive supply chains. Personal interaction is also viewed as an important value enabler and Grönroos (2004, p. 102-103) emphasizes the importance of personal interaction and communication in the day-to-day conducting of business. Yeh (2014, p. 110) supports this and states that higher value results from long-term personal interaction between buyer and seller within automotive supply chains.

Over and above personal interaction, trust can result in differentiation which may ultimately result in customer retention (Çerri, 2012, p. 78-79). Numerous authors report on the importance of trust in supply chain relationships (Cannon, Doney, Mullen & Petersen, 2010; Çerri, 2012, p. 74; Vieira, Paiva, Finger & Teixeira, 2013, p. 265). Additionally, various authors have found that higher levels of trust can lead to the retention of customers (Fang, Qureshi, Sun, McCole, Ramsey & Lim, 2014, p. 408; Saban & Luchs, 2011, p.47) as well as to commitment and loyalty (Čater & Čater, 2010, p.1321). Trust, however, is a complex and multifaceted concept and more research in this area is needed (Akrouf & Akrouf, 2011, p.2; Yaqub & Hussain, 2013, p.436). Literature also suggests that more research on trust in the supply chain (Eggert, Ulaga & Schultz, 2006, p. 20) should be conducted in different countries (Vieira, Paiva, Finger & Teixeira, 2013, p. 265), such as in South Africa (Ambe, 2014c, p. 279).

This paper investigates collaborative relationships between first and second-tier suppliers (component manufacturers) in the South African automotive supply chains. As personal interaction (Yeh, 2014, p. 110) and trust (Ebrahim-Khanjari, Hopp & Irvani, 2012, p. 447) have the potential to promote the retention of business in supply chains, the paper aims to address the following research question: “What is the relationship between trust and personal interaction in the automotive supply chain relationship between Tier 1 and Tier 2 suppliers?” Therefore, the objective is to clarify whether personal interaction can be positively correlated with trust. Secondly, if the former statement proves to be true, the paper aims to identify which personal interaction items best explain the variation in trust within the South African automotive supply chains.

The remainder of the article focuses on a review of the relevant literature, the methodology used in the study and the presentation of findings and conclusions.

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