

## The Chosen Dimensions of Governance of Production Enterprises in the Customer-Supplier Relations<sup>1</sup>

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### **Abstract**

*Good governance of customer-supplier relations is a precondition of a balanced and permanent development of production enterprises. The aim of the article is to characterize the chosen dimensions, namely the trust and engagement of the customer. It consists of two parts. The first part contains the characteristics of approaches to the issue of governance. The second part identifies a specific way of governance of customers in relation to suppliers.*

### **Key words**

*Governance, customer-supplier, trust, engagement, long lasting relations*

**JEL Classification:** L11, L14

### **Introduction**

A In its substance marketing is closely connected with relations with customers. But since the spread of marketing in Europe in the middle of the sixties of the 20 century, as far as the marketing approach is concerned, the evaluation of these relations has undergone an enormous change (Tonkova, 2010, p. 630), i.e. from the relation which was totally of payment character to the transaction character continuing to the recent relations, the value of which exceeds the problem of exchange because of the many-sided inter-enterprise relations. The precondition of functioning relations is a good governance which can be defined as an effective coordination of enterprise activities under the conditions when the resources, power and information in the marketing channel are greatly divided. By means of governance enterprise reaches the coherence of functioning of the marketing channel (Kita, 2010, p. 34), thus helping the creation of a balanced and sound context of enterprise development. Governance is related to the complex relations which there exist among numerous subjects and interest groups (stakeholders) in the marketing channel as well as to the enterprise goals. One of the main interest groups is represented by customers who influence the behaviour of suppliers. For this reason the theoreticians have integrated the contributions of the approach emphasizing the relation aspects between the participants of ex-

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change which puts them in the centre of exchange dynamics and makes it possible to explain cooperation in the uncertainty situation. Cooperation which is also called partnership or network can be explained on the basis of taking into account the process of development of relation based on trust, engagement and, in a wider sense, on marketing standards. According to Webster (Webster, 1992, p. 1) marketing has not dealt with the sales of stricto sense for a long time. It is not sufficient for the supplier to be able to get a customer and support him in his activities but he/she should be able to define his/her needs under the conditions of the lowest costs (Goyhenetche, Bernard-Boursiere & Loup, 2007, p. 10). Identifying the uncovered facts about the customer makes the supplier able to respond to the most unexpected needs of his/hers. Better synchronization of the positions of both interest groups is a precondition for long lasting relations between customer and supplier. The quality of interaction results in the values and cooperative behaviour.

The aim of the article is to characterize the chosen dimensions of governance of industrial enterprises in the context of customer-supplier relations. It consists of two parts. The first part contains the characteristics of approaches to the issue of governance. The second part identifies a specific way of governance of customers in relation to suppliers.

## **1 Head Characteristics of Approaches to the Issue of Governance**

According to G. Nogatchewsky (2002, p. 1) the forms of customer-supplier relations are the subject matter of many scientific works. For this reason we can differentiate three tendencies of governance of customers in their relation to suppliers:

- transactional governance, which analyses the exchange as a one-off economic act;
- governance based on power dependence with regard to the fact that enterprises are dependent on the environment because they need resources of supplies;
- relation governance which takes into account the historical and social context within which a sequence of transactions creating relation is realized.

The aim of the above mentioned classification of governance is to attract the attention to the subject matter of the research of this article which is the governance of relations and its dimensions, more specifically the governance of customers in their relations to suppliers. In the period of unstable economic situation customers are seen to be prepared to revalue their partnerships with suppliers to get an ideal quality/price relation. For the purpose of the analysis of the cooperation between customers and suppliers we must stress that in the case of exchange based on relations personal contacts are an uninstitutionalized guarantee of exchange. The context of exchange provides space for personal contacts of participants and stability of their relations. Relation governance results from the theory of social exchange which emphasizes the phenomenon of trust in contrast to the economic exchange in which the obligations of the parties are specified in the contract in advance. In this sense trust is a solution of unexpected situations which may occur at the beginning of relation in the case of its

long-term character. The form of cooperation depends on the willingness of the participants and it is influenced by the context of activity which they have created.

Repeated interactions between customers and suppliers make the rise of rules which consolidate the possible cooperation. These rules are in fact the standards of relations which, in the atmosphere of trust, create exchange and secure the necessary coordination of its smooth running. Informal mechanisms also make mutual coordination of the participants of exchange possible and enable them to reach common targets from the long-term aspect, within which the elements connecting them are stronger than those which can separate them. Governance based on good interpersonal relations can help create partnership based on trust (of customers, suppliers, professional associations, partners and the like), develop and consolidate enterprise competence, maintain permanent communication with customers, develop highly personalized business relations, increase satisfaction of customers and their loyalty, raise productivity of sales staff, increase profitability of sales activities and the like.

## **2 Dimensions of Governance of Customer-Supplier Relations**

In many works the interactionistic stream deals with the explaining of some attributes characterizing the development of customer-supplier relations by e.g. trust, conforming, communication, close contacts, justice, reciprocity and the like. In the article we apply the fact that among the numerous aspects of exchange relation under the conditions of unstable economic situation, trust and engagement play an important role and influence the quality of customer-supplier relations.

### **Trust**

Trust is a key element which makes it possible to characterize the substance of a relation. At the same time it is an inevitable factor of relation. An ideal offer meets the customer needs and leads to convergency of the whole enterprise around the business model win-win. The real success of the supplier lies in the promise which exceeds the sales, i.e. in a permanent repeated purchase, good references and long-term relations. The advice how to reach such a status is to process each sales target as a series of mutually advantageous contracts which make both customers as well as suppliers win.

This type of relation presupposes the existence of clear game rules based on mutually shared ethics. The ethics of win-win must be shared in the whole enterprise of the supplier. The stress put on good interpersonal relations and cooperation ensures the regulation and necessary coordination of smooth running of exchange and improving the effectiveness of the customer-supplier relations. The results of the research made from the point of view of sales managers of 476 industrial enterprises operating on the territory of Slovakia show (Kita, 2010) that the customer trust depends on numerous factors:

- care for the customer, i.e. wanting all participants of exchange to win (17.9 % of microenterprises, 17.8 % of large enterprises, 15.8 % of small enterprises and 15.4 % of midsized enterprises);

- politeness of the supplier, i.e. being respected as a customer and feeling that all activities of the supplier are aimed at reaching the maximum satisfaction of the customer (16,7 % of microenterprises, 10.1 % of small enterprises, 8.8 % of large enterprises and 8.3 % of midsized enterprises),
- willingness of the supplier to ensure the success of the customer on the basis of the product being delivered (8.2 % of small enterprises, 6.7 % of large enterprises, 5.9 % of microenterprises and 5.6% of large enterprises);
- wish of the customer to cooperate with a trustful supplier, i.e. the main criterion is loyalty (13.9 % of small enterprises, 13.4 % of midsized enterprises, 10.5 % of microenterprises and 10.2 % of large enterprises);
- cooperation with a known supplier who has a good reputation, i.e. to be valorized (8.5 % of large enterprises, 8.3 % of midsized enterprises, 5.5 % of small enterprises and 5.2 % of microenterprises);
- ability of the supplier to lower the costs (15.7 % of microenterprises, 14.8 % of small enterprises, 13.4 % of midsized enterprises and 10.8 % of large enterprises);
- ability of the supplier to foresee the obstacles and avoid the risks (17.0 % of large enterprises, 15.9 % of midsized enterprises, 12.0 % of small enterprises, 10.8 % of small enterprises);
- ability of the supplier to find solutions of the problem which makes the product concept more simple (2.5 % of microenterprises, 2.3 % of midsized enterprises, 2.2 % of small enterprises and 0.9 % of large enterprises);

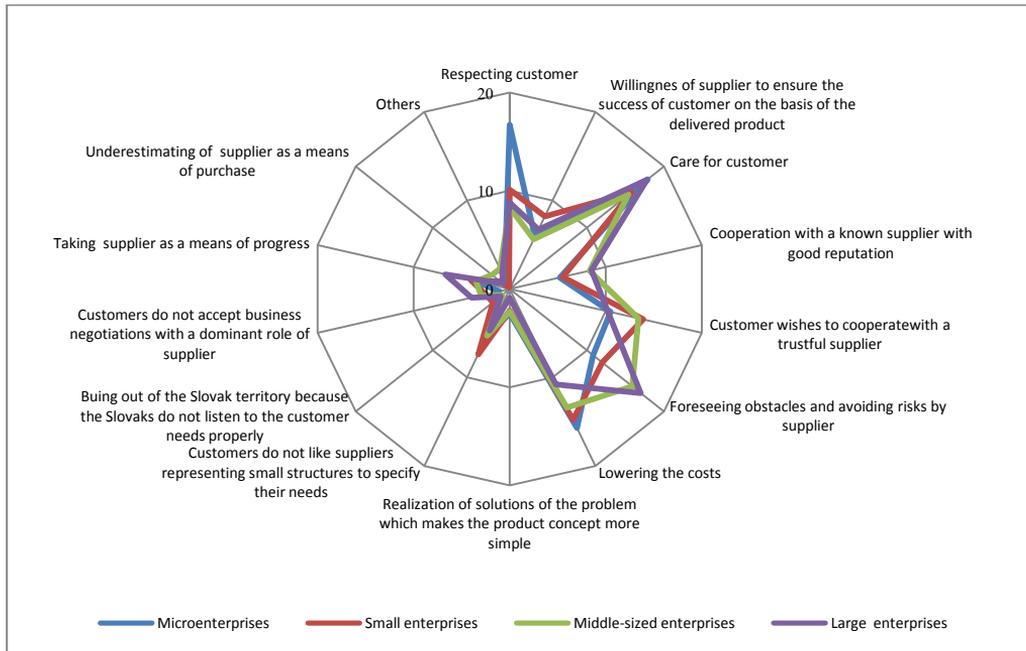
According to the sales managers creating the atmosphere of trust presupposes overcoming the doubts of customers.

- customers do not like suppliers representing small structures to specify their needs (2.6 % of microenterprises 3.0 % of small enterprises, 2.3 % of midsized enterprises and 0.9 % of large enterprises);
- customers do not accept business negotiations with a dominant role of supplier (1.1 % of microenterprises, 2.5 % of small enterprises, 3.0 % of midsized enterprises, 4.0 % of large enterprises);
- customers prefer buying out of the Slovak territory because the Slovaks do not listen to the customer needs properly (2.2 % of microenterprises, 2.2 % of small enterprises, 1.0 % of midsized enterprises and 1.2 % of large enterprises);

Trust is usually an expression of a reciprocal will of the participants of exchange to reach a satisfactory level of mutual engagement in the customer-supplier relation. According to the sales managers:

- customers take the supplier as a means of progress (3.7 % of microenterprises, 4.1 % of small enterprises, 3.5 % of midsized enterprises, 6.7 % of large enterprises);
- customers have the tendency to be satisfied with the functional relation with supplier (1.2 % of microenterprises, 1.1 % of small enterprises, 2.3 % of midsized enterprises and 0.9 % of large enterprises).

**Graph 1** Trust in the customer-supplier relation (in %)



Source: own processing.

**Engagement**

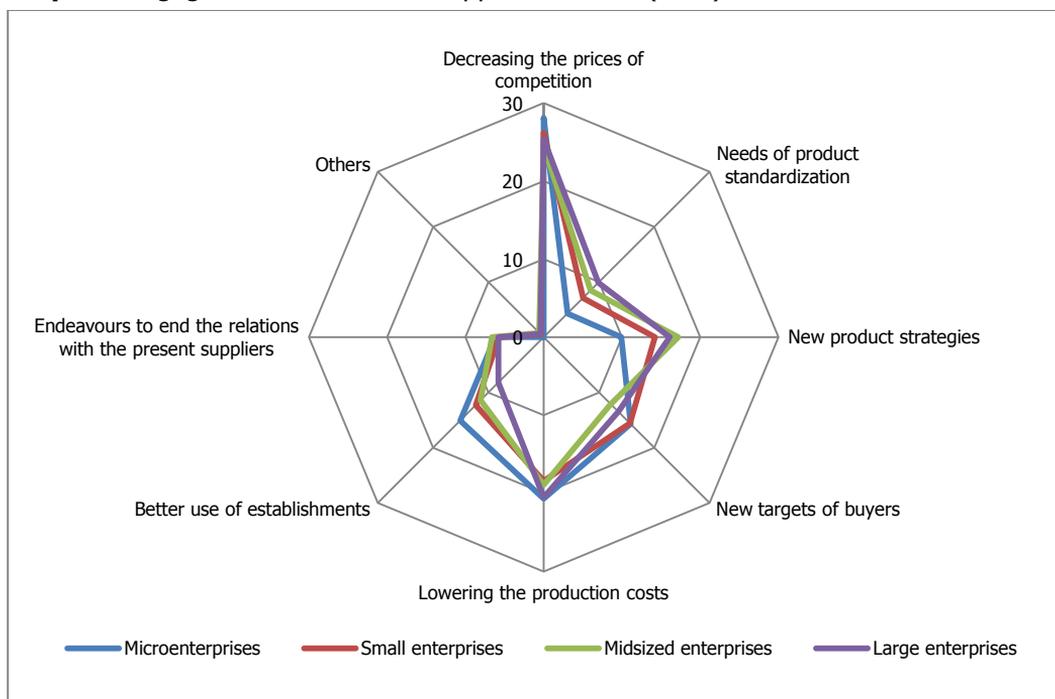
Engagement can be defined as a willingness to maintain the relation with the supplier. It is influenced by the specific social context and the impact of this context must not be underestimated either. The combination of material and non-material investments of the supplier which he has put in the relation with the customer and his willingness to cooperate, the innovation possibilities he is offering, the reliability of supplying he is providing and the like contribute to the fact that the customer takes the supplier as a source of supply. According to the research results published in the monography *New Approaches to the Management of Offer of Industrial Enterprises* (Kita, 2009, p. 55) the realized results can also be presented from the point of view of engagement of customer in maintaining the relation with supplier:

- 28.1 % of microenterprises, 26.2 % of small enterprises, 24.5 % of midsized enterprises, 25.4 % of large enterprises are willing to maintain the relation due to the price decrease caused by the initiative of competition;
- 20.7 % of microenterprises, 20.5 % of large enterprises, 18.9 % of midsized enterprises and 18.4 % of small enterprises are willing to maintain the relation due to lowering the total costs of enterprise;
- 9.9 % of large enterprises, 8.5 % of midsized enterprises, 7.1 % of small enterprises and 4.3 % of microenterprises are willing to maintain the relation due to the standardization of products;
- 15.7 % of microenterprises, 15.6 % of small enterprises, 13.5 % of large enterprises and 12.1 % of midsized enterprises are willing to maintain the relation due to the new purchase targets;

- 15.1 % of microenterprises, 12.3 % of small enterprises, 11.4 % of mid-sized enterprises and 8.2 % of large enterprises are willing to maintain the relation due to the necessity to better use the establishments of the enterprise;
- 17.2 % of mid-sized enterprises, 14.2 % of small enterprises, 16.1 % of large enterprises and 9.9 % of microenterprises are willing to maintain the relation due to the new product strategies;
- 6.6 % of mid-sized enterprises, 6.2 % of microenterprises, 5.7 % of small enterprises and 5.8 % of large enterprises are willing to maintain the relation to the endeavour to end the relations with the present suppliers;
- -0.8 % of mid-sized enterprises, 0.6 % of large enterprises and 0.5 % of small enterprises are willing to maintain the relation due to the personal interest of the sales staff.

The customer-supplier relations are developing due to the activities of both organisations and not only due to the simple assumption that the customer-supplier relations will be more intensive and stable in the course of time. One or the other of both organisations can limit the amount of the means invested and try to get higher influence and certainty by e.g. relying on the sources of suppliers.

**Graph 2** Engagement of customer-supplier relations (in %)



Source: own processing.

## Conclusion

The aim of the article has been to explain one of the ways of governance customer-supplier from the point of view of relation aspects in which the customer tries to decrease uncertainty by good interpersonal relations. At present as well as in the future the new perspectives of growth require industrial enterprises to engage in the development of customer-supplier relations which are opening the perspective of new business opportunities of growth of turnover, improvement of the business name, customer loyalty, competitiveness (Machková, Sterbová, & Tauser, 2008, p. 777-778) and the like. The dimensions of this context are connected with the tools of specific coordination and we can expect the new boom of development of these tools to cause the rise of new forms of cooperation. The dimensions which characterize the development of customer-supplier dimensions can be bearers of this development. The article has focused on the sales managers of the supplier enterprises who ensure the contact with customers. The strategy of suppliers lying in the contacts with different members of the purchase centre of the customer corresponds with his endeavour to better respond to their expectations and effectively influence the individuals of the enterprise. But from the point of view of other interest groups the analysis deserves more attention. The article used the results of the realized research within the project VEGA 1/0039/11 "Geographic Information System as a integral part of strategic innovation of enterprises to reinforcement its competitiveness" and presentations of some results gained in this research from the points of view different from the interpretations of the author of this research. The results of the analysis of two dimensions of governance show that managing the customer-supplier relation in the industrial market requires improvement of professionalism and competence of suppliers. The real success of the supplier lies in the after sales promises which lead to the repeated purchase, trustful references and long-term relations. The recipe how to reach this lies in the processing of each sales target as a joint-venture, i.e. a mutually beneficial transaction in which both – the supplier and customer win. The customer-supplier relations deserve permanent research with regard to the fact that the internal as well as external environment of the enterprise are changing.

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