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## **EFFECTS OF STRATEGIC CONTROL IN RELATIONSHIP BETWEEN SUPPLIERS – COSTUMER**

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**Abstract:** The aim of this paper is to examine relational relationship between supplier and buyers, that has to go through control system as last step in Strategic Management apply. The view of this paper was from the supplier aspect, so that can perform control on consumers and develop relational relationship. This paper is presenting the research results which we conduct using questionnaires among numerous suppliers on the territory of Bor. Data collect in this questionnaires was processed with adequate statistical methods used of software packages SPSS v.18 and LISREL v.8.8 based on we derive appropriate conclusions.

**Keywords:** Suppliers, Buyers, Relational relationship, Control.

### **1. INTRODUCTION**

In the supply chain, suppliers play an important role, and therefore the selection of the right supplier is of great importance for the success of the company. For this reason it is necessary to find and choose the right supplier that will suit the needs of companies in the supply chain. The supply chain represents a number of approaches that successfully integrate suppliers, companies, warehouses and shops, so as to achieve the required production quantity of goods to be later distributed to the right location at the right time in order to minimize costs and maximize revenues while working on meeting demands of purchaser companies. For this reason, the company which order specific products, services or raw materials in the supply chain is called the client, or customer. The relationship between the supplier and the customer is of the key importance for the efficiency of the supply chain.

The competition is scary, and companies are facing with increasing changes in the supply chains in which buyers and suppliers recognize the benefits that have come from collaborative partnerships [1]. With changing focus, which goes from transactional to collaborative relationships, customers have significantly increased awareness of the strategic importance relating to the development programs to increase the customer's knowledge, skills and insights in the market in combination with effective mechanisms policies in a streamlined connections. For example, because the Toyota buyer is at the top of most suppliers, their firm receives more attention and gets more innovative products from suppliers than their competitors [2]. Most customers require a different form of cooperation which must be accompanied by the control, which is the theme of this paper.

Implementation of the strategic management of the company as a modern management concept that encompasses a global commitment of the company, usually brings down to defining the strategic goals of the company, determining the strategies for achieving these

goals, the application or implementation of the defined strategy and control of the implementation of the strategy [3].

The aim of this paper is to examine the latest step in the implementation of strategic management, management control system, business relationship between suppliers and their customers. It was done from the suppliers' point of view as the main company that goes through all the stages of strategic management in their business. In this way, the supplier can influence customers in developing long-term relationships, and all that in order to achieve long-term competitive advantage. All this is necessary in order to carry out control of consumers, while doing business and developing a relationship.

## 2. LITERATURE REVIEW

Choosing the right supplier is a very complex process. One of the reasons is that many factors influence the decision on making the choice among supplier companies. Also, companies as suppliers must pay attention while choosing the right associates in business because a wrong partner can adversely affect the business of the supplier [1] to identify superior suppliers, to increase productivity in the supply, to reduce overall operating costs and improve competitive position in target markets "[3].

In considering supplier-customer relationship our approach comes with the assumption that hugely successful products or services suppliers represent an attempt to become more attractive to potential buyers. The phenomenon of customers is reflected through their attempt to get the best resources from sellers and thus tend to become more attractive suppliers, which is counter-intuitive inversion of the classic marketing approach. The ultimate goal of customers themselves reflected in the fact that provide insight into how they can achieve the privileged status with their main suppliers, and thus realize the competitive advantages that are associated with competing buyers by performing major advantage of the supplier's resources and capabilities.

"The company has a privileged status of consumers with the supplier if the supplier offered him a favorable allocation of resources. This can be accomplished in several ways. The supplier can send their best people to the development of new products, in order to make the product according to the wishes of consumers, in order to offer innovation or perhaps even enter into an exclusive agreement. The supplier may also provide preferential treatment if there is a "bottleneck" in the production due to capacity constraints "[4]. The key point, with all due respect to companies that compete, not only in markets, but sales and procurement markets, is that "extremely good" suppliers are in short supply i.e. there are not many of them [5]. Each supplier must make a decision on which consumers have in circulation, and to what extent. Shortage in suppliers was reported in several industries, such as manufacturing luxury cars, in which the manufacturers rely on the 30 suppliers for the components of cars Mercedes E-class, the Audi A6 and BMW 5 [6]; area of biotechnology [7]; production of software [8]; or railway industry. For many types of industrial materials, no more than two to three leading suppliers remain on the market. As the result, these vendors become highly selective and do not share their resources equally to all its customers. Williamson (1991) argues that suppliers

generally "meet the demands of its customers who have privileged status", which are less desirable consumers had to wait in line.

In cases where not all safe, the supplier must first meet its strategic importance to consumers and only after that conduct business with their regular customers. It is clear that to achieve preferential treatment company must have satisfied suppliers. Move one step ahead in the chain of interactions supplier - buyer, buyers - company may have in the first place, to be attractive enough to provoke supplier to start a business relationship.

### **3. THE FORMATION OF MODELS AND HYPOTHESIS TESTING**

For creation of a conceptual model in the literature where from this questionnaire was taken [2], two aspects of the development of the supplier (capacity development, policy supplier) and two dimensions of benefit from the relationship (customer benefits, suppliers benefits) through relational capital are linked. Previous studies have looked at the benefits of these relationships or performance outcomes from the perspective of the customer (rare) or from the perspective of the supplier. The paper merged these two aspects, because it was observed from earlier studies that the privileges supplier direct awards resulting from business with the customer (contract renewal) and customer benefits have been granted preferential treatment to a specific customer in the exchange of past or future loyalty (optional value services, custom procedures). Relational capital mediate and mitigate relate directly related to development between the supplier and the benefits that arise from these relationships. The development of the supplier represents investment in specific relationships that is leaving open the purchaser to choose opportunistic behavior. For example, the effects of the expropriation [9] arise when suppliers and confiscate all the benefits resulting from the investment in the development of supplier. Suppliers may believe that they can avoid the mutual benefits because the buyer has made so many unique investments in their relationship they should not be so easy to break up the relationship. Relational capital instead seeks group solidarity, generalized reciprocity, knowledge sharing and cooperative behavior.

However, the control that needs to be done in all business transactions results in a trial two dimensions: the power of the customer and the dependence of suppliers. The power of the customer depends on the characteristics of the market and the relative importance of their purchases compared to the total business. The power of buyers increases if you are focused and buy large amounts of (value).

Therefore, the selection of the group of customers that will sell your products is of critical strategic decisions for the company. [3] The dependence of suppliers is reflected in their effort (expenditure of time, energy and money) when changing customers, whereby the supplier remains with existing customers. Due to the lack of good alternatives it is too difficult for the supplier to switch to other customers, that's why supplier choose not to change the customer [2]. If the power of the supplier is strong he is able to choose the customer and customer group. The power of supplier itself may be required in their ability to increase prices, and lower the quality of their products and services. They have more significant power if they are in small number and more concentrated than the branch to which they sell products and services. In many branches the state as a buyer or seller can influence

its policy on competition in the industry. In fact the state can influence all five essential forces that shape the competition in the industry [3].

### 3.1. THE POSSIBILITY OF DEVELOPMENT (CAPABILITY DEVELOPMENT)

Results coming from the collaboration between customer and supplier increase supplier understanding of the nature of their relationship and level of trust, loyalty and reciprocity [10]. Development of the capacity may cause the supplier to see the customer as someone who has a high degree of integrity as well as the trust that is likely to be achieved [11]. Activities related to the development of skills, such as providing training and some technological piece of advice, quite often involve interactions between employees with customers and suppliers that represent different functions (purchasing, production, quality, logistics). Rich communication that takes place in these interactions helps in creating mutual understanding and common vision to enhance the relationship [12]. In light of the preceding arguments following hypotheses are set:

**Hypothesis 1.** *The development of skills has a positive influence on the policy of the supplier.*

**Hypothesis 2.** *Development of skills has a positive effect on equity generated from the relationship.*

### 3.2. SUPPLIER GOVERNANCE

Management and evolution policy tends to increase the concordance between the supplier and the customer's wishes and requirements [13]. Privacy supplier reinforces the need for relational capital due to demands for more complex coordination and greater participation of the company itself. Such activities can take place only when the supplier and the buyer manage from the same foundations that encourage the supplier to develop closer relationships with customers and their representatives. When the supplier management process includes regular visits to supplier sites to assess and familiarize themselves with the operations of the supplier, it ends the interaction of face-to-face and to exchange tacit knowledge of which depends on their relationship [14] and control in such a relationship has a positive outcome.

Privacy supplier also sets standards and procedures for routine supplier leading to a minor misunderstanding, the elimination of double standards and the reduction of divergent interpretations of similar activities and to increase mutual understanding and trust. In the end, politics often requires the supplier to the supplier adapt its communication to the customer. For example, the supplier should adapt to the customer's electronic data system, or web portals. Having completed the exchange of information and control, this significant investment in the form of capital and labor is specific to the relationship between customer and supplier, and lead to greater commitment to the customer. Accordingly, this study presupposes the following:

**Hypothesis 3.** Supplier policy has a positive effect on the control.



### 3.3. RELATIONAL CAPITAL

The capital made from the relationship (relational capital) is a reflective, multi-dimensional latent draft of the second line with three drafts of the first line: trust, reciprocity and emotional commitment. This approach is consistent with previous studies [11]. These three factors, or combinations thereof, are common to most definitions of relational capital. Each factor of the first row, although linked, occupies the unique aspects of the relationship; collectively they reflect see how supplier relationships. Emotional commitment is a prerequisite for suppliers to stay in touch. Reciprocity or mutuality represents the sense of independence and commitment to the future work. Trust is in fact the extent to which partners expect from each other not to behave selfishly, but to keep their promises [15]. Alternatively, the policy supplier could have negative implications. Suppliers may become suspicious of the motives of customers, the research also shows that rough, formalized approach, specific control policies often discourage voluntary cooperation. Relational capital should provide a reservoir of good will so these doubts could be overcome and it must mitigate the possible adverse effects of the supplier's performance management strategy related. The presence of relational capital that can mitigate the relationship between the policy of supplier and its benefits, thus reducing compliance costs and increase the effectiveness of monitoring and coordination [15]. Based on consideration of the aforementioned dimensions, the following hypotheses result:

**Hypothesis 4.** The capital generated from the relationship has a positive effect on the control.

Based on consideration of literature of establishing control in relational supplier-customer relationship, conceptual model shown in Figure 1 was developed. It can be noted that the concept of "developing the capacity of" independent variable that has an indirect impact on control, while two concepts such as "politics of suppliers "and" equity realized from relations "have a direct influence on the control of the supplier. Conceptual model itself consists of 4 latent variables and 34 observed variables, Figure 1.

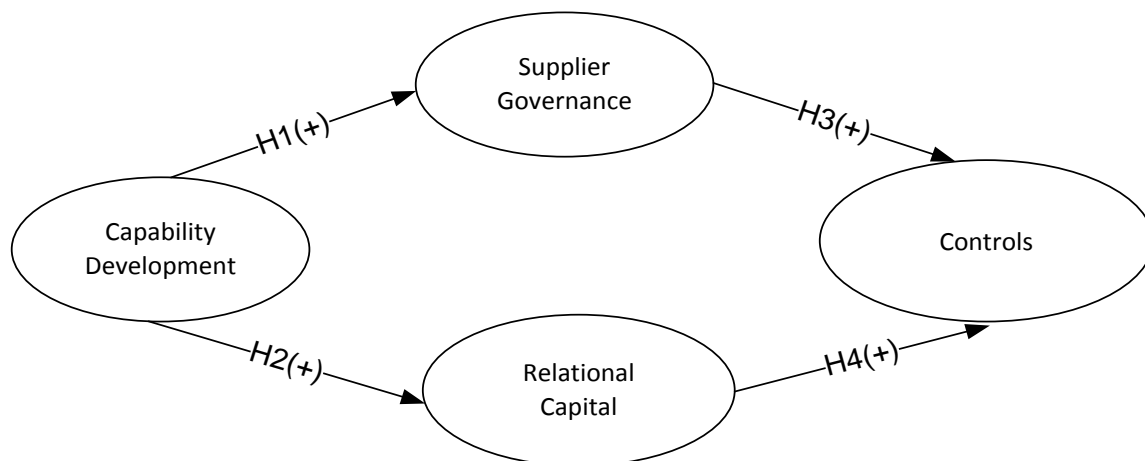


Figure 1. Conceptual model

## 4. METHODOLOGY

### 4.1. SAMPLE AND COLLECTION OF DATA

The aim of this study was to examine the effects of the establishment of control in relational link between the supplier and the consumer, when considering the possibilities of development, politics and suppliers of capital generated from the relationship. According to the literature that focuses on the key advantages of consumers and their suppliers can be seen that in many works are mentioned as possibilities for the development and relational capital that can contribute to better business, which can contribute to combining the existing and creation of new knowledge. Measuring instruments involved in the research of this study were reliable scales from previous studies or adapted from existing literature [2]. The research was done by examining the suppliers through questionnaires in a variety of industries and sectors in the municipality of Bor. The questionnaire consists of 38 questions grouped in 4 groups (opportunities for development, suppliers' policy, capital generated from the relationship and control). The survey covered a total of 113 respondents. 100 questionnaires were properly filled (88.49%). For gradation, we used the Likert five-point scale. The proposed hypotheses were tested by using structural equation modeling and by applying software package SPSS v.18 and LISREL v.8.8, so two-phase procedure proposed by Anderson and Gerbing was satisfied (1988) [16]. In the first phase we assessed the measurement model and the subsequent testing of the structural model followed.

### 4.2. ANALYSIS AND RESEARCH RESULTS

For the empirical validation of the general hypothetical model, the author has used a methodology SEM (Structural Equation Modeling) [17], which consists of two steps. The first step includes the assessment of the measurement model to examine whether the model fits well with data collected on the basis of satisfactory results. After that, the second step is the structural model defining for testing the hypotheses.

By applying the confirmatory factor analysis (CFA) one-dimensionality within two groups of questions considered in the model was confirmed, such as the possibility of developing policy and supplier's policy. While the multidimensionality was confirmed in two groups of questions, capital generated from the relationship and control supplier. The values obtained by using confirmatory factor analysis are presented in Tables 1 and 2. Internal consistency of group claims were tested (Table 1) related to the concepts are included in the research. We used Cronbach's coefficient  $\alpha$  to assess the internal consistency [18], Spearman-Brown coefficient and  $\Omega$  [19]. The obtained values of reliability coefficients for all groups of questions are within the recommended values [18, 19, 20], which can be considered as to have achieved internal consistency.

The evaluation of convergent and discriminant validity was done, in accordance with the recommendations that have defined Fornell and Larcker, (1981) [21]. All load factor indicators on their structures were statistically significant ( $p < 0.1$ ,  $p < 0.05$ ), indicating that the convergent validity was achieved [22]. Values of the load factor and a critical ratio are shown in Table 1 and show that the structures have a high validity of a convergent, approximately

0.5 ( $ST \geq 0.5$ ). Values AVE indicators that go beyond correlation between the concepts squared indicate that requirement discriminant validity was fulfilled. Indexes fitting (Chi-square = 195.47,  $df = 113$ ;  $\chi = 1.729$ ) RMSE = 0.084, RMR = 0.091, NNFI = 0.95 = 0.94 NFI, IFI = 0.97 = 0.91 RFI, CFI = 0.97, indicate adequate fitting model.

Table 1. Results of the Measurement Model

| Construct                 | Stand.fac<br>tor<br>loading | t-value    | AVE   | Discrimi<br>nant<br>Validity | $\alpha$ | Spearman–<br>Brown<br>Coefficient | $\Omega$ |
|---------------------------|-----------------------------|------------|-------|------------------------------|----------|-----------------------------------|----------|
| Capability<br>Development | 0.26-0.97                   | 2.65-13.30 | 0.611 | 0.781                        | 0.881    | 0.951                             | 0.939    |
| Supplier<br>Governance    | 0.45-0.91                   | 4.49-11.42 | 0.514 | 0.717                        | 0.823    | 0.703                             | 0.834    |
| Relational<br>Capital     | 0.73-0.91                   | 8.34-11.22 | 0.703 | 0.838                        | 0.917    | 0.880                             | 0.925    |
| Controls                  | 0.65-0.99                   | 6.88-11.24 | 0.701 | 0.837                        | 0.786    | 0.786                             | 0.648    |

To quantitatively demonstrate the extent to which two variables are related it is necessary to calculate the correlation coefficient. Correlation coefficient takes on a value of -1 (inverse relationship) to +1 (direct connection). Both of these extremes are the perfect link between the variables, while 0:00 is the lack of connections [23]. If the value is closer to zero, then the connection is weaker or there is no connection. A positive correlation coefficient indicates a proportional relationship between the variables, while a negative correlation coefficient indicates that the interdependence of variables inversely proportional.

Tabela 2. Correlations between the examined variables

| Construct              | Capability<br>Development | Supplier<br>Governance | Relational<br>Capital | Controls |
|------------------------|---------------------------|------------------------|-----------------------|----------|
| Capability Development | 1                         |                        |                       |          |
| Supplier Governance    | 0.638**                   | 1                      |                       |          |
| Relational Capital     | 0.539**                   | 0.652**                | 1                     |          |
| Controls               | 0.580**                   | 0.495**                | 0.650**               | 1        |

\*\* level of significance correlation 0.01

In Table 2 we presented the result of correlation analysis for all four variables tested: the possibility of development, supplier policy, capital generated from the relationship and control. The results, summarized in Table 2 indicate that none of the links between the observed phenomena has negative value. Therefore, we can conclude that among all the groups of questions exist correlations with statistical significance level of 0.01.

Given the proper fitting of the measurement model for the next step structural model based on which statistical hypotheses were tested, Figure 2. From the analysis of path it can be seen that the test variable possibility of development has an indirect influence on the management, while the supplier policy and capital gained from the relationship have direct effect on the control.

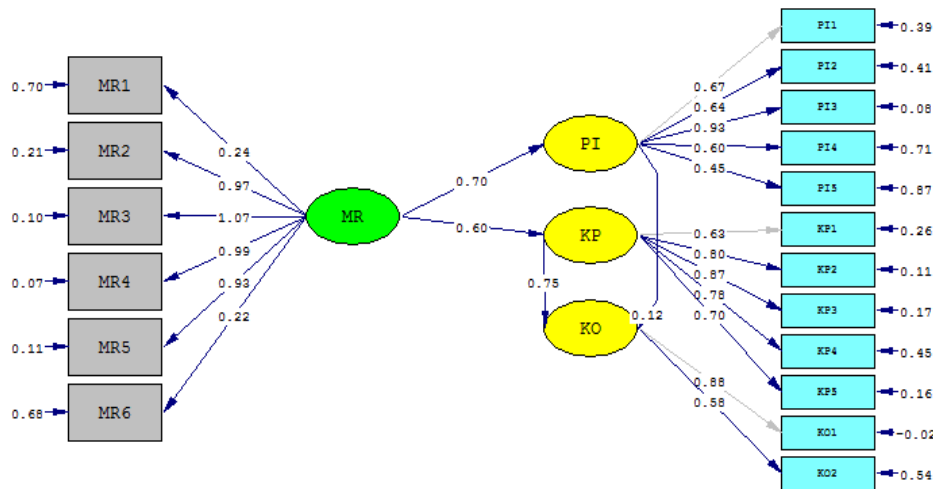


Figure 2. Structural model

Fitting indexes NNFI = 0.93, NFI = 0.91, CFI = 0.95, IFI = 0.95 indicate adequate fitting model and fulfillment of the conditions for the interpretation of structural coefficients. All load factors (Figure 2) as well as chi-square goodness-of-fit statistics of the structural model  $\chi^2 = 216.97$ ,  $df = 121$ ,  $p < 0.05$  have statistical significance ( $p > 0.5$ ).

For testing the model regression coefficients (coefficients  $\beta$ ) and determination  $R^2$  were used. The regression coefficients ( $\beta$ ) explain the strength and character of the relationship between the dependent and independent variables, which are shown in Table 3, the coefficient of determination  $R^2$  shows the share of explained variance in total, and how many variations of dependent variable is explained by the independent variable. The coefficient of determination in this case found that the impact of latent predictors of the intended behavior can be calculated with 48.3% of the variance.

Table 3. Path coefficients and T-values

| The relationship or path                     | Standardized parameters | T-value | Causal relations |
|--|-------------------------|---------|------------------|
| Capability Development → Supplier Governance | 0.70 (a)                | 5.96    | R1: yes          |
| Capability Development → Relational Capital  | 0.60 (a)                | 5.83    | R1: yes          |
| Supplier Governance → Controls               | 0.12 (b)                | 1.43    | /                |
| Relational Capital → Controls                | 0.75 (a)                | 6.78    | R1: yes          |

(a) Significant at the 99% level; (b) Significant at the 95% level

## 5. DISCUSSION OF RESULTS

In order to examine the strategic control in the relationship between suppliers and customers, a research was done that includes measurement of certain scales that are considered to be essential for the establishment of relatively permanent relations with suppliers with customers with full confidence. This research was done by examining the suppliers in a variety of industries and sectors in the municipality of Bor. The obtained data tell us that correlation analysis indicates that no link between the observed phenomena has negative value. Therefore, we can conclude that among all the groups of questions exist correlations with statistical significance level of 0.01. When testing reliability was measured, Cronbah coefficient alpha ( $\alpha$ ), Spearman-Brown coefficient and  $\Omega$  were used. All values are within recommended limits so it can be concluded that the measuring scale was reliable and that there is an internal consistency of the scale samples. For testing hypotheses in the conceptual model we used the regression coefficients ( $\beta$  coefficients) and determination  $R^2$ . The analysis results show the following:

The results obtained by analyzing the path show that Beta value between development opportunities and supplier policy is positive and has a very strong influence  $\beta = 0.70$ , with the existence of statistical significance ( $t = 5.96$ ). This tells us that the Hypothesis 1. *The development of skills has a positive influence on the policy of the supplier* is being accepted. Hypothesis 2. *Development of skills has a positive effect on equity generated from the relationship* is being accepted. In favor of this go Beta values that have a positive and strong influence  $\beta = -0.60$  with existence of statistical significance ( $t = -5.83$ ). Hypothesis 3. *Supplier policy has a positive effect on the control* is being rejected because it has positive but very weak effect ( $\beta = 0.12$ ) with no existence of statistical significance ( $t = 1.43$ ). Hypothesis 4. *The capital generated from the relationship has a positive effect on the control*. Is being accepted because it has positive and strong effect  $\beta = 0.75$ , with the existence of statistical significance ( $t = 6.78$ ).

## 6. CONCLUSION

In modern business conditions is quite difficult to find the right suppliers, and real customers as well, and then to keep a quality relationship between them and all this in order to achieve competitive advantages and positive results in the company. The relationship between the supplier and the customer is essential for the efficiency of the supply chain, and therefore it is important for the efficiency of the entire business. If the supplier wishes to maintain a better relationship with their customers, it is necessary to implement certain control to determine the power of the customer, i.e. the relative importance of their purchases in relation to total business, and to what extent he himself (the supplier) depends on its customers. If business subjects wish to achieve a positive result they must implement control in supplier – customer relationship. Control is easily and more efficiently implemented if it encourages the development of the capacity of suppliers, which tells us that investments in supplier by customers - firms have relevant results both on the development of relations and control in the relationship. The trust that is gained when developing supplier deepening collaborative

relationship which further contributes to the easier feedback, and thus better and more effective control. The trust and emotional attachment also have positive implications for the relationship between supplier and its customers and if these values are reached control will be minimal.

By investing in relational capital we get effective control and successful results in business. On the contrary, the supplier policy does not have a positive influence on the management, as previous researches have shown. Hypothesis 3. *Supplier policy has a positive effect on the control.* is being rejected, which tells us that the Serbian companies are still not developed awareness of investing in relationship between suppliers and customers. Rough and formal approach that is most often used in the context of the policy of the supplier, because of standard-setting and control within the relationship often discourages voluntary cooperation which badly affects control itself. This is corroborated by Wang's study from 2013, which says that if the trust, put on relational capital is low, although more frequent misunderstandings and defense tend to be high, one can conclude that the needed integration of knowledge for normal management of the supplier does not promise success. Without the effects of mitigation of relational capital, structure of supplier policy only creates transaction costs and frustrations for both parties in the relationship [9].

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