The Quality of Business Relationships in the Automotive Industry and the Company Performance: The Case of Polish and Brazilian Markets

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This paper aims to determine how relationship quality can influence company performance in the business-to-business setting of the automotive wholesalers and car dealers. Building on prior research and the results of focus study, we propose relationship quality as a higher construct comprising trust, respect, openness and commitment. The mail survey method was chosen for data collection and the studies were carried out in Poland and Brazil. The results show coexistence of a high level of relationship quality and very good company performance, both in Poland and Brazil, however the entities in Poland assess the quality of the relationship significantly higher than companies in Brazil.

Keywords: business relationships, quality of relationships, company performance, automotive industry.

Jakość relacji biznesowych w branży motoryzacyjnej a wyniki przedsiębiorstw: przypadek rynku polskiego i brazylijskiego

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Słowa kluczowe: relacje biznesowe, jakość relacji biznesowych, wyniki przedsiębiorstw, branża motoryzacyjna.

JEL: M14, M39

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1. Introduction

Building and sustaining cooperative inter-firm relationships are still current research areas in marketing and strategic management. The economic value of business relationships has been discussed by Kalwani and Narayandas (1995). The specific dimensions of business ties like e.g. trust (Doney and Cannon, 1997), commitment (Morgan and Hunt, 1994; Gundlach et al., 1995) or relational norms (Heide and John, 1992) improve the effectiveness of cooperation by reducing transaction costs (Noordewier et al., 1990), increasing the transaction value (Dyer, 1997) and, as a consequence, enhancing competitiveness of the engaged parties (Dyer and Singh, 1998). However, the results of these studies are not consistent. One of the most important determinants of the effectiveness of relationships is cultural context. The social capital of the country has a major influence on the quality of relationships. Unilateral trust and lack of reciprocity in the relationship may cause significant relational risk (Das and Teng, 2001) and poor performance. In this study, we focus on the examination of B2B relationships in the automotive industry in two countries: Poland and Brazil. Both countries are considered to have a relatively low quality of formal institutions. In such countries, trust in business may not have similar consequences as in the countries with high social capital and thus may be substituted by a control mechanism (Luo, 2002; Poppo and Zenger, 2002; Mellewight et al., 2007; Li et al., 2010). However, for emerging markets formal indicators may provide fallacious information about the market environment (Khanna et al., 2005, p. 65).

The objective of our research is to examine the perceived quality of business relationships between automotive wholesalers and car dealers within Volkswagen Group’s sales channels in Poland and Brazil and to find the connection between the specific components of the relationship quality and companies’ performance. This paper is organized as follows: first, we review the prior work on measuring the relationship quality; second, we present the structure of the distribution channel in the automotive industry and develop the main hypothesis; third, we present our research methods for the relationship quality; at the end, we show the results of the research and conclude with a short discussion of the implications and limitations of our findings.

2. Relationship Quality

In the literature, there is no common agreement about the definition of relationship quality. However, there is a widespread belief that relationship quality is a higher order construct consisting of several, but interrelated components (e.g. Bejou et al., 1996; Crosby et al., 1990; Walter et al., 2003). On the basis of analysis of the literature, the differences in the
selection of the specific components of the relationship quality construct can be noticed. Also in research practice, other terms which are similar to relationship quality are employed, in particular relationship strength and relationship closeness. They are also defined as higher order constructs consisting of similar or identical components as relationship quality (see Table 1). It seems that both the choice of the name of the indicator (quality, strength, closeness) and the specific components are always subjective, depending on the preferences and needs of the researcher. However, it should be noted that researchers applying the relationship quality label use only quality components described in the social exchange theory. At the same time, it was the foundation of the presented study; therefore, this term is used in the paper.

<table>
<thead>
<tr>
<th>Term</th>
<th>Components</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship strength</td>
<td>- commitment, concentration of purchases, the existence of ties</td>
<td>(Liljander and Strandvik, 1995)</td>
</tr>
<tr>
<td></td>
<td>- environmental uncertainty, flexibility, mutuality, the cost of resources, informal ties</td>
<td>(Keister, 1999)</td>
</tr>
<tr>
<td></td>
<td>- economic components: price, power, risk avoidance, opportunism; social components: commitment, trust, cooperation, mutuality</td>
<td>(Donaldson and O'Toole, 2000)</td>
</tr>
<tr>
<td></td>
<td>- commitment, trust, solidarity, mutuality, flexibility</td>
<td>(Hausman, 2001)</td>
</tr>
<tr>
<td></td>
<td>- trust, commitment, dependence</td>
<td>(Golicic, 2007)</td>
</tr>
<tr>
<td></td>
<td>- share in the buyer's purchases, the buyer's reluctance to seek alternative suppliers, willingness to invest in the development of relations</td>
<td>(Barry et al., 2008)</td>
</tr>
<tr>
<td>Relationship quality</td>
<td>- satisfaction, trust</td>
<td>(Crosby et al., 1990)</td>
</tr>
<tr>
<td></td>
<td>- commitment, trust, relative quality perception</td>
<td>(Hennig-Thurau and Klee, 1997)</td>
</tr>
<tr>
<td></td>
<td>- trust (in suppliers and employees), calculative commitment (to suppliers and employees), affective commitment (to suppliers and employees), overall satisfaction, service quality</td>
<td>(Rauyruen et al., 2007)</td>
</tr>
<tr>
<td></td>
<td>- satisfaction, trust, affective commitment</td>
<td>(Barry et al., 2008)</td>
</tr>
<tr>
<td></td>
<td>- trust, commitment, relationship satisfaction</td>
<td>(Ahmed Doma, 2013)</td>
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<tr>
<td>Relationship closeness</td>
<td>- scope of friendly behaviour such as the disclosure of confidential information, chatting, willingness to assist</td>
<td>(Goodwin and Gremler, 1996)</td>
</tr>
<tr>
<td></td>
<td>- evaluation of closeness of relationships on the basis of the declaration of the respondents</td>
<td>(Barnes, 1997)</td>
</tr>
</tbody>
</table>

The literature (e.g. Morgan and Hunt 1994, p. 22; Hausman 2001, p. 603) also indicate the existence of determinants and consequences of quality relationships (see Figure 1). Determinants regulate the presence or absence of particular components, while the components directly affect the occurrence (or not) of the consequences. It should be emphasized that among the researchers, there is also a lack of universal agreement as to which of the factors should be considered as determinants, and which as components. This is due to the fact that the occurrence of the distinguished components is affected not only by determinants, but also by other components (e.g. the existence of trust increases affective commitment). Based on the literature analysis, it can be assumed, however, that the presence of a component always has a positive impact on the relationship quality and thus on consequences. The determinants, on the other hand, may have a positive (e.g. intensive communication increases the level of trust in business relationships) or a negative (e.g. frequency of conflicts may reduce the openness in business relationships) impact on components.

![Diagram of Determinants and Consequences](https://example.com/diagram.png)

*Fig. 1. Determinants and effects of strong business relationships. Source: Matys 2013, p. 105.*

It seems that the selection of certain components is strongly determined by the specificity of the analysed industry and business area (e.g. manufacturing, sales). For that reason, the selection of particular components in the sales channel of the automotive industry was determined in empirical research.

### 3. Automotive Sales Channel Characteristics

The automotive sales channel can be, in general, described through the following steps (see Figure 2): manufacturer level with its corresponding headquarters functions (in some cases – for example Porsche – followed by a regional office), importer/wholesaler, dealer level.
The importer (called wholesaler below) is normally nominated within an internationally operating company selling its products and services outside the borders of its home country. This is the case especially if companies with highly complex products (such as in the automotive industry) decide to go abroad/overseas. However, also within economically and geographically tied countries such as the European Union, every state/country has a nominated wholesaler (exceptions are e.g. Andorra, Monaco, where the size and the ethnic closeness to other bigger countries do not justify a separate wholesale level). Independent of the ownership or the country of operation, a wholesaler always has the following functions and responsibilities: to build up the retailer/dealer network (1), to implement the manufacturer’s price, product, marketing and service strategy (2), to take care of customer and dealer satisfaction (3), to keep contact with the local government and authorities and to represent the manufacturer/headquarter in the country (4), to ensure that local laws and regulations (e.g. legal tax and homologation requirements) are observed (5), to manage the wholesale company in line with the headquarters’ “philosophy” (6), to ensure target achievement (such as sales volume, market share, profitability and customer/dealer/employee satisfaction) as agreed with the headquarters (7), to develop local management and talents (8), to inform the headquarters about the local market, product, customer and legal requirements (9), to ensure logistics of products and spare parts deliveries in time, required quantity and quality (10).

Dealers play the most important role within the sales and distribution channel, which in the automobile industry is often described as “Check-
point 8 (CP 8) to Customer” – the moment when the car officially leaves production and is handed over to the sales and marketing division of the manufacturer. Dealers are normally responsible for nearly 100% of the sales volume in a given country, with the exception of strategic (fleet) key accounts – but even within this process, dealers still have the logistic and after-sales responsibilities. Some of the dealer’s responsibilities include: building the dealership and fulfilling the standards set by the wholesaler (e.g. corporate identity and design standards (CI/CD), sales and after-sales processes and training) (1), generating traffic in the showroom (2), selling cars, parts and accessories to the final customer and taking care of the after-sales process (warranty, repair and service during the ownership period) (3), creating unique customer experience (4), ensuring customer satisfaction in sales as well as after sales (5), keeping customers loyal to both the brand and dealership (6), representing the brand before the final customer (7), providing feedback to the wholesaler about (local/regional) market developments and competitors’ activities (8).

The dealer is legally tied to the wholesaler (or, in the case of smaller niche brands, to the headquarters, as described above) through a contract, and represents the important “threshold” to the final customer, thus working in two areas: B2B on one hand and B2C on the other. To fulfil the above-mentioned responsibilities, the dealer is embedded in a complex local and regional network of business and customer relationships.

Both automotive wholesaler and car dealers have also interactions with other entities, which were not a subject of detailed investigation in the presented research. However, the obtained data allow presenting an automotive wholesaler’s business network picture (see Figure 3).

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**Fig. 3. The business network of automotive wholesalers (sales perspective). Source: own work.**
In this study, the empirical analysis was aimed at verification of the hypothesis which says: The higher the level of the components of the relationship quality in the business relationship between car dealers and automotive wholesalers, the better the performance of companies.

4. Research Methods

4.1. Data Collection and Sample

Within a framework of empirical analysis, there were two types of research conducted. The first type was qualitative and took the form of two focus group discussions aimed at determination of (1) the components of relationship quality which may be of crucial importance for cooperation between the wholesaler and car dealers, and (2) performance measurement in the automotive industry. The results of the qualitative study were the basis for building a questionnaire used in the quantitative research. The panellists of the first focus group study were six owners of dealerships selling Volkswagen Group brands, members of the Dealer Council of Volkswagen Group Poland. It took place in Wrocław on 29 May 2013 in one of the Volkswagen dealerships. The second focus group study included participation of Directors of Volkswagen passenger cars brand as well as Škoda Brand and Group Dealer Network Development of Volkswagen Group Polska, and was conducted on 15 October 2013. The respondents of the second focus group were selected purposefully, as the managers responsible for maintenance of relationships with car dealers on the wholesaler side.

Though the qualitative research was conducted only in Poland, the panellists had international experience acquired in various European and South American countries. According to them, the automotive industry in Poland has a typical and representative structure compared to other countries.

The quantitative study was conducted in two geographical markets – Poland and Brazil – and took the form of a survey research among dealers of Volkswagen brand. The research in Poland was conducted between May and June 2014. Until the end of June 2014, there were answers from 46 dealers of Volkswagen, which represents 71.9% of all dealers of this brand in the Polish market. Similar research in Brazil was conducted between June and July 2014. Until the end of July 2014, there were answers from 646 dealers of Volkswagen, which represents 82% of all dealers of this brand in the Brazilian market.

4.2. Measures Development

4.2.1. Relationship Quality in the Sales Channel of the Automotive Industry

In the conducted focus group studies, it was agreed that in the sales channel of the automotive industry, the most important components of relationship quality (from the perspective of companies’ performance) include:
1) Trust of dealers towards the wholesaler – a belief about high skills of the wholesaler, regarding management of commercial conditions and introduction of a well-thought strategy of network development (e.g. a belief about providing all with equal commercial conditions, true information, about compliance and stability of cooperation terms, positive attitude of the importer’s employees in contacts with the dealer).

2) Respect in relationships – striving to maintain a friendly atmosphere of cooperation; displaying courteous behaviours (e.g. meetings of representatives of a higher level).

3) Openness in communication – sharing information significant from the cooperation point of view and its future with the dealer, as well as maintenance of permanent contact.

4) Commitment – understood as the dealer’s readiness to continuously invest in the brand, development of business, operating in accordance with the philosophy of the brand, readiness to implement new solutions and systems, etc.

The selected characteristics (trust, respect, openness and commitment) were the result of focus group discussions and were labelled jointly as T.R.O.C. They determine the quality of relationships between an automotive wholesaler and car dealers.

In the following qualitative research, the questionnaires were used to evaluate the T.R.O.C. level in the wholesaler-car dealers relationships. The questionnaires applied a five-point Likert scale. The respondents were asked to express their opinions on the degree to which they agreed with the statements included in the questionnaire describing the quality (components) of relationships connecting the wholesaler and car dealers. Each of the components (trust, respect, openness and commitment) was described with three statements comprised in the questionnaire, which complied with the specificity of the industry.

4.2.2. Performance Measurement in the Automotive Industry

Measurement of results of automotive companies is traditionally based on the goal approach. The aims are agreed at numerous levels of the enterprise – starting with the corporate level in a global scale, and ending at aims of separate positions in enterprises. A car wholesaler in a local market determines aims for chosen business partners as well (e.g. sales targets, the share of the wholesaler’s brands to be achieved by dealers in the local market).

Regarding the organizational level, goals are set for various time intervals. Generally, goals for operational units are determined for the period of one year. This also refers to business partners, e.g. car dealers. At the level of corporation or separate local subsidiaries, apart from annual targets, there are also medium- and long-term strategic goals established.

In the enterprises of the automotive industry (similarly to numerous enterprises of different industries), the goals are called Key Performance
Indicators (KPIs). It unambiguously suggests, through the name itself, the application of the goal approach as the main manner of measuring the results of the enterprise. An example of KPI may be a determined market share that a company should reach in a given calendar year. After the end of the period, the KPI achievement is compared with previous assumptions and plans, and this constitutes a basis for evaluating the results of the company in a given year.

Both groups of focus group panellists agreed that the most important KPIs applied in the automotive industry included sales volume, customer satisfaction in sales, customer satisfaction in services (after sales), market share and profit (usually measured with ROS). Accordingly, the findings and conclusions are valid also in other markets.

5. Research Results

The primary research was directed at evaluation of the components of the relationship quality (T.R.O.C.) between the automotive wholesaler and car dealers. For that purpose, survey research was conducted among dealers of Volkswagen brand in Poland and Brazil. Each dealer was asked to evaluate his relationships with the wholesaler. The scope of the possible values ascribed to separate components of T.R.O.C. ranged from 3 to 15. At the same time, exceeding the level of 9 for each component meant that it was present in the researched relationship with great intensity. Table 2 presents average values ascribed to T.R.O.C. and to separate components of T.R.O.C. by respondents (dealers) in Poland and Brazil. It needs to be

<table>
<thead>
<tr>
<th>Relationship variable</th>
<th>Average evaluation of Volkswagen dealers in Poland</th>
<th>Average evaluation of Volkswagen dealers in Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust*</td>
<td>13.39</td>
<td>7.74</td>
</tr>
<tr>
<td>Respect*</td>
<td>13.43</td>
<td>10.14</td>
</tr>
<tr>
<td>Openness*</td>
<td>13.07</td>
<td>8.91</td>
</tr>
<tr>
<td>Commitment*</td>
<td>13.26</td>
<td>9.60</td>
</tr>
<tr>
<td>T.R.O.C.**</td>
<td>53.15</td>
<td>36.39</td>
</tr>
</tbody>
</table>

* Level of intensity of characteristics of business relationships verified on the basis of 3 statements evaluated in the scale of 1–5, where: 1 – I strongly disagree, 2 – I disagree, 3 – No opinion, 4 – I agree, 5 – I strongly agree; the value presented in the table is the sum of evaluations ascribed to each of the three statements; exceeding the level of 9 in the table for each characteristic meant that it was present in the researched relationship with great intensity.

** Level of intensity of T.R.O.C. is a sum of values ascribed to separate components; exceeding the level of 36 means that we can speak about a high level of T.R.O.C.

Tab. 2. Average evaluation of the quality of business relationships with the wholesaler, performed by car dealers
emphasized that business relationships are definitely evaluated better by car dealers in Poland (average evaluations of T.R.O.C are above 53) than by representatives of car dealers in Brazil (average evaluations of T.R.O.C incorporate values below 37).

In the automotive industry, the measurement of results achieved by car dealers is referred to the assumed annual targets. This is especially justified regarding the bonus system applied within the industry – in the case of realization of the annual plan referring to separate KPIs, the dealer is entitled to a bonus for achieving the target. It was also assumed that results of the wholesaler are composed of results of separate car dealers and the sum of results of separate dealers is somehow reflected in the wholesaler’s result. Table 3 presents the achievement of assumed annual targets with respect to the identified KPIs by Volkswagen wholesalers in Poland and Brazil. Regarding the history of Volkswagen Poland and Volkswagen do Brasil operation, a comparison of absolute values of the discussed indicators is not justified. The data were obtained in April 2015 from Volkswagen Group Polska (VW wholesaler in Poland) and Volkswagen do Brasil (VW wholesaler in Brazil).

<table>
<thead>
<tr>
<th>KPI</th>
<th>Realisation compared to annual targets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Poland</td>
</tr>
<tr>
<td>Sales Volume</td>
<td>125.60%</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td></td>
</tr>
<tr>
<td>In Sales</td>
<td>100.00%</td>
</tr>
<tr>
<td>In After-Sales</td>
<td>102.62%</td>
</tr>
<tr>
<td>Market Share</td>
<td>111.62%</td>
</tr>
<tr>
<td>ROS</td>
<td>60.00%</td>
</tr>
</tbody>
</table>

Tab. 3. The realization of the Key Performance Indicators (KPIs) of Volkswagen wholesalers in Poland and Brazil in 2014. Source: Volkswagen Group Polska and Volkswagen do Brasil.

6. Conclusions and Limitations

The conducted empirical analysis demonstrated that growth in the aggregated T.R.O.C. indicator and in all of its components in relationships that connect automotive wholesalers and car dealers supports the improvement of company performance. There was a difference observed between T.R.O.C. evaluation and the achieved performance – usually, the higher the T.R.O.C., the better the performance of dealers that operate within it. The results are in line with the hypothesis put forward in the paper. These results are consistent with prior research. The quality of business relationships may exert important influence on the enterprise’s performance. The empirical
analysis was based on the research performed among companies from the automotive industry in Poland and Brazil. However, it can be assumed that these results may be generalized in relation to other markets and companies that operate in other countries as well. This is because the structures of the sales channel in the automotive industry, its characteristics and management are, to a large extent, standardized globally. These results also show that even in a country with a low level of social capital and trust, the quality of relationships impacts company performance.

However, the average evaluation of T.R.O.C and all of its components (trust, respect, openness and commitment) in the Brazilian market is much lower than in the case of the Polish market. At the same time, the analysed Brazilian wholesaler and car dealers record drops in all indicators of company performance. In turn, those indicators have improved within the Polish market in recent years. The reason for these results should be further analysed.

The results of our study must, of course, be viewed in the light of its limitations. Caution is particularly needed in analysing data collected in different countries and national cultures. The social and cultural differences between Poland and Brazil should receive more attention. Besides, more sophisticated methods of analysis may be used in future studies.

Endnotes
1 The presented characteristics of the sales channel in the automotive industry were identified in a number of unstructured interviews with the representatives of companies operating in the industry as well as business consultants advising automotive companies. Some of the respondents included groups described in section “Data Collection and Sample”.

References


