

THE EFFECT OF TRUST, COMMUNICATION, SUPPLIER'S WILLINGNESS
TO CUSTOMIZE AND SWITCHING COSTS TOWARDS CUSTOMER
RETENTION IN SUPPLIER RELATIONSHIP

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ABSTRACT

Customer retention and its antecedents are significant concerns to managers and suppliers in electronic industries. A lot of research have been extensively conducted on this issue in numerous contexts but research in the Malaysian electrical and electronic (E&E) industry is still scarce. The purpose of this study was to identify the effects of trust, effective communication, supplier's willingness to customize and switching costs towards customer retention in supplier relationship. A total of 230 purchasing managers and supervisors of electronic manufacturing companies in the E&E industry in Malaysia participated in the study. Results of the partial least squares path analysis supported the hypotheses of this study regarding direct and indirect effects of supplier's willingness to customize, effective communication, trust and switching costs on customer retention. Trust was found to have the mediating effects for the relationship between supplier's willingness to customize, effective communication and customer retention. Switching cost has a moderating effect on the relationship between trust and customer retention. All dimensions of switching costs have different effects on retention, and financial switching costs has the highest moderating effect on the relationship between trust and customer retention. The findings of this research contribute to the empirical studies on the relationship marketing concept and social exchange theory in general and supplier's willingness to customize, effective communication, trust, switching costs and customer retention particularly in the E&E sector in Malaysia. This study suggests the importance of knowledge of customer retention to assist managers of supplier companies to manage their customers effectively. Theoretical and managerial implications are discussed and a conclusion is drawn.

ABSTRAK

Pengekalan pelanggan dan antisedennya merupakan kebimbangan utama para pengurus dan pembekal di dalam industri elektronik. Banyak penyelidikan telah dijalankan secara meluas ke atas isu tersebut dalam pelbagai konteks, namun penyelidikan di dalam industri eletrikal dan elektronik (E&E) di Malaysia adalah terhad. Tujuan kajian ini adalah untuk mengenal pasti kesan-kesan kepercayaan, keberkesanan komunikasi, kesediaan pembekal untuk penyesuaian, serta kos pertukaran bagi pengekalan pelanggan di dalam hubungan pembekal. Sejumlah 230 orang pengurus pembelian dan penyelia dari syarikat pembuatan elektronik dalam industri E&E di Malaysia telah mengambil bahagian dalam kajian ini. Keputusan analisis lintasan kuasa dua terkecil separa menyokong hipotesis kajian ini mengenai kesan langsung dan tidak langsung kesediaan pembekal untuk membuat penyesuaian, keberkesanan komunikasi, kepercayaan dan kos pertukaran ke atas pengekalan pelanggan. Kepercayaan didapati mempunyai kesan pengantara untuk hubungan di antara kesediaan pembekal untuk penyesuaian, komunikasi berkesan dan pengekalan pelanggan. Kos pertukaran mempunyai kesan penyederhanaan di dalam hubungan di antara kepercayaan dan pengekalan pelanggan. Semua dimensi kos pertukaran mempunyai kesan berbeza ke atas pengekalan, dan kos pertukaran kewangan mempunyai kos penyederhanaan yang paling tinggi pada hubungan di antara kepercayaan dan pengekalan pelanggan. Dapatan kajian ini menyumbang kepada kajian-kajian empirikal terhadap konsep hubungan pemasaran dan teori pertukaran sosial secara umumnya dan kesanggupan pembekal untuk penyesuaian, keberkesanan komunikasi, kepercayaan, kos pertukaran dan pengekalan pelanggan, terutamanya di dalam sektor E&E di Malaysia. Kajian ini mencadangkan kepentingan ilmu pengekalan pelanggan untuk membantu pengurus syarikat pembekal untuk mengurus pelanggan mereka secara berkesan. Implikasi teori dan pengurusan dibincangkan dan kesimpulan kajian turut disimpulkan.

TABLE OF CONTENTS

CHAPTER	TITLE	PAGE
	DECLARATION	ii
	ACKNOWLEDGEMENT	iii
	ABSTRACT	iv
	ABSTRAK	v
	TABLE OF CONTENTS	vi
	LIST OF TABLES	xi
	LIST OF FIGURES	xiii
	LIST OF ABBREVIATIONS	xv
	LIST OF APPENDICES	xvii
1	INTRODUCTION	1
	1.1 Introduction	1
	1.2 Background of Study	2
	1.2.1 E&E Industry in Malaysia	4
	1.3 Problem Statement	7
	1.4 Research Objectives	13
	1.5 Research Questions	14
	1.6 Scope of Study	14
	1.7 Significant of Study	15
	1.8 Operational Definition	16
	1.8.1 Customer Retention	16
	1.8.2 Switching Costs	16
	1.8.3 Supplier's Willingness to Customize	17
	1.8.4 Effective Communication	17
	1.8.5 Trust	18
	1.8.6 The Electrical and Electronic (E&E) Industry	18
	1.9 Summary	18

2	LITERATURE REVIEW	20
2.1	Introduction	20
2.2	Theoretical Background	21
2.2.1	Social Exchange Theory	21
2.2.2	Factors in the Relationship Commitment Model	23
2.2.3	A Holistic Approach to Satisfaction, Trust and Switching Barriers	24
2.3	The Importance of Manufacturing Sector in Malaysia	24
2.3.1	Problems Faced by Manufacturing Sector	25
2.4	Customer Retention	26
2.4.1	The Significant of Customer Retention to Firms	28
2.4.2	Customer Retention and the Firm Performance	29
2.5	Supplier's Willingness of Customization	35
2.5.1	Supplier's Willingness to Customization Influence Customer Retention and Trust	38
2.6	Effective Communication	40
2.6.1	Effective Communication Influence Customer Retention and Trust	46
2.7	Trust	48
2.7.1	The Concept of Trust	49
2.7.2	Trust Influence Customer Retention and Mediate Relationship among Supplier's Willingness to Customize and Effective Communication and Retention	54
2.8	Switching Costs	56
2.8.1	Multidimensional Switching Costs Influence Customer Retention	62
2.9	Development Theoretical Models of Customer Retention	66
2.9.1	Customer Retention: Case Studies of Agencies in the Professional Service Sector	68
2.9.2	Relationship Marketing and Customer Retention Lessons	70

2.9.3 Examination of Factors Affecting Relationship Continuity Intention of Buyers in Business to Business Relationships	72
2.9.4 Supplier's Willingness to Customize, Effective Communication and Trust	74
2.10 The Hypothetical Model	75
2.11 Summary	78
3 RESEARCH METHODOLOGY	79
3.1 Introduction	79
3.2 Research Method and Design Appropriateness	79
3.2.1 Descriptive Study	82
3.2.2 Hypotheses Testing	83
3.3 Population of This Study	84
3.4 Sampling Process of The study	86
3.4.1 Minimum Sample Size of The Study	86
3.4.2 Power of Analysis	87
3.5 Reliability and Validity of Instrument	89
3.5.1 Pre-Test	89
3.5.2 Pilot Test and Questionnaire's Finalization	91
3.6 Data Collection	93
3.7 Data Analysis Procedure	94
3.7.1 Measurement Model	95
3.7.2 Structural Model	96
3.7.2.1 Test of Mediation	96
3.8 Summary	98
4 RESULTS AND ANALYSIS	99
4.1 Introduction	99
4.2 Demographic Characteristics of The Respondents	100
4.3 Descriptive Results	101
4.3.1 Supplier's Willingness of Customization	101
4.3.2 Effective Communication	102
4.3.3 Trust	103

4.3.4	Switching Costs	104
4.3.4.1	Procedural switching costs	104
4.3.4.2	Financial Switching costs	107
4.3.4.3	Relational switching costs	108
4.3.5	Customer Retention	109
4.4	Structural Equation Modeling	110
4.4.1	Measurement Model	110
4.4.2	Internal Consistency Reliability	111
4.4.3	Convergent Validity	112
4.4.4	Discriminant Validity	115
4.5	Common-Method Variance	118
4.6	Collinearity Test for Indicators	118
4.7	Path Analysis	121
4.7.1	Collinearity Assessment	122
4.7.2	Structural Model Path Coefficients	122
4.8	Mediator Effect of Trust	126
4.9	Moderating Effect of Switching Costs	129
4.10	Coefficient of Determination (R^2 Value)	133
4.11	Effect Size f^2	133
4.12	Blindfolding and Predictive Relevance Q^2	134
4.13	The Importance-Performance Matrix Analysis	135
4.14	Hypothesis Testing	137
4.15	Summary	140
5	DISCUSSION AND CONCLUSIONS	141
5.1	Introduction	141
5.2	Summary of the Thesis	141
5.3	Discussion of Key Findings	144
5.3.1	Objective 1: The Effect of Supplier's Willingness to Customize, Effective Communication, Trust and Multidimensional Switching Costs on Customer Retention	144
5.3.1.1	Relationship among Supplier's Willingness to Customize and Customer Retention	144

5.3.1.2 The Relationship between Effective Communication and Customer Retention	147
5.3.1.3 The Relationship between Trust and Customer Retention	149
5.3.1.4 The Relationship between Switching Costs and Customer Retention	152
5.3.2 Objective 2: The Mediating Role of Trust between Supplier's Willingness, Effective Communication and Customer Retention	156
5.3.2.1 The Relationship among Supplier's Willingness to Customize and Trust	156
5.3.2.2 The Relationship among Effective Communication and Trust	158
5.3.3 Objective 3: The Moderating Role of Multidimensional Switching Costs between Trust and Customer Retention	160
5.3.3.1 The Moderating Effect of Switching Costs on The Relation between Trust and Customer Retention	160
5.4 Implications for Research and Practice	163
5.4.1 Theoretical Implication	163
5.4.2 Managerial Implication	167
5.5 Research Limitations and Suggestions	170
5.6 Conclusion	171
REFERENCES	173
Appendices A - N	196 - 215

LIST OF TABLES

TABLE NO.	TITLE	PAGE
1.1	Supplier's selection criterias	3
1.2	Supplier's selection criterias	4
2.1	Theories and Key Factors Affecting Customer Retention	33
2.2	Representative Empirical Switching Costs Research	58
3.1	Summary of Objective and Method Used	80
3.2	Research Design	82
3.3	Research Approach	88
3.4	Summary of Constructs	90
3.5	Contents of the Final Questionnaire	92
3.6	Cronbach's Alpha Value of the Instruments	92
4.1	Frequency distribution for organizational characteristics	100
4.2	Descriptive statistic for related items to Supplier's willingness to customize for buyer (%) (n=230)	102
4.3	Descriptive statistic for related items to Effective communication (%) (n=230)	103
4.4	Descriptive statistic for related items to Trust (%) (n=230)	104
4.5	Descriptive statistic for related items to Procedural Switching costs (%) (n=230)	105
4.6	Descriptive statistic for related items to Financial Switching costs (%) (n=230)	107
4.7	Descriptive statistic for related items to Relational switching costs (%) (n=230)	108
4.8	Descriptive statistic for related items to Customer retention (%) (n=230)	109
4.9	Statistics of outer loadings based on boot strapping method	113
4.10	The result of convergent validity	115

4.11	Correlation of Latent Variables and Discriminant Validity	117
4.12	Common-Method Variance Result	118
4.13	Multicollinearity Test based on Correlation Coefficients	120
4.14	Collinearity Assessment	122
4.15	List of Hypotheses and Relative Paths	123
4.16	Test of The Total Effects using Bootstrapping (without Moderators and mediator)	125
4.17	The Criterion of Global Fitness	126
4.18	The Criterion of Global Fitness	127
4.19	Test of The Total Effects using Bootstrapping (with Mediators)	128
4.20	Test of The Mediation Effects using Bootstrapping	129
4.21	The Criterion of Global Fitness	131
4.22	Test of Moderating Effects using Bootstrapping	132
4.23	Results of R ² Values in the Model	133
4.24	Results of Effect Size f^2 for all Exogenous Variables	134
4.25	Results of Q ² Values in the Model	135
4.26	Index Values and Total Effects for the IPMA of Customer Retention	136
4.27	List of Hypotheses and Relative Paths	138

LIST OF FIGURES

FIGURE NO.	TITLE	PAGE
1.1	Increase in the investment in E&E sector in year 2013 compare to year 2012	6
2.1	Conceptual Framework based on Existing Literature	34
2.2	Switching Costs Classification Burnham et al., (2003) Source: Burnham et al. (2003a, P.54)	62
2.3	Conceptual Framework Source: customer retention, case studies of agencies in the professional service sector, Mascareigne (2009)	70
2.4	Conceptual Framework Source: relationship marketing and customer retention lessons, Rootman et al (2011)	72
2.5	Conceptual Framework Source: Examination of Factors Affecting Relationship Continuity Intention of Buyers in Business to Business Relationships: A Research Model, Jena et al. (2010)	73
2.6	Conceptual Framework Source: supplier's willingness to customize, effective communication and trust, Yu-Xiang et al. (2011)	75
2.7	The Proposed Model of The Effect of Trust, Communication, Supplier's Willingness to Customize and switching costs towards Customer Retention in Supplier Relationship Based on Research Hypotheses Source: Researcher's Own Construction	77
3.1	Structure of E&E Industry Source: MIDA's Malaysia Performance of the Manufacturing and Service Sector Report 2009	85
3.2	Power of Analysis	88

4.1	Structural model assessment procedure	121
4.2	Initial Path Model without Moderators and Mediators	125
4.3	Path Model Including Trust as a Mediator	127
4.4	Path Model Including Trust as a Mediator and Switching costs as moderator	130
4.5	IPMA Representation of Model	136

LIST OF ABBREVIATIONS

ASEAN	-	Association Of Southeast Asian Nations
AVE	-	Average Variance Extracted
B2B	-	Business to Business
B2C	-	Business to Customer
CFA	-	Confirmatory Factor Analysis
CMV	-	Common Method Variance
CR	-	Composite Reliability
E&E	-	Electrical and Electronics
FDI	-	Foreign Direct Investment
FMM	-	Federation of Malaysian Manufacturers
GDP	-	Gross Domestic Product
ICT	-	Information and Communication Technology
IMPA	-	Importance Performance Matrix Analysis
JIT	-	Just In Time
LED	-	Light Emitting Diode
MATRADE	-	Malaysia External Trade Development Corporation
MIDA	-	Malaysian Investment Development Authority
MNCS	-	Multi National Companies
Mp3	-	Audio Coding Format
MPC	-	Malaysia Productivity Center
ODM	-	Original Design Manufacturer
OEM	-	Original Equipment Manufacturer
OLS	-	Ordinary Least Squares
OYL	-	Name of company
PCBs	-	Polychlorinated Biphenyls
PLS	-	Partial Least Squares
R&D	-	Research and Development

RM	-	Malaysian Ringgit
SEM	-	Search Engine Marketing
SET	-	Social Exchange Theory
USA	-	United State America
USB	-	Name

LIST OF APPENDICES

APPENDIX	TITLE	PAGE
A	Questionnaire	196
B	BNormality Test	203
C	Benefit loss costs	204
D	Brand relationship	205
E	Economic risk costs	206
F	Evaluation costs	207
G	Financial costs	208
H	Learning costs	209
I	Monetary loss costs	210
J	Personal relationship costs	211
K	Procedural loss costs	212
L	Relational	213
M	Set-up costs	214
N	Retention	215

CHAPTER 1

INTRODUCTION

1.1 Introduction

Success in Business-to-Business markets depends on understanding relationship between buyers and suppliers. Understanding industrial buyer's behaviour is fundamental to an appreciation of the relationship. Purchasing decision is the critical element of buyer behaviour, which leads to buyer's retention, therefore understanding what affects buyer's purchasing behaviour and what cause buyers to maintain relationship with supplier is crucial for both parties. In the field of sales and marketing, the term, customer retention is considered as an issue of great importance (Morgan and Hunt, 1994b). The overall efficiencies of the selling firms can be increased up to a great extent by knowing more about customer retention and its antecedents (Reinartz and Kumar, 2003). As an example, a firm's profitability has been found to be positively related to the longevity of the customer relationships (Parasuraman *et al.*, 1994a). Moreover, the customer retention has been observed by many researchers as a booster of revenues by approximately 100% with only 5% of more retention of the customers (Reichheld, 1992).

Hence, the firm's revenue can be increased considerably by improving the factor of customer retention or decreasing the customer defection. The background of the customer retention needs to be understood in more detail, as it has been observed to play a vital role in the increase of firm's profits. Precisely, the issue of customer retention needs to be addressed in a Business-to-Business context. With increased competition and technology organizations are well realized the importance of retaining customers (Blattberg *et al.*, 2001). Therefore, to develop retention

strategies; organizations have to understand the antecedents of customer retention. However, competition in the electronics industry is fierce, organizations are under continuous pressure to adapt to the changing external circumstances in order to survive and thrive in a robust market. Thus, retention concept is critical factors for buyers and suppliers in such industry. The Electrical and Electronics industry (E&E) is a key driver of Malaysia's industrial development and contributes significantly to GDP growth (miti.gov.my 2012). According to (statistics.gov.my 2012) the sales value of the Manufacturing sector in January 2012 posted a year-on-year growth of 3.8% (RM1.8 billion) to record RM48.6 billion as compared to RM46.8 billion reported in January 2011. In 2014 manufacturing output rose by 3.1% following an increase of 9.2% in June 2014. Electrical and Electronics Products were among the subsectors, which contributed to this increase, recorded at 8.2% (statistics.gov.my 2014). As the electronic industry continues to grow in Malaysia, it is vital for suppliers to understand that satisfying buyers goes beyond evolving with the changing environment. Therefore, this research study will look into aspects of customer retention in the electrical and electronic industry in Malaysia.

1.2 Background of Study

The Electrical and Electronics (E&E) sector makes a significant contribution to the economy of Malaysia, accounting for 38% of exports and 9% of GDP (MIDA, 2013). Today's fast paced market lead to the rapid growth of the E&E industry, as well as the dependence of customers on electronic products. Fast technology and a competitive environment also brought complexities for Malaysian manufacturing companies in E&E industry. Rapid changes in customer's orders affects manufacturers' deliveries as well as inventories; manufacturers need to adjust their production rapidly to the immediate changes in market which is difficult for them due to the short-term contract with suppliers (A World Bank economic updates for the East Asia region, 2010; Complexity Analysis study of Malaysia's manufacturing industries, 2013; Che Amad et al., 2009; Industry Week, 2012).

Due to the significant role of E&E sector as well as fast paced market, it is essential to understand; why most of manufacturers have short-term contracts with suppliers? And what affects manufacturers to stay in relationship with suppliers for longer periods? Traditionally manufacturers select suppliers solely based on economic aspects. These days due to the globalization, competitive market and changing customer's demands; manufacturer will additionally choose suppliers based on environmental/ecological and social aspects. Following table summarize the important elements in choosing suppliers,

Table 1.1 : Supplier's selection criterias

Researchers	Evaluation factors	Industry
Kuo et al., 2010	Quality, cost, responsiveness, willingness to customize, design capability, information discloser	Digital camera manufacturer
Tseng and Chiu, 2010	Flexibility, reliability, satisfy customer needs, communication, environmental management	Printed circuit board manufacturer
Yeh and Chuang, 2010	Transportation cost, transportation time, communication, supplier's willingness to customize	Electronic industry

According to above table, this study selected supplier's willingness to customize, effective communication, trust as the main factors for manufacturers in order to stay and retain in the relationship with suppliers. The concept of customer retention (buyer retention) has been well documented and theoretized in different models such as Sharma and Patterson's (2000) relationship model, and Ranaweera and Neely's (2003) holistic approach. These models have been applied in various studies both B2C and B2B. In business concepts, retention has been perceived as loyalty and commitment (Parasuraman *et al.*, 1994b). Customer retention involves a long-term commitment on the part of customer and the organization to keep the relationship. The long-term relationship helps suppliers to understand their customers' business better. To shed more light on the above concept, this study examines the concept of customer retention in E&E industry in Malaysia.

1.2.1 E&E Industry in Malaysia

The strong E&E industry in Malaysia is a result of the government's initiatives to promote labor intensive and export-oriented industries. Since 1972, Malaysia has become a major global manufacturing hub for the electrical and electronic industry. The E&E sector has grown into Malaysia's largest contributor to output, employment, investments and exports, 35% of total export, (MIDA, 2012). The major sub-sector of the E&E industry includes:

Table 1.2 : Electrical and Electronic industry

Sector	Sub-sector	Products
Electronics	Components	Semiconductors, passive components, printed circuit boards, metal stamped parts and precision plastic parts
	Consumer	Audio visual products such as television receivers, portable multimedia players, speakers, camera and electronic games
	Industrial	Multimedia and information technology products such as computers and computer peripherals, telecommunications equipment and office equipment
Electrical	Electrical	Boards, panels and consoles, switching apparatus, lamps, air conditioners, vacuum cleaners, ovens, transformers, cables and wires, primary cells and batteries, sola cell and modules

Electronic components: The electronic components are the most important sub-sector and accounted for 44.6 % of the total investment approved. Within the electronics components subsector, semiconductor devices are the largest contributor, comprising more than 30% share of the E&E exports. Malaysia is currently the world's leading location for semiconductor assembly and test operations, with more than 70 mostly multinational companies specializing in these devices.

Industrial electronics: This sub-sector consists of multimedia and information technology products such as computers, computer peripherals, telecommunication

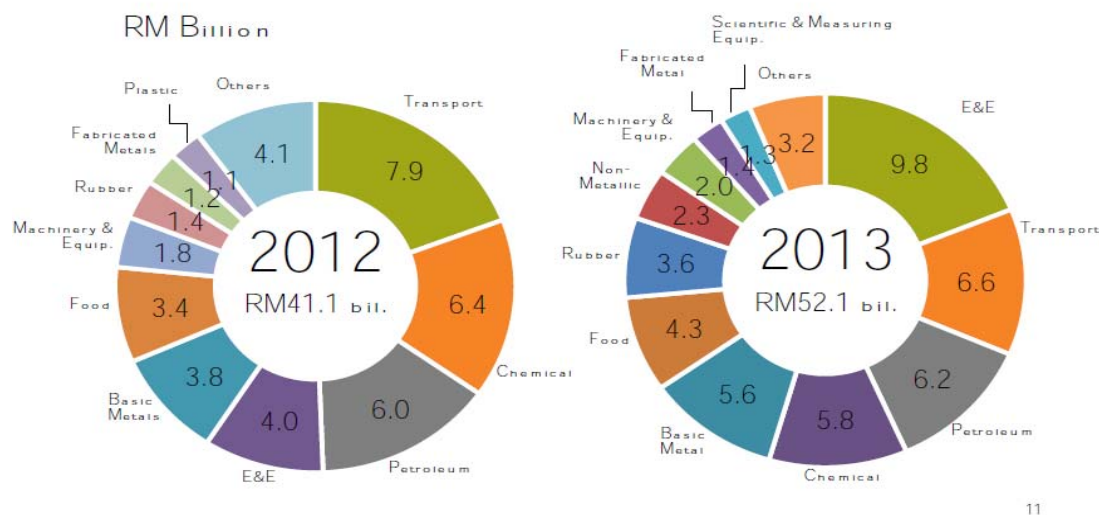
products and office equipment. The Industrial electronics sub-sector accounted for 24% of the total investment approved in the electronics sector (MIDA, 2012).

Consumer Electronics: Malaysia's consumer electronics devices market, defined as the addressable market for computing devices, mobile handsets and AV devices, was projected at about US\$10.7mln in 2011. This is expected to increase to US\$13.5bn 2015, driven by rising incomes and growing affordability of key products.

Electrical Sector: Dominated by domestic companies, the electrical sector began in the 1960s as a solution to reduce the imports of household appliances, electrical fittings, wires and cables and automotive batteries. Broadly speaking, the electrical sector can be classified into three main subsectors: electrical industrial equipment, electrical components and electrical consumer. Increased investment in R&D centers has paid off handsomely: Malaysia is now one of the world's largest exporters of home air-conditioners. Malaysian brands such as Pensonic, Khind, and i-Berhard have become household names not only locally, but also in the ASEAN region and the Middle East. Local company such as OYL also is a major exporter of air-conditioners, exports over 50% of its production to Europe, USA, Australia, the Middle East and Africa (MIDA, 2012).

The major electrical products produced are household appliances such as air-conditioners, refrigerators, washing machines, vacuum cleaners and other electrical appliances. There are presently more than 400 companies producing a wide range of products such as household electrical appliances, wire and cables and electrical industrial equipment. These are mainly local companies such as Pensonic, Leader Cable and Tenaga Switchgear. Since 2010, the E&E industry is the leading sector in Malaysia's manufacturing sector, contributing significantly to the country's manufacturing output (31%), exports (48%) and employment (33.7%) (MIDA, 2012). The industry has moved up the value chain into the manufacture of high-end products. Over the years, Malaysia's electronics industry has developed significant capabilities and skills for the manufacture of a wide range of semiconductor devices, high-end consumer electronic and information and communication technology (ICT)

products. Figure 1.1 shows the increase in the investment in E&E sector in year 2013 compare to 2012.



11

Figure 1.1 Increase in the investment in E&E sector in year 2013 compare to year 2012

With a record of four decades, the E&E industry in Malaysia looks bright. Based on the growing needs of the enterprise of the solid-state drive industry, the overall demand is promising. The drivers of the industry's growth are secure digital cards, USB flash drives and MP3 players, computer hard disks, audio and video products, lightings, solar related products and household appliances such as air-conditioners, refrigerators, washing machines and vacuum cleaners (MIDA, 2012).

However, the electric and electronic industry is very important to the country as it will influence the country economy. This is mainly because every household depends on the electrical gadgets to complete their task such as light component to have a brighter room, computers and laptops to do their job and etc. where the electric and electronic industry have included the consumer electric, electrics component and electrical. All these are vital to the whole nation as factories, offices, everyone needed them. Therefore, Malaysian manufacturers have long realized that they need to produce quality goods and services (Agus and Abdullah, 2000; Edgington and Hayter, 2013).

The purchasing process is the main consideration in supplier selection. Therefore, with the importance of the E&E sector in Malaysia's GDP, the study in this field is necessary for the improvement of the sector. The thorough study in what affects manufacturers to retain their relationship with suppliers in the electronic industry can shed more lights on the strategies that suppliers should adopt in maintaining buyer in relationship.

1.3 Problem Statement

The primary objective of this study is to fully comprehend the factors that influence or lead to manufacturer retention in E&E sector in Malaysia. The buyer-supplier relationship has generated lot of interest and has been the central focus in relationship marketing research. There are a few empirical research of note, which has investigated the antecedent factors affecting the buyer's retention in E&E industry (Jena et al., 2010; Xiang et al., 2011). Available literature illustrates the direct impact of various elements as affecting factors; this study selected the most important and lesser studied factors (supplier's willingness to customize, effective communication, trust and switching costs) as the antecedents of retention in E&E industry in Malaysia (Kuo et al., 2010, Tseng and Chiu, 2010, Yeh and Chuang, 2010). Due to the importance of manufacturing companies being the second most important sector in the Malaysia economy, along with the importance of E&E industry as the main contributor in Malaysia's GDP (MIDA, 2014); this study evaluates the antecedent of manufacturers' retention in E&E industry in Malaysia.

So far, many of the major studies reviewed in the area of buyer-supplier relationships has been conducted in the Business-to-Consumer (B2C) context. There is relatively less research in the Business-to-Business (B2B) environment, which is our context for research. Moreover, most of the research has been in the US markets, and some extent in European markets. In this study, we will evaluate the factors affecting buyers' retention in a developing country (Malaysia). The significance of suppliers' role in contributing to the performance of manufacturers has been widely documented in E&E industry especially in Malaysia (Hartley 2008; Wagner, 2006;

Boer, 2005; Che Ahmad et al., 2010). This fact shows the reliance of manufacturers on supply base for product development, quality, productivity and technology. Due to factors such as global competition and order reduction in Malaysia, many manufacturing companies have moved to forge a stronger relationship with suppliers (Chong et al., 2011; Lee Abdullah, 2010). Acknowledging the importance of suppliers and understanding what makes manufacturing companies to stay in relationship with suppliers is vital for supplier firms. According to Kay (2005) when suppliers do not meet delivery schedules, it may result in the shutdown or rescheduling of production lines; which can cause huge losses to the manufacturing firms; Kay also states the fact that poor supplier performance can account for not only the loss of billions of USDs in product recalls, but even the loss of customers. Such problems, along with today's dynamic and global business environment, demand that manufacturers evaluate their relationship with suppliers and are cautious in selecting them (Chong et al., 2011; Lee Abdullah, 2010). Therefore, understanding what makes manufacturer to retain their relationship with suppliers is vital for both manufacturers and suppliers.

Nowadays, developing a beneficial relationship between manufacturers and suppliers is very important and necessary to maintain competitiveness within the marketplace. This situation highlights the importance of retention in all industries, specifically among buyer and supplier in the business to business market. As mentioned earlier, due to the competitive market and dependence of manufacturer to suppliers and short-term contract among manufacturer and suppliers in E&E industry, more research is require to understand the factors that persuade manufacturers to retain their relationship with suppliers in Malaysia E&E industry (Chong et al., 2011; Lee Abdullah, 2010). This study examined this condition and formulates better ways of retaining manufacturers

So far, customer retention has been well discussed by scholars due to its significance role in relationship marketing and various factors have been studied as the antecedents of customer retention. After evaluating social exchange theory, Sharma and Patterson's (2000) relationship model, and Ranaweera and Neely's (2003) holistic approach, this study choose trust, effective communication, supplier's

willingness to customize and switching costs as the antecedents of customer retention in buyer-supplier relationship (Danesh et al., 2012; Pooladireishahri et al., 2015; Ranaweera and Prabhu, 2003; Yu-Xiang et al., 2011). However, though it seems that customer retention has been covered together with its factors, very little has been studied to evaluate inter-relations between trust, customer retention and switching costs, effective communication and supplier's willingness to customize in B2B context (Danesh et al., 2012; Ranaweera and Prabhu, 2003; Yu-Xiang et al., 2011). Most of these factors have been covered as individual factors that affect customer retention but never all of them at once and the effect they have on one another as well.

Although, social exchange theory (SET), the commitment and trust theory as well as relationship commitment model and holistic approach are the most related theories and models to proposed model in this study, there is lack of study in applying such theories in the relationship between supplier's willingness to customize, effective communication, trust, customer retention with the moderating effect of switching costs (Jena et al., 2010; Che Ahmed, 2010, Yu-Xiang et al., 2011). Therefore, this study try to close this gap by evaluating the effect of trust, supplier's willingness to customize, effective communication and switching costs on customer retention by considering SET and trust-commitment theories. Based on SET and trust-commitment model, trust is an important factor in relationship which has enhancing effect on the buyer's confidence (Bove and Mitzifiris, 2007; Mukherjee and Nath, 2007; Parker et al., 2006; Ryals and Humphries, 2010). According to Mayer et al. (1996) trust is "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party". Researchers believe that organizations cannot retain customers without the presence of trust in the relationship (Bowen and Johnston, 1999). This argument is seconded by Morgan and Hunt (1994b) who state that the goal of organizations is to develop customer trust beyond customer satisfaction, in order to retain their customers for longer periods.

Unlike the consequences of trust in Business-to-Customer relationships which have already been established, consequences of trust in Business-to-Business relationships are not yet well known (Ranaweera and Prabhu, 2003; Yu-Xiang *et al.*, 2011). A limited number of studies are geared toward the influence of trust as a mediator of relationship between other variables and customer retention (Yu-Xiang *et al.*, 2011) but more is needed in order to well understand trust and customer retention therefore more research should be carried out in this area. Therefore, this study looked at the buyers' trust towards their supplier and consequently the effect trust has on customer retention.

With today's competition in the market ever growing, the demand for customized products is also increasing and providing a challenge for organizations which is trying to stay ahead of the competition (Jiao *et al.*, 2007; Yu-Xiang *et al.*, 2011); which in Malaysia, especially E&E industry, is not exception. According to the report which was issued by economic planning unit of the Prime Minister's department in 2014, fast technology and competitive environment brought challenges for manufacturers in E&E industry in Malaysia. Choon Heng *et al.*, (2011) also highlighted customization as one of important factors in E&E sector in Malaysia. Therefore, the concept of supplier's willingness to customize can help in boosting the relationship between buyer (manufacturer) and supplier.

Supplier's willingness to customize shows their readiness to invest in different area such as delivery, inventory, production etc. to retain their customers (manufacturing companies). For example, some suppliers are willing to tailor their products and services based on their customers' needs by investing in special tools which assist in customization or by adapting new procedures and techniques which support customization (Pooladireishahri *et al.*, 2015; Yu-Xiang *et al.*, 2011). This action has an effect on the overall willingness of manufacturer to stay in the relationship with particular supplier. Thus, a supplier's willingness to customize inspires manufacturer to choose their particular suppliers (Krishna, 2007). Scholars believe that supplier's willingness to customize perceive as they invested individually on each of their customers which define trust in relationship (Jonsson and Zineldin, 2003; Yu-Xiang *et al.*, 2011). Therefore, customers use supplier's

willingness to estimate how well a supplier can be trusted (Mukherjee and Nath, 2007). It is therefore evident that comprehending the effect of supplier's willingness to customize on buyers' retention is crucial to suppliers (Jen-Her *et al.*, 2006; Yu-Xiang *et al.*, 2011). Thus, this study evaluated the role of supplier's willingness of customization as the antecedent of buyer's retention in E&E sector in Malaysia.

According to Sharma and Patterson's model, effective communication has an effect on customer retention. The more frequent, intense and diverse communication between buyer-supplier, the more likely their relationship is to survive (Kenis and Knoke, 2002). The principal goal of communication is to extend a common understanding of the message between the sender and the receiver (Darling and Beebe, 2007). Since supplier's skills and buyer's needs can be known through communication, therefore it can enhance relationships and minimizing doubts among partners in relationship (Hausman, 2001; Ryals and Humphries, 2010).

Moreover, communication can be used to resolve disputes and clarify perceptions and expectations (Claycomb and Frankwick, 2004). While increasing the customer's trust, effective communication also minimizes the supplier's risk (Claycomb and Frankwick, 2004) therefore being a crucial tool for the supplier. Thus, communication needs to exist between the supplier-buyer relationships (Paju, 2007). Previous studies suggest that effective communication results in the supplier's continuing commitment and leads to better relationships between the supplier and the buyer (Terpend *et al.*, 2008). Effective communication also helps the supplier to get an in-depth understanding of their customer's business, which putting the supplier in a position to better supply and increase value for their customers.

A closer relationship between buyer and supplier is encouraged by an intense communication between the parties (Donaldson and O'Toole, 2007). A number of studies have stressed the importance of effective communication in business relations (Cheng *et al.*, 2008; Duncan and Moriarty, 1998; Dwyer *et al.*, 1987). Cremler and Gwinner (1998) suggest that a harmonious communication between a buyer and supplier leads to more loyal customers. Even though there are a number of studies on the importance of effective communication in relationships and its effects on trust

and customer retention in B2C context, there is still a lack of research on the effect of communication on customer retention in B2B context (Yu-Xiang *et al.*, 2011).

Switching costs is another factor and identified as the moderator in this study. Many studies have shown the direct effect of switching cost on customer retention and trust (Bansal *et al.*, 2005; Jones *et al.*, 2002; Ranaweera and Prabhu, 2003) but there is lack of research considering different dimensions of switching cost be either positive or negative or even as a moderator on trust and customer retention relationship (Jones *et al.*, 2007; Yu-Xiang *et al.*, 2011). According to some scholars the structure of switching cost disputed as uni-dimensional whereas others regard it as multidimensional (Allen, 2002; Bell *et al.*, 2005; Dabholkar *et al.*, 1994; Dwyer *et al.*, 1987; Gultinan, 1989; Kim *et al.*, 2003; Sengupta *et al.*, 1997).

For instance, Morgan and Hunt (1994a) defined switching cost as economic in nature while Dick and Basu (1994) suggest that switching cost comprise of both monetary and non-monetary elements. Jones *et al.* (2007) went on to support the theory if switching as a multidimensional construct by suggesting that time, money, effort and risk perception are part of switching costs. Furthermore, Burnham *et al.* (2003) identified other dimensions namely evaluation, learning and setup costs as procedural switching costs whereas other scholars were of the view that each every one of these dimensions are elements on their own but not dimensions of switching cost. Even though some scholars are now well versed on the field of switching costs in business to customer context, very little is known about business to business relationships (Burnham *et al.*, 2003; Jones *et al.*, 2007; White and Yanamandram, 2007; Yu-Xiang *et al.*, 2011).

With such a variety types of switching costs, any research based on any one of them is bound to produce assessment that is inaccurate for both its antecedents and consequences of the switching cost as a whole. This therefore limits the certainty firms can have in understanding how switching costs may be used as a customer retention tool. On the contrary, a research based on global switching cost construct limited to testing global relationships, which provide little insight into how different types of switching costs might affect consequences differently or how different

switching costs might be managed in order to modify their effects. As such the current study, evaluated the effect of switching costs as one the antecedents of retention as well as moderator for trust-retention relationship.

As mentioned earlier in problem statement, so far previous studies have illustrated the effect of communication; supplier's willingness to customize, trust and switching cost on customer retention individually and with the presence of salesperson but none has examined the effect of communication and supplier's willingness to customize, trust with the mediating effect of trust on customer retention in buyer-supplier relationship without the presence of salesperson. The relationship between the buyer and supplier seems more to be hindered or affected by salesperson in most cases. However, breaking this chain would lead to a more steady relationship between buyer and supplier. Buyers want to have more direct dealings with the supplier, as it reduces the cost involved with the third party element, in this case the salesperson.

1.4 **Research Objectives**

Considering the importance of the customer retention in electronic industry in Malaysia, and the importance of customer retention in buyer-supplier relationship as well as importance of determinants of customer retention in Business-to-Business (B2B) context this study attempts to achieve the following objectives based on the problem statement:

To study the effect of supplier's willingness to customize, effective communication, trust and switching costs on customer retention

To investigate the mediating role of trust between supplier's willingness, effective communication and customer retention

To investigate the moderating role of switching costs between trust and customer retention

1.5 Research Questions

These gaps led to the development of six research questions. This study then seeks to address the following research issues:

Does Supplier's willingness to customize have effect on customer retention?

Does effective communication have effect on customer retention?

Does trust have effect on customer retention?

Does Trust have mediating effect for effective communication, supplier's willingness to customize and customer retention?

Do switching costs have effect on customer retention in buyer-supplier relationship?

Do switching costs have moderating effect on trust and retention relationship?

1.6 Scope of Study

The objective of this paper is to share the insights obtained from the data collection process in conducting empirical research in the E & E manufacturing industry to assess what cause manufacturers to retain their relationship with suppliers in such a competitive market. According to Malaysia Investment Development Authority (MIDA) and Malaysia External Trade Development Corporation (MATRADE) there are 2,578 E&E companies in Malaysia. However, this study only focus on manufacturing companies in E&E industry which MIDA and MATRADE estimate the numbers of manufacturing companies as 460 in thirteen cities of Malaysia. This study select manufacturing sector, as it is the second most important sector in Malaysia economy (MIDA, 2012). Electrical and Electronic (E&E) industry is the main contributors from manufacturing sector to Malaysia's GDP (MIDA, 2012). The proper sampling process will represent this population and it will be

discuss in depth systematically in the third chapter. This is a cross sectional study whereby data will be taken from one point in time.

1.7 Significant of Study

Clearly, one of the main parts of research is the significance of study where the importance of the study is explained by the researcher. This study is significant since it is one of its kinds to dwell extensively on Business-to-Business relationship focusing on the Malaysian electronic industry. Furthermore, this study investigates the determinants of customer retention in buyer-supplier relationship in Malaysia. To understand customer retention, this research provides management with the ability to map out a typology of customer retention through the use of the available composite measures of customer retention and its antecedents. The classification system can be useful to an industrial manufacturer and other organizations as they try to retain their customers. Therefore, industrial manufacturer should identify the cause of customer retention.

Understanding customer retention and its drivers help organizations better manage customer retention strategy in buyer-supplier relationship (Yu-Xiang *et al.*, 2011). Since retaining a customer is a critical challenge for an organization (Rauyruen and Miller, 2007), investigating its determinants is valuable both conceptually and empirically (Jones *et al.*, 2007; Yu-Xiang *et al.*, 2011). Industrial manufacturer should identify the customer retention and its drivers as a part of organization's retention strategy. Besides that, this research is aiming to create the awareness and increase the recognition among suppliers in Malaysia region of how vital is the buyer's retention as a competitive edge. This research can serve as base to rectify the misperception of those suppliers that are not aware or neglect the importance of their buyer retention

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