

## Research Article

### An Effect of Relationship Quality on China Railway Logistics Company's Performance Base on Trust, Commitment and Satisfaction

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**Abstract:** After getting a summary that Relationship Quality (RQ) consists of trust, commitment and satisfaction and how RQ influences on loyalty, relationship value and performance by literature review, this study describes the characteristics of China Railway Logistics Company and analyzes how the behaviors effected by the relationship quality influence on the perception of customers based on the summary of literatures and characteristics of China railway logistics. Finally we conclude two findings, such as (1) when monopolistic enterprise faces substitute products, its relationship quality effects on the performance deeply and (2) there is the interaction between relationship quality and relationship risk.

**Keywords:** China railway logistics company, outsourcing, relationship quality

## INTRODUCTION

In the past decade, value was regarded as a fundamental element of relationship building (Ravald and Grönroos, 1996). Given its importance to organizational performance, there has been growing interest in uncovering the determinants of value (Menon *et al.*, 2005). So the coordination between firms in the supply chain became a means of value creation. Vertical supply relationships such as logistics outsourcing are an increasingly popular alternative to traditional services such as transportation, warehousing, inventory and value-added services (Hong *et al.*, 2004). Some key benefits for organizations to outsource logistics activities include cost reduction and customer service improvement (Knemeyer and Murphy, 2004).

However, if the relationship fails for some reasons, it may bring the firms some negative influence. So to uncover the relationship risk appears significant and necessary. Relationship risk of coordination can be summarized into four dimensions, namely:

- Vendors' opportunism
- Poor communication
- Lack of shared goals
- Power asymmetry

So the reasons that the relationship risk existing should research more, otherwise, it will limit the development of outsourcing strategy forever. Actually, relationship quality with firms is a key element according to following literatures.

## LITERATURE REVIEW

Interest in the development and maintenance of collaborative relationships between firms has increased in recent years (Jap, 2001). In particular, a consistent theme in the evaluation of these collaborations is the importance of Relationship Quality (RQ), generally viewed as an evaluation of the overall of the strength and solidarity of the relationship between exchange partners. What constitutes RQ however, is not consistent (Cannon and Perreault, 1999; Kumar *et al.*, 1995). For example, Cannon and Perreault (1999) consider satisfaction, opportunism and trust as components of RQ. Crosby *et al.* (1990) use only trust and satisfaction. Taking the trust construct into account, Kumar *et al.* (1995) added the conflict, commitment, willingness to invest and expectations of continuity constructs, but did not include satisfaction. The RQ literature frequently points to commitment and trust as critical in establishing/maintaining relationships (Doney and Cannon, 1997). However, other constructs also have been linked to RQ. However, Jap (2001) defines RQ as a higher-order concept involving: satisfaction, fair results and propensity to continue to collaborate. More recently, researchers such as De Wulf *et al.* (2001) view RQ as a higher-order construct (second order) represented by the factors: commitment, trust and satisfaction. Palmatier *et al.* (2006) conducted a study to find whether RQ was a first order or a second-order construct. They came to the conclusion that relationship consequences are influenced more strongly by RQ being treated globally than by the component constructs separately. In this study we conceptualize RQ as a multifaceted global evaluation of the relationship

including elements of Trust, Commitment and Satisfaction.

After understanding the relationship quality, we should also need to know how it affects the partners. Accordingly, this study makes a summary that relationship quality plays an important role in term of loyalty, relationship value and performance depending on prior literatures.

Loyalty is a dedication on the part of the buyer to maintain a relationship and a devotion to buy the product or service repeatedly (Oliver, 1997).

Garbarino and Collins (1999) find that trust can create benefits for the customers by decreasing transaction cost-ultimately fostering customer loyalty to the relationship. Trust and satisfaction both are related to both behavioral and attitudinal loyalty (Chiou and Droge, 2006). Burton *et al.* (2003) find that satisfaction is positively related to repurchase intention and customer loyalty. In a service context, Hennig-Thurau *et al.* (2002) found that satisfaction and commitment are both drivers of loyalty. Additional work finds that perceptions of commitment can lead to word-of-mouth communication, an aspect of attitudinal loyalty (Dick and Basu, 1994) and can result in future purchase intentions, an aspect of behavioral loyalty (Fullerton, 2003). A comprehensive measure of RQ by Palmatier *et al.* (2006) found that there is a strong relationship between RQ and loyalty. Based on previous research, we consider that there is a positive relationship between relationship quality with the supplier and customer's loyalty to the relationship.

Relationship value is another relevant construct in relationship marketing literature (Ulaga and Eggert, 2006; Walter *et al.*, 2003). Zaithaml (1998) understood that the value generated from the relationship between two parties when we compare all benefits and sacrifices. Value is also an outcome of the process of using products or services and the activities between suppliers and buyers. The benefits may vary but Russell *et al.* (2004) distinguish between direct value elements (i.e., profit and volume) and indirect value (i.e., innovation, market and access). Therefore the evaluations of relationship value go beyond just the short-term performance to include longer run, less intangible outcomes of the relationship. Walter *et al.* (2003) point out that the main objective of customers and suppliers in a relationship must be to work together while aiming at mutual value generation, which can be created by offering benefits or by reducing costs for customers and suppliers (Ulaga and Eggert, 2006). To reach a higher level of value, there has to be a significant alignment and focus by the partners, brought about by a high level of relationship development and relationship quality.

The underlying elements of RQ are the drivers of value in the relationship. Russell *et al.* (2004) found that trust and commitment are both positively related to both direct value and indirect value. These elements of RQ

affect both short-term performance driven value and the long-term value from innovation, access and market development actions. The role of the firm level evaluations may affect the value of the relationship as each provides unique benefits through their personal and structural relationships. Palmatier *et al.* (2006) finds that RQ is positively related to customer value.

Cannon and Perreault (1999) suggested that supplier performance assessments from the customer's perspective represent an important consequence for existing relationships. De Wulf *et al.* (2001) and Sirdeshmukh *et al.* (2002) consider increased performance to be a result of the efforts put into the relationship. Palmatier *et al.* (2006) split the consequences of a relationship into three kinds: those focused on the consumer (Expectations of Continuity, Word-of-Mouth Advertising and Loyalty), those focused on the seller (Performance) and the dyads (Cooperation).

Relationship quality has been associated with increases in profitable outcomes, such as product and services sales (Huntley, 2006), seller objective performance (Palmatier *et al.*, 2006) and purchasing efficiency. In addition, RQ can increase continued purchasing intention (Rauyruen and Miller, 2007) which are key to continued success. Relationship quality can also have a positive effect on performance even in light of destructive acts by a partner. Hibbard *et al.* (2001) found that pre-act RQ had a positive effect on performance (archival and self rated) even after an episode of a partner's destructive acts. This suggests that RQ has strong residual effects on performance and shows the importance of RQ in a longer range view of performance.

### **THE CASE OF CHINA RAILWAY LOGISTICS COMPANY**

There are several main China Railway Logistics Companies, such as Beijing Company, Shanghai Company, Jinan Company, etc. which are subsidiaries belong to Ministry of railway of China. And each subsidiary established its branches in different cities that there are railways passing through. So, in fact, it is a monopoly company in the industry of railway transportation in China.

Although China Railway Logistics Company transferred large amount goods, it focused on several products as Table 1, just for those industries preferred large carrying capacity and low cost to highway transportation. According to follow data of Table 2, it shows that most of large amount goods did not choose railway as their partners of logistics service. But in 2010, such as Table 2, the total freight quantity in China was more than 32 billion tons and the total quantity of highway transportation was more than 24 billion tons (Source from website of national bureau of statistics of China). Actually, it is alternative between railway and highway transportation to many companies.

Table 1: Quantity of different cargo by China Railway in 2011

Index	Unit	Quantity	%
Coal	10,000 tons	200043	55
Metal	10,000 tons	85500	24
Grain	10,000 tons	10109	3
Oil	10,000 tons	13834	4
Fertilization etc.	10,000 tons	8618	2
Container	10,000 tons	8612	2
Others	10,000 tons	36213	1
Total	10,000 tons	362929	--

Source from website of Ministry of Railway

Table 2: Quantity of all transportation of China in 2011

Index	Unit	Quantity	Increasing rate
Total	Billion tons	32	--
Railway	Billion tons	3.6	12.50%
High way	Billion tons	24	75%

Source from website of the National Bureau of Statistics of China

Why most logistics demanders preferred highway to railway at last is a considerable question. It related with the company's service and marketing style.

**Situation 1:** Lower quality in service, such as bad attitude, rude loading, complex business process, long waiting and goods missing or loss.

**Situation 2:** Less communication with customers. For it is state-owned business and monopoly enterprise, there is no driven power for the marketing employees to communicate with customers.

**Situation 3:** Unfair items of service. To logistics service providers, their main incomes come from the core business, such as transportation, inventory, delivery, processing, etc. and the other services are free. But in railway services, in addition to the freight, they also charge for weighting, packaging, invoicing, storing and so on, especially for weighting, they do it twice, one is at the beginning station and another is at the ending station.

**Situation 4:** Limited marketing strategy. We seldom saw its marketing behaviors in China market based on 4P of marketing.

Therefore, we can consider that China railway logistics company has low relationship quality according to mentioned situations.

### ANALYSIS

Because there are four risks existing, such as vendors' opportunism, poor communication, lack of shared goals and power asymmetry, this study attempts to analyze how China railway logistics company's relationship quality appears in its business operation.

- **The vendors' opportunism in the business process:** The prior literature pointed out that opportunistic behavior includes the Logistics Service Provider's (LSP) misinterpretation of the

delivery contract to increase its revenues (e.g., additional sub-charges to outsourcers) or to reduce business risk (e.g., transferring failed delivery or goods damage to outsourcers) (Goles and Chin, 2005). In this case, we can know that China railway logistics company charges for weighting, packaging, invoicing, storing and so on. Those behaviors are typical opportunism and it would reduce the trust and satisfaction degree of customers and result in dissatisfaction with the railway service. And it also shows the company's low trust and satisfaction to its customers.

- **The poor communication in the business process:** Relationship risk is also attributed to poor communication (Webb and Laborde, 2005). If the LSP suffers from poor management, the outsourcer may experience difficulties in negotiating and establishing relationships as well as receiving effective and rapid responses from the LSP. Problems such as lack of contract management skills, or failure to deliver correct delivery information on time, or lack of communication about delivery problems by the LSP may occur. For China railway logistics Company is a state-owned business and monopoly enterprise, there is no driven power for the marketing employees to communicate with customers and customers are hard to get the information that they want to know how about their goods during the transportation. What's more, the railway company also doesn't know what the customers' actual demand is. Based on this condition, the railway company hardly provides accurate services to ensure customers' satisfaction. So, it would also reduce the trust and satisfaction degree of customers and result in dissatisfaction in the railway service and shows the company's low trust and satisfaction to its customers.
- **The lacking shared goals in the business process:** Furthermore, lack of shared goals reflects the contrast of organizational cultures and goals that may impede successful interaction with the relocated function (Webb and Laborde, 2005). Divergent business vision, style and bureaucracy between the two parties may lead to risks in cooperation. China railway company's development target is security, ensuring supply of domestic important materials and the last is revenue. But to most companies that need logistics outsourcing aim to rapid delivery and maximum profit. The various operation purposes indicate that it is difficult to reach a shared goal. In order to seek respective different goals, they must fail in coordination relationship and the customers could not be satisfied by the services. So the customers would lose their trust and satisfaction coming from China

railway company. Furthermore, it shows the company's low trust and satisfaction to its customers.

- **The power asymmetry in the business process:** In addition, the outsourcer may be concerned about losing the balance of power in the relationship with the LSP if the outsourcing arrangement is not successful (Wilding and Juriado, 2004). When the LSP perceives they have stronger power than the outsourcer, power asymmetry may lead the outsourcer to perceive relationship risk. In fact, China railway company regards security, on time, quickly and economy as its service tenet, on the contrary, the company's limited marketing strategy and services with bad attitude, rude loading, complex business process, long waiting and goods missing or loss show its power asymmetry to most customers. But to the big enterprises, such as CNPC, Sinopec and Coal enterprises, for their big orders, the railway company provides customization service to them. Thus they have broken the promises by their behaviors to most customers and it means the company's low commitment to its customers.

According to the mentioned literatures that showed how relationship quality influences on loyalty, value and performance, we can infer that China railway company's behaviors of relationship quality would reduce its outcome of business operation largely based on its low trust, satisfaction and commitment.

## RESULTS

Since analyzing that China railway logistics company's relationship quality brought some relationship risks to the partners and influenced on the outcome of the company's business operation, we should end the study. But in the analysis depending on prior literatures and the company's situations, there are some interesting findings are not pointed out still.

First finding is that, when monopolistic enterprise faces substitute products, its relationship quality effect on the performance strongly. The data of 2011 announced by national bureau of statistics of China appears that the total freight quantity is as high as 32 billion tons, yet thousands of highway logistics companies finish nearly 75% of transportation, reaching 24 billion tons. With low price and developed railways going to any regions of China, why did the China railway logistics company only finish 12.5% of transportation business? It is certain that there exist some factors influence on customers to choose railway to deliver their products. So we suggest that relationship quality with the company is one of most important elements effecting on its outcome. Otherwise, customers

have no reasons to collaborate with highway transportation companies with higher price.

Second is the interaction between relationship quality and relationship risk. Based on above analysis, relationship quality influences the behaviors of LSP and then the behaviors realize the potential relationship risks, therefore, due to the appeared risks, the customers would regard those actions as low relationship quality. As soon as the low relationship quality is perceived by customers, they would transfer their business to other LSP such as highway logistics companies. When the railway company lose lots of customers, its performance will become worse and then, lower profit may reduce its relationship quality more.

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