

LAB University of Applied Sciences
Faculty of Business Administration
Degree Program in International Business
Specialization in Leadership

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Factors influencing successful supplier-customer relationship in the context of IT service industry

Thesis 2020

Abstract

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Factors influencing successful supplier-customer relationship in the context of IT service industry. 41 pages, 2 appendices.

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The purpose of this study is to find the factors that influence a successful relationship between the IT service supplier and its customer, from the case study company's points of view. The research relies on the concepts developed under the subject Relationship Marketing to discuss those factors. The chosen case study company was an IT service company, operating three countries in Asia, with different customers in terms of culture and industry.

The qualitative single case study was chosen as the research method and strategy for this research. The theory part was built using deductive approach. The secondary data was collected via books and journal articles available on the e-library and internet. The primary data, also empirical findings were gathered by conducting semi-structured interview and observation and learnings of the researcher during working time with the case company.

The results show a successful supplier-customer relationship is reflected via the future value (IT projects) to be created for the supplier and satisfaction of the customer. Relationship value acts as the foremost factor in building and maintaining supplier-customer relationship in IT service industry. Trust is the most important quality of relationship and is endorsed by reliability, honesty, good communication and friendship. Commitment in the supplier-customer relationship is built by the contract, future value, mutual respects and personal friendship (or social bond). To maintain a healthy supplier-customer relationship in IT service industry, the supplier has to invest more effort and frequently contact the customer.

Keywords: Supplier-customer relationship, IT service industry, relationship marketing, relationship value, relationship quality.

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1 Introduction

1.1 Background

It is believed that, behind the success of business, relationships play an essential role. It is understandable since the drive of business is people, and people function in society via relationships. (Hovsepian 2018.) An organization has different relationships such as relationship with employee, shareholder, supplier, and client. The success of those relationships has significant impact on the development of the organization. Business relationships is a complicated but interesting topic that has been researched under different contexts over the centuries.

The initial interest of this research arose from the fact that despite the same way of relationship management, customer relationships with clients within a company varied from each other significantly. The company chosen for the research was a B2B service company in IT industry, which has been investing a lot of time and effort in building strong, long-term relationships with its clients. The benefits it gains from successful customer relationships are clearly reflected in the sales revenue. Also, the reality is that some of the clients enjoy a closer and more successful relationship with the company than others.

A successful relationship is one that brings the satisfaction that both the company and the client are willing to maintain for a long-term. Hence, the benefits are continuously generated from this kind of relationship. The list of clients of the chosen company is diverse in terms of industry, demand, culture, strength in investment and so on. However, after the formation of business relationship, while some of the clients are maintaining their relationship closely with the company, others are no longer in touch with the company. There must be some certain factors that influence a business relationship to be formed and maintained in a healthy and long-term manner.

Argued by Bhardwaj (2007), IT service industry is one that has growing revenue relies remarkably on the repeat business from existing customers. It also means that the companies engaging in a successful and long-term relationship with their

IT service supplier tend to stay loyal and perform continuous purchasing. IT service companies also have to invest in maintaining healthy relationships with their most important clients, who have contributed significantly to their sales revenue. One feature of IT service industry that may affect the service provider - client relationship is the exchange product/service, which is an IT project. It usually requires the high investment from the client and much effort from the provider to solve the challenges faced by client's business. The factors that bring about success in service provider-client relationship in an IT service company might be affected strongly by the value of IT project after it successfully goes live. However, this influence should not deny the importance of some other possible factors.

Regards to business relationship, it is important to pay attention to relationship marketing, which has been a subject to be investigated by many researchers throughout the time. Companies nowadays are forced by the market's competition to tide their relationships with the most important customers. To keep the index of customer retention high, it is not enough to just invest in the products or the services but also the relationship with customers. Relationship marketing discusses about a range of concepts such as value and quality of relationship, which explain the success of business relationship at some extents. Previous relationship marketing studies have identified the factors of successful relationships (Morgan and Hunt 1994, Gummesson 1997, Tuten and Urban 2001, Bagdoniene and Zilione 2009). However, those factors were not assessed in the context of a specific industry. In the context of IT service industry, it is possibly the case that those factors are differently viewed, or they are not enough to explain the success of business relationship. Bhardwaj (2007) has viewed relationship marketing in the context to the IT industry. Nevertheless, he looked more at the role of relationship marketing and the strategies to win customers and increase market share instead of indicating factors of successful relationship between the service provider and customer.

This thesis will rely on some of the concepts which have been researched as part of relationship marketing to assemble all the factors influencing a successful and long-term relationship between a service supplier and its customer. These factors

will be analyzed under the context of the IT service industry, and from the IT service provider's points of view only. This means that only the chosen company's representatives will be interviewed to collect the empirical evidence.

1.2 Thesis Objectives and Questions

The purpose of this study is to find the **factors** that influence a **successful relationship** between the **IT service supplier and its customer**, from the company's points of view. These factors are expected to be affected and differently viewed compared to the findings of existing studies as the company operates in IT Service industry. A successful relationship is one that was formed and has been maintained in a long term, which brings continuous benefits for all parties in the relationship. There are different factors of successful and unsuccessful relationships in business that were reviewed and analyzed before by different researchers, but they are merely assessed in general. In IT service industry, business relationship between an organization and its service provider usually requires high investment and high risk sharing since it depends on the success of an IT project. The success of an IT project, which means whether it satisfies the demands of the customer will only be accurately measured in the future. The factors of successful IT service provider and client relationship may be affected at some extent by this feature of the IT service industry.

These factors will be defined via finding the answers to this main question: ***What are the factors influencing a successful relationship between an IT service supplier and its customer?***

Sub-questions which narrow down the main question are:

- How relationship value is perceived as factor of successful supplier - customer relationship of an IT service company?
- What are the most important features/characteristics of a successful supplier-customer relationship and How they are formed?

1.3 Delimitation

Usually, the target phenomenon is too broad that some parts of it will not be focused in the research. Delimitation explains the choice of the researcher about what is included in the research and what is left outside. It allows the researcher to effectively focus on explaining the phenomenon inside chosen boundaries.

The theoretical boundaries of this research focus on the concepts of relationship marketing and its related terms to explain the successful relationship. However, while it is possible to explain the proper strategies (activities) to maintain a relationship, this research chose to only look at the value and quality (characteristics) of the relationship as the factors that influence successful relationship.

Concerning the empirical boundaries of this research, only the circumstance of the chosen case study company will be taken into account. Therefore, the findings may only be able to explain the success of customer relationships of the chosen case study company, or IT service industry in general. Also, the customer relationship will only be considered from the company's points of view, the customer's points of view will be left behind. It is possible that the customer will discern the relationship with the company differently, which mean that the successful factors of relationship to them will be different from the findings of this research.

1.4 Thesis structure

After the introduction chapter, the structure of this thesis is as below:

- Chapter 2 presents the research methodology which explains the choices of research method, strategy, approach to build theoretical framework and collect empirical data as well as how the research was designed.
- Chapter 3 discusses the definition of successful relationship from the existing theory points of view, reviews the existing literature of Relationship marketing, especially in the context of IT service industry to build the theoretical framework.
- Chapter 4 introduces the case study company and shows the interview plan and result.

- Chapter 5 analyses the empirical findings.
- Chapter 6 draws the conclusion and discusses the limitations of this thesis.

2 Research Methodology

2.1 Research method

There are two choices for the researchers to consider when they think about the research method, which are qualitative method and quantitative one. To explain the difference between these two research methods, one way is to distinguish between numeric data (numbers) and non-numeric data (words, images, video and so on). Quantitative method is used when numerical data was generated to answer the research question, which is done via data collection technique such as questionnaire and data analysis procedure such as graphs or statistics. Qualitative method, on the other hand, is used to reflect any data collection technique (interview), or data analysis procedure (categorizing data) that uses non-numerical data to answer the research question. The quantitative data and qualitative data, therefore, are also different from each other at some extents:

Quantitative data	Qualitative data
Based on meanings derived from numbers	Based on meanings expressed through words (spoken and textual) and images
Collection results in numerical and standardised data	Collection results in non-standardised data requiring classification into categories
Analysis conducted through the use of diagrams and statistics	Analysis conducted through the use of conceptualisation

Figure 1: Distinction between quantitative data and qualitative data (Saunders et al. 2016, p. 569)

The **qualitative method** is preferred in this research since the data to be used to answer the research question is purely in textual (words) form. Furthermore, the collected data will be analyzed using conceptualization. Which means that the researcher will explain the meanings of the data using words and give definition to some important terms.

2.2 Research strategy

The chosen research strategy for this research is **single case study research method**. A case study is defined as an *empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident*. It is suggested that one should use the case study method when he/she deliberately wants to cover contextual conditions. (Yin 2003.) The 'case' in the case study research may refer to a person, a group, an organization, an association, a change process, an event or many other types of case subject. Case study strategies are also separated between single case versus multiple cases. Single case may be selected purposively since it gives the researcher opportunity to observe and analyze the phenomenon in an actual case. For students, chosen case is often the organization for which they work. (Saunders, Lewis & Thornhill 2016, p. 186.) This strategy is the most suitable for this research since the researcher wishes to explain the phenomenon within the chosen organization's context.

2.3 Theory development approach

Concerning the theory development approaches, one can use inductive, deductive or abductive approach. The inductive approach is applied when the research starts by collecting data to explore a phenomenon, theory is then built or generated accordingly. In an opposite manner, the deductive approach is used when the research starts with theories that were developed from reading previous academic literature, and a research strategy is designed to test the theories. Abductive approach lies somewhere in between these two above approaches. It is used when the researchers collect data to explore a phenomenon, identify themes and explain patterns, new theory is generated or existing theory is modified accordingly, which is subsequently tested through additional data collection. (Saunders et al. 2016, p.145.) To develop theory, **deductive approach** is the most suitable one in this research, because the pool of existing data related to the topic of this research is widely available but only reveals the answers to the research questions at some extent. The theoretical framework will be built based

on the existing data, which will be test or added information during the progress of empirical data collection.

2.4 Data collection type

There are two types of data to be used to answer the research question, which are **primary data** and **secondary data**. The secondary data is the data that were initially collected by other researchers for some other purpose. In contrast, primary data is new data that is collected during the research, and specially is used for the purpose of this research only. (Saunders et all. 2016, p.316.) This research will utilize both primary and secondary data to build the theoretical framework and draw the conclusion. The secondary data in this research will be collected via available books, journal articles on the e-library and internet. The collection of primary data will be relied on the help of research interview, and the experience gained through the observation and learning process of the researcher during the working time for the chosen company.

Research interview is defined as a purposeful conversation between people, requires the interviewer to ask meaningful questions and carefully listen to the answers to explore and understand the ideas shared by the interviewee. Interview allows the researcher to gather valid and reliable data that are relevant to the research questions and objectives. There are different ways to categorize the types of interview, the most used typology is based on the levels of formality and structure. With this way, we have three types of interviews which are structured interviews, semi-structured interviews, unstructured or in-depth interviews. The **semi-structured interview** is chosen in this research to collect the primary data. This type together with in-depth interview are often referred to as qualitative research interview. The semi-structured interviews cover a list of themes and possibly some key questions that are closed to the theoretical framework. (Saunders et all. 2016, p. 390-391.) The interviewee in the semi-structure interview may share their thoughts and experience freely within the themes. Therefore, this type of interview not only allows the researcher to stay closed to the theoretical framework, helps in test the theory but also allows the researcher to explore the phenomenon flexibly, which helps in adding information to the theory.

2.5 Research Design

A research design is the road leading the researcher from the initial questions to the conclusions to be drawn. It shows a logical plan to guide how the collected data is linked to the research questions. It is seen as the “Blueprint” of the research that deals with four main problems: What questions to study, what data are relevant, what data to collect and how to analyze the results. By that, the purpose of research design is to help avoiding the situation that the evidence may not address the initial research questions. (Yin 2003.)

There are five components of the research design that are important to be considered when one conducts a case study, according to Yin (2003):

1. A study's questions.

The research questions need to be defined patiently and carefully in the beginning the research as it affects the choice of research strategies. It is important to understand that the research questions have both substance (example: what is my study about?) and form (is it “who”, “what”, “where”, “why” or “how” questions). The nature of study question will also contribute to assess if the case study is an appropriate research strategy. (Yin 2003.)

2. Its propositions, if any

The proposition of the study drives the attention of the researcher to something that should be examined within the scope of the study. A stated proposition will help the researcher to move in the right direction of the study. Some propositions are indicated as the possible answers of the research questions that the researcher think about or guess in the beginning. It helps to reflect important theoretical issues and tell the researcher where to look for relevant evidence.

3. Its unit(s) of analysis

Unit of analysis is related to What the “case” is in the research, which has been a problem that molests many investigators in the outset of case studies. “Case” can be an individual, organization, an event, an entity, and unit of analysis is the point that needed to be analyzed, which belongs to the

case or related to the case. Definition of unit of analysis also is related to the way initial research questions are defined. Therefore, the selection of appropriate unit of analysis will occur when the primary research questions are specified. However, the choice of the unit of analysis can be also revisited as result of discoveries which arise during the data collection process.

Defining the unit(s) of analysis also helps in determining limits of data collection and analysis. Also, referring to the role of existing literature needs to be made about the case of unit of analysis. Key definitions in one's research should not be idiosyncratic, since the researchers will want to compare their findings with previous research.

4. *The logic linking the data to the propositions*

Linking data can be done in different ways, but none has precisely defined as the assignment of subjects and treatment conditions in psychological experiments. One approach that may work most efficiently is the idea of "pattern matching", which is a mechanism deciding what data is related to or match with the propositions.

5. *The criteria for interpreting the findings*

The criteria of interpreting the findings deal with answering the answers for questions "how one pattern can be matched and how close does a match have to be in order to be considered as a match". Criteria needs to be set to answer these questions. However, there is no precise way of setting criteria at the moment. (Yin 2003.)

2.6 Case study

Specific design for case studies can be indicated with the help of the criteria mentioned above, and based on a 2x2 matrix, which are separated among four types: Holistic single-case designs, embedded single-case designs, holistic multiple-case designs, embedded multiple-case designs. Every type of design will include the desire to analyze the relationship of the case and its contextual conditions. The boundaries between the case and the context are not likely to be sharp, shown by the dotted lines in the matrix. Different design situations will decide the

case is single or multiple, while the units of analysis will decide the case is holistic or embedded. (Yin 2003.)

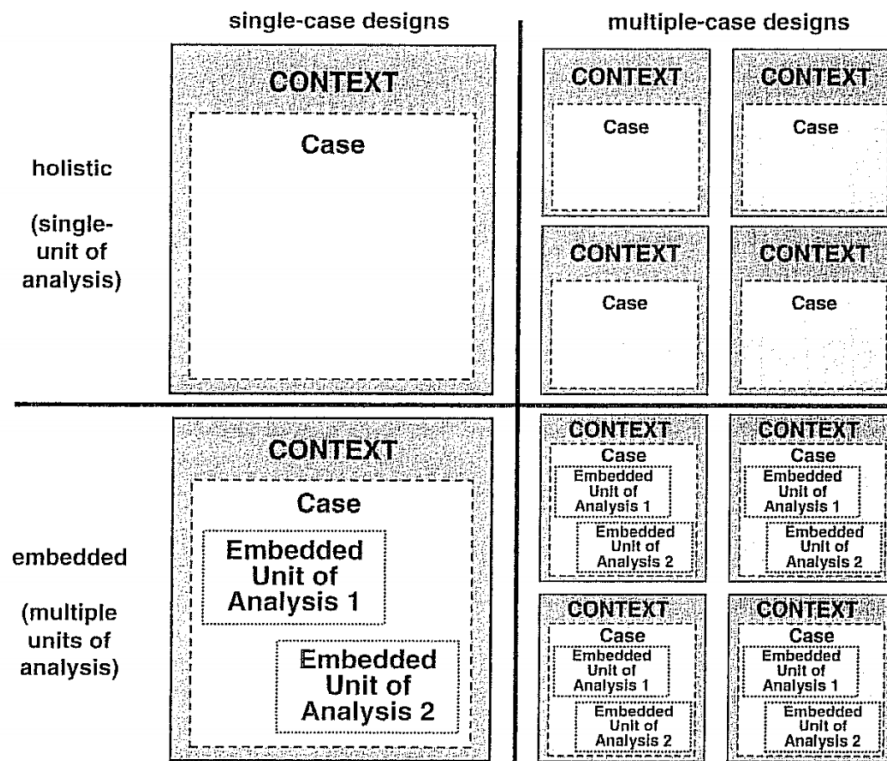


Figure 2 Basic types of Designs for Case Studies (Yin 2003.)

In conclusion, the case study of this research is a holistic single case study, presented as below, where the IT service company is analysed as the case, under the context of IT service industry. The unit of analysis is the supplier-customer relationship of the company. The propositions circle the two factors – Relationship Value and Relationship quality.

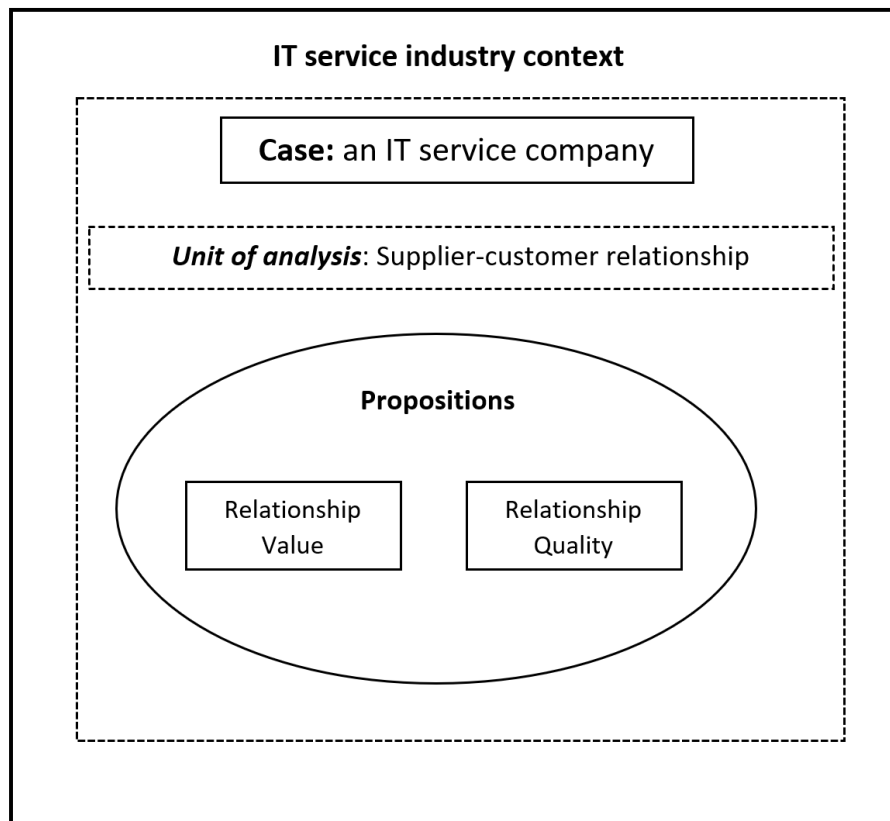


Figure 3: Case study design of this research

3 Relationship marketing in IT services industry

3.1 Notion of a successful supplier customer relationship

There are different ways to define success in a business relationship. Tuten and Urban (2001) separated two measures of relationship success which are objective and affective measures. Objective measures indicate success via the volume of sales each party receives after engaging in the relationship. On the other hand, affective measures are about the satisfaction of the relationship. Bagdoniene and Zilione (2009) made a conclusion about two approaches to define success of business to business relationship. One approach sees the parties' overall satisfaction as the success measure of relationship. Satisfaction here is the positive experience one organization gets from the relationship as its expectation is fulfilled by its partner. The other approach prioritizes the mutual value (quantitative measure) that each party gains from the relationship as success measure.

This research adopts the approach that defines success as the overall satisfaction that both the customer and the supplier get from the relationship. A successful supplier-customer relationship is the one that satisfies the goals and expectation of both members. Parties foreseeing the fulfilment of their goals and expectation causes the successful formation of relationship and the satisfaction encourages parties to continue the relationship. Hence, success in supplier customer relationship could also be defined as a relationship is formed and maintained in a long term by both parties.

3.2 Relationship marketing in general

There are abundant of definitions of relationship marketing that have been formed in different contexts. The first definition was developed by Berry (1983) as a new form of marketing which is used to develop and maintain mutually satisfying relationships with customers. Levitt (1983) argued relationship marketing as an approach to keep the continuity of relationship between organization and its customers, which emphasizes the importance of customer service and quality and of having repeat transactions with customers. Buttle (1996), on the other hand, mentioned that relationship marketing is about healthy relationships which are characterized by concern, trust, commitment and service. The concern here, he means the relationship marketers are interested in meeting/exceeding customer expectations and producing satisfaction (customer's welfare). The factors Commitment and Trust were further investigated by Morgan and Hunt (1994) as the role in developing and maintaining successful relationship. About the service, Buttle (1996) emphasizes the positive relationship between the quality of service and profitability.

Unlike the transaction-based marketing, where the marketer tends to only get benefits from customer, relationship marketing focuses on win-win situation with the customer. There are no clear strategies for customer retention in transaction-based marketing. However, nowadays, more and more marketers have recognized the importance of customer loyalty, which gives them much more benefits such as revenue from re-purchasing, connection to the new customers via referrals. Developed by Christopher, Payne and Ballantyne (1991), the idea "ladder

of customer loyalty” caught the attention of marketers. It is about the identifiable stages in the development of relationship with the customer from prospect, customer, client, supporter and finally – advocate. Advocates are the ones that not only are very loyal in purchasing with the brand, but also are willing to use their positive words of mouth to refer new customers to the brand. Therefore, the target of the marketers should be finding appropriate approach to move their customers up the ladder and maintain the long-term relationship with them.

Overall, relationship marketing is about investing in building successful relationship with the customer. Therefore, the success factors of relationship between supplier and customer has been researched under the major - relationship marketing. Two concepts that have been arisen from the research in the field of relationship marketing are relationship value and relationship quality. Both these two subjects focus on measuring and explaining the success of relationship.

3.3 Relationship marketing in the context of IT service industry

3.3.1 IT service industry overview

In our IT-savvy world nowadays, we all cannot ignore the role of information technology as an engine in accelerated economic growth, productivity improvement and efficient governance for many other sectors (Kumar 2014). There are many definitions of Information Technology available, the one that most accurately describes this term could be *a term that encompasses all forms of technology used to create, store, exchange, and use information in its various forms (business data, voice conversations, still images, motion pictures, multimedia presentations and other forms, including those not yet conceived* (Khosrow-Pour 2007, p. 337). The role of IT service industry has been increasingly important in the economy as the amount of value spent for it had escalated significantly every year. Spending on the IT services in 2019 already reached more than one trillion U.S dollars worldwide and it is forecasted to continue to increase. (Statista 2020.)

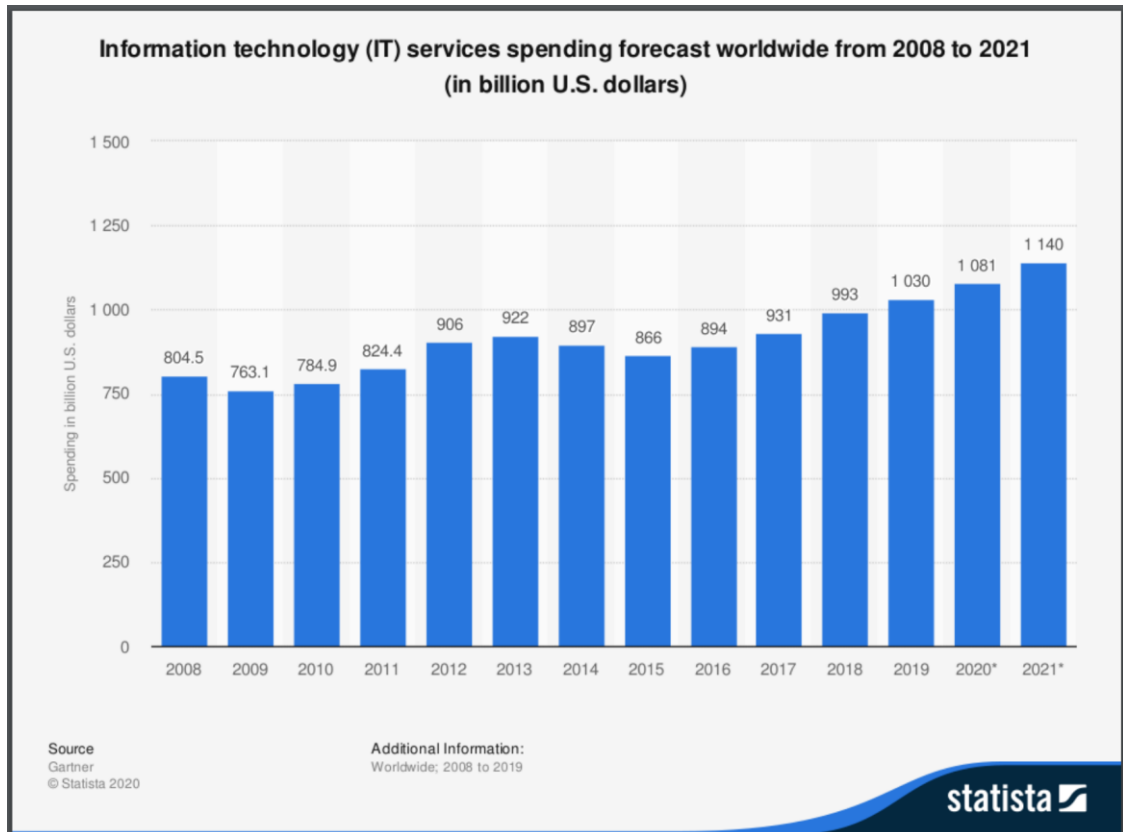


Figure 4: Spending on IT service worldwide from 2008-2021 (Statista 2020).

Information Technology industry is a knowledge-based industry that covers a wide range of IT-related sectors. It is categorized into three major industry groups which are:

1. Software and Service
2. Technology hardware and equipment
3. Semiconductors and semiconductor equipment.

IT services industry belongs to the first group – Software and Service. It includes all the companies that provide IT-related services such as Consulting or data processing services to other companies. (Miller 2019.)

Industry	Sub-Industry	Description
Internet Software & Services	Internet Software & Services	Companies that develop and market internet software or provide internet services, including online databases or interactive services. This also includes companies whose revenue mainly comes from online advertising.
IT Services	IT Consulting & Other Services	Companies that provide IT services or systems integration services, including IT consulting and information management.
	Data Processing & Outsourced Services	Companies that provide data processing or outsourcing services, including back-office automation services.
Software	Application Software	Companies that develop and produce software for business or consumer use, including enterprise applications and technical software. This excludes home entertainment and educational software.
	Systems Software	Companies that develop and produce database management software and systems.
	Home Entertainment Software	Companies that produce home entertainment software, such as video games, and educational software for consumer use.

Figure 5: Industry and Sub-industry of Software and Services group (Miller 2019).

The requirements for the success in the IT service industry is high-quality manpower with valuable knowledge-based skills (Kumar 2014). It is because the IT solutions that organizations nowadays seeking are the innovation created by human using technology, which must have ability to solve the challenges faced by businesses in the market and create remarkable values. The major sectors that utilize IT services are the government, financial sectors, manufacturing sector, retail, and distribution sectors (Kumar 2014). However, it does not mean that IT service has less important position in other sectors. It is noticeable that nowadays, more and more different industries start to apply IT service heavily in managing business and improve competence such as Education, Food and beverages, Chemical industries and so on.

3.3.2 Relationship marketing in IT Service industry

Obviously, relationship marketing can take much more efforts, time and money from the marketer than transaction-based marketing. Therefore, the role of relationship marketing varies by industry and nature of business. IT services industry is said to be affected the most by the practices of relationship marketing. Mentioned by Bhardwaj (2007), the switching costs (costs used to change the supplier) for the customer may be high due to the reasons of high investment, criticality of applications and high dependency on the service provider. Customers then usually are very careful in choosing their IT service vendors. They value deal with the supplier that they can trust and have confidence in. Moreover, nowadays, more and more IT service companies enter the market which increases the choices for the customers. As the competition grows, good relationships with customers which can be defined and built via relationship marketing become increasingly important.

It takes time for companies in the IT service industry to build good relationship with their clients. The relationship between an IT service provider and the client is not purely simple as transactional buyer-seller relationship, but it is more rational and collaborative. It requires a long-term investment to build successful relationship which can eventually become partnership. This is also because of the nature of the products/services offered in this industry, which is an IT project. For an IT project to successfully developed, it usually requires the high collaboration and commitment from both the supplier and client. Especially for the company that deliver high-quality service, which requires the high investment from the client. Relationship marketing strategies described by Bahrdwaj (2007) which are suitable in IT service industry, aim to bind the customers in the relationship by customizing each relationship to suit individual customers and delivering them a core service which they cannot find anywhere. All these efforts contribute to bring about a successful customer relationship which will lead to customer retentions and referrals.

3.4 Relationship Value

Two parties engage in a relationship, always have expectations on the value that they can get from the relationship. Achim (2001) and his co-authors had a review on the existing literatures to present different definitions of value creation in business relationship. Some mentioned that value can be regarded as a trade-off between benefits and sacrifices. Some separated the value in business relationships between monetary and non-monetary one which includes competence, marketing position, and social rewards.

Tuten and Urban (2001), in their expanded model of partnership formation and success, relationship value was considered as performance expectations. They claimed those expectations are the antecedents of the partnership formation, and performance expectations met is one success factor of relationship. Here, the relationship value both acts as an entry condition of a business relationship and factors for the relationship to continue.

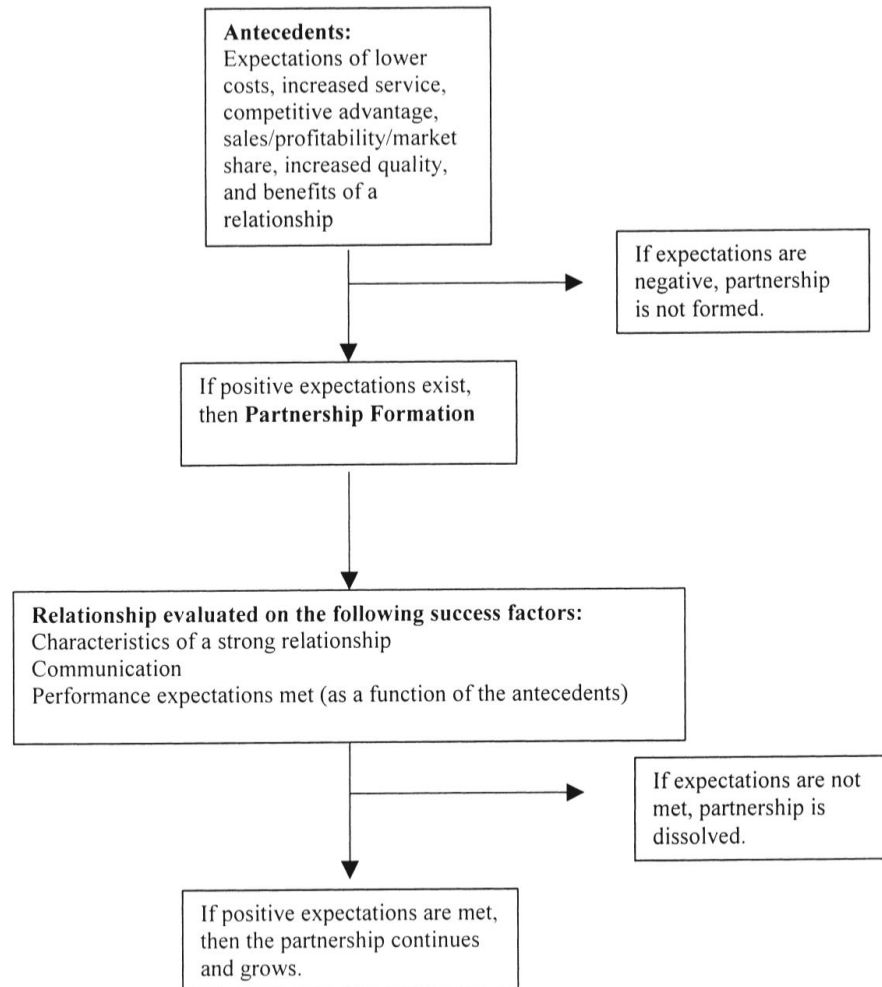


Figure 6: Model of partnership formation and success (Tuten and Urban 2001).

Uлага & Eggert (2004) referred relationship value as the performance-based constructs in the relationship marketing models. They pointed out the gap in the previous research of relationship marketing, which has been primarily focused on the “soft” factors of business relationship such as commitment, trust and satisfaction. They also indicated that even in the most popular relationship marketing model – KMV model by Morgan and Hunt (1994), only one single performance-based measure (relationship benefits) was included, as one attribute of “relationship commitment”. However, the model did not support relationship benefit as a key driver of successful business relationships. To close the gap, their research suggests including “relationship value” as a key constituent when modeling business relationships. Their suggestion is supported by Anderson (1995) as *value creation and value sharing can be regarded as the raison d’être of collaborative*

customer-supplier relationships. Finally, their findings show that relationship value is an antecedent in building relationship. It directly positively impacts features of business relationships (relationship quality) which are trust, commitment and satisfaction, and the behavioural outcome of a successful relationship which is the willingness to expand the business relationship.

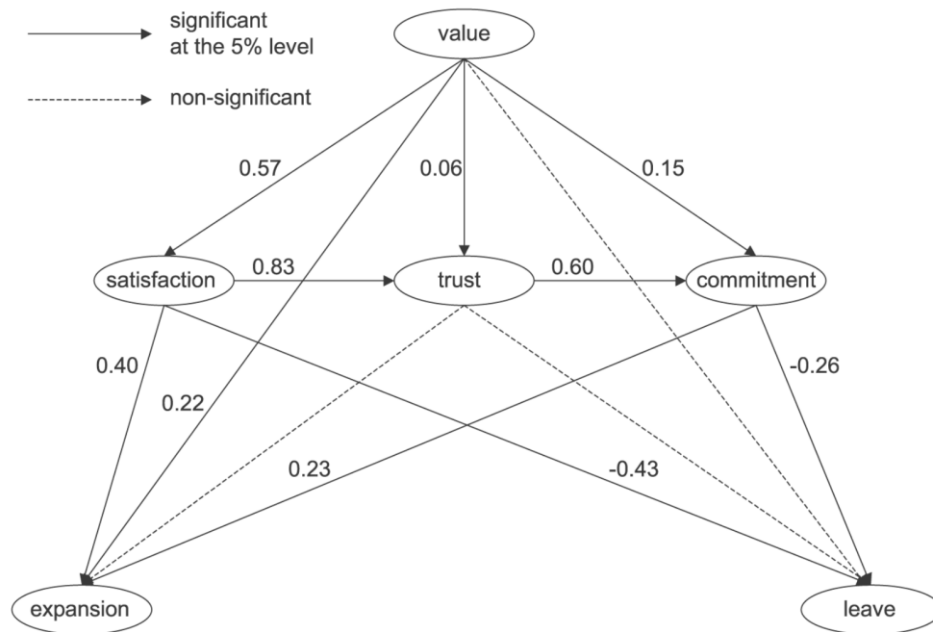


Figure 7: Relationship value as antecedent in building relationship (Ulaga and Eggert 2006)

In the context of this research, relationship value is the performance-based and measurable value that each party receives from the relationship, which can be specified from the expectation of each party before they enter the relationship. Let's assume that from the customer side, the expectations are the products that meet their demand which can ensure them **high return of investment** and **high service quality**. From the supplier side, the expectation is **financial value** they can get from the customers. In the context of IT industry, **fit** in the relationship in terms of value is very important. It means that the supplier can provide the service that strategically fit with the demand of the customer, which maximizes customer's ROI, and the customer is affordable and willing to pay for the service to

satisfy the economic value for the supplier. The value that both parties received met or surpassed their expectation on the relationship is the reason for the willingness to continue engaging and investing in the relationship. Therefore, relationship value can be considered as **the performance-based factor** that contribute significantly to success of customer relationships. It is also the **foremost factor** in successful customer relationships.

3.5 Relationship Quality

Defining the features of a relationship should have is prior to describing the activities that lead to the success of a relationship. Those certain features that contribute to the quality of the relationship are mentioned as relationship quality. The constructs that connote high relationship quality varies from research to research and are not generally defined. The most frequently and commonly mentioned constructs are Trust and Commitment. (Biggemann 2010.) Trust and Commitment are also key mediating variables of successful relationship marketing (Morgan and Hunt 1994). This research relies on the KMV model of Relationship Marketing, also called the **commitment-trust** theory developed by Morgan and Hunt to theorize the most important **soft-based factor** of successful customer relationship.

3.5.1 Trust

Trust is a desired feature and an essential part of successful business relationship. Trust is conceptualized as existing when one party has confidence in an exchange partner's reliability, durability and integrity. It is also seen as the belief that one party will act in the best interest and produce positive outcomes for the trusting party in the relationship. Trust is viewed as an important factor of success due to its beneficial role in these components of a high-quality relationship:

- Increasing the level of *cooperation* by mitigating feelings of uncertainty and risk.
- Positively affecting the level of *commitment*, which is also a relationship building block.

- Positively related to the likelihood that two parties will engage in future business which contribute to increase the *duration* of relationship.
- Allowing disputes and conflicts between parties to be resolved efficiently.
- Increasing the willingness to share information. (Peppers and Rogers 2004; Morgan and Hunt 1994.)

3.5.2 Commitment

Based on the previous literature, Morgan and Hunt (1994) defined relationship commitment as *an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely*. One also needs to be conscious of two different types of commitment in a relationship which are *calculative* and *affective*. Calculative commitment is the result of an economic analysis where costs and benefits of making commitment to relationship were calculated. This type of commitment is built purely via the short-term economic benefits that each party receives from the relationship, and negatively related to trust. Thus, it does not conduct to a long-term relationship. In opposition to calculative commitment, affective one is built by the emotional and psychological attachment toward the other of each party in the relationship, besides the short-term economic value. Affective commitment is endorsed by trust; thus, it leads to a long-term relationship where both parties receive equal benefits. (Peppers and Rogers 2004.)

Commitment is viewed as central feature of successful relationship as it directly contributes to:

- Positively influencing Acquiescence, which means that parties in the relationship accepts another's specific requests or policies.
- Decreasing the Propensity to leave, which is the likelihood to terminate the relationship. This also enhances the loyalty between parties and increases the willingness to invest in a long-term relationship.
- Increasing the cooperation level and willingness to share information to achieve mutual goals.

(Morgan and Hunt 1994.)

3.5.3 Contributors to Trust and Commitment

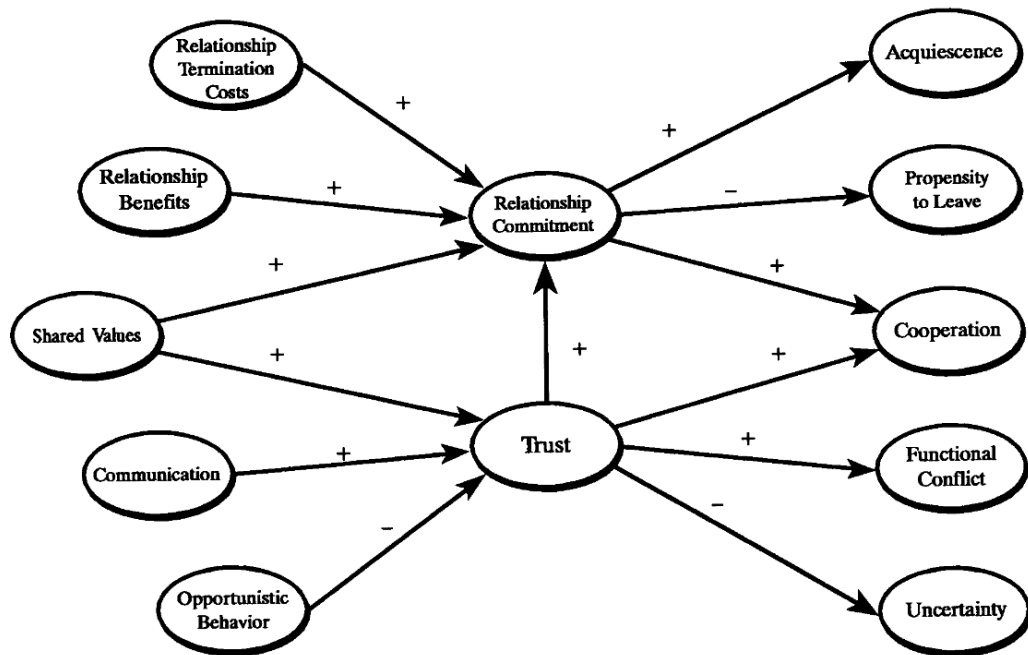


Figure 8: KMV model of Relationship Marketing (Morgan and Hunt 1994)

For a relationship to reach high commitment and trust level, it is necessary to look at the components that contribute to these two features. According to the KMV model developed by Morgan and Hunt, these components are Relationship Termination Costs, Relationship Benefits, Shared Values, Communication and Non-opportunistic behaviour.

- **Relationship Termination costs** are the costs that relationship members have to pay when relationship ends. Those costs can be relationship dissolution expenses, substantial switching costs when party seeks an alternative relationship or losses result from lack of comparable alternative partner. The awareness about the expected termination costs will prevent the parties from ending the relationship and generating commitment.
- **Relationship benefits** are the measurable values that each party receives from relationship such as product profitability, service quality, customer satisfaction and so on. The party that delivers superior benefits to

other in the relationship will be highly valued, and the other party will highly commit themselves to establishing, developing and maintaining the relationship. s

- **Shared value** is the extent to which perceptions about appropriate goals, behaviours and policies are consistent between parties in the relationship. It is important that both parties in the relationship share the same beliefs and have no conflict about what is important or unimportant, appropriate or inappropriate, and right or wrong. Shared value is believed to be the direct component of both trust and commitment.
- **Communication**, the mean of exchanging information, if happens openly, frequently and deliver reliable information will foster trust in the relationship by assisting in aligning perceptions and expectations as well as resolving disputes. A high-quality communication which is relevant, timely and reliable will result in a formation of trust. Trust and Communication are believed to have two-way relationship, which mean that good communication generates trust, and trust leads to better communication.
- **Non-opportunistic behaviour** is contrast to opportunistic behaviour, in which parties act on their own interest. Opportunistic behaviour negatively affects the trust degree between parties, since the actions that aim at maximizing self-interest will decrease the confidence in partner's credibility and integrity. Non-opportunistic behaviour, where parties act on the interest of each other, aim at increasing shared long-term benefit will positively contribute to trust.
- **Trust** also acts as the major determinant of commitment. It is because two parties in a committed relationship are vulnerable, they will only seek trustworthy partner. The more parties trust each other, the easier and faster they commit to the relationship. Therefore, Trust has the positive impact on relationship commitment.

In the context of this research, relationship benefit is similar as relationship value that was described above as the foremost and performance-based factor of successful relationship.

3.6 Summary

A successful business relationship is one that satisfies both parties engage in the relationship that make them willing to invest in maintaining it healthy in a long-term. In the context of IT service industry, Success of supplier-customer relationship is measured by two main factors which are Relationship Value and Relationship Quality.

Relationship Value is the performance-based factor, defined as measurable value that each party receives from the relationship, which can be specified from the expectation of each party before they enter the relationship. Relationship value is fulfilled when the expectation of each party is met or surpassed. Value for the customer which are Service quality and High Return on Investment, is reached only when the supplier has ability to deliver the products fit with the demand of customer. Value for the supplier, which is mainly the financial value, is reached when the customer is affordable and willing to pay for the products of the company.

Relationship Quality is the soft-based factor of successful relationship, which contains two main constructs – Trust and Commitment. Trust and Commitment are first and foremost fostered by Relationship Value. Trust in business relationship exists when a party has confidence in the exchange partner's reliability, durability and integrity and vice versa. Relationship Commitment is the belief that an ongoing relationship is so important that the parties in the relationship warrant maximum efforts to maintain it. In addition, trust is nurtured by quality communication, non-opportunistic behaviour and shared value, while commitment is supported by trust, shared value and termination cost.

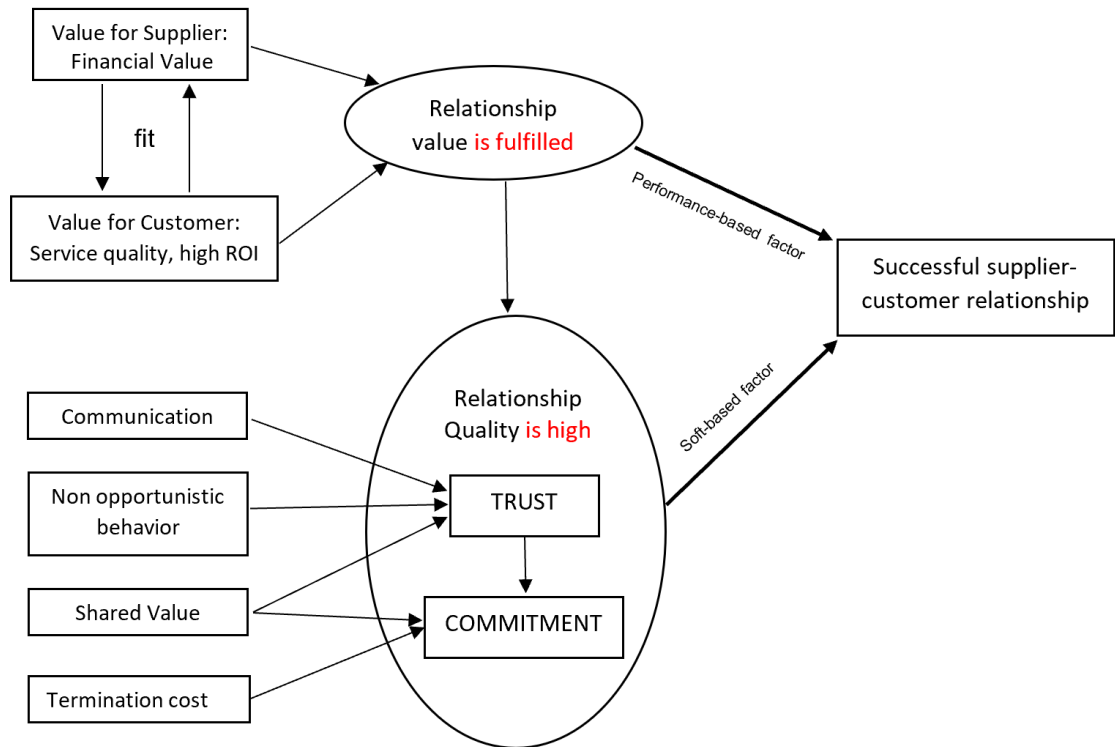


Figure 9: Factors influence successful supplier - customer relationship

Suggested by the theoretical framework (as the result of previous literature), **main themes** to be concentrated in the empirical process is about:

- Definition of a successful service supplier - customer relationship in the IT service industry and its influencing factors.
- The Relationship value and its role in building and maintaining customer relationship.
- The components of Relationship quality and how they are built.

4 Case study company

4.1 Company presentation

The chosen case study is an IT service company, operating in three countries in Asia. In the table of categorizing Software and Service Group (Figure 5, p.18) the company belongs to the sub-industry – IT Consulting and Other Services. The company provides latest digital solutions for other companies such as tailor-made

websites, applications, omni-channel solutions and so on. The company provides high-quality service, in which it adapts to the demand of each client instead of selling them the products designed based on template. The group of customers of the company is diverse in terms of cultures, ranging from Europe, America and Asia, and in terms of industries such as Consumer Goods, Education, Manufacturing, Agriculture, Food and Beverages, and so on. Most of their customers have ambition to either enter Asian market or to expand their markets in their country via digital channel.

4.2 Interview plan

The chosen interviewees for the interview are the business developers of the company, who are mainly responsible for managing the relationship with the customers. They may or may not be the ones who detect the customers, but they are the ones who directly talk, share, and negotiate with the customers about their needs and potential of IT projects. During the process of an IT project, they are responsible for answering questions, solving challenges for the customers, and keeping them happy and satisfied. After the project is finished, business developers will also perform necessary activities to keep in touch with the customers. The company has five business developers in total. However, one business developer was still in the probationary period during the time of this research and has not directly managing any customer. Therefore, there were only four business developers were invited to the interview.

The researcher will send an email as an invitation to the interview, attached with a document briefing information about the interview to all the business developers in the company. The document includes the information such as the purpose of the study, the expectation of the interview, the recording and confidentiality information (appendix 1). The Interview will be conducted as video call and recorded, with the agreement of the interviewee. The researcher will be the one who conduct and lead the interview. The researcher will rely on the interview protocol as a guideline to lead the interview (appendix 2). The interview aims to discuss the main themes (p.28) with the interviewees to understand their perceptions.

4.3 Interview result

In the end, there were only two interviews (with two out of four business developers) being conducted successfully to gather the data. However, both interviews were very in depth and delivered a lot of useful information for the analysis. The interviews with the two business developers were conducted separately. Fortunately, both permit the researcher to record their answers for the purpose of analysis. One interviewee (Interviewee A) has been working for the company for a long time with a rich experience in managing relationship with the customer in the IT service industry. The other interviewee (Interviewee B) has many meaningful stories about the customers to share, including the customers that are managed by other business developers as they were working closely with, sharing and learning from each other.

5 Empirical analysis

A successful service supplier - customer relationship of an IT service company.

When it was firstly asked about the success of the supplier customer relationship, the interviewee B mentioned about the satisfaction and happiness of the customer, which eventually bring more projects for the company. *“I will take this into two parts. For us, which is the service provider, successful relationship means that the client is happy with us. They are satisfied and they keep the long-term relationship with us and brings us more projects. For the client side, successful relationship means that they don’t have to change or search for other IT vendors every year or two years. They want something stable”* – mentioned by the interviewee B.

The interviewee A, instead, directly mentioned about the success of the relationship is measured by the number of the projects generated, and the willingness to keep up the relationship by both sides’ representatives. To interviewee A, it will be most successful when the company can sign more projects, either directly with the clients or with others that were referred by the clients.

The perception of the company's representatives shows that the satisfaction of the customer which directly causes the willingness to stay in the relationship with the company is a successful sign of relationship. The expectation of the company about their goals which is the number of IT projects generated from the relationship influences the willingness of the company to invest in maintaining the relationship, is another sign of successful relationship. In the IT service industry, however, the investment (time and effort) in building and maintaining the relationship is always more from the supplier side. *"It's always provider's responsibility to be active in keeping in touch with the client and keep up the relationship to be healthy. Because no matter how great we were, the clients may forget us at some point if we do not pay attention in keeping the relationship with them"* – argued by the interviewee A. The interviewee B honestly mentioned that because of the business nature, which is the project based, it is hard to keep a long-term relationship with the customer as the companies do not have demand for an IT project all the time.

Relationship Value

Relationship value was the first thing to be mentioned when two interviewees were asked about the most important factors in building and maintaining customer relationship. The interviewee B emphasizes the quality of the projects, which mainly depends on the production team as the determined value for the customer. The interviewee A specifies the success of the project, which needs the high cooperation of both provider and client will decide the formation and success of the relationship in the long-term. Interviewee A also proudly said that *"we ensure the value for the customer by truly solving their business challenges with our digital expertise"*. Contribution to the perceived value of the customer in the business relationship with IT service provider are the **expertise** about the digital technology, professional service delivery and reasonable price. The expertise is the knowledge and experience of the company in producing and applying technology to fulfil the demand of the client also plays the most important role in bringing the value for the customer. When the discussion turns to the value that the client brings to the company, interviewee A indicated the profits that they can get from the project if it is successfully completed. Interview A also shows the

expectation for the good referrals from the client after they experience the working time with the company. The interviewee B shared some cases about the reputation as one of the values the company get from the client besides the financial value of the project.

In addition, the values for the supplier and customer are usually clearly determined in the beginning of the relationship. It happens in the project qualification meeting between companies' representatives. There are five points that directly influence the initial formation of the IT project – starting point of the business relationship with the customer, defined by the company: Value, Authority, Service Fit, Timeline, and Production. **Value**, which stands for the budget that the customer allocated for IT project, contributes to the value for the supplier. **Authority** indicates the involvement of the decision maker of the client side on the IT project related issues. The supplier needs to know well the decision maker and find a way to directly discuss about the project with him. **Service Fit** stands for the ability of the provider in delivering the digital solutions to the customer, contributes to the value for the customer. This is influenced by the experience of the supplier in solving the similar problems faced by the customer. **Timeline** specifies the time for the projects to be carried out. Usually the customer will indicate their expectation on the time that they need the project to be finished. The supplier has to estimate the realistic delivery time and convince the customer. **Production** indicates the ability and capacity of the production team at the time of the project. Timeline and production are the components of the service quality, which contribute to the value for the customer.

Relationship Quality

When discuss about the quality of the relationship, both the interviewees endorse the importance of **trust** as the foremost factor. The interview B shared a case when trust helped them to get a good referral from the client even when the project with that client was stopped during the negotiation period. Interviewee A indicates the elements of trust from both sides of the relationship. Trust is built from the client side mostly by the **reliability** of the supplier. That means the supplier

will provide exactly what they said on the right time. On the other hand, the supplier appraises the **honesty** of the client side to build trust. Trust will be built from the supplier side if the client was honest about their budget, needs, and understanding about IT project in the beginning. **Communication** acts as the most important tool in building the trust and keep the quality of the project and relationship. During the process of the IT project, there will be abundance of issues arising that needs the discussion of the both sides to be clarified. Right information to be shared at the right time will minimize possible mistakes and misunderstanding in between. The interviewee B, additionally, endorsed the function of emotional connection and **friendship** between the representatives of the two sides in creating trust. Via a story about friendship with the client's representative, which was coincidentally developed, interviewee B shared being in a closed relationship with the client increases the feeling of security when they collaborate in a big project.

The other quality of a successful relationship is the **commitment**. When it was asked about what would create the commitment in the customer relationship of the company, the interviewee A emphasizes the expectation on **the future value** and the **mutual respect**. The interviewee A shared a case when a relationship with the client can be stopped by the supplier side as the client does not respect the work and effort of the company. That was a case when the interviewee A does not want to continue the relationship, even after the successful completion of the project, because the client keeps a criticizing attitude, complaining about small details instead of looking at the whole hard work that the team delivered, which make them feel of being disrespected.

On the other hand, the interviewee B mentioned about **the contract** and **personal friendship** as attributes of commitment in the relationship with the customer. *"The contract definitely will bring the commitment. To us it's always the contract at the beginning, I mean, you bring the working, I deliver, I get paid. That was the first step. In a long-term, maybe it's more personal, if I was very close to this client, I may give more of my energy or I may give some of small functions without charging. So, first step is the cooperation on the company level and friendship later."* – Shared by the interviewee B. The point about the friendship

could be also a feature of high-quality relationship, which can be called in another name – **social bond**. Social bond is reviewed by Biggemann (2010) as type of Bonds which is a relationship strength. Social bond results from person-to-person interaction or friendship between employees of the companies. It is found in a positive interpersonal relationship, which includes emotional, mental, psychological, and personal relational concepts. (Biggemann 2010.) In the case of IT company, social bond will contribute to create the commitment of the relationship in the long-term, even after the completion of the project. Social bond is also one important factor that affect the success of customer relationship managed by another business developer in the company. The interviewee B was sharing about her colleague's successful customer relationship: *"I think he is very smart in terms of distributing his energy. He spends most of his time in maintaining the relationship with the clients. He acts like he is their friends and sharing the life issues with the clients. He always can find something besides work to talk with the clients"*.

Other factors

The other factor that was mentioned as influencing factors in building and maintaining a successful supplier customer relationship is **contact frequency**. The interviewee A said that it is extremely essential in keeping contact with the client in a frequent manner using creative communication methods. The company also utilizes the help of the CRM system to remind the business developers to actively contact the clients. The CRM system classifies the clients by the values they generate for the company and build the touchpoint system accordingly. For the most important group of clients (which generate highest value for the company), the system will remind the business developer to contact them once a month. The second important group will be contacted once each three months, the third one will be contacted once each four to six months and so on. It is because that the supplier and customer relationship in the IT service industry is built based on project-based business, which usually only lasts for several months. After the project ends, no matter how satisfied the client was, if the supplier does not frequently contact the client to keep a healthy relationship, the client may not intend to stay long-term with the supplier.

6 Conclusion

6.1 Research conclusion

This research was conducted with the purpose is to assemble all the factors that influence a successful relationship between an IT service supplier and its clients. Relationship marketing was chosen as the subject to be focused on to gather influencing factors theoretically since it is a form of marketing aiming at tightening relationship between business and customer. Relationship value and relationship quality, which are widely discussed within relationship marketing, are concentrated in this research as the main concepts to reveal the factors of successful business relationship. All these factors are analysed under the context of IT service industry and tested by accessing the supplier's points of view.

IT service industry demonstrates its important role in our business life by showing the increasing spending worldwide. The supplier-customer relationship in IT service industry is highly relational and collaborative which requires long-term investment to build successful relationship. A successful customer relationship between an IT service provider and its client is seen as one that brings the satisfaction for the client, has ability to generate more future value for the supplier that increase the willingness of the company to invest time and effort in maintaining it. However, as the business nature is project based, and because not all the companies need IT projects all the time, it is hard to own successful and long-term customer relationships.

The results of this research show that relationship value plays the most important role in the building and maintaining supplier-customer relationship in IT service industry. The value of the relationship is clearly defined in the beginning, which is the service quality (IT projects and its ability to solve business challenges) for the client, financial value and referrals for the supplier. From the company's point of view, Trust is the foremost factor in relationship quality, which is endorsed by reliability, honesty, good communication and friendship (or social bond). Commitment in the supplier-customer relationship is built by the contract, future value, mutual respects and personal friendship (or social bond). The other factor that

also influences in maintaining the relationship is contact frequency, mainly performed by the supplier side. Empirical findings also reveal that it is always the supplier side to invest much more effort in keeping the relationship to be healthy than the client side. It is also useful to utilize the help of the technology (CRM system) in maintaining the relationship.

6.2 Limitation

Limitation covers the weaknesses of the research. It points out the things that should have been done in the research but was not due to possible constraints. Limitation is not controlled by the researcher but affected by external factors.

The limitation of this research is mainly based on the time constraints. There is a wide range of existing literature regarding relationship marketing and factors that affect customer relationship. However, only several theories are chosen to build the theoretical framework. Moreover, this research only looked at the supplier's point of view, and only interview the case study company. As the result, the findings may be only applicable to reveal the influencing factors of successful customer relationship of the company itself. It could be of interest to also study this topic from the customer's point of view to know which factors they value, in order to deliver a more appropriate list of factors that influence a well-functioning supplier-customer relationship in this particular industry.

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Appendices

Appendix 1 – Interview Information

This interview information was sent to the interviewee before the interview.

Study's objectives

The purpose of my study is to find the factors that influence successful relationship between IT service supplier and its customer, from the company's point of view.

This research was arisen from the phenomenon that while the company has developed business relationship with different clients, there is only a few clients stay in touch closely with the company and continuously generate benefits for the company.

Interview expectation

The interviewee is expected to answer the questions freely based on the knowledge and experience he/she gained during the time of working for the company. This means the interviewee can answer anything he/she can think about when listen to the questions, since there is no right or wrong answer. Real-life stories with the clients will be very precious for the analysis of the researcher if it is comfortable for the interviewee to share about.

The interview is expected to last around 30 minutes or up to one hour. However, the interviewee has the right to stop the interview if he/she needs to.

Interview recording and confidentiality

The interview will be audio recorded for the analysis purpose only, with the permission from the interviewee. The interviewee's identity will be kept confidential in the research report.

Appendix 2 – Semi-structured interview protocol

This interview protocol includes the open-ended questions to support the interviewer discuss the main themes (presented in numbers below) with the interviewees.

1. Definition of successful service supplier-customer relationship in IT service industry and the influencing factors in general.

- How do you define a successful IT service supplier – customer relationship?
- What are the most influencing factors in building and maintaining a successful long-term customer relationship?

2. The Relationship value and its role in building and maintaining customer relationship.

- What determines value in the relationship?
- What is the role of relationship value in building and maintaining a successful customer relationship?

3. The components of Relationship quality and how they are built.

- What kinds of relationship quality are the most important in building and maintaining a successful customer relationship? And How they are built from the both sides?