

# INITIATING THE CHANNEL RELATIONSHIP BETWEEN SUPPLIER AND COOPERATIVE IN INDONESIA: A CONCEPTUAL FRAMEWORK

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**Abstract:** *Indonesia is the largest Southeast Asia economy; it can be seen by its economic growth. One of the drivers is higher domestic demand with the 57.5% of household consumption. These facts indicate that Indonesia has a huge demand for primary goods and a better standard of living. However, the large percentage of local demand cannot be met by local suppliers. This problem is caused by the low quality of agricultural products, fragmented market information and lack of proper logistics such as cold storage and transportation. In addition, there is no integrated business network in Indonesia and high distribution costs continue to make imports a much cheaper option to fulfill the local demand. Thus, the purpose of this study is to provide the conceptual framework that focus on the factors that initiate the relationship between supplier and Cooperative which could minimize the distribution cost and fulfill the domestic demand. The conceptual framework is based on the previous studies and interview result. Further study is needed to test this conceptual framework empirically.*

**Keywords:** *Channel Relationship, Cooperative, West Java*

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## Introduction

Indonesia is the largest Southeast Asia economy and the fourth most populous country (World Bank, 2018a). According to research conducted by Hawksworth & Chan (2015), by the year 2030, Indonesia's economy is predicted to be larger than UK and France. In addition, Hawksworth & Chan (2015) stated that Indonesia is projected to be the fourth biggest economy by the year 2050. World Bank (2018b) stated Indonesia's economic growth was 5.2% in the fourth quarter of 2017. One of the drivers is higher domestic demand (World

Bank, 2018b) with the 57.5% of household consumption (CIA, 2017). These facts indicate that Indonesia has a huge demand for primary goods and a better standard of living (Australian Trade and Investment Commission, 2018; Anonymous, interview by the guide, July 2018). However, the large percentage of local demand cannot be met by local suppliers.

This makes imported products and products from large companies dominate the Indonesia market. According to Global Business Guide Indonesia (2016) and the retail experts (Anonymous, interview by the guide, July 2018), this problem of under-supply arises from the low quality of agricultural products, fragmented market information and lack of proper logistics such as cold storage and transportation. This problem leads to the fluctuation of production quantity and price (Berita Trans, 2016). So far, there is no integrated business network in Indonesia and high distribution costs continue to make imports a much cheaper option to fulfill the local demand (European Commission, 2016; Indonesia Investment, 2016). This dependency on imports, especially agricultural produce, is confirmed by other countries claiming Indonesia as an important market for their produces. One of the examples is Australia. Australian Trade and Investment Commission (2018) stated that Indonesia is an important market for Australian in agricultural field. Furthermore, European Commission (2016); Trisia, M, Osozawa, & Bai (2016) and Bettles (2017) stated in their report that Indonesia has a great market potential for European exporters and they must be proactive to take this promising possibilities and advantage due to inadequate capacity and high-quality supply to domestic market.

Furthermore, the rise of modern retailers such as convenience store in Indonesia is also a problem for traditional retailers, Cooperative, and SMEs. These convenience stores continue to open its stores in many places, this fact is also supported by the results of interviews with one of the retail experts stated that even though there are already written rules that these convenience stores are prohibited to open their new branches again in an area, but they can still open their branches by using different name (Anonymous, interview by the guide, July 2018). These modern retailers undermine the existence of traditional retailers and Cooperative. Similar things also happen to SMEs, the modern retailers are limited in accommodating the SMEs products, since SMEs cannot guarantee the continuity of their quality and quantity of the products (Anonymous, interview by the guide, July 2018).

To try to deal with these problems, Indonesia Government tries to understand the local needs, increase the production, improve the distribution of local agriculture produce, and protect the local Small and Medium Enterprises (SMEs) and Cooperative through quota system policy (Anonymous, interview by the guide, July 2018). Trade ministry promoted the local agricultural products with the improvement of the production whose was driven by agriculture ministry (Global Business Guide Indonesia, 2016). Apart from that, the

Indonesian Cooperatives Council (*Dewan Koperasi Indonesia*) actually had established a Cooperative business network (*Jaringan Usaha Koperasi*, henceforth called JUK) with the intention of integrating buyers and sellers across Indonesia with the objective to reduce the distribution costs, to open the market information regarding the needs or consumption patterns of each region in Indonesia and to strengthen the market channel, specifically in accommodating the SMEs products (Anonymous, interview by the guide, October 2018).

Cooperative itself is one of the leading formal business entity and pillar of the economy in Indonesia based on the kinship, mutual cooperation principle and its goal is to prosper all the Cooperative members, according to 1992 law number 25 (*Undang-undang Republik Indonesia tahun 1992 nomor 25 tentang Perkoperasian*). This unique business entity according to head of Cooperatives Council for West Java, Indonesia is one and only country that has Cooperative law (Rachmawati, 2017; Anonymous, interview by the guide, October 2018). Further, Cooperative has a role in establishes and develops the economic capacity and potency of the members to improve the economic and social welfare (Saifullah & Widyaningrum, 2014). Therefore, Cooperative can be the one of the business network to sell the local products and of course to compete with the foreign products.

Yet, this network had not been worked properly and indeed is now no longer active, according to the head of Indonesian Cooperatives Council for West Java Region (*Dewan Koperasi Indonesia Wilayah Jawa Barat*) (Anonymous, interview by the guide, October 2018). Hence, in line with the supports provided by the government through trade and agriculture ministry to improve the upstream area (from supplier to retailer), the development of business network in the downstream area (from retailer to the customer) must be considered. Therefore, this research provides the conceptual framework that focus on the factors that initiate the relationship between supplier and Cooperative. Based on theoretical perspective, there are some factors which influence the initiating the relationship. One of which are trust (goodwill-based and competence-based trust), mediated power (coercive power and reward power), cooperation, conflict (functional conflict and dysfunctional conflict), formal contract, and initiating relationship is represented by willingness to collaborate.

## **Methodology**

### ***Previous Studies***

The previous studies are collected from 1973 to 2018. This study use Google Scholar (<https://scholar.google.co.id/>), ProQuest (<https://search.proquest.com/>), and Emerald Insight (<https://www.emeraldinsight.com/>) database and use advanced search to find the articles. The keywords or the search terms to collect these studies among which are Business-to-Business (B2B) critical success factors, B2B relationship, B2B market channel, channel relationship,

contract channel, contractual relationship, marketing channels, relationship marketing, and supply chain relationship. The result of this search is the 83 articles from numerous journals and are also classified as conceptual or literature review articles and empirical articles. Out of 83 articles, 14 of them are classified as conceptual or literature review articles, 4 of them are classified as taxonomy or typology articles, and the rest of them (65 articles) are classified as empirical articles. The articles also classified the previous articles based on continent and country (Figure 1).

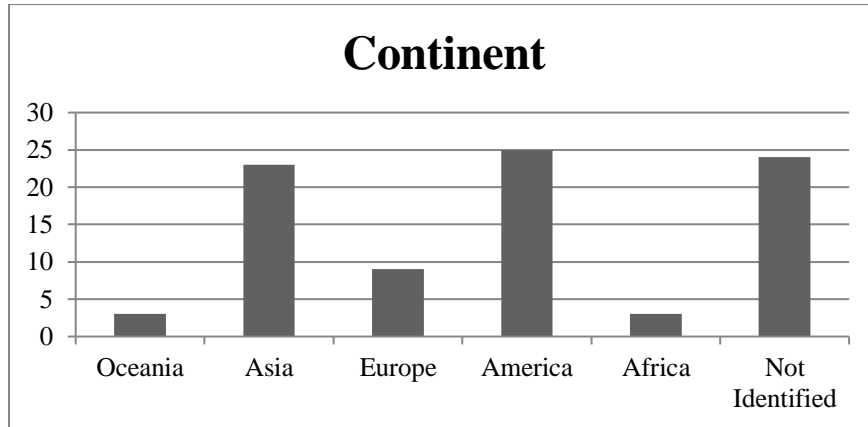


Figure 1. Classification based on Continent

The distribution of 83 articles spread into 5 continents (57 articles), 23 articles do not state which country they have been examined, and one article states that the author examines the research in 42 countries. The result shows that China and United States of America has the most research articles (Figure 1). Further, since this study is conducted in Indonesia, it is important to see the articles that have been conducted in Indonesia and only 2 articles that conducted their research in Indonesia. Additionally, this study classifies the previous articles based on the object under study (Figure 2).

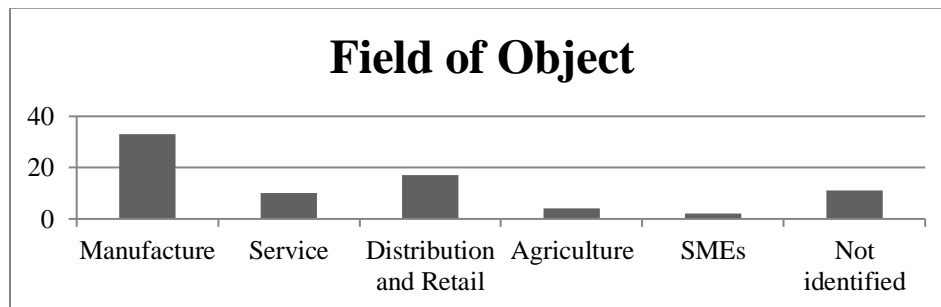


Figure 2. Classification based on Field of Object

The three major fields that have been examined are manufacture in large companies, service fields, also distribution and retail fields. However, from the articles that have been collected, agriculture and SMEs field still receive little attention. Yet, there is limited study examined in the cooperative as their object (Figure 2). Moreover, the previous studies are classified based on the three major theories in B2B relationship, amongst are Transaction Cost Analysis (TCE), Relational Exchange Theory (RET), and Social Exchange Theory (SET) (Figure 3).

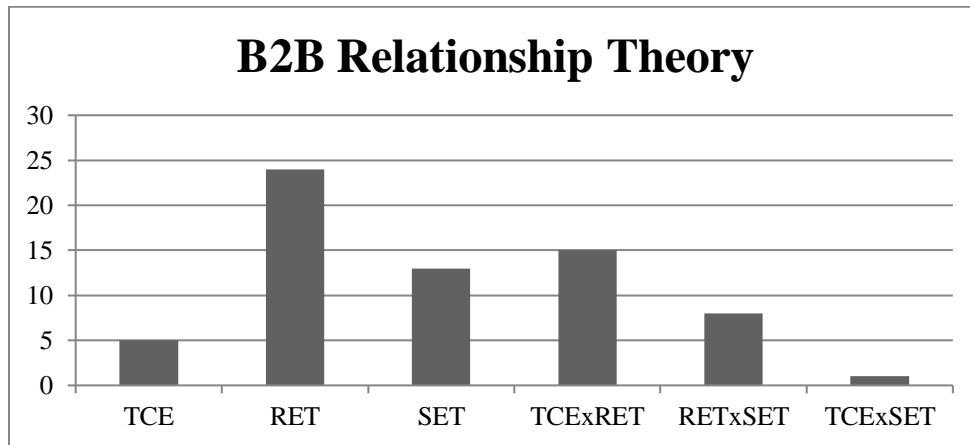


Figure 3. Classification based on the B2B Relationship Theory

According to the previous studies, 16 out of 82 articles are not classified to the three major theories in B2B relationship. The classification theories of rest of the articles (64 articles) are shown in Table A. 5. RET is considered as the most used theory in the previous studies (24 articles). Followed with SET (13 articles) and TCE (5 articles). One article can be classified to more than one theory, but the article of the combination of the three theories is still limited (Figure 3). Therefore, based on this classification, this study wants to combine all three theories. Previous studies show that there is limited research in the Cooperative object and in the developing country, specifically in Indonesia. Besides, previous studies shown that there is still limited article that combine the three major theories as their foundation.

This study chooses trust (goodwill-based and competence-based trust), mediated power (coercive power and reward power), cooperation, conflict (functional conflict and dysfunctional conflict), formal contract, and willingness to collaborate. Not only using theoretical foundation to choose these factors which influence the willingness to collaborate, this study also conducts the interview with some practitioners to validate and support these chosen factors.

**Table 1. Summary of the Chosen Factors**

<b>Factors</b>	<b>Previous Studies</b>	<b>Interview Result</b>
Goodwill-based trust	X	X
Competence-based trust	X	X
Coercive power	X	X
Reward power	X	X
Cooperation	X	X
Functional conflict	X	
Dysfunctional conflict	X	
Formal contract	X	X
Willingness to collaborate	X	X

Table 1 shows the goodwill-based trust, competence-based trust, coercive power, reward power, cooperation, formal contract, and willingness to collaborate are validated by the interview result. The functional conflict and dysfunctional conflict do not appear in the interview result. Hence, even there is limited research regarding to functional conflict and dysfunctional conflict as explained before, this study does not includes these two factors. The object of this study is the Cooperatives in Indonesia that has retail store and they are asked to examine what factors are considered for their desired suppliers to collaborate with.

### **Conceptual Framework and Its Hypotheses**

Trust and power are considered as an instrument to influence the supplier's behavior. In long-term relationships, the use of both power and trust are also used in the interpersonal relationship such as parent-child or employer-employee relationship. Sometimes, the particular relationship is dominated by either power or trust.

However, the use of one of them is not excluding the use of others (Pulles, Veldman, Schiele, & Sierksma, 2014). The uses of power have impact to the partner's trust. As stated in the previous sub-section, goodwill-based trust refers to partner's belief that other partner intent to have good manner in their relationship. Likewise, the goodwill-based trust is developed through the reciprocal process, with the partner obtains benefits and repay this favor in the future (Das & Teng, 2002). The uses of penalties by using the coercive power might oppose the reciprocal process that creates goodwill-based trust. On the other hand, reward power can enhances the reciprocal process (Pulles et al., 2014). Thus, this study hypothesizes H1 and H2:

H1: Reward power is positively influences the goodwill-based trust.

H2: Coercive power is negatively influences the goodwill-based trust.

In the business relationship, formal contract and trust sometimes cannot be separated. Formal contract is one of the factors that develops the trust in business relationships (Ahimbisibwe, Nangoli, & Tusiime, 2012). Even further, according to (Malhotra & Lumineau (2011), the overly use of contract and only leave little room for freedom reduce the development of trust, especially the goodwill-based trust. In contrast, formal contract increase the competence-based trust, considering that formal contract eliminate the intention for cheating and renegeing, and formal contract can force the parties to focus on their roles and responsibilities (Malhotra & Lumineau, 2011). Hence, this study hypothesizes H3 and H4:

H3: Formal contract is negatively influences the goodwill-based trust.

H4: Formal contract is positively influences the competence-based trust.

Furthermore, trust is one of the important factors for the collaboration. Malhotra & Lumineau (2011) argues that the goodwill-based trust increases the probability to continue collaboration, since it helps parties to share accurate information and to be willing to accept dependence on each other. It also founds that the goodwill-based trust in the interfirm relationship is the determinant predictor of future exchange (Malhotra & Lumineau, 2011). This statement also supported by I. Wu et al. (2014) which states trust has the positive influence to the collaboration in supply chain. Therefore, this study hypothesizes H5:

H5: Goodwill-based trust is positively influences the willingness to collaborate.

As there is limited study explains the relationship between goodwill-based trusts; competence-based trust; and cooperation, this study uses the previous studies that explain the relationship between trust and cooperation. Lui et al. (2009) argues that RET expects that trust is positively relates with cooperation. Moreover, trust binds the partners and offers the continuance of relationship and building the cooperation between partners (Afonso Vieira, Monteiro, & Teixeira Veiga, 2011). These statements are supported by Hewett & Bearden (2001) that finds trust affects positively the cooperation. Therefore, this study hypothesizes H6 and H7:

H6: Goodwill-based trust is positively influences the cooperation.

H7: Competence-based trust is positively influences the cooperation.

The partner tends to do business with those who is competent. This means that the lower acceptance of risk, consequently the higher needs of competence trust. Similar with goodwill-based trust, competence-based trust increases the probability of the continuous relationship (Malhotra & Lumineau, 2011; Wu et al., 2014). This also supported by I. Wu et al. (2014)

that argues that trust positively affects the collaboration in supply chain. Thus, this study hypothesizes H8:

H8: Competence-based trust is positively influences the willingness to collaborate.

Power is considered as the core of interfirm relationship. Power, as already explained in the previous sub-section, is the partner's ability to control the behavior and decision of other parties (Yeung, Selen, Zhang, & Huo, 2009). Power is divided into two sub-dimensions; but, this study only explains the relationship between mediated power (reward power and coercive power) and willingness to collaborate.

Reward power tends to have positive influence on the supply chain buyer-supplier relationship (Benton & Maloni, 2005). On the other hand, coercive power tends to have negative influence on the supply chain buyer-supplier relationship (Benton & Maloni, 2005). Moreover, when partner use coercive power to control other partners, the probability the other partner react to avoid punishment, but this factor are tend to impede the supplier integration (Yeung et al., 2009). Thus, this study hypothesizes H9 and H10:

H9: Reward power is positively influences the willingness to collaborate.

H10: Coercive power is negatively influences the willingness to collaborate.

Liu et al. (2009) expects that transaction mechanisms (formal contract) influence the relationship performance. As explained in the previous sub-section, contract offers the legal and institutional outline which guides the fulfillment of task and monitors the exchange between partners. Even that is impossible to have a complete contract mechanism in a uncertain market, but the contract mechanism provides the binding principles, general procedures and responsibilities. This mechanism desirable affects the increase of marketing-related performance (Liu et al., 2009). Therefore, this study hypothesizes H11:

H11: Formal contract is positively influences the willingness to collaborate.

From the previous studies in this section, Lui et al. (2009) argues that the cooperation affects the increase of partnership performance. This study also finds that the increase of cooperation can increases the performance. Thus, this study hypothesizes H12:

H12: Cooperation is positively influences the willingness to collaborate.



Overall, the relationships among factors are illustrated below (Figure 4).

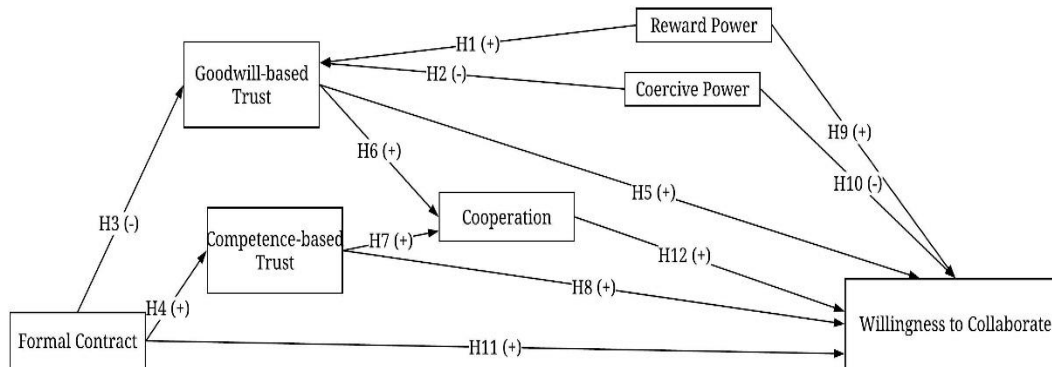


Figure 4. Conceptual Framework

### Conclusion and Further Research

This study tries to make the conceptual framework to examine which factors are influencing the relationship between supplier and Cooperative. Based on the previous studies and preliminary research, this study generates conceptual framework with 12 hypotheses. However, this conceptual framework should be tested empirically in the future to confirm this framework.

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