

THE ROLE OF SUPPLIER SWITCHING COSTS AND SUPPLY CHAIN RESPONSIVENESS

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ABSTRACT - The present study explores the impact of supplier switching costs on supply chain responsiveness in Sri Lankan Micro, Small and Medium scale (MSME) manufacturing firms considering the three categories of switching costs: procedural switching costs, financial switching costs and relational switching costs. Survey data were collected from 188 manufacturing firms and Structural Equation Modeling (SEM) was used to analyse the relationship between variables. Empirical evidence verifies that procedural switching cost is more positively related to supply chain responsiveness than the other two types of switching costs. The relational switching cost is more negatively related to supply chain responsiveness. The most important predictor that has an impact on supply chain responsiveness is relational switching cost. The result also reveals no significant relationship between financial switching costs and supply chain responsiveness. Further, the results verify that the direct relationship between supplier switching costs and supply chain responsiveness is not significant. Thus, this relationship might be influenced by different intervening variables. The findings also expose that supplier switching costs do not play a significant role in the price and product competition in the context of the manufacturing sector in Sri Lanka. Since most firms already have a thoroughly evaluated supplier base with many suppliers for the same raw materials, switching suppliers is not a major dilemma as they can be easily replaced.

Keywords: Supplier switching costs; Supply chain responsiveness; Structural equation modeling (SEM)

1. INTRODUCTION

The business environment now is more global and competitive than it was previously. Shorter product life cycles, fast new product releases, and sophisticated customers who are increasingly savvy and well-informed characterise modern business. As a result of these changes, supply networks are being compelled to become more responsive. Modern supply chains must respond quickly, effectively, and efficiently to market changes in order to maintain and generate competitive advantage. Evaluating supply chain performance can facilitate a greater understanding of the supply chain, optimistically persuade performers' behavior, and enhance overall performance (Chen & Paulraj 2004). Supply chain performance has been discussed under supply chain efficiency and supply chain responsiveness measures in which the study by Tharaka, Suraweera & Galahitiyawa (2017) argued that these two constructs are interrelated but opposing elements (duality). Thus, for this study, supply chain responsiveness has been considered as a supply chain performance measurement construct. Switching cost, which is defined as a contributing factor to supply chain performance, is also perceived as a powerful competitive business tool that leads to lower relationship costs and higher revenues (Matzler et al. 2015). Matzler et al. (2015) claim that only few studies exist on the causes and repercussions of switching costs in the business to business (B2B) setting. According to McLaren, Head & Yuan (2002)

many earlier studies attest to the transaction cost savings of these inter-organisational networks, but fail to account for the costs of moving partners or business processes. Even though switching cost is identified as a contributing factor to performance measurement by (McLaren, Head, and Yuan 2002), the findings do not provide any clear information on the various aspects of switching cost, and it is clear that the three main types of switching costs (Burnham, Frels, and Mahajan 2003) are not included in measuring supply chain performance. In Sri Lanka, the manufacturing sector is a significant contributor to the economy. MSMEs) play a vital role. MSMEs' focal enterprises are primarily based on the relationship between supply chain managers. Therefore, supplier switching cost is of paramount importance to supply chain performance, because the nature of relationship is interpersonal. Hence, the key objective of the study is to investigate how three types of supplier switching costs namely procedural switching costs, financial switching costs and relational switching costs lead to supply chain responsiveness. Based on above literature and the propositions following relationships are hypothesised. Supplier switching costs have an impact on supply chain responsiveness. Procedural switching costs have an impact on supply chain responsiveness. Financial switching costs have an impact on supply chain responsiveness. Relational switching costs have an impact on supply chain responsiveness.

2. METHODOLOGY

The study is fundamentally positioned with objectivism based on the ontological view. As the context of the present study facilitates causal relationships (Saunders, Lewis, & Thornhill, 2009), and it is in line with positivistic approach under the epistemological orientation. Considering the purpose of the study, it can be classified as quantitative approach of sequential explanatory method. Accordingly, Structural Equation Modeling (SEM) is adopted under deductive approach to test the theoretical relationships in the research model. Survey strategy is adopted in which a self-administered questionnaire are used to collect data. Unit of analysis of the study is each supply chain unit that operates in manufacturing firms who manage different supply chains.

3. RESULTS AND DISCUSSION

First hypothesis examines the direct relationship between Supplier switching costs (SSC) and supply chain responsiveness (SCR). It is hypothesised that supplier switching costs (SSC) has an impact on supply chain responsiveness (SCR). The result of hypothesis shows that SSC has an insignificant negative impact on SCR. ($\beta = -0.79, p = 0.121$) at the 95% confidence level. Second hypothesis investigates the relationship between procedural switching cost (PSC) and supply chain responsiveness (SCR). The result demonstrates positive and significant paths from PSC and SCR ($\beta = 0.24, p = 0.002$). Third hypothesis tests the relationship between financial switching cost (FSC) and supply chain responsiveness (SCR). The finding reveals a positive but statistically insignificant connection between FSC and SCR ($\beta = 0.61, p = 0.113$). Fourth hypothesis investigates the relationship between relational switching cost (RSC) and supply chain responsiveness (SCR). The results demonstrated a negative but statistically significant connection between RSC and SCR ($\beta = -0.42, p = 0.000$).

4. CONCLUSION

The findings reveal that the direct relationship between supplier switching costs and supply chain responsiveness is not significant. Thus, this relationship might be influenced by different intervening variables. Furthermore, the impact of procedural, financial, and relational switching costs on the desire to stay with the current supplier will vary based on the specific relationship attaching the focal firm to the supplier. The findings also exposed that supplier switching costs do not play a significant role on the

price and product competition in the context Sri Lankan MSME manufacturing firms. Because most firms already have a thoroughly evaluated supplier base with many suppliers for the same raw materials, switching suppliers is not a major dilemma as they can be easily replaced. Future research should also examine the impact of other variables that can mediate the relationship between supplier switching cost and supply chain responsiveness in this model.

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