

“Implementing Relationship Strategy”

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Abstract

The domain of interest, while investigating inter-organizational relationships has been the boundary functions of marketing and purchasing. Understanding the effect of proper cultural orientation of the critical value creating functions within the organization on the successful implementation of relationship marketing strategy requires attention. Managers who are charged with the responsibility of implementing a relationship strategy often encounter skepticism within the organization from the functional managers. In pursuing a relationship paradigm, the old ways of adversarial exchanges need to give way to the new ways of doing business that is built on trust and commitment. The functional departments need to believe in relationships as a way of doing business. This research explores the impact of the internal attitude toward relationship paradigm on relationship outcome. In this paper, we develop a framework of relationship strategy implementation and argue that functional managers need to buy into the relationship paradigm in order for relationship strategy to work.

Introduction

In the last decade or so there has been a lot of interest in the area of alliances and relationships, which has been viewed as the business model for the nineties both by academic scholars and practitioners [1]. Many companies have attempted to engage their suppliers and buyers in long-term relationships with varying degrees of success. The boundary spanning functions of marketing and purchasing have generally been the initiators of this business practice within their organizations with the extreme points being from a traditional transactional relationship to a deep relationship where the selling firm has staff working within the buying firm [2]. Once a firm commits to a relationship-based strategy it must succeed in creating a successful relationship or its strategy fails. Successful relationships begin with internal commitment to relationship performance and success. The domain of interest while investigating the antecedents of relationship phenomena in marketing has always been the inter-organizational setting that focused on only the boundary functions of marketing and purchasing. However, for relationships such as buyer-seller relationships to succeed, the participants within the buyer and seller organizations should view them not just as a marketing or a purchasing technique, but as a true business paradigm. To achieve success in this new paradigm the departments critical to ensuring the success of the relationship need to be aligned with and supportive of the goals of the relationship.

Meaningful exchange of value between the buyer and the seller organizations is dependent not only on the boundary functions but also on the organization as a whole. Therefore, the cultural orientation of all the critical value creating functions become important to the successful implementation of relationships. Unfortunately, our knowledge about contribution of factors internal to business units to the success of the relationship is quite limited since studies on relationship marketing have rarely looked within the organization. Taking an organizational perspective that calls for a framework that integrates micro individual behavior and macro organizational behavior [3], we argue for a strong need to understand the impact of proper orientation of the value creating functions within the organization on the success of relationship marketing outcome. Successful implementation of the relationship strategy can be brought about by a commitment by the key functions that support the delivery of value to the relationship, to a cooperative activity that supports the firm's strategy. Thus drivers of successful implementation can only be understood by combining the effects of both individual as well as organizational variables.

Traditional contractual exchanges were set often in an adversarial business paradigm that governed the inter-organizational transactions. In this scenario the different functional groups within an organization worked with well-defined expectations and near precise functional goals. The super-ordinate goals of the organization were kept in the background and the functional groups acted in line with the functional norms that govern their interactions with other departments.

In contrast, relational exchanges are set in a cooperative paradigm and are built on the foundations of trust and commitment. The super ordinate goals of the organization that participates in the relationship may be the governing expectation regarding the overall outcome. These expectations from the functional departments may be kept purposely broad and imprecise in order to arm the relationship management team with the requisite flexibility to deliver value in an atmosphere of trust and long-term commitment. This means that the functional departments themselves need to become more flexible and move to a framework of trust and commitment in their dealing with the members of other functional departments in order to successfully implement the relationship strategy. This shift, if done using a directive from the top management, may not progress beyond the superficial as disagreements between functions can stem from differences over facts, goals, methods or values [4]. However, if the various functional departments themselves buy into the relationship paradigm, then they consciously adopt this paradigm shift that will contribute to the long-term success of buyer-seller relationships. Figure 1 depicts how the primary contact between firms moves from the purchasing agent and the salesperson to broad groups of individuals in the buying and selling firm who are responsible for the success of the relationship.

Figure 1. some where here

In the Bow Tie arrangement that depicts a transactional exchange [5], the value creating functions within buyer and seller organizations have a conduit in marketing and purchase functions that channeled the exchange of communication and resources. Relational exchanges, in contrast have a structure similar to a Diamond where the various value creating functions in partner organizations freely communicated among one another and exchanged information and resources in order to achieve relationship objectives. In order for this Diamond structure to survive and perform, we need the functional managers responsible for the relationship to adopt the ways of the relationship paradigm. The successful implementation of the relationship strategy thus depends upon the shared beliefs of these functional managers regarding the fundamental tenets of relationship marketing paradigm.

Inter-organizational relationships in business-to-business markets have been studied with the view to improving relationship outcome/performance. In this stream of research the goal has been to access the benefits that accrue to sellers [6] and buyers [7,8] when they engage in long-term relationship instead of “arm’s length” type of interaction. Further, relationship formation has also been seen as a governance mechanism to safeguard the investment of the relationship partners against each other’s potential opportunistic behavior [9]. This stream of research has in its foundation, a transaction cost perspective to the establishment of inter-organizational relationship [10]. Therefore, this research approach suffers from the same criticism that has been leveled against traditional economics as well as

other organizational theories such as Agency Theory and Resource Dependence Theory etc. Much of the criticism stems from the tendency of these theories to make predictions of organizational functioning and performance while treating individuals and groups as “black boxes” whose functioning they do not explain [3]. Therefore, despite the growing focus on inter-organizational relationships as one of the key elements of marketing strategy, the literature is deficient in focussing on factors internal to business units that affect the successful implementation of relationship strategy.

There are many ways by which factors that are internal to an organization can affect the outcome of buyer-seller relationships. Refusal of functional departments to coordinate effectively to deliver the goods could result in poor performance. This could ruin the outcome of a relationship if creation of value by one internal partner is contingent upon the timely completion of certain activities by the other internal partner. Internal partners refer to the various functions that are responsible for creating and delivering value in a buyer-seller relationship. Since goals of different functional areas and their personnel are rarely consonant, inter-functional interactions could often be a source of conflict. Another factor that is equally important is the orientation of the functional managers towards relational interactions as opposed to “arm’s length” interactions that characterized the exchanges of the past. Managers encode past experiences into routines that guide behavior [11]. This is captured in the following response by one of the executives as reported in Lyons et al. [12]: “We’ve had to outplace or retire some of our most

experienced, veteran buyers. It was just too much to expect them to change from playing poker with suppliers to cooperating with them. The old ways and the new games just didn't match." Managers have been known to make sense of the environment by forming simplified mental model [13]. However, the sheer volume of incomplete and flawed data on the environment would overwhelm the limited capacity of managers to extract meaning out of them [14]. Thus, in spite of the fact that the organization has embarked on a cooperative strategy in dealing with its relationship partners the internal managers may still retain the adversarial attitude formed from the earlier times. Since this clearly will have an impact on the value that an organization creates for its customers it becomes important that the managers have a positive "relationship orientation". They need to believe in the relationship paradigm for relationships to work as a business strategy.

Conceptual Framework

A model of the effects of intra-organizational factors on the inter-organizational factors leading to performance given in figure 2.

Figure 2 some where here

The core building block of this framework is inspired by the literature on organizational culture that espouses the notion that the pattern of beliefs, values, and expectations shared by members of an organization which produce norms to

shape and control behavior [15]. Although relatively new to the field of marketing, numerous marketing scholars conceptualize the rich potential explanatory power of organizational culture as a predictor of customer relationships, and other marketing issue [16]. In viewing the organization as a perceived, enacted environment [17], we seek to understand the underlying beliefs and attitudes that managers use to enact the environment in which the inter-organizational relationships such as the buyer-seller relationships are built and maintained. However, we do not assume that the internal policies and procedures are subsumed in the cultural dimension. Thus, although we are inspired by the organizational culture literature, we follow, given our objective, a modified approach to our framework. In this framework, we retain some internal moderators that the cultural perspective assumes to be within its core construct. The various factors and their relationships are discussed in the following sections.

Internal Factors

The Industrial Marketing and Purchasing Group (IMP Group), using an ethnographic methodology, developed an “interaction approach” to describe the nature and scope of supplier-customer interaction [18]. They conceptualized buyer-seller interaction as dyadic at both the firm and individual levels with the interaction influenced by the atmosphere and the environment of interaction. Building on the IMP literature, [19] argued that the individuals’ attitudes, goals, and experiences influence their behavior within the interchange episodes.

Consequently, we focus on the internal value creating functions wherein cognition of individual manager matters in ensuring successful relationship outcomes. This is not to argue that the internal factors are more important than the inter-organizational factors; but to enrich our overall understanding of the factors that lead to successful relationships.

Our fundamental research question deals with how the f the beliefs and attitudes of individual managers within the organization with the cooperative paradigm can potentially contribute to the success of relationships. Therefore, we are interested in constructs that capture those beliefs at the individual manager's level. We call the new construct as "Alignment with Relationship Paradigm (ARP)". The requirements of this construct are that:

- a. It should reflect the legacy of relationship marketing paradigm
- b. It must emphasize personal beliefs and attitudes and all the managers who are involved in creating relationship value, irrespective of their functional affiliations, must be able to relate to it
- c. It should be conceived at the level of the individual

Specifically, we define "Alignment with Relationship Paradigm (ARP)" as an individual manager's attitude towards cooperative buyer-seller relationships as a preferred business model. This construct is the result of the recognition that change initiatives need to seek to influence individuals' beliefs along with

behavior. Once again, drawing a parallel with organizations' attempts to make their members more customer-oriented in order to make the organization more customer-oriented [20], we argue that the ARP construct will help us understand how managers' shared cognition will influence the relational behavior of the organization. Further, cognitive origin of individual behavior has had a rich tradition in consumer behavior research, where the psychological basis of behavior has been widely acknowledged [21]. This construct has similar appeal and the study of its antecedents and consequences will facilitate knowledge development.

Dimensions of ARP

At the core of the relationship paradigm lies a need to cooperate with business partners. Thus one of the dimensions of ARP is the "*Attitude towards cooperation in business relationships*". This dimension captures the strength of the beliefs of individual managers towards having a cooperative relationship with other the buyers/sellers. Trust has been mentioned as the other key component of relationship marketing paradigm. Though there are multiple definitions and operationalizations of trust that exist, the need for trust between buyers and sellers has been emphasized in literature [22]. Therefore the individual managers need to believe that trust is important in the organization's dealings with its partners. Thus the second dimension of ARP is the "*Attitude toward trust in business relationships*". The last major discriminating belief that sets the relationship

paradigm apart from the arms-length transaction is the willingness of the partners to be interdependent. Therefore, managers involved in creating relationship value need to believe that it is all right to be dependent on one another. Thus, the last dimension of ARP is the “*Attitude towards interdependence in business relationships*”.

External Factors

Attitudes of an organization’s managers towards cooperative relationships will undoubtedly influence its relational behavior in exchanges i.e. an organization that has managers holding a positive attitude towards a relationship paradigm is expected to exhibit relational behavior. Because a positive attitude towards cooperative relationships should influence relational behavior, one place to look for the type of behavior that can be expected is in the literature on relational norms. Therefore, to understand what constitute relational behavior in inter-organizational settings, we draw from studies that have explored relational norms in many marketing channel and buyer-seller contexts. Based on Macneil’s [23] relational exchange theory, relational norms relate to how partners to an exchange behave under a particular type of contract. Kauffman and Dant [24] modified Macneil’s framework and arrived at seven types of relational norms that govern certain types of commercial exchanges. However, for our purpose, we adopt the three norm types developed by Heide and John [25]: *flexibility, information exchange and solidarity*. We believe that the three components are particularly

appropriate for buyer-seller relationship settings and also note that they have been used to measure relational behavior in similar studies [26].

Flexibility refers to the expectation that the appropriate behavior when one of the partners is facing an unanticipated crisis is for the other partner to be willing to renegotiate the original terms of the contract to take into account the changes in the contractual environment. *Information exchange* refers to the expectation that the appropriate behavior for both exchange partners is to communicate frequently, informally, and with full disclosure. Finally, *solidarity* is the expectation that it is appropriate for exchange partners to work in the best interest of the relationship and it is inappropriate for them to make moves that secure only unilateral gain [25]. Whereas high relational norm relationships may be characterized as partnerships or cooperative, low relational norm relationships are “arm’s length” or competitive. Further, in high relational norm relationships, exchange partners are more committed and demonstrate a long-term orientation [27] and expect the relationship to continue into the future [28]. We argue that the relational behavior exhibited by a partner is influenced, apart from the structure of the contract, by the beliefs of the managers that are involved in creating relationship value. Thus, a strong positive ARP will lead to stronger relational behavior by partners to exchange relationships.

Outcome

We examine the relationship partner's performance according to the rational goal model that views organizations as striving for efficiency and productivity [29]. This approach leads to six aspects of efficiency and productivity: sales growth, profit growth, overall profitability, liquidity, labor productivity, and cash flow. It is proposed to measure these performance items with respect to a focal relationship under investigation.

Internal Moderators

If the strong positive alignment with the relationship paradigm by the managers has to lead to positive relational behavior, the internal organizational policies and contexts need to be supportive. Though several environmental and individual characteristics moderate the relationship, two concepts from the organizational literature [30] have a key role in explaining how such cooperative attitudes reinforce relational behavior at the organizational level. The two concepts are resource dependence and domain similarity. We add reward structure to the list of internal moderators that moderate the relationship between ARP and relational behavior.

Resource Dependence

Resource dependence reflects the importance to a member of one value-creating functional area of obtaining resources from another area to accomplish his or her objectives. Resource dependence provides the impetus for, and determines the level of, inter-functional interaction [31]. Since resource dependence influences the extent and quality of interaction between functional department [32], higher levels of resource dependence among functional areas should lead to members with a stronger attitudes towards relationship paradigm getting a higher chance to influence the organization's relational behavior.

Domain Similarity

Domain similarity refers to the degree to which two different individuals or departments share the same goals, skills, or tasks. Domain similarity increases the benefits of joint action and is positively related to the level of interaction [32]. High levels of goal congruity promote a long-term perspective based on equity of rewards and costs. Therefore, higher domain similarity would result in a more positive relationship between ARP and relational behavior.

Reward Structure

Reward systems that are not supportive of the relationship paradigm tend to promote a feeling of independence and individuality rather than promoting a feeling of membership and interdependence. Systems that reward individual achievement –and they are the norm- do not facilitate, and they sometimes impede, effective implementation of the relationship paradigm within the organization [11]. For managers with positive ARP to successfully contribute to the relational behavior of the organization, the reward system should also be supportive. We believe that an interdependent reward structure would enhance the size of the effect of ARP-relational behavior relationship.

External Moderators

Inter-organizational relationships vary with respect to the structure of interdependence and the level of non-retrievable investment that characterizes the relationship. We use these two variables as external moderators in our framework.

Interdependence

Interdependence is one of the key structural elements that determine the level of conflict, trust, and commitment that exists in a relationship [33]. Heide and

John [24] find that more powerful or dominant firms can extract safeguards on many factors. This may lead to partner placing less reliance on relational behaviors to achieve relationship success. Under these circumstances, the effect of ARP on relational behavior may not be all that pronounced. Kumar et al [33] capture the structural elements of relationships at a dyadic level by the level of total interdependence and interdependence asymmetry. Total interdependence refers to the sum of dependence of the two partners to the exchange and the level of interdependence asymmetry is defined as the difference between the level of dependence of the two partners on one another [33]. In order to maintain the level of analysis at the organizational level, we capture the essence of the dependence structure by *own dependence* and *other's dependence*. These refer to the level of one's dependence on its partner and the level of the dependence of the partner on self.

Non-retrievable investments

Non-retrievable investments are defined as the relationship-specific commitment of resources that a partner invests in a relationship [19]. These non-retrievable investments (capital improvements, training, and equipment) cannot be recovered if the relationship terminates. The existence of not only of these non-retrievable investments, but also of the amount at stake, creates a hesitation within the parties to terminate a relationship. This hesitancy is directly related to the transaction specific investments (TSI), described by Williamson [9]. These

investments co-determine the choice of governance mechanism that in turn would highlight or suppress the importance of relational behavior. Thus we believe that higher levels of *transaction specific investments* (TSI) will positively influence the ARP-relational behavior relationship.

Research Propositions

In this section, we use the research framework to develop a preliminary set of research propositions. Attitude toward the relationship is the combination of attitude toward the three key variables that are critical to exchange relationships. They are trust, cooperation and interdependence. There is a need for the managers who are involved in value creation to have a positive attitude towards cooperative relationships. They also should have a healthy disposition towards the role of trust and interdependence in exchange relationships. It is intuitive that a manager who has a high degree of these attitudes would contribute to the desired relational behavior of the organization that he or she is part of. Thus:

Proposition 1: Relational behavior exhibited by the organization in inter-organizational relationships varies directly as the degree of positive attitude toward cooperative relationships of the individual managers involved in the creation of value in a relationship.

In relational exchanges, it is reasonable to expect that greater relational behavior of the relational partner should lead to better performance. Therefore,

Proposition2: Relationship performance of the organization varies directly with the level of positive relational behavior.

The relationship between cognitive attitude and relational behavior may be more meaningful when the context within the organization is more conducive to encourage relational behavior. The way the rewards are shared or the incentives are determined should be in such a way that it encourages relational behavior. If the organization commits to a relational exchange externally, but persists with a reward structure that encourages selfish behavior, then the attitudes of the managers may not convert into action. Similarly, for managers with healthy attitude toward cooperative relationships to influence the organizational relational behavior, their goals should be aligned to the organizational goals that are well articulated with respect to relational exchanges. Further, the way internal tasks are dependence on one another will also moderate the influence of managers' cognition on organization's relational behavior. Thus,

Proposition 3: The level of resource dependence, domain similarity that exists among the functions, and the way the reward structure is designed moderates the effects of attitude of the managers responsible for creating value in a relationship on the relational behavior.

Relational behavior is also influenced by the structure of the inter-organizational dependence that exists between the relationship partners. This interdependence also will moderate the effects of the attitude of the relationship managers toward cooperative relationships on relational behavior. Thus,

Proposition 4: The relationship between the attitude of the managers responsible for creating value in a relationship and the relational behavior of the organization is moderated by the structure of interdependence that exists between the two relational partners and the level of non-retrievable investments made by the partner.

Levels and Method of Analysis

A detailed analyses of the factors that affect an organization's relational behavior and outcome requires an operational theory and data collection methods that cut across and link several levels of analysis. A central issue in examining the relationship between attitude of individual managers and the organizational outcome is to decide whether to use a measure at the department or functional level or at the individual managers' level. Since, the flow of resources and information between individuals in different departments serves as the *primary* link between the departments as they carry out their daily activities, the individual manager is the suitable level of analysis. Thus the internal factors comprising the

three dimensions of ARP need to be measured at the individual managers level. The external factors and outcome may be measured at the organizational level.

There are moderators both at the organizational and dyadic level that need to be considered. While internal moderators are clearly at the organizational level, the external moderators can also be conceived as variables that can be measured at the organizational level. As already mentioned, in order to maintain the level of analysis at the organizational level, we may capture the essence of the dependence structure by *own dependence* and *other's dependence*. These refer to the level of one's dependence on its partner and the level of the dependence of the partner on self.

The way this model is set up, there are two ways in which we can analyze the data to test it. One way is to run a set of linear regression models to test the main propositions and the moderator effects. The other more useful method is the use of structural equations modeling. The latter would provide us with the flexibility of running several competing or nested models before we choose an acceptable model.

Managerial Implications

Effective management of alliances begins with effective management of the internal partnerships necessary to support the relationship. Managers need to

create organization structure that supports the alliance as well as managing the individual's attitude toward cooperation with other internal partners and external alliance partners. It may be very useful to bring the group leaders of the internal partners into a relationship development team that is charge with supporting the external alliance. By being involved from the beginning the team can help shape the external alliance in a form that the team can successfully support. Each partner on the team must be able to deliver what is promised to the external partner.

The internal team members can define the organizational level variables that will enhance the external relationship or damage it. Early identification lets the team move to make changes to improve the support structure of the external alliance.

Managing a buyer-seller relationship is relatively easy compared to doing a relationship with a sometime competitor. A buyer-seller relationship likely emerges from a current transactional relationship. Changing the paradigm means changing the culture and reward system. In the JIT II® model the buyer and salesperson are replaced by a product planner from the selling firm who works at the buyer firm. The product planner is charges with enduring that the buyer has the corect product in the volume need at the appropriate time. There are clearly defined goals in this system.

At the other end of the spectrum is creating a relationship with a competitor. There is generally limited cooperative history between the firms. The success of the relationship will depend on each firm aligning the internal groups that must support the relationship. The ARP needs to measure current attitudes and if they are not conducive to supporting the relationship they must be changed. Changing ARP attitudes is not an easy task. If key individuals do not believe that cooperation is a viable paradigm successfully implementing a relationship strategy may be difficult to achieve.

Managing and developing trust in a relationship needs to be discussed within and between the partners. Many North American managers are uncomfortable with their success depending upon the performance of a partner and this feeling intensifies when the partner is a sometime competitor. Understanding trust and its management is important. How trust is manifested may vary across cultures and therefore, it is even more difficult to manage trust across cultures. The reward systems of both firms need to be aligned to generate behaviors that enhance and support the relationship. Management should proactively drive cultural and structural change to create the supportive environment that makes the firm a sought after partner.

Summary and Future Course of Action

Alliance growth seems to be in the working with erstwhile competitors and marketing and promotional partnerships between non-competing firms. We are

entering relatively uncharted waters and need to attend aligning the firm to become a world class alliances partner. As an initial step in focusing attention on this issue, we presented a conceptual framework to understand how the beliefs and attitudes held by managers who are responsible for creating relationship value may influence the relational behavior and relationship performance of an organization. We discussed the key dimensions of a new scale called Alignment with Relationship Paradigm (ARP) that is to be used to measure the attitudes of individual managers. We also identified the internal and external moderators that may influence the focal relationship. A logical next step would be to empirically test this model in the real world.

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Figure 1.
Schematic Representation of Firm Contact Patterns in Traditional Interaction and
Interaction in a Deep Relationship (Adapted from Hutt & Speh [5]).

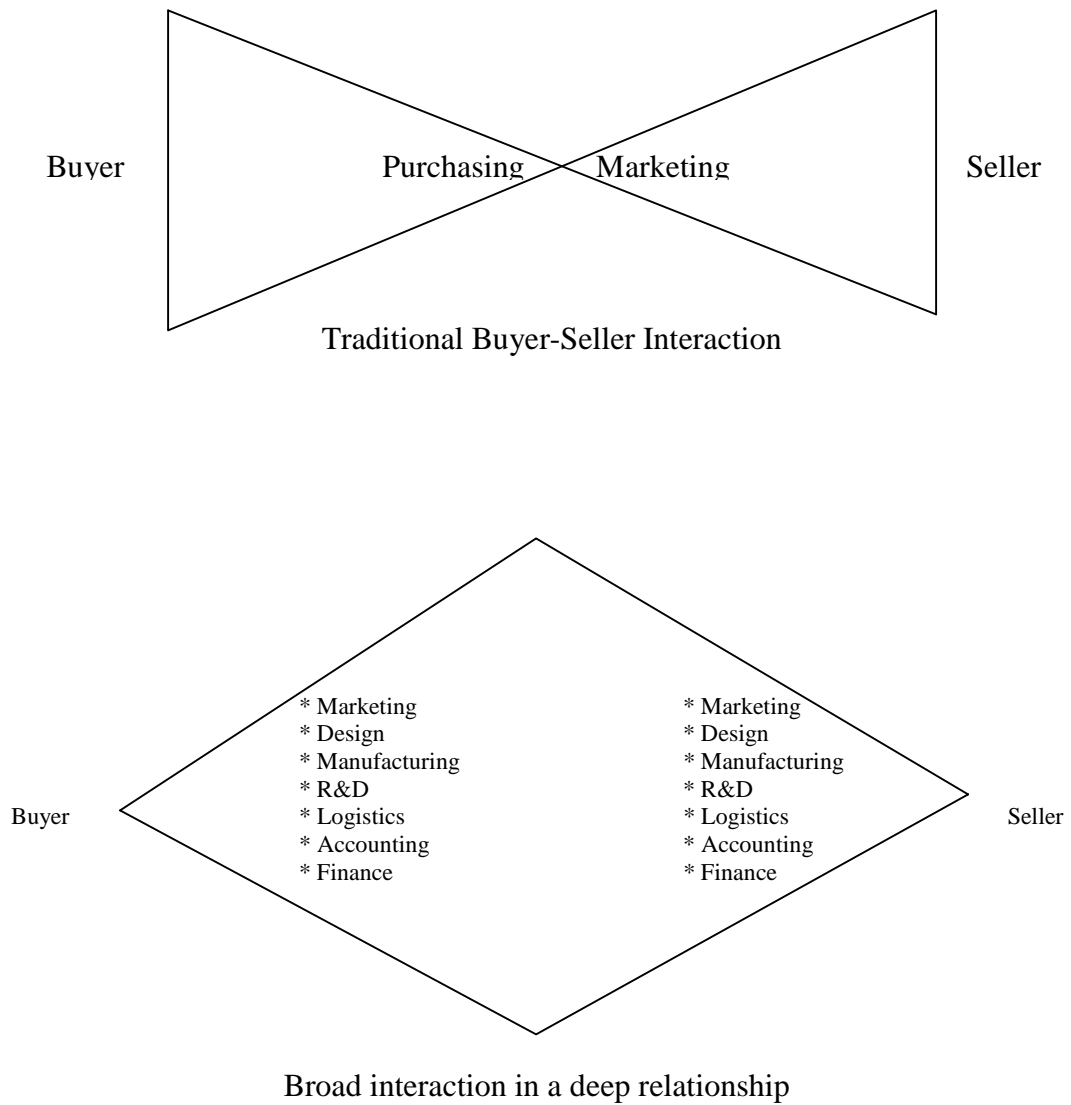


Figure 2.

A Model of the Effects of Intra-organizational Factors on the Inter-organizational Factors Leading to Relationship Performance

