The Effects of Interaction Process Characteristics between the Supplier and the Buyer on Relationship Value and Firm Performance

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Declaration

I confirm that no portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

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Abstract

The thesis contributes to enhance current understanding of the interaction process characteristics between the supplier and the buyer creating relationship value and leading to the overall performance of the firm in interorganisational relationships under a variety of environmental characteristics of the firm and competitive strategies adopted by the firm. This study defines interaction process characteristics between the supplier and the buyer as structural characteristics, functional characteristics and climate characteristics. Structural characteristics consist of centralisation and formalisation, functional characteristics consist of joint action and information exchange, and climate characteristics consist of trust and commitment. It addresses the following research questions: (1) How are interaction process characteristics defined? (2) Do environment characteristics of the firm affect the interaction process characteristics of the firm and its partner? (3) Does competitive strategy of the firm affect the interaction process characteristics of the firm and its partner? (4) Is relationship value defined as the sum of sub-dimensions of value in the relationships between firms? (5) Do interaction process characteristics affect relationship value? (6) Does relationship value affect the overall performance of the firm?

This research was designed and conducted on the basis of quantitative methods. Data have been collected with the drop-and-collect survey method by means of a questionnaire based on a survey of the buyer or the supplier in the factory automation system, the IT and the automotive manufacturing industries in South Korea. Sample size is 409 (response rate: 44.95%). Analysis results show that the effects of complexity and dynamism on interaction process characteristics are not significant, while munificence has a positive effect on interaction process characteristics. The effects of

business strategy on interaction process characteristics are significant. In terms of the relationships between interaction process characteristics and their consequences, climate characteristics such as trust and commitment have considerably significant effects on relationship value and overall performance of the firm.

In conclusion, this research adds to the body of knowledge about the integrated framework of interaction process characteristics in supplier-buyer relationships. First of all, in the IT and automotive industries, munificence, that is the availability of critical resources which a firm needs to compete, is the key environmental characteristic that the firm should consider to achieve overall performance. Secondly, regarding business strategy, differentiation and cost leadership strategies have positive effects on interaction process characteristics in structural, functional and climate dimensions. Thridly, this study contributes to the identification of the dimensions of relationship value and the development of its measurements. Relationship value consists of several subdimensions such as economic, operational, strategic and behavioural value and the integrated framework including subdimensions of relationship value is examined with the measurements developed in this study. The effect of relationship value on the performance of the firm is considerably significant.

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Chapter 1. Introduction

1.Introduction

1.1 Research Background

In the rapidly, unexpectedly changing and increasingly complex world of business, building, sustaining and developing successful business relationships with a variety of actors in the market or counterparts in the supply chain has been underscored as a critical issue for the survival and better performance of the firm. Moreover, since relationship marketing was introduced in the 1970s, practitioners and researchers in marketing have been interested in relationship management and the relationship performance of the firm (Egan 2008). Furthermore, the critical role of the relationship characteristics between suppliers and buyers or their influence upon the overall performance of the firm has been demonstrated by extensive empirical findings in marketing literature (Kabadayi, Eyuboglu, and Thomas 2007). Amongst a variety of relationship characteristics, the structure of the relationship (Reve and Stern 1986; Robicheaux and Coleman 1994) as a key antecedent of the performance of the firm in the supply chain has specifically been focused upon and discussed by marketing researchers. Therefore, marketing literature (Macneil 1980; Dwyer, Schurr, and Oh 1987; Heide and John 1992) is replete with perspectives that shed light on the underlying structural characteristics of supplier-buyer relationships. For example, transaction cost theory (Williamson 1975, 1985), which emphasises efficiency and effectiveness, has been used to interpret the nature of governance in the supplier-buyer relationship (e.g., Heide 1994; Heide and John 1992), while relational contract theory (Macneil 1980) explains the spectrum of governance structure interpreted by discrete versus relational exchanges in industrial buyer-seller relationships (e.g., Dwyer, Schurr, and Oh 1987; Lusch and Brown 1996) and resource dependent theory (Pfeffer and Salancik 1978) views interfirm governance as a strategic response to conditions of uncertainty and dependence in the buyer-seller relationship. Additionally, operational or functional factors between relational firms also have been discussed in relation to other main antecedents of the performance of the firm. For example, social exchange theory (Blau 1968; Thibaut and Kelley 1959) focuses on functional factors such as the process

of relationship development and maintenance (e.g., Lambe, Wittmann, and Spekman 2001).

Each of these theoretical perspectives has made a considerable contribution to marketing studies that specially focus on the determinants and desired performance of relationships. Through these perspectives, the importance of each factor of the interaction characteristics among firms such as the decision making structure of the relationships or operational factors has been focused. However, there is still a need to discuss the variety of dimensions of interaction characteristics with an integrated approach. Interfirm relationships should be considered within the integrated framework crossing paradigms (Narayandas and Rangan 2004), as each factor does not operate individually. Rather, a considerable number of factors can affect each other during the building and remaining of relationships among firms. From this perspective, this study focuses on the dimensions of interaction process characteristics with an integrated framework. In fact, many studies have already been forced to develop an integrated paradigm. Primarily, strategy researchers have sought ideal configurations that make contributions to firm's performance by examining the fit between structure and performance with strategic and environmental factors (Ruekert, Walker and Roering 1985; Olson, Slater and Hult 2005; Kabadayi, Eyuboglu and Thomas 2007). Another example of the integrated framework can be the political economy paradigm (PEP). Dwyer and Oh (1987), Ruekert, Walker, Jr. and Roering (1985), Arndt (1983) and Stern and Reve (1980) have proposed the political economy paradigm (PEP) as a guiding framework for the study of causal relationships between channel structure and performance with an integrated approach. Furthermore, on the basis of the political economy paradigm (PEP) (Stern and Reve 1980) and transaction cost analysis (TCA), Robicheaux and Coleman (1994), which is considered a seminal work of the integrated framework in a relationship structure, suggests the channel relationship structure model which outlines the decision making structure and operational integration dimensions. They remarked that political economy variables need to be studied in a multitude of ways within the interrelated processes framework. Therefore, this study develops the integrated framework including a variety of characteristics dimensions of interaction

process among firms and discusses their causal relationships, which consequently demonstrate how a variety of interaction process characteristics affect the performance of the firm. In doing so, this study adopts both dimensions of the decision making structure and operational integration as structural and functional characteristics of interaction process. This builds upon on the work of Robicheaux and Coleman's work (1994). However, there still remain some questions regarding relational or climate characteristics such as relational characteristics by organisational member's perception that have been considered as key concepts in relationship marketing. Climate has an important implication for organisational behaviour to lead motivation and performance. Channel researchers, for instance, have viewed a transaction climate as an important determinant of performance and stressed mutual trust or goal compatibility as the climate of a channel relationship (Reve and Stern 1986). Therefore, climate characteristics should be considered in the integrated framework along with Robicheaux and Coleman's two dimensional approach about the structure of marketing channel relationships. For this reason, this study focuses on structural, functional and climate characteristics as three dimensions of interaction process characteristics and examines their effects on the overall performance of the firm.

In addition to the development of the integrated framework among political economy variables, this study focuses on value creation in interfirm relationships that eventually contributes to firm performance. In particular, relationship value (Ulaga and Eggert 2005; Ravald and Grönroos 2005; Wilson and Jantrania 1994; Zeithaml 1988) and value creation (Anderson 1995; Chu, Chintagunta, and Vilcassim 2007; Holm, Eriksson, and Johanson 1999; Tzokas and Saren 1999) have been discussed as the important drivers of a firm's performance as well as the performance itself of the firm. Value creation is paramount to any firm's survival (Kotler and Keller 2008; Lindgreen and Wynstra 2005) in dramatic environmental changes in business marketing (Doyle 2009; Hunt 1999). In fact, the investigation of value in business-to-business relationships has a long and established tradition in marketing literature (e.g., Anderson and Narus 1998; Jackson 1985; Lindgreen and Wynstra 2005). Furthermore, understanding about typologies of value in customer markets (Holbrook 1994; Lai 1995; Sheth, Newman, and Gross

1991a) and business to business relationship (Gassenheimer, Houston, and Davis 1998) can be vital to understand how relationship value is achieved and its effects on firm performance in the supply chain. As a seminal work about the type of relationship value, Wilson and Jantrania (1994) suggest that relationship value can be identified as several sub-dimensions such as economic, strategic and behavioural value. Such suggestions notwithstanding, a set of curious gaps persist in the empirical and theoretical studies. In fact, there are extremely limited empirical studies in terms that what kinds of value can be created and how each type of value can be achieved. To extend that body of knowledge of relationship value, the study about the subdimensions of relationship value is necessary. Although many researchers outlined the importance of the relationship value as an antecedent of performance (Kotler and Keller 2008; Lindgreen and Wynstra 2005), there are not enough empirical studies in terms of the effect of relationship value on firm performance because the definition of value in the interorganisational context is not easy and instruments to operationalise a variety of types of relationship value for empirical analysis are not existent (Becerra 2009). Empirical studies in relationship value have been primarily addressing one type of value, namely the economic value, because it is much easier to measure and analyse (Becerra 2009; Chu, Chintagunta, and Vilcassim 2007). Subsequently, it is necessary to research not only classifications of relationship value but also the development of measurements about the subdimensions of relationship value for empirical studies. To fulfil these gaps between the empirical and theoretical studies regarding relationship value, this study focuses on the identification of the types of relationship value and develops the measurements of subdimensions of relationship value. Additionally, this study discusses relationship value as a mediator between interaction process characteristics and overall performance of the firm.

In conclusion, armed with the above insights, this research attempts to fill in this gap by discussing in detail the results of an empirical study which has been purposively designed to take into account supplier-buyer relationships on development of integrated framework. First of all, this will contribute to understanding of interaction process characteristics between firms. Second, by examining the integrated framework, this

study will contribute to understanding how the characteristics of interaction process operate under a certain environment of the firm and competitive strategies adopted by the firm. Third, this study will contribute to the extension of knowledge body of relationship value by classifying the types of relationship value and examining their relationships with interaction process characteristics and firm performance. In doing so, particularly, the measurements for several types of relationship value are also developed in this research.

1.2 Research Objectives

The overall objective of this research is to enhance our understanding of the interaction process characteristics between the supplier and the buyer leading to the overall performance of the firm in interorganisational relationships by examining configurations of associated environmental, strategic variables, interaction process characteristics variables and outcome variables such as relationship value and firm performance.

Armed with the above insights, this study has three more specific objectives, which are as follows.

The first objective is to discuss key characteristics of interaction process between firms in the supply chain and to examine the multiple dimensions of interaction process characteristics as integrated characteristics.

The second objective is to explore and examine how environmental characteristics and business strategies of the firm affect interaction process characteristics.

The third objective is to classify the dimensions of relationship value as a consequence of the interaction process between firms in the supply chain and to develop measurements of a variety of types of relationship value for an empirical study. These will be the main theoretical contributions of this study in relationship value research. In

addition, the study examines the effects of interaction process characteristics between firms on relationship value and the overall performance of the firm.

The purpose of developing an analytical framework of the interaction process between the supplier and the buyer is to provide guidance for acting on it in order to create value through relationships with partners and in doing so, increase overall performance of the firm.

In conclusion, it is necessary to explore the constructs that characterise the interaction process within which buyers and suppliers relate. First, building on theories of relationship marketing and empirical research across several disciplines, this research specifies six key underlying constructs. It consists of configurations on the basis of structural, functional and climate characteristics dimensions. Second, as antecedents of interaction process characteristics, the environmental characteristics of firms and business strategy adopted by the firm are considered. Among a variety of environmental characteristics, this study focuses on complexity, dynamism and environmental munificence because they are considered as main environmental characteristics in the supply chain. In terms of business strategy variables, Porter's (1980) competitive strategy such as differentiation and cost leaderships are considered in the study. Third, as consequences of interaction process characteristics, the relationship value acquired through interaction process between the buyer and the supplier and the overall performance of the firm are discussed. It is necessary to discuss not only definition of relationship value as the configurations of sub-concepts of relationship value but also development of the measurement items based on literature about value creation in relationship marketing.

1.3 Research Questions

The previous section 1.2 introduced the research objectives. These objectives lead to more specific research questions which are as follows:

1. *How are interaction process characteristics defined?*

2. *Do environment characteristics of the firm affect the interaction process characteristics of the firm and its partner?*

3. *Does competitive strategy of the firm affect the interaction process characteristics of the firm and its partner?*

4. *Is relationship value defined as the sum of sub-dimensions of value in the relationships between firms?*

5. *Do interaction process characteristics affect relationship value?*

6. *Does relationship value affect the overall performance of the firm?*

1.4 Research Methodology

The extant literature outlines the need for empirical research concerning the integrated framework of the interaction process characteristics under a variety of business environments and competitive strategies. The research design contains a quantitative research technique. Data has been collected with the drop-and-collect survey method utilising a questionnaire based on a survey in the factory automation system, the electronic components, and the automotive manufacturing industries in South Korea. The conceptual framework of this research is examined by the research model developed on the basis of hypotheses. In order to examine the good fit of the hypothesised model that has causal relationships among variables, structural equation modelling (SEM) with MPlus software programme is used.

1.5 Contributions of the Study

The study contributes to the body of knowledge in three discernible areas including three dimensions of the interaction process characteristics, four dimensions of relationship value, methodological implications:

1.5.1 Three Dimensions of the Interaction Process Characteristics

This research adds to the body of knowledge about the integrated framework of interaction process characteristics in supplier-buyer relationships. The extant literature has mainly focused on structural characteristics among firms, but the integrated factors in the interaction process need to be considered. This study suggests that interaction process characteristics can be considered as three dimensions such as structural, functional and climate characteristics. This extends understanding of interaction process characteristics by adding climate characteristics and adjusting structural and functional characteristics in Robicheaux and Coleman's (1992) the framework of channel relationship structure.

1.5.2 Four Dimensions of Relationship Value

The definition of relationship value is unclear in the extant literature. Additionally, relationship value is defined as unidimension factor of relational performance or an economic value achieved by the relationships between firms. In order to understand the methodology used in the creation of a relationship value in the supply chain, a number of key dimensions or types of relationship value need to be considered. Additionally, as there is lack of empirical study regarding the dimensions of relationship value with measurement items of relationship value, this study necessarily focuses on identification of the dimensions of relationship value and development of measurement items for them. This study will contribute to the understanding of relationship value in the supply chain.

1.5.3 Methodological Implications

This study contributes to research methodology in two points including survey method in the industrial marketing research and empirical studies by structural equation modelling (SEM).

1.6 The Structure of the Thesis

The thesis consists of nine chapters. The structure of the proposed research thesis is organised as follows.

Chapter One, the current chapter as the introductory chapter proposes research objectives and set out question while describing the structure of the thesis.

Chapter Two provides a comprehensive review of the pertinent literature on the field of the study and shows the theoretical model as an overview of the framework of the study. This chapter explores the origins, definitions and scope of relationship marketing as theoretical origins and the background of this research. Following a discussion of the main principles it dentifies the strong and weak points of the various theoretical approaches to business relationship such as transaction cost analysis (TCA), agency theory, social exchange theory (SET), resource dependent theory (RDT), resource-based view of the firm (RBV), and political economy paradigm (PEP). Finally, the conceptual framework of this research is represented.

Chapter Three discusses the constructs of interaction process characteristics which form the main part of the framework in this study. In short, all constructs as latent variables of interaction process characteristics are selected and explained on the basis of pertinent literature.

Chapter Four discusses the constructs of environmental characteristics and the business strategy of the firm as the antecedents of interaction process characteristics.

Chapter Five discusses the constructs of relationship value and firm performance as the consequences of interaction process characteristics.

Chapter Six establishes the hypotheses by considering the causal relationships among antecedents and consequences of interaction process characteristics in buyer-supplier relationships.

Chapter Seven describes the characters of the analytical methods used in this research and the epistemology on which this research is based. Additionally, this chapter introduces the data collection methods chosen by this research as well as the sampling and the process involved in the collecting of the data based on the survey. Finally, this chapter explains the measurement items used including the relationship value measurement items that emerged in the pilot test.

Chapter Eight presents the analysis of the data and discussion of the analysis results. As the beginning stage of the analysis, after data screening, this chapter tests the reliability and the validity of constructs and validates the measurement model. Finally, the main research model and rival models are examined in this chapter. Next in this chapter, all results are presented and the key findings are discussed.

Chapter Nine is the conclusion of this research. This chapter provides an outline of the crucial findings of this research, and underlines its main theoretical contributions and managerial implications. Finally, it discusses limitations of the research and proposes directions for future research.

Figure 1.1 illustrates the structure of the thesis.

Figure 1.1 The Structure of the Thesis

Chapter 1:
The Background of the Study and the Structure of the Thesis

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Chapter 2:
Literature Review

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Chapter 3:
Interaction Process Characteristics

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Chapter 4:
Antecedents of Interaction Process Characteristics

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Chapter 5:
Consequences of Interaction Process Characteristics

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Chapter 6:
Hypotheses

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Chapter 7:
Methodology

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Chapter 8:
Data Analysis and Discussion

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Chapter 9:
Conclusion and Implications
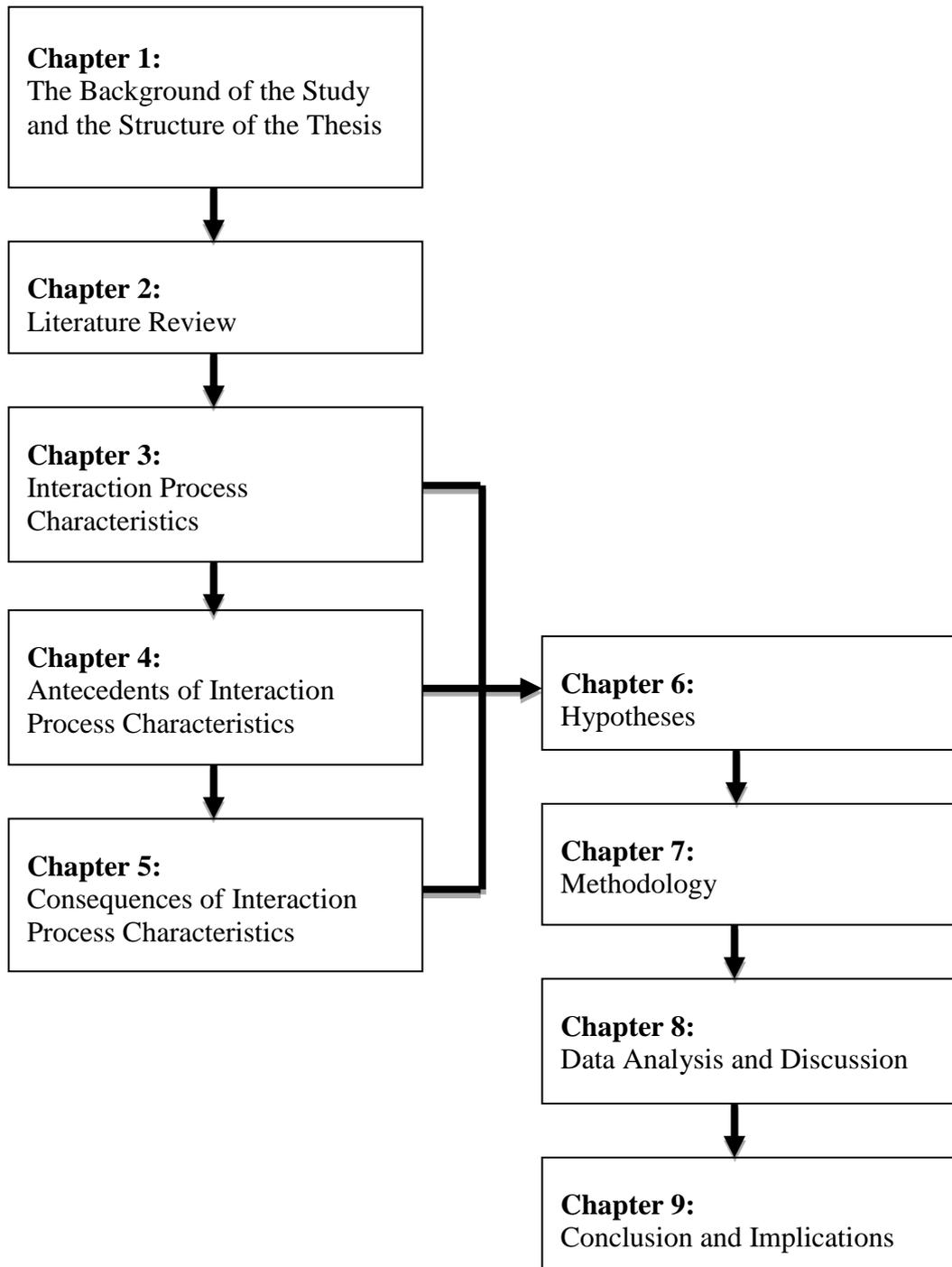
Chapter 2. Literature Review and Conceptual Framework

2. Literature Review and Conceptual Framework

2.1 Introduction

This chapter aims to establish the theoretical background of this research by positioning it within relationship marketing literature, and by comprehensively reviewing theoretical approaches to relationships in business such as transaction cost analysis (TCA), agency theory, social exchange theory (SET), resource dependence theory (RDT), resource-based view of the firm (RBV) and political economy paradigm (PEP). On the basis of understanding various theoretical viewpoints pertaining to the relationships between suppliers and buyers, this chapter concludes with the development of the conceptual framework of this research.

The chapter consists of three main sections. It begins by providing an overview of relationship marketing in section 2.2. In this section, the origins, definitions and scope of relationship marketing (RM) are explored through the debates and suggestions in pertinent studies. Section 2.3 engages in a discussion of the main principles and presents the strong and weak points of the various theoretical approaches to business relationships. Finally, section 2.4 illustrates the key parts of the conceptual framework of this research within the overall theoretical background of relationship marketing.

Overall, this chapter aims to achieve a clear understanding of the theoretical background of this study through an appreciation of how the concept of relationship marketing originated and how relationship marketing can be defined by a variety of theoretical approaches. In addition to this, the chapter builds the conceptual framework of this research, which provides focus, direction and guidance throughout the research process and the development of this thesis.

2.2 Overview of Relationship Marketing Studies

2.2.1 The Origins of Relationship Marketing (RM)

Even though the term *marketing* appeared as a relatively recent phenomenon in academic literature (Bartels 1988), much of what we would recognise as marketing practice today has existed and has been discussed since Ancient Greece within a variety of concepts such as markets, marginal analysis, value, production, competition and the role of governments emerging at that time (Egan 2008; Wilkie and Moore 2003). At the turn of the twentieth century, modern marketing commenced by shifting attention to more structured academic research which was first directed to the area of market distribution as a topic that was evolving and assuming great prominence in the marketplace (Bartels 1988). Since the 1950s, the topic of marketing management has grown rapidly (Egan 2008).

While marketing boundaries have consistently expanded, academics studying marketing noticed a salient gap between practitioners' interests and their outcomes. In the late 1970's, a variety of researchers in marketing associations, such as the American Marketing Association (AMA) and the Marketing Science Institute (MSI) noticed the importance of practical implications in academic marketing and consequently evaluated the effect of marketing research on marketing practice (Mentzer and Schumann 2006). They concluded that academic marketing research and theories have very little impact on improving marketing management practice (Egan 2008; Myers, Massey, and Greyster 1980). Therefore, with this new academic realisstation, researchers have had the opportunity to reflect on the practice of marketing and appreciate that firms faced a new paradigm shift in the marketing environment. In practice, with increasing turbulence in marketing, the interests of firms have moved, from transaction oriented principles of short term and discrete exchanges to development and maintenance of long-lasting relationships between firms and their partners or counterparts in the supply chain (Sharma et al. 1999). With the interaction approach between firms in the supply chain, research in marketing has highlighted the importance of developing relationships among actors for effective marketing (Sharma et al. 1999). Hence, the genuine paradigm shift (Kotler 1991; Parvatiyar, Sheth, and Whittington 1997) from transaction marketing to relationship marketing occured. Here, the concept of *Relationship Marketing (RM)* is considered "a directional change in both marketing theory and

practice" (Morgan and Hunt 1994, p.20) and "a fundamental reshaping of the field" (Webster 1992, p.1). Therefore, it can be said that the appearance of *Relationship Marketing (RM)* in marketing research came from the self-reflection of academics about the little impact of research on marketing phenomena in business and the result of the effort of academics on marketing in terms of catching up with the practitioners.

Relationship Marketing (RM) is a term encompassing a wide range of 'relationship type' strategies that have developed over the past few decades in products as well as service markets and in consumers as well as business-to-business sectors (Egan 2008). The core of relationship marketing is related to the establishment, development and maintenance of relations among the actors in its micro-environment such as the companies, their suppliers, market intermediaries, the public and customers (Ravald and Grönroos 1996). Researchers in relationship marketing view the formation of relationships in the market as a strategic response to industry conditions. For example, Hunt and Lambe (2000) approach *relationship marketing* with the strategic discourse of the industry-based, resource-based and competence-based theories of the firm (Veloutsou, Saren, and Tzokas 2002). The domain of relationship marketing seeks to provide the means and directions for organisations to create and manage an environment dedicated to mutual value creation (Gruen 1997). Moreover, the relationship-oriented exchange between firms has created advantages in terms of sales growth, profitability and financial performance (Kalwani and Narayandas 1995) as well as cooperation and management of conflict (Palmatier, Dant, and Gremler 2007).

2.2.2 Definitions of Relationship Marketing (RM)

The term *'Relationship Marketing (RM)'* alluded to by Thomas (1976) was first explicitly used by Berry (1983). This concept has encompassed several areas of marketing including *relationship contracting* (Macneil 1980), *buyer-seller relationships* (Dwyer, Schurr, and Oh 1987), *working partnerships between distributor and manufacturer firms* (Anderson and Narus 1990), *strategic alliances* (Day 1990; Heide and John 1990), *co-marketing alliances* (Bucklin and Sengupta 1993), *internal marketing* (Berry and Parasuraman 1991), *distribution and channel relationships*

(Ganesan 1994; Siguaw, Simpson, and Baker 1998)*, service marketing* (Crosby, Evans, and Cowles 1990; Crosby and Stevens 1987), *customer-focused management* (Gummesson 1994), and *relationship management* (Payne 1995). Therefore, relationship marketing may not be a simple concept to comprehend and implement. Researchers find that it is not easy to agree on "what constitutes a relationship in the channel or if a close and long-term relationship is always desirable or possible" (Pressey and Tzokas 2006, p.1). Although no single definition of relationship marketing is universally accepted, these have been advanced in a way that shares a high degree of commonality (Arndt 1979).

Berry (1983, p.25) used the term '*relationship marketing'* as a part of a critique of services marketing literature and defined it as:

> "…attracting, maintaining and enhancing customer relationships" in multi-service organisations

This viewpoint emphasised that a *relationship view of marketing* implies a retention and development that are of equal importance to the company in the longer term as customer acquisition (Egan 2008). From this point of view, many researchers, including Robicheaux and Coleman (1994), Hunt (1997), Mattsson (1997) and Payne and Frow (1997) have adopted the view that the focus of relationship marketing is on establishing and maintaining relationships with partners.

Building on this definition of relationship marketing, Berry and Parasuraman (1991, p.133) explain it as:

> "…attracting, developing, and retaining customer relations."

Gummensson (1991, p. 62) describes *relationship marketing* thus:

> "…establishing a relationship involves giving promises, maintain a relationship is based on fulfilment of promises, and finally enhancing a relationship means that a new set of promise is given with the fulfilment of earlier promises as a prerequisite."

Sheth and Parvatiyar (1995) view *relationship marketing* as:

> "...attempts to involve and integrate customers, suppliers, and other infrastructural partners into a firm's developmental and marketing activities."

The concept of relationship marketing was taken further by pioneers in the early stage of the development of this concept. For instance, Grönroos (1994) claimed that marketing was not a case of 'battlefields' (Egan 2008) of the traditional marketing view but of 'value-laden relationships' (Grönroos 1994), as put forward by the new marketing view. Building on this concept, many researchers focus not on 'winners and losers' but on 'win-win' situations in business relationships. For instance, Sheth and Sisodia (1999, p.82) note "the clear evidence of a shift from the adversarial mind-set by the 'bargaining power' perspective towards a cooperative stance focused on mutual gain." Additionally, Gummesson (1997) suggested that the relationship marketing approach resulted in both parties deriving mutual value from their transactions. This viewpoint of marketing implies that relational exchange produces something that neither of the two can produce in isolation and that cannot easily be duplicated (Håkansson and Snehota 1995). It is just value made by means of the relationship between both parties. Therefore, relationship marketing is seen as "an ongoing process of identifying and creating new value with individual customers and the sharing the value benefit" with them over the lifetime of the association (Gordon 1998, p.9).

Building on this ongoing process point of view, Tzokas and Saren (1996) define relationship marketing as:

> "…the process of planning, developing and nurturing a relationship climate that will promote a dialogue between a firm and its customers which aims to imbue an understanding, confidence and respect of each other's capabilities and concerns when enacting their role in the market place and in society."

In addition to this, Morgan and Hunt (1994) point out that, conspicuously, all extant definitions of relationship marketing miss the point that not all relationships necessarily

have a customer as one of the exchange participants. In short, they consider that relationship marketing can be discussed within a variety of exchange relationships as opposed to within relationships between buyer-supplier/seller in the supply chain. For example, although there is not a customer in strategic alliances between competitors, it is still within the process of relationship marketing. Therefore, Morgan and Hunt (1994, p. 22) define the term as:

> "…all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges."

2.2.3 Scope of Relationship Marketing

The scope of *Relationship Marketing (RM)* is at the core of its philosophy and outlines the way in which researchers view the relationships that firms establish and develop with external and internal constituencies. In particular, the reason why the discussion and understanding of the scope of relationship marketing is needed is that it provides an explanation of how the market effectiveness of the firm is directly affected by its internal and external constituencies and their interrelationships (Tzokas and Saren 2004; Veloutsou, Saren, and Tzokas 2002).

Although research in relationship marketing has focused on the supplier-customer relationship, as Morgan and Hunt (1994) point out, the scope of relationship marketing is becoming wider. According to Gummesson (1999), marketing is more than just the dyadic relationship between buyer-seller. Rather, it is a series of "relationship, network and interactions" (Gummesson 1999, p.1). Therefore, the aim of relationship marketing (Grönroos 1994, p.9) is to

> "…identify and establish, maintain and enhance and where necessarily terminate relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met; and this is done by mutual exchange and fulfilment of promises."

Not surprisingly, the scope of relationship marketing has been addressed by a number of authors (Christopher, Payne, and Ballantyne 1991; Doyle 1995; Kotler 1992; Möller

and Halinen 2000; Morgan and Hunt 1994; Webster 1992). For instance, in terms of industrial marketing, Araujo and Easton (1996) illustrate no less than ten schools of the Industrial Marketing and Purchasing Group (IMP) thinking, which range from social science, organisation studies, technology, innovation management, purchasing and marketing management. Although there are a variety of schools in this research field, the majority of research has focused on the general characteristics organically evolved in their structure and development processes (Möller and Halinen 1999). Regarding kinds of markets, Peck et al. (1999) note that marketing would revolve around maximising value through its boundary spanning roles in internal markets, referral markets, influence markets, recruitment markets, and alliance markets with suppliers. Mattsson (1997) discusses the differences and similarities between *relationship marketing studies* and *network studies*, while Möller and Halinen (2000) distinguish the types of relationship marketing as *market-based relationship marketing* and *network-based relationship marketing*. Particularly, Möller and Halinen (2000) comprehensively review the pertinent literature on four marketing research traditions (i.e., business marketing as interaction and networks, channel marketing, service marketing, and database marketing and direct marketing) that had a major impact on the relationship marketing field (Brodie et al. 1997; Coviello, Brodie, and Munro 1997; Gummesson 1996; Halinen 1994; Möller 1994; Morgan and Hunt 1994). Table 2.1 shows a condensed comparison of these research approaches and Figure 2.1 broadly explains the roots and types of relationship marketing based on four marketing research traditions based on Möller and Halinen (2000).

Figure 2.1 Roots and Types of Relationship Marketing
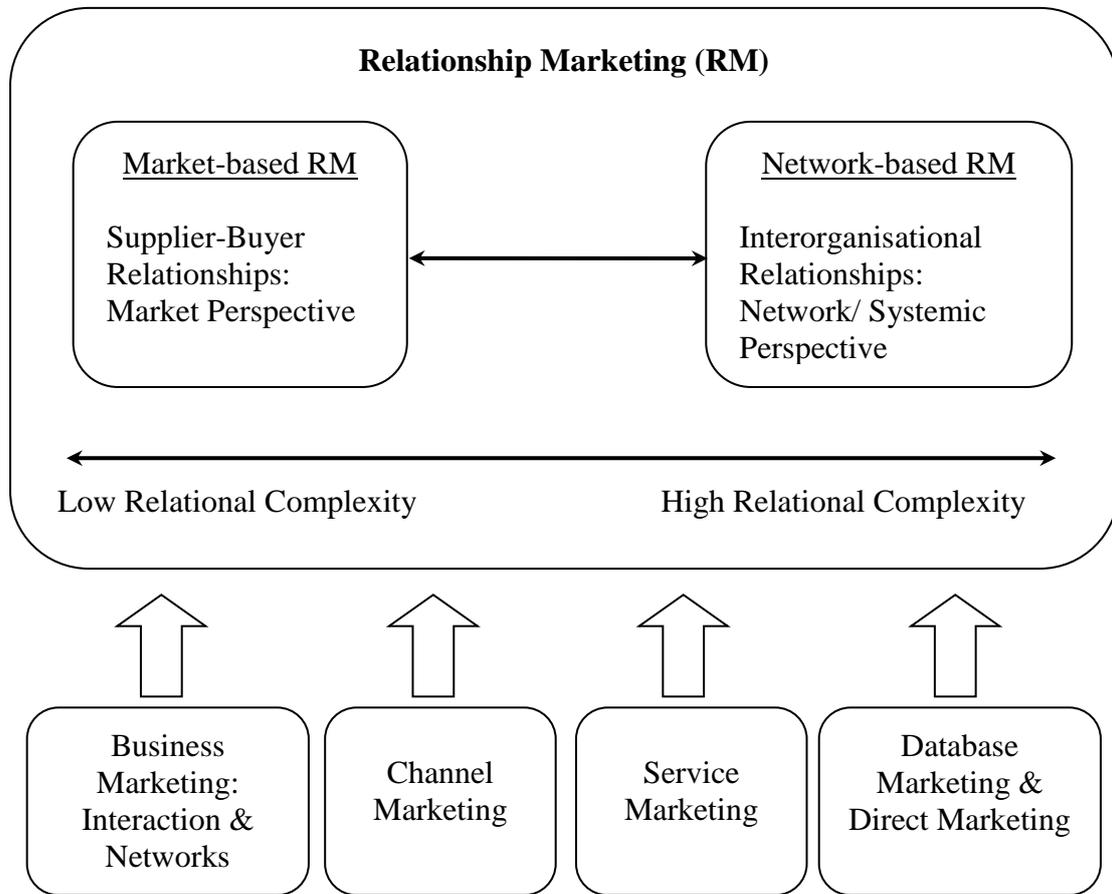
Source: Adapted from Möller and Halinen (2000)

On the basis of Möller and Halinen (2000), the scope of relationship marketing in this research is that which exists between suppliers-buyers based on market perspective rather than relationship marketing based on the network perspective. This is because the present research focuses on the characteristics of the interaction process between buyer and supplier in the supply chain rather than the network structure among firms within the industry to which a firm belongs.

Table 2.1 Comparison of Marketing Research Approach to Exchange Relationships

Research Traditional Characteristics	Business Marketing: Interaction & Networks	Channels Marketing	Service Marketing	Database and Direct Marketing
Managerial Goals	Gain a more valid view of reality through network theory	Determine efficient relational forms between channel members	Enhance the efficiency of managing relationships through managing the perceived quality of the service offer	Enhance marketing efficiency through better targeting of marketing activities
View of Relationship	Relationships exist between different types of actors (e.g. firms, organisations, individuals) who exchange all kinds of resources	Business relationships characterised by economic exchange and use of power. Actors are dependent on each other and behave reciprocally	Personal customer relationships attended by service personnel and influenced through other marketing activities	Organisation-personal customer relationships handled through customised mass communication
Level/Unit of Analysis and Contextuality	Actor (organisation, person), dyadic relationship, net of relationships. Transactions are episodes in the long-term relationships	Firm, dyadic relationship in the channel context. Contingency perspective: dyadic behaviour and efficient forms of governance are dependent on the channel context	Individual customer, group or segment, service provider-client relationship. History of a relationship handled through experience	Individual customers, a group of consumers. The competitive situation is the general perspective
Topics/Concepts Important for RM	Interaction process, adaptation and investments in relationships, actor bonds, resource ties, activity chains, relationship outcomes and phases of relationships; nets and networks of relationships; network dynamics and embeddedness	Uses of power and conflict, interdependence, goal congruity, decision domains, transaction-specific investments, switching costs, dyadic governance, environmental influence on dyadic behaviour, communication, dyadic behaviour, communication, dyad outcomes	Service encounters, experience and expectations, service and relationship quality, lifetime value of the customer, internal marketing, empowerment of personnel	Customer retention, share of a customer, database as a device for managing direct communications, integrated use of channels

| Relevant Studies | Axelsson and Easton (1992); Dwyer and Tanner (2008); Ford (1997); Ford et al. (2006); Gemunden, Ritter and Walter (1997); Halinen (1997); Håkansson and Snehota (1995); Juttner and Schlange (1996); Möller and Wilson (1995); Tzokas and Saren (2004); | Anderson and Narus (1984); Chryssochoidis (1999); Coughlan et al. (2011); Geyskens, Steenkamp and Kumar (1998); Grundlach, Achrol and Mentzer (1995); Heide and John (1990, 1992); Kabadayi, Eyuboglu and Thomas (2007); Pressey, Tzokas and Winklhofer(2007); Rosenldoom (2011); Sharma et al. (1999) | Bateson (1999); Crosby, Evans and Cowles (1990); Grönroos (2007); Gwinner, Gremler and Bitner (1998); Parasuraman, Zeithaml and Berry (1985); Reichheld and Sasser (1990) | Berger and Nash (1998); Jenkinson (1995); Peppers and Rogers (1997); Pine, Peppers, and Rogers (1995); Shaw and Stone (1988); Stepard (1999); Stone and Jacobs (2007); Wang and Spiegel (1994) |

Source: Adapted from Möller and Halinen (2000)

In addition to the scope of relationship marketing, relationship marketing research has been mainly proposed in three areas. These are related to 'the rationale for relationships', 'relationship process' and 'relationship structure' (Eiriz and Wilson 2006).

Firstly, the rationale for relationships is discussed within the whole processes of relationships including establishing, developing, maintaining and terminating of relationships. The discussion about the rationale for relationships can be extended to clarifying the definition of relationships and the forms of relationships represented by relationship marketing (Blois 1996; Mattsson 1997). Secondly, the relationship process, through which relationships are established, developed, maintained and terminated, is connected to the explanation that takes appropriate account of crucial concepts in relationship marketing such as trust, commitment, adaptation, uncertainty, information sharing, joint action, assistance and value (Anderson and Narus 1998; Brennan and Turnbull 1999; Cannon and Perreault Jr. 1999; Dwyer, Schurr, and Oh 1987; Ravald and Grönroos 1996; Veloutsou, Saren, and Tzokas 2002; Wilson 1995; Wilson and Jantrania 1994; Woodruff 1997) as well as expected relationship outcomes that can have an influence on relationship maintenance, development and orientation (Heide and Stump 1995; Palmatier, Dant, and Gremler 2007; Voss and Voss 2000; Walter, Müller, and Ritter 2003). Finally, relationship structure, which manages the relationship process, is related to understanding how firms organise and manage their relationships and which forms of relationship structure and governance are more useful for managing the marketing of relationships (Eiriz and Wilson 2006).

In conclusion, the scope of this research focuses upon the 'relationship process' and 'relationship structure' (Eiriz and Wilson 2006). This research develops an integrated framework in terms of the interaction process between the firm and its partner within the scope of relationship process and relationship structure rather than the rationale for relationships itself. In particular, the dimensions of the interaction process in the research are developed by structural characteristics (within the scope of relationship structure), by functional and by climate characteristics between firms (within the scope of relationship process).

2.3 Theoretical Approaches to Relationship in Business

To clarify and understand theoretical approaches to the study, this section revolves around key theoretical approaches to business relationship. The theoretical approaches in the study of relationships or networks among firms have been developed on the basis of several disciplines including economics, sociology, social psychology, law, organisation and political sciences. Moreover, literature on traditional marketing channels consists of two main research streams; namely, the microeconomic and the behavioural paradigm (Stern and Reve 1980). The two approaches differ with respect to the implicit view of the governance decision (Heide 1994). The original microeconomic paradigm focuses on the view how effectively and efficiently the governance decision makes a choice between the internal and external organisation (Bucklin 1970), while the behavioural paradigm focuses primarily on the design of mechanisms for controlling the performance of individual channel members and their governance. This is a matter of establishing and employing power as well as of coordinating the efforts of different channel members (Heide 1994).

Based on theoretical approaches in organisations governance and organisation theories, there have been efforts by researchers to compare and classify the characteristics of theoretical approaches in relationship marketing. For instance, Heide (1994) discusses four theoretical approaches to inter-organisational governance as the marketing channels theory, resource dependence theory, transaction cost theory, and relational contraction theory, while Miles and Snow (2007) classify organisation theories with perspectives focused on strategic choice, resource development and knowledge sharing. From an integrated point of view, Hult (2011) classifies the thirty-one main organisation theories including agency theory, resource-based view of the firm, resource dependence theory, and transaction cost economics in order to discuss the key boundary-spanning role of marketing. Moreover, Eiriz and Wilson (2006) provide a systemic theoretical overview of how the current status of studies in relationship marketing is influenced by these disciplines. As they stress, the relationship mapping among theories is actually not only considerably helpful to understand the relationships among approaches in pertinent studies, but it is also of critical importance when explaining the position and contribution of any research in relationship marketing. Therefore, this research adapts

and develops the relationship mapping among theories and its research position. Figure 2.2 illustrates a basic overview of major theoretical approaches in relationship marketing studies and the theoretical position of this research within the relationships between these approaches.

Following the theoretical mapping of this research, in terms of the main theoretical approaches to inter-organisational governance such as *transaction cost analysis (TCA), agency theory, social exchange theory (SET), resource dependence theory (RDT), resource-based view of the firm (RBV) and political economy paradigm (PEP),* the theoretical characteristics and criticisms of each theory will be discussed respectively in sections 2.3.1 to 2.3.6. Then, in section 2.4, the conceptual framework of this research will be developed on the basis of the inter-organisational governance theories discussed above.

Figure 2.2 Overview of Theoretical Foundations of Relationship Marketing Research and Position of the Research

Strategic Management	Political Science	Economics	Organisational Science	Sociology & Social Psychology

Resource Based View	Resource Dependence Theory	Transaction Cost Analysis	Agency Theory	Relational Contracting Theory & Social Exchange Theory

The Resource-based Principle	The Contracting-based Principle

Political Economy Paradigm

Interaction Approach	Industrial Network Approach

The Theoretical Position of This Research

Supplier-Buyer Relationships-based Studies	Supply Chain-based Studies

Relationship Marketing Studies

Source: Adapted from Eiriz and Wilson (2006) and Becerra (2009)

2.3.1 Transaction Cost Analysis (TCA)

Over the past several decades, *Transaction Cost Analysis (TCA)* has been researched in a broad range of studies in fields including sociology (e.g. Granovetter 1985), political science (e.g. Moe 1991), organisation theory (e.g. Barney and Hesterly 2006a), corporate finance (e.g. Smith and Schnucker 1994) and marketing (e.g. John and Reve 2010), although it is most strongly advocated by economists such as Oliver Williamson (e.g. 1979; Williamson 1985). Initially, this theory was developed by Ronald Coase (1937) who was awarded a Nobel prize in Economics for his early work on transaction costs (Coase 1991). Interestingly, although this theory appeared in the 1930s, the term *'Transaction Cost'* did not appear in the literature until the 1970s. The contribution of this theory to the marketing discipline was first manifested in the seminal work of Williamson (1979; Williamson 1985; Williamson 1996), who added considerable precision to Coase's general argument by identifying the types of exchanges that are more appropriately conducted within firms' boundaries than within the market scope (Donaldson and O'Toole 2007). Like most influential theories, transaction cost theory continues to be refined, reformulated, corrected and expanded, in response to new theoretical and empirical developments which have taken place since the basic premise of transaction cost theory had its origins describing markets and hierarchies as alternative governance structures. As several transaction cost analysis (TCA) critics have noted, the concept of *transaction cost* was not articulated clearly in Williamson's (1975, 1985) original framework (Rindfleisch and Heide 1997). For instance, Rindfleisch and Heide (1997) proposed the concept of transaction costs by the source and nature of the most common forms of transaction costs. They posit that transaction costs may arise in the form of direct or opportunity costs (Malone 1987; Masten, Meehan, and Snyder 1991) and that these costs are directly related to asset specificity, environmental uncertainty and behavioural uncertainty. Indeed, *transaction costs* can generally be represented in terms of two major components, coordination costs and transaction risk (Clemons, Reddi, and Row 1993). Coordination costs are the cost of exchanging information and incorporating the information into the decision process. In a manufacturer–supplier dyad situation, a variety of costs might arise. Here, costs can be considered as costs of exchanging information on products, price, availability, demand, as well as the costs of exchanging design changes rapidly with the supplier. On the other

hand, transaction risk can refer to the risk that other parties in the transaction might shirk their agreed responsibilities (Grover and Malhotra 2003). Therefore, the firms within relational exchange need to consider not only coordination costs but also transaction risk as exchange costs.

The central question of transaction cost analysis (TCA) is whether transaction is more efficiently performed within a firm (vertical integration) or outside it, by autonomous contractors (market governance) (Geyskens, SteenKamp, and Kumar 2006). In particular, this theory suggests that organizational performance is enhanced when the governance structure of the transaction is congruent with the underlying dimensions of the exchange. Therefore, TCA has also generated considerable interest in marketing (Anderson 1985). According to Rindfleisch and Heide (1997), TCA studies can be classified within one of four main contextual domains: (1) vertical integration, (2) vertical interorganisational relationships, (3) horizontal interorganisational relationships and (4) tests of TCA assumptions. The earliest applications of TCA mainly focus on the vertical integration decision in the interorganisational contexts of the supply chain, which means that a manufacturing firm's decision can be either to backward integrate into a supplier's decision by applying TCA (Lafontaine and Slade 2007; Monteverde and Teece 1982) or forward integrates into a distribution's (John and Weitz 1988). Similar to the studies of vertical integration, in vertical interorganisational relationship context, economists and legal scholars have contributed important applications of TCA by investigating long-term and bilateral exchange relationships (John and Reve 2010; Joskow 1987; Leffler and Rucker 1991; Wathne and Heide 2004). Although TCA scholars have traditionally focused on the vertical relationship, a variety of horizontal relationships between firms in the supply chain can be also understood and explained with TCA (Rindfleisch and Heide 1997). For instance, Gates (1989) analysed technological cooperation in the semiconductor industry based on a horizontal interorganisational relationship context with TCA. Bucklin and Sengupta (1993) examined the role of asset specificity, uncertainty, and frequency on power imbalances in co-marketing alliances from the point of view of TCA. Although there are a small number of studies in terms of tests in the validity of TCA's assumptions, John (1984) or

Anderson (1988), who studied the causal relationships between opportunistic behaviour and relevant variables, are among the most well-known researchers in this context.

In any event, although this theory has advantages in terms of explaining business relationship phenomena, there is criticism about TCA when related to environmental characteristics in relational exchange. As discussed by Heide (1994), for example, TCA which is developed in economics is narrowly focused upon a set of control and coordinating actions affecting channel relationships. Additionally, Pilling, Crosby, and Jackson (1994) criticise the fact that TCA can have some weakness when it deals with the mismatched situations between the structure of an exchange relationship and the characteristics of the exchange environment. This mismatch results in the costs for the development and maintenance of relationship. Moreover, although supplier-buyer relationships are generally thought to be on a bipolar continuum from one time discrete transactions to vertical integration (Dwyer Schurr and Oh, 1987; Williamson, 1985), TCA emphasises only the ends of the continuum, regardless of the level of vertical integrations or significant levels of cooperation between exchange partners. Compared to TCA, relational exchange theory (Macneil 1978, 1980) focuses relatively more on exchange relationships. After relational exchange theory was introduced, Williamson (1985) briefly considered the potential fit of relational exchange theory with TCA as a result of this new focus. He viewed the three types of exchange relationships (i.e., discrete, neoclassical, and relational) discussed by Macneil (1974) to be control alternatives that fall between market-based transactions and vertical integration and he maintained that TCA can contribute to the understanding of these types of exchange relationships.

2.3.2 Agency theory

Agency theory has received attention in the fields of economics, finance, accounting, organisational behaviour, political science, and sociology (Bergen, Dutta, and Walker Jr. 1992) in terms of understanding why organisations exist and how they work (Hesterly, Liebeskind, and Zenger 1990). An agency relationship is present "whenever one party (the principal) depends on another party (the agent) to undertake some action

on the principal's behalf. Therefore, any employment relationship is an agency relationship" (Bergen, Dutta, and Walker Jr. 1992, p.1).   Although many transactions in marketing theory and practice are related to agency relationships, marketing studies have paid little attention to agency theory. It is probably the reason why this theory has mainly developed in economics and finance literature rather than marketing literature. However, agency theory, which is closely related to TCA in conceptual approaches, would be strengthened in marketing studies by the fact that TCA has been usefully applied in marketing literature (Anderson 1985; Bergen, Dutta, and Walker Jr. 1992; Day and Klein 1987; John and Reve 2010; Rindfleisch and Heide 1997). Modern economists' approach to the theory of the firm, such as transaction costs economics, explains why organisations displace the market for certain types of exchanges. Although they have had a significant influence on decision making regarding firms' strategies, some researchers have focused on the theoretical necessity for detailed analysis of the characteristics of the contractual relationships that actually happen inside the firms (Becerra 2009). For this, agency theory is introduced to relationship studies in marketing or channel management and it addresses the issues of how vertical hierarchical relationships can be managed among other contractual relationships inside organisational boundaries.

Despite the fact that there is a similarity between agency theory and transaction cost analysis (TCA) in the conceptual approaches to understanding marketing phenomena, the differences between the two approaches have also been discussed (Bergen, Dutta, and Walker Jr. 1992). Regarding the unit of analysis, the basic unit of analysis in TCA is transaction, whereas the main focus of agency theory is on the individual agent. Therefore, transaction differentiation (e.g. asset specificity) in TCA affects the designing of appropriate governance structures, while research based on agency theory does not focus on this issue. Another difference between the two theories is related to the fact that transaction cost analysis (TCA) adopts an *incomplete contracting* view of transitions between principal and agent, whereas agency theory adopts an *ex ante* view of relations between principal and agent (Bergen, Dutta, and Walker Jr. 1992). On the other hand, compared to resource dependence theory (RDT), agency theory is the predominant theory used in the research into boards of directors (Dalton et al. 2007;

Hillman, Withers, and Collins 2009; Miles, Snow, and Pfeffer 1974; Zahra and Pearce 1989). Agency theory focuses namely on the use of contractual terms to control and coordinate channel relationships (Weitz and Jap 1995).

In addition to this, based on the merit of agency theory that can be in found explaining the type and level of relationship interaction that exists between two parties such as between a buyer and a supplier (Donaldson and O'Toole 2007), this theory has examined a variety of issues, which are likely considered in the marketing field, such as sales force management, channel coordination and control, promotion and other market signalling decisions (Bergen, Dutta, and Walker Jr. 1992). In terms of agency theory, the representative researcher Eisenhardt's (1989, p.59) statement seems to explain this theory well:

> "Overall the domain of agency theory is relationships that mirror the basic agency structure of a principal and an agent who are engaged in co-operative behaviour, but have differing goals and differing attitudes toward risk."

Finally, with the interest in the advantages of agency theory, there is also considerable discussion on the limitation of this theory. Agency theory focuses on one firm making decisions to maximise its profits rather than two firms working together to maximise the profit generated by the relationship as well as their individual profits (Weitz and Jap 1995). Additionally, this theory is limited when buyers and their sellers (or suppliers) have similar attitudes to risk, sharing information and co-operated works because specific rules of transactions governing relationships in this theory are not enough to embrace the wide range of buyer-seller (or buyer-supplier) transactions or relationships (Donaldson and O'Toole 2007).

2.3.3 Social Exchange Theory (SET)

Social exchange involves a series of interactions that generate obligations (Emerson 1976). In business-to-business marketing studies (Dwyer, Schurr, and Oh 1987; Gundlach and Murphy 1999), exchange has been considered a central concept as a

discipline, and the process of marketing (Bagozzi 1975; Hunt 1976; Kotler 1972) has been defined on the basis of the act of exchange between parties.

Originally, *Social Exchange Theory (SET)* was developed from anthropology (Firth 1967), social psychology (Homans 1958; Thibaut and Kelley 1959) and sociology (Blau 1964; Emerson 1962), where researchers in these disciplines focus mainly on relationships in the exchange behaviour of individuals and groups within a community. In the 1980s, this concept was applied to interorganisational studies.

For marketing theory, the disciplines noted above are related to social exchange theory, which has contributed to our understanding of social structures or networks among parties in the context of marketing (Araujo and Easton 1996). Therefore, the central argument of social exchange theory is that dyadic relationships are embedded in a social structure that is gradually evolving among firms in a network. Over time, the presence of a social structure in a dyadic relationship enhances cooperation between firms. This being the case, when social structure dominates among actors, interfirm collaboration and social exchange generate a positive effect on closer relationships (Donaldson and O'Toole 2007). Furthermore, social exchange theory (SET) explains and justifies interorganisational exchange decisions from a socio-political perspective. SET supports the idea that parties evaluate relationships in behavioural contexts on the basis of social value, and on satisfaction with their partners as well as a comparative evaluation of their alternatives (Thibaut and Kelley 1959).

Therefore, SET concentrates on the social structure of interorganisational relationships. In this theory, the key point moves from discrete transactions to relationships between the firms and their partners. Interactions within SET can be considered as interdependent and contingent on the actions of another person (Blau 1964), and these interdependent transactions have the potential to generate high-quality relationships (Cropanzano and Mitchell 2005). From this point of view, the interest of the theory shifts from costs and efficiency to interdependency, trust, reciprocity and equity (Cook and Emerson 1984; Scott 1991).

Building on SET, Bagozzi (1975) states that marketing can be conceptualised as involving different 'types of exchanges' and associated 'meanings' in the exchange process. The most relevant concept to relational paradigms in channel research is *'relational exchange'*. A number of scholars, including Macneil (1980), Scanzoni (1979), and Dwyer, Schurr and Oh (1987), describe relational exchange as a comprehensive framework for the study of exchange relationships. In particular, from Macaulay's (1963) seminal study on non-contractual business relations, Macneil (1978, 1980) developed a formal typology of "discrete" versus "relational" exchange. Discrete exchange is consistent with the underlying assumptions of neoclassical economic theory which, according to Goldberg (1976) and Heide (1994), states that individual transactions between contracting parties in the past or the future are nothing more than the transmission of ownership of a product or service. On the other hand, relational exchange can be a considerably less discrete type of transaction. Moreover, relational transactions include expectations that (1) an exchange relationship will endure over time, (2) benefits and burdens will be shared, (3) the partners will share mutual trust and (4) long-term transactions will take place (Dwyer, Schurr and Oh 1987). Therefore, constructs such as mutual trust, commitment and long term orientation and the causal relationships among these constructs are themselves the main interests of the relational paradigm.

From the relationship value point of view, the major differences between SET and the principal of transaction cost analysis (TCA) are not only in the goals sought in exchange value, but also in the appropriate means for evaluating and achieving these goals, in spite of both theories addressing dependence and relationships through a comparison of their own value solutions (Gassenheimer, Houston, and David 1998).

Although SET supports the understanding of business-to-business relational exchange and exchange governance, this theory also presents challenges (Lambe, Wittmann, and Spekman 2001). This is because SET has not been clearly formulated within the business-to-business marketing literature cue to a lack of a comprehensive explanation of SET with its facets. Additionally, although SET is bound up in exchange governance, there is little systematic examination in terms of these limitations.

2.3.4 Resource Dependence Theory (RDT)

Building on early work in social exchange theory (Thibaut and Kelley 1959), Pfeffer and Salancik's (1978) seminal work on *Resource Dependence Theory (RDT)* has become one of the most influential theories in organisational theory and strategic management (Hillman, Withers, and Collins 2009). RDT views interfirm governance as a strategic response to conditions of uncertainty and dependence (Pfeffer and Salancik 1978). Therefore, from the resource dependence theory (RDT) perspective, the firm as an open system depends on contingencies in the external environment. Moreover, this theory stresses the concept of power, which is the control over vital resources, as well as discussing how external factors affect organisational behaviour or managers who act to reduce environmental uncertainty and dependence (Ulrich and Barney 1984). Namely, it views organisations as not only attempting to reduce a counterpart's or a competitor's power over them, but also increasing their own power over others (Hillman, Withers, and Collins 2009).

To understand RDT, it is necessary to detail the five basic argument points of the resource dependence perspective that are discussed by Pfeffer (1987, pp.26-27):

> (1) the fundamental units for understanding interfirm relations and society are organisations; 2) these organisations are not autonomous, but rather are constrained by a network of interdependencies with other organisations; 3) interdependence, when coupled with uncertainty about what the actions will be of those with which the organisations are interdependent, leads to a situation in which survival and continued success are uncertain; 4) organisations take actions to manage external interdependencies, although such actions are inevitably never completely successful and produce new patterns of dependence and interdependence; and 5) these patterns of dependence produce interorganisational as well as intraorganisational power, where such power has some effect on organisational behaviour.

Based on the main premise of RDT which is that firms will seek to reduce uncertainty and manage dependence by purposively structuring their exchange relationships by means of establishing formal or semiformal links with other firms, a variety of such

links has been suggested in a range of topics from the pertinent literature such as *contracting or issues regarding boards of directors* (Boeker and Goodstein 1991; Hillman, Cannella, and Paetzold 2000; Lester et al. 2008; Miles, Snow, and Pfeffer 1974; Zahra and Pearce 1989), *joint ventures* (Barringer and Harrison 2000; Harrigan and Newman 1990; Park and Mezias 2005; Pfeffer and Nowak 1976; Yan and Gray 2001), *mergers and acquisitions (M&As)* (Galbraith and Stiles 1984; Haleblian et al. 2009; Heeley, King, and Covin 2006; Pfeffer 1972), and *political action* (Aharoni, Maimon, and Segev 1981; Mullery, Brenner, and Perrin 1995).

However, RDT also has some arguable issues. Given the underlying assumption that few organisations are internally self-sufficient with respect to their critical resources, two potential problems are explored (Donaldson and O'Toole 2007). First, a lack of self-sufficiency results in potential dependence on the parties from whom the focal resources are obtained. Second, it introduces uncertainty into a firm's decision making, to the extent that the resource flows are not subject to the firm's control and may not be predicted accurately.

To complement the potential weakness of this theory, a variety of studies has often integrated resource dependence theory (RDT) with other theoretical perspectives to examine the phenomenon of interest (Hillman, Withers, and Collins 2009). Therefore, multiple theoretical frameworks, including RDT, are offered on the basis of meta-theoretical views in organisation studies (Lynall et al, 2003; Ulrich and Barney 1984; (Hillman, Withers, and Collins 2009). For instance, research in M&As (Yin and Shanley 2008) or joint venture   (Auster 1994) is often developed based on RDT with transaction cost analysis (TCA). Particularly, when RDT is integrated with the resource based view of the firm (RBV) (Barney 1986; Barney 1991), several studies show that these two theories may be able to offer advantages new insights into the organisational resource because of their complementary views regarding resources (Hillman, Withers, and Collins 2009).

2.3.5 Resource-based View of the Firm (RBV)

Compared with the great attention afforded *The Resource-based View of the Firm (RBV)* in strategic management literature (e.g., Barney 1991; Barney, Wright, and Ketchen Jr. 2001; Castanias and Helfat 1991; Conner 1991; Jap 1999; Wright and McMahan 1992), the theory of RBV has seen comparatively less attention in both marketing academy and practice, although this theory can explain the fundamental processes by which resources are transformed into value through managerial guidance (Lo, Frias, and Ghosh 2012; Patas, Bartenschlager, and Goeken 2012; Srivastava, Fahey, and Christensen 2001).

The premise of RBV is that firms differ, even within the same industry, and that these differences come from the firm's resources (Wernerfelt 1984). The main viewpoint is that "a firm's strategy should depend on its resources—if a firm is good at something, the firm should try to use it" (Wernerfelt 2005, p.17). According to Barney (1991), since sustained competitive advantage can come from the resources and capabilities of a firm that can be viewed as tangible and intangible assets including a firm's management skills, processes of information and knowledge about information controls, RBV and related disciplines have involved considerable theoretical development and empirical testing in strategic management.

In fact, RBV in strategic management literature rose in response to Porter's (1980, 1985) perspective of strategy which emphasises the analysis of industry structure (Jap 1999). According to McKelvey (1999), the "resource-based view" of strategy has developed the relationship between internal process capabilities and a firm's ability to generate revenues well in excess of marginal costs. These attempts to understand how internal resources to the firm act as sustainable resources of competitive advantage are reflected in *"the resource based-view"* (Wernerfelt 1984), *"core competence"* (Prahalad and Hamel 1990), "*strategic flexibilities*" (Sanchez 1995) and *'dynamic capabilities'* (Teece, Pisano, and Shuen 1997).

Despite this, marketing literature has not adopted RBV vigorously because of the lack of any generally accepted delineation and classification of resources (Srivastava, Fahey, and Christensen 2001), there have been some efforts to apply RBV to marketing studies in order to develop and apply core constructs in terms of capabilities (Day 1994; Ray,

Barney, and Muhanna 2004), market orientation (Ketchen, Hult, and Slater 2007; Kohli and Jaworski 1990; Menguc, Auh, and Shih 2007), cooperate governance (Castanias and Helfat 1991; Lockett and Thompson 2001), knowledge (Glazer 1991; Kearns and Lederer 2003) and market-based assets (Srivastava, Fahey, and Christensen 2001; Srivastava, Shervani, and Fahey 1998).

The advantage of RBV is that this theory can explain differential firm performance with the fact that the differential accumulation of resources and capabilities enables the firms to pursue opportunities or avoid threats at the different levels (Barney 1992; Jap 1999; Lippman and Rumelt 1982; Pegeraf 1993). However, unlike transaction cost theory, there is little discussion of avoidance of opportunism as a central activity of the firm in RBV (Jap 1999). Consequently, this theory views a firm as "a creator of the positive" focused on generating unique product value (Pralahad and Hamel 1990).

2.3.6 Political Economy Paradigm (PEP)

Since Zald (1970) first applied *the Political Economy Framework* to marketing channels and Stern and Reve (1980) proposed *the Political Economy Paradigm (PEP)* as a integrative guiding framework to better understand the nature of business relationships for the research of channels, a number of studies in this field have followed this paradigm (Achrol 1991; Achrol, Reve, and Stern 1983; Anderson and Weitz 1989; Anderson and Narus 1990; Arndt 1983; Boyle et al. 1992; Cannon and Perreault Jr. 1999; Dwyer and Oh 1987; Heide and John 1990; Robicheaux and Coleman 1994). According to Stern and Reve (1980), adoption of this paradigm would enhance the understanding of complex channels phenomena and encourage the incorporation of the other complementary paradigms into channels research. Additionally, Achrol, Reve, and Stern (1983) also noted that their application of the political economy approach in channel dyads would serve as a road map indicating the variety of routes available for developing marketing theory.

Regarding the theoretical characteristics of the political economy paradigm (PEP), this paradigm "…views a social system as comprising interacting sets of major economic and socio-political forces which affect collective behaviour and performance…" and

emphasises that "...complex socioeconomic interrelations involve multilateral interactions as opposed to simple cause-effect mechanisms such as those between power use and conflict or between channel design and costs" (Stern and Reve 1980, p.53). The PEP is "the only one of a variety of theoretical approaches that overtly distinguishes between the political and economic aspects of channel structure while emphasizing the importance of assessing the interaction of these aspects" (Robicheaux and Coleman 1994, p.42).

Political economy analysts propose the following three dimensions: "polity-economy", "external-internal", (Zald 1970; Stern and Reve 1980) and "substructure-superstructure" (Benson 1975). First of all, the dominant characteristic of political economy insists on simultaneous analysis of the polity and the economy on the basis of interdependencies. In this paradigm, polity, which relates to power and the value, is defined as "the power and control system of a social unit, a network of social units or society" (Arndt 1993, p.48) whereas economy refers to "the productive exchange system of a social unit or society transforming inputs into outputs" (Arndt 1993, p.48). The second dimension has to do with external (environmental) vs. internal (organisational) aspects. Interorganisational linkages, such as cooperation/conflict or communication strategy in distribution channels, can be the internal variables, while the environmental factors, such as regulation, concentration, turbulence and uncertainty, are the external elements. Additionally, according to Benson (1975), superstructure and substructural can also be considered as another key dimension of this paradigm, although they have not been considered as factors of the main aspects. He believes that superstructural factors such as sentiments or behaviours can be determined by the underlying substructure pattern of dominance. Despite the introduction of several dimensional aspects of this paradigm in the relevant literature, as Stern and Reve (1980) suggested, the two dimensions of this paradigm, the "polity-economy" and "external-internal" aspects, are the main consideration of this literature.

From this point of view, studies using PEP might consider a channel phenomenon with the complexity of the interactions among the internal and external dimensions of economic and political factors (Robicheaux and Coleman 1994). The constructs in this

paradigm are considered under (1) *internal economy*, which means the economic forces within the channel such as transaction form or vertical economic arrangement as well as decision mechanisms used to decide whether or how they trade, (2) *internal polity*, which means the socio-political forces within the channel such as the power/dependence balance, cooperation and conflict, (3) *external economy*, which means the prevailing and prospective economic environment in which the channel exists, and (4) *external policy*, which means the external socio-political system in which the channel operates (Stern and Reve 1980; Robicheaux and Coleman 1994). Robicheaux and Coleman's framework can be considered to be an outstanding integrated framework example of an extended PEP in channel studies. These authors suggested the integrated framework through which the characteristics of PEP, the relationship marketing paradigm (RMP) and the phenomena of paradigm conversion and diversion can be discussed. Figure 2.3 (p.41) depicts Robicheaux and Coleman's framework of channel relationship structure developed on the basis of the political economy paradigm. They proposed the model of channel structure antecedents and consequences which provide a clear focus for structure, process and performance studies based on theoretical and empirical research.

The most important advantage of the political economy paradigm (PEP) is that this theory synthesises the main theories of sociology or business management, such as social exchange, the behavioural theory of the firm and transaction cost economics, and develops and emphasises important concepts by synthesising them into one paradigm. It is also clear that political economy is related to many of the subfields within marketing. In short, as stated by Robicheaux and Coleman (1994), PEP is "the unique among a variety of theoretical approaches" to assess the interaction of the distinguished political and economic aspects of channel structure within an integrated point of view.

Figure 2.3 Robicheaux & Coleman's (1994) Framework

of Channel Relationship Structure
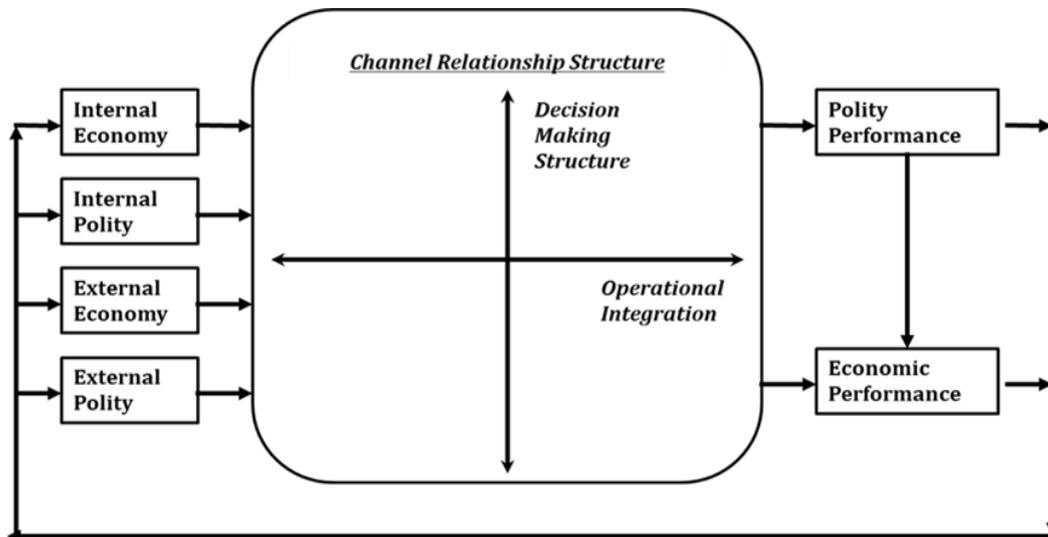
Despite the advantages of PEP, there are few empirical studies with the integrated framework that stem from this theory (Kabadayi, Eyubouglu, and Thomas 2007). In particular, there are limited empirical studies in terms of the development of several dimensions of the interaction process as mediator constructs including relationship structure, functional interaction and climate factors between environmental factors of firms or business strategy and relationship outcome. Therefore, the study develops the conceptual framework to explain the interaction structure between buyers and suppliers on the basis of the PEP with the advantages of this theory that explains the overall relationships among the main constructs in channel research.

In conclusion, this section discusses the characteristics and critical points of influential theories in relationship marketing related to this research. Table 2.2 shows brief details of the organization theories related to this study.

Table 2.2 Organisation Theories related to the Research

Theory	Original Scope	Marketing Scope	Marketing Insights	Representative Studies
Industrial Organisation	Industrial organization (or Industrial organisation economics) is rooted in economics and focuses on the strategic behaviour of firms, the strategic behaviour of firms, the structure of markets, and their interactions, ultimately affecting the performance of firms (Schmalensee 1985)	Industrial organization focuses on the strategic marketing behaviour of marketing organizations, the structure of the marketplace in which they operate, and the interaction among marketing strategy and market structure. Synergy between marketing strategy and the market structure serve as the essential scope to leverage market performance	In line with the structure-conduct performance approach, the market success of an industry in developing products and services for customers depends on the collective actions of the firms in the industry. The market actions of the firms depend on the actors who determine the competitiveness of the market. Tied to the marketing organisation, the competitiveness of the market is a function of innovations, technology, and marketing strategy. Following classical logic, marketing organisations within an industry are identical regarding the market resources they control. However, should resource heterogeneity develop, it will likely be temporary, given that market resources are highly mobile.	Ellram (1991); Schmalensee (1985); Tirole (1993); Shy (1995)
Political Economy Paradigm (PEP)	A integrative guiding framework to better understand the nature of business relationships for the research of channels, a number of studies in this field followed this paradigm (Stern and Reve 1980)	The framework provides both reference and direction for the analysis of relationship marketing (Dwyer and Welsh 1985). "PEP views a social system as comprising interacting sets of major economic and socio-political forces which affect collective behaviour and performance…" (Stern and Reve 1980, p.53).	"the only one of these approaches that overtly distinguishes between the political and economic aspects of channel structure while emphasizing the importance of assessing the interaction of these aspects" (Robicheaux and Coleman 1994, p.42)	Robicheaux and Coleman (1994); Stern and Reve (1980); Zald (1970)

Theory	Original Scope	Marketing Scope	Marketing Insights	Representative Studies
Transaction Cost Analysis (TCA)	Transaction cost economics (or Transaction cost analysis; (Rindfleisch and Heide 1997) views the firm as a governance structure (Coase 1937) that focuses on identifying, based on total costs, the exchanges that should be conducted within and outside the scope of a firm's boundaries (Williamson 1975)	Transaction cost economics is rooted in the notion that firms and markets represent alternative governance structures that have different transaction costs; bounded rationality of the marketing organisation and market opportunism along with market transactions involving marketing asset specificity and market uncertainty are what glue the firm together as a governance structure	Marketing organisations will engage in the implementation of marketing strategy and accompanying marketing activities when the economic rationale for doing so is clear to them. Technologies and processes that reduce the total cost of the implementation of a designed marketing strategy, via specific marketing activities, will increase the likelihood of their adoption.	John and Reve (2010); Pilling, Crosby, and Jackson (1994); Rindfleisch and Heide (1997); Williamson (1975; 1985)
Agency Theory	Agency theory explains firm governance by delineating firm owners as principals that hire agents (managers) to carry out the business of operating the organization (Jensen and Meckling 1976)	"Agency theory focuses on the use of contractual terms to control and coordinate channel relationship. The principal agent structure implies the use of unilateral control by the principal versus bilateral control in which both parties participate" (Weitz and Jap 1995, p.310)	Two types of agency problems: Precontractual problem ("hidden information") and postcontractual problems ("hidden action") (Bergen, Dutta, and Walker Jr. 1992)	Jensen and Meckling (1976); Bergen, Dutta, and Walker Jr. (1992); Weitz and Jap (1995)

Theory	Original Scope	Marketing Scope	Marketing Insights	Representative Studies
Resource Dependence Theory	Resource dependence theory describes the sources and consequences of power of organisations embedded in networks of interdependencies and social networks that revolve around the control of and dependence on vital external resources in the environment (Pfeffer and Salancik 1978)	Resource dependence theory suggests that the sources and consequences of power that marketing organisations have in the marketplace depend on their industry-specific marketing networks and alignment with supply chain partners that revolve around the control and dependence on strategic marketing resources created by interaction with the external environment	A marketing organisation's ability to implement marketing strategy and operational marketing practices may be constrained when they are dependent on other organisations within their supply chains and industrial networks. The external environment contains limited marketing resources, so marketing organisations must learn to hold back at times in developing marketing strategy that is resource dependent and trust each other if they are going to coexist successfully over time.	Pfeffer and Salancik (1978); Hillman, Withers, and Collins (2009); Davis and Cobb (2009)
Resource-Based View of the Firm	The resource-based view of the firm (Wernerfelt 1984) envisions the firm as a collection of strategic resources which are heterogeneously distributed across firms (Barney 1991) to achieve a sustainable competitive advantage	The resource-based view of the firm envisions the marketing organization as a bundle of strategic marketing resources which are heterogeneously distributed across marketing organizations and are rooted in an equilibrium seeking process embedded in a marketplace of perfect competition	"The RBV (Wernerfelt 1984) is based on the premise that firms differ, even within an industry. The differences occur in the firms' resources, and the main theory is that a firm's strategy should depend on its resources—if a firm is good at something, the firm should try to use it" (Wernerfelt 2005, p.17). Strategic marketing resources have only potential value, with the value ultimately being realized (or not) via organizational actions and behaviours; realizing the potential value also requires alignment with other important marketing organization and/or marketing strategy elements (Ketchen Jr., Hult, and Slater 2007)	Barney (1991) ; Hamal and Prahalad (1994); Barney, Wright, and Ketchen, Jr. (2001); Ketchen Jr., Hult, and Slater (2007); Srivastava, Fahey, and Christensen (2001); Wernerfelt (1984, 2005)

Source: Adapted from Hult (2011) regarding industrial organisation, TCA, and RDT

2.4 Conceptual Overview of the Interaction Approach

The interaction approach takes the relationship, rather than the individual transaction, as its unit of analysis (Turnbull, Ford, and Cunningham 1996). This research develops a conceptual framework on the basis of the interaction approach that focuses on the exchange with relational partners rather than discrete exchange with suppliers/ buyers. The constructs of the research are developed on the basis of several theories including relationship marketing paradigms, marketing channels, political economy paradigm, transaction cost analysis, resource dependence theory, resource based view of the firm and competitive strategy.

The conceptual framework of the research consists of three key parts. First of all, interaction process characteristics are defined and their dimensions are developed in terms of structure, function, and climate related to interactions between firms and their partners. As discussed in section 2.3.6, Robicheaux and Coleman's (1994) decision making structure and operational integration as channel relationship structure are considered as key dimensions. Therefore, the study also takes these two dimensions as the main characteristics of the interaction process. Additionally, since Robicheaux and Coleman's (1994) framework focuses on the channel relationship structure dimension as a mediator, they view climate characteristics, such as trust or commitment, as polity performance of relationship structure. This study, however, views the climate characteristics as one dimension of the interaction process rather than its consequence, because the study focuses on the interaction process including not only channel relationship structure but also relationship climate that can result in polity performance such as relationship value or economic performance and overall performance of the firm including financial performance. Chapter 3 will discuss interaction process characteristics.

The second part deals with environmental characteristics and business strategy of the firm. These are considered to be the antecedents of interaction process characteristics. Without consideration of environmental characteristics in business relationships, it is not easy to discuss the effects of the interaction process characteristics between firms on

performance because the firms try to strategically respond to their dynamic environmental change, or resource munificence, in order to obtain competitive advantages. They also tend to make the interactional decisions with partners or counterparts on the basis of environmental factors. Furthermore, since the business strategy of each firm can be associated with the decision making structure between firms and firms may decide the level of functional sharing with the partner on the basis of strategies such as differentiation or cost leadership, this study also considers business strategy as an antecedent of the interaction process characteristics. Antecedents of interaction process characteristics will be discussed in Chapter 4.

Third, as consequences of interaction process characteristics, relationship value and overall performance of the firm are discussed. In particular, although relationship value creation has been considered a key construct in relationship marketing, there is limited empirical research about the characteristics and dimensions of relationship value as consequences of the interaction process. Therefore, this research defines the relationship value in several dimensions, and examines how the interaction process has an influence on relationship value creation. Additionally, overall performance of the firm is considered another consequence of the interaction process. Chapter 5 will discuss the consequences of interaction process characteristics.

In conclusion, the conceptual framework, which is developed based on the research questions explored in Chapter 1 and the theories discussed in Chapter 2, is presented in Figure 2.4. All constructs in the conceptual framework and the hypotheses (see Figure 2.5) will be discussed in Chapters 3, 4, 5, and 6 respectively.

Figure 2.4 The Key Parts of the Conceptual Framework
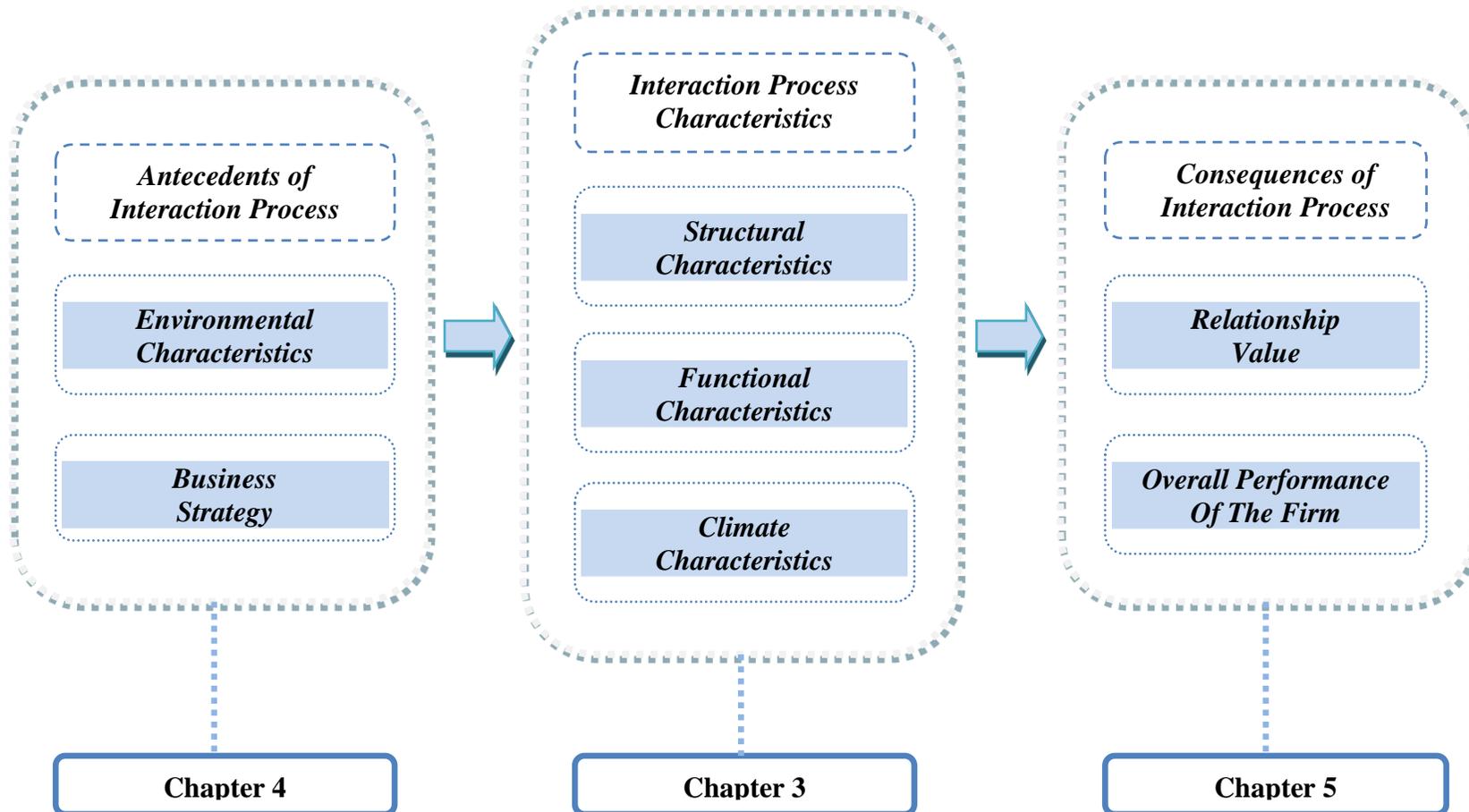
Figure 2.5 The Hypothesised Model
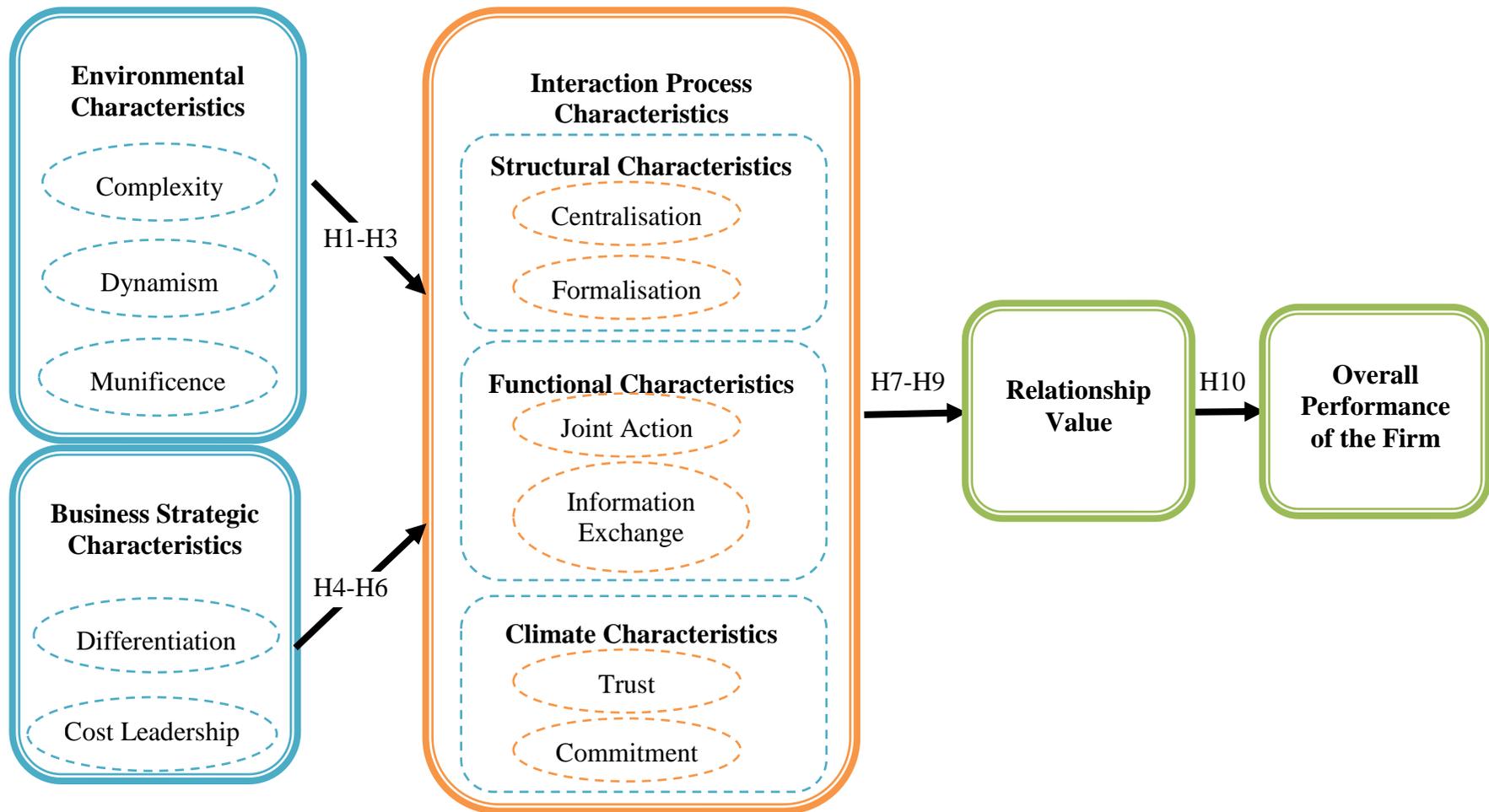
Research Questions

1. How are the interaction process characteristics defined?
2. Do environment characteristics of the firm affect the interaction process characteristics of the firm and its partner?
3. Does competitive strategy of the firm affect interaction process characteristics of the firm and its partner?
4. Is relationship value defined as the sum of sub-dimensions of value in the relationships between firms?
5. Do interaction process characteristics affect relationship value?
6. Does relationship value affect the overall performance of the firm?

Chapter 3. Interaction Process Characteristics

3. Interaction Process Characteristics

3.1 Introduction

This chapter aims to identify the interaction process characteristics in the supplier-buyer relationship through a comprehensive review of the pertinent literature on relationship marketing theories which have been discussed in Chapter 2.

Chapter 3 comprises four main sections. The first section classifies the previous studies in channel relationship structure based on relationship marketing theories described in Chapter 2 and compares interaction process characteristics with channel relationship structure by Robicheaux and Coleman (1994) in section 3.2. As a corollary of that, three dimensions of interaction process characteristics have been identified. This is developed by adopting Robicheaux and Coleman's two dimensions of channel structure and adding climate characteristics which are considered as key factors for successful relationship development in the supply chain. Among three dimensions, structural characteristics are discussed in section 3.3, functional characteristics in section 3.4, and climate characteristics in section 3.5.

The aim of this chapter is to understand what interaction process characteristics are, what they consist of, and what their critical constructs; which are chosen from a variety of the literature, are from the integrated relationship structure and process viewpoints in supply chains.

3.2 Understanding Interaction Process Characteristics

"A business purchase or sale is not an isolated event" (Ford et al. 1998, p. 44). Each transaction between firms is influenced by the previous experience with each other of both the buyer and the supplier and this also affects any future interaction.

A significant number of studies have contributed to our understanding of interfirm relationships in business markets (Frazier et al. 2009; Kumar, Heide, and Wathne 2011;

Palmatier, Dant, and Gremler 2007; Palmatier et al. 2006; Palmatier, Scheer, and Steenkamp 2007; Ramani and Kumar 2008; Ross and Robertson 2007; Wuyts and Geyskens 2005). A variety of conceptual models regarding interaction between firms have been developed in empirical studies which provide a better understanding of the nature of relationships and their antecedents and consequences on the basis of a variety of theories including critical theories discussed in chapter 2. For instance, many studies based on transaction cost analysis (Rindfleisch and Heide 1997; Williamson 1975), relational exchange theory (Macneil 1978, 1980) and political economy paradigm (Robicheaux and Coleman 1994; Stern and Reve 1980, 1986) have examined relational exchange governance or structure in the supply chain. More detailed research examples on the basis of theories are as follows.

Firstly, transaction cost analysis researchers, who assume that organisations make rational decisions, focus on interorganisational exchange governance and performance (Heide and John 1990; John and Reve 2010; Noordewier, John, and Nevin 1990; Parkhe 1993). They distinguish between exchanges in free markets without associated costs (Rindfleisch and Heide 1997) and exchanges in existence of specific governance problems such as managing uncertainty (Carson, Madhok, and Wu 2006; Grover and Malhotra 2003). With the outcomes of empirical studies (Jap and Ganesan 2000), they view that the extent of the exchange partners' specific investment can have a significant influence on the decision of the governance structure and the ultimate performance of an exchange (Palmatier, Dant, and Gremler 2007). However, transaction cost analysis has some advantages because it can explain transaction cost by comprising several costs such as expenses for negotiation and monitoring outlays as well as expenses for coordination and opportunistic behaviour, but this theory has also some limitations. For example, although transaction costs comprise several costs, these costs still make it difficult to choose the optimum governance structure because these costs are often difficult to quantify. In addition to this, as the optimum decision of governance or structure can be derived from more complex analysis than cost-benefit analysis, suggested by transaction cost analysis (Jones 1997). This theory falls short of explaining the causal relationships among different kinds of interaction characteristics such as the

interactive climate characteristics between suppliers and buyers and their consequences with the integrated approach.

Secondly, on the basis of relational norms perspective, Macneil (1980) suggests that customized norms govern trading relationships. Traceable to Macneil (1980), the relational exchange theory (Kaufmann and Dant 1992) to channel structure has been employed by many researchers (e.g., Anderson and Weitz 1992; Cameron and Webster 2011; Cropanzano and Mitchell 2005; Dwyer, Schurr, and Oh 1987). Relational exchange theory concentrates on the social structure of interorganisational relationship. The important difference from transaction cost analysis is that this theory focuses not on transactions but on relationships. It means that the interest of research shifts from costs and efficiency into interdependency, trust, equity (Cook and Emerson 1978) and relational value. Therefore, relational exchange theorists focus on contracting norms including solidarity, mutuality and flexibility as focal constructs or shared expectation in terms of transaction behaviour. This involves perceptions of relational norms which contribute to exchange partners' strategic ability to develop long-term, committed trusting, value-creating associations (Palmatier, Dant, and Gremler 2007). The one of advantages of this theory based on the relational norms perspective is that the theory offers a logical complement to Williamsons' transaction cost analysis (TCA).

However, although relational exchange theory provides more information about the dimensions of relationships and is more desirable for classification purposes than transaction cost analysis (TCA), this also has presented significant challenges in empirical studies (Kaufmann and Dant 1992). For instance, Bradach and Eccles (1989) argue that market, vertical integration, and relational norm characteristics of dyadic channel arrangements, that suggested by relational exchange-based analysis, should not be treated as mutually exclusive governance alternatives. Instead, on the basis of political economy paradigm (Stern and Reve 1980), economic and political factors in the structure of business relationships have been considered as key parts in frameworks of interaction relationship with integrated viewpoint. As a great example of the integration framework based on political economy paradigm, Robicheaux and

Coleman's (1994) integration framework in terms of channel relationship structure can be considered.

Building on Reve and Stern (1986), Robicheaux and Coleman (1994) propose a conceptualisation of the structure of marketing channel relationships by defining relationship structure in terms of decision-making structure and operational integration dimensions. In other words, in their integrated model, the structure of marketing channel relationships consists of two dimensions, namely, *decision making structure*, which is defined as the policy structure including a variety of constructs such as decentralisation, informalisation, participation, and shared paradigm, and *operational integration*, which is defined as the economy structure including a variety of constructs such as joint action, assistances, monitoring and information exchange.

However, although many studies pointed out the advantages of Robicheaux and Coleman (1994)'s integrated framework and cited their work regarding classification of a variety of constructs consisting of the integrated framework, there is limited empirical research (e.g., Kabadayi, Eyuboglu, and Thomas 2007) adapting and developing the framework of interaction characteristics with an integrated point of view, which can be developed as several dimensions such as decision making structure or operational integration classified by Robicheaux and Coleman (1994). Therefore, for empirical evidence in adapting the model of the channel relationship structure in Robicheaux and Coleman's (1994) seminal work, this study considers interaction process characteristics as several dimensions. While Robicheaux and Coleman (1994) view channel relationship structure that consists of two dimensions such as decision making structure and operational integration, this research defines interaction process characteristics as three dimensional characteristics including climate characteristics, which can explain the key elements of relational exchange, with structural characteristics for decision making between firms or functional characteristics which are similar to operational integration classified by Robicheaux and Coleman (1994). In short, Table 3.1 shows the constructs of interaction process characteristics chosen in this research, in comparison with that of Robicheaux and Coleman (1994).

Table 3.1 Constructs Comparison Robicheaux and Coleman (1994)'s Channel Relationship Structure with the Integration Process Characteristics in This Study

Robicheaux and Coleman's The Structure of Channel Relationship	Constructs		Interaction Process Characteristics (IPC) in This Research
Decision-Making Structure	Decentralisation	Centralisation	Structural Characteristics
	Informalisation	Formalisation	
	Participation	-	
	Shared Paradigm	-	
Operational Integration	Joint Action	Joint Action	Functional Characteristics
	Information Exchange	Information Exchange	
	Assistances	-	
	Monitoring	-	
-	-	Trust	Climate Characteristics
	-	Commitment	

Structural characteristics for decision-making can be primarily considered as the structural characteristics in relationships between supplier and buyer in light of the locus of decision-making authority (Centralisation) and regulations by formal rules and procedures (Formalisation). Secondly, the operational integration dimension in Robicheaux and Coleman's (1994) framework is related to functional characteristics named in this research in order to stress the characteristic of dimension as functional process between firms point of view. Joint action in relational exchange, for instance, can occur over a large set of activities generated in the whole stage of relationships. As the extent and scope of joint action increases, the firms can get a strong functional alliance over the interaction process (Heide and John 1990). In this process, sharing information between the firms and their partners can be a pivotal factor. Therefore, this research focuses on both joint action and information exchange as functional characteristics. In addition to two dimensions, which are structural and functional characteristics, the study considers climate characteristics which are based on the buyer or supplier's perceptions about the nature of the partners' relationships, since these climate factors such as trust and commitment have been considered as critical factors

for the development of structure and governance of relationships in the relationship marketing literature.

In conclusion, building on Robicheaux and Coleman's (1994) framework based on political economy paradigm, the study develops dimensions of interaction process characteristics within the integrated approach and tests the conceptual model which includes interaction process characteristics and the causal relationship among their antecedents and consequences with empirical evidence. In doing so, each characteristic of interaction process is discussed in more detail in the following sections. Namely, structural characteristics such as centralisation and formalisation in chapter 3.3, functional characteristics such as joint action and information exchange in chapter 3.4, and climate characteristics such as trust and commitment in chapter 3.5.

3.3 Structural Characteristics

The structural characteristics of relationships between the firm and its partner in marketing channel are important in shaping an organisation's performance (Vorhies and Morgan 2003). In this context, *marketing channel* is defined as "an interfirm system whose members, by an exchange of output and negotiated roles, are involved in the process of making a product available for consumption (Dwyer and Oh 1988, p.23)." Dwyer and Oh (1988) point out that the building of a proper interactional structure such as relational contracting or vertical integration in marketing channel may be more efficient forms of organising for the transaction than *opportunism* which is "self-interest seeking with guile" (Williamson 1975, p.26). They view the importance of relational structure such as "administrative, bureaucratic arrangements to coordinate member behaviours (Dwyer and Oh 1988, p.23)", and emphasise that several constructs of relational structure such as *centralisation, formalisation and participation* have received attention in the organization theory studies in terms of essential mechanisms of decision-making efficiency.

Building on Dwyer and Oh (1988), Rosenbloom (2011, p.20) defines *channel structure* as "The group of channel members to which a set of distribution tasks has been

allocated." The early treatment of structure in channel literature focused on institutional form and physical attributes of channel featured as channel length (Bucklin 1967), distribution intensity (Bucklin, Siddarth, and Silva-Risso 2008; Frazier and Lassar 1996), and functional responsibility assignment (Calantone and Dröge 1999; Calantone, Vickery, and Dröge 1995). The viewpoint on channel structure as functional intermediaries and channel length continues in some studies. Sharma and Dominguez (1992, p.2), for example, propose a relationship between macro-environmental factors and channel length as influential characteristic of channel structure.

As the discussion of structure between firms has been actively, researchers have viewed dyadic relationships in channel as reflective attributes of extant structure (Boyle et al. 1992; Cannon and Perreault Jr. 1999; Dwyer and Oh 1987; Dwyer and Welsh 1985; Heide and John 1988; Mohr, Fisher and Nevin 1996; Noordewier, John and Nevin 1990; Robicheaux and Coleman 1994; Ross and Robertson 2007). In other words, many channel researchers have approached the channel structure from the perspective of the political economy framework, which relationship structure is defined in terms of buyer-seller relationalism and more traditional governance structures such as market, administered, franchise, and corporate (Robicheaux and Coleman 1994). As an example of studies about the types of relational structure of two firms, Ross and Robertson (2007) develop a set of conceptual propositions that apply to many aspects of compound relationships. On the basis of political economy framework, they view structure and process of relationships between two firms as power distance by socio-political structure, the structure of exchange by economic structure, relationship norms by socio-political process, and opportunism by economic process. As other research examples of relational structure dimensions by the political economy paradigm viewpoint, several studies can be discussed as follows. Building on the perspectives of Aldrich (1979), Van de Ven (1976) and Warren (1973), John and Reve (1982) developed "the key structural features of an interorganisational relationships" (p.518) by *centralisation, formalisation* and *interactions*. John (1984) examined *formalisation, centralisation*, and *control of performance* as reflective indicators of bureaucratic structure in structural equation modelling to assess the effects of structure on attitudinal orientation. Dwyer and Welsh (1985) described *formalisation, centralisation, specialisation,* and *participation* as four

dimensions of channel decision structure. Reve and Stern (1986) represented the structure of the political economy by measuring *vertical integration, formalisation* and *centralisation*. Dwyer and Oh (1987) described *formalisation, centralisation,* and *participation* as three dimensions of channel decision structure. Walker and Ruekert (1987) defined alternative forms of structures as three structural constructs such as *formalisation, centralisation,* and *specialisation* which are central to Mintzberg's (1979) analysis of organisational structure. Olson, Slater and Hult (2005) examine *centralisation, formalisation*, and *specialisation* as three organisation's structural characteristics in order to examine the impact of marketing organisation's structural characteristics on overall firm performance. Table 3.2 presents briefly structural dimensions in the literature.

As it is shown in Table 3.2, on the basis of the literature, channel decision making structures can be viewed as having two primary dimensions: *centralisation* and *formalisation.* Therefore, this research focuses on discussion of centralisation and formalisation as the structural characteristics of interaction process characteristics.

Table 3.2 Structural Characteristics Dimensions in the Literature

Pertinent Research	Structural Characteristics Dimensions				
	Centralisation	**Formalisation**	**Specialisation**	**Participation**	**Others**
John (1984)	✓	✓			Control
Dwyer and Welsh (1985)	✓	✓	✓	✓	
Ruekert, Walker, and Roering (1985)	✓	✓	✓		Differentiation
Reve and Stern (1986)	✓	✓			Vertical interaction
Dwyer and Oh (1987, 1988)	✓	✓		✓	
Walker and Ruekert (1987)	✓	✓			
Jaworski and Kohli (1993)	✓	✓		Departmentalisation	
Robicheaux and Coleman (1994)	Decentralisation	Informalisation		✓	Shared paradigm
Ward, Bickford, and Leong (1996)	✓		✓		Bureaucratisation, Liaison devices
Papadakis, Lioukas, and Chambers (1998)	Decentralisation	✓			Rationality, lateral Communication, Politicisation, Problem solving dissension

Pertinent Research (continued)	Centralisation	Formalisation	Specialisation	Participation	Others
Paswan, Dant, and Lumpkin (1998)	✓	✓		✓	
Geyskens, Steenkamp, and Kumar (1999)	✓	✓			Own dependence
Menon et al. (1999)	✓	✓			
Harris (2000)	✓	✓			
Matsuno, Mentzer, and Ozsomer (2002)	✓	✓		Departmentalisation	
Love, Priem, and Lumpkin (2002)	✓				
Grewal and Dharwadkar (2002)	✓	✓		✓	
Tay and Morgan (2002)	✓	✓	✓		
Heide (2003)	✓	✓			
Vorhies and Morgan (2003)	✓	✓			
Kirca, Jayachandran, and Bearden (2005)	✓	✓			
Olson, Slater and Hult (2005)	Decentralisation	✓	✓		
Green et al. (2005)	Decentralisation	✓	✓		Integration
Auh and Menguc (2007)	✓	✓			

Pertinent Research (continued)	Centralisation	Formalisation	Specialisation	Participation	Others
Kabadayi, Eyuboglu, and Thomas (2007)	✓	✓	✓		
Nasrallah and Qawasmeh (2009)	✓	✓			Bureaucracy
Pertusa-Ortega, Zaragoza-Saez, and Claver-Cortes (2010)	✓	✓			
Koberg, Tegarden, and Wilsted (2011)	✓	✓			
Paswan, Guzmán, and Blankson (2012)	✓	✓		✓	
This Research	✓	✓			

3.3.1 Centralisation

Centralisation pertains to the locus of decision-making authority, reflecting the degree to which authority is concentrated within a particular member of the relationship (Dwyer and Welsh 1985; Jaworski and Kohli 1993; Kabadyi, Eyuboglu and Thomas 2007).

Van de Ven (1976, p.26) defines *centralization* as:

"The degree of hierarchy of authority is the conventional measure of centralization within organizations."

From John and Reve's (1982) structural features perspective, Dwyer and Oh (1988, p.23) also define *centralisation* as:

"The degree to which power to make and implement decisions within the dyadic relationship is concentrated at one vertical level."

Ruekert, Walker and Roering (1985, p.15) view *centralisation* as:

"The extent to which decisions is shared within the social system" and centralisation leads to "greater effectiveness due to the ability of the decision marker to plan, coordinate, and control activities."

Consistent with existing channels research on centralisation, Geyskens, Steenkamp and Kumar (1999, p. 228) view *centralisation* as:

"the degree to which decision-making authority is concentrated as opposed to shared, within the channel system" and focus on centralised decision making by the partner firm.

In short, it is a matter of whether one party of buyer and supplier relationships has decision making authority exclusively or both of them take part in the decision making. Studies in organisational structure demonstrate that lines of communication and responsibilities in centralised structure of relational firms are relatively clear and the route for final approval can be travelled quickly (Hage and Aiken 1970). One of merits of centralised structure is that implementation tends to be straightforward after any

decision is made within a centralised structure. For example, according to Financial Times (8th of May, 2012), Hyundai and its affiliate Kia sold 6.6 million cars in 2011, more than double a decade ago, and the fourth highest of any carmaker in the world, behind only General Motors, Volkswagen and Toyota. Hyundai Motors' decision making follows a centralisation structure mainly on the basis of tight management and a powerful in-house supply base. Hyundai's top-down management structure in their supply chain allows it to make decisions and execute quickly and this method is called "Hyundai speed" by joint venture partners (Reed 2012). On the other hand, fewer innovative ideas tend to be put forth in centralised organisation. In terms of market orientation, centralisation affects it negatively because it inhibits a firm's information dissemination and utilization (Matsuno, Mentzer, and Ozsomer 2002).

Conversely, when a task takes place in complex environment, centralisation is likely to be less effective because it is unlikely that suppliers or buyers make decisions and implement them rapidly (Olson, Slater and Hult 2005; Ruekert, Walker and Roering 1985). Geyskens, Steenkamp and Kumar (1999) view that centralised decision making fosters the use of threats and promises by the partner. If the exchange partner attempts to monopolise interfirm decisions, the focal channel member can experience alienation and frustration. This has a significantly negative effect on use of information exchange and recommendation which refers to "the strategy whereby the source firm's boundary personnel predict that the target firm will be more profitable if the target follows the source's suggestions regarding some specific action or set of actions (Frazier and Summers 1984, p.45)."

3.3.2 Formalisation

The degree of *formalisation* can be considered as the degree to which decision making is regulated by formal rules and procedures (Dwyer and Welsh 1985; Workman, Homburg and Gruner 1998; Kabadyi, Eyuboglu and Thomas 2007), and relationships among channel members are governed by rules, procedures and contracts (John and Martin 1984; Ruekert, Walker, and Roering 1985).

Ruekert, Walker and Roering (1985, p.15) view *formalisation* as:

"The degree to which activities and relationships are governed by rules, procedures, and contracts" and it leads to greater efficiency because such rules serve to routinize repetitive activities and transactions and lower administrative costs (Walker and Ruekert 1987).

Van de Van (1976, p.26) defines *formalization* as:

"The degree to which rules, policies and procedures govern the inter-agency agreement and contacts. An interagency agreement exists if any form of expression has been made between the parties regarding the terms of their relationship. Its formalization increases as the agreement is verbalized, written down, contractual, and mandatory. Two indicators of the formalization of interagency contacts are the extent to which rules, policies, and procedures are established to transact activities between parties, and the extent of procedures (e.g., agendas, minutes, etc.) followed by a committee or group."

Olson, Slater and Hult (2005, p.51) define *formalisation* as:

"The degree to which formal rules and procedures govern decisions and working relationships." They view rules and procedures provide "a means for prescribing appropriate behaviours and addressing routine aspects of a problem."

Adopting Dwyer and Oh (1988), in this research, *formalisation* is defined as:

"The extent to which norms of a system are formulated explicitly (Scott 1981) via rules, coded behaviours, and emphasis on written contracts" (Dwyer and Oh 1988, p.23; John and Reve 1982, p.518).

Less formalised structure encourages horizontal and vertical communication and flexible roles (Miles and Snow 1992). Therefore, this structure of a relationship has some benefits in terms of rapid awareness of and response to competitive and market change, more effective information sharing, and reducing lag time between decision and

action (Miles and Snow 1992; Olson, Slater, and Hult 2005). Additionally, regarding the relationship with market orientation, formalisation is inversely related to market orientation because it inhibits a firms' information utilisation and thus the development of effective responses to changes in the marketplace (Kirca, Jayachandran, and Bearden 2005). Formalised structures exhibit extensive use of rules and procedures and traditionally have been viewed as having negative effects on intrinsic motivation and positive effects on coercive influence strategies (Dwyer and Oh 1987; Geyskens, Steenkamp and Kumar 1999). On the other hand, increased formalisation leads to higher levels of rationality in planning, recruitment of planning specialists, and more formal analysis, evaluation and report systems (Menon et al. 1999). Auh and Menguc (2007) discuss the interactive effects of centralisation and formalisation. They support the premise that when centralisation is high, the positive moderating effect of formalisation on performance is low, while a high centralisation and high formalisation control combination has been called a bureaucracy.

3.4 Functional Characteristics

Regarding the functional characteristics of relationships between firms, several constructs can be considered. These functional characteristics are drawn from Noordewier, John and Nevin's (1990) *relational syndrome* concept, Heide and John's (1990) *closeness* concept and Robicheaux and Coleman's (1994) *operational integration* concept. Noordewier, John and Nevin (1990) measure *relational syndrome* as a second-order factor of flexibility, information exchange, assistance, monitoring, and continuity expectations. Heide and John (1990) proposed closeness under various environmental factors as joint actions, supplier verification and continuity expectations. Robicheaux and Coleman (1994) explained the characteristics of operational integration as joint actions, assistances, monitoring, and information exchange. Based on the literature, this research focuses on two imperative dimensions: joint action and information exchange which are considered mainly in terms of functional characteristics in the pertinent studies. As we can see in Table 3.3 which presents a variety of dimensions functional characteristics shown in the literature, joint action and

information exchange are considered as pivotal factors of functional dimensions of interaction process characteristics.

Table 3.3 Functional Characteristics Dimensions in the Literature

Pertinent Research	Functional Characteristics Dimensions
Heide and John (1990)	**Joint action**, Supplier verification, Continuity expectations
Noordewier, John, and Nevin (1990)	**Information exchange**, Flexibility, Assistances Monitoring, Continuity expectations
Dwyer and Gassenheimer (1992)	**Joint action**, Extendedness, Flexibility
Boyle et al. (1992)	Flexibility, Solidarity, Mutuality
Dant and Schul (1992)	Role integrity, Solidarity, Mutuality
Kaufman and Dant (1992)	Planning and consent, Solidarity, Limited power use, Role integrity, Harmonisation of conflict, Flexibility, Mutuality
Dwyer (1993)	Flexibility, Solidarity, Mutuality
Robicheaux and Coleman (1994)	**Joint action, Information exchange**, Assistances, Monitoring
Heide (1994)	Role integrity, Planning, Limited power use, Flexibility
Pilling, Crosby, and Jackson (1994)	**Information exchange**, Mutuality, Monitoring
Simpson and Paul (1994)	**Information exchange**, Flexibility, Solidarity, Mutuality, Monitoring
Gundlach, Achrol, and Mentzer (1995)	Role integrity, Flexibility, Solidarity, Mutuality
Aulakh, Kotabe, and Sahay (1996)	**Information exchange**, Flexibility
Lusch and Brown (1996)	**Information exchange**, Role integrity, Flexibility, Solidarity, Monitoring
Doney and Cannon (1997)	**Information exchange**
Smith and Barclay (1997)	**Information exchange,** Role integrity, Limited power use
Stank and Daugherty (1997)	**Information exchange**, Assistance, Continuity, Flexibility, Monitoring
Cannon and Perreault, Jr. (1999)	**Information exchange**, Operational linkages, Legal bonds, Cooperative norms, Adaptations
Joshi and Stump (1999)	**Joint action,** Asset specificity, Reciprocal investments

Kim (1999a)	**Joint action,** dependence, service differentiation
Jap and Ganesan (2000)	**Information exchange**, Solidarity
Kim (2000)	Solidarity
Cannon and Homburg (2001)	**Information exchange**, Flexibility, Monitoring
Grewal and Dharwadkar (2002)	Relational norm of solidarity, Opportunism, Process control, Use of power
Leonidou (2004)	**Information exchange**
Ivens (2006)	**Information exchange,** Mutuality, Solidarity, Flexibility, Conflict resolution, Use of power, Monitoring
Denize and Young (2007)	**Information exchange**
Ross and Robertson (2007)	Relationship norms, Power differences, Opportunism, The structure of exchange
Homburg, Jensen, and Krohmer (2008)	**Information sharing**, Structural linkages, Power
Frazier et al. (2009)	**External/Internal strategic information sharing**
Bello, Katsikeas, and Robson (2010)	Monitoring
Wiengarten et al. (2010)	**Information sharing**, **Joint decision making**
Nyaga, Whipple, and Lynch (2010)	**Information sharing, Joint relationship effort,** dedicated investment
This Research	**Joint action, Information exchange**

3.4.1 Joint Action

In the 1980's when industry and academy started to have interest in the nature of buyer-supplier relationships and discussed the importance of these ties, this phenomenon described as becoming "*closer*" (BusinessWeek 1987) in business or "*alliances*" (Spekman 1988) and "*partnership*" (Johnston and Lawrence 1988). On the other hand, Heide and John (1990) explained these alliances as "*joint action*" (Laumann, Galaskiewicz, and Marsden 1978) and developed its' determinants model on the basis of transaction cost analysis (TCA).

Heide and John (1990, p.25) define *joint action* as

"The degree of interpenetration of organisational boundaries."

Building on Stern and Reve (1980) and Frazier and Rody (1991), Kim (1999a, p.221) define *joint action* as:

"The extent to which distributors and suppliers work together toward their respective or common goals."

In other words, organisational boundaries are penetrated by the integration of activities as the firm becomes involved in activities that traditionally considered the partner's responsibility. Joint action in industrial relationships can occur over a large set of decision making activities. For example, this concept has been discussed in the field of supply chain management such as product design, (Drozdowski 1986; Zaheer and Venkatraman 1995), value analysis and cost targeting (Dowst 1988; Joshi and Stump 1999), design of quality control and delivery systems (Treleven 1987), and long-term planning (Spekman 1988). Zaheer and Venkatraman (1995) view *joint action* as a process dimension of relational governance, while Joshi and Stump (1999, p. 291) view that joint action is "a nonequity mode of governance in which both parties cooperate on certain activities that are important for both parties." The parties may conduct a value analysis in which they may jointly establish and implement cost reduction targets. To develop an enduring relationship, commitment and joint action of the involved parties are required to support the recurring exchanges (Chen et al. 2011).

From these definitions and characteristics, joint action can be implicated in *operational linkage* (Cannon and Perreault Jr. 1999), which refers to "the degree to which the systems, procedures, and routines of the buying and selling organisations have been linked to facilitated operations" (Cannon and Perreault Jr. 1999, p.442). The linkages tend to specify roles implicitly or explicitly for both parties in a relationship (Heide 1994) and these happen in the whole flow of goods, services, or information of the activities and processes between firms (Cannon and Perreault Jr. 1999).

Joint action can be considered from two opposite point of view because it provides not only important benefits but also entail substantial risks (Joshi and Stump 1999; Pilling

and Zhang 1992). Initially, as it is examined in some studies, there are many benefits to implementing joint action. For instance, product development cycle is short and procurement costs are reduced (Dyer 1996). Supplier quality is improved (Burt 1989), and continuously cost improvements is expected (Han, Wilson, and Dant 1993; Kalwani and Narayandas 1995). However, in order to establish joint action, there are some points to consider such as substantial implementation costs in terms of time, finances, and personnel for both parties (Bradley 1995; Frazier, Spekman, and O'Neal 1988) as well as opportunity costs of alternative exchange partners (Balakrishnan and Wernerfelt 1986; Sheth and Parvatiyar 1995).

Although this construct is of interest, and could be argued to be a pivotal factor on any relationship outcome, unfortunately, there are very rare empirical trials testing joint action in business relationships such as the effects of influence strategy on joint action or joint action on performance (Hausman and Johnston 2010). Therefore, as long as this empirical research about joint action can show the causal relationships with the outcome of relationship, it can be expected to contribute to building on joint action as the important construct of interaction process in business relationship research.

3.4.2 Information Exchange

The importance of information exchange has been emphasized in interorganisation studies (Cannon and Homburg 2001; Doney and Cannon 1997; Dwyer, Schurr, and Oh 1987; Frazier et al. 2009; Heide and John 1992; Jayachandran et al. 2005; Kahn, Reizenstein, and Rentz 2004; Lusch and Brown 1996; Noordewier, John, and Nevin 1990; Pilling and Zhang 1992; Simpson and Paul 1994; Simpson and Mayo 1997; Smith and Barcley 1997). Information exchange contains the extent of cross-functional intelligence dissemination and knowledge sharing (Homburg, Jensen, and Krohmer 2008) and is emphasised by studies on market orientation, organisational learning, and new product development (Marinova 2004). In particular, many strategy studies have emphasised the importance of obtaining pivotal information regarding customers, competitors and the market (Day 1994; Frazier et al. 2009) and have defined information exchange with this point of view.

Anderson and Narus (1990, p. 44) define *information exchange* as "the formal as well as informal sharing of meaningful and timely information between firms." This definition stresses the bilateral expectations of both parties involved in a relationship to proactively provide valuable information to the partner that may affect the partner's operations (Heide and John 1992). As proactively provided information is geared towards aligning expectation and conflict avoidance between partners (Morgan and Hunt 1994), information exchange can foster trust (Moorman, Deshpande, and Zaltman 1993). Additionally, information can be involved in a revolution process in business. For instance, new technology acquired through information exchange will result in greater precision based on the investigation of marketing phenomena and greater technical power to plan and implement strategy (Timmers 2000).

Cannon and Perreault Jr. (1999, p.441) apply numerical taxonomy of interorganisation interfaces and define *information exchange* as:

"Expectations of open sharing of information that may be useful to both parties."

Some studies define this construct under more specific situation. For instance, Payne and McFarland (2005, p.68), that examined the effectiveness of influence strategies in achieving the channel member compliance and stressed the importance of the information exchange, define *information exchange* as:

"The source discusses general issues and procedures to try to alter the target's general perceptions without stating a request"

Kelley and Thibaut (1978) note that parties in exchanging relationships come to understand better the outcomes of their mutual behaviours by sharing information. Cannon and Homburg (2001) state that the buyer gains insights about the acquisition and use of the supplier's products by a supplier's openly sharing information. As both parties involve more open sharing of information, the willingness of both parties that want to share important information is increasing. This can include involving partners in the early stages of product design, open books and sharing cost information, discussing future product development plans or supply and demand forecasts (Cannon and Perreault Jr. 1999). Greater sharing of information can improve product quality

(Emshwiller 1991), facilitate new product development (Magnet 1994), and reduce acquisition costs and operations costs for the partner (Cannon and Homburg 2001). Malhotra, Gosain, and Sawy (2005) stress not only information exchange but also information quality for the success of collaborative relationship in the supply chain. As one of industrial example in a semiconductor industry[1] regarding information exchange between the supplier and buyer, is conceived sharing of key technology information can create even new market. According to the episode regarding the appearance of new mobile phone with a camera (Park et al. 2006), even though a fabless company could design the semiconductor chip for adding a camera to mobile phone through the investigation of new customer needs in the mobile phone market, if they could not find a proper foundry company to manufacture the chip, the mobile phone could not appear in the world. Fortunately, fabless companies which designed the chip that could be able to add a camera with the mobile phone could share key technology information with foundry companies which could manufacture in proper technology and the mobile phone added the camera could appear in consumer market. Therefore, the information exchange between fabless companies and their foundry companies is one of the key factors for the creation of a new market and driving a successful business forward in the semiconductor industry.

On the other hand, although information exchange has a positive influence on long-term orientation or competitive advantage for both parties, we can also consider that the sharing of information in market-based exchange can give a chance for partners to behave in an opportunistic way. In market-based exchange either party could easily

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[1] Companies in semiconductor industry can classify (1) **Integrated Device Manufactures (IDM)** which is chip maker such as Samsung, Hynix (South Korea) or Intel (USA) which design, manufacture and sell their chips, (2) **Fabless (fabrication-less) manufacturers** such as Qualcomm (USA) that design and sell chips but outsource manufacturing to foundry companies, (3) **Foundry companies** such as Dongbu HiTex (South Korea) that manufacture chips designed and sold by their customers especially from fabless companies.

terminate the exchange and substitute another exchange partner, because opportunism is possible to profit from such behaviour (John 1984).

Based on the importance perspectives of effects of information exchange within supplier and buyer relationships in a positive or negative way, this research expects the influence of information exchange as a functional characteristic of interaction process on relational outcome.

3.5 Climate Characteristics

In general, climate is "….viewed as a representation of the organisational member's perceptions of the work environment, including such aspects as characteristics of the organisation and the nature of the member's relationship with others" (Mohr and Nevin 1990, p.42). Climate has important implications for organisational behaviour because this bonds to motivation and performance. Channel researchers who adopt political economy perspective have viewed a transaction climate as an important determinant of performance and they stress mutual trust and goal compatibility as the climate of a channel relationship (Reve and Stern 1986). In terms of buyers' perceptions of relationships with partners in the supply chain, trust and commitment, not power or dependence, have been considered as the key focal constructs for understanding interorganisational relationship performance (Palmatier, Dant, and Gremler 2007). In particular, adopting a social exchange theory (Blau 1964; Cook and Emerson 1978), Morgan and Hunt (1994, p.22) propose the commitment-trust theory of relationship marketing. They argue that commitment is the critical precursor to improving financial performance and both trust and commitment are important for building strong relationships. Narayandas and Rangan (2004) view the development of trust and commitment is built by one interaction at a time. They suggest that trust is built and maintained at the individual level and that commitment is a broader organisational phenomenon. Actions within and outside of the terms for an agreement have a differential impact on trust and commitment.

A variety of studies in relationship marketing report these constructs, individually or together, have strongly positive impacts on performance and relational behaviour. Therefore, this research focuses on trust and commitment as climate characteristics of interaction process between suppliers and buyers.

Table 3.4 shows the main literature in terms of trust and commitment in business relationship.

Table 3.4 Climate Characteristics in the Literature

Pertinent Research	Climate Characteristics	
	Trust	Commitment
Anderson, Lodish, and Weitz (1987)	✓	
Allen and Meyer (1990)		✓
Anderson and Narus (1990)	✓	
Mohr and Nevin (1990)		✓
Anderson and Weitz (1992)		✓
Moorman, Zaltman and Deshpand (1992)	✓	✓
Scheer and Stern (1992)	✓	✓
Morgan and Hunt (1994)	✓	✓
Brown, Lusch, and Nicholson (1995)		✓
Gundlach, Achrol, and Mentzer (1995)		✓
Kumar, Scheer, and Steenkamp (1995b)	✓	✓
Wilson (1995)	✓	✓
Aulakh, Kotabe, and Sahay (1996)	✓	
Geyskens et al. (1996)	✓	✓
Mohr, Fisher, and Nevin (1996)		✓
Doney and Cannon (1997)	✓	
Kim and Frazier (1997)		✓
Moore (1998)	✓	✓
Sako and Helper (1998)	✓	✓
Siguaw, Simpson, and Baker (1998)	✓	✓
Zaheer, McEvily, and Perrone (1998)	✓	
Garbarino and Johnson (1999)	✓	✓
Gruen, Summers, and Acito (2000)		✓
Jap and Ganesan (2000)		✓

Pertinent Research (continued)	Trust	Commitment
Atuahene-Gima and Li (2002)	✓	
Gilliland and Bello (2002)		✓
Sirdeshmukh, Singh, and Sabol (2002)	✓	
Dyer and Chu (2003)	✓	
Jap and Anderson (2003)	✓	
Mukherjee and Nath (2003)	✓	✓
Pressey and Tzokas (2004)	✓	✓
Gustafsson, Johnson, and Roos (2005)		✓
Palmatier et al. (2006)	✓	✓
Leonidou, Palihawadana, and Theodosiou (2006)	✓	✓
Auh et al. (2007)		✓
Caceres and Paparoidamis (2007)	✓	✓
Ireland and Webb (2007)	✓	
Ivens and Prado (2007)	✓	✓
Mukherjee and Nath (2007)	✓	✓
Palmatier, Dant, and Gremler (2007)	✓	✓
Dionysis and Robson (2008)	✓	✓
Fang et al. (2008)	✓	
Joshi (2009)		✓
Palmatier et al. (2009)	✓	✓
Bello, Katsikeas, and Robson (2010)		✓
Čater and Čater (2010)	✓	✓
Chenet, Dagger, and O'Sullivan (2010)	✓	✓
Ganesan et al. (2010)		✓
Hausman and Johnston (2010)	✓	✓
Chen et al. (2011)	✓	✓
This Research	✓	✓

3.5.1 Trust

Trust has been thought of as a key construct in a wide range of studies area such as business marketing, (Dwyer, Schurr and Oh 1987, Anderson and Weitz 1989, Moorman, Zaltman and Deshpand 1992, Morgan and Hunt 1994, Doney and Cannon

1997), social exchange studies (Scanzoni 1979), organisational economics (Barney 1990), strategic alliances (Sherman 1992) and retailing (Berry and Parasuraman 1993). Likewise, several conceptual (Gundlach and Murphy 1999; Nooteboom, Berger, and Noorderhaven 1997) and empirical (Mukherjee and Nath 2007; Sirdeshmukh, Singh, and Sabol 2002; Tax, Brown, and Chandrashekaran 1998) studies have posited trust as a key determinant of relational commitment.

Therefore, trust has been considered in a variety of definitions in a wide range of research. It is conceptualized as a constituent component of relationship quality (Dwyer, Schurr and Oh 1987) or as a necessary requirement and determinant of sound business relationships (Håkansson and Waluszewski 2004). Regarding the importance of trust in service marketing, Berry and Parasuraman (1991) state that "customer and company relationships require trust" (p.144) and stress "effective service marketing depends on the management of trust because the customer typically must buy a service before experiencing it" (p.107). According to Spekman (1988, p.79), trust is "the cornerstone of the strategic partnership" between the seller and the buyer.

Trust based on a partner's expertise and reliability builds on the objective credibility of an exchange partner. Garbarino and Johnson (1999) examine customers' trust in an organisation as customer confidence in the quality and reliability. Trust, which is the basis for loyalty (Berry 1993), can exist within partnerships in which members have intention to share risks as well as rewards. For example, in automotive industry, big three auto makers in USA stress partnerships in which everyone shared risks and rewards, which emphasises win-win role playing games stressing mutual trust (MacDuffie and Helper 2005) and Ford Motor Company requires relationships with its suppliers in which there is a spirit of trust to compete Japanese automotive companies (BusinessWeek 1992). Trust is also an important prerequisite for enhancing cooperation between suppliers and buyers because it cultivates confidence in both the ability and the intention to work closely together to achieve mutual goals (Leonidou, Palihawadana, and Theodosiou 2006).

Morgan and Hunt (1994) point out that trust is a key mediating variable for the success of relational exchange in their commitment and trust theory. They view trust as "existing when one party has confidence in an exchange partner's reliability and integrity" that directly and indirectly through commitment affects exchange performance (Morgan and Hunt 1994, p.23). On the other hand, Smith (2001) distinguishes the constructs between trust and confidence. He thought establishment of confidence intervals may be indicative of the existence of distrust in business relationships. Confidence is potentially self-contradictory depended on interpretation of what is meant by confidence (Marsh and Dibben 2005). Crosby, Evans and Cowles (1990) emphasise trust as confidence in the honesty and integrity of the other party.

Dwyer, Schurr and Oh (1987) viewing trust as a constituent component of relationship quality define *trust* as:

> "A party's expectation that another party desires coordination, will fulfil obligations, and will pull its weight in the relationship"

Schurr and Ozanne (1985) define *trust* as:

> "The belief that a party's word or promise is reliable and a party will fulfil his/her obligations in an exchange relationship"

Moorman, Deshpande and Zaltman (1993, p.82) and Morgan and Hunt (1994, p.23) define *trust* as:

> "A willingness to rely on an exchange partner in whom one has confidence."

Anderson and Weitz (1990) define *trust* as:

> "One party believes that its needs will be fulfilled in the future by actions taken by the other party"

Based on Morgan and Hunt (1994), Hibbard et al.(2001), Sirdeshmukh, Singh, and Sabol (2002), Palmatier et al. (2006, p.138) analyse factors influencing the effectiveness of relationship marketing with a meta-analysis and define *trust* as:

"Confidence in an exchange partner's reliability and integrity"

From this point of view, Ganesan (1994) points out that the notion of trust is thought as a belief, a sentiment, or an expectation about an exchange partner that results from the partner's expertise, reliability, and intentionality. Additionally, he posits that trust is a construct which reflects two distinct components: credibility and benevolence. Credibility is the concept which is based on expectancy that the partner's word or written statement can be relied on, whereas benevolence is the concept which is based on the extent to which one partner is genuinely interested in the other partner's welfare and motivated to seek joint gain. In particular, benevolence is relevant in an industrial buying context (Doney and Cannon 1997).

Building on Ganesan (1994) and Kumar, Scheer, and Steenkamp (1995), Doney and Cannon (1997) define trust as:

"The perceived credibility and benevolence of a target of trust (p.36)"

Doney and Cannon (1997) distinguish buying a firm's trust of the supplier firm with the trust of the sales person. Blois (1999) undertook trust and reliance issue in business relationships. He explains that there is a difference between trusting someone and "relying on somebody to do something (Blois, p.199)."

In addition, some research examines trust at several levels. For example, Fang et al. (2008) explore trust at three distinct organisational levels such as interorganisational trust, each firm's agency trust (coentity) and intraentity trust and stress managing trust. They view that building trust at multiple levels is critical to the success of interorganisational marketing collaborations.

Additionally, trust in online business context is also considered as a critical factor between firms. For example, Mukherjee and Nath (2007) examine the commitment-trust theory in the online retailing context. They discuss how websites can gain the trust of the buyers without physical interaction between the buyer and the seller.

The reason why the importance of trust in relationship marketing is emphasised is that trust can result in relationship value or positive performance. Particularly, the economic value of trust has been stressed (Aulakh, Kotabe, and Sahay 1996; Zaheer, McEvily, and Perrone 1998). Trust is believed to reduce transaction costs and some research suggests that transactions are more likely to share valuable work related information when they have developed a high level of trust (Dyer and Chu 2003). In terms of the relationship between trust and value, Sirdeshmukh, Singh, and Sabol (2002) view an alternative mechanism for the trust-loyalty relationship whereby value mediates the effect of trust on loyalty. The higher the level of trust, the greater is the supplier's economic performance, perceived equity, and capability development (Corsten and Kumar 2005).

According to previous research, trust in this research can be defined as a willingness to rely on an exchange partner in whom one has confidence and the measurement items will be generated. Table 3.5 presents trust dimensions in business relationship studies.

Table 3.5 Trust Dimensions in the Literature

Pertinent Research	Trust Dimensions
Morgan and Hunt (1994); Doney and Cannon (1997); Hibbard et al. (2001); Sirdeshmukh, Singh, and Sabol (2002); Palmatier et al. (2006)	Partner's reliability and integrity
Crosby, Evans and Cowles (1990)	Honesty and integrity
Berry (1993)	Intention to share risks as well as rewards with the partner
Ganesan (1994)	Credibility and benevolence
Doney and Cannon (1997)	Buying firm's trust about sales firm (organisation) or salesperson (Person)
Blois (1999)	Trust and reliance
Garbarino and Johnson (1999)	Buyer's confidence in the quality and reliability
Mukherjee and Nath (2003)	Regarding trust in online banking, the expected competency of the electronic communication system/ reputation /innovative abilities of the bank
Pressey and Tzokas (2004)	Competence and contractual trust
Leonidou, Palihawadana, and Theodosiou (2006)	Confidence in both the ability and the intention to work closely together
Mukherjee and Nath (2007)	Trust in online and offline retailing
Fang et al. (2008)	Interorganisational trust, firm's agency trust (coentity), and intraentity trust
Pressey and Ashton (2009)	Antitrust issue at e-B2B marketplaces
This Research	**Honest, Reliability, Credibility, and Benevolence**

3.5.2 Commitment

The construct of commitment is particularly important and one of the most commonly used variables in research on buyer-seller relationships (Dwyer, Shurr and Oh 1987; Moorman, Zaltman and Deshpande 1992; Kim and Frazier 1997) because of its apparent implications for channel management. In particular, a buyer's commitment to a

seller is the critical determinant of exchange performance (Anderson and Witz 1992; Morgan and Hunt 1994; Gruen, Summers, and Acito 2000; Jap and Ganesan 2000).

The general definition of *commitment* is "the degree of the memberships' psychological attachment to the association" (Gruen, Summers and Acito 2000, p. 37). This concept is thought as the point of both an attitudinal and a behavioural dimension. It reflects an attitude, belief, desire or promise of continuity (attitude) (Moorman, Zaltman and Deshpande 1992) for which the agent is prepared to make a particular effort (behaviour) (Andaleeb 1995, Wilson 1995) with respect to the long-term orientation of the relationship (Morgan and Hunt 1994).

Furthermore, commitment can be considered as the perceived continuity or growth in the relationship between two firms (Achrol 1991, Anderson and Weitz 1992). Mutual commitment reduces the uncertainties associated with opportunistic behaviour leading to a higher level of relationship orientation (Sharma et al. 1999).

From the definitions of commitment, a widely used concept is "*relationship continuity*" (Anderson and Weitz 1989; Anderson, Håkansson, and Johanson 1994; Heide and John 1990), which reflects each firm's "perception of the likelihood that the relationship will continue" (Anderson and Weitz 1989, p.311). According to Anderson, Håkansson, and Johanson (1994, p. 10), "*growth in the relationship*" refers to "a broadening and deepening of the exchange relation. The relationship can broaden through the extent of joint value created between firms (Zajac and Olsen 1993)." For an enduring relationship to develop, commitment and joint action of the involved parties is required to support the exchanges (Chen et al. 2011).

Anderson and Weitz (1992, p.19) define *commitment* as:
> "A desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship."

Similarly to Scheer and Stern (1992, p.134) which define *commitment* as "a party's intention to continue a relationship", Kumar, Hibbard, and Stern (1994, p. 3) also focus on continuity characteristic of commitment and define it as "distinct motivations underlying the desire for continuity."

Morgan and Hunt (1994, p.23) define it as:

"An exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it"

Moorman, Zaltman and Deshpande (1992, p.316) define *commitment* as:

"An enduring desire to maintain a valued relationship."

Kim and Frazier (1997, p.139) define it as:

"The strengthen extent of a firm's business ties with its channel members."

Wiener (1982, p.419) states the role of *commitment* as:

"An intervening process, mediating between certain antecedents and behavioural outcomes, commitment can be viewed as a motivational phenomenon."

Without strong ties amongst members of a channel relationship the motivation to work closely together is unlikely to be present (Kim and Frazier 1997). Therefore, Dwyer, Schurr and Oh (1987) suggest that strong commitment may be necessary before other aspects such as trust can develop in close relationships of a channel, whereas Kumar, Scheer and Steenkamp (1995b) focus on affective commitment by defining commitment as "encompasses affective dimension expectation of continuity, and willingness to invest" and they view it as one of seven dimensions of relationship quality (Kumar, Scheer, and Steenkamp 1995a).

According to existing research in service marketing, relationship marketing, and organisational behaviour, many studies have taken a one-dimension approach to the commitment construct (Bettencourt 1997; Buchanan 1974; MacKenzie, Podsakoff, and

Ahearne 1998; Mohr, Fisher, and Nevin 1996; Morgan and Hunt 1994), whereas others view it as multidimensional constructs and that each dimension may have distinctive antecedents and consequences (Allen and Meyer 1990; Brown, Lusch, and Nicholson 1995; Gilliland and Bello 2002; Gruen, Summers, and Acito 2000; Gundlach, Achrol and Mentzer 1995; Kim and Frazier 1997; Kumar, Scheer and Steenkamp 1995)

It is necessary to describe the multidimensional conceptualisations in order to understand the concept of commitment. Building on Allen and Meyer (1990)'s constructs, Gruen, Summers, and Acito (2000) thought of the dimension of commitment for organisational behaviour as *normative commitment, continuance commitment, affective commitment*. They (p. 37) define normative commitment, "which derives from a person's sense of moral obligation toward the organisation (Allen and Meyer 1990), as the degree to which the membership is psychologically bonded to the organisation on the basis of the perceived moral obligation to maintain the relationship with the organisation", whereas continuance commitment, "which is based on the self-interest stake in a relationship (Gundlach, Achrol and Mentzer 1995; Wiener 1982), as the degree to which the membership is psychologically bonded to the organisation on the basis of the perceived costs (economic, social and status related) associated with leaving the organisation." In addition, affective commitment, "which is focused on a positive emotional attachment (Allen and Meyer 1990), as the degree to which the membership is psychologically bonded to the organisation on the basis of how favourable it feels about the organisation."

Kim and Frazier (1997) treat commitment as *continuance commitment, behavioural commitment, and affective commitment,* while other research defined it as *calculative commitment, affective commitment, moral commitment* (Kumar, Hibbard, and Stern 1994), *credibility, proportionality* (Gundlach, Achrol, and Mentzer 1995), *instrumental commitment, normative commitment* (Brown, Lusch, and Nicholson 1995), or *calculative commitment (a rational, economic calculation), loyalty commitment (an emotional, social sentiment)* (Gilliland and Bello 2002). When Kim and Frazier (1997) define and measure three components of distributor commitment in industrial channels, they stress in terms of behaviour commitment that many studies have treated it

inadequately by not measuring distributor's actual behaviour but measuring willingness (or intention) to make short-term sacrifices or investment. They focus on importance of "actual helping behaviour" stressed by Narus and Anderson (1989). Behaviour commitment refers to "the extent to which a distributor (supplier) provides special helps to its supplier (buyer) in times of need" (Kim and Frazier 1997, p. 143). Ganesan et al. (2010) assess the buffering and amplifying effects of relationship commitment on organisational buyers' intentions to switch suppliers when the relationship is strained. Both calculative and affective commitment buffer suppliers against minor incidences of their own misbehaviour and affective commitment amplify the adverse effects of supplier's opportunism.

Based on Kim and Frazier (1997)'s behaviour commitment conceptualisation, this research posits that behavioural commitment more adequately addresses a supplier's commitment than it addresses a willingness to make short-term sacrifices (Anderson and Weitz 1992) or a willingness to invest in the relationship (Kumar, Scheer, and Steenkamp 1995). In addition, affective commitment (Kim and Fraizer 1997, p. 143) is defined as "the level of unity sensed to be present in a channel relationship" (Morgan and Hunt 1994). When affective commitment is felt to be high, it is likely to bond strongly in their relationships (Kumar, Scheer, and Steenkamp 1995). Table 3.6 shows the definitions and dimensions of commitment developed by pertinent studies.

Table 3.6 The Definitions and Dimensions of Commitment

Pertinent Studies	The Definitions and Dimension of Commitment
One-dimensional Approach	
Anderson and Weitz (1992); Siguaw, Simpson, and Baker (1998)	A desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship (p. 19)
Scheer and Stern (1992)	A party's intention to continue a relationship (p.134)
Morgan and Hunt (1994)	An exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it (p.23)

Kumar, Scheer, and Steenkamp (1995b)	Encompasses affective dimension expectation of continuity, and willingness to invest (p.58)
Mohr, Fisher, and Nevin (1996)	The desire to maintain membership in the dyadic relationship (p.105)
Auh et al. (2007)	The customer's attachment to identification with and involvement in the organization (p.362): Affective commitment
Joshi (2009)	The extent to which the supplier experiences a "high level of unity" (Kim and Frazier 1997, p. 143) or, more generally, feels a "positive emotional attachment" (Gruen, Summers, and Acito 2000, p. 37) to the manufacturer: Affective Commitment
Hausman and Johnston (2010)	An exchange partner's belief that the relationship is worth the expenditure of effort required to ensure its survival (p.520)
Chenet, Dagger, and O'Sullivan (2010)	A customer's long term orientation towards a business relationship (p.337)
Chen et al. (2011)	The willingness of buyers and suppliers to exert effort on behalf of the relationship (p. 263)
Multidimensional Approach	
Allen and Meyer (1990); Gruen, Summers, and Acito (2000)	The degree of the memberships' psychological attachment to the association (p.37) -Normative / Continuance/Affective commitment
Kumar, Hibbard, and Stern (1994)	Distinct motivations underlying the desire for continuity (p.3) - Calculative / Affective / Moral commitment
Brown, Lusch, and Nicholson (1995)	Retailer's long-term orientation to its supplier based on identification and involvement or on rewards and punishments received (p.365) -Instrumental/Normative commitment
Gundlach, Achrol, and Mentzer (1995)	Enduring intention to develop and maintain a stable, long-term relationship -Credibility/ Proportionality
Geyskens et al. (1996)	A channel member's intention to continue the relationship (p.304) -Calculative / Affective commitment
Kim and Frazier (1997)	The strengthen extent of a firm's business ties with its channel members (p.139) -Continuance/Behavioural/ Affective commitment

Gilliland and Bello (2002)	Attitudinal attachment to continue between channel members (p.25) -Calculative/Loyalty commitment
Pressey and Tzokas (2004)	-Calculative/Affective commitment
Gustafsson, Johnson, and Roos (2005)	A "stickiness" that keeps customers loyal to a brand or company even when satisfaction may be low. -Calculative/Affective commitment
Cohen (2007)	-Normative, Instrumental, Affective commitment
Bello, Katsikeas, and Robson (2010)	Each party's commitment is affected by the perceived commitment of the other party (Anderson and Weitz 1992, p.18) -Affective / Continuance / Behavioural commitment
Čater and Čater (2010)	- Negative (or Positive) Calculative / Affective / Normative commitment
Ganesan et al. (2010)	-Calculative / Affective commitment
This Research	**Integrated concepts from Continuance/ Behavioural/ Affective Commitment**

In this chapter, three dimensions of interaction process characteristics, namely, structural, functional and climate characteristics and their constructs were discussed. Following discussion of these characteristics, next chapter will involve antecedents of interaction process characteristics regarding environmental characteristics and firm's business strategy.

Chapter 4. Antecedents of Interaction Process Characteristics

4. Antecedents of Interaction Process Characteristics

4.1 Introduction

The aims of this chapter are to discuss a variety of environmental characteristics which are likely to affect the interaction process between firms, and also business strategies of the firm involving an interaction process with its partner. As we can see in Figure 2.4: The key parts of the conceptual framework (p. 47), this research views environmental characteristics and business strategy of the firm as external factors and antecedents of interaction process characteristics

This chapter consists of two main sections. Section 4.2 unfolds the three dimensions of environment characteristics such as complexity, dynamism and munificence. Following that, business strategy is discussed in section 4.3. As this research adopts Porter's (1980) generic competitive strategies, which is relevant to channels (Kabadayi, Eyuboglu, and Thomas 2007) and reflects the way that managers think about competitive strategy (Homburg, Workman, and Krohmer 1999), two dimensions of business strategy, namely, differentiation strategy and cost leadership strategy are discussed in this chapter.

This chapter provides a detailed understanding of environmental characteristics which affect the interaction between firms alongside a kind of business strategy adopted by the firm and their features.

4.2 Environmental Characteristics

A variety of environmental characteristics which affect relational exchange have been considered as main antecedents of interaction between firms with polity economy paradigm (PEP) (Robicheaux and Coleman 1994; Stern and Reve 1980), since each firm which is involved in a relationship depends on a variety of external factors such as the resources and actions of both its suppliers and buyers or the interaction with them. In particular, environmental uncertainty in the supply chain is considered a key external

factor in relationship marketing and channel research (Achrol and Stern 1988; Fynes, De Búrca, and Marshall 2004; Sutcliffe and Zaheer 1998). Uncertainties can be experienced through the decision making process within the interaction process with their partners (Leblebich and Salancik 1981). For example, suppliers face uncertainties in dealings with their buyers in terms of capacity uncertainty and application uncertainty related to problem solving abilities, and transaction uncertainty related to difficulties of expectation about the buyer's actual demand and purchasing. Buyers face uncertainties such as need uncertainty, market uncertainty and transaction uncertainty (Ford et al. 1998). The environmental characteristics can be perceived differently by different firms (Achrol and Stern 1988; Downey and Slocum 1975; Pfeffer and Salancik 1978), as they have different levels of abilities to access the resources and the information about partners, competitors and markets. Under complex and uncertain environmental factors, firms try to reduce the number of influence factors by evaluating, considering and anticipating so that they cope with environmental factors.

The degree of uncertainty of the environment depends upon the degree of change and complexity to which the firm in the channel system must adapt (Kim and Frazier 1996). Consistently with Duncan's (1972) work, environmental uncertainty can consist of environmental complexity and the frequency and unpredictability of major changes. Among the factors of which uncertainty consists, in general, the degree of frequency of the change and the degree of unpredictability of environmental changes are considered as the level of environmental dynamism. The rate of change and level of complexity faced by the firm within the supply chain are likely to determine the value of interaction process within the channel (Achrol, Reve, and Stern 1983; Etgar 1977; Kim and Frazier 1996; Pfeffer and Salancik 1978). The higher the uncertainty such as complexity and dynamism, the greater the need to gain information from associated channel members and perform some level of joint action (Joshi and Campbell 2003). The level of complexity and dynamism reflect the impact of the external environment, which must be taken into account in any typology of channel systems. Dwyer and Welsh (1985) state that external conditions of the firm are interpreted as constraints and opportunities for the internal political economy and point out that heterogeneous environments

represent greater uncertainty for channel members, requiring decentralized and informal structure of decision making in channel (Dwyer and Oh 1987).

Additionally, resource-carrying capacities of firms are critical under environmental uncertainty. The more resource-carrying capacity of the firm which the firm can access and achieve the resources from the external organisations and manage them, the better the level of response of the firm to the environment. This is related to munificence which refers to the extent to which environmental resources are available and accessible to firms. Environmental munificence positively affect the range of strategy and options available to firms (McArthur and Nystrom 1991; Tushman and Anderson 1986). When resources are abundant, it is relatively easy for firms to survive in the competitive environment and thus they become more able to purse a variety of goals because the firm with munificence can achieve alternative goals and try to adopt more variable strategies and organisational structure to response the environment (Castrogiovanni 1991). Therefore, munificence is also needed to consider as one of main environmental characteristics with complexity or dynamism.

On the basis of pertinent literature, this research views complexity, frequency and the unpredictability of major changes (dynamism) and munificence as key environmental conditions of firms that are involved in the interaction process with partners. Table 4.1 shows the dimensions of environmental characteristic identified in the literature and the chapter continues with a detailed discussion of each environmental characteristic to be considered in this research.

Table 4.1 Environment Dimensions on the Literature

Pertinent Research	Environment Dimensions				
	Uncertainty	**Complexity**	**Dynamism**	**Munificence**	**Others**
Dwyer and Welsh (1985)	✓				Heterogeneity, Environment as stock of resources
Ruekert, Walker, and Roering (1985)	✓	✓			
Dwyer and Oh (1987)				✓	
Achrol and Stern (1988)	✓		✓		
Lawless and Finch (1989)				✓	
Moordewier, John, and Nevin (1990)	✓				
Castrogiovanni (1991)				✓	
Marlin, Hoffman, and Lamont (1994)			✓		
Robicheaux and Coleman (1994)	✓		✓	✓	Homo/Heterogeneity, Turbulence
Heide and Stump (1995)			✓		
Ward, Bickford, and Leong (1996)		✓	✓	✓	
Goll and Rasheed (1997)			✓	✓	
Sutcliffe and Zaheer (1998)	✓				
Paswan, Dant, and Lumpkin (1998)	✓				
Cannon and Perreault (1999)		✓	✓		

Pertinent Research (Continued)	Uncertainty	Complexity	Dynamism	Munificence	Others
Homburg, Workman, and Krohmer (1999)	✓	✓			Turbulence
Jap (1999)			✓		
Joshi and Stump (1999)	✓				
Kim (1999)				✓	Heterogeneity, Intensity
McKelvey (1999)		✓			
Voss and Voss (2000)	✓				Turbulence, Intensity
Heide (2003)	✓				
Joshi and Campbell (2003)			✓		
Kabadayi, Eyuboglu and Thomas (2007)		✓	✓	✓	
Krause, Handfield, and Tyler (2007)			✓		
Gebauer (2008)					Intensity
Bozarth et al. (2009)		✓			
Möller and Svahn (2009)		✓	✓		Novelty, Embeddedness
Andrevski et al. (2011)				✓	
Chen, Ellinger, and Tian (2011)	✓	✓			
Merschmann and Thonemann (2011)	✓				
This Research		✓	✓	✓	

4.2.1 Complexity

Complexity has been discussed in a wide range of literatures including philosophy, physical sciences, engineering, management, network and organisation studies (Casti 1979; Choi, Dooley, and Rungtusanatham 2001; Cramer 1993; Ford et al. 1998; Gharajedaghi 2011; Holland 1995; Kauffman 1993; McKelvey 1999a; McKelvey 1999b; McQuiston 1989; Möller and Svahn 2009; Silk and Kalwani 1982; Simon 1962). For example, regarding purchasing contexts described in industrial marketing research, complexity and its impacts on participation are treated as complexity of the purchase situation and complexity of the product (McQuiston 1989), whereas complexity in sociological network theory can be explained with network density (Burt 1992; McKelvey 1999a; McPherson, Popielarz, and Drobinic 1992). A broad range of definitions can be discussed in terms of what constitutes a complex system. This concept has been used in studying, predicting, and controlling chaotic systems (Stewart 2002). Moreover, complexity has been incorporated in the organisational theory (Stacey, Griffin, and Shaw 2000) as well as in supply chain management literature (Choi, Dooley, and Rungtusanatham 2001; Holland 1995).

Researchers in complexity theory try to explain complex phenomena generated in interorganisational level (McKelvey 1999a). Complexity theory is appreciated in a variety of ways, as illustrated in the books by Anderson, Arrow and Pines (1988), Nicolis and Prigogine (1989), Cowan, Pines and Meltzer (1994), Mainzer (1994), Favre et al. (1995), Belew and Mitchell (1996), and Arthur, Durlauf and Lane (1997). Complexity theory shows an alternative basis for structure to emerge from stochastic microstates and complexity theorists define "systems in the critical complexity category as being in a state far from equilibrium or at the edge of chaos" (McKelvey 1999a, p. 300). This viewpoint can be developed in and related to sociological network theory in management and strategy fields (Burt 1992; Nohria and Eccles 1992).

Complexity concept consists of several dimensions. For example, complexity theorist Cramer (1993) identifies complexity at three levels: subcritical complexity, fundamental complexity and critical complexity. Firstly, *subcritical complexity* "exists

when the amount of information necessary to describe the system is less complex than the system itself…Systems exhibiting subcritical complexity are strictly deterministic and allow for exact prediction" (Cramer 1993, p.213). Cohen and Stewart (1994) use the term of "simple-rule" which means that it takes few information bits to explain subcritical complexity. Secondly, in terms of *fundamental complexity,* Cramer (1993) puts both chaotic and stochastic systems into fundamental complexity (McKelvey 1999a; Morrison 1991). Thirdly, there is *critical complexity* between subcritical and fundamental complexity. In short, the critical aspect is "the possibility of emergent simple-rule deterministic structures which is subcritical complexity criteria with the underlying phenomena in the fundamental complexity category" (Cramer 1993, p.214). As Cramer (1993) describes complexity, phenomena in subcritical complexity can be related to physical equilibrium and that of critical complexity can be explained in statistical mechanics, statistical laws, organisms, whereas chaotic, stochastic, turbulent systems and many kinds of human behaviour can be explained under fundamental complexity (Cramer 1993, pp.215-217).

Complexity is seemingly considered and defined with interaction sets in system context in a multitude of ways. For instance, Yates (1978) and Flood and Carson (1988) describe the characteristics of complexity as one that exhibits one or more of the following five attributes: (1) significant interactions, (2) high number of component parts or interactions, (3) nonlinearity, (4) broken symmetry and (5) nonholonomic constraints.

Similar to Yates (1978)'s the characteristics of complexity, Casti (1979, p.41) also stresses *two main characteristics of complexity* such as numerousness and interactions and define *complexity* as:

> "…two major aspects of a system: (a) the mathematical structure of the irreducible component subsystems of the process and (b) the manner in which the components are connected to form the system"

Simon (1962, p.468) define *system complexity* as:

> "…a large number of parts that interact in a non-simple way"

Senge (1990, p.71) defines complexity as:

"The number of variables embedded in a system."

Bozarth et al. (2009, p. 79) define complexity as:

"The distinct number of components or parts that make up a system."

In comparison with complexity in the system, from the standpoint of relationship marketing and supply chain management, *environmental complexity* specifically refers to the number and diversity of competitors, suppliers, buyers, and other environmental actors that decision makers of firms need to consider in formulating their strategies (Bourgeois 1980; Duncan 1972; Kabadayi, Eyuboglu, and Thomas 2007). In other words, environmental complexity is considered the degree of heterogeneity and the dispersion of a firm's activities (Aldrich 1979; Duncan 1972; McArthur and Nystrom 1991). The more diverse the interaction set, the higher complexity (Aldrich 1979). On the basis of the literature, this research views complexity as diversity of the interaction with competitors, suppliers, buyers in the supply chain as well as other environmental actors and the degree of diversity of external factors in the market in which the firm is involved.

4.2.2 Dynamism

Environmental dynamism has been considered to be the strongest determinant of environmental uncertainty against other determinants such as environmental diversity, environmental complexity, or environmental interconnectedness (Bourgeois 1980; Duncan 1972; Joshi and Campbell 2003). Environmental dynamism describes the extent of market instability over time and the turbulence caused by interaction among firms (Aldrich 1979; McArthur and Nystrom 1991; Mintzberg 1979). The phenomenon whereby environmental characteristics is frequently shifting (Achrol and Stern 1988) and changing (Aldrich 1979). Both of the frequency of environmental change and the change coupled with the unpredictability of market factors (Kabadayi, Eyuboglu, and Thomas 2007) are termed as environmental dynamism.

Based on Aldrich (1979, p.67) and Child (1972), Achrol and Stern (1988, p. 37) define *Environmental Dynamism* as:

> "The perceived frequency of change and turnover in marketing forces in the output environment."

On the basis of Achrol and Stern (1988), Jap (1999, p. 464) describes *dynamism* as:

> "…changes in product and competitor strategies that occur frequently and are difficult to predict."

Senge (1990, p.71) indicates *dynamic complexity* contexts:

> "…involve situations where cause and effect are subtle, and where the effects over time of interventions are not obvious."

Homburg, Workman and Krohmer (1999) define *environmental dynamism* in the channel as:

> The sum of "*Frequency of change*" and "*Unpredictability of change*".

Bozarth et al. (2009, p. 79) define dynamism as:

> "The unpredictability of a system's response to a give set of inputs, driven in part by the interconnectedness of the many parts that make up the system."

Based on the definition of environmental dynamism in prior studies, this research defines environmental dynamism as "frequency of major change" and "unpredictability of major change".

There is significant empirical evidence which confirms that the relationship between environmental dynamism and structural characteristics. Not surprisingly, the viewpoints of the causal relationships between environmental dynamism and relational structure or governance are highly contentious in prior research. For example, Oh, Dwyer and Dahlstrom (1992), Sutcliff and Zaheer (1998) and Kim (2001) subscribe to an inverse relationship between environmental dynamism and relational governance, whereas Eisenhardt and Schoonhoven (1996), Jap (1999), and Klein, Frazier and Roth (1990)

view environmental dynamism exercising a significant positive effect on relational governance or the structure of the relationship. On the other hand, some studies such as Joshi and Campbell (2003) outline the moderate effects of manufacturer collaborative belief and supplier knowledge between dynamism and relational governance, instead of supporting negative or positive relationship between them.

4.2.3 Munificence

Environmental munificence is a concept related to the availability of critical resources which a firm needs to compete. Since Staw and Szwajkowski (1975) argue that environment munificence is an important variable affecting the performance of the firm and the range of strategy that the firm can adopt to survive and achieve competitive advantages, researchers have examined numerous munificence concepts (Brittain and Freeman 1980; Castrogiovanni 1991; Dwyer and Oh 1987; Kabadayi, Eyuboglu, and Thomas 2007; Lieberson and O'Connor 1972; Tushman and Anderson 1986). For example, Pfeffer and Salancik (1978, p.44), who elaborate on the resource dependence perspective, define *environmental munificence* as one of the key characteristics of the environment as "the availability and abundance of critical resources." Moreover, they describe that "environmental munificence affects conflict within a social system" (p.67) and "organisations can be influenced by those who control the resources they need" (p.44).

Similar to Pfeffer and Salancik (1978), Castrogiovanni (1991, p.542) defines *environmental munificence* as:

> "The scarcity or abundance of critical resources needed by firms operating
> within an environment."

A similar concept to environmental munificence, *the replace ability of partners* refers to the ease with which intermediaries can add or drop suppliers within the channel system (Kim and Frazier 1996). When suppliers can be easily replaced, intermediaries or manufacturers are unlikely to be motivated to form strong relationships with them. However, when suppliers are difficult to replace, intermediaries or manufactures are

likely to be concerned about their behavioural relationship with them (Heide and John 1988).

Environmental munificence has been considered as not only an antecedent of the interactional relationship between suppliers and buyers (Kabadayi, Eyuboglu and Thomas 2007) but also a moderator between strategy and performance. For instance, Andrevski et al. (2011) found that environmental munificence moderates competitive intensity's mediating effect on firm performance. In addition to this, Kim (1999) states that the relationship between munificence and differentiation strategy is likely to have a negative effect on service differentiation.

Based on prior studies, environmental munificence in this research refers to the resource-carrying capacity of the firm or the extent to which environmental resources are available and accessible to firms (Aldrich 1979), and the state of demand (Achrol and Stern 1988). Additionally, environmental munificence is related to not only financial, technological and material resources but also human resources. In short, this research views that low munificence means scarce resources, whereas high munificence implies an abundance of resources (Lawless and Finch 1989; Kabadayi, Eyuboglu and Thomas 2007).

4.3 The Influence of Business Strategy

4.3.1 Definition of Strategy

Strategy is "the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations" (Johnson, Scholes, and Whittington 2005, p.9). Hitt, Ireland and Hoskisson (1997, p.115) define *business strategy* as "an integrated and coordinated set of commitment and actions designed to exploit core competencies and gain a competitive advantage", whereas White (1986) defines the business strategy problem and points out *business strategy* is the decision-making choices about where and how to compete within a given industry or market (Olson, Slater, and Hult 2005; Walker and Ruekert 1987).

Regarding the question "What is strategy?", some researchers focus on the making choices by a firm in an industry, whilst others focus on the issues of how well a chosen strategy is implemented (Mazzucato 2002). According to Porter (1996), not all business decisions are strategic. If decisions involve consciously doing something 'differently' from competitors resulting in a sustainable advantage, decisions can only then be defined as strategic. He claimed that activities which simply increase productivity (*'operational effectiveness'* p.61) are not strategic because they can be easily copied by rivals. He also emphasises "strategic fit among many activities is fundamental not only to competitive advantage but also to the sustainability of that advantage" and "… positions built on systems of activities are far more sustainable than those built on individual activities" (p.73).

According to Mazzucato (2002, p.1), strategy researchers have the different point of view regarding the emergence process of the strategies.

> "Some describe strategy as a rational and deliberate process (the Design School), while others describe it as an evolutionary process which emerges from experimentation, trial and error (the Evolutionary and Process Schools). Some emphasis on external factor such as the structure of the industry (Industrial Organisation Approach), while others emphasis on internal factors such as the way production is organised (the Resource-based Approach)." In addition to this, regarding relationship between strategy and the environment, "the Structure-Conduct-Performance Approach views a relatively static relationship, whereas Schumpetarian Approach views a dynamic relationship."

From a historical and key rational focus standpoint, Whittington (2000) explains the four perspectives on strategy such as classic, evolutionary, processual and systemic strategy. According to Whittington (2000), the classical approach to strategy places great confidence in the readiness and capacity of managers to adopt profit-maximising strategies through rational long-term planning, whereas evolutionary approaches to strategy are less confident about top management's ability to plan and act rationally and they believe that the best strategy is selected by environmental considerations and not

by the managers. Processual approaches to strategy share common ground with the evolutionary perspective when it comes to rational strategy making, but are less confident about market outcomes that ensure maximisation of profits. Therefore, processualists believe that strategy is inescapably about satisfaction and therefore settle for less than the optimal. On the other hand, systemic perspective on strategy is that decision-makers are not simply detached calculating individuals interacting in purely economic transactions, but rooted in densely social systems and embedded in a network of social relations. Therefore, business strategy can be considered differently according to the social and economic systems in which the firms are embedded (Whittington 2000).

Table 4.2 shows the summary of classified strategy schools. The competitive strategies which this research discusses are differentiation strategy and cost leadership strategy discussed in the classical approach.

Table 4.2 The Four Perspectives on Strategy

	Classic Approach	Processual Approach	Evolutionary Approach	Systemic Approach
Emergence	1960s	1970s	1980s	1990s
Strategy	Formal	Crafted	Efficient	Embedded
Rationale	Profit maximisation	Vague	Survival	Local
Focus	Internal (Plan)	Internal	External (Markets)	External (Society)
Processes	Analytical	Bargaining/ learning	Darwinian	Social
Key Influences	Economics/ military	Psychology	Economics/ Biology	Sociology
Key Authors	Chandler; Ansoff; Porter	Simon; Cyert and March; Mintzberg; Pettigrew	Hannan and Freeman; Williamson	Granovetter; Whitley

Source: Whittington (2000)

There are two dominant classifications of business strategy: Porter's (1980) typology, which focus on customers and competitors, whereas Miles and Snow's (1978) typology which focuses on innovation or the rate of product-market change (Kabadayi, Eyuboglu, and Thomas 2007; Olson, Slater, and Hult 2005; Walker and Ruekert 1987) and their strategy typology such as reactor, defender, analyser and prospector captures the business-level strategic trade-off between external and internal orientation (McKee, Varadarajan, and Pride 1989).

Competitive strategy of the firm aims to establish a profitable and sustainable position against the forces that determine industry competition (Porter 1980). Porter (1980) suggests three generic strategies: overall cost leadership, differentiation and focus. Typically, the focus strategy is combined with either the differentiator or the cost leadership strategy, resulting in a differentiator or cost leader niche strategy. Therefore, researchers have identified various hybrid combinations of the basic generic strategies,

such as focused differentiation strategy, focused cost leadership strategy or the differentiated cost leader strategy (Marlin, Hoffman, and Lamont 1994).

Although business strategy can be characterised in a variety of ways, this research adopts the widely known Porter's typology on account of the researchers relevance to channel (Kabadayi, Eyuboglu, and Thomas 2007) which in turn reflects the way managers think about competitive strategy (Homburg, Workman, and Krohmer 1999). Among Porter's strategies including differentiation, cost leadership and focus, as focus strategy can be easily combined with either the differentiation strategy or the cost leadership strategy, this research defines *business strategy* characteristic of both *differentiation* and *cost leadership strategies* but not focus strategy. In particular, this research views the business strategies are developed by the level of business (or competitive) strategy and corporative strategy. Business-level strategies are "what firms take to gain competitive advantages in a single market or industry", while corporate-level strategies are what firms take to gain competitive advantages in a multiple markets or industries simultaneously (Barney and Hesterly 2006b, p.116)."

Table 4.3 shows a classification of business strategy type including combinations of the basic generic strategies in the literature. As we can see in Table 4.3, many studies have used two dimensions, namely, differentiation and cost leadership, as business competitive strategies in the channel or business to business relationship research as well as the organisation strategy research. Therefore, this research focuses on porter's basic generic strategies, namely, *differentiation* and *cost leadership*.

Table 4.3 Classification of Business Strategy Type

Source		Classification
The Basic Generic Strategies	Porter (1980)	Differentiation, Cost Leadership, focus
	Miles and Snow (1978)	Prospector, Defender, Analyser, Reactor
A Variety of Hybrid Combinations of The Basic Generic Strategies & Empirical Studies	Hill (1988); Homburg, Workman, and Krohmer (1999); Kabadayi, Eyuboglu, and Thomas (2007); Marlin, Hoffman, and Lamont (1994); Narver and Slater (1990); Pelham and Wilson (1996); Slater and Narver (1994)	**Differentiation, Cost Leadership**
	Vorhies, Morgan, and Antry (2009)	Differentiation focus, Cost focus
	Arnold, Capella, and Smith (1983); Dwyer and Oh (1988); McCarthy and Perreault (1984)	Market Niching, Cost Leadership, Differentiation
	Hult et al. (2006)	Prospectors, Low-cost Defenders, Differentiated Defenders, Analysers, Reactors
	Voss and Voss (2000)	Differentiation, Cost Leadership, Innovation, Position
	Slater and Olson (2001; 2000); Walker and Ruekert (1987)	Differentiated Defenders, Low-cost Defenders, Prospectors
	Olson, Slater, and Hult (2005)	Prospectors, Analysers, Low-cost Defenders, Differentiated Defenders
	Matsuno and Mentzer (2000)	Prospectors, Analysers, Reactors
	Chaganti and Sambharya (1987); Hughes and Morgan (2008); Kabanoff and Brown (2008); McDaniel and Kolari (1987); Pinto and Curto (2007); Vorhies and Morgan (2003)	Prospectors, Analysers, Defenders
	Desarbo et al. (2005); McKee, Varadarajan, and Pride (1989)	Prospector, Defender, Analyser, Reactor
This Research		**Differentiation, Cost Leadership**

4.3.2 Competitive Strategy

Porter (1980) maintains that the basic unit of analysis in a theory of strategy is a strategically distinct industry, which is defined by its suppliers, customers, and current and potential competitors and substitutes. Figure 4.1 illustrates how firms choose the strategy at different levels. This research focuses on supplier and buyer's strategies on the level of business or competitive strategy and corporate strategy. Addressing changes in the business environment or gaining competitive advantages over competitors is the main issue of strategic decisions. Therefore, decision making with strategies is likely to be complex in nature and to be made in situations of uncertainty (Johnson, Scholes, and Whittington 2005).

Figure 4.1 Strategic Choices
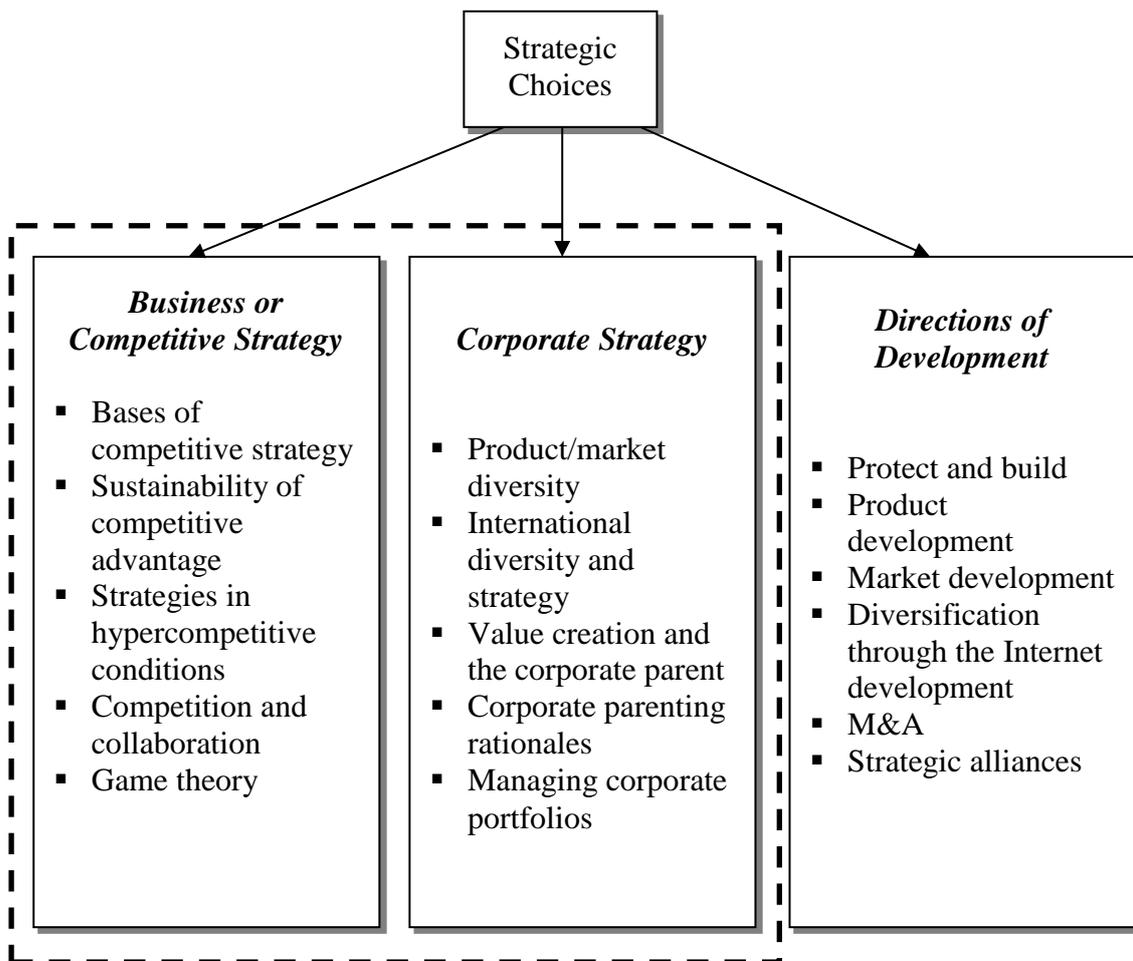
Source: Johnson, Scholes, and Whittington (2005)

4.3.2.1 Differentiation

Firms following the differentiation strategy develop a competitive advantage by seeking to be unique in its industry along some dimensions that are widely valued by customers. The firm is rewarded for its uniqueness with a premium price. A differentiator, therefore, must always seek ways of differentiating that lead to a price premium greater than the cost of differentiating (Porter 1980). From the supply chain point of view, firms can have differentiation strategy in linkages among functions within other firms, product mix, distribution channels, and service and support (Porter 1980).

A great example of differentiation business strategies can be seen in the automotive industry with the evolution of concierge support services integrated into new cars. For example, the introduction of Siri with the release of the iPhone 4S looks like voice-activated support and it is ready to adopt for the automotive industry with version 2.0. At the Annual Worldwide Developer Conference in San Francisco, Apple revealed improvements to its Siri voice control system, including the ability to check live sports scores and a forthcoming integration into the steering wheel of cars from manufactures including Audi, Toyota and Chrysler (Bradshaw and Nuttall 2012, Financial Times June 12). Another example in the automotive industry is that "head-up display" technology. Some car models such as "K9", which Kia automotive produces in South Korea, have the head-up display item that shows the road information or car information on the windscreen. Therefore, drivers do not need to look to the side of the steering wheel to navigation. Instead, the information is presented seamlessly in front of them on the windscreen. This differentiation strategy of the product can increase sales of the car in question. Additionally, with advantages of differentiation strategy in business strategy, Governors sometimes adopt differentiation strategies for public policy. One example of successful differentiation strategy adopted in public policy is the intelligent travel system of South Korea such as "pay-and-wave" technology that have helped to solve traffic congestion and have significantly reduced council budgets. According to the Guardian (Shankleman 2013, The Guardian January 9), Seoul's Metropolitan Government liked up with the electronics firm (LG Group) along with credit card and telecommunications companies to launch a smartcard known as "T-money", which is accepted on all types of transport and can also be used for purchasing from vending

machines, thousands of convenience stores, fast-food restaurants and car parks. This allows Seoul's subway to become paper free, producing savings of £18m by 2009. This example shows that differentiation strategy directly leads to cost leadership. A further example is the transportation and road information service system in Seoul, the capital city of South Korea. Seoul City Government established not only 3D bus information service but also 3D road information service by implementing a touch screen on the roads. Anyone can now search for a variety of transport information easily and use the internet free of charge on the roads or in the underground train stations. These are seminal examples of differentiation public service strategies based on IT to raise city brand quality and city recognition for foreigners and to lead to satisfaction for citizens.

4.3.2.2 Cost Leadership

Firms following the cost leadership strategy aim to produce goods and services at a lower cost than competitors (Miller 1986). At lower prices than its competitors, a cost leader's low cost position translates into higher returns (Porter 1980). Although the firm chooses cost leadership, this firm can choose other business or corporate strategies simultaneously (Hill 1988). According to Barney and Hesterly (2006b, p.130), sources of cost advantage in cost leadership strategy are from (1) economies of scale, (2) diseconomies of scale, (3) learning-curve economies, (4) technological hardware, (5) policy choices, (6) differential low-cost access to productive inputs, and (7) technological software. Numerous firms have pursued cost leadership strategies. For instance, several decades ago, South Korea was an incubator of world-beating car design. At that time, Hyundai Motor, which is representative one of South Korea automobile companies, implemented a cost leadership strategy with its emphasis on low-priced cars for basic transportation. It was positioned as "a fun and inexpensive car" in USA automotive market (Barney and Hesterly 2006b, p.116). After it increased its market share, it attempted to position itself with cost leadership and differentiation strategies in terms of several points such as design. Through reducing the manufacturing cost, Hyundai established an in-house supply base. It is supplied high-quality automotive steel at an $11bn plant complex run by Hyundai Steel and it devides, assembles and supplies modules by Mobis, one of Hyundai's parent group. This

strategy allows Hyundai to offer better quality and technology with lower costs. In addition to low cost strategy, Hyundai recently adopted innovative design. Eventually, the Elantra, launched in 2011, became the world's fifth bestselling compact car and won America's Car of the Year award (Reed 2012, Financial Times May 8).

According to Porter (1980), firm performance is determined by industry structure and the firm's strategic position in the industry. Here, strategic position is primarily a function of business strategy such as differentiation or cost leadership and scope, which is a function of the number of product markets served and the degree of vertical integration (Voss and Voss 2000). Several studies have examined the relationships business strategy and firm performance including (1) firm's differentiation strategy and cost leadership strategy (Narver and Slater 1990; Pelham and Wilson 1996; Slater and Narver 1994), and (2) the firm's relative market share (Narver and Slater 1990; Pelham and Wilson 1996; Slater and Narver 1994) and relative level of resources (Gatignon and Xuereb 1997; Voss and Voss 2000). In terms of the relationship between business strategy and the performance of a firm studies have shown a variety of results. First of all, regarding the relationship between differentiation strategy and firm performance, it has demonstrably shown a positive effect (Marlin, Hoffman, and Lamont 1994; Pelham and Wilson 1996, one analysis) or nonsignificant effect (Pelham and Wilson 1996, five analyses) are reported, whereas the results with respect to cost leadership strategy have shown negative (Marlin, Hoffman, and Lamont 1994), positive, and nonsignificant effects (Pelham and Wilson 1996; Slater and Narver 1994). Secondly, regarding the performance based on business strategy types, some research reported a curvilinear relationship. For instance, Miles and Snow (1978) suggest that there are no significant differences in performance among the strategy types. However, Bourgeois (1980) argues that there is a curvilinear relationship between performance and adaptive capability among strategy types. Additionally, Snow and Hrebiniak (1980) state that analysers lead the highest mean performance whereas defenders and prospectors perform at substantially lower and approximately equal levels. Mckee, Varadarajan and Pride (1989) report the relationship between business strategy and firm performance is curvilinear with optimal performance occurring in organisations that balance efficiency and adaptive requirements. Homburg, Hoyer and Fassnacht (2002) in service-oriented business strategy research state that it is important what types of business strategy firm

will choose, because strongly pursuing the type of strategy leads to significant cost and there may be concern that these costs could outweigh the financial benefits associated with a business strategy.

In conclusion, in this chapter, the environmental characteristics and the business strategy of the firm as antecedents of interaction process characteristics are discussed. Next, the consequences of interaction process characteristics will be discussed in Chapter 5.

Chapter 5. Consequences of Interaction Process Characteristics

5. Consequences of Interaction Process Characteristics

5.1 Introduction

The aim of this chapter is to discuss relationship value and firm performance as consequences of interaction process characteristics. In particular, since there has not been a significant amount of research undertaken in terms of the relationship value in supplier and buyer relationships, this chapter aims to define relationship value in the relationships between suppliers and buyers by identifying the dimensions of relationship value based on the pertinent studies in relationship marketing. In addition, firm performance achieved through interaction between partners is discussed in this chapter.

This chapter consists of two main sections. The first section unfolds the definition of relationship value and the four dimensions of relationship value such as economic value, operational value, strategic value, and behaviour value. The next section includes the overall performance of the firm.

This chapter will enhance our understanding of relationship value. Since there are limited empirical studies about the dimensions of relationship value, although its importance has been discussed in relationship marketing and strategic management literature, the development of dimensions of relationship value by classifying in the study can extend the knowledge of relationship value. This chapter contributes a definition of relationship value on the basis of the literature and Chapter 8 will report the empirical results about several dimensions that consist of relationship value. In addition to this, this chapter is expected the discussion of the overall performance of the firm as a consequence of interaction process characteristics.

5.2 Relationship Value

5.2.1 The Present State of Relationship Value Research

The concept of relationship value in relationship marketing has recently been introduced, although researchers in relationship marketing have been interested in the value creation

between organisations and value chain in the supply chain for a long time. Therefore, there is still remarkably limited theoretical and empirical research about what relationship value is or how constructs in relationship marketing are related to relationship value (Ravald and Grönroos 1996; Payne and Holt 2001). Furthermore, although considerable attention has been directed towards the concept of value (Veloutsou, Saren, and Tzokas 2002), it focuses specifically on how customers or suppliers perceive value (Anderson and Narus 1998; Ravald and Grönroos 1996; Woodruff 1997) or on the means that customers can use in order to produce value within a relationship (Walter, Ritter, and Gemünden 2001) rather than on the several types of relationship value or value as relationship outcome (Wilson and Jantrania 1994).

The frontier works in relationship value can be Wilson and Jantrania (1993, 1994), Ravald and Grönroos (1996), Grönroos (1997), Gummesson (1999), Tzokas and Saren (1999), Payne and Holt (1999; 2001), Veloutsou, Saren, and Tzokas (2002), Baxter and Matear (2004), and Lindgreen and Wynstra (2005). Although a variety of studies have discussed value, the term 'value' in business relationship contexts has been used in a variety of ways in pertinent literature. As Zeithaml (1988), which defined the concept of perceived value by customers as an earlier research in terms of value in marketing, points out that a major difficulty in researching value is from the ambiguous meaning of value, the definition of relationship value in supplier and buyer relationships is also opaque. Furthermore, it is not easy to say whether the relationship value is built on as one-dimensional or multidimensional concepts. Therefore, this research tries to identify relationship value in supplier and buyer relationships and focuses on defining and examining the possible dimensions of relationship value as it has been discussed in relevant literature.

5.2.2 The Definition of Relationship Value

Although the use of the term 'value' may differ across people and contexts, it seems reasonable to adopt the broadest definition in this research. To define relationship value in supplier and buyer relationships, I discuss the creation of value and value chain

because the value concept exists only to a limited extent in the marketing literature regarding perceived value of partner (Ravald and Grönroos 1996). The meaning and distribution of value reflect transaction cost analysis (TCA) and social exchange principles. The major differences between two theories are in the way that actors seek, evaluate, and achieve what kinds of goals in terms of value in relational exchanges. Whereas demand theory in economics has provided the basis for the analysis of economic value as a key element in the determination of prices, the field of marketing made its main goal to understand how customers form their preferences in decision making contexts (Becerra 2009). However, both theories are similar in terms of addressing dependence and relationships through a comparison of their own value solutions (Gassenheimer, Houston, and David 1998).

The creation of value (Gummesson 1996; Palmer 1994) in interaction of long-term relationship between buyers and suppliers has been stressed in relationship marketing, services marketing (Berry 1983; Grönroos 1990), business-to-business marketing (Bonoma and Johnson 1978; Dwyer, Schurr, and Oh 1987; Ford 1981; Tzokas and Saren 1997; Tzokas and Saren 2004) and high-tech marketing (McKenna 1991). For the relationship between firms to be successful and long-lasting, understanding of relationship value between partners seems to be necessary. Not surprisingly, many studies have focused on the concept of value in relationship marketing (Grönroos 1997; Ravald and Grönroos 1996; Szmigin and Bourne 1998). Whereas this concept has so far dwelt on the balance in a relationship between perceived costs and value as experienced by the consumer (and hence indicating the likely success or not of a relationship), creating value is broader in nature. Researchers have clearly identified the subjective and individual nature of value (Grönroos 1996).

From the customer's point of view, Zeithaml (1988) identified four possible definitions of value:

> (1) low price, (2) getting what the customer wants, (3) quality received for the price paid, and (4) overall assessment of received utility in contrast to the entire sacrifice of the customer for getting it, including other elements besides price.

Sirdeshmukh, Singh, and Sabol (2002, p.21) define *value* as:

> "the consumer's perception of the benefits minus the costs of maintaining an ongoing relationship with a service provider" and "relational benefits include the intrinsic and extrinsic utility provided by the ongoing relationship (Gwinner, Gremler, and Bitner 1998; Neal and Bathe 1997), and associated costs include monetary and nonmonetary sacrifices (e.g., time, effort) that are needed to maintain the relationship (Houston and Gassenheimer 1987; Zeithaml 1988)."

Anderson and Narus (1998, p.54) define *value* in business relationship as:

> "Value is the worth in monetary terms of the technical, economic, service and social benefits a customer company receives in exchange for the price it pays for a market offering."

Ulaga and Eggert (2006a, p.314) stress the different aspects of the value concept in business to business relationships:

> "(1) Value is a subjective concept (Kortge and Okonkwo 1993), (2) It is conceptualised as a trade-off between benefits and sacrifices, (3) Benefits and sacrifices can be multi-faceted, (4) Value perceptions are relative to competition"

The elements of Porter's (1985) value chain seem to be especially important because they are closely tied to revenue and cost stream and ultimately competitive fitness. Porter (1985) defines *value chain activities* as those that consist of primary activities and support activities as key determinants of sustained competitive advantage. Although not all suppliers will wish to develop close relationships with buyers (IMPGroup 1982; Pressey, Tzokas, and Winklhofer 2007) under certain circumstance such as the circumstance that the suppliers expect that they may compete with the buyers at some point in the future (Day 2000), relationship with partners can be expected naturally to create relationship value by leading to a sustained competitive advantage (Spekman, Kamauff, and Salmond 1994). Gummesson (1999) has argued that customers and suppliers in the relationship need to focus on the creation of mutual value so that value

is jointly created between all the parties involved in a relationship. Palmatier (2008) views drivers of value in interfirm relations as relationship quality (the calibre of relational ties), contact density (the number of relational ties), and contact authority (the decision-making capability of relational contacts) based on network and exchange theory. Some studies such as Pressey, Tzokas, and Winklhofer (2007) support the development of shared values by exploring how supply relationships are being evaluated by buyers. Additionally, Tzokas and Saren (1997) identify the value chain of customers as the interaction between relationships, technology, the total consumption process and value. From the point of view, value is seemingly built through interaction process characteristics. Figure 5.1 shows the value built through interaction process characteristics in relationship marketing.

Figure 5.1 The Value Built through Interaction Process Characteristics

Relationships (=**Climate of Relationship**)
Technology of Relation (=**Structural, Functional Process**)   VALUE
The Total Process (=**Interaction Process**)
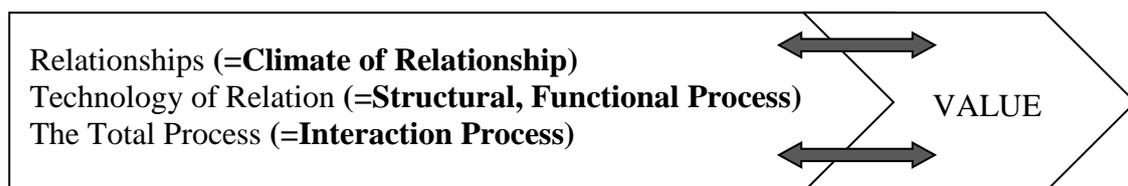
Source: Adapted from Tzokas and Saren (1997)

In the meantime, the meaning of value can be learnt from service marketing point of view. For instance, Peter and Olson (1993) discuss the meaning of value as the value or utility the consumers receive when purchasing a product. Monroe (1991) defines *customer perceived value* as the ratio between perceived benefits and perceived sacrifice. Zeithaml (1988) defines *customer perceived value* as the consumer's overall assessment of the utility of a product based on a perception of what is received and what is given. From a relationship marketing standpoint, Ravald and Grönroos (1996) discuss the relationship between firms and how it might have a major effect on the total value perceived and emphasise *total episode value.* The core of relationship marketing is relations, maintenance of relations between the company and the actors in its micro-environment such as suppliers, market intermediaries, and public and customers. Through creating customer loyalty, a mutually profitable and long-term relationship is enhanced. Value is considered to be an important constituent of relationship marketing

and the ability of a company to provide superior value to its customers is regarded as one of the most successful competitive strategies. This ability has become a means of differentiation and a key of how to find a sustainable competitive advantage (Ravald and Grönroos 1996).

5.2.3 The Dimensions of Relationship Value

The question of the value of the relationship between the supplier and the buyer has been debated for several decades. Unfortunately, the concept of value is not easy to operationalise for empirical analysis because the value can be defined under complex conditions of personal, situational, and comparative value (Becerra 2009). Therefore, much research effort (Becerra 2009; Chu, Chintagunta, and Vilcassim 2007) is concerned with only one type of value, namely, the economic value, because it is much easier to measure and analyse "economic value that emerges from market exchanges of products and services, which limits the analysis to only one type of value assessment of products or services that may be potentially exchanged for a given price in the market" (Becerra 2009, p. 85) than any other value.

Value research in customer (Holbrook 1994; Lai 1995; Sheth, Newman, and Gross 1991a) and business to business (Gassenheimer, Houston, and Davis 1998) context has devoted significant effort to developing typologies of value. For example, Sheth, Newman and Gross (1991) identify *types of value* in terms of perceived customer value as functional, social, emotional, epistemic, and conditional value. Gassenheimer, Houstion, and Davis (1998) define value in business relationships as economic value by fulfilling economic which needs at minimum transaction costs and social value by the extant to satisfaction with the relationship compared with other alternatives. Werani (2001) stresses that value in the business relationship can maximise through strategic position of the firm via trusting relations, strong economic effects, joint development ideas and products and low coordination costs.

In marketing, relationship value has been dealing with customer perceived value (CPV) or supplier perceived value (SPV) (Songailiene, Winklhofer, and McKechnie 2011)

from the customer or supplier points of view. However, all kinds of value is co-created, appropriated and perceived by all actors involved (Vargo and Lusch 2004; Vargo and Lusch 2008). Not surprisingly, many studies in marketing such as industrial networks (Ford 1981; Håkansson 1989), service marketing (Berry and Parasuraman 1993; Fisk, Brown, and Bitner 1993) or service-dominant (S-D) logic (Vargo and Lusch 2004) suggest that value concept should be thought from both parties in a dyad as actively interacting with each other to co-produce, co-create and appropriate value (Songailiene, Winklhofer, and McKechnie 2011). Therefore, this research in terms of relationship value has support from both buyers and suppliers.

In addition, there has been little discussion about the sub-concepts of relationship value and how these are measured. According to Wilson and Mummalaneni (1986), the different levels of relational investment to the partner can create different levels of bonds such as structural, economic, and social bonds. Structural or economic bonds which are created in the early stage of relationship are relatively weak bonds, whereas social bonds which are related to behavioural or psychological bonds are strong bonds. In light of this view, different kinds of value can be created against the development stages of the partnerships. In short, as the structural or economic bond is created in the early stage of the relationship with the partner, relationship value can be created in economic value. As a social bond is created in the mature relationship, behavioural value can be created in this stage of the relationship. To support this idea, for example, Wilson and Jantrania (1994), which stress the importance of measurement of relationship value, suggest three dimensions of value such as economic, strategic, and behaviour value. They classify that economic value is related to concurrent engineering, investments quality, value engineering and cost reduction, while strategic value is created in achievement of goals, strategic fit and core competencies. Additionally, behavioural value is built on social bonding, trust and sharing culture between firms. As another example of the research regarding the dimensions of value, based on interviews with both buyer and supplier mangers, Biggemann and Buttle (2005) defined the dimensions of value in the buyer-supplier relationships as personal, financial, knowledge and strategic value. Songailiene, Winklhofer, and McKechnie (2011) classify the relationship value as economic or financial value, strategic value and

knowledge related value. They view value based on profit function and economic effects as economic value; value created from access function and strengthening of strategic position as strategic value; and value based on innovation function and joint development of ideas as knowledge-related value.

Building on pertinent literature, this research defines the dimensions of relationship value as economic value, operational value, strategic value and behaviour value. Here, operational value is seemingly created at the beginning stage of the relationship with economic value suggested by Wilson and Jantrania (1994). At the earlier stage of relationship with the partner, managers may focus on the economic or operational value rather than the strategic or behavioural value, because the commitment level of relationship is low and the long-term orientation of relationships is uncertain. When the duration of the relationships is longer and commitment level of relationships is higher, a strategic value of the relationship may be created. Value creation based on the behavioural elements of the relationship can be expected when each other can trust and build up commitment through a long-term relationship.

Table 5.1 shows the dimensions of relationship value based on pertinent studies and Figure 5.2 illustrates the dimensions and main characteristics of relationship value in terms that this research focuses on four relationship value. Figure 5.3 explains the relational distance continuum from economic value to behavioural value. At the extreme left position, parties are likely to engage in short term exchange and assess individual transactions on the basis of value achieved by current exchange regardless future obligations or future rewards. On the other hand, at the extreme right, both the firm and its partner focus on their well-being and their goals are established in a dyadic way. Next, from section 5.2.3.1 to section 5.2.3.4 define each dimension of relationship value and describe their characteristics.

Table 5.1 The Dimensions of Relationship Value

Research	Economic	Operational	Knowledge-related	Strategic	Social	Behaviour
Campbell and Cunningham (1983)	▪ Growth rate in customer demand			▪ Customer's share of its market ▪ Competitive position		
Sheth, Newman, and Gross (1991a)		▪ Functional value	▪ Epistemic value	▪ Conditional value	▪ Social value ▪ Emotional value	
Pels (1991)	▪ Sales volume			▪ Network effect		
Anderson, Jain, and Chingtagunta (1993); Anderson and Narus (1999); Anderson, Thomson, and Wynstra (2000)	▪ Economic benefit		▪ Technical benefit		▪ Social benefit ▪ Service benefit	
Wilson and Jantrania (1994)	▪ Concurrent engineering ▪ Investment quality ▪ Value engineering ▪ Cost reduction			▪ Goals ▪ Time to market ▪ Strategic fit ▪ Core competencies		▪ Social bonding ▪ Trust ▪ Culture
Yorke and Droussiotis (1994)	▪ Customer profitability	▪ Difficulty in managing the account		▪ Strategic importance of the account	▪ Management distance	▪ Friendship
McDonald, Millman, and Rogers (1997)	▪ Volume-related factors			▪ Status-related factors		

	Economic Value	Operational Value	Strategic Value		Behaviour Value	
Gassenheimer, Houston, and Davis (1998)	▪ Economic value				▪ Social value	
Gwinner, Gremler, and Bitner (1998)		▪ Special treatment benefits			▪ Social benefit	▪ Confidence benefit
Spencer(1999)	▪ Customer profitability ▪ Sales and profit		▪ Source of information			
Walter, Ritter, and Gemünden (2001)	▪ Profit function		▪ Innovation function	▪ Market function		
Werani (2001)	▪ Economic effects			▪ Strengthening of strategic position		
Ojasalo(2002)	▪ Contribution margin	▪ Predictability of needs and sales	▪ Opportunities to develop own competencies			
Biggemann and Buttle (2005)	▪ Financial value		▪ Knowledge value	▪ Strategic value	▪ Personal value	
Wengler, Ehret, and Saab (2006)	▪ Sales volume		▪ Customer know-how	▪ Market share		
Ulaga and Eggert (2006b)					▪ Relationship value	
Barry and Terry (2008)	▪ Economic value			▪ Strategic value		
Songailiene, Winklhofer, and McKechnie (2011)	▪ Financial value	▪ Co-creation value		▪ Strategic value		
This Research	**Economic Value**	**Operational Value**	**Strategic Value**		**Behaviour Value**	

Source: Adapted from Ulaga and Eggert (2006a) and Songailiene, Winklhofer and McKechnie (2011)

Figure 5.2 The Dimensions and their Main Characteristics of Relationship Value

Relationship Value			
Economic Value	**Operational Value**	**Strategic Value**	**Behavioural Value**
▪ Contribution of relationship with the partner to…. ✓ A task or work ✓ Exchange value ✓ Reducing the cost of interaction ✓ Saving time ✓ Reducing the requirement time of the future	▪ Contribution of relationship with the partner to…. ✓ Fast decisions ✓ Operations which focus on decision-making ✓ Reducing the cost of interaction ✓ Making decision on time ✓ Solution of difficult problems	▪ Contribution of relationship with the partner to…. ✓ Developments of new core competencies ✓ Exploring strategic opportunities ✓ Enhancement strategically competitive advantage ✓ Adaption in changing market condition	▪ Contribution of relationship with the partner to…. ✓ Mutual respect ✓ Being confident ✓ Seeking the partner's opinion ✓ Communication ✓ Win-win approach

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Figure 5.3 Relational Distance Continuum of Relationship Value

| Less | Relationship Characteristics | More |

| Economic Value | Operational Value | Strategic Value | Behavioural Value |
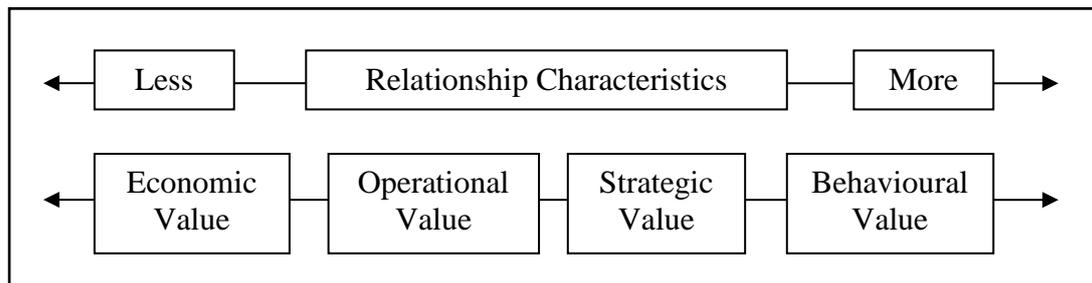
Less Relational Characteristics	Characteristics	More Relational Characteristics
Assessed at current market value	Assessed in terms of expectations	Assessed in terms of group benefits
Price defines mutual value	Norms define mutual value	Social consciousness and norms define mutual value
No future obligations	Obligations based on norms	Obligations based on group well-being
Non-specific exchange patterns	Increased social interaction with specific partners	Group solidarity
Self-interest motives	Group interest defined in terms of self-interest motives	Mutual goals harmonize interests
Dependent	Mutually dependent	Interdependent

Source: Adapted from Gassenheimer, Houston, and David (1998)

5.2.3.1 Economic Value

The importance of economic value has been discussed in the literature from different fields such as economics, marketing, and finance. First of all, economists have made important contributions to the understanding of value. From the economists' point of view, total value created in a given market or economic surplus can be identified in the demand and cost functions. The core models in economics (e.g. the models based on demand theory) have definitely contributed to what critical variables affect buyer's purchasing decision and the analysis of economic value as a key environment in the determination of prices (Becerra 2009). Althernately, economic value in the field of marketing focuses on understanding the characteristics of customers and their

preference among products. Building on economic theories such as utility theory in microeconomics, marketing researchers have developed the analysis of customer value. From the marketing point of view, the analysis of value is not restricted to tangible and intangible features of the product and the organisation, but also to non-price costs of customers such as learning, transportation, and adoption (Becerra 2009). For instance, Wilson and Jantrania (1994, p. 62) state the economic dimensions of relationship value should extend from simple cost reduction that is achieved through the relationship into "a complex concurrent engineering relationship that creates value through cost savings in design, in field service and also has the benefit of reducing the time to market." Additionally, Songailiene, Winklhofer, and McKechnie (2011) stress the economic value can be created by growing capabilities and competencies through not only profit generation but also risk reduction.

Though the use of the word value may differ across people and contexts, it seems reasonable to adopt the definition in this research and to take explicitly into consideration the three possible elements that create the relationship value. Namely, firms which focus on interaction process characteristics with their partners can create value by reducing their own costs as well as by reducing the costs generated within relationship process with partners in terms of technology or administrative costs. Therefore, this research considers of economic value that it can be achieved when the relationship with the partner contributes towards a task or work, when both the firm and its partner can reduce cost of interaction as well as saving time and when both of them can expect to reduce requirement time in the future (Becerra 2009).

5.2.3.2 Operational Value

Operational value as one of type of relationship value has not received great attention, although operational value is worthy of note in relationship value because it can be closely involved in value created in operational or functional processes which are tangible by the partners involved. Although there are limited studies regarding this relationship value, some studies stress the importance of operational characteristics

created from relationship with partners or customers (Songailiene, Winklhofer, and McKechnie 2011) or functional value (Sheth, Newman, and Gross 1991b) related to capacity for functional, utilitarian, or physical relationship performance. For example, Songailiene, Winklhofer and McKechnie (2011) view operational value as a value driver of co-creation value, which is determined by the interaction of knowledge-related, operational and social capabilities, and in this interaction process, operational value can be achieved through operational routines and efficient communication between firms. Operational routines can develop within the relationship over time and these can reduce the firm's operational efforts and costs during relationship process with its partner. As another similar concept of operational value in light of the value created by functional characteristics regarding interaction process, *functional value* can be considered. Sheth, Newman and Gross (1991b, P. 160) point out that functional value is traditionally presumed to be the primary driver of consumer choice. They stress functional value achieved by the relationships with partners as like. "The perceived utility acquired from an alternative's capacity for functional, utilitarian, or physical performance. An alternative acquires functional value through the possession of salient functional, utilitarian, or physical attributes. Functional value is measured on a profile of choice attributes." Based on literature, this research defines operational value as the value achieved through the effectiveness and efficiency of operational routines generated in the decision making process with long term relationship oriented partners. Therefore, this research argues that operational value can be achieved when the relationship with the partner contributes towards fast decision making, when the operations of the firm and its partner focus on decision making on time as well as they address difficult problems well (Songailiene, Winklhofer, and McKechnie 2011).

5.2.3.3 Strategic Value

The concept of value has always been at the heart of strategic management. As "strategy is the creation of a unique and valuable position, involving a different set of activities" (Porter 1996, p.68), the important place of the value chain shows how relevant the perspective of customer value is for strategic analysis and for understanding the existing

and potential sources of differentiation (Recerra 2007). As a practical viewpoint of strategic importance, suppliers assess buyers whether the relationship with the buyers can facilitate growth, either by allowing them to gain access effectively new core competencies or by increasing business within an existing relationship with the buyers. These partners are also important source of market intelligence such as knowledge-related capabilities (Songailiene, Winklhofer, and McKechnie 2011) and the relationship can enhance the strategic competitive advantages. Additionally, Stahl, Maltzer and Hinterhuber (2003) point out the importance of the relationship with valuable partners who can enhance the reputation of the firm because they can help them to create the opportunity to enter new markets strategically or enhance strategic competitive advantages. Therefore, this research view of strategic value is that it can be achieved when the relationship with the partner contributes towards development of new core competencies as well as exploration of strategic opportunities, when the relationship enhances our strategic competitive advantages or when the relationship helps the firm to adapt effectively and efficiently in changing market condition (Stahl, Maltzer, and Hinterhuber 2003; Wilson and Jantrania 1994).

5.2.3.4 Behavioural Value

Behavioural value, which is considered a salient value in relationship marketing, can be defined as a mutual value achieved by assessing relational benefits of both the firm and its partner the basis of trust between each other. Therefore, behavioural value is created by the interest in the well-being of both parties and mutually dependent relationship or bonding. According to Wilson and Jantrania (1994), behavioural value can be created through social bonding, building on trust, and sharing cultural characteristics. Social bonding of key parties helps develop trust in the relationship. Shared goals can be established in hybrid cultural compounding of both organisations by bonding the relationship. In this case, culture is likely to carry values from both firms. Therefore, this research stresses that behaviour value can be achieved when the firm and its partner have mutual respect and confidence to each other, when they seek the other party's

opinion by enjoying dialogue with each other and eventually when they follow a win-win approach (Gwinner, Gremler, and Bitner 1998; Wilson and Jantrania 1994).

5.3 The Overall Performance of the Firm

Performance of the firm involved in the relationship with partners has been considered in the context of the firm's objectives performance such as effectiveness or efficiency as well as perceived relational performance with partners. For example, supplier evaluations are based on effectiveness of relationships concerning performance outcomes such as volume of business, sales revenue, number of contracts and overall profitability (Gladstein 1984), while customer evaluations are examined using customers' perceptions of the extent to which they are pleased with supplier activity and performance. Brown and Caylor (2004) define firm performance as net profit margin, return on equity and sales growth and measure it as objective measures, while Jaworski and Kohli (1993) propose that business performance can be measured using two distinct approaches such as judgmental and objective measures. The judgmental measure can be related to respondents' assessment of the overall performance of the business relative to major competitors. On the other hand, Ittner and Larcker (1997, p.17) define *overall perceived performance* as "the sum of financial and nonfinancial performance." Moreover, Morgan, Kaleka and Katsikeas (2004) elucidate a strong correlation between objective performance data and subjective assessments of performance. Palmatier, Dant and Grewal (2007) apply both financial and relational outcome measure in order to define relationship performance through theoretical perspectives of interorganisational relationship performance. As financial performance, objective sales growth and overall financial performance are considered. On the other hand, relational performance is considered as the extent of cooperation and complementary actions between exchange partners to achieve mutual goals and reduce conflict or the overall level of disagreement between exchange partners (Jap and Ganesan 2000). Based on the literature, this research defines overall performance of the firm as the sum of respondents' assessment of the overall financial performance and perceived competitive advantages acquired

through the relationship with a partner (Jaworski and Kohli 1993; Olson, Slater, and Hult 2005).

5.4 The Configurations of Environmental, Strategic, Structural Characteristics and Firm Performance

Configurations are typologies developed conceptually or captured in taxonomies derived empirically. They can be situated at multiple levels of analysis, depicting patterns common across individuals, groups, departments, organisations, or networks of organisations (Meyer, Tsui, and Hinings 1993). Meyer, Tsui and Hinings (1993, p.1178) posited that "parts of social entity take their meaning from the whole and cannot be understood in isolation," and Miller (1996, p.509) defined configuration as "the degree to which an organisation's elements are connected by a single theme which can be found within or across categories."

Configurations in the study of organisations have been used for a long (Carper and Snizek 1980; Homburg, Jensen, and Krohmer 2008; Ketchen and Shook 1996). According to Homburg, Jensen, and Krohmer (2008), two main approaches to configurations have been widely used in organisation research. The first approach analyses organisation performance as a function of organisational fit with a contingency, typically structural fit with a strategic contingency (Doty, Glick, and Huber 1993; Venkatraman 1989). The fit is modelled as the proximity to an "ideal type" such as business strategy types for each contingency. Vorhies and Morgan (2003) assess marketing organisation fit with business strategy and Yarbrough, Morgan, and Vorhies (2010) examine organisational culture fit with product market strategy. "Fit approach" to ideal type of configurations is considered a confirmatory approach. Therefore, this approach can be used as long as there are a substantial amount of prior knowledge and theories about the subject matter. Conversely, the "classification approach" to configurations is an exploratory approach. Therefore, this is useful when there is not enough relevant research on the subject matter (Ketchen, Thomas, and Snow 1993). Regarding analysis methods in classification approach, factor analysis to group variables is used and then structural equation modelling can be examined in order to

find out the good fit of the model. Therefore, in order to develop the measurements of relationship value, this research follows "the classification approach" because the measurements of relationship value is rare developed and is not discussed enough in relevant research fields. After clarifying the relationship value with classification approach, the research tries to find the good fit of the model based on structural equation modelling.

To understand configuration theory, the discussion of contingency theory as a comparable theory with configuration theory is often considered. Contingency theorists think of a world where stability, order, uniformity, and equilibrium predominate. From the contingency approach point of view, the important relationships are linear, wherein small causes have small effects. However, configuration approach as opposed to contingency approach is related to disorder, instability, diversity, disequilibrium, non-linear relationships in which small inputs can trigger massive consequences and temporality (Meyer, Goes, and Brooks 1993; Meyer, Tsui, and Hinings 1993). Table 5.2 shows the comparison of configuration theory with contingency theory. Although some research in marketing research such as Homburg, Workman, and Krohmer (1999) conducted on the basis of contingency theory, this research focuses on firm performance and configurations of environment, strategy, structure as determinants of performance on the basis of configuration theory.

Configurations allow people to understand worlds by sorting things into relatively homogeneous groups. From this point of view, configuration has long aroused ideological and methodological controversy in organisation research. In particular, a variety of research in terms of the channel and organisations, environmental characteristics as external factors of the firm, firm's strategy and structural characteristics in the channel are considered as configurations factors which affect firm performance. Table 5.3 illustrates how relevant research in the channel and relationship marketing examines the configurations of environmental, strategic, structural characteristics and performance.

Table 5.2 The Comparison of Contingency and Configuration Approaches

Contingency Theory	Underlying Assumptions	Configuration Theory
Reductionistic analysis	Dominant mode of inquiry	Holistic synthesis
Aggregates of weakly constrained components	Social system cohesion and constrain	Configurations strongly constrained components
Unidirectional and linear	Relationships among attributes	Reciprocal and nonlinear
Quasi-stationary equilibrium	Equilibrium assumptions	Punctuated equilibrium
Incremental change	Primary mode of change	Frame-breaking change
Continuous progressions	Temporal distribution of change	Episodic bursts
Determined by situational context	Effectiveness assumptions	Equifinality

Source: Meyer, Tsui, and Hinings (1993), Meyer, Goes, and Brooks (1993)

Table 5.3 The Configurations of Environment, Strategy, Structure and Performance

Source	Configurations				Analysis Methods	Main Findings
	Environment	**Strategy**	**Structure**	**Performance**		
Ruekert, Walker, and Roering (1985)	Uncertainty, Complexity	X	Centralisation, Formalisation, Specialisation Transaction Form: Internal vs External organisation	Effectiveness, Efficiency, Adaptiveness	Theoretical approach	A contingency approach to the structure and performance of marketing activities at the work unit level as well as higher levels within organisations
Dwyer and Oh (1988)	X	Market Niching, Low Cost, The Means of Differentiation	Centralisation, Formalisation, Participation	Profitability, ROI	Cluster	Identify differences in decision making structures and competitive strategic posture across relational forms in hardware industry
Mckee, Varadarajan, and Pride (1989)	Market Volatility	Reactor, Defender, Analyser, and Prospector	X	Organisation performance: Return on assets, Return on equity, Change in market share	ANOVA, Duncan's mean comparisons	The effectiveness of a particular strategic orientation is contingent upon the dynamic of the market.
Marlin, Hoffman, and Lamont (1994)	Dynamism	Three indices of service differentiation, Three low cost orientation	X	Efficiency Utilization of capacity		Specified ideal strategy profile has a positive effect on firm performance
Ward, Bickford, and Leong (1996)	Complexity, Dynamism, Munificence	Competitive Strategy, Manufacturing Strategy	Centralisation, Bureaucratisation, Specialisation, Liaison devices	Cost, Quality, Delivery Performance, Flexibility		Four basic strategic configurations are identified: niche differentiator, broad differentiator, cost leader, and lean competitor. Example: Home appliance industry

Source	Environment	Strategy	Structure	Performance	Analysis Methods	Main Findings
Vorhies and Morgan (2003)	X	Prospectors, Analysers, Defenders	-Structural characteristics -Task Characteristics	Marketing effectiveness, Sales growth, Market position goals, Marketing efficiency	Profile deviation	Marketing organization fit with strategic type is associated with marketing effectiveness
Jermias and Gani (2004)	X	Product Differentiation, Low Cost	Degree of Centralization Type of Control Type of MAS (Management Account Systems)	Business Unit Effectiveness	Profile deviation	The degree of configuration fit has a positive effect on business unit effectiveness
Spanos, Zaralis, and Lioukas (2004)	X	Low cost, Differentiation	Concentration, intensity	Price-cost margin	Cluster	The more generic strategy dimensions are included in the strategy mix, the more profitable the strategy is, provided that one of the key ingredients is low cost
Olson, Slater, and Hult (2005)	Market turbulence, Technology turbulence (control variables)	Prospectors, Analysers, Low cost defenders, Differentiated defenders	Formalisation, Decentralisation, Specialisation	Overall business performance	OLS regression	228 sample size (marketing managers), fit-as-moderation model among strategy, structure and performance
Payne (2006)	Clinic concentration Hospital concentration SNF & Nursing facility concentration Managed care penetration	Pricing R&D Capacity Scope of activities Distribution Capabilities	Organisation size Physical organisation size Geographic dispersion Management contracting Horizontal relationship Vertical relationships	Return on sales Return on equity Return on assets Profitability	Cluster analysis, MANOVA, Multivariate Regression	Investigating the organizational configurations that exist within a suboptimal equifinality context

Source	Environment	Strategy	Structure	Performance	Analysis Methods	Main Findings
Kabadayi, Eyuboglu, and Thomas (2007)	Complexity, Dynamism, Munificence	Differentiation, Cost Leadership	Centralisation, Formalisation, Specialisation	Sales, Profit, Growth, Global channel performance	Profile deviation, Cluster, Regression	A channel system's contribution to its firm's performance is greatest when that channel system's structural profile is closest to the profiles of top-contributing channel systems operating under similar strategic and environmental conditions
Gebauer (2008)	Competitive intensity, Market Growth	Differentiation, Cost Leadership	X	X	Cluster	Identify the fit of service strategy and specific environment
Vorhies, Morgan, and Antry (2009)	X	Differentiation, Cost Leadership	Marketing capability	Market effectiveness, cash flow	SUR (regression)	Examination relationships between strategy and firm capabilities on the basis of RBV
Zheng, Yang, and McLean (2010)	Organisational culture	*STROBE*: analysis, defensiveness, futurity, and proactiveness	Centralisation	Organisational effectiveness	SEM	The mediate effect of knowledge management in the relationship between organizational culture, structure, strategy, and organizational effectiveness
Claver-Cortés, Pertusa-Ortega, and Molina-Azorín (2012)	Complexity	*Hybrid competitive strategy* Marketing Differentiation, Innovation Differentiation, Cost Leadership	Centralisation, Formalisation, Specialisation	Sales growth, Profit, Cash flow, Market share, Employment growth	PLS	Hybrid strategies have a positive influence on firm performance

Chapter 6. Hypotheses

6. Hypotheses

6.1 Introduction

This chapter builds hypotheses in terms of the relationships among interaction process characteristics and their antecedents and consequences as discussed in Chapters 3, 4 and 5. As causal relationships among all constructs that are hypothesised, the hypotheses, that will be examined with structural equation modelling in Chapter 8, are discussed and developed on the basis of pertinent studies in this chapter.

This chapter is divided into three main sections on the basis of the research model. The first section, Section 6.2 presents the hypotheses in terms of relationships among interaction process characteristics and their antecedents such as environmental and business strategy. Research questions of this study are the following: "Do environment characteristics of the firm affect the interaction process characteristics of the firm and its partner?" and "Does the competitive strategy of the firm affect the interaction process characteristics of the firm and its partner?", Whilst discussing the causal relationships among constructs through the literature. In section 6.3, the hypotheses regarding causal relationships among interaction characteristics and relationship value and performance as their consequences are further developed. Principally, this second section develops the research questions: "Do interaction process characteristics affect relationship value?" and "Does relationship value affect the overall performance of the firm?" As the theoretical background for each concept were discussed in previous chapters: Chapter 3 (interaction process characteristics); Chapter 4 (environmental and business strategy); and Chapter 5 (relationship value and performance), this chapter focuses on generating hypotheses on the basis of the conceptualisations of the research model. The third section shows the hypothesised model which includes relationships among hypotheses.

This chapter achieves an understanding of causal relationships among all constructs through the main research model which examines the mediate effects of interaction process characteristics on their antecedents and consequences. This chapter focuses on

the development of the hypothesised model. However, in consideration of further relationships among variables, chapter 8 will discuss the possibilities of althernative relationships among variables and examine sub-models, which expect to explain the causal relationships among variables that are not hypothesised by the research on the basis of pertinent studies in relationship marketing and the baseline model, which examines direct effect of variables.

6.2 Interaction Process Characteristics and their Antecedents

6.2.1 Environmental Characteristics and Interaction Process Characteristics

Although there are a number of studies regarding the causal relationships among a variety of environment characteristics and structural characteristics of relational exchange (Dwyer and Oh 1987; Joshi and Campbell 2003; Kabadayi, Eyuboglu, and Thomas 2007; Ruekert, Walker, and Roering 1985), there are very few studies that show how functional or climate characteristics of the interaction process in buyer-supplier relationships are influenced by environmental conditions. Therefore, this research discusses and analyses how environmental factors affect the interaction process characteristics including functional and climate characteristics. This section revolves around three subsections related to a discursive commentary of the effects of environmental characteristics on each characteristic such as structural (Section 6.2.1.1), functional (Section 6.2.1.2) and climate characteristics (Section 6.2.1.3).

6.2.1.1 The Effects of Environmental Characteristics on Structural Characteristics

Understanding the relationship between environmental factors and the structure of decision making in the relationships with partners is a vital part of explaining how the relationships between firms are generated and organised (Besanko et al. 2007). Research examining linkages between environmental characteristics and relational structure among firms has been increasing over long time (Duncan 1972; Dwyer and Welsh 1985; Hrebiniak and Snow 1980; Kabadayi, Eyuboglu, and Thomas 2007;

Miles, Snow, and Pfeffer 1974; Nohria and Ghoshal 1994; Vorhies and Morgan 2003), and a multitude of studies show that the inter-organisational structure is determined by the external environment. Interestingly, in terms of causal relationships between environmental characteristics and relational governance or structure, studies often show conflicting results. Therefore, this section introduces both viewpoints about relationships between environmental characteristics and structural characteristics and develops hypotheses accordingly.

First of all, regarding the causal relationships between environmental uncertainty such as complexity and dynamism and relational structure, a variety of research has discussed that environmental uncertainty has a significantly negative effect on the structure of decision making (Dwyer and Welsh 1985; Hall 1993; Jap 1999; Kabadayi, Eyuboglu, and Thomas 2007). In particular, a variety of empirical results of prior studies show a negative effect of environmental dynamism on relational governance and decision making structure (Dyer 1997; Dyer and Nobeka 2000; Kim 2001; Lewis 1995; Oh, Dwyer, and Dahlstrom 1992; Sutcliffe and Zaheer 1998). When channel members are faced with dissimilar and uncoordinated environmental entities, they tend to rely on less-formalised procedures and decentralised decision structures. When environmental conditions are changing constantly, difficulties in decision making within a certain relational structure increase (Hall 1993; Jap 1999; Porter 1985) and firms are likely to prefer a flexible decision making structure with less formalised procedures and a decentralised structure in order to adapt to a changeable environment. Dwyer and Welsh (1985) found that heterogeneous channel environment factors were associated with less formalised structures. Additionally, Kabadayi, Eyuboglu and Thomas (2007) also support that complexity and dynamism are negatively associated with centralisation and formalisation within channel structure.

On the other hand, other research shows a positive effect of environmental dynamism on relational governance or relationship structure (Eisenhardt and Schoonhoven 1996; Klein, Frazier, and Roth 1990). As the perception of environmental uncertainty increase, firms become more sensitive to conserving resources and run increasingly in greater control of their operations (Paswan, Dant and Lumpkin 1998). One of the

methods for control of the relationships between firms can be to increase the centralisation of decision making (D'Aunno and Sutton 1992). Therefore, it is possible that dynamism has a positive effect on the centralisation of relational structure. In particular, firms in the automotive industry (see p.62, Hyundai's case) have adopted a strategically centralised and formalised structure with the supplier to survive in a changeable and unpredictable environment. As this research focuses on the automotive industry, it can hypothesise that complexity and dynamism have positive effects on structural characteristics.

Secondly, regarding the effect of environmental munificence on structural characteristics, there are limited studies. Dwyer and Oh (1987) discussed that environmental munificence negatively affects formalisation and centralisation. They pointed out that the requisite marketing mixed for markets may differ in marketing technologies and selling processes and it may vary in the degree to which they can be effectively controlled. Therefore, a firm that has abundant resources is not likely to engage in a formalised or centralised structure. By comparison with studies about the negative effects of munificence on relational structure, Pfeffer and Salancik (1978) discussed that environmental munificence affects conflict within a social system and organisations can be influenced by those who control the resources they need. Therefore, a firm that has abundant resources and power in the supply chain such as the automotive industry would like to control their relationship by building a centralised and formalised relational structure. From this point of view, munificence can have positive effect on centralised structure.

Table 6.1 illustrates the previous empirical studies in terms of causal relationships among environmental characteristics and structural characteristics.

Table 6.1 Casual Relationships between Environmental Characteristics and Structure Characteristics in Relevant Research

Research	Dwyer and Welsh (1985)	Dwyer and Oh (1987)	Paswan, Dant, and Lumpkin (1998)	Heide (2003)	Kabadayi, Eyuboglu and Thomas (2007)
	Heterogeneous Environment	Munificence	Environmental Uncertainty	Environmental Uncertainty	Complexity, Dynamism, Munificence
Centralisation	Negative	Negative	Positive	Negative	Negative
Formalisation	Negative	Negative	Positive	Negative	Negative

In conclusion, although some studies support the negative effect of environmental characteristics on relational structure, this research within automotive and IT industries views environmental characteristics as having a positive effect upon centralisation and formalisation. In dynamic environments, the adaptability of a firm is a pivotal capability (Thomke and Reinersten 1998), and practical examples in the automotive industry explain how relationship structures such as centralisation and formalisation can make firms respond quickly in a dynamic environment. Therefore, it is reasonable to expect that the supplier or buyer will attempt to adopt centralisation and formalisation under conditions of high environmental dynamism. As Pfeffer and Salancik (1978) discussed, environmental munificence affects conflict within a social system and organisations can be influenced by those who control the resources they need. In a certain industries such as the IT or automotive industry, they should engage their partners attentively and firmly to respond the market and develop new IT products, a consequence of the positive association that environmental munificence has in centralised and formalised structures. Therefore, the standpoint of this research is that environmental characteristics (complexity, dynamism, and munificence) have positive effects on structural characteristics (centralisation and formalisation).

Hypothesis 1: Environmental Characteristics (complexity, dynamism, and munificence) have significant effects on Structural Characteristics (centralisation and formalisation) of the Interaction Process

Hypothesis 1-1: Complexity has a positive effect on centralisation

Hypothesis 1-2: The frequency of change (dynamism) has a positive effect on centralisation

Hypothesis 1-3: The unpredictability of change (dynamism) has a positive effect on centralisation

Hypothesis 1-4: Munificence has a positive effect on centralisation

Hypothesis 1-5: Complexity has a positive effect on formalisation

Hypothesis 1-6: The frequency of change (dynamism) has a positive effect on formalisation

Hypothesis 1-7: The unpredictability of change (dynamism) has a positive effect on formalisation

Hypothesis 1-8: Munificence has a positive effect on formalisation

6.2.1.2 The Effects of Environmental Characteristics on Functional Characteristics

In this research, functional characteristics of interaction process characteristics consist of joint action and information exchange. As I discussed in Chapter3, empirical testing in terms of joint action in business relationships is very rare (Hausman and Johnston 2010). However, since joint action can be defined as "the extent to which distributors and suppliers work together toward their respective or common goals" (Kim 1999a, p.221), empirical studies regarding not only joint action but also similar concepts such as coordination effort can give us guidance in terms of causal relationships between environmental characteristics and joint action. For example, Jap (1999) supported the negative effect of environmental dynamism on coordination effort between buyers and suppliers. Additionally, Zaheer and Venkatraman (1995) view environmental uncertainty having a negative effect on joint action as a process dimension of relational governance by a mediator of quasi-integration. On the other hand, according to Joshi and Stump (1999), the manufacturer that has already transaction specific investments (TSI) to a specific supplier, under environmental certainty, preference for joint action with their supplier is likely to further reduce uncertainty.

Establishing joint action requires substantial implementation costs in terms of time, finances, and personnel for both parties (Bradley 1995; Frazier, Spekman, and O'Neal 1988). Therefore, in the initial stage of a relationship, the uncertain condition of the environmental factors such as complexity and dynamism seems to have a negative

effect on joint action. However, after suppliers or buyers have invested in each other through commitment to a long term relationship, environmental complexity and dynamism seem to have positive effects on joint action (Josh and Stump 1999).

Regarding the causal relationship between munificence and joint action in high level of environmental munificence, which means abundance of critical resources needed by firms, there seems to be less preference for joint action. If intermediaries can add or drop easily suppliers within the channel system (Kim and Frazier 1996) and suppliers can be easily replaced, joint action is unlikely to be motivated to form strong relationships with them. However, the firm involved in a strong relationship with partners is likely to focus on critical resources among abundant resources by sharing key information and joint action. When firms can achieve the abundance of resources, there are trend for them to join action and they are likely to share key information in order to remain and strengthen their partnerships.

Another factor of functional characteristics, information exchange, which has been focused in channel research or relational exchange context, is also an important factor but an under-researched issue of the environmental characteristic. Sharing of strategic information under a specific environmental condition can be a vital issue for relational exchange. For example, Frazier et al. (2009) define strategic information as internal and external strategic information and support that environmental uncertainty leads to more distributors sharing of external strategic information and less distributors sharing of internal strategic information. A distributor may perceive the sharing of external strategic information as an effective means of attenuating unpredictability under high environmental uncertainty condition, whereas a distributor may be reluctant to share internal strategic information which is sensitive and proprietary nature.

Based on previous research, this research hypothesises that environmental characteristics (complexity, dynamism, and munificence) of the firm which is involved in the interaction process in the mature stage of the relationship can be expected to have positive effects on functional characteristics (joint action and information exchange).

Hypothesis 2: The Higher Environmental Characteristics (complexity, dynamism, and munificence), The Higher Functional Characteristics (joint action and information exchange) of the Interaction Process

> *Hypothesis 2-1: Complexity has a positive effect on joint action*
> *Hypothesis 2-2: The frequency of change (dynamism) has a positive effect on joint action*
> *Hypothesis 2-3: The unpredictability of change (dynamism) has a positive effect on joint action*
> *Hypothesis 2-4: Munificence has a positive effect on joint action*
> *Hypothesis 2-5: Complexity has a positive effect on information exchange*
> *Hypothesis 2-6: The frequency of change (dynamism) has a positive effect on information exchange*
> *Hypothesis 2-7: The unpredictability of change (dynamism) has a positive effect on information exchange*
> *Hypothesis 2-8: Munificence has a positive effect on information exchange*

6.2.1.3 The Effects of Environmental Characteristics on Climate Characteristics

Marketing scholars warn that "ignoring the diversity of channel contexts will impede progress in our attempts to understand how channel relationships operated in different environments" (Frazier et al. 1989, p.67; Stern and El-Ansary 1992, p.512). Therefore, we need to understand more dimensions of interaction process among firms in the supply chain under certain environmental conditions. Although climate characteristics including trust and commitment have been considered as key factors in relationship marketing, little work has been done to show how environmental characteristics affect establishing trust and commitment with partners (Wicks and Berman 2004). Therefore, understanding establishing trust and commitment under a variety of environmental context appears to be necessary.

In Robicheaux and Coleman's (1994) model of channel relationship structure, they discuss that the external economy includes environmental characteristics which indirectly affect polity performance including trust and commitment through the mediator of channel relationship structure. In addition to this, a significant amount of

channel research has shown consistently that dynamism reduces the extent of closeness in inter-firm relationships and affects adversely trust against relational partners (Heide and John 1990). It means environmental dynamism in the supply chain has a significant negative effect on relational governance or building trust (Heide and John 1990; Joshi and Campbell 2003; Stump and Heide 1996). Under complexity or dynamism environment conditions, the firm can behave in an opportunistic way instead of building mutual commitment in order to adapt unexpected environment. These environments increase the number of contingencies and are probably associated with creating greater potential for opportunistic renegotiation of the terms of the contract (Zaheer, McEvily, and Perrone 1998). Therefore, environmental complexity or dynamism can have negative effects on climate characteristics.

On the other hand, there are some studies that environmental uncertainty or munificence affects positively trust or commitment. For example, Kim and Frazier (1996) suggest a different level of commitment under a different context built by environmental uncertainty and the replaceability of a partner and assert that the need for high commitment is likely to be greatest when suppliers and buyers face environmental uncertainty because channel members can mutually benefit from high commitment in coping with uncertainty. This research focuses on the interaction process between the firms which are involved in the key partners which have relationships for a long time. Therefore, based on previous research, this research builds on hypothesis 3.

Hypothesis 3: Environmental Characteristics (complexity, dynamism, and munificence) associated with Climate Characteristics (trust and commitment) of the Interaction Process

Hypothesis 3-1: Complexity has a negative effect on trust
Hypothesis 3-2: The frequency of change (dynamism) has a negative effect on trust
Hypothesis 3-3: The unpredictability of change (dynamism) has a negative effect on trust
Hypothesis 3-4: Munificence has a positive effect on trust
Hypothesis 3-5: Complexity has a negative effect on commitment

Hypothesis 3-6: The frequency of change (dynamism) has a negative commitment

Hypothesis 3-7: The unpredictability of change (dynamism) has a negative effect on commitment

Hypothesis 3-8: Munificence has a positive effect on commitment

6.2.2 Business strategy and Interaction Process Characteristics

6.2.2.1 The Effect of Business strategy on the Structural Characteristics

"Structure follows strategy" (Besanko et al. 2007, p.528). A number of studies show that firms follow different generic business strategies that adopt different structural designs (Walker and Ruekert 1987). Particularly, the importance of fit in matching strategy and structure has been acknowledged in not only strategy research (Slater and Olsen 2000; Slater and Olsen 2001; Zheng, Yang, and McLean 2010) but also interorganisational contexts (Paswan, Guzmán, and Blankson 2012). For example, Porter (1980) discusses that business strategies have a significant effect on structure. Nemetz and Fry (1988) and Parthasarthy and Sethi (1992) also suggest that there is a significant relationships between manufacturing strategy and structure. Vorhies and Morgan (2003) study how marketing organisation structure and business strategy have a significant effect on performance in the trucking industry.

In addition, a variety of studies based on configuration theory have emphasised that relationships between strategy and structure have to been considered as configurations among strategy, structure and environment. For example, Kabadayi, Eyuboglu and Thomas (2007) examine the fit among business strategy, channel system structure and environmental conditions with a configuration approach. Their study shows that differentiation strategy is negatively associated with centralisation and formalisation, while cost leadership is positively associated with centralisation and formalisation. Multiple studies support that differentiation strategy is proper to decentralised and informal structure (Ward, Bickford, and Leong 1996), whereas cost leadership strategy suits highly formal, centralised structure in relationship (Ruekert, Walker, and Roering 1985; Walker and Ruekert 1987; Kabadayi, Eyuboglu and Thomas 2007).

Alternately,we can see the example of Hyundai Motors' decision making in section 3.3.1 (p. 61), where a centralized structure of decision making in the supply chain is likely to be more powerful to the firm which adapts differentiation strategy as well as to the firm with cost leadership strategy because successful differentiation strategy within high loyalty relationship in the automotive industry is possible in centralised structure that leads to short lines of communication and clear responsibilities. A respectively short route for final approval and straightforward implementation in the high technology industry is seemingly necessary to reduce the risk of opportunism or in order to protect their technological property.

Regarding the causal relationship direction between two constructs, some studies argue that mutual causality exists between strategy and structure (Ward, Bickford, and Leong 1996). For example, Miller (1986) illustrates that structure has a significant influence on competitive strategy. Additionally, Paswan, Guzmán and Blankson (2012) examine how an existing marketing channel governance structure affects the firm's marketing strategy.

Therefore, based on previous research that reports a variety of effects among strategy and structural characteristics, this research can expect that business strategy has a positive effect on structural characteristics (centralisation and formalisation) of the interaction process.

Hypothesis 4: Competitive Business Strategy has a positive effect on Structural Characteristics (centralisation and formalisation) of the Interaction Process

Hypothesis 4-1: Differentiation strategy has a positive effect on centralisation
Hypothesis 4-2: Cost Leadership Strategy has a positive effect on centralisation
Hypothesis 4-3: Differentiation strategy has a positive effect on formalisation
Hypothesis 4-4: Cost Leadership Strategy has a positive effect on formalisation

6.2.2.2 The Effect of Business strategy on Functional Characteristics

As discussed in Chapter 3, this research defines functional characteristics of interaction process characteristics as joint action and information exchange. Firstly, little work has been done to show how business strategy characteristics are associated with joint action with partners. As an example of research which shows the relationship between business strategy and joint action, Kim (1999) examines differentiation strategy in value-added services has a significantly positive effect on joint action. Given the strategic importance of differentiation for both parties, they are likely to work together to get the best outcome through value-added service (Fites 1996). In particular, differentiation strategy can entail risk to fail if coordination or joint action with partners is not generated. Therefore, firms which adopt differentiation strategy are likely to be involved in joint action.

Additionally, information exchange contains "the extent of cross-functional intelligence dissemination and knowledge sharing" (Homburg, Jensen, and Krohmer 2008, p.133) in long-term forecasting and proprietary planning (Stank and Daugherty 1997). When suppliers openly share information, buyers gain insights about the acquisition. When buyers share information about what they need, suppliers can enforce their product and service value for buyers. From this point of view, it can be expected that the sharing of information is important for the firms which focus on differentiation strategy, and it is likely that they try to get more tailored, key and quality information from partners to produce value-added product or service. Therefore, it can be said that differentiation strategy has a positive effect on information sharing with partners.

Additionally, through information exchange with partners in terms of long-term forecasting and planning, both suppliers and buyers gain insights about the outcome of their business strategy. The supplier provides the basis for cooperating on ways to lower buyer's cost (Cannon and Homburg 2001). Information exchange can also foster the solutions of functional conflict (Anderson and Narus 1990), which can be relevant

to low costs. This viewpoint supports that cost leadership has a positive on information exchange.

Based on previous studies, we can expect that business strategy (differentiation and cost leadership) has a positive effect on joint action and information exchange.

Hypothesis 5: Competitive Business Strategy has a positive effect on Functional Characteristics (joint action and information exchange) of the Interaction Process

> *Hypothesis 5-1: Differentiation strategy has a positive effect on joint action*
> *Hypothesis 5-2: Cost Leadership Strategy has a positive effect on joint action*
> *Hypothesis 5-3: Differentiation strategy has a positive effect on information exchange*
> *Hypothesis 5-4: Cost Leadership Strategy has a positive effect on information exchange*

6.2.2.3 The Effect of Business Strategy on Climate Characteristics

Porter's (1980) business strategy was focused on the ability of a firm to influence competitive forces or threats in an industry coming from five sources such as new competitors, existing competitors, substitute products, buyer-power and supplier power. His main idea is that competitive advantage within an industry could be sustained by following low cost or differentiation strategy. Additionally, Hitt, Ireland, and Hoskisson (1997, p.115) define business strategy as "an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage. From Porter (1980) and Hitt, Ireland, and Hoskisson (1997) argue that business strategy which is considered an integrated and coordinated set of commitments can affect positively climate characteristics such as trust and commitment with partners to achieve competitive advantage. For example, Arthur (1992) tests the relationships between business strategic choice such as differentiation and cost leadership and industrial relations policies and practices in US steel mini-mills. Through cluster analysis, he found 60% of the mills following a differentiation business strategy have a commitment maximizing industrial relations

system. Based on this research, it is likely that suppliers following differentiation strategy could have high levels of management directed communication with partners in order to find out and pursue differentiation strategy adopting partners' needs and wants. As relationship marketing research has discussed that trust and commitment are involved in reducing risk of partner's opportunism and increasing competitive advantage, it seems to help suppliers to reduce risk from adopting differentiation strategy by trust and commitment against their partners. Therefore, differentiation strategy has seemingly a positive effect on trust and commitment.

On the other hand, cost leadership strategy may be initially achieved by a firms' own effort (e.g., using new machinery and equipment or through greater productivity). However, to continue with cost reduction firms rely on their suppliers for innovation in cost reduction methods. This requires the development of trust and commitment so that firms can learn early about search methods and develop their investment plans accordingly. Therefore, under cost leadership strategy one would expect a relationship with trust and commitment but this may change over the life cycle of the firm. For instance, Hyundai motor's cost leadership strategy can be achieved on the basis of Hyundai motor's resource suppliers and manufacturing companies following low cost strategy (Finance Times, May 8 2012). Suppliers' strategy allows Hyundai to have competitive advantage by producing better quality and technology with low cost. The coincidence of cost leadership strategy between supplier and buyer can make them depend on each other and it can affect their trust and commitment. Therefore, this research hypothesises as follows.

Hypothesis 6: Competitive Business Strategy has a positive effect on Climate Characteristics (trust and commitment) of Interaction Process

Hypothesis 6-1: Differentiation strategy has a positive effect on trust
Hypothesis 6-2: Cost Leadership Strategy has a positive effect on trust
Hypothesis 6-3: Differentiation strategy has a positive effect on commitment
Hypothesis 6-4: Cost Leadership Strategy has a positive effect on commitment

6.3 Interaction Process Characteristics and their Consequences

6.3.1 The Effects of Interaction Process Characteristics on Relationship Value

One of major issues in terms of relationship value is probably how to create value expected along different relationship level and how to share between the partners the value created in the relationship. This section discusses how interaction process characteristics are associated with relationship value.

Through interaction process characteristics, a firm may have insights into relationship value with the partner. According to the development level of relationships, firms have different kinds of bonds such as financial (economic), structural, and social bonds with partners (Kim 1999b; Turnbull, Ford, and Cunningham 1996; Wilson and Mummalaneni 1986). In the initial stage of the relational exchange, a firm and its partner engage in a financial bond. As their relationship has developed, they engage in a structural and a social bond. Similarly, it is likely that structural, functional and climate characteristics of interaction process characteristics are associated with different types of relationship value. Namely, structural characteristics may be mainly involved in economic value, operational value, or strategic value, whereas functional and climate characteristics may be mainly involved in strategic value or behaviour value.

6.3.1.1 The Effects of Structural Characteristics on Relationship Value

Wilson (1995, p. 342) states "the sharing of value is likely a function of the power dependence relationship modified by the degree of structural bonding present in the relationship." Borys and Jemison (1989) discuss that the governance structure determines the processes that occur in the relationship and the potential value creation of the relationship. Nohria and Ghoshal (1994) examined the effect of the differentiated fit is built by varying combination of centralisation, formalisation and shared value on performance. They concluded that the differentiated fit by structure and shared value have an interaction effect on financial performance such as average

annual growth in return on assets and sales growth. Furthermore, Baxter and Matear (2004) view structural value built by relationships between firms as a main part of relationship value. Therefore, the structural characteristics are likely to be associated with relationship value.

Channel structure studies demonstrate that centralised structure between suppliers and buyers result in reduction of interaction cost as well as time through fast decisions because lines of communication and responsibilities are relatively clear and the route for final approval can be travelled quickly. These kinds of characteristics of centralisation are associated with economic value or operational value which is involved in value achieved by reducing the cost and time of interaction. Therefore, centralisation can affect relationship value.

Formalised structures exhibit use of rules and procedures. Rules and procedures provide a means for prescribing appropriate behaviours and addressing routine aspects of problems (Ullrich and Wieland 1980). Therefore, increased formalisation leads to higher levels of rationality in planning, recruitment of planning specialists, and more formal analysis, evaluation and report systems (Menon et al. 1999). From this viewpoint, formal rules and procedures can lead to increased efficiency and lower costs (Ruekert, Walker, and Roering 1985; Walker and Ruekert 1987; Olson, Slater, and Hult 2005). In terms of the reducing interaction cost, therefore, formalisation can affect positively economic value, operational value or strategic value.

Hypothesis 7: The Higher the Structural Characteristics (centralisation and formalisation) of the Interaction Process, The Higher the Relationship Value

Hypothesis 7-1: Centralisation has a positive effect on relationship value
Hypothesis 7-2: Formalisation has a positive effect on relationship value

6.3.1.2 The Effects of Functional Characteristics on Relationship Value

Value has been approached from many different perspectives. In particular, strategy and organisational behaviour literature on competitive advantage derived from the work of Porter (1985) and his colleagues are closely linked value concept (Payne and Holt 2001). For example, Brandenburger and Nalebuff (1996) and Brandenburger and Stuart (1996) discuss how value is created when firms with partners come together and transact. In addition to strategy literature, value is discussed in research based on exchange theory. Through joint action, enhancement of strategically competitive advantage can affect economic value as well as strategic value among relationship value, since economic value is expected to contribute to reducing the requirement time and strategic value is expected to contribute to strategically competitive advantage. Wilson and Jantrania (1993; Wilson and Jantrania 1994), who introduced the dimensions of relationship value at the first time, show not only that any relationship can be involved in the creation of value for both partners, but also how this value shared within partners can be important in the development process of relationships. Tzokas and Saren (1999) also provide meaningful overview of value creation in relationship marketing and stress that further research needs to be done in value creation and the life of the relationship. Ritter and Walter (2012) view that customer-perceived relationship value is driven by relationship functions such as operation-related relationship functions and change-related relationship functions. In particular, they examined operation-related relationship functions including payment function, volume function, quality function, safeguard function have positive effects on relationship value, while there is an inverted U-shaped relationships between change-related relationship functions including information function "by passing on relevant technical or market-related information" (Ritter and Walter 2012, p. 138) and customer-perceived relationship value.

Based on previous literature, manufacturers, distributors, suppliers or buyers in the supply chain have worked together in the ways that their respective or common goals can create relationship value. Therefore, it can be said that joint action is likely associated with relationship value. Additionally, communication which is "the glue that holds together a channel of distribution" (Mohr and Nevin 1990, p.36) leads to relationship quality. Firms involved in relational exchange share pivotal information

with partners in whole relationship process such as product design, sharing cost information, and discussing future product development plans and it improves relationship quality and reduces operational cost for the partner. Therefore, information exchange can have positive effect on relationship value.

Hypothesis 8: The Higher Functional Characteristics (joint action and information exchange) of the Interaction Process, The Higher the Relationship Value

Hypothesis 8-1: Joint action has a positive effect on relationship value
Hypothesis 8-2: Information exchange has a positive effect on relationship value

6.3.1.3 The Effects of Climate Characteristics on Relationship Value

Value has always been considered as "the fundamental basis for all marketing activity" (Holbrook 1994, p.22). Many studies in relationship marketing have discussed the relationships among trust, commitment and relationship value (Ryssel, Ritter, and Gemunden 2004; Ulaga and Eggert 2006a). Wilson (1995) proposes a variety of relationship variables relevant to the relationship development process. According to his argument, trust is related to partner selection and defining aims of relationship in the early stage of relationship, whereas commitment is involved significantly in creating relationship value in the mature relationship stage. Regarding the several levels of relationship value, Gassenheimer, Houston and Davis (1998) distinguish economic value from social value of business relationships. Economic value is relevant to fulfilling economic needs at minimum transaction costs, while social value is related to satisfaction with the relationship compared with other alternatives. Based on previous research, trust and commitment are seemingly involved in economic value as well as social value. For example, Dyer and Chu (2003, p.59) state "trust is of most economic value when it is based on non-contractual rather than contractual mechanisms." Because trust eliminates the need for formal contracts and reduces transaction cost from formal contracts, trust can lead economic value of relationship through reducing interaction time and cost.

Additionally, Sirdeshmukh, Singh, and Sabol (2002) discuss that value mediates the effect of trust on loyalty. They assert that trust creates value not only by providing relational benefits such as providing competent, benevolent toward a partner, and solving exchange problem, but also by reducing exchange uncertainty and providing reliable expectations in ongoing relationships. Palmatier (2008) shows relationship qualities such as trust and commitment as relational drivers of value. Trust and commitment, particularly, seem to result in behaviour value which is expected to contribute to the relationship with a partner in terms of mutual respect and increased confidence in their partners. Therefore, it can be expected that trust and commitment have positive effects on relationship value.

Hypothesis 9: The Higher Climate Characteristics (trust and commitment) of Interaction Process, The Higher Relationship Value

Hypothesis 9-1: Trust has a positive effect on relationship value
Hypothesis 9-2: Commitment has a positive effect on relationship value

6.3.2 The Effect of Relationship Value on Performance

Value created by the combination of the strength points of a firm and its partner allows each of them to gain profits from the relationship (Wilson 1995). Lower price and operating costs for the buyer and lower operating costs for the supplier can be viewed as value through the relationship. Economic benefit, technical benefit, and social benefit from the relationship also can be viewed as value (Andersion, Jain and Chingtagunta 1993; Anderson and Narus 1999; Anderson, Thomson and Wynstra 2000). Additionally, Barry and Terry (2008) found that economic value or strategic value achieved from the relationship is positively associated with policy performance such as affective commitment and relationship continuous intention. Nohria and Ghoshal (1994) supported the effect of shared relationship value on financial performance such as return on assets, average annual growth in return on assets and sales growth. Baxter and Matear (2004) viewed value in business relationships has both tangible and intangible aspects and stressed both of them need to be developed and managed. They examined intangible relationship value, which consists of human

intangible value and structural intangible value, leads to future financial performance. Sirdeshmukh, Singh and Sabol (2002) also found that relationship value affects relationship performance such as customer loyalty.

In a similar manner to previous research, this research views relationship value as not only an economic and operational value achieved from reducing time and cost, but also as a strategic value achieved from exploring strategic opportunities and enhancement competitive advantage or behaviour value which leads to a win-win approach by mutual respect It supports the premise that these kinds of relationship value can lead to better performance of the firm.

Hypothesis 10: The Higher the Relationship Value, The Higher the Performance

6.4 The Emerged Conceptual Framework and Hypothesised Model

In terms of the general strategic framework for testing structural equation models, Jöreskog (1993), who is a co-author of the LISREL statistical programme, suggested three scenarios such as strictly confirmatory, alternative models and model generating. First of all, the strictly confirmatory scenario is allowed when researchers postulate a single model based on the theory and test the fit of the model with the appropriate data. Secondly, the alternative model scenario is likely to be used when researchers propose several alternative (or rival) models, all of which are grounded in the theory, in order to select one model as most appropriate in expressing the sample data. Finally, the model generating scenario is likely to happen when researchers proceed in an exploratory rather than a confirmatory model to modify the model because a theoretically derived model was rejected on the basis of its poor fit to the data. According to Jöreskog (1993), the ultimate objective of testing the model can be to find a model that is both substantively meaningful and statistically well fitting (Byrne 2012). From this point of view, this research estimates not only the hypothesised model (see Section 8.6.2), but also sub-models (see Section 8.6.3) which are divided into parts of the research model and then explains the most appropriate model in

representing the sample data in order to find a model that is both substantively meaningful and statistically well-fitting to the data and the objectives of this study.

Figure 6.1 illustrates the framework of the conceptual model including the illustration of each chapter discussed the constructs and Figure 6.2 illustrates the hypothesised model on the basis of hypotheses discussed in section 6.2 and section 6.3.

Figure 6.1 The Framework of the Conceptualised Model

Antecedents of Interaction Process

Environmental Characteristics

Environmental Characteristics

- **Complexity**
- **Dynamism**
- **Munificence**

Strategic Characteristics

Strategic Characteristics

- **Differentiation**
- **Cost Leadership**

Interaction Process Characteristics

Structural Characteristics
- **Centralization**
- **Formalization**

Functional Characteristics
- **Joint Action**
- **Information Exchange**

Climate Characteristics
- **Trust**
- **Commitment**

Consequences of Interaction Process

Relationship Value

Relationship Value
- **Economic Value**
- **Operational Value**
- **Strategic Value**
- **Behaviour Value**

The Overall Performance of the Firm

Perceived Firm Performance Achieved Through Interaction Process with the Partner

Chapter 4

Chapter 3

Chapter 5

Chapter 6

Figure 6.2 The Hypothesised Model
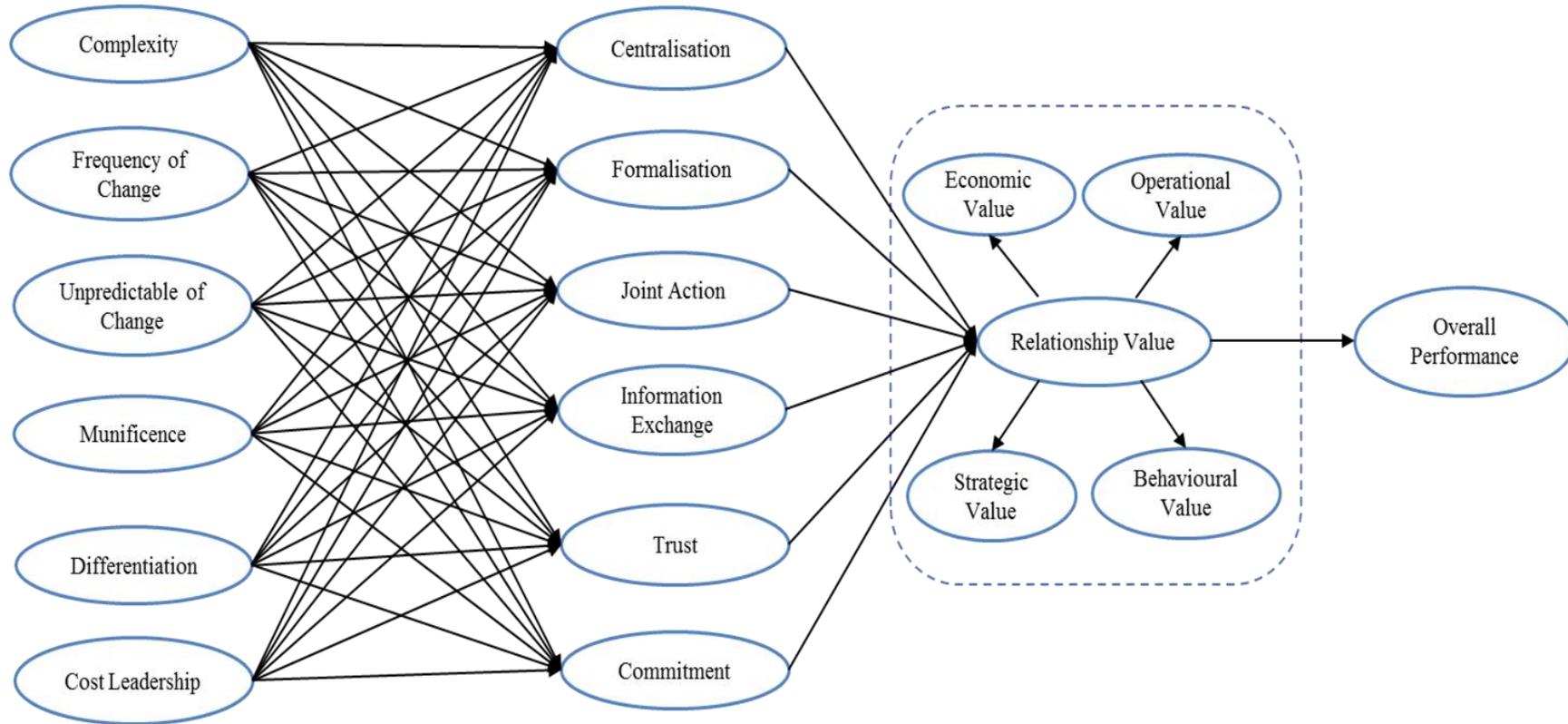
Chapter 7. Methodology

7. Methodology

7.1 Introduction

The chapter reports the research methodology followed for this research. The chapter consists of six main sections. The discussion in this chapter starts with an explanation of two main epistemological approaches to social science; positivism and interpretivism are explained in section 7.2. Following, section 7.3 provides a description of the quantitative method chosen in this research. Section 7.4 builds the research design which includes eight process steps followed for this research. Based on the research design, section 7.5 explains the survey methods used in this study and particularly it discusses the advantages of the drop-and-collect survey method which is used in this research. Following on from that, the characteristics of the sample are explained and the analysis method used for this study, namely, structural equation modelling is discussed in section 7.6. The hypothesised model and submodels, which are analysed and discussed in Chapter 8, are briefly introduced in section 7.7. Finally, the measurements of each construct are illustrated in section 7.8.

What this chapter achieves an understanding of how this research is designed from a positivistic point of view and why the drop-and-collect survey method is used on data collection. In addition, this chapter highlights the characteristics of the sample and the merits of structural equation modelling as the analysed method used in this study.

7.2 Epistemological Approaches in Social Science

There are many factors that affect research design in social science. A balanced view of the different philosophical positions underlying research methods and designs is vital. From this point of view, the importance of an understanding of philosophical issues is stressed. First, it can help to clarify research designs. Second, knowledge of philosophers can help the researcher to recognise which designs will work and which will not (Gray 2009). In other words, specific research techniques are based on the general approaches that could provide a new and valuable type of knowledge about

social world with rigorous, systematic observation of the social world and logical thinking (Neuman 2006). Understanding the diverse perspectives and philosophical assumption of methods is important because it gives us an opportunity to make an informed choice among alternatives for the type of research methodology. For example, the ontology or epistemology of the research can be the key factor that has a significant influence on the whole process of research and the evaluation of research (Sayer 1992). Regarding different dimensions of concepts related to methodological choices for research, Table 7.1 shows their definitions used commonly among researchers and Figure 7.1 illustrates the hierarchical relations among the concepts.

Table 7.1 Definitions of Concepts related to Methodology

Ontology	Philosophical assumptions about the nature of reality
Epistemology	General set of assumptions about the best ways of inquiring into the nature of the word
Methodology	Combination of techniques used to enquire into a specific situation
Methods	Individual techniques for data collection, analysais, etc.

Source: Easterby-Smith, Thorpe and Jackson (2008 p.60)

Figure 7.1 The Relations among Concepts Related to Methodologies
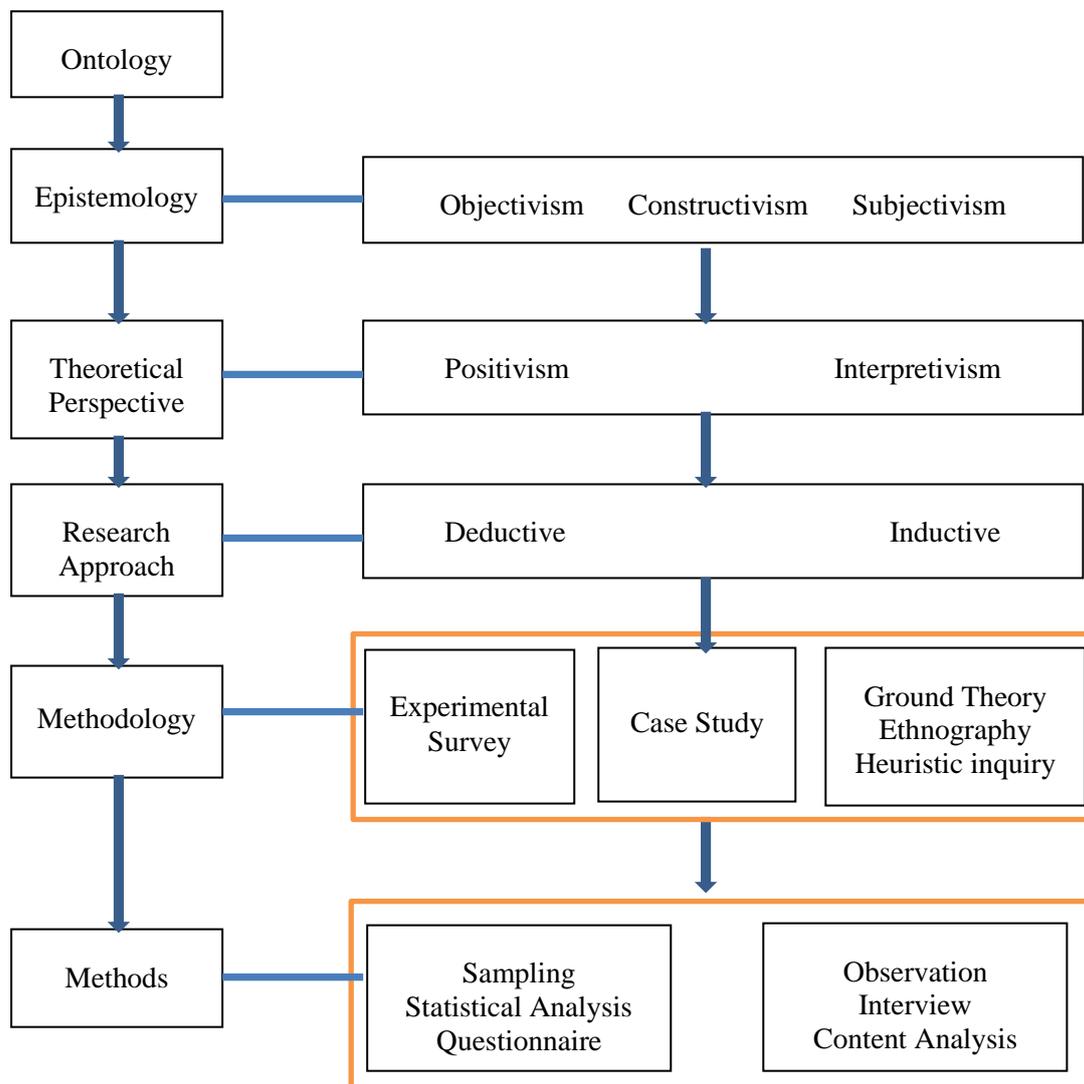
Source: Adapted from Gray (2009)

In next section 7.2.1 and section 7.2.2, positivism and interpretivism among a variety of theoretical perspectives will be discussed in more detail because both as key theoretical perspectives consist of extreme sides of theoretical perspective spectrum and can be contrasted with each another among several approaches.

7.2.1 Positivism

Positivism has connections with empiricism. The key idea of positivism is that there is a real world that exists independently of the mind of the observers (Westwood and Clegg 2003) and the social world exists externally and that its properties should be measured through objective methods, rather than being inferred subjectively through sensation, reflection or intuition (Easterby-Smith, Thorpe and Jackson 2008). In short, postivism assumes the world from two points of the view. First, an ontological assumption of positivism is that reality is external and objective. Second, an epistemological assumption of positivism is that knowledge is only of significance if it is based on observations of this external reality (Easterby-Smith, Thorpe and Jackson 2008).

According to Donaldson (1996), modern social sceintific postivism is based on recongnition that theoretical concepts can be unobservable and that verification of theories involves testing the hypotheses deduced form them and it aims for theoretical generalisations of broad scope that explain social matters as being determined by causes of an objective kind that lie in the situation rather than in the minds of people.

This resrach is developed on the basis of positivism perspective by using quatitative methods.

7.2.2 Interpretivism

In reaction to the application of positivism to the social sciences, new paradigm stems from the view that reality is not objective and exterior but is socially constructed and given meaning by people. Berger and Luckman (1967), Watzlawick (1984) have contributed to build the social constuctionism.

**Table 7.2 Comparison of Main Epistemological Approaches:
Positivism and Interpretivism**

	Positivism	Interpretivism
Main Philosophers	Auguste Comte, John Stuart Mill	Max Weber, Wilhelm Dilthey, Peter Berger, Thomas Luckmann, Paul Watzlawick
Strengths	Wide coverage; Potentially fast and economical; Easier to provide justification of policies	Good for processes, and meanings. Flexible for theory generation. Data collection less artificial
Weaknesses	Inflexible and artificial; Implications for action not obvious	Very time consuming; Difficulties of analysis and interpretations; No credibility with policy makers
Ontology	Researcher and reality are separate	Researcher and reality are inseparable
Epistemology	Objective reality exists beyond the human mind	Knowledge of the world is intentionally constituted through a person's lived experience
Method	**Quantitative method/** experiments, surveys, statistics	**Qualitative method/** hermeneutics, henomenology, constructionism, ethnomethodology, cognitive, idealist, subjectivist
Reason for Research	To discover natural laws so people can predict and control events	To understand and describe meaningful social action
Validity	Certainty: data truly measures reality	Defensible knowledge claims
Reliability	Replicability: Research results can be reproduced	Interpretive awareness: Researchers recognise and address implications of their subjectivity
Nature of Social Reality	Stable pre-existing patterns or order that can be discovered	Fluid definitions of a situation created by human interaction
Human Nature	Self-interested and rational individuals who are shaped by external forces	Social beings who create meaning and who constantly make sense of their worlds
Human Agency	Powerful external social pressures shape people's actions	People have significant volition; they develop meanings and have freedom to make choices

(Continued)	**Positivism**	**Interpretivism**
Role of Common Sense	Clearly distinct from and less valid than science	Powerful everyday theories used by ordinary people
Theory Looks Like	A logical, deductive system of interconnected definitions, axioms, and laws	A description of how a group's meaning system is generated and sustained
An Explanation that is True	Is logically connected to laws and based on facts	Resonates or feels right to those who are being studied
Good Evidence	Is based on precise observations that others can repeat	Is embedded in the context of fluid social interactions
Relevance of Knowledge	An instrumental orientation; knowledge enables people to master and control events	A practical orientation; knowledge helps us embraces/share empathetically others' life worlds and experiences
Place for Values	Science is value free and values have no place except when choosing a topic	Values are an integral part of social life: no group's values are wrong, only different

Source: Adoption from Neuman (2006, p.105), Easterby-Smith, Thorpe and Jackson (2008), Weber (2004)

7.3 Quantitative Methodology

Generally speaking, research methods can be classified as quantitative and qualitative methods. In short, the quantitative method involves data collection and analysis in the form of numbers, while qualitative method involves data collection and analysis in the form of words. Although both of qualitative and quantitative approaches have common elements regarding the basic principles of science, the two approaches differ significantly in several ways as shown Table 7.3.

Table 7.3 Quantitative vs. Qualitative Methods

Quantitative Method	Goals	Qualitative Method
Objective facts	➢ Objects of Measurement	Construct social reality, cultural meaning
Measures are systematically created before data collection and are standardized	➢ Methods of Measurement	Measures are created in an ad hoc manner and are often specific to the individual setting or researcher
Variables	➢ Focus	Interactive processes, events
Reliability	➢ Main point of the Research	Authenticity
Theory and data are separate	➢ Theory and data	Theory and data are fused
Many cases largely	➢ Expected number of case	Few cases largely
Statistical analysis	➢ Analysis method	Thematic analysis
Researcher is detached from the object of research	➢ Relations between researcher and the object of research	Researcher is mainly involved in the object of research
Test hypothesis that the researcher begins with	➢ Building of hypothesis	Capture and discover meaning once the researcher becomes immersed in the data
Concepts are in the form of distinct variables	➢ Concepts	Concepts are in the form of themes, motifs, generalisations and taxonomies
Data are in the form of numbers from precise measurement	➢ Data	Data are in the form of words and images form documents, observations, and transcripts
Theory is largely causal and is deductive	➢ Theory	Theory can be causal or noncausal and is often inductive
Procedures are standard, replication is frequent	➢ Procedures	Procedures are particular, replication is very rare
Analysis proceeds by using statistics, tables, or charts and discussing how what they show related to hypotheses	➢ Analysis results expression	Analysis proceeds by extracting themes or generalisations from evidence and organizing data to present a coherent, consistent picture

Source: Adapted from Neuman (2006, p.13 & p.157)

This research was designed and conducted on the basis of quantitative methods. Most quantitative research follows a positivist approach to social science. Positivism is broadly defined as the approach of the natural sciences (Newman 2006). Positivistic methods are concerned with the provision of accurate reflections of reality. From the positivism point of view, the social world exists externally and all phenomena should be measured through objective methods rather than being inferred subjectively (Newman 2006).

Positivism stemmed from the school represented by Auguste Comte (1798-1857), who was a French philosopher, and it was elaborated and modified by the British philosopher, John Stuart Mill (1806-1873). The main assumption of positivism is that the reality is external as well as objective, and knowledge is only of significance as long as it is based on observations of this external reality (Easterby-Smith, Thorpe, and Jackson 2008). From the point of positivism view, it can be said that both of social sciences and the natural sciences use the same methods on the basis of their different subject matter. Therefore, quantitative researchers emphasize precisely measuring variables and testing hypotheses that are linked to general causal explanations. Most quantitative researchers apply reconstructed logic that means that the logic of how to do research is highly organized and restated in an idealized, formal, and systematic form (Newman 2006). It means that quantitative researchers can describe the technical research procedures that they use as well as they can apply a fixed sequence of phases. Additionally, quantitative research in social science addresses the issue of integrity by relying on an objective technology and mechanical techniques such like natural sciences (Neuman 2006). Neuman (2006) suggests that the process of conducting a quantitative research in social science usually follows a sequence step as shown in Figure 7.2. From this process point of view, the conceptual framework and research design of this research would be developed on the basis of positivism. Therefore, the next section unfolds research design based on the epistemological position such as positivism.

Figure 7.2 Quantitative Research Process
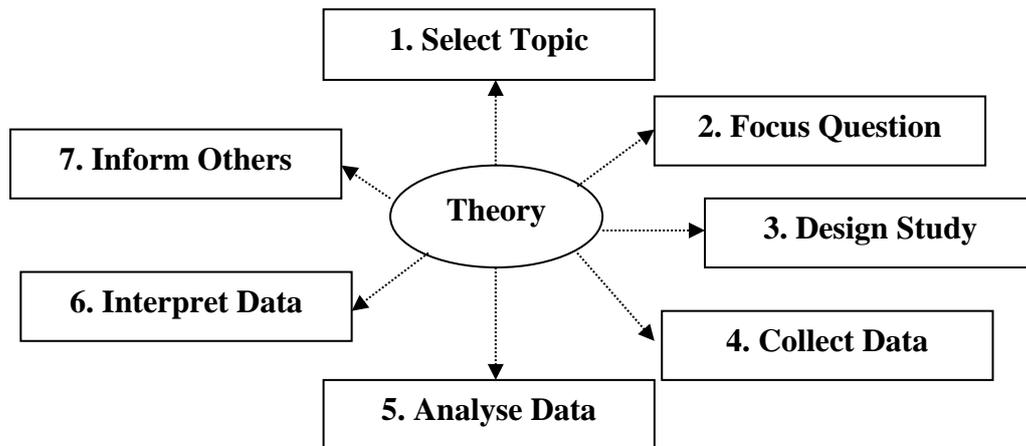
Source: Neuman (2006, p. 15)

7.4 Research Design

Based on Neuman's (2006) quantitative research steps (Figure 7.2), this research is processing through eight steps which are as follows (See Figure 7.3): (1) Topic selection (2) A literature review (3) Research design (4) Developing a questionnaire (5) Data collection (6) Data analysis (7) Interpreting data (8) Writing the thesis up.

Figure 7.3 The Research Process

To Select Topic: Research Questions	▪ B2B Interaction Process & Relationship Structure
	▪ Relationship Value Creation & Performance
Literature Review	▪ Political Economic Theory ▪ Transaction Cost Analysis ▪ Relationship Marketing ▪ Channel Literature
Research Design	▪ Using Quantitative Methods
Developing Questionnaire	▪ Developing Questionnaire ▪ Pilot Test to Develop Questions in terms of Relationship Value
Data Collection	▪ Sample Frame: More than 1000 managers in IT & Factory Automation and Automotive industries
Data Analysis	▪ Analysis Methods: ➢ Structural Equation Modelling (SEM) ▪ With SPSS, Mplus Software
Interpreting Data	▪ Contributions: Practical and Theoretical Implications
Writing up the Thesis	▪ Limitations of the Research

7.4.1 Topic Selection

The process of research starts by selecting a topic. At the beginning stage, a research topic can be too broad for conducting a study because it can be started from a general area of study or issue of professional or personal interest of the researcher. Therefore, general issues of the study need be narrowed into specific research questions and researchers should focus on specific research questions that can be addressed in the study (Neuman 2006). From this point of view, the process of the research begins with developing the research questions from a general interest in supplier-buyer relationships research topic that is the characteristics of the interaction process leading to the overall performance of the firm. Based on this interest of the research, specific research questions are developed as follows: (a) What kinds of the characteristics can be main factors in the interaction process between buyers and suppliers? (b) How do external factors and strategic factors of the firm affect the characteristics of interaction process? (c) How are the characteristics of interaction processes associated with relationship value among firms and the overall performance of the firm?

7.4.2 Literature Review

To develop the research framework based on research questions, researchers review the accumulated knowledge relevant to the research questions. The assumption of a literature review is that knowledge accumulates and people learn from the accumulated knowledge (Neuman 2006). In the early step of conducting the research, it is best to find out what is already known regarding research questions and what is the gap between knowledge of the pertinent literature in the research area. The scope and depth of reviews can be variety, according to the aim of a study. According to Neuman (2006, p.111), researchers try to achieve four main things through a literature review: (1) To demonstrate a familiarity with a body of knowledge and establish credibility, (2) To show the path of prior research and how a current project is linked to it, (3) To integrate and summarise what is known in an area, (4) To learn from others and stimulate new ideas. With the goals of a literature review discussed by Neuman, the research reviews the literature in terms of theories related to relationship marketing such as political

economy paradigm, transaction cost analysis, relationship marketing and channel research.

7.4.3 Research Design

Designing a study is related to make decisions about how data will be collected, what and how instruments will be employed and how collected data will be analysed. In particular, the philosophical position of a study such as the ontology or epistemology affects research design (Easterby-Smith, Thorpe and Jackson 2008). For example, research design following quantitative method is developed based on positivism.

7.4.4 Developing Questionnaire

After designing a study with quantitative method, developing questionnaire stage is following which is related to definition of operational constructs and developing the questionnaire. Regarding types of survey, three types are mainly considered (Easterby-Smith, Thorpe and Jackson 2008). Frist, it is a factual survey which is often used to investigate opinion polls and market-research involve collecting data from different groups of people. Structured interviews are an example of factual surveys. Second, it is an inferential survey which is aimed at establishing relationships between variables and concepts. Researchers identify the constructs and define ways of measuring each of these variables through a small number of items in a questionnaire. Third is an exploratory survey. This survey method is not associated with an explicit set of hypotheses. Rather, a large number of questionnaires completed by respondents with regard to their views and values, and then researchers look for patterns in the data. The classic study of Hofsted (1984) into the effect of national cultures on social and work behaviour is a representative example of an exploratory survey.

This research adopts an inferential survey to inquire about 16 constructs. Among variables in questionnaire for this research, 12 variables except for 4 variables related to

relationship value are used by the extant measurements, while measurements of 4 constructs related to relationship value are developed by conducting the pilot test.

7.4.5 Data Collection

To collect data, sample frame is more than 1,000 marketing managers who have business relationship with the partner firms in the supply chain in several industries on the basis of the expectation of 20 % response rate. The reason why the expectation of 20 % response rate is that most of the industrial research are considered of approximately 20 % response rate as a good response rate when they design survey (Easterby-Smith, Thorpe, and Jackson 2008). Additionally, it is said that generally speaking, parameter estimates and chi-square tests of fit in structural equation modelling are very sensitive to sample size. Therefore, at least the data of 200 respondents are necessary to analyse the model by structural equation modelling (Boomsma 1982). More than 200 sample size help researchers can lead to right decision from confirmatory factor analysis (Anderson and Gerbing 1984). On the other hand, Bentler and Chou (1987) suggest that the sample size should be bigger than five times of the number of parameter, while Bagozzi (1991) discuss that the number of sample size minus degree of freedom should be bigger than 50.

7.4.6 Data Analysis

Data collected using the quantitative method is in the form of numbers. The numbers represent values of variables, which measure characteristics of subjects, respondents or other cases (Neuman 2006). Before analysing data, researchers need to code data and to clean data. This research analyses data by using SPSS and MPlus software to examine reliability, validity, exploratory factor analysis (EFA), confirmatory factor analysis (CFA), and the research model based on hypotheses as well as the rival model restricted.

7.4.7 Interpreting Data

Interpreting data means the discussion of the results of analyses and are associated with finding out the practical and theoretical implications.

7.4.8 Writing up the thesis

It is said that writing is process. Neuman (2006) recommends that researchers should complete writing up the thesis through prewriting, composing and rewriting steps.

7.5 Survey Methods

7.5.1 Introduction of Survey Methods

Collecting, analysing, and interpreting data in a methodologically sound way is one of the main issues of science (Hunt 1991). Among the variety of methods used to obtain information, a dominant method is the survey method. The survey is used when the research involves sampling a large number of people and asking them a series of questions (Malhotra 2009). Figure 7.4 shows broadly methods obtaining quantitative data.

Figure 7.4 Methods of Obtaining Quantitative Data
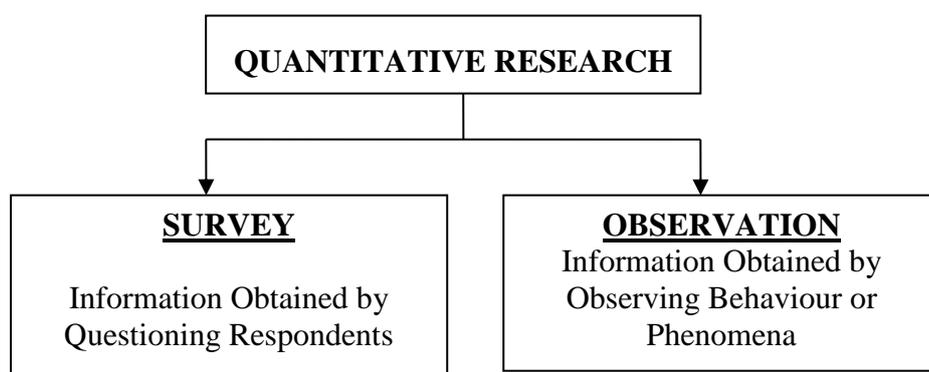
Source: Adapted from Malhotra (2009)

In using the survey method, an important issue faced by researchers is related to the issue of how to access respondents properly and how to motivate respondents to candidly reply to their questionnaires. Additionally, in the survey design stage, researchers should consider that the survey method is likelihood that respondents might be unwilling or unable to provide the desired information which researchers want through the survey. Despite this kind of issue, this method has the advantages of ease, reliability and simplicity. By using fixed-response questions such as multiple-choice, the survey method can not only reduce variability in data collection stage, which can be caused by differences among interviewers, and variability in interpretation of analysis results stage, which can be caused by differences among analysts, but also enhance the reliability of responses. It also has advantages in terms that it simplifies coding, analysis, and interpretation of data. On the basis of these advantages, the survey method is by far the most common method of primary data collection in marketing research, in particularly quantitative data (Malhotra 2009).

The methods of collecting survey data can be broadly classified as telephone, personal, mail or electronic interviews. Figure 7.5 shows a general classification of survey methods. Although there are a number of remarkable advances in marketing research technology over the past several decades, one of the most popular ways in survey methods was the paper-and-pencil questionnaire (Stablein 1996), itself dominated by the mailed questionnaire (Cavusgil and Elvey-Kirk 1998). However, the mail questionnaire approach has a critical weak point that is it suffers from a quite low response rate (Baruch 1999; Chisnall 2004; Delener 1995; Kinnear and Taylor 1991; Malhotra and Birks 2007), despite its many advantages. The problem related to low response rate increases with the online survey method (Dommeyer and Moraiarty 1999/2000; Ibeh, Brock, and Zhou 2004; Kaplowitz, Hadlock, and Levine 2004; Mehta and Sivadas 1995; Tse 1998).

On the other hand, one of data collection techniques can lead to high response rate with most of the best characteristics of the mail questionnaire method but the associated impersonality. That is the drop-and-collect survey method (Brown 1987; Ibeh, Brock, and Zhou 2004). Based on this merit, this research was conducted with drop-and-collect

survey method, which is shown by the dotted line box among personal interviewing methods, in Figure 7.5 which classifies main survey methods. This method has several advantages and this is described in more detail in the next section 7.5.2.

Figure 7.5 Classifications of Survey Methods
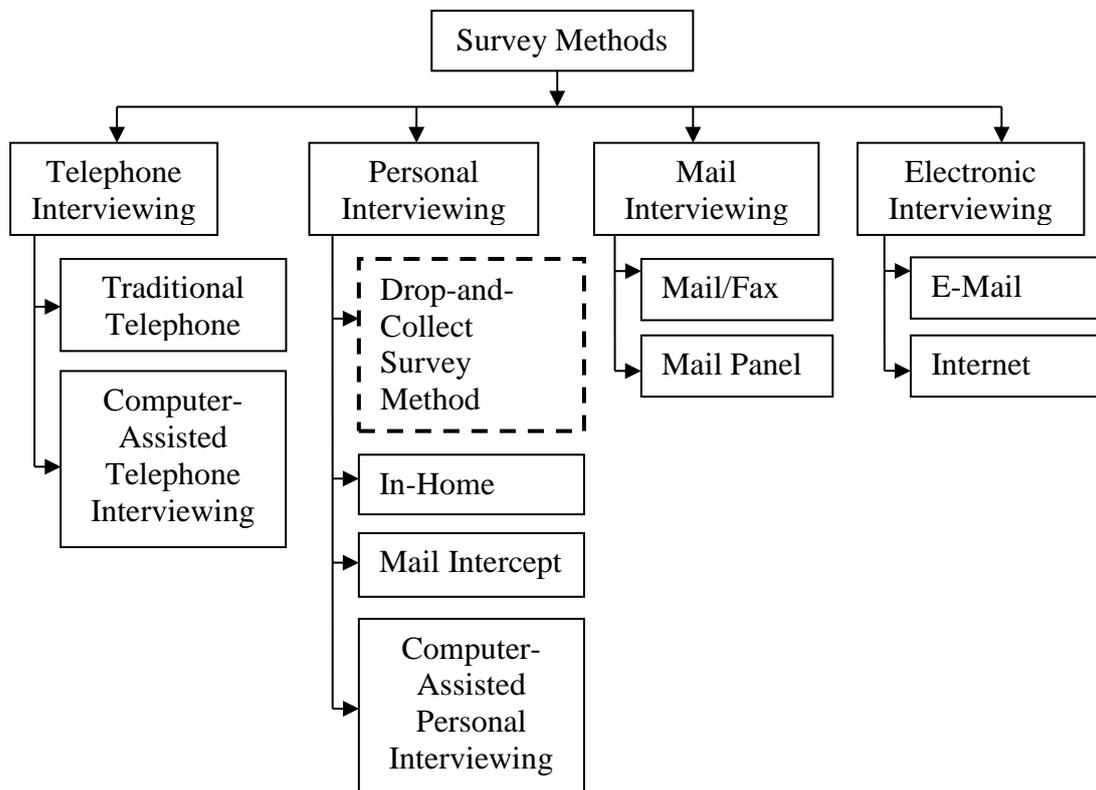
Source: Adapted from Malhotra (2009)

7.5.2 Drop-and-Collect-Survey Method

To collect data, I used drop-and-collect survey method that has many advantages. This survey method has advantages in terms of not only significantly higher response rate among respondents from organisations but also less time-consuming compared to collecting data by using mail questionnaire (Ibeh, Brock, and Zhou 2004; Walker 1976). Brown (1987) discusses the strengths and weaknesses of the drop-and-collect survey method and shows not only how this method is cheap and fast but how it also leads to high response rate on the basis of the results of a simple experiment.

The drop-and-collect survey technique involves the hand delivery and subsequent collection of self-completion questionnaires including hand delivery and postal return, or postal delivery and personal pick-up. This is designed to combine the strengths and to avoid the weaknesses of face-to-face and postal surveys. In particular, it is said that this method has advantages in terms of providing a fast, cheap and reliable research tool. Firstly, the reason why this method is foster is related to the fact that the questionnaire is completed in the respondent's own time not the interviewer's (Brown 1987). For example, Walker (1976) estimates that one agent can deliver approximately 100 questionnaires per working day. Secondly, the reason why respondents comply willingly with the questionnaire is that the drop-and-collect method stems from sufficient psychological pressure on prospective respondents who recognise that someone will be returning for picking up the completed form. For example, Lovelock (1976) reported surprisingly 50-70 per cent of the completed questionnaires were picked up at the agreed time. Thirdly, this method comes at a remarkably low cost. In terms of cost per completed questionnaire, the drop-and-collect method is even cheaper than postal survey that is traditionally considered to be the cheapest survey approach (Brown 1987). Fourthly, the drop-and-collect method is reliable. This results from the absolutely and relatively high rate of response. The high response rate is attributable to the initial personal contact, which provides an opportunity to encourage prospect respondents' participation and to explain the nature of the survey. Although the potential for interviewer bias is always expected, this method is not affected by the characters of interviewers including unskilled individuals such as students (Brown 1987; Chisnall 2004; Lovelock et al. 1976; Walker 1976). Finally, this technique's reliability also comes from the sample selection process. It is possible to ensure that the correct person has been contacted, as this happens in the face-to-face contact. As compared to the postal survey that can provide little insight into the reasons for non-response, the drop-and-collect technique gives deliverers an opportunity to ascertain some of the underlying causes of non-response (Brown 1987). In conclusion, on the basis of many advantages of the drop-and-collect survey method, this method was selected as the survey instrument of the research.

7.6 The Characteristics of Sample

Data were collected by means of a questionnaire based on a survey of buyer and supplier managers. To generalise for potentially confounding industry-specific factors, I collected data in several industries such as factory automation system, electronic components, and automotive manufacturing in South Korea. These industries could be good research samples of research regarding interaction processes between the supplier and the buyer. This is a reason why most manufacturing firms in the heavy equipment products and the IT technological products industries have strong partnerships in their supply chains. In addition to this, they have responded about and coped with sensitively environmental and strategic factors as important factors affecting their performance.

To increase accessibility and to target the key companies in the supply chain, I conducted data collection by approaching the firms that attended the Seoul International Electric Fair 2010, International Factory Automation System Show 2010 and Korea Auto Parts & Auto-Related Industries Show 2010. Each business show that I conducted a survey was not only one of the largest business shows in the main manufacturing companies in each industry, but is also organised by the main association of each industry in South Korea, namely, by Korea Electrical Manufactures Association (KOEMA), Korea Association of Machinery Industry (KOAMI), and Automotive Industry Globalisation Foundation & Korea Trade Investment Promotion Agency (KOTRA). Therefore, it was expected that most key manufacturer firms in these industries would be present at these business exhibitions.

7.6.1 Response Rate

The process of data collection is as follows. First of all, I dropped by all booths or exhibition places of companies. After explaining the aims of this research, I asked representatives of companies, senior managers or managers who have been working for marketing and manufacturing departments to reply to the questionnaire. The total number of firms that exhibited in three business fairs was 910. During the exhibition in September and November, I collected 416 questionnaires. After eliminating of 7

questionnaires that were not completed in too many questions, I could use 409 samples responded reasonably to analyse. Therefore, the final response rate is 44.95%. As we can expect through drop-and-collect-survey method, this is quite high response rate. Particularly, for many researchers in channel research, since around 20 % response rate would be regarded as good (Easterby-Smith, Thorpe, and Jackson 2008), 44.95 % response rate in relationship marketing or channel research would be considered as quite high.

7.6.2 Demographic Characteristics of Informants

As regard to the characteristics of the informants, the number of years that informants have been working for the firms and the size of the firm expressed by the number of employees of the firm are illustrated in Figure 7.6 and Figure 7.7 respectively. Regarding the definition of the size of the firm, there could be several standards based on the size of industry or the size of country. For instance, EU's definition categorizes companies with fewer than 10 employees as "micro", those with fewer than 50 employees as "small", whereas in the USA, small business often refers to those with fewer than 100 employees. South Korea is not a big country but is similar to that of most European countries. Therefore, I developed the scale on the basis of EU's definition about the size of company. As we can see in Figure 6.2, 63.3 % (N=259) of respondents is categorized as small size companies, whereas 18.1 % (N=74) of respondents is the big size companies that have more than 100 employees. In addition, the kinds of products that the firms have manufactured are shown in Table 7.4.

This research does not use a dyadic method. Almost all of the questions focused on the interaction process between the firm as a supplier or a buyer and their specific buyer or supplier. Namely, the informants of this survey were asked to answer with respect to the relationship with "the main buyer or supplier as your important partner of your firm". The informants as purchasing or supply managers can be assumed that they know well who their partners are because they, themselves, are involved in the relationship. As a result, among 409 respondents, 223 (54.5%) informants replied about their relationships

with buyers, whereas 186 (45.5%) informants replied about their relationship with their suppliers.

Table 7.4 The Kinds of Products Manufactured by the Firms

Industry	Products	% (the Number)
Factory Automation and Electric Industry	Metal machineries General machineries Electronic machineries Precision machineries Logistics machineries Others	4.4 % (18) 44.9 % (20) 16.1 % (66) 9.3% (38) 1.7 % (7) 8.8 % (36)
	Sub-Sum	45.2 % (185)
Automotive Industry	Accessories Parts Body parts Brake System Drive, T/M parts Electrical parts Engine parts Interior parts Others	5.1 % (21) 6.1 % (25) 3.2 % (13) 3.9 % (16) 3.7 % (15) 11.5 % (47) 0.5 % (2) 20.8 % (85)
	Sub-Sum	54.8 % (224)
	Total	100 % (409)

Figure 7.6 The Working Years of Informants for their Firms
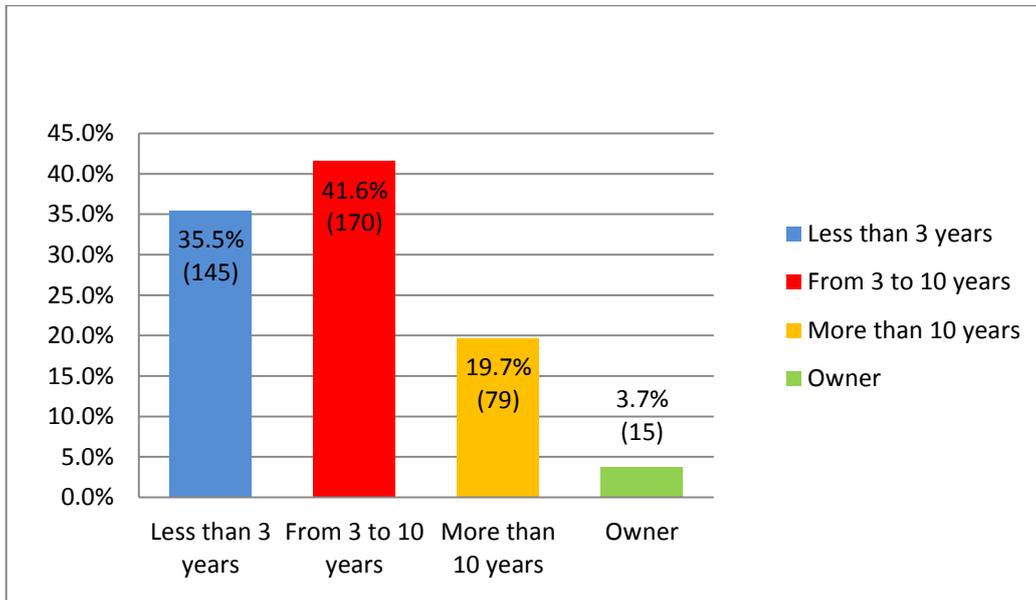
Figure 7.7 The Size of the Firm (The Number of Employees of the Firm)
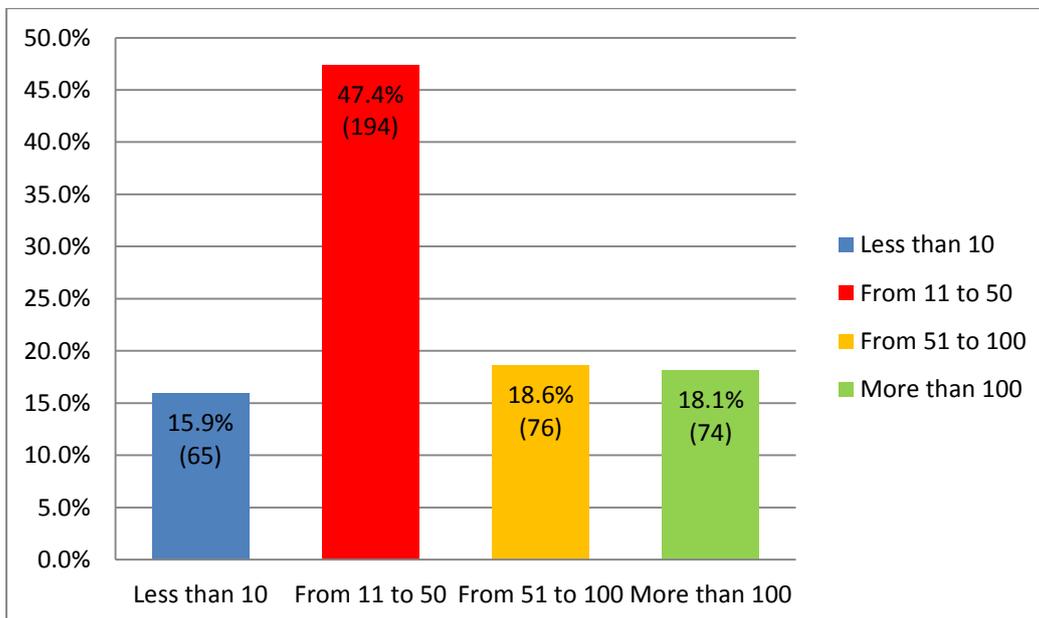
7.7 Analysis Method

The conceptual framework of this research is examined by the research model developed on the basis of hypotheses and the rival models that are unrestricted among observed variables. Firstly, in order to examine the good fit of the hypothesised model that has causal relationships among variables, structural equation modelling (SEM) with MPlus software programme is used. Secondly, in order to access the research model by comparing with the rival models, the direct relationships among variables and suggesting models are examined (Bollen and Long 1992).

7.7.1 Structural Equation Modelling (SEM)

Structural equation modelling (SEM) is:

> "*a statistical methodology that takes a confirmatory (i.e. hypothesis-testing) approach to the analysis of a structural theory bearing on some phenomenon*" (Byrne 2012, p.3).

Structural equation modelling (SEM) is a part of the existing family of multivariate statistical techniques. SEM is a generic tool to provide "a broad, integrative function conveying the synergy and complementarity among many different statistical methods (Bagozzi and Yi 2012, p.10)." Regarding statistical techniques, there are so-called "first generation statistical methods" such as correlations analysis, canonical correlation analysis, exploratory factor analysis, multiple regression and ANOVA and "second generation statistical methods" such as SEMs: confirmatory factor analysis and structural equation models (Bagozzi and Yi 2012, p.10). The characters of structural equation modelling (SEM) are like combining that of factor analysis, canonical correlation and multiple regressions (Tabachnick and Fidell 2007). Similarly factor analysis, some of the variables can be latent, whereas others are directly observed. Similarly canonical correlation, there can be many independent and dependent variables (Tabachnick and Fidell 2007). Additionally, from the point of view that the research goal may be to prove the relationship among many variables, structural equation modelling can be the comparison with multiple regressions (Tabachnick and Fidell

2007). Lacobucci, Saldanha, and Deng (2007) discuss the evidence about why SEM perform is better than regressions.

> "The structural model describes three types of relationships in one set of multivariate regression equations: the relationships among factors, the relationships among observed variables, and the relationship between factors and observed variables that are not factor indicator (Muthén and Muthén 2010 p.52)."

Therefore, *Structural Equation Modelling* (SEM) has a number of attractive features. According to Bagozzi and Yi (2012, p.12), "SEM use provides integrative function, helps researchers to be more precise in their specification of hypotheses and operationalization of constructs and takes into account reliability of measures in tests of hypotheses in ways going beyond the averaging of multi-measures of constructs." Moreover, they recommend that "SEM is useful in experimental or survey research, cross-sectional or longitudinal studies, measurement or hypothesis testing endeavors, within or across groups and institutional or cultural contexts." (Bagozzi and Yi 2012, p.12)

Additionally, the framework analysed in structural equation modelling (SEM) involves two conceptually distinct models such as a measurement model and a linear structural equation model. A measurement model that relates observed variables to unmeasured constructs is estimated, whereas a linear structural equation model that related latent variables to each other is specified (Muthén and Muthén 2010).

Furthermore, structural equation modelling has some advantages in comparison with the older generation of multivariate procedures. First, it takes a confirmatory, rather than exploratory approach, to analyse the data, in particular, for inferential purposes whereas most other multivariate procedures are essentially descriptive by nature (Byrne 2012). Second, SEM provides explicit estimates of these error variance parameters whereas most other multivariate methods such as those rooted in regression or general linear model are tantamount to ignoring error when there is error in the explanatory variables,

ultimately, to serious inaccuracies. Third, in SEM, we can incorporate both unobserved (i.e., latent) and observed variables. Finally, by SEM, modelling multivariate relations or estimating point and interval indirect effects can be analysed (Byrne 2012).

Based on these advantages, *Structural Equation Modelling* (SEM) has become a popular methodology for nonexperimental research where methods for testing theories are not well developed and ethical considerations make experimental design unfeasible (Bentler 1993). SEM can be utilized very effectively to address numerous research problems involving nonexperimental research. In conclusion, Table 7.5 shows the summarized characteristics of SEM.

Table 7.5 The Characteristics of SEM

Method	Characteristics
Structural Equation Modelling (SEM)	▪ The causal processes under the study are represented by a series of structural regression equations ▪ This method is used to examine for adequacy of the model, testing theory, or parameter estimates ▪ Because SEM is based on covariance, parameter estimates and chi-square tests of fit are very sensitive to sample size and large sample is usually requested ▪ Software programmes: MPlus, LISREL, AMOS, EQS, GeSCA, SmartPLS, PLS-Graph and so on

7.8 Measurements

7.8.1 Scale Properties: Likert Scales

Likert scales have been widely used in survey research since this had been developed in 1930s by Rensis Likert (Neuman 2006). He developed a five-point response scale to provide an ordinal-level measure of a person's attitude. The scale often used in survey research in which people express attitudes or other responses in terms of ordinal-level categories that are ranked along a continuum (Neuman 2006). Likert scales need a

minimum of two categories such as "agree" and "disagree". Although they can be debated about whether to offer a neutral category that implies an odd number of categories (Malhotra and Birks 2007), the scale has very often a neutral mid-point to allow for the possibility that an informant may have no opinion on an issue or have opinion against extreme view (Easterby-Smith, Thorpe, and Jackson 2008). Likert scales have been held to have several benefits that can reduce non-optimal responses. One of their crucial benefits is that they are easy to comprehend (Malhotra and Birks 2007).

7.8.2 Measurements

All variables of the hypothesised model in this study are measured by five-point Likert-type scales (ranging from 1=strongly disagree to 5=strongly agree), while the respondents' demographic information is collected by categorical scales.

For modelling the multi-item scales, established measurement items from prior studies were used whenever possible. Some scales had to be developed from the extant literature to meet the research question. For example, there were not existing measurements for constructs related to relationship value such as economic value, operational value, strategic value and behaviour value. Therefore, they had to be developed based on the definitions from prior studies and theories to examine this research model.

In following subsections from 7.8.2.1 to 7.8.2.3, references of each concept will be introduced and the measurement items of each construct shows in more detail in Table 7.6.

Table 7.6 The Measurements and Their Source

Constructs			Source
Complexity			Kabadayi et al. 2007; Homburg, Workman & Krohmer 1999; Achrol & Stern 1988
1	CP1	There are a number of products or brands sold in our market	
2	CP2	There are a number of different customer segments in our market	
3	CP3	Customer requirements vary very much across different customer segments	
4	CP4	There are a number of companies competing in our market	
Dynamism: Frequency of Change			Kabadayi et al. 2007; Homburg, Workman & Krohmer 1999; Achrol & Stern 1988
5	FC1	There are frequent changes in products offered by our firm and our competitors	
6	FC1	There are frequent changes in sales strategies by our firm and our competitors	
7	FC3	There are frequent changes in customer preferences about product features	
8	FC4	There are frequent changes in competitive strategies and competitive intensity	
Dynamism: Unpredictability of Change			Kabadayi et al. 2007; Homburg, Workman & Krohmer 1999; Achrol & Stern 1988
9	UC1	Changes in products offered by our firm and our competitors are predictable	
10	UC2	Changes in sales strategies by our firm and our competitors are predictable	
11	UC3	Changes in customer preferences about product features are predictable	
12	UC4	Changes in competitive strategies and competitive intensity are predictable	
Munificence			Kabadayi et al. 2007; Kumar, Stern & Achrol 1992; Achrol & Stern 1988
13	M1	The demand for our product in our current market is strong and growing	
14	M2	There is a potential for high sales growth in our market	
15	M3	There is an abundance of resources (i.e. Financial, Supplies, Human resources, etc.) in our market to firms to support growth potential	
16	M4	There is no shortage of necessary resources in our market	

			Kabadayi et al. 2007; Homburg, Workman & Krohmer 1999; Kim & Lim 1988; Dess & Davis 1984
Differentiation			
17	D1	Our strategies focus on producing high-quality products	
18	D2	Our strategies focus on creating superior customer value through service quality	
19	D3	Our strategies focus on developing innovative marketing techniques	
20	D4	Our strategies focus on developing innovative products	
Cost Leadership			Kabadayi et al. 2007; Homburg, Workman & Krohmer 1999; Kim & Lim 1988; Dess & Davis 1984
21	CL1	Our strategies focus on pricing at or below competitive price levels	
22	CL2	Our strategies focus on controlling overhead and variable costs tightly	
23	CL3	Our strategies focus on pursuing economies of scale	
24	CL4	Our strategies focus on emphasizing low cost per unit	
Centralisation			Jaworski & Kohli 1993; Dwyer & Welsh 1985; Vorhies & Morgan 2003
25	CT1	Even small matters have to be referred to us for a final decision	
26	CT2	Any decision this partner makes regarding our product has to have our approval	
27	CT3	This partner cannot go ahead with actions without checking with us	
28	CT4	Even small matters have to be referred to this partner for a final decision	
29	CT5	Any decision we make regarding our product has to have this partner's approval	
30	CT6	We cannot go ahead with actions without checking with this partner	
Formalisation			Jaworski & Kohli 1993; Dwyer & Welsh 1985; Heide 2003; Vorhies & Morgan 2003
31	F1	We (this partner and my firm) follow written work rules for our job	
32	F2	There are standard procedures and rules to be followed by us (this partner and my firm)	
33	F3	We (this partner and my firm) have to conform to written rules and formal guidelines	

34	F4	The contacts with this partner are on a formal, preplanned basis
Joint Action		Heide & John 1992
35	JA1	We work jointly with this partner on all product modification issues that may affect this partner
36	JA2	We work jointly with this partner on all cost-cutting issues that may affect this partner
37	JA3	Our long range plans are formed jointly with this partner
38	JA4	We work jointly with this partner in training people in both companies
Information Exchange		Cannon & Perreault Jr. 1999; Heide & John 1992; Jap & Ganesan 2000
39	IE1	Proprietary information is shared with each other
40	IE2	In this relationship, it is expected that any information that might help the other party will be provided to them
41	IE3	It is expected that we keep each other informed about events or changes that may affect the other party
42	IE4	It is expected that the party will provide proprietary information if it can help the other party
Trust		Ganesan 1994
43	T1	This partner has been frank in dealing with us
44	T2	Promises made by this partner are reliable
45	T3	This partner has made sacrifices for us in the past
46	T4	This partner cares for us
47	T5	We feel this partner has been on our side
Commitment		Kim & Frazier 1997
48	C1	We devote more time to this partner when it needs help
49	C2	We provide special aid to this partner when it is in trouble
50	C3	A high sense of unity exists between this partner and us

51	C4	We have developed a close business relationship with this partner
52	C5	We expect the business relationship with this partner to last for a long time

Economic Value		Developed in this research
53	EV1	The relationship with this partner contributes towards a task or work
54	EV2	The relationship with this partner contributes to exchange value
55	EV3	Through the relationship with this partner, we and this partner can reduce cost of interaction
56	EV4	Through the relationship with this partner, we and this partner can save time
57	EV5	Through the relationship with this partner, we and this partner try to reduce future time requirements

Operational Value		Developed in this research
58	OV1	We and this partner make fast decisions
59	OV2	Our operations focus on decision making
60	OV3	We and this partner try to make decisions on time
61	OV4	We and this partner address difficult problems well

Strategic Value		Developed in this research
62	SV1	The relationships with this partner help us to develop new core competencies
63	SV2	The relationships with this partner help us to explore strategic opportunities
64	SV3	The relationships with this partner help to enhance our strategic competitive advantage
65	SV4	The relationships with this partner help us to adapt in changing market condition

Behaviour Value		Developed in this research
66	BV1	We have mutual respect
67	BV2	We have confidence to each other

68	BV3	We try to seek the other party's opinion
69	BV4	We enjoy dialogue with each other
70	BV5	We follow a win-win approach
Overall Performance		Jaworski & Kohli 1993; Olson, Slater & Hult 2005; Jap 1999
71	OP1	This partner has contributed to my firm's sales growth
72	OP2	This partner has contributed to my firm's revenue growth
73	OP3	Overall, the results of the relationship with this partner have contributed to my firm's technical development
74	OP4	Overall, the results of the relationship with this partner have exceeded my firm's expectations
75	OP5	The overall performance of my firm met expectations last year
76	OP6	The overall performance of my firm last year exceeded that of our major competitors
77	OP7	The overall performance of my firm last year was very satisfactory level

Demographic Information	Partner	Selection their important partner among buyers and suppliers
	Working Year	The working years of informants for their firms
	Firm Size	The size of the firm
	Products	The kinds of products manufactured by the firms
	Sales	The average sales of the firm for the past 3 years

7.8.2.1 Environmental and Strategy Characteristics

First of all, concepts that have established measurements are as follows. Regarding environment concepts such as complexity (4 items), frequency of change (4 items), predictability of change (4 items), and munificence (3 items), I adopted 15 measurement items from Achrol and Stern (1988), Homburg, Workman, and Krohmer (1999), Kabadayi, Eyuboglu, and Thomas (2007) and Kumar, Stern and Achrol (1992). In terms

of the measurement items of strategies variables such as differentiation (3 items) and cost leadership (4 items), I adopted them from Dess and Davis (1984), Homburg, Workman, and Krohmer (1999), Kabadayi, Eyuboglu, and Thomas (2007) and Kim and Lim (1988).

7.8.2.2 Interaction Process characteristics

To measure structural characteristics of interaction process, I used extant three items for centralisation and four items for formalisation from Dwyer and Welsh (1985), Jaworski and Kohli (1993) and Vorhies and Morgan (2003). In terms of functional characteristics, I adapted 4 instruments for joint action from Heide and John (1992), whereas I used 4 items for information exchange from Cannon and Perreault Jr. (1999), and Jap and Ganesan (2000). To examine climate characteristics, I measured trust with 5 items from Ganesan (1994) and chose 5 items for commitment from Kim and Frazier (1997).

7.8.2.3 Developing of Relationship Value Measurements

As I already discussed relationship value in Chapter 5, the variables of relationship value are measured as a second order factor by economic value, operational value, strategic value and behaviour value. This means that relationship value was not measured with measurement items. Four kinds of value that relationship value consists of are measured, instead. As it is discussed in chapter 5, there is not an empirical study to examine economic value, operational value, strategic value and behaviour value with measurement items, although some researchers stress the importance of empirical study and development of value constructs (Gassenheimer, Houston, and David 1998; Wilson and Jantrania 1994). Therefore, In order to develop the measurement items of relationship value, I conducted data collection in two stages. At the first stage as a pilot test, I developed 18 items based on literature (see Table 7.7) and then I collected 185 data by survey methods with questionnaire from the factory automation industry.

Table 7.7 Measurements for Four Kinds of Relationship Value

Economic Value			Developed in this research
1	EV1		The relationship with this partner contributes towards a task or work
2	EV2		The relationship with this partner contributes to exchange value
3	EV3		Through the relationship with this partner, we and this partner can reduce cost of interaction
4	EV4		Through the relationship with this partner, we and this partner can save time
5	EV5		Through the relationship with this partner, we and this partner try to reduce future time requirements
Operational Value			Developed in this research
6	OV1		We and this partner make fast decisions
7	OV2		Our operations focus on decision making
8	OV3		We and this partner try to make decisions on time
9	OV4		We and this partner address difficult problems well
Strategic Value			Developed in this research
10	SV1		The relationships with this partner help us to develop new core competencies
11	SV2		The relationships with this partner help us to explore strategic opportunities
12	SV3		The relationships with this partner help to enhance our strategic competitive advantage
13	SV4		The relationships with this partner help us to adapt in changing market condition
Behaviour Value			Developed in this research
14	BV1		We have mutual respect
15	BV2		We have confidence to each other
16	BV3		We try to seek the other party's opinion
17	BV4		We enjoy dialogue with each other
18	BV5		We follow a win-win approach

Frist of all, I conducted correlation analysis in order to examine multicollinearity among variables. As we can see a correlation matrix in Table 7.8, this does not have multicollinearity problem because all correlations are much less than .90. Next, to find out proper items to measure variables, I conducted reliability analysis and exploratory factor analysis (EFA). As we can see in Table 7.9, the results of reliability analysis are significant as over .835. Additionally, exploratory factor analysis (EFA) with Kaiser's criterion (Hair et al. 2006), that is known as the eigenvalue rule, and varimax rotation resulted in a four factor solution with the items showing clean ladings (over .660) on their respective constructs. Therefore, all items comprising a particular construct are expected to load onto their related factor (Byrne 2012).

Table 7.8 Correlations of Four Kinds of Relationship Value (Pilot Test)

	M	SD	Economic Value					Operational Value				Strategic Value				Behaviour Value				
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1	3.86	.76	1																	
2	3.88	.73	.822*	1																
3	3.64	.76	.641*	.665*	1															
4	3.60	.79	.575*	.625*	.784*	1														
5	3.59	.78	.543*	.610*	.635*	.771*	1													
6	3.34	.82	.332*	.376*	.441 *	.421*	.444*	1												
7	3.47	.85	.491*	.530*	.534*	.487*	.567*	.485*	1											
8	3.55	.84	.432*	.483*	.434*	.442*	.491*	.472*	.671*	1										
9	3.48	.80	.374*	.482*	.572*	.556*	.556*	.563*	.577*	.589*	1									
10	3.26	.83	.364*	.420*	.439*	.333*	.337*	.384*	.313*	.444*	.421*	1								
11	3.34	.85	.378*	.449*	.441*	.381*	.441*	.355*	.422*	.348*	.392*	.696*	1							
12	3.43	.84	.455*	.449*	.460*	.420*	.452*	.360*	.470*	.309*	.288*	.500*	.632*	1						
13	3.47	.80	.373*	.491*	.446*	.442*	.449*	.443*	.430*	.424*	.505*	.561*	.608*	.581*	1					
14	3.74	.81	.452*	.518*	.557*	.490*	.475*	.459*	.525*	.444*	.504*	.427*	.372*	.485*	.468*	1				
15	3.72	.80	.437*	.504*	.528*	.519*	.487*	.429*	.541*	.437*	.537*	.362*	.413*	.491*	.492*	.803*	1			
16	3.68	.78	.427*	.458*	.549*	.468*	.530*	.468*	.518*	.433*	.546*	.354*	.475*	.505*	.509*	.668*	.728*	1		
17	3.51	.87	.461*	.497*	.539*	.417*	.502*	.393*	.491*	.336*	.434*	.460*	.501*	.537*	.531*	.652*	.648*	.670*	1	
18	3.81	.81	.467*	.469*	.475*	.415*	.467*	.347*	.583*	.440*	.441*	.347*	.365*	.429*	.439*	.606*	.643*	.609*	.599*	1

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Table 7.9 The Results of Reliability and EFA of Relationship Value

Constructs	Items	Reliability (α)	Component* (Boldface indicates the four factors derived)			
			1	2	3	4
Economic Value	Item 1	.907	**.816**	.087	.211	.233
	Item 2		**.788**	.193	.268	.243
	Item 3		**.704**	.287	.227	.318
	Item 4		**.748**	.343	.134	.220
	Item 5		**.661**	.393	.162	.269
Operational Value	Item 6	.835	.134	**.680**	.250	.236
	Item 7		.355	**.584**	.151	.396
	Item 8		.268	**.754**	.185	.166
	Item 9		.277	**.742**	.170	.283
Strategic Value	Item 10	.855	.153	.272	**.799**	.111
	Item 11		.205	.167	**.835**	.191
	Item 12		.298	.023	**.661**	.390
	Item 13		.192	.314	**.660**	.304
Behaviour Value	Item 14	.907	.257	.267	.191	**.765**
	Item 15		.242	.268	.174	**.807**
	Item 16		.217	.294	.242	**.741**
	Item 17		.264	.102	.383	**.707**
	Item 18		.263	.235	.147	**.710**

In addition to this, regarding the assessment of validity, I estimated confirmatory factor analysis (CFA) models in which each pair of factor correlations is constrained to unity. Confirmatory factor analysis (CFA) can test for measures' validity given the sample data. To do this, I subjected the entire item set to confirmatory factor analysis (CFA), using LISREL 8.72. The scales of measuring items are considered to represent the factors. The model fits in LISREL software programme can be evaluated using a series of indexes such as goodness-of-fit index (GFI), a comparative fit index (CFI), and the root mean square error of approximation (RMSEA) (Gerbing and Anderson 1992). The critical values for acceptable fit and all indexes expressing model fit of the measurement model are shown in Table 7.10.

Table 7.10 The CFA Result of Relationship Value Measurement Model

The Indices of the Model Fits	Standard of Sig.	The Measurement Model
Chi-Square (x^2)		x^2 =147.54 (df=118, P<0.05)
Root Mean Square Error of Approximation (RMSEA)	≤.06	0.05
Comparative Fit Index (CFI)	>.95	0.99
Root Mean Square Residual (RMR)	<.08	0.033
Goodness of Fit Index (GFI)	>.90	0.92
Adjusted Goodness of Fit Index (AGFI)	>.90	0.89

On the basis of suggesting a satisfactory fit across the models tested, all indexes expressing model fit of the measurement model except for AGFI met or exceeded the critical values for acceptable fit (x^2 =147.54 (df=118, P<0.05), GFI=.92, CFI=.99 RMSEA= .05, RMR=.022, SMRM=.0033). Although AGFI, which expresses always less value than GFI because this is adjusted value, shows a little less than standard significant value, as most indexes of the measurement model express model fit, these relationship value measurements were regarded as valid for use in the analysis of the hypothesised model.

On the basis of these results, I adopted these items for the further research in the second stage: 5 items for economic value, 4 items for operational value, 4 items for strategic value and 5 items for behavioural value.

7.8.2.4 Overall Performance of the Firm

Finally, I measured overall performance with 7 items by adapting the instruments of Jap (1999), Jaworski and Kohli (1993) and Olson, Slater and Hult (2005). The measurement items of each construct are shown in Table 7.6. The questionnaires used were initially prepared and piloted in the UK in English and then translated into Korean, tested in

South Korea, amended accordingly and then back translated into English by myself as a bilingual independent researcher. I distributed the Korean translated questionnaires to guarantee similar meaning of questions.

Chapter 8. Data Analysis and Discussion

8. Analysis and Discussion

8.1 Introduction

The aim of this chapter is the analysis of the survey data and the discussion of the fit of the hypothesised model through a detailed presentation of the statistical analysis applied to the survey data. Additionally, through the analysis of submodels, this chapter supports the understanding of causal relationships among constructs within the conceptualised framework.

To achieve the above goals, this chapter has five main sections. The first section revolves around the issue of data screening (Section 8.2). In the early stage of data analysis, it begins with the examination of the problems of outliers, normality and multicollinearity in the data. Additionally, in order to demonstrate that the sample is not compromised due to many types of respondents such as firm size or different industries, the mean scores for key variables based on the characteristics of IPC are presented. Through the results of ANOVA, we can determine how heterogeneous the sample is. Subsequently, common method bias (Section 8.3) is checked on the basis of preventive measures in research design and stages of statistical analysis. After completion of data screening, the detailed procedures undertaken to purify the measurement scales are illustrated. This procedure comprises a series of statistical tests including exploratory and confirmatory factor analysis, which aim at checking the reliability and validity of the measures such as convergent and discriminant validity (Section 8.4). Following this, the main research model is examined for testing hypotheses H_1 to H_{10} and the results are discussed (Section 8.5). As discussed in Chapter 7, the hypothesised model is tested on the basis of structural equation modelling. Therefore, the effects of environmental and business strategy on interaction process characteristics (H_1-H_4 and H_5-H_6), the effects of interaction process characteristics on relationship value (H_7-H_9) and the causal relationships between relationship value and overall performance (H_{10}) are tested by a series of structural regression equations. Finally, compared with the hypothesised model, submodels are tested to advance more the understanding of the relationships among interaction process characteristics and their antecedents and consequences (Section 8.6).

This chapter can be expected to achieve understanding about how data screening was conducted as well as how fit for purpose the hypothesised model is.This understanding is reached through a discussion of the results of the analysis regarding the hypotheses of this research. In additiona to this, the results of the analysis related to submodels will enable a better understanding of the phenomena in the industry by filling in the gap between the analyses results of the hypothesised model and pertinent studies.

8.2 Data Screening

Before starting to analyse the data, it is essential to check and screen the data set for outliers, multivariate normality, and multicollinearity, all of which are prerequisites for subsequent multivariate data analysis (Hair, Tatham, and Anderson 2006; Tabachnick and Fidell 2007). Therefore, detecting outliers (section 8.2.1), multivariate normality (section 8.2.2), and multicollinearity and the heterogeneous examination of within many types of respondents (section 8.2.3) will be presented.

8.2.1 Detecting Outliers

An outlier is defined as "a case with such an extreme value on one variable or such a strange combination of scores on two or more variables that distorts statistics." (Tabachnick and Fidell 2007, p.72). According to Hair, Tatham and Anderson (2006), outliers can arise from procedural errors or they can be the result of an extraordinary event, which accounts for the uniqueness of the observation. Regarding outliers, it is also necessarily considered that outliers can also comprise extraordinary observations for which the researcher has no explanation or they can consist of observations, which are unique in their combination of values across the variables. Therefore, the decision should be made on the retention or exclusion of each case based on their characteristics and the objectives of the analysis (Hair, Tatham, and Anderson 2006).

The first step in detecting outliers was to identify straight-lining responses. Low-quality respondents with a lack of conscientiousness provide poor quality responses. Therefore, these cases were considered as outliers that should be removed from the dataset. Since

this procedure resulted in identifying 7 cases, these cases were deleted from the dataset. The second step in identifying outliers was to be related to interpretation of descriptive such as '*the Boxplot*' and the value of '*5% Trimmed Mean*' in SPSS 18.0. In SPSS, cases are shown as outliers when they extend more than 1.5 box-lengths from the edge of the box. An extreme outlier was not appread in the Boxplot. In addition, I also checked the value of *5% Trimmed Mean* which is an indication of how much of a problem outlying cases are likely to be. No singular construct showed a difference between the trimmed mean and mean values. Therefore, I could use 409 data sets for the examination of the models.

8.2.2 Multivariate Normality

In the early stage of data analysis, screening continuous variables for normality is important. Although normality of the variable is not always required for analysis, the result of the model fit can be usually quite better if variables are all normally distributed (Tabachnick and Fidell 2007). There are several kinds of methods to assess normality. Normality of variables can be assessed by either statistical or graphical methods. Tabachnick and Fidell (2007) recommend inspecting the shape of the distribution by using histograms with a large sample. Generally speaking, with grouped data, we can assess normality as skewness and kurtosis. Skewness has to do with the symmetry of the distribution, while kurtosis has to do with the peakedness of a distribution. When a distribution is normal, the values of skewness and kurtosis are zero because both skewness and kurtosis test the obtained value against null hypotheses of zero (Tabachnick and Fidell 2007). On the other hand, with ungrouped data, we can screen the residuals as an alternative to screening variables, after analysing. If normality is present, the residuals are normally and independently distributed. In regression, if the shape of the residuals plot looks normal, the individual variables are not needed to screen for normality (Tabachnick and Fidell 2007).

I assessed the normality of the sample data with SPSS 18.0. In fact, many scales and measures used in the social sciences have scores that are skewed because they reflect

the underlying nature of the construct being measured (Pallant 2010). For instance, Pallant (2010) argues that university life satisfaction measures in the general population are often negatively skewed with most students being reasonably happy in their campus life. Additionally, according to Waternaux (1976), with reasonably large samples, skewness (with samples of 100 or more) will not make a substantive difference in the analysis and kurtosis (with samples of 200 or more) can result in an underestimation of variance. In conclusion, the variables of this research with 409 samples could be analysed without any significant problem in terms of normality.

8.2.3 Multicollinearity

The term *Multicollinearity* has introduced by Ragnar Frisch (1934). Originally, it meant the existence of a perfect linear relationship among some or all explanatory variables of a regression model. Strictly speaking, collinearity refers to "the existence of a single linear relationship", whereas multicollinearity is defined as "the existence of more than one exact linear relationship" (Gujarati 2003, p.342). Today, multicollinearity is considered as the occurrence of problems with a correlation matrix when variables are too highly correlated. As multicollinearity causes both logical and statistical problems such as highly correlation among variables, in order to solve logical problems, we can omit one of the variables when multicollinearity happens. Regarding the determinant of multicollinearity, scholars suggest a slightly different determinant. For example, Tabachnick and Fidell (2007) say .90 and above is very highly correlated, whereas Gujarati (2003) say less than .95 does not indicate multicollinearity problems. As it seems to depend on the research subject, researchers are likely to judge multicollinearity determinant in light of their research subject.

To examine multicollinearity among variables, I conducted correlation analysis. As a correlation matrix in Table 8.1, this shows that the sample does not have multicollinearity problem because all correlations are below .70 (much less than .90 that is a multicollinearity deteminant suggested by Tabachnick and Fidell (2007)). Therefore, this data can be used to analyse the hypothesised model.

Table 8.1 Descriptive Statistics and Correlations

	M	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1	3.78	.70	1																
2	3.20	.81	.422*	1															
3	3.26	.75	-.059	-.116*	1														
4	3.41	.67	.076	.125*	.149*	1													
5	3.78	.72	.135*	.177*	.168*	.297*	1												
6	3.28	.73	.120*	.136*	.129*	.100*	.075	1											
7	3.27	.70	.099*	.144*	.241*	.263*	.280*	.216*	1										
8	3.58	.83	.133*	.202*	.038	.204*	.295*	.230*	.475*	1									
9	3.47	.74	.156*	.173*	.031	.291*	.338*	.214*	.446*	.537*	1								
10	3.58	.81	.114*	.151*	.009	.264*	.296*	.102*	.388*	.410*	.539*	1							
11	3.51	.71	.119*	.101*	.070	.278*	.292*	.136*	.384*	.408*	.562*	.679*	1						
12	3.72	.66	.097*	.044	.044	.310*	.311*	.087	.387*	.450*	.554*	.651*	.677*	1					
13	3.75	.61	.019	.045	.116*	.295*	.258*	.086	.399*	.338*	.451*	.577*	.618*	.661*	1				
14	3.54	.64	.073	.038	.132*	.294*	.282*	.069	.396*	.349*	.445*	.487*	.587*	.586*	.619*	1			
15	3.49	.69	.113*	.129*	.115*	.302*	.277*	.158*	.413*	.427*	.523*	.580*	.597*	.592*	.576*	.586*	1		
16	3.77	.68	.020	.044	.072	.301*	.296*	.084	.417*	.400*	.478*	.622*	.683*	.662*	.645*	.663*	.676*	1	
17	3.50	.68	.064	.083	.104*	.314*	.238*	.085	.290*	.355*	.385*	.502*	.560*	.553*	.582*	.521*	.603*	.608*	1

*. Correlation is significant at the 0.05 level (2-tailed)

<Note>

1: Complexity	10: Information Exchange
2: Frequency of Change	11: Trust
3: Unpredictability of Change	12: Commitment
4: Munificence	13: Economic Value
5: Differentiation	14: Operational Value
6: Cost Leadership	15: Strategic Value
7: Centralisation	16: Behaviour Value
8: Formalisation	17: Overall Performance
9: Joint Action	

Additionally, two-way ANOVA was conducted in order to demonstrate that the sample is not compromised due to many types of respondents. Here, firm size and the industry are considered as the types of respondents. Firm size is classified as large, medium and small, while the type of the industry is categorised as either the IT automation or the automotive industry. As I described in section 7.6.2 (see p.172), the firm size is decided based on the E.U. company categorisation. A firm with fewer than 50 employees is categorised as "small", while the large size companies are categorised when they have more than 100 employees. A medium size firm is categorised between two categories. Respondents were divided into two groups according to their industry (Group 1: The IT automotive industry; Group 2: The automotive industry). Table 8.2.1 presents mean and standard deviation of groups based on the industry and firm size. Table 8.2.2 shows result of two-way ANOVA. As we can see Table 8.2.2, the interactive effects of the industry and firm size on each characteristic of IPC, four types of relationship value and firm performance as dependent vairables were not statistically significant. $F_{(2, 403)} = 1.018$, $p = .362$ (Centrailisation), $F_{(2, 403)} = .788$, $p = .460$ (Formalisation), $F_{(2, 403)} = .280$, $p = .756$ (Information exchange), $F_{(2, 403)} = .298$, $p = .742$ (Trust), $F_{(2, 403)} = .125$, $p = .883$ (Commitment), $F_{(2, 403)} = .677$, $p = .509$ (Economic value), $F_{(2, 403)} = .545$, $p = .580$ (Operational value), $F_{(2, 403)} = .720$, $p = .487$ (Strategic value), $F_{(2, 403)} = .730$, $p = .482$ (Behaviour value), $F_{(2, 403)} = .572$, $p = .565$ (Firm Performance). In conclusion, the mean score for key variables based on the characteristics of IPC, four types of relationship value and firm performance shows that the sample is not particularly heterogeneous.

Table 8.2.1 Descriptive Statistics (Industry and Firm Size)

			Centralisation		Formalisation		Joint Action		InfoExchange		Trust		Commitment		EV		OV		SV		BV		Performance	
		N	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
A	1	111	3.37	0.77	3.31	0.99	3.40	0.81	3.53	0.88	3.44	0.73	3.64	0.71	3.74	0.67	3.49	0.71	3.34	0.74	3.73	0.70	3.54	0.66
	2	36	3.23	0.86	3.37	1.01	3.36	0.80	3.66	0.80	3.39	0.70	3.78	0.73	3.71	0.66	3.46	0.56	3.51	0.62	3.79	0.72	3.64	0.65
	3	38	3.44	0.66	3.72	0.74	3.37	0.63	3.28	0.88	3.27	0.82	3.49	0.73	3.64	0.64	3.36	0.71	3.36	0.64	3.49	0.68	3.52	0.59
	Total	185	3.36	0.77	3.41	0.96	3.39	0.77	3.50	0.87	3.40	0.75	3.64	0.72	3.71	0.66	3.46	0.68	3.38	0.70	3.69	0.70	3.55	0.64
B	1	148	3.29	0.68	3.64	0.76	3.44	0.71	3.63	0.77	3.61	0.68	3.78	0.58	3.78	0.58	3.59	0.61	3.52	0.69	3.83	0.66	3.67	0.59
	2	40	3.40	0.68	3.91	0.70	3.86	0.72	3.91	0.74	3.66	0.78	3.99	0.76	3.92	0.61	3.74	0.67	3.88	0.66	4.11	0.77	3.87	0.64
	3	36	3.50	0.52	3.92	0.61	3.65	0.66	3.47	0.66	3.56	0.57	3.62	0.51	3.63	0.49	3.50	0.56	3.47	0.60	3.63	0.48	3.54	0.46
	Total	224	3.34	0.66	3.73	0.74	3.54	0.72	3.65	0.76	3.61	0.68	3.79	0.61	3.78	0.58	3.60	0.62	3.58	0.68	3.85	0.67	3.68	0.58
Total	1	259	3.32	0.72	3.50	0.88	3.42	0.75	3.58	0.82	3.54	0.71	3.72	0.64	3.76	0.62	3.55	0.66	3.44	0.72	3.78	0.68	3.61	0.62
	2	76	3.32	0.77	3.65	0.90	3.62	0.79	3.79	0.77	3.53	0.75	3.89	0.75	3.82	0.64	3.61	0.63	3.70	0.66	3.96	0.76	3.76	0.65
	3	74	3.47	0.59	3.82	0.68	3.50	0.65	3.38	0.78	3.41	0.72	3.55	0.63	3.63	0.57	3.43	0.64	3.41	0.62	3.56	0.59	3.53	0.53
	Total	409	3.35	0.71	3.58	0.86	3.47	0.75	3.58	0.81	3.51	0.72	3.72	0.67	3.75	0.62	3.54	0.65	3.49	0.70	3.78	0.69	3.62	0.61

<Note> Dependent variables: Key characteristics of IPC, 4 types of relationship value and firm performance

A: The IT automation industry

B: The automation industry

1: Smail size firm

2: Mediun size firm

3: Large size firm

Table 8.2.2 Results of ANOVA (Homogeneous of the Sample)

Source	1 F	1 Sig.	2 F	2 Sig.	3 F	3 Sig.	4 F	4 Sig.	5 F	5 Sig.	6 F	6 Sig.	7 F	7 Sig.	8 F	8 Sig.	9 F	9 Sig.	10 F	10 Sig.	11 F	11 Sig.
Industry	.329	.567	13.289	.000	9.795	.002	3.625	.058	8.447	.004	4.205	.041	1.168	.280	5.267	.022	7.380	.007	5.509	.019	3.189	.075
Size	1.184	.307	5.276	.005	2.060	.129	4.771	.009	.774	.462	4.746	.009	1.777	.170	1.315	.270	4.775	.009	6.202	.002	2.780	.063
Industry * Size	1.018	.362	.778	.460	3.106	.046	.280	.756	.298	.742	.125	.883	.677	.509	.545	.580	.720	.487	.730	.482	.572	.565

<Note> Dependent vairables:

1. Centralisation	4. Information exchange	7. Ecomomic value
2. Formalistaion	5. Trust	8. Operational value
3. Joint action	6. Commitment	9. Strategic value
		10. Behaviour value
		11. Performance

8.3 Common Method Bias

When self-reported questionnaires are used to collect data at the same time from the same participants, common method variance (CMV) may be a concern (Chang, Witteloostuijn, and Eden 2010). Common method variance is "variance that is attributable to the measurement method rather than to the constructs the measure represent" (Podsakoff et al. 2003, p. 879).

Regarding common method variance (CMV), there is a wide range of views amongst scholars. Some such as Campbell (1982) provide a strongly negative assessment, whereas others (Crampton and Wagner 1994; Lindell and Whitney 2001) argue that the CMV problem may be overstated. Although a recent exhaustive review of research on common method variance in behaviour research reaches a more balanced conclusion (Chang, Witteloostuijn, and Eden 2010), "common method variance is often a problem and researchers need to do whatever they can to control for it" (Podsakoff et al. 2003, p. 900). With this in mind, this research tried to offset and control common method bias (CMB).

8.3.1 Preventive Measures in Research Design Stage

Based on Podsakoff et al. (2003), several preventive measures were considered to minimise the potential effects of common method bias in the research design stage. Firstly, a questionnaire is designed and administrated so that respondents can be assured of the anonymity and confidentiality of the study that there are no right or wrong answers, and that they should answer as honestly as possible. Secondly, the words were used in a measured and neutral way through the pre-test with MBA and master's students in business schools in South Korea.

8.3.2 Preventive Measures in Statistical Analysis Stage

To apply *ex post* statistical approaches, Harman's single-factor test, which is the most common remedy to assess common method variance, is used (Harman 1967). If

common method variance is problematic, either a single factor would emerge in an exploratory factor analysis (EFA), or the results of the un-rotated factor solutions would show a general factor that would account for the majority of the explained variance (Podsakoff and Organ 1986). Based on this procedure, an EFA was applied to all of the 77 measurements and the un-rotated solution extracted 17 factors with eigenvalues greater than 1.0, which accounts for 65.184% (Antecedent constructs), 72.007 % (Interaction process characteristics), 70.704% (consequences constructs) of the total variance of the data. The results of exploratory factor are shown in Table 8.3.1, Table 8.3.2, and Table 8.3.3. Therefore, it can be concluded that one latent factor does not account for all marked variables (Podsakoff et al. 2003), and therefore common method variance is not a problem in this research.

8.4 Measurement Model

8.4.1 Reliability Test

Before the main analysis of the hypothesised model can take place, reliability and validity related to each construct were tested. From a statistical point of view, the reliability of a scale indicates how free it is from random error. Namely, reliability refers to the proportion of true variance relative to total variance that means true and error variance (Tabachnick and Fidell 2007). Reliability is related to consistency depending on which questionnaire items are answered. Two methods frequently used to assess the reliability of a scale are test-retest reliability and internal consistency (Pallant 2010). The test-retest reliability of a scale is assessed by administering it to the same informant on two different occasions and calculating the correlation between the two scores obtained. In short, if test-retest correlations are higher, it indicates a more reliable scale. The second aspect of reliability that can be assessed is internal consistency and this method is used frequently in literature. This is the degree to which the items that make up the scale all measure the same underlying attribute (Pallant 2010). Among a number of ways to measure reliability, I examined the reliability of each construct by Cronbach's Alpha calculated by SPSS 18.0 that is the most commonly used statistic. As Table 8.3.1, Table 8.3.2 and Table 8.3.3 show, all scales of constructs have good

internal consistency (reliability) with Cronbach's alpha coefficient reported of greater than .733.

8.4.2 Validity Test

Validity is related to whether the research truly measures that which it was intended to measure or how truthful the research results are. Construct validity was measured through convergent validity and discriminant validity.

8.4.2.1 Convergent Validity

To assess convergent validity, I subjected the reflective multi-item measures (i.e., the items of each construct) to a systematic assessment of internal consistency and one-dimensionality. To evaluate each item set on the basis of item-to-total correlations and exploratory factor analysis, I divided the set of items into three subgroups as interaction process characteristics and their antecedents and consequences, namely (1) environmental and business strategy, (2) interaction process characteristics, and (3) relationship value and overall performance. Table 8.3.1, Table 8.3.2 and Table 8.3.3 show the results of exploratory factor. As we can see, each eigenvalue of measurement items with varimax rotation show significantly clean loadings (over .500) allocated on their respective constructs. Table 8.4.1, Table 8.4.2 and Table 8.4.3 show the results of each item set on the basis of item-to-total correlations. All Pearson correlation coefficient of items are significant at the 0.05 level as well as each item within each construct is correlated significantly. Therefore, the results of exploratory factor analysis (EFA) and item-to-total correlations exhibit the significant convergent validity of each construct.

Table 8.3.1 Reliability and Exploratory Factor Analysis (Environmental Characteristics & Business Strategy)

	Complexity	Frequency of change	Predictability of Change	Munificence	Differentiation	Cost Leadership	Reliability
							EFA Cumulative Explanation: (65.184%)
V1	.814						
V2	.703						.793
V3	.709						
V4	.782						
V5		.787					
V6		.850					.865
V7		.806					
V8		.779					
V9			.830				
V10			.873				.882
V11			.851				
V12			.844				
V13				.758			
V14				.736			.733
V15				.769			
V16				.657			
V17					.834		
V18					.849		.810
V19					.833		
V20					.800		
V21						.698	
V22						.791	.809
V23						.740	
V24						.783	

Table 8.3.2 Reliability and Exploratory Factor Analysis
(Interaction Process Characteristics)

	1	2	3	4	5	6	Reliability
	EFA Cumulative Explanation: (72.007 %)						
V25	.586						
V26	.755						
V27	.740						.831
V28	.681						
V29	.728						
V30	.638						
V31		.846					
V32		.853					.915
V33		.832					
V34		.762					
V35			.774				
V36			.803				.822
V37			.636				
V38			.505				
V39				.752			
V40				.787			.933
V41				.777			
V42				.765			
V43					.738		
V44					.729		
V45					.747		.908
V46					.765		
V47					.710		
V48						.770	
V49						.790	
V50						.665	.896
V51						.649	
V52						.682	

\<Note\>   1. Centralisation
2. Formalisation
3. Joint Action
4. Information Exchange
5. Trust
6. Commitment

Table 8.3.3 Reliability and Exploratory Factor Analysis
(Relationship Value & Overall Performance)

	EFA Cumulative Explanation: (70.704 %)					
	1	**2**	**3**	**4**	**5**	**Reliability**
V53	.756					
V54	.765					
V55	.644					.890
V56	.704					
V57	.680					
V58		.702				
V59		.709				
V60		.749				.852
V61		.690				
V62			.748			
V63			.768			
V64			.615			.877
V65			.595			
V66				.715		
V67				.702		
V68				.678		.918
V69				.596		
V70				.713		
V71					.645	
V72					.706	
V73					.614	
V74					.698	.896
V75					.744	
V76					.657	
V77					.660	

<Note>
      1. Economic Value; 2. Operational Value; 3. Strategic Value;
      4. Behaviour Value; 5. Overall Performance

Table 8.4.1 Item-to-total Correlations of Environmental and Business strategy in order to Assess Convergent Validity

Complexity	V1	V2	V3	V4
V1	1			
V2	.489*	1		
V3	.426*	.540*	1	
V4	.580*	.420*	.493*	1
Frequency of Change	**V5**	**V6**	**V7**	**V8**
V5	1			
V6	.678*	1		
V7	.569*	.634*	1	
V8	.505*	.602*	.617*	1
Predictability of Change	**V9**	**V10**	**V11**	**V12**
V9	1			
V10	.708*	1		
V11	.593*	.659*	1	
V12	.570*	.657*	.730*	1
Munificence	**V13**	**V14**	**V15**	
V13	1			
V14	.652*	1		
V15	.378*	.415*	1	
Differentiation	**V16**	**V17**	**V18**	
V16	1			
V17	.693*	1		
V18	.536*	.546*	1	
Cost leadership	**V19**	**V20**	**V21**	**V22**
V19	1			
V20	.407*	1		
V21	.312*	.531*	1	
V22	.415*	.479*	.477*	1
*Correlation is significant at the 0.05 level				

Table 8.4.2 Item-to-total Correlations of Interaction Process Characteristics in order to Assess Convergent Validity

Centralisation	V23	V24	V25	V26	
V23	1				
V24	.530*	1			
V25	.424*	.683*	1		
V26	.494*	.449*	.447*	1	
Formalisation	**V27**	**V28**	**V29**	**V30**	
V27	1				
V28	.813*	1			
V29	.754*	.800*	1		
V30	.636*	.664*	.711*	1	
Joint Action	**V31**	**V32**	**V33**	**V34**	
V31	1				
V32	.651*	1			
V33	.465*	.616*	1		
V34	.348*	.559*	.600*	1	
Information Exchange	**V35**	**V36**	**V37**	**V38**	
V35	1				
V36	.791*	1			
V37	.737*	.824*	1		
V38	.723*	.763*	.826*	1	
Trust	**V39**	**V40**	**V41**	**V42**	**V43**
V39	1				
V40	.781*	1			
V41	.583*	.602*	1		
V42	.670*	.675*	.749*	1	
V43	.622*	.609*	.638*	.738*	1
Commitment	**V44**	**V45**	**V46**	**V47**	**V48**
V44	1				
V45	.746*	1			
V46	.618*	.589*	1		
V47	.624*	.614*	.659*	1	
V48	.586*	.619*	.544*	.729*	1
Correlation is significant at the 0.05 level					

Table 8.4.3 Item-to-total Correlations of Relationship Value and Overall Performance in order to Assess Convergent Validity

Economic Value	V49	V50	V51	V52	V53		
V49	1						
V50	.806*	1					
V51	.560*	.579*	1				
V52	.552*	.553*	.665*	1			
V53	.561*	.611*	.609*	.706*	1		
Operational Value	**V54**	**V55**	**V56**	**V57**			
V54	1						
V55	.581*	1					
V56	.535*	.670*	1				
V57	.552*	.605*	.606*	1			
Strategic Value	**V58**	**V59**	**V60**	**V61**			
V58	1						
V59	.736*	1					
V60	.568*	.664*	1				
V61	.598*	.638*	.643*	1			
Behaviour Value	**V62**	**V63**	**V64**	**V65**	**V66**		
V62	1						
V63	.793*	1					
V64	.709*	.761*	1				
V65	.660*	.691*	.682*	1			
V66	.689*	.679*	.662*	.609*	1		
Overall Performance	**V67**	**V68**	**V69**	**V70**	**V71**	**V72**	**V73**
V67	1						
V68	.827*	1					
V69	.584*	.610*	1				
V70	.549*	.534*	.585*	1			
V71	.507*	.542*	.531*	.725*	1		
V72	.343*	.378*	.470*	.567*	.650*	1	
V73	.402*	.466*	.450*	.579*	.659*	.671*	1
Correlation is significant at the 0.05 level							

8.4.2.2 Discriminant Validity

To assess discriminant validity, I estimated several additional confirmatory factor analysis (CFA) models in which each pair of factor correlations is constrained to unity. Confirmatory factor analysis (CFA) of the measuring items is most appropriately applied to measures that have been fully developed and their factor structures validated. Therefore, CFA can test for the validity of measurements given the sample data. I then

compared the fit of each new model with the original unconstrained model. I subjected the entire item set to confirmatory factor analysis (CFA), using LISREL 8.72. The scales of measuring items are considered to represent the factors. Therefore, all items comprising a particular construct are expected to load onto their related factor (Byrne 2012). To ensure that the ratio of sample size to number of items are not violated (Jöreskog and Sörbom 1995), the set of measurement items were divided into three subgroups: (1) Interaction process characteristics' antecedents: environmental and business strategy, (2) interaction process characteristics, and (3) interaction process characteristics' consequences: relationship value and overall performance. According to Gerbing and Anderson (1992) recommendation, I evaluated the model fits using a series of indexes such as goodness-of-fit index (GFI), a comparative fit index (CFI), and the root mean square error of approximation (RMSEA). Indices met or exceeded the critical values for acceptable fit, as shown Table 8.5.

Table 8.5 Confirmatory Factor Analyses (CFA) of Three Models

The Indices of the Model Fits	Standard of Sig.	Model 1*	Model 2	Model 3
Chi-Square (x^2)		241.08, df=182, p<0.01	342.00, df=244, p<0.01	393.10, df=215, p<0.01
Root Mean Square Error of Approximation (RMSEA)	$\leq.06$	0.028	0.031	0.044
Comparative Fit Index (CFI)	>.95	0.99	0.99	0.99
Root Mean Square Residual (RMR)	<.08	0.035	0.023	0.019
Goodness of Fit Index (GFI)	>.90	0.95	0.94	0.93
Adjusted Goodness of Fit Index (AGFI)	>.90	0.93	0.91	0.90
* Model 1: Interaction process characteristics' antecedents: environmental and business strategy Model 2: Interaction process characteristics Model 3: Interaction process characteristics' consequences: relationship value and overall performance				

The CFA results presents excellent fit properties ($\chi2$ = 241.08; df=182; RMSEA= 0.028; GFI=0.95 (Model1), $\chi2$ = 342.00; df=244; RMSEA= 0.031; GFI=0.94 (Model2), $\chi2$ = 393.10; df=215; RMSEA= 0.044; GFI=0.93 (Model3)) (Browne and Cudeck, 1993; Yu and Muthén, 2001). As results, all items comprising a particular construct are expected to load onto their related factor.

8.5 Analytic Estimator and Goodness-of- Fit Statistics

8.5.1 Analytic Strategy

On the basis of the results of reliability and validity of data in Section 8.4, I could conduct analyses of the hypothesised model and submodels. To begin with, the analytic strategy and analysis estimators are discussed in this section.

In testing SEM models with categorical data, which are the characteristics of the sample data in this research, analyses are no longer based on the sample variance-covariance matrix as is the case for continuous data. Rather, they must be based on the correct correlation matrix (Byrne 2012). For modelling and testing of categorical data, several different approaches have been developed (See e.g., Bentler 2005; Byrne 2012; Coenders, Satorra, and Saris 1997; Moustaki 2001; Muthén and Muthén 2010). These are three primary estimators such as *Unweighted Least Squares* (ULS), *Weighted Least Squares* (WLS) and *Diagonally Weighted Least Squares* (DWLS). According to Byrne (2012, p. 132), among three approaches, only ULS and DWLS yield their related robust versions as follow: "(1) corrections to means and variances of ULS estimates (ULSMV), (2) correction to means of DWLS estimates (WLSM) and (3) correction to means and variances of DWLS estimates (WLSMV)." Of these, Brown (2006) points out that the weighted least square parameter (WLSMV) estimator performs best in the CFA modelling of categorical data. Therefore, this research employed the weighted least square parameter (WLSMV) in MPlus.

The weighted least square parameter (WLSMV) estimator was developed by Muthén, du Toit, and Spisic (1997) based on earlier robustness research by Satorra and Bentler (1988; Satorra and Bentler 1990) and designed specifically for use with small and moderate sample sizes comparison with those needed for use with the weighted least squares (WLS) estimator (Byrne 2012). Weighted least square parameter estimates (WLSMV) is the estimates using a diagonal weight matrix with standard errors and mean-and variance-adjusted chi-square test statistic that use a full weight matrix (Muthén and Muthén 2010). WLSMV uses diagonal of the weight matrix in the estimation, whereas weighted least squares (WLS) uses the full weight matrix.

8.5.2 The Goodness-of-Fit Statistics

The analyses results of SEM software programmes including MPlus report several goodness-of-fit values, all of which related to the model as a whole. In general, model fit indices can be classified as *incremental* (or comparative) (Browne et al. 2002; Hu

and Bentler 1995; Hu and Bentler 1999) and *absolute*. The most widely used in SEM are *incremental indices* which measure the proportionate improvement in fit of a hypothesised model compared with a more restricted, albeit nested and baseline model (Hu and Bentler 1999). In particular, incremental indices of fit in SEM have used the most commonly CFI (Bentler 1990) and TLI (Tucker and Lewis 1973). The value of CFI ranges from zero to 1.00 with values close to 1.00 being indicative of a well-fitting model. Although a value of more than .90 was originally considered representative of a well-fitting model (Bentler 1992), a cut-off value recently advised by researchers in statistics is closed to .95 instead of .90 (Byrne 2012; Hu and Bentler 1999; Tabachnick and Fidell 2007). Computation of the CFI and TLI are as follows.

$$\text{CFI} = 1 - [(X_H^2 - df_H)/(X_B^2 - df_B)]$$

$$\text{TLI} = [(X_B^2 - df_B)/(X_H^2 - df_H)] - [(X_B^2 - df_B) - 1]$$

Where H= the hypothesized model and B=the baseline model.

On the other hand, in the category of *absolute indices* of fit and "absolute misfit indices" named by Browne and his colleagues (2002, p.405), the Root Mean Square Error of Approximation (RMSEA) (Steiger and Lind 1980) and the Standardized Root Mean Square Residual (SRMR) also depend on determining how well fit the hypothesised model is with the sample data. One huge difference between incremental fit indices such as CFI or TLI and absolute fit indices such as RMSEA or SRMR is the fact that incremental fit indices increase, whereas absolute fit indices decrease as goodness-of-fit becomes or improves better (Browne et al. 2002). RMSEA is sensitive to not only sample size but also the complexity of the model because the discrepancy as measured by the RMSEA is expressed. Hu and Bentler (1999) have suggested less value than .06 to be indicative of good fit between the hypothesised model and observed data, whereas Borowne and Cudeck (1993) have suggested less value than .05 to be indicative of good fit and MacCallum, Browne and Sugawara (1996) noted those bigger than .10 value indicate poor fit. In addition, the SRMR represnets the average value across all standardized residuals. In SRMR, the better fitting, the smaller value. Byrne (2012)

views that .05 and less value indicates good fit while Hu and Bentler (1999) view that values of .08 or less are desired. Table 8.6 shows briefly these indices and their standard of significant value.

Table 8.6 The Indices of the Model Fit in SEM

The Indices of the Model Fits	Cut-off of Good Fit.	
CFI	>.95	
TLI	>.95	
RMSEA	Good-fit	< .06 (Hu and Bentler 1999) < .05 (Borowne and Cudeck 1993)
	Poor-fit	> .10 (MacCallum, Browne, and Sugawara 1996)
SRMR	<= .05 (Byrne 2012) <= .08 (Hu and Bentler 1999)	

8.6 Examining the Hypothesised model

8.6.1 Relationship Value as a High-order Factor

Before examining the main model of interaction process characteristics, the goodness of fit statistics for relationship value as a higher order factor was tested for a construct of the main model. Building on pertinent literature as per the discussion in Chapter 5, relationship value in this research was conceptualised as a higher-order construct, which reflects economic value, operational value, strategic value and behavioural value. Initially, an exploratory factor analysis (EFA) was applied to the items representing these four subcontracts. As we can see in Table 8.7, the pattern matrix were loaded on their expected constructs as well as the EFA cumulative explanation about four factor accounts for 72.694 %. Additionally, the variance extracted for each item ranges from .648 to .831. This suggests that these four factors can explain the measurement items of high order factor as relationship value well.

Table 8.7 EFA for the component of Relationship Value

		Component (*Cumulative explanation: 72.694 %)			
		1	**2**	**3**	**4**
Economic Value	EV1	.774			
	EV2	.793			
	EV3	.703			
	EV4	.739			
	EV5	.730			
Operational Value	OV1		.734		
	OV2		.719		
	OV3		.773		
	OV4		.678		
Strategic Value	SV1			.826	
	SV2			.831	
	SV3			.667	
	SV4			.648	
Behavioural Value	BV1				.763
	BV2				.794
	BV3				.738
	BV4				.713
	BV5				.731

Following this, a second-order factor model of relationship value was tested to further confirm that relationship value is a second-order reflective construct described by the sub-level of relationship value such as economic value, operational value, strategic value and behavioural value. The model was tested by MPlus and the goodness of fit statistics for the measurement model was: $\chi^2_{(df=91)}$ = 564.591 (P-value< .000), RMSEA= .09, CFI= .98 and TLI= .97. This supports significantly for the good fit of model as the CFI and TLI are considerably greater than the ideal acceptable level of .90 and RMSEA is smaller than the accepted level of .06.

As illustrated in Figure 8.1, the standardised factor loadings between the first order (economic value, operational value, strategic value and behaviour value) and the second-order factor (relationship value) is significant at significance level of .01 with their values greater than .81 (economic value: .81, operational value: .86, strategic value: .84 and behaviour value: .91). Moreover, all of the first order factor loadings are significant at the same significance level and their standardised loadings are

considerably greater than the ideal acceptable level of .7 (Byrne 2012). The standardised residuals for the corresponding items of first-order factors are much smaller than the accepted level of .5 (Byrne 2012).

Figure 8.1 Second-order Factor Model for Relationship Value
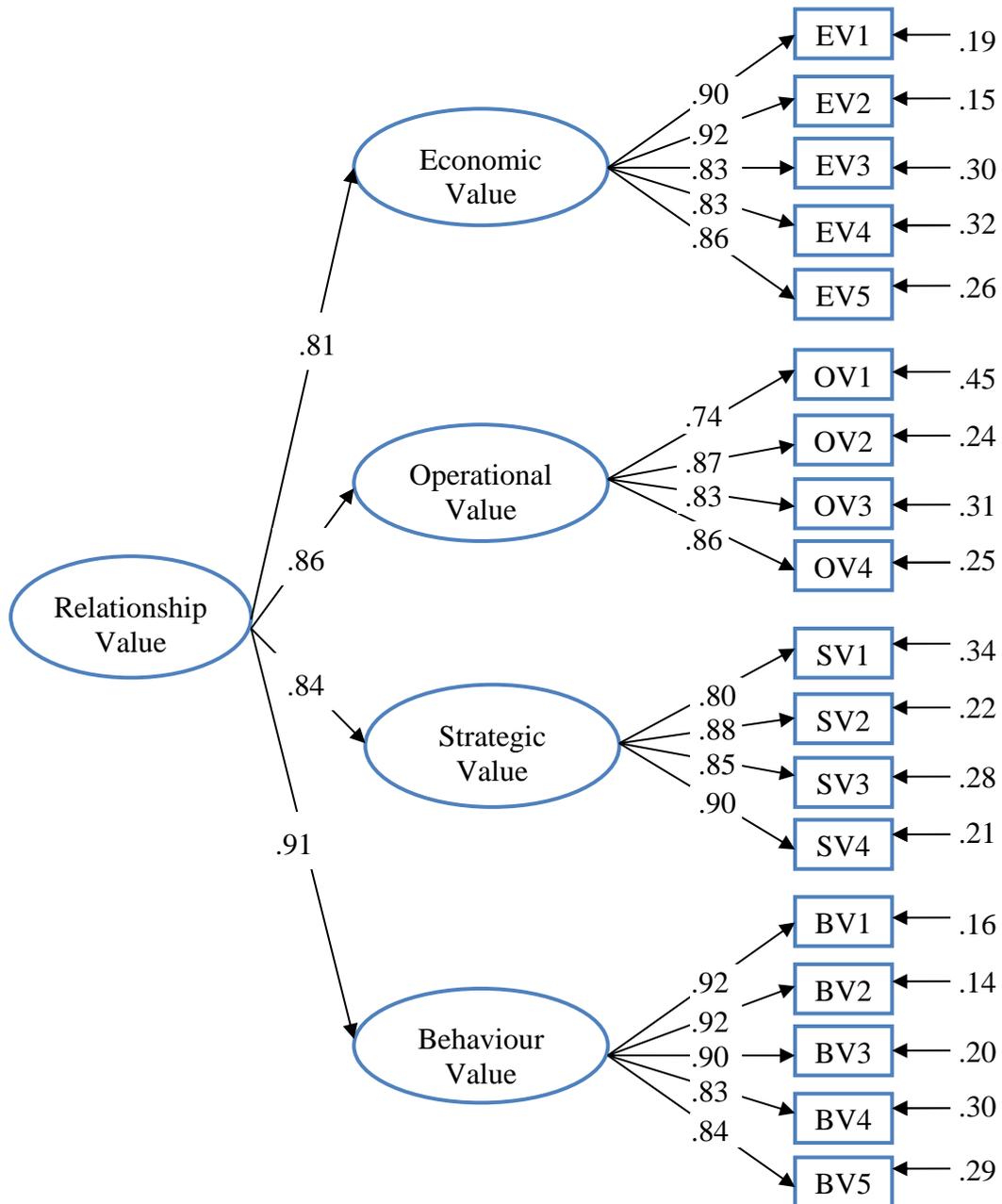
8.6.2 Examining the Hypothesised model

The hypothesised model examined interaction process characteristics and the relationships among their antecedents and consequences. First of all, interaction process characteristics consist of structural, functional, and climate characteristics. Centralisation, formalisation (Structural characteristics), joint action, information exchange (Functional characteristics), trust, commitment (Climate characteristics) were latent variables with 6, 4, 4, 4, 5, 5 indicators respectively. As the antecedents of interaction process characteristics, environmental characteristics and business strategy were considered. Environmental characteristics, complexity, frequency of change, unpredictability of change and munificence were measured with 4, 4, 4, 4 indicators respectively. Differentiation and cost leadership strategy were examined as business strategy with 4, 4 indicators respectively. Relationship value, which is a consequence of interaction process characteristics, was measured as a higher order factor of economic, operational, strategic and behavioural value. Subsequently, the relationship between relationship value and overall performance of the firm is tested. It was hypothesised that complexity, dynamism, munificence, differentiation, and cost leadership are significantly associated with interaction process characteristics. Additionally, it was hypothesised that relationship value and the overall performance of the firm are directly achieved by interaction process characteristics. As discussed in Chapter 6, the summary of hypotheses is as follows:

Hypothesis 1: Environmental Characteristics (complexity, dynamism, and munificence) have significant effects on Structural Characteristics (centralisation and formalisation) of the Interaction Process
Hypothesis 1-1: Complexity has a positive effect on centralisation
Hypothesis 1-2: The frequency of change (dynamism) has a positive effect on centralisation
Hypothesis 1-3: The unpredictability of change (dynamism) has a positive effect on centralisation
Hypothesis 1-4: Munificence has a positive effect on centralisation
Hypothesis 1-5: Complexity has a positive effect on formalisation
Hypothesis 1-6: The frequency of change (dynamism) has a positive effect on formalisation

Hypothesis 1-7: The unpredictability of change (dynamism) has a positive effect on formalisation

Hypothesis 1-8: Munificence has a positive effect on formalisation

Hypothesis 2: The Higher the Environmental Characteristics (complexity, dynamism, and munificence), The Higher the Functional Characteristics (joint action and information exchange) of the Interaction Process

Hypothesis 2-1: Complexity has a positive effect on joint action

Hypothesis 2-2: The frequency of change (dynamism) has a positive effect on joint action

Hypothesis 2-3: The unpredictability of change (dynamism) has a positive effect on joint action

Hypothesis 2-4: Munificence has a positive effect on joint action

Hypothesis 2-5: Complexity has a positive effect on information exchange

Hypothesis 2-6: The frequency of change (dynamism) has a positive effect on information exchange

Hypothesis 2-7: The unpredictability of change (dynamism) has a positive effect on information exchange

Hypothesis 2-8: Munificence has a positive effect on information exchange

Hypothesis 3: Environmental Characteristics (complexity, dynamism, and munificence) associated with Climate Characteristics (trust and commitment) of Interaction Process

Hypothesis 3-1: Complexity has a negative effect on trust

Hypothesis 3-2: The frequency of change (dynamism) has a negative effect on trust

Hypothesis 3-3: The unpredictability of change (dynamism) has a negative effect on trust

Hypothesis 3-4: Munificence has a positive effect on trust

Hypothesis 3-5: Complexity has a negative effect on commitment

Hypothesis 3-6: The frequency of change (dynamism) has a negative commitment

Hypothesis 3-7: The unpredictability of change (dynamism) has a negative effect on commitment

Hypothesis 3-8: Munificence has a positive effect on commitment

Hypothesis 4: Competitive Business Strategy has a positive effect on Structural Characteristics (centralisation and formalisation) of Interaction Process

Hypothesis 4-1: Differentiation strategy has a positive effect on centralisation
Hypothesis 4-2: Cost Leadership Strategy has a positive effect on centralisation

Hypothesis 4-3: Differentiation strategy has a positive effect on formalisation
Hypothesis 4-4: Cost Leadership Strategy has a positive effect on formalisation

Hypothesis 5: Competitive Business Strategy has a positive effect on Functional Characteristics (joint action and information exchange) of Interaction Process
Hypothesis 5-1: Differentiation strategy has a positive effect on joint action
Hypothesis 5-2: Cost Leadership Strategy has a positive effect on joint action
Hypothesis 5-3: Differentiation strategy has a positive effect on information exchange
Hypothesis 5-4: Cost Leadership Strategy has a positive effect on information exchange

Hypothesis 6: Competitive Business Strategy has a positive effect on Climate Characteristics (trust and commitment) of Interaction Process
Hypothesis 6-1: Differentiation strategy has a positive effect on trust
Hypothesis 6-2: Cost Leadership Strategy has a positive effect on trust
Hypothesis 6-3: Differentiation strategy has a positive effect on commitment
Hypothesis 6-4: Cost Leadership Strategy has a positive effect on commitment

Hypothesis 7: The Higher the Structural Characteristics (centralisation and formalisation) of the Interaction Process, The Higher the Relationship Value
Hypothesis 7-1: Centralisation has a positive effect on relationship value
Hypothesis 7-2: Formalisation has a positive effect on relationship value

Hypothesis 8: The Higher Functional Characteristics (joint action and information exchange) of the Interaction Process, The Higher the Relationship Value
Hypothesis 8-1: Joint action has a positive effect on relationship value
Hypothesis 8-2: Information exchange has a positive effect on relationship value

Hypothesis 9: The Higher the Climate Characteristics (trust and commitment) of the Interaction Process, The Higher the Relationship Value
Hypothesis 9-1: Trust has a positive effect on relationship value
Hypothesis 9-2: Commitment has a positive effect on relationship value

Hypothesis 10: The Higher the Relationship Value, The Higher the Performance

The hypotheses were evaluated with MPlus. As stated in Section 8.5, weighted least square parameter (WLSMV) is employed to estimate the hypothesised model. The analysis results of hypothesised model are reported in Table 8.8 and significant relationships among variables illustrated in Figure 8.2. The goodness of fit statistics for the model was: $\chi^2_{(df=2018)}$ =2974.270 (P-value < .000), RMSEA= .034, CFI= .978 and TLI= .976. A significant support was found for the hypothesised model by showing that the CFI and TLI are considerably greater than the ideal acceptable level of .90 and RMSEA are smaller than the accepted level of .06.

Table 8.8 Results: Hypothesised Main Effects

Hypothesis		Hypothesised Path	Estimate (STD Standardization)	*Estimate/ S.E.*	Accepted Hypothesis
Effects of Antecedents →Interaction Process Characteristics					
H1		*Effects of Environmental Characteristics → Structural Characteristics*			
	H1-1	Complexity → Centralisation	-	-	Rejected
	H1-2	Frequency of Change→Centralisation	-	-	Rejected
	H1-3	Unpredictability of Change →Centralisation	.183	**3.731***	Accepted
	H1-4	Munificence →Centralisation	.181	**3.413***	Accepted
	H1-5	Complexity → Formalisation	-	-	Rejected
	H1-6	Frequency of Change→ Formalisation	.119	**2.239***	Accepted
	H1-7	Unpredictability of Change →Formalisation	-	-	Rejected
	H1-8	Munificence →Formalisation	-	-	Rejected
H2		*Effects of Environmental Characteristics → Functional Characteristics*			
	H2-1	Complexity → Joint Action	-	-	Rejected
	H2-2	Frequency of Change→Joint Action	-	-	Rejected
	H2-3	Unpredictability of Change →Joint Action	-	-	Rejected
	H2-4	Munificence →Joint Action	.164	**2.986***	Accepted
	H2-5	Complexity → Information Exchange	-	-	Rejected
	H2-6	Frequency of Change→ Information Exchange	-	-	Rejected
	H2-7	Unpredictability of Change → Information Exchange	-	-	Rejected
	H2-8	Munificence → Information Exchange	.163	**2.770***	Accepted
H3		*Effects of Environmental Characteristics → Climate Characteristics*			
	H3-1	Complexity → Trust	-	-	Rejected

	H3-2	Frequency of Change→ Trust	-	-	Rejected
	H3-3	Unpredictability of Change → Trust	-	-	Rejected
	H3-4	Munificence → Trust	.212	**3.873***	Accepted
	H3-5	Complexity →Commitment	-	-	Rejected
	H3-6	Frequency of Change→ Commitment	-	-	Rejected
	H3-7	Unpredictability of Change → Commitment	-	-	Rejected
	H3-8	Munificence → Commitment	.294	**5.331***	Accepted
H4		*Effects of Strategy Characteristics → Structural Characteristics*			
	H4-1	Differentiation→Centralisation	.226	**4.202***	Accepted
	H4-2	Cost Leadership→Centralisation	.237	**4.077***	Accepted
	H4-3	Differentiation → Formalisation	.263	**4.974***	Accepted
	H4-4	Cost Leadership →Formalisation	-	-	Rejected
H5		*Effects of Strategy Characteristics → Functional Characteristics*			
	H5-1	Differentiation→Joint Action	.307	**5.636***	Accepted
	H5-2	Cost Leadership→Joint Action	.266	**4.809***	Accepted
	H5-3	Differentiation →Information Exchange	.273	**5.646***	Accepted
	H5-4	Cost Leadership → Information Exchange	.113	**1.997*****	Accepted
H6		*Effects of Strategy Characteristics → Climate Characteristics*			
	H6-1	Differentiation→Trust	.262	**5.304***	Accepted
	H6-2	Cost Leadership→Trust	.212	**2.119***	Accepted
	H6-3	Differentiation →Commitment	.264	**5.457***	Accepted
	H6-4	Cost Leadership →Commitment	-	-	Rejected
Effects of Interaction Process Characteristics →Consequences					
H7		*Effects of Structural Characteristics → Relationship Value*			
	H7-1	Centralisation → Relationship Value	.217	**5.701***	Accepted
	H7-2	Formalisation → Relationship Value	-	-	Rejected
H8		*Effects of Functional Characteristics → Relationship Value*			

	H8-1	Joint Action → Relationship Value	-	-	Rejected
	H8-2	Information Exchange → Relationship Value	-	-	Rejected
H9		*Effects of Climate Characteristics → Relationship Value*			
	H9-1	Trust → Relationship Value	.350	**8.200***	Accepted
	H9-2	Commitment → Relationship Value	.377	**8.096***	Accepted
Relationships between Consequences					
H10		Relationship Value → *Overall Performance*	.810	**6.747***	Accepted
*p<0.0001, ** p<0.01, ***p<0.05					

Figure 8.2 The Hypothesised Model
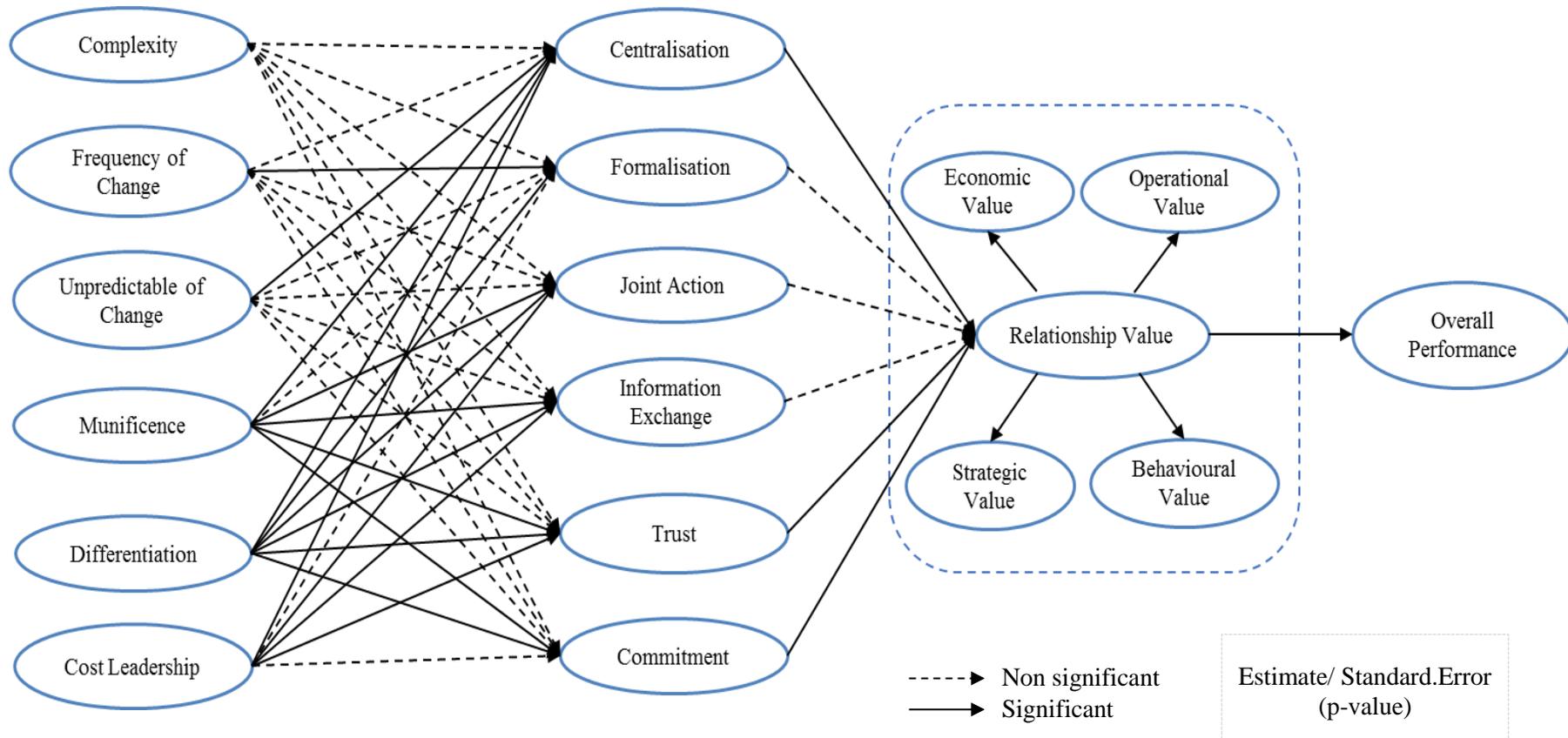
8.6.2.1 Examining the Effects of Environmental Characteristics on IPC (Results for Testing Hypotheses H1-H3)

Although the overall model fit of the hypothesised model is good, as reported in Table 8.9, most effects of environmental characteristics except for munificence on interaction process characteristics are non-significant (H_1-H_3). In particular, complexity does not significantly affect all of the interaction process characteristics. Additionally, regarding the effect of the frequency of change (dynamism) on interaction process characteristics, the frequency of change positively affects formalisation. According to Hall (1993) or Jap (1999), when channel members are faced with dissimilar and uncoordinated environmental entities, they tend to rely on less-formalised procedures. However, as the results of this study show, when environmental conditions are changing constantly, firms try to reduce opportunism or the uncertainty of relationships with their partners and constantly retain current partnerships by confirming formalised procedures. In addition, among the causal relationships between unpredictability of change (dynamism) and interaction process characteristics, only the effect of unpredictability of change on centralisation is significant. As Paswan, Dant, and Lumpkin (1998)'s the positive effect of environmental uncertainty on centralisation or Eisenhardt and Schoonhoven (1996) and Klein, Frazier, and Roth (1990)'s the positive relationship between environmental dynamism and relationship structure, the result of the analysis of this study supports the argument that the decision making structure between firms becomes more centralised in order to respond fast the change of environment when they cannot predict the environmental change. On the other hand, munificence has a significant effect on all of interaction process characteristics except for formalisation. Conclusively, the results of examination can explain why a firm in the interaction process chose the structure of decision making under certain environmental characteristics. First, when a firm is manufacturing or marketing a strong product in demand and when there is a potential for high sales growth in the current market, the firm is likely to build centralisation structure in order to reduce the time for decision making. Second, when firms can achieve the abundance of critical resources, they try to incorporate joint action more and share crucial information with their main partners in order to remain and strengthen their partnerships and finally these can affect the building of trust and commitment.

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It is widely regarded that complexity and dynamism have been considered as main environmental characteristics with structural characteristics in the main body of literature in this area. However, the results of this analysis show environmental munificence, so that the firm can assess the high demand in current market, and this is a more important factor to build interaction with partners rather than environmental uncertainty characteristics such as complexity and dynamism. This seems to result from the industry characteristics of the sample. In IT and automotive industries, which are data set of this research, the preparation for technology change through preoccupying supplies or human resources is probably more important than complex and dynamic environmental factors because managers in both industries always expect the frequent environmental change and have coped with environmental complexity and dynamism. Therefore, the interaction process among firms in these industries is likely to be affected by resource accessibility and firms seemingly focus on the achievement of technological or human resources rather than complexity and dynamism.

8.6.2.2 Examining the Effects of Business strategy on IPC (Results for Testing Hypotheses H4-H6)

Apart from the effects of cost leadership on formalisation and commitment, the results show that business strategy affects positively interaction process characteristics (H_4-H_6). Comparison with prior studies where differentiation has negative effect on structural characteristics, the result of this analysis reports that both strategy characteristics have positive impacts on centralisation. In the IT or automotive industry which are both high technology industries, the firms which adapt differentiation strategy or cost leadership strategy have benefits from centralized structure because they can respond quickly to high technology market through short lines of communication and clear responsibilities in centralised structure and to reduce the risk of opportunism as well as to protect their technological property. Regarding the effects of strategy and functional characteristics, unsurprisingly both strategy characteristics have positive effects on joint action and information exchange. Finally, in the effects of strategy characteristics on climate characteristics, cost leadership has no significant effect on commitment while

differentiation has positive effect on trust and commitment. In the pertinent literature, commitment is involved in the higher level of partner relationship stage than trust is. Therefore, cost leadership strategy, which responds sensitively the increasing of cost, does not seem to affect commitment, while it affects trust strongly.

8.6.2.3 Examining the Effects of IPC on Relationship Value (Results for Testing Hypotheses H7-H9)

Unsurprisingly, centralisation as well as trust and commitment have considerably positive effects on relationship value (H_7, H_9), while the hypothesis H_8 that the effects of functional characteristics such as joint action and information exchange on relationship value is rejected. In this model, as relationship value is measured as second order factor, joint action or information exchange is likely to affect more than one specific type of relationship value instead of relationship value as one variable. I will discuss this relationship more in section 8.7.2.

8.6.2.4 Examining the Effects of Relationship Value on Performance (Results for Testing Hypothesis H10)

As we can expect, relationship value has a considerably strong effect on overall performance. Shared value with the partner can be expected to contribute to financial performance such as return on assets, average annual growth in return on assets and sales growth. This research views overall performance as the sum of the respondents' assessment of the overall financial performance and perceived satisfaction level of performance acquired through relationships with a partner firm. Therefore, the firm can lead to reducing cost and time for decision making through achievement of economic and operational value and it can result in overall performance. Additionally, strategic value achieved from exploring strategic opportunities and enhancement competitive advantage can result in financial performance such as sales growth and average annual growth. Finally, behaviour value which leads to win-win approach by mutual respect can foster relational satisfaction with their partners and it affects the overall

performance of the firm. Therefore, as the test results demonstrate, relationship value has a considerably positive effect on the overall performance of the firm.

8.6 Examining the Hypothesised Model-2

According to the results of the hypothesised model which illustrates the significant indirect effects of interaction process characteristics on overall performance, an althernative model in terms of the direct effects of interaction process characteristics on overall performance is tested by MPlus. Table 8.9 presents the analyses method for the models of this research and explains briefly the characteristics of models.

Table 8.9 The Characteristics of The Hypothesised Model 1 and Model 2

Models	Independent Variables	Mediators	Dependent Variables	Characters
The Hypothesised model-(1)	Environmental and Business strategy	Interaction Process Characteristics	Relationship Value and Overall Performance	All hypotheses are examined
The Hypothesised model-(2): DIFFTEST	Environmental and Business strategy	Interaction Process Characteristics	Relationship Value and Overall Performance	Relationship value is 2nd order factor (The direct effects of IPC on Performance)

8.6.3.1 The Effects of Structural Characteristics on Performance

Understanding the relationship between structure and performance has been discussed in relationship marketing, marketing strategy literature and channel research. Particularly, research adopting polity economy perspective stresses the relationships between structure and polity or economy performance. Representatively, Robicheaux and Coleman (1994), whose research is considered seminal in the area of channel relationship structure, proposed an integrated channel relationship structure model where channel relationship structure affects polity and economic performance. Similar to this, Dwyer and Oh (1987) found also bureaucracy directly affects polity performance. Additionally, business strategy studies adopting contingency or

configuration theory in terms of fit model between strategy and structure also have found the relationship between configuration fit and performance.

In channel research, it has been found that centralized vertical marketing systems are associated with greater levels of coordination (Brown and Caylor 2004) and greater efficiency (Reve and Stern 1986; Mohr and Nevin 1990). Auh and Menguc (2007) found the interactive effect of centralisation and formalisation on firm performance. Their findings show that when centralisation is high, the positive moderating effect of formalisation on customer orientation and firm performance. In addition to this, formal rule and procedures can lead to increased efficiency and lower costs (Ruekert, Walker, and Roering 1985; Walker and Ruekert 1987; Olson, Slater, and Hult 2005). Based on previous research, this research hypothesizes that both centralisation and formalisation are associated with the performance of the firm.

8.6.3.2 The Effects of Functional Characteristics on Performance

Marketing strategy literature acknowledges that information exchange affects performance, not only because information plays an important role in collaborative actors but also because information exchange helps to create an atmosphere of mutual support and participative decision making (Palmatier, Dant, and Gremler 2007). Cannon and Perreault, Jr. (1999) state that more open information exchange leads performance. Information exchange or open communication is related to polity performance such as relationship quality or relationship performance because information typically provides value to each party and is difficult to replace (Mohr and Nevin 1990; Palmatier, Dant, and Gremler 2007). Cannon and Homburg (2001) view that reducing customer cost such as direct product costs, acquisition costs and operation costs can be achieved by information sharing with suppliers. For example, sharing of a supplier's future plan information that may be of use to the buyer provides a lower administration cost or operations cost to the buyer because buyers also prepare for and respond against the change of the supplier. With information exchange, information quality is often considered as an antecedent of performance. Wiengarten et al. (2010) found information

exchange has a stronger positive effect on operational performance when high quality information is shared, whereas the impact of joint action on operational performance is stronger when information quality is high compared to low quality information. Based on the previous research, we can expect that joint action and information exchange have positive effects on performance.

8.6.3.3 The Effects of Climate Characteristics on Performance

The issue of climate characteristics such as trust and commitment in relational exchange has received considerable attention in the academic literature (e.g. Morgan and Hunt 1994; Jap and Ganesan 2000; Palmatier et al. 2006; Palmatier, Dant, and Grewal 2007; Joshi 2009) as well as the popular press (e.g. Financial Times, Business Week, Economist). Trust in relational exchanges replies on mutuality of interests with partners as well as it allows not only achievement of individual goals but also joint accomplishments, shared belief, and mutual goals (Heide 1994). Therefore, establishing trust between firms and their partners has an important effect on market performance, the performance of the firm, and implications on efficiency (Parkhe 1993; Robicheaux and Coleman 1994; Zaheer, McEvily, and Perrone 1998). Palmatier et al. (2006) shows with Meta-analysis that a variety of relationship marketing literature supports that both trust and commitment have a significant impact on performance. Moreover, Aulakh, Kotabe and Sahay (1996) empirically test the relationship between trust and performance of international partnership on the basis of a large sample of USA firms having relationship with firms from Asia, Europe, Central and South America and their findings support the postive effect of trust on performance. Additionally, Dyer and Chu (2003) examined how a supplier's trust against a buyer and an exchange of information reduces transaction costs and improve performance on the basis of supplier automaker exchange relationships in USA, Japan and South Korea. They found that less trusted automakers spent significantly more time in face-to-face interaction with suppliers on issues such as contracting and haggling compared to trusted automakers. In their study, procurement cost in less trusted relationships is, surprisingly, five times higher than that in trusted relationships.

As we can see above, the positive effect of climate characteristics on performance has been empirically supported in a variety of studies. Therefore, this research builds upon the hypothesis that trust and commitment are associated with performance.

8.6.3.4 DIFFTEST

The chi-square value for WLSMV in MPlus software cannot be used for chi-square difference testing in the regular way. Instead, to test WLSMV difference between the hypothesised model and its alternative model, DIFFTEST was conducted.

> "DIFFTEST is used to obtain a correct chi-square difference test when the WLSMV estimators are used because the difference in chi-square values for two nested models using the WLSMV chi-square values is not distributed as chi-square. The Ch-square difference test compares the H_0 analysis model to a less restrictive H_1 alternative model in which the H_0 model is nested." (Muthén and Muthén 2010, p.553).

According to Muthén and Muthén (2010), in order to do the chi-square difference test that compares the alternative model with the hypothesised model, the indirect linkages from interaction process characteristics to overall performance in the hypothesised model are restricted. This is reported in Table 8.10. According to the result of DIFFTEST, the goodness of fit statistics for the model was: $\chi^2_{(df=2018)} = 2974.270$ (P-value< .000), RMSEA= .034, CFI= .979 and TLI= .977 and this supports significantly a good fit of model. This reports considerably no difference between the hypothesised model $\chi^2_{(df=2024)} = 2968.696$ (P-value< .000), RMSEA= .034, CFI= .978 and TLI= .976). Similar to the hypothesised model, only centralisation, trust and commitment have positive effects on overall performance through relationship value as a mediator. The other variables of interaction process characteristics appear to have relationships with each different type of relationship value as a first order factor. It will discuss with the alternative model 1 (See Section 8.7).

Table 8.10 Result: The Hypothesised model 2 (Direct Effects Addition)

Hypothesis		Hypothesised Path	Estimate (STD Standardization)	*Estimate/ S.E.*	Accepted Hypothesis
Effects of Antecedents →Interaction Process Characteristics					
H1		*Effects of Environmental Characteristics → Structural Characteristics*			
	H1-1	Complexity → Centralisation	-	-	Rejected
	H1-2	Frequency of Change→Centralisation	-	-	Rejected
	H1-3	Unpredictability of Change →Centralisation	.183	**3.731***	Accepted
	H1-4	Munificence →Centralisation	.181	**3.413***	Accepted
	H1-5	Complexity → Formalisation	-	-	Rejected
	H1-6	Frequency of Change→ Formalisation	.119	**2.239***	Accepted
	H1-7	Unpredictability of Change →Formalisation	-	-	Rejected
	H1-8	Munificence →Formalisation	-	-	Rejected
H2		*Effects of Environmental Characteristics → Functional Characteristics*			
	H2-1	Complexity → Joint Action	-	-	Rejected
	H2-2	Frequency of Change→Joint Action	-	-	Rejected
	H2-3	Unpredictability of Change →Joint Action	-	-	Rejected
	H2-4	Munificence →Joint Action	.164	**2.986***	Accepted
	H2-5	Complexity →Exchange Information	-	-	Rejected
	H2-6	Frequency of Change→ Exchange Information	-	-	Rejected
	H2-7	Unpredictability of Change → Exchange Information	-	-	Rejected
	H2-8	Munificence → Exchange Information	.163	**2.770***	Accepted
H3		*Effects of Environmental Characteristics → Climate Characteristics*			
	H3-1	Complexity → Trust	-	-	Rejected

	H3-2	Frequency of Change→ Trust	-	-	Rejected
	H3-3	Unpredictability of Change → Trust	-	-	Rejected
	H3-4	Munificence → Trust	.212	**3.873***	Accepted
	H3-5	Complexity →Commitment	-	-	Rejected
	H3-6	Frequency of Change→ Commitment	-	-	Rejected
	H3-7	Unpredictability of Change → Commitment	-	-	Rejected
	H3-8	Munificence → Commitment	.294	**5.331***	Accepted
H4		***Effects of Strategy Characteristics → Structural Characteristics***			
	H4-1	Differentiation→Centralisation	.226	**4.202***	Accepted
	H4-2	Cost Leadership→Centralisation	.237	**4.077***	Accepted
	H4-3	Differentiation → Formalisation	.263	**4.974***	Accepted
	H4-4	Cost Leadership →Formalisation	-	-	Rejected
H5		***Effects of Strategy Characteristics → Functional Characteristics***			
	H5-1	Differentiation→Joint Action	.307	**5.636***	Accepted
	H5-2	Cost Leadership→Joint Action	.266	**4.809***	Accepted
	H5-3	Differentiation →Information Exchange	.273	**5.646***	Accepted
	H5-4	Cost Leadership → Information Exchange	.113	**1.997****	Accepted
H6		***Effects of Strategy Characteristics → Climate Characteristics***			
	H6-1	Differentiation→Trust	.262	**5.304***	Accepted
	H6-2	Cost Leadership→Trust	.212	**2.119***	Accepted
	H6-3	Differentiation →Commitment	.264	**5.457***	Accepted
	H6-4	Cost Leadership →Commitment	-	-	Rejected
Effects of Interaction Process Characteristics →Consequences					
H7		***Effects of Structural Characteristics → Relationship Value***			
	H7-1	Centralisation → Relationship Value	.217	**5.701***	Accepted
	H7-2	Formalisation → Relationship Value	-	-	Rejected
H8		***Effects of Functional Characteristics → Relationship Value***			

	H8-1	Joint Action → Relationship Value	-	-	Rejected
	H8-2	Information Exchange → Relationship Value	-	-	Rejected
H9		*Effects of Climate Characteristics → Relationship Value*			
	H9-1	Trust → Relationship Value	.350	**8.200***	Accepted
	H9-2	Commitment → Relationship Value	.377	**8.096***	Accepted
Direct Effects		*Effects of Structural Characteristics → Overall Performance*			
		Centralisation → *Overall Performance*	-	-	Rejected
		Formalisation → *Overall Performance*	-	-	Rejected
		Effects of Functional Characteristics → Overall Performance			
		Joint Action → *Overall Performance*	-	-	Rejected
		Information Exchange → *Overall Performance*	-	-	Rejected
		Effects of Climate Characteristics → Overall Performance			
		Trust → *Overall Performance*	-	-	Rejected
		Commitment → *Overall Performance*	-	-	Rejected
Relationships between Consequences					
H10		Relationship Value → *Overall Performance*	.810	**6.747***	Accepted
*p<0.0001, ** p<0.01, ***p<0.05*					

8.7 Examining Alternative Model and Submodels

In the results of the hypothesised model and the DIFFTEST between the hypothesised model 1 and 2, the relationships between IPC and relationship value as a second order factor were significant. As the further step that can improve an understanding of relationships among constructs, this research examines the baseline model and the relationships between IPC and four types of relationship values in the alterantive model 1. Additionally, business strategy as a mediaor of environmental characteristics and IPC is tested in the submodel 1.

Table 8.11 presents the summary of the models of this research and explains briefly the characteristics of models.

Table 8.11 The Characteristics of Models in This Research

Models	Independent Variables	Mediators	Dependent Variables	Characters
The Hypothesised model-(1)	Environmental characteristics and Business strategy	IPC	Relationship Value and Overall Performance	All hypotheses are examined
The Hypothesised model-(2): DIFFTEST	Environmental characteristics and Business strategy	IPC	Relationship Value and Overall Performance	Relationship value is 2nd order factor (The direct effects of IPC on Performance)
The Baseline Model	Environmental characteristics, Strategic and IPC	N/A	Relationship Value and Overall Performance	The Baseline Model
The Alternative Model (1)	Environmental characteristics and Business strategy	IPC	Four Types of Relationship Value and Overall Performance	Economic, Operational, Strategic and Behavioural value are 1st order factors
The Submodel (1)	Environmental Characteristics	Business strategy	Interaction Process Characteristics	The causal relationships of three variables: Environmental, Strategic and IPC

8.7.1 The Baseline Model:

The Direct effects of Environmental, Strategic, Interaction Process Characteristics on Relationship Value and Performance

As Morgan and Hunt (1994) suggest, the comparison of proposed model with a rival model is seemingly needed to understand more of the relationships among constructs, particularly including newly introduced concepts. First, this section discuss the baseline model, namely the direct effects of environmental, strategic, interaction process characteristics on relationship value and performance. As we can see in Figure 8.3, the goodness of fit statistics for the model was: $x^2_{(df=1984)}$ = 3359.400 (P<0.000), 0.041, CFI=0.969, TLI=0.965. Therefore, the indirect paths linking the environmental, business strategy with interaction process characteristics are considerably stronger than the direct paths from the environmental, strategic, and interaction process characteristics to the relationship value. In the indirect paths model, the goodness of fit statistics for the model was: $\chi^2_{(df=2018)}$ =2974.270 (P-value < .000), RMSEA= .034, CFI= .978 and TLI= .976.

In the baseline model, centralisation, information exchange and trust have considerably positive effects on relationship value, while munificence, formalisation, trust and commitment have positive effects on overall performance. The effects of complexity, dynamism and joint action on both relationship value and overall performance are non-significant. Compared with the hypothesis model that shows the significance of the indirect effect of complexity on relationship value through centralisation, the direct effect of complexity on relationship value is not significant.

Figure 8.3 The Baseline Model

<The Model Fit of the Baseline Model>
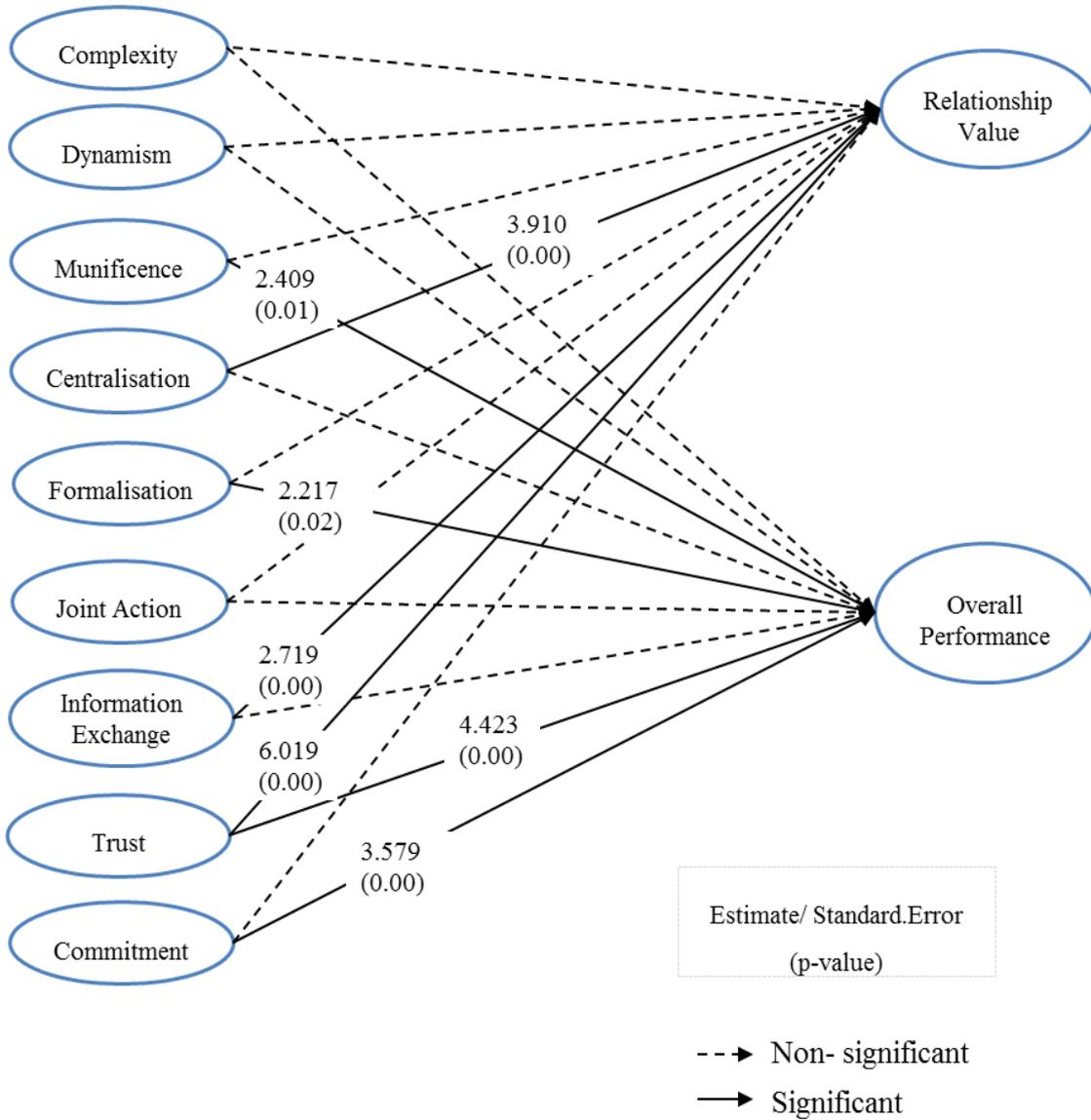
$x^2_{(df=1984)} = 3359.400 \, (P<0.000), RMSEA=0.041, CFI=0.969, TLI=0.965$

8.7.2 Althernative Model 1:

Four Types of Relationship Value and Environmental, Strategic, Interaction Process Characteristics, Overall Performance

In the hypothesised model, relationship value is considered a second order factor which consists of four types of relationship value. As the mediate effects of relationship value on interaction process characteristics and overall performance were tested, alternative model 1 focuses on what kinds of relationship value affect overall performance of the firm as well as how characteristics of interaction are associated with a kind of relationship value. Therefore, this model views each type of relationship value as latent variables. Figure 8.4 and Table 8.12 shows the relationships among interactional process characteristics, relationship value and overall performance. Only marginal support was found for this alternative model. The goodness of fit statistics for the model was: $\chi^2_{(df=2008)}$=3251.871 (P-value< .000), RMSEA= .069, CFI= .946 and TLI= .942.

Economic value, strategic value and behavioural value have significantly positive effects on overall performance whereas operational value has no significant effect on overall performance. This implies that the creation of economic value through the effort to reduce cost of interaction, the development of strategic value through the development of new core competencies and investment to explore strategic opportunities, the concentration of behavioural value through seeking the other party's opinion and win-win approach are more important than operational value achieved through fast decision making in order to achieve overall performance of the firm.

It follows the discussion of causal relationships among interaction process characteristics and relationship value. First of all, structural and functional characteristics have considerably positive effects on economic value. The cost reduction of interaction can be achieved through not only centralised and formalised decision making structure but also the effort to jointly work with their partners and the sharing of important information. Secondly, structural and climate characteristics have significant effects on operational value. As we can expect, in order to make decision making with

partner on time, centralised decision making structure as well as climate based on trust and commitment about their partners can affect operational value achieved through the decision making on time. Here, just following written work rule or standard procedure is not enough to achieve operational value. Rather, operational value can be achieved through centralised structure or the reduction of decision making time based on trust and commitment. Thirdly, functional characteristics have positive effects on strategic value. The development of new core competencies, exploration of strategic opportunities and enhancement of strategic competitive advantage can be achieved by jointly working with partners and sharing of key information. Finally, climate characteristics such as trust and commitment significantly lead behavioural value. Unsurprisingly, mutual respect and the development of confident relationship with partners to perform win-win approach can be achieved based on trust and commitment to each other.

Table 8.12 The Relationships among Four Types of Relationship Value and Other Variables in Alternative Model 1

Hypothesised Path	Estimate (STD Standardization)	Estimate/ S.E.	Accepted Hypothesis
Effects of Environment→ Interaction Process Characteristics			
Complexity→Centralisation	-	-	Rejected
Frequency of Change→Centralisation	-	-	Rejected
Unpredictability →Centralisation	.195	3.844	Accepted
Munificence →Centralisation	.199	3.733	Accepted
Complexity→Formalisation	-	-	Rejected
Frequency of Change→Formalisation	.120	2.206	Accepted
Unpredictability →Formalisation	-	-	Rejected
Munificence →Formalisation	-	-	Rejected
Complexity→Joint Action	-	-	Rejected
Frequency of Change→Joint Action	-	-	Rejected
Unpredictability of Change →JA	-	-	Rejected
Munificence →Joint Action	.183	3.291	Accepted
Complexity→Information Exchange	-	-	Rejected
Frequency of Change→IE	-	-	Rejected
Unpredictability of Change →IE	-	-	Rejected
Munificence →Information Exchange	.176	3.003	Accepted
Complexity→Trust	-	-	Rejected
Frequency of Change→Trust	-	-	Rejected
Unpredictability of Change →Trust	-	-	Rejected
Munificence →Trust	.215	3.902	Accepted
Complexity→Commitment	-	-	Rejected
Frequency of Change→Commitment	-	-	Rejected
Unpredictability of Change →Commit	-	-	Rejected
Munificence →Commitment	.295	5.310	Accepted
Effects of Business strategy → Interaction Process Characteristics			
Differentiation→Centralisation	.224	4.014	Accepted
Cost Leadership→Centralisation	.233	3.920	Accepted
Differentiation→Formalisation	.246	4.426	Accepted
Cost Leadership→Formalisation	.284	4.680	Accepted
Differentiation→Joint Action	.279	4.844	Accepted
Cost Leadership→Joint Action	.240	4.215	Accepted
Differentiation→Information Ex	.260	5.021	Accepted
Cost Leadership→IE	-	-	Rejected
Differentiation→Trust	.255	4.870	Accepted
Cost Leadership→Trust	-	-	Rejected
Differentiation→Commitment	.270	5.356	Accepted
Cost Leadership→Commitment	-	-	Rejected

Hypothesised Path	Estimate (STD Standardization)	Estimate/S.E.	Accepted Hypothesis
Effects of Interaction Process Characteristics → Four types of Relationship Value			
Centralisation → Economic Value	.227	3.983	Accepted
Formalisation →Economic Value	-	-	Rejected
Joint Action → Economic Value	-	-	Rejected
Information Exchange →EV	-	-	Rejected
Trust →Economic Value	.274	4.459	Accepted
Commitment →Economic Value	.492	8.230	Accepted
Centralisation →Operational Value	.285	4.805	Accepted
Formalisation →Operational Value	-	-	Rejected
Joint Action →Operational Value	-	-	Rejected
Information Exchange →OV	.145	2.084	Accepted
Trust →Operational Value	.317	4.510	Accepted
Commitment →Operational Value	.427	6.351	Accepted
Centralisation→Strategic Value	.155	3.119	Accepted
Formalisation →Strategic Value	-	-	Rejected
Joint Action →Strategic Value	.125	2.159	Accepted
Information Exchange →Strategic Value	-	-	Rejected
Trust →Strategic Value	.251	4.026	Accepted
Commitment →Strategic Value	.242	3.696	Accepted
Centralisation→Behavioural Value	.202	4.134	Accepted
Formalisation →Behavioural Value	-	-	Rejected
Joint Action →Behavioural Value	.106	2.194	Accepted
Information Exchange →BV	-	-	Rejected
Trust →Behavioural Value	.389	7.039	Accepted
Commitment →Behavioural Value	.361	6.390	Accepted
Effects of Relationship Value →Overall Performance			
Economic Value →Performance	.331	4.619	Accepted
Operational Value → Performance	-	-	Rejected
Strategic Value → Performance	.297	4.573	Accepted
Behavioural Value → Performance	.275	3.620	Accepted

Figure 8.4 The Relationships among Four Types of Relationship Value and Other Variables
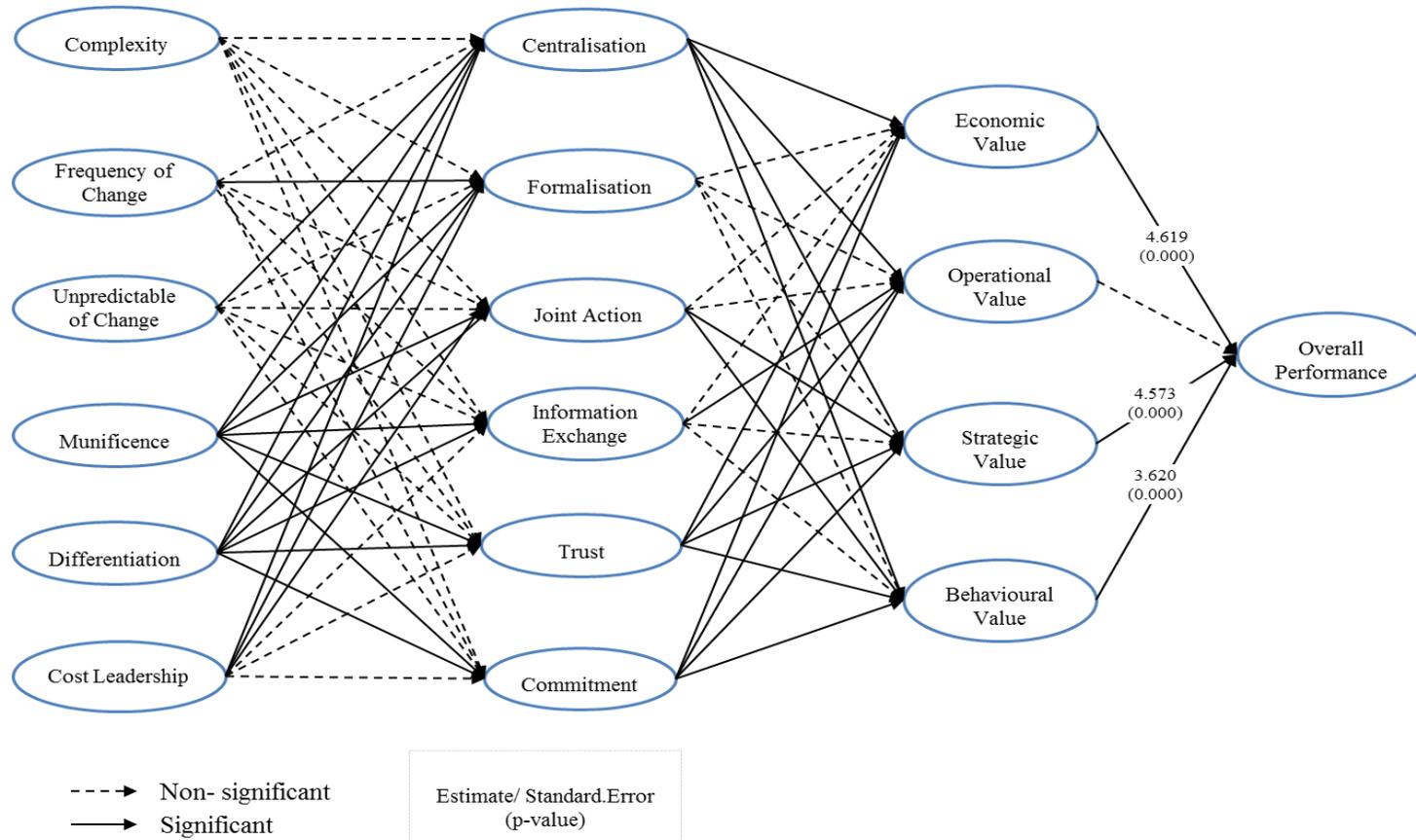
$\chi^2_{(df=2008)}$=**3251.871 (P-value< .000), RMSEA= .069, CFI= .946 and TLI= .942**

8.7.3 Submodel 1: The Mediate Effects of Business strategy on Interaction Process Characteristics

The examining results of the hypothesised model do not show the direct effects of environment characteristics on interaction process characteristics, even though a variety of literature in strategic management and marketing stress the important of environment characteristics in terms of decision of structural characteristics between firms. Therefore, the mediate effects of business strategy between environmental characteristics and interaction process characteristics are examined. Interestingly, dynamism has considerably positive effect on cost leadership strategy, whereas munificence affects positively differentiation. Therefore, if it is difficult for firms to predict the change of environment or under frequent change of environment, they are likely to adop strategies reducing cost. On the other hand, when critical resources which firms need are available and abundant, they are likely to choose differentiation strategies as we can expect.

Table 8.13 and Figure 8.5 show the relationships among environmental, strategic and interactional process characteristics. The goodness of fit statistics for the model was: $\chi^2_{(df=1134)}$ =2433.030 (P-value <.000), RMSEA= .053, CFI= .958 and TLI= .955 and this supports significantly a good fit of model.

Table 8.13 The Relationships among Environmental, Strategic and Interactional Process Characteristics in Submodel 1

Hypothesised Path	Estimate (STD Standardization)	*Estimate/ S.E.*	Accepted Hypothesis
Effects of Environmental Characteristics → Business strategy			
Complexity → Differentiation	.194	1.890	Rejected
Dynamism →Differentiation	.029	0.454	Rejected
Munificence →Differentiation	.599	7.840	Accepted
Complexity → Cost Leadership	.029	0.345	Rejected
Dynamism →Cost Leadership	.268	4.342	Accepted
Munificence →Cost Leadership	.089	1.220	Rejected
Effects of Business strategy → Interaction Process Characteristics			
Differentiation→ Centralisation	.298	6.407	Accepted
Differentiation→Formalisation	.352	5.863	Accepted
Differentiation →Joint Action	.386	8.025	Accepted
Differentiation →Exchange Information	.448	9.042	Accepted
Differentiation →Trust	.448	8.703	Accepted
Differentiation →Commitment	.475	8.768	Accepted
Cost Leadership→ Centralisation	.336	6.418	Accepted
Cost Leadership →Formalisation	.343	5.430	Accepted
Cost Leadership →Joint Action	.213	4.483	Accepted
Cost Leadership →Exchange Information	.102	1.703	Rejected
Cost Leadership →Trust	.136	2.324	Accepted
Cost Leadership →Commitment	.033	0.564	Rejected

Figure 8.5 The Relationships among Environmental, Strategic and Interactional Process Characteristics
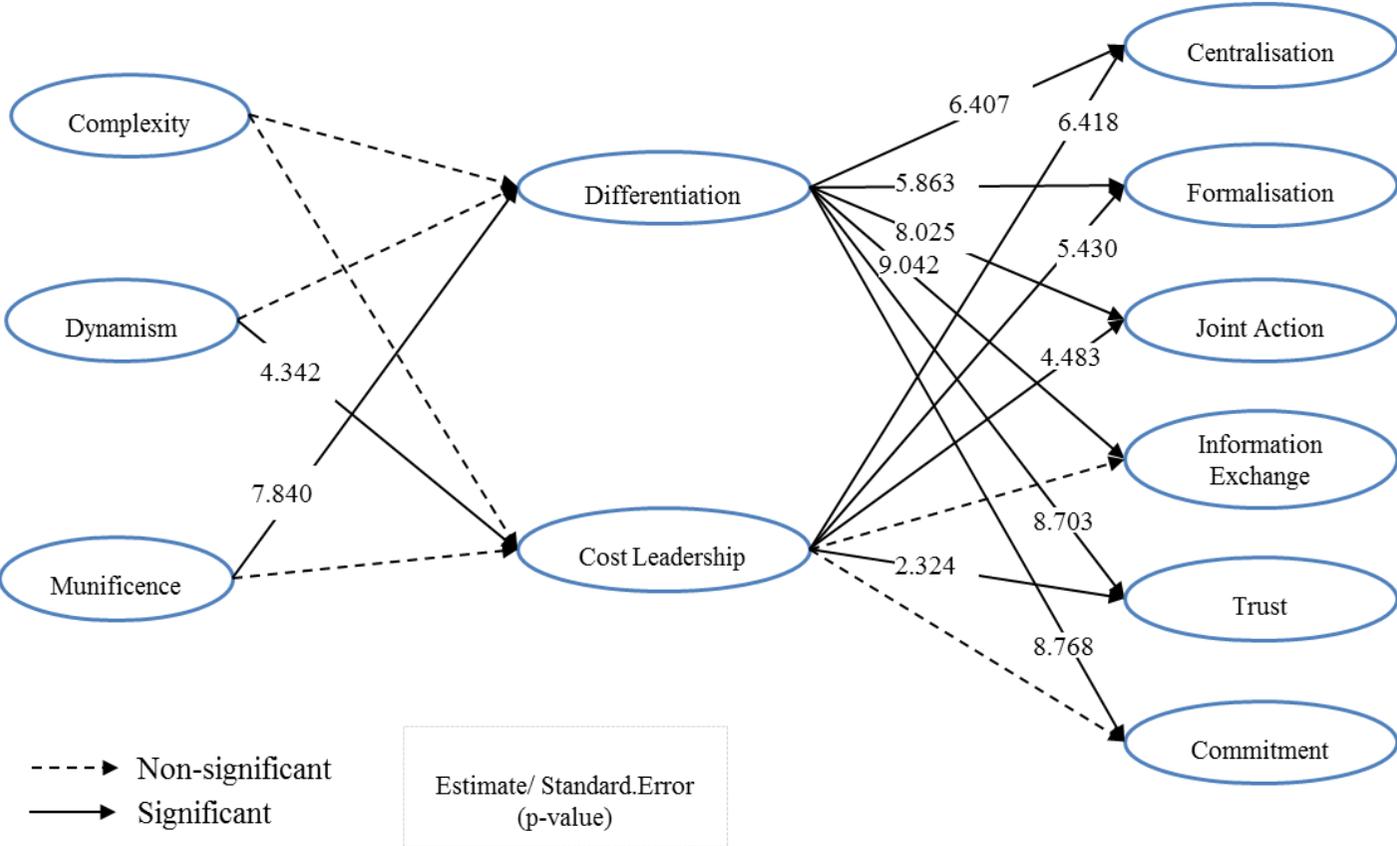
Chapter 9. Conclusion and Implications

9. Conclusion and Implications

9.1 Introduction

This chapter aims to highlight the key findings of this research and discuss theoretical, managerial and policy implications. These aims are addressed through the four main sections of this chapter. The first section provides a summary of key findings through examinations of the hypothesised model (Section 9.2). The second section (Section 9.3) relates to the discussion of the findings from the alternative model and the submodel. This section increases our understanding of the relationships among variables with the results of alternative models. Subsequently, the major implications are discussed in light of theoretical, managerial and policy implications (Section 9.4). Fourthly, the limitations of this research are discussed (Section 9.5). Finally, taking into account the results of this research as well as its limitations, recommendations for future research are advanced (Section 9.6).

This study revolves around the development of our understanding of interaction process characteristics when firms build and manage relationships with their most important partners (e.g., their key suppliers or buyers). It is guided by the integrated view of the interaction process based on structural, functional and climate characteristics in the supply chain. Additionally, this study adds to the extant body of knowledge about how firms create relational value and achieve performance by adopting structural characteristics and developing functional and climate characteristics under their specific environmental conditions as well as their strategic ways, which are of vital concern to researchers and managers alike. Within the integrated framework, practitioners, policy makers, decision makers within the relationships with partners or supplier and buyer managers in firms who are involved in the partnerships in the supply chain can think about which interaction process characteristics of the own firm and their partners suit for them under their faced environments. It can help for strategic decision makers of firms which business strategy is better to their own interaction process characteristics with partners.

The core research objectives guiding this study were:

1. *How are the interaction process characteristics defined?*
2. *Do the environment characteristics of the firm affect the interaction process characteristics of the firm and its partner?*
3. *Does the competitive strategy of the firm affect the interaction process characteristics of the firm and its partner?*
4. *Is relationship value defined as the sum of sub-dimensions of value in the relationships between firms?*
5. *Do the interaction process characteristics affect relationship value?*
6. *Does relationship value affect the overall performance of the firm?*

Has the study achieved its objectives? What suggestions for theory and practice can be made using the results of this study? A more comprehensive summary of the finding of these questions will follow.

9.2 Summary of Key Findings through the Hypothesised Model

As discussed in Chapter 2, scholars advocating Political Economy Paradigm (PEP) such as Robicheaux and Coleman (1994) have presented the integrated model of the antecedents, key constructs and outcomes of internal and external exchanges. The conceptual framework proposed in this study adopts a similar format of PEP. In doing so, this study was guided by the development of a conceptual framework which attempted to integrate the interaction process characteristics and their antecedents and consequences. As such, five blocks of characteristics within the framework are as follows: Interaction process characteristics (IPC), environmental characteristics and business strategy (the antecedents of IPC), and relationship value and firm performance (the consequences of IPC). From section 9.2.1 to section 9.2.6 will discuss the summary of key findings through the hypothesised model.

9.2.1 Three Dimensions of the Interaction Process Characteristics

This study defines interaction process characteristics between the supplier and the buyer as structural characteristics, functional characteristics and climate characteristics (See Chapter 3, Table 3.1, p.55). Structural characteristics consist of centralisation and formalisation (Table 3.2, pp.59-61), functional characteristics (Table 3.3, pp.66-67) consist of joint action and information exchange, and climate characteristics (Table 3.4, pp.73-74) consist of trust (Table 3.5, p.79) and commitment (Table 3.6, pp.83-85).

To define the interaction process characteristics, this study tests reliability and validity of each construct before the analysis of the hypothesised model. As we can see in Table 8.3.2 (p. 211), each item of the interaction process characteristics has reliability and the significant convergent validity of each construct. Based on the results of these tests, the interaction process characteristics can be further discussed as centralisation, formalisation, joint action, information exchange, trust and commitment. As it is already discussed in Chapter 3, these constructs result in the extend framework of Robicheaux and Coleman's (1994) channel structure (see Figure 2, p.341,) by considering of climate characteristics as not consequences of channel relational structure but constructs of interaction process. Consideration of climate characteristics as key constructs of interaction process is acceptable within the pertinent literature of relationship marketing.

Furthemore, findings for the relationships between IPC and environmental characteristics and business strategy as their antecedents will be discussed in section 9.2.2 and 9.2.3 respectively and findings for the relationships between IPC and their consequences will be discussed in section 9.2.4 and 9.2.5.

9.2.2 Findings for Environmental Characteristics as Antecedents of Interaction Process Characteristics

This study examines complexity, the frequency of change and the unpredictability of change (two dimensions of dynamism) and munificence as environmental characteristics that affect the interaction process characteristics. Complexity and dynamism in the pertinent literature have been considered as main environmental

characteristics that have significant effects on structural characteristics. However, as we can see in Table 9.1 (p.257), the testing results of the hypothesised model show that the effects of complexity on centralisation and formalisation are not significant. Interestingly, among the dimensions of dynamism, the effects of frequency of change on structural characteristics are not significant, while the unpredictability of change has considerably positive effects on centralisation and formalisation. On the basis of the results of the analysis, we can understand the phenomena in the IT and the automotive industries in a more specific manner. Firstly, in the IT or the automotive industries, when the firms are not easy to forecast the change of environment, they are likely to centralise or formalise their relationship to reduce risk of unpredictability of change. Secondly, according to today's advanced technology change quickly, from the firm's point of view, complexity and frequency of change in the IT and the automotive industries can be natural characteristics. Therefore, firms which have competitive advantages in these industries could already expect these environmental characteristics and be better positioned when dealing with them. These kinds of environmental characteristics do not seem to significantly affect the interaction process with their partners. As we can see from the example of Hyundai's partnerships (see chapter 3, p. 63), regardless of the level of environmental complexity and the frequency of change, firms can make decisions about their relational structure and functional characteristics. Similarly, complexity and the frequency of change do not seem to affect their trust and commitment. Additionally, munificence, in terms of how resource abundant the firm is, seems to be a more important consideration when firms decide upon the interactional structure and functional behaviour with partners than environmental uncertainty characteristics. In the advanced technology industry such as the IT industry, the number of suppliers that can have capabilities is limited and only they can offer their resources to the buyer. This results in the amount of the resources that firm can access becoming a key factor when choosing which structure or functional relationships they desire with partners in order to create their relational value. In conclusion, most effects of environmental characteristics except for munificence on interaction process characteristics are non-significant (H_1-H_3). As literature, the results of this study show firms try to reduce opportunism or uncertainty of relationships with their partners and

constantly remain current partnerships by making decisions in centralised ways and confirming formalised procedures, when the change of environmental conditions of the firm are not expectable. Based on the characteristics of the IT and the automotive industries, which are data sample of this research, environmental munificence including the preparation for technology change through preoccupying supplies or human resources is a very important factor.

9.2.3 Findings for Business strategy as an Antecedent of Interaction Process Characteristics

As we can see in Table 9.2 (p.258), the results of analysis in the hypothesised model show that the causal relationships between business strategy and interaction process characteristics are considerably significant (H_4-H_6) except for the effects of cost leadership on formalisation (H_{4-4}) and commitment (H_{6-4}). Comparison with prior studies that differentiation strategy has negative effects on centralisation and formalisation (Kabadayi et al. 2007; Olson et al. 2005), this analysis reports that both differentiation and cost leadership have significantly positive impacts on interaction process characteristics. In the IT and the automotive industries which are highly technology-based industries, either differentiation or cost leadership upholds centralised and formalised structure because they can respond quickly to high technology markets through short lines of communication in centralised structure and also reduce the risk of opportunism from formalised contracts that results in protecting their technological properties by formalisation. Regarding the causal relationships between business strategy and climate characteristics, all causal relationships are significant with exception of the effect of cost leadership on commitment (H_{6-4}). According to the literature of trust and commitment theory as discussed by Moran and Hunt (1994), commitment can happen in higher level of the relationship life cycle and firms that have commitment each other are likely to have already relationship specific investment (RSI) (Jap and Ganesan 2000). Therefore, firms have commitment to their partners are not likely to be affected by cost leadership. Rather, the cost can be an insignificant issue for firms that have strongly engaged with their partner.

9.2.4 Findings for Relationship Value as a Consequence of Interaction Process Characteristics

As Table 9.3 (p.259) shows, the findings coincide as to those in the literature of the relationships between interaction process characteristics and relationship value which have been reported in Chapter 6. This research viewed relationship value as a high order factor, which reflects economic value, operational value, strategic value and behavioural value (See section 8.6.1). As the goodness of fit statistics for the measurement model were significant, relationship value can be considered as a second order factor and used in examination for the hypothesised model. However, the analysis results of the hypothesised model show that formalisation, joint action and information exchange do not have significant effects on relationship value. As discussed in chapter 4, joint action was expected to be involved in higher level of relationship value such as developing new core competencies, whereas information exchange is likely to happen in lower level of relationship value such as decision making on time or directly solving difficult problems. Based on the result of the hypothesised model that views relationship value as a second order factor, the effects of joint action and information exchange do not seem to explain clearly how both constructs affect significantly relationship value that consists of sub-types. Therefore, we had better look into the causal relationships between functional characteristics and sub-types of relationship value so that we can understand how joint action and information exchange are related to different levels of relationship value. The alternative model will be discussed in more detail in section 9.3 (p.255). Regarding the effects of structural characteristics on relationship value, centralisation affects significantly relationship value as high order factor, while formalisation does not affect significantly relationship value. It will also discuss in more detail in the alternative model in section 9.3 (p.255). As literature stresses, the results of this study shows that trust and commitment create considerably relationship value. In particular, both constructs have very significantly effects on all sub-types of relationship value. Therefore, we can confirm that trust and commitment are key factors to develop the partnerships among firms and create value for dyadic benefits.

9.2.5 Findings for the Causal Relationships between Relationship Value and Firm Performance

As we can see in Table 9.4 (p.260), relationship value has a significant effect on overall performance of the firm. Shared relationship value with the partner can be expected to contribute to financial performance such as return on assets, average annual growth in return on assets and sales growth as well as perceived satisfaction level of performance acquired through relationships with partners. Particularly, not only relationship value as a single concept but also sub-type of relationship value such as economic, strategic and behavioural value significantly affect the financial or perceived performance of the firm. However, contrary to expectation, operational value which creates value through fast decision making does not significantly affect the overall performance of the firm, including its financial performance and satisfaction with partners. In this research, sub-types of relationship value can be considered or created as the relationship life cycle. Namely, economic value and operational value can be created at the earlier stages of relationship life cycle with partners, whereas strategic value and behavioural value can be created at the mature stages of relationship life cycle. Additionally, economic, operational and strategic value will probably affect financial performance and behavioural value will probably affect perceived performance through an achievement of mutual trust and win-win approach. According to the results of this research, firms in the technology based industry such as the IT and the automotive industries seem to consider creation in terms of more sophisticated values such as strategic or behavioural value instead of the creation of value through uncomplicated operational adaption.

9.3 Summary of Key Findings in the Alternatives Model and Submodel

In the hypothesised model, relationship value as a second order factor which consists of four types of relationship value was discussed and the framework including it was tested. However, some effects of interaction process characteristics such as functional characteristics on relationship value (see Table 9.3, p.259) are not significantly against expectation although joint action and information exchange are considered as key factors of channel relationship structure in the literature. Therefore, in order to further

understand of causal relationships between interaction process characteristics and relationship value, the alternative model 1 that focuses on what kinds of relationship value affect overall performance of the firm as well as how characteristics of interaction are associated with a kind of relationship value was tested. The results of the alternative model are presented in Table 8.12 (pp.241-242). Additionally, the submodel 1 was tested to focus on the relationships between IPC and their antecedents. This section will discuss the further relationships between IPC and their antecedents as well as the relationship between IPC and each type of relationship value based on the results of the alternative model 1 and the submodel 1.

First of all, the causal relationships among environmental characteristics and IPC are similar between the hypothesised model and the alternative models (See Table 9.1). As discussed in section 9.2.2, unpredictability of change seems to affect more the centralised structure and frequency of change seem to affect more the formalisation structure. Regarding decision of IPC between partners, munificence seems the most important environmental factors. Second, according to the result of the alternative model that business strategy as an antecedent of interaction process characteristics is discussed, the effects of cost leadership on formalisation and commitment are significant, while these relationships in the hypothesised model were not significant. Third, regarding the IPC and relationship value, in the hypothesised model 1, 2 and the baseline model, formalisation and joint action do not have significant effects on relationship value. However, in the relationship between joint action and four types of relationship value, joint action has positive effect on strategic and behavioural value. Information value also has a positive effect on operational value. From the results, we can expect that joint action affects higher level of relationship value such as developing new core competencies or exploring strategic opportunities or win-win approach creation through mutual respect, whereas information exchange affects lower level of relationship value such as decision making on time or directly solving difficult problems. Interestingly, centralisation affects significantly all types of relationship value as well as relationship value as high order factor, while formalisation does not affect significantly relation value. In particular, among the relationships between centralisation

and each type of relationship value, centralisation has very significant effect on both operational value and strategic value. As the literature stresses, trust and commitment are shown as key characteristics that create relationship value. Therefore, to create relationship value in each relationship lifecycle, firms should consider how they build their trust and reinforce and retain their commitment. Fourth, the integrated framework of this research suggests that interaction process characteristics have indirect effects on overall performance. The testing results (See Table 9.4, p.260) show only structural, functional, and climate characteristics have significant effects on performance by means of the mediating role of relationship value. Through the baseline model and the hypothesis model 2, the direct effects of IPC on the performance of the firm are discussed. In the baseline model, only formalisation, trust and commitment affect overall performance. The results of the hypothesised model and the baseline model show that overall performance of the firm can be achieved through the achievement of relationship value. Therefore, it can be said that the firm can reach their aimed performance by working to create relationship value rather than targeting on the overall performance level of the firm itself.

Overall it can be said that this study has achieved its six main objectives. A conceptual framework and a methodology were developed which enabled the investigation of the relationships among the interaction process characteristics, environmental characteristics as external variables of the relationship process and the business strategy of the firm as internal characteristics of the firm, relationship value and firm performance as relationship outcome with an integrated view. In the next section, the theoretical, managerial, and policy implications of the results found in this study will be discussed in detail.

Table 9.1 Environmental Characteristics and IPC in Models

			HM1*	HM2*	AM1*
H1		*Effects of Environmental Characteristics → Structural Characteristics*			
	H1-1	Complexity → Centralisation	n.s	n.s	n.s
	H1-2	Frequency of Change→Centralisation	n.s	n.s	n.s
	H1-3	Unpredictability of Change →Centralisation	A (+)	A (+)	A (+)
	H1-4	Munificence →Centralisation	A (+)	A (+)	A (+)
	H1-5	Complexity → Formalisation	n.s	n.s	n.s
	H1-6	Frequency of Change→ Formalisation	A (+)	A (+)	A (+)
	H1-7	Unpredictability of Change → Formalisation	n.s	n.s	n.s
	H1-8	Munificence → Formalisation	n.s	n.s	n.s
H2		*Effects of Environmental Characteristics → Functional Characteristics*			
	H2-1	Complexity → Joint Action	n.s	n.s	n.s
	H2-2	Frequency of Change→Joint Action	n.s	n.s	n.s
	H2-3	Unpredictability of Change →Joint Action	n.s	n.s	n.s
	H2-4	Munificence →Joint Action	A (+)	A (+)	A (+)
	H2-5	Complexity →Exchange Information	n.s	n.s	n.s
	H2-6	Frequency of Change→ Exchange Information	n.s	n.s	n.s
	H2-7	Unpredictability of Change → Exchange Information	n.s	n.s	n.s
	H2-8	Munificence → Exchange Information	A (+)	A (+)	A (+)
H3		*Effects of Environmental Characteristics → Climate Characteristics*			
	H3-1	Complexity → Trust	n.s	n.s	n.s
	H3-2	Frequency of Change→ Trust	n.s	n.s	n.s
	H3-3	Unpredictability of Change → Trust	n.s	n.s	n.s
	H3-4	Munificence → Trust	A (+)	A (+)	A (+)
	H3-5	Complexity →Commitment	n.s	n.s	n.s
	H3-6	Frequency of Change→ Commitment	n.s	n.s	n.s
	H3-7	Unpredictability of Change → Commitment	n.s	n.s	n.s
	H3-8	Munificence → Commitment	A (+)	A (+)	A (+)

*HM1: Hypothesised Model 1
*HM2: Hypothesised Model 2 (The Direct Effect of IPC on Performance)
*AM1: Alternative model 1
*n.s: Non-significant
*A(+): Accepted (positive effect)

Table 9.2 Business Strategy and IPC in Models

			HM1*	HM2*	AM1*	SM1*
H4		*Effects of Strategy Characteristics → Structural Characteristics*				
	H4-1	Differentiation→Centralisation	A (+)	A (+)	A (+)	A (+)
	H4-2	Cost Leadership→ Centralisation	A (+)	A (+)	A (+)	A (+)
	H4-3	Differentiation → Formalisation	A (+)	A (+)	A (+)	A (+)
	H4-4	Cost Leadership → Formalisation	**n.s**	A (+)	A (+)	A (+)
H5		*Effects of Strategy Characteristics → Functional Characteristics*				
	H5-1	Differentiation→Joint Action	A (+)	A (+)	A (+)	A (+)
	H5-2	Cost Leadership→Joint Action	A (+)	A (+)	A (+)	A (+)
	H5-3	Differentiation →Information Exchange	A (+)	A (+)	A (+)	A (+)
	H5-4	Cost Leadership → Information Exchange	A (+)	A (+)	**n.s**	**n.s**
H6		*Effects of Strategy Characteristics → Climate Characteristics*				
	H6-1	Differentiation → Trust	A (+)	A (+)	A (+)	A (+)
	H6-2	Cost Leadership → Trust	A (+)	A (+)	**n.s**	A (+)
	H6-3	Differentiation →Commitment	A (+)	A (+)	A (+)	A (+)
	H6-4	Cost Leadership → Commitment	**n.s**	**n.s**	A (+)	**n.s**

*HM1: Hypothesised Model 1
*HM2: Hypothesised Model 2 (The Direct Effect of IPC on Performance)
*AM1: Alternative model 1
*SM1: Submodel 1
* n.s: Non-significant
*A(+): Accepted (positive effect)

Table 9.3 IPC and Relationship Value in Models

			HM1*	HM2*	BL*	AM1*
Effects of Interaction Process Characteristics →Consequences						
	Effects of Structural Characteristics → Relationship Value					
	H7-1	Centralisation → Relationship Value	A (+)	A (+)	A (+)	
		Centralisation →Economic Value				A (+)
		Centralisation →Operational Value				A (+)
		Centralisation →Strategic Value				A (+)
		Centralisation →Behavioural Value				A (+)
H7	H7-2	Formalisation → Relationship Value	**n.s**	**n.s**	**n.s**	
		Formalisation →Economic Value				**n.s**
		Formalisation →Operational Value				**n.s**
		Formalisation →Strategic Value				**n.s**
		Formalisation →Behavioural Value				**n.s**
	Effects of Functional Characteristics → Relationship Value					
	H8-1	Joint Action → Relationship Value	**n.s**	**n.s**	**n.s**	
		Joint Action→Economic Value				**n.s**
		Joint Action →Operational Value				**n.s**
		Joint Action →Strategic Value				A (+)
		Joint Action →Behavioural Value				A (+)
H8	H8-2	Information Exchange → Relationship Value	**n.s**	**n.s**	A (+)	
		Info Exchange →Economic Value				A (+)
		Info Exchange→Operational V				A (+)
		Info Exchange →Strategic Value				**n.s**
		Info Exchange→Behavioural V				**n.s**
	Effects of Climate Characteristics → Relationship Value					
	H9-1	Trust → Relationship Value	A (+)	A (+)	A (+)	
		Trust→Economic Value				A (+)
		Trust→Operational Value				A (+)
		Trust→Strategic Value				A (+)
		Trust→Behavioural Value				A (+)
H9	H9-2	Commitment → Relationship Value	A (+)	A (+)	**n.s**	
		Commitment→Economic Value				A (+)
		Commitment →Operational V				A (+)
		Commitment →Strategic Value				A (+)
		Commitment →Behavioural V				A (+)

*HM1: Hypothesised Model 1

*HM2: Hypothesised Model 2 (The Direct Effect of IPC on Performance)

*BL: Baseline Model / *AM1: Alternative model 1

*n.s: Non-significant

*A(+): Accepted (positive effect)

Table 9.4 shows the accepted results of the hypotheses of the effects of relationship value on performance in each model and Table 9.5 shows the direct effect of the IPC on performance in the hypothesised model and the baseline model.

Table 9.4 Relationship Value and Performance in Models

			HM1*	HM2*	AM1*
H10	Relationship Value → Overall Performance		A (+)	A (+)	
	Four Types of Relationship Value	Economic Value → Overall Performance			A (+)
		Operational Value → Overall Performance			**n.s**
		Strategic Value → Overall Performance			A (+)
		Behavioural Value → Overall Performance			A (+)
*HM1: Hypothesised Model 1 *HM2: Hypothesised Model 2 (The Direct Effect of IPC on Performance) *AM1: Alternative Model 1 *n.s: Non-significant *A(+): Accepted (positive effect)					

Table 9.5 The Direct Effect of IPC on Performance in Models

		HM2*	BL*
Direct Effect	*Effects of Structural Characteristics → Overall Performance*		
	Centralisation → *Overall Performance*	**n.s**	**n.s**
	Formalisation → *Overall Performance*	**n.s**	A (+)
	Effects of Functional Characteristics → Overall Performance		
	Joint Action → *Overall Performance*	**n.s**	**n.s**
	Information Exchange → *Overall Performance*	**n.s**	**n.s**
	Effects of Climate Characteristics → Overall Performance		
	Trust → *Overall Performance*	**n.s**	A (+)
	Commitment → *Overall Performance*	**n.s**	A (+)
*HM2: Hypothesised Model 2 (The Direct Effect of IPC on Performance) *BL: Baseline Model *n.s: Non-significant *A(+): Accepted (positive effect)			

9.3 The Major Implications of the Research

9.3.1 Theoretical Implications

This research adds to the body of knowledge about the integrated framework of interaction process characteristics in supplier-buyer relationships. The dimensions of interaction process characteristics by adding climate characteristic and adjusting functional characteristic in Robicheaux and Coleman's (1992) the framework of channel relationship structure were extended as structural, functional and climate characteristics in this study. In addition, relationship marketing literature has stressed the importance of relationship value as an antecedent of the performance of the firm. Therefore, this study has extended an understanding relationship value as the mediator between IPC and overall performance of the firm through empirical analysis by structural equation modelling on the basis of the integrated framework of interaction process characteristics in channel relationships. From this point of view, this research makes theoretical contributions in several ways as follows.

Firstly, this study extends existing literature on the political economy paradigm by identifying the interaction process characteristics model with the integrated approach. It is possible by testing pathways through which interaction process characteristics are chosen by managers under their environmental conditions and their specific business strategy as well as pathways through which interaction process characteristics contributes ultimately to relationship value and the overall performance of the firm. In particular, as complexity could be a natural characteristic in the IT and automotive industries, against expectation, these environmental characteristics are less significant factors when firm managers should consider their interaction process characteristics. Rather, among several environmental characteristics, munificence is the most important environmental characteristic to decide interaction process characteristics because the question of who can get the capable resources more and on time is increasingly more of a key factor in these industries. As there is limited study regarding the effect of munificence on structural or functional characteristics of the relationship between the supplier and the buyer, this research can stress the importance of munificence as a key

environmental factor and contributes to building knowledge of how munificence as environmental factor of IPC affects relationship value and firm performance indirectly through an empirical study.

Secondly, this study contributes to the identification of the dimensions of relationship value and the development of its measurement. Relationship value has been considered as a concept that is not easy to operationalise for empirical analysis because the value can be defined differently under complex conditions of personal, situational, and comparative (Becerra 2009). Furthermore, although there are some studies that examines empirically relationship value, most of them measured relationship value as one dimension concept (Berghman, Matthyssens, and Vandenbempt 2012; Chung, Chatterjee, and Sengupta 2012). Therefore, to identify the several dimensions of relationship value in supplier-buyer interaction process context and develop their measurements can be a key contribution of this study. In doing so, this study classifies the relationship value based on literature (e.g., Sheth, Newman, and Gross 1991; Songailiene, Winklhofer, and McKechnie 2011; Wilson and Jantrania 1994), examines relationship value as a high order factor construct that consists of four types of constructs such as economic value, operational value, strategic value and behavioural value. According to the empirical results of this research, each relationship value concept is significant in reliability (Table 8.3.3., p. 212) and validity (Table 8.3.3., p.215 and Table 8.4, p. 217) and it can be considered as each subconcept of relationship value. Furthermore, based on the literature, the measurements of these comcepts were developed and tested by means of the survey method with the questionnaire. In short, through the results of analyses such as the reliability test, the validity test, EFA, and CFA, this research shows the existing of relationship value consisted of four types of subconstructs and develops successfully the measurements of relationship value. From this result, it is expected that more researchers in relationship marketing will examine relationship value as multi dimension concepts with the measurements developed in this study. Particularly, economic value or operational value introduced by the study can be considered more in the earlier or the immature relationship lifecycle while strategic or behaviour value can be considered in the mature relationship lifecycle. In conclusion,

this helps expand the body of knowledge about relationship value and encourages more empirical research on relationship value.

Finally, this study contributes to understanding the integrated framework of interaction process characteristics in South Korea by adding empirical evidence from South Korean technology-intensive firms such as factory automation, electronic, and automotive industries. These industries could be good research samples related to supplier-buyer interaction processes based on environmental and business strategy because most manufacturing firms in the heavy equipment products and the IT technological products industries have strong relationships with their partners allied to the fact that they responded sensitively to environmental and strategic factors as factors which affect their performance (Bensaou 1999; Cousins and Crone 2003; Sturgeon, Van Biesebroeck, and Gereffi 2008). Since high tech industries of South Korea are considered as some of the best industries in the world, the examination results of interaction process characteristics model with samples in South Korea about high tech industries are meaningful.

9.3.2 Methodological Implications

This study contributes to extend empirical literature by structural equation modeling (SEM). The characters of structural equation modelling (SEM) are like combining that of factor analysis, canonical correlation and multiple regressions (Tabachnick and Fidell 2007). Since the results of SEM show the good fit of model including all causal relationships among independent and dependent variables, this analysis method is useful for this study which examines the model developed on the basis integrated approach. MPlus software programme used in this study has merits to find good fit of the model and particularly DIFFTEST of MPlus was suit the aim of this research which tries to compare the hypothesised model with submodels to increase the understanding of interaction process characteristics and the relationships among their antecedents and consequences. In integrated framework, DIFFTEST of MPlus was useful to compare the several rival models and suggests proper casual relationships between variables. This

study shows the example of how DIFFTEST of MPlus can be used in an empirical study.

9.3.3 Implications for Managers

The key argument and findings of this study are that how interaction process characteristics between firms lead to overall performance by a mediator as relationship value under environmental munificence and business strategy. From a managerial perspective, this research provides guidance with an integrated approach for managers on how to create relationship value and achieve the overall performance of the firm by managing structural, functional and climate characteristics in relationships with their partners (See Table 9.1-9.5). Based on this knowledge, managers will be able to fine tune their implementation of each interaction process characteristic for any given environmental characteristics or business strategy and significantly improve their relationship value as well as the overall performance of the firm.

First, under environmental dynamism that managers can face due to the unpredictable nature of the environments and frequent environmental change, managers can adopt centralised structure of decision making between firms (See Table 8.9, p.235) in order to reduce risk from an unpredictability of change and therefore secure more critical resources in advance against fluctuated demand. Additionally, when considering the abundance of key resources that firms should secure, mangers should achieve their relationship value by considering how they manage joint action and information sharing or how they build trust and commitment to their partners rather than by discussing structural characteristics of decision making between firms. Second, when managers contemplate adoption of a business strategy, they should recognise that both differentiation and cost leadership can strengthen interaction process characteristics (See Table 8.9 p. 235). In particular, differentiation strategy has a considerably positive effect on centralised and formalised structure in the high technology industries because relationship specific investment in these industries by firms that adopt differentiation strategy increases the effectiveness within centralised and formalised structure. Third,

the study shows that centralised structure of decision making and relational climate that is built through trust and commitment has significantly positive effects on relationship value. Therefore, managers can create relationship value by building centralised structure between firms and developing a climate of trust and commitment to each other. Finally, to create relationship value by economic, operational, strategic and behavioural value can improve the overall performance of the firm, as we can expect. From a practical standpoint, firms are likely to focus on economic value. However, other relationship values also significantly improve the performance of the firm. Therefore, managers should undertake efforts to make decisions quickly and on time, to develop strategic opportunities with partners, to help partners in order to enhance strategic competitive advantage, or to follow a win-win approach and to seek the partner's opinion. Managers' who implement these kinds of efforts will create operational value, strategic value and behavioural value in the interaction process. Specially, according to the relationship lifecycle, firms need to focus on creation of different dimensions of relationship value more than other relationship value.

9.3.4 Implications for Policy Makers

To begin with, when deciding where to allocate funds, policy makers must take into account not only the current performance of the candidate firms, but also their ability to cope with the whole range of the issues generated through the relationship with their partner firms, because the ability to develop the structure of relationships with partners, the ability to share key information and work jointly with partners and the attitude to build trust and commitment can result in creation of relationship value as well as the increase of firm performance. As results of analysis in this study indicate, managers should decide the level of centralised relationship structure, the level of joint action and information exchange or the level of trust and commitment about their partners after they identify environmental characteristics with which the firm faces Therefore, policy makers should consider favourably applications from the firm with substantial relationship experience that decides to the levels of structure, function and climate characteristics with their partners. Moreover, the findings of this study can be used for a

more balanced allocation of governmental funds by classifying the firms based on their interaction process characteristics with partners.

9.4 Limitations of the Research

Despite clear contributions of this study to theoretical, managerial and policy implications, this study has also some unavoidable limitations like many others.

Primary among limitations is the fact that it was restricted to a narrow number of industries such as the factory automation system, electronic components and automotive manufacturing parts in one country, South Korea. As such, the application of its results to other industries or countries cannot be claimed before any replication of its findings is made in other countries and industries.

The second limitation results from the angle taken in both the interviews and the survey. This study did not use dyadic data. Rather, this study concentrated explicitly on the one side of the supplier-buyer relationship, on the basis of their perception of the characteristics of the most important business relationships that they had with their counterparts. Namely, the suppliers sample group forcused on their key buyers, whereas the buyers sample group focused on their key suppliers. Previous studies that collected dyadic data have reported several practical problems in data collection that can dramatically decrease the response rate (Weitz and Jap 1995). Therefore, while it was tempting to include this angle in the research, the decision was made to avoid collecting dyadic data (e.g., Anderson and Weitz 1992; Heide and John 1992; Selnes and Sallis 2003).

Third, regarding the potential effects of common method bias (or single source bias), there are studies which the multiple informant approach to generate the data for both the independent and dependent variables instead of a single key informant approach (Akbar, Kim, and Tzokas 2012; Avolio, Yammarino, and Bass 1991; Talke and Hultink 2010). Although several procedural remedies were considered to minimise the potential effects

of common method bias, for example, careful attention was paid in selecting well-qualified key informants to provide the data. Previous research indicates that the single informant approach can also result in generating reliable data (e.g. Anderson and Weitz 1992; Heide and John 1992; Selnes and Sallis 2003). Nevertheless, this is acknowledged as a possible limitation.

9.5 Future Research

Taking into account the results of this research as well as its limitations, there are some recommendations for future research. Firstly, regarding the first limitation of this research, similar studies with a focus on other industries and countries can be conducted. Extending this study to other research settings and contexts will test the robustness of this study through clarifying the extent to which the findings of this study are generalizable (Barlow and Jashapara 1998). In particular, the factory automation system, electronic components, and automotive industries which comprise the sample data of this research can be compared with the research based on semiconductor industry because these industries are similarly industries based on high technology manufacturing and have built close relationships with partners in the supply chain.

To address the second limitation mentioned in section 9.4, future research could use dyadic data by the both sides of the buyer-seller relationship. Understanding both perspectives between partners could potentially provide fresh insight that may help to explain the unique patterns of coalignment that exist among interaction process characteristics and four types of relationship value.

Finally, another important research question relates to investigating the existing of other interaction process characteristics in business relationships such as the cultural characteristics of the firm, apart from structural, functional and climate characteristics. Moreover, future research could also investigate other dimensions of relationship value such as innovative relationship value and discuss how other relationship value is adopted in each stage of relationship development with partner firms. The different

level of relationships with partners from initial relationship (weak bond) to mature relationship (strong bond) is likely to be related to different kinds of relationship value. The firms in the low level stage (initial stage) of relationship development may focus on the achievement of economic value or operational value whereas the firms in high level stage (mature stage) of relationship development may focus on strategic or behavioural value. According to development of more sub-types of relationship value, the firm can develop in terms of how they can create relationship value and finally achieve superior performance.

Appendix A: Questionnaire (English version)

Relationships with the important Partner

Thank you for taking the time to fill out this survey for the research regarding relationships between supplier and buyer companies. The information gathered for the study will be completely confidential and will be used only for my PhD thesis. You do not need to include your name or any other personnel information.

If you any questions please feel free to contact me at

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\<Note\>

Most questions are asked to choose only one among ① to ⑤.

① is when you strongly disagree,

② is when you disagree,

③ is when neither disagree nor agree,

④ is when you agree and

⑤ is when you strongly agree.

  Please circle only a number chosen.

\<Example\> Question: I would like to answer the questionnaire sincerely.

①	②	③	④	⑤
Strongly disagree	**Disagree**	**Neutrality**	**Agree**	**Strongly agree**
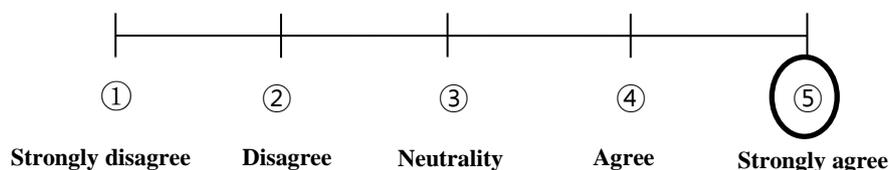
The following statements are related to the **Environmental Characteristics** of your business. Please circle the number of your answer.

No	1.Complexity	Strongly disagree		Neutrality		Strongly agree
1	There are a number of products or brands sold in our market	①	②	③	④	⑤
2	There are a number of different customer segments in our market	①	②	③	④	⑤
3	Customer requirements vary very much across different customer segments	①	②	③	④	⑤
4	There are a number of companies competing in our market	①	②	③	④	⑤
No	2. Dynamism (Frequency of Change)	Strongly disagree		Neutrality		Strongly agree
5	There are frequent changes in the products offered by our firm and our competitors	①	②	③	④	⑤
6	There are frequent changes in the sales strategies of our firm and our competitors	①	②	③	④	⑤
7	There are frequent changes in customer preferences about product features	①	②	③	④	⑤
8	There are frequent changes in competitive strategies and competitive intensity	①	②	③	④	⑤
No	3. Dynamism (Predictability of Change)	Strongly disagree		Neutrality		Strongly agree
9	Changes in the products offered by our firm and our competitors are predictable	①	②	③	④	⑤
10	Changes in the sales strategies by our firm and our competitors are predictable	①	②	③	④	⑤
11	Changes in customer preferences about product features are predictable	①	②	③	④	⑤
12	Changes in competitive strategies and competitive intensity are predictable	①	②	③	④	⑤
No	4. Munificence	Strongly disagree		Neutrality		Strongly agree
13	The demand for our product in our current market is strong and growing	①	②	③	④	⑤
14	There is a potential for high sales growth in our market	①	②	③	④	⑤
15	There is an abundance of resources (i.e. Financial, Supplies, Human resources, etc.) in our market to firms to support growth potential	①	②	③	④	⑤

16	There is no shortage of necessary resources in our market	①	②	③	④	⑤

The following statements are related to **your firm's strategies**. Please circle the number of your answer.

No	**5. Differentiation**	Strongly disagree		Neutrality		Strongly agree
17	Our strategies focus on producing high-quality products	①	②	③	④	⑤
18	Our strategies focus on creating superior customer value through service quality	①	②	③	④	⑤
19	Our strategies focus on developing innovative marketing techniques	①	②	③	④	⑤
20	Our strategies focus on developing innovative products	①	②	③	④	⑤
No	**6. Cost leadership**	Strongly disagree		Neutrality		Strongly agree
21	Our strategies focus on pricing at or below competitive price levels	①	②	③	④	⑤
22	Our strategies focus on controlling overhead and variable costs tightly	①	②	③	④	⑤
23	Our strategies focus on pursuing economies of scale	①	②	③	④	⑤
24	Our strategies focus on emphasizing low cost per unit	①	②	③	④	⑤

The following questions (Q25-Q74) are related to the relationship with one of your important buyer or supply partners. Please **think about one of your important partners** with whom you have exchanged, and then **answer questions about the partner or your relationship with the partner**. Please circle the number of your answer.

Your partner that you are thinking to reply to this survey is a _____.

① Buyer   ② Supplier

The following statements are related to **Structural characteristics of the Interaction process between your company and your partner**. Please circle the number of your answer.

No	7. Centralisation	Strongly disagree		Neutrality		Strongly agree
25	Even small matters have to be referred to us for a final decision	①	②	③	④	⑤
26	Any decision this partner makes regarding our product has to have our approval	①	②	③	④	⑤
27	This partner cannot go ahead with actions without checking with us	①	②	③	④	⑤
28	Even small matters have to be referred to this partner for a final decision	①	②	③	④	⑤
29	Any decision we make regarding our product has to have this partner's approval	①	②	③	④	⑤
30	We cannot go ahead with actions without checking with this partner	①	②	③	④	⑤
No	8. Formalisation	Strongly disagree		Neutrality		Strongly agree
31	We (this partner and my firm) follow written work rules for our job	①	②	③	④	⑤
32	There are standard procedures and rules to be followed by us (this partner and my firm)	①	②	③	④	⑤
33	We (this partner and my firm) have to conform to written rules and formal guidelines	①	②	③	④	⑤
34	The contacts with this partner are on a formal, preplanned basis	①	②	③	④	⑤

The following statements are related to **Functional characteristics of the Integration process between your company and your partner**. Please circle the number of your answer.

No	9. Joint Action	Strongly disagree		Neutrality		Strongly agree
35	We work jointly with this partner on all product modification issues that may affect this partner	①	②	③	④	⑤
36	We work jointly with this partner on all cost-cutting issues that may affect this partner	①	②	③	④	⑤
37	Our long range plans are formed jointly with this partner	①	②	③	④	⑤

38	We work jointly with this partner in training people in both companies	①	②	③	④	⑤
	10. Information Exchange	Strongly disagree		Neutrality		Strongly agree
39	Proprietary information is shared with each other	①	②	③	④	⑤
40	In this relationship, it is expected that any information that might help the other party will be provided to them	①	②	③	④	⑤
41	It is expected that we keep each other informed about events or changes that may affect the other party	①	②	③	④	⑤
42	It is expected that each partner will provide proprietary information if it can help the other party	①	②	③	④	⑤

The following statements are related to **Climate characteristics of the Integration process between your company and your partner**. Please circle the number of your answer.

No	**11. Trust**	Strongly disagree		Neutrality		Strongly agree
43	This partner has been frank in dealing with us	①	②	③	④	⑤
44	Promises made by this partner are reliable	①	②	③	④	⑤
45	This partner has made sacrifices for us in the past	①	②	③	④	⑤
46	This partner cares for us	①	②	③	④	⑤
47	We feel this partner has been on our side	①	②	③	④	⑤
No	**12. Commitment**	Strongly disagree		Neutrality		Strongly agree
48	We devote more time to this partner when it needs help	①	②	③	④	⑤
49	We provide special aid to this partner when it is in trouble	①	②	③	④	⑤
50	We have developed a close business relationship with this partner	①	②	③	④	⑤
51	We have a strong business link with this partner	①	②	③	④	⑤
52	We expect the business relationship with this partner to last for a long time	①	②	③	④	⑤

The following statements are related to **Relationship value between your company and your partner**. Please circle the number of your answer.

No	13. Economic Value	Strongly disagree		Neutrality		Strongly agree
53	The relationship with this partner contributes towards a task or work	①	②	③	④	⑤
54	The relationship with this partner contributes to exchange value	①	②	③	④	⑤
55	Through the relationship with this partner, we and this partner can reduce the cost of interaction	①	②	③	④	⑤
56	Through the relationship with this partner, we and this partner can save time	①	②	③	④	⑤
57	Through the relationship with this partner, we and this partner try to reduce future time requirements	①	②	③	④	⑤
No	14. Operational Value	Strongly disagree		Neutrality		Strongly agree
58	We and this partner make fast decisions	①	②	③	④	⑤
59	Our operations focus on decision making	①	②	③	④	⑤
60	We and this partner try to make decisions on time	①	②	③	④	⑤
61	We and this partner address difficult problems well	①	②	③	④	⑤
No	15. Strategic Value	Strongly disagree		Neutrality		Strongly agree
62	The relationship with this partner help us to develop new core competencies	①	②	③	④	⑤
63	The relationship with this partner help us to explore strategic opportunities	①	②	③	④	⑤
64	The relationship with this partner help to enhance our strategic competitive advantage	①	②	③	④	⑤
65	The relationship with this partner help us to adapt in changing market condition	①	②	③	④	⑤
No	16. Behaviour Value	Strongly disagree		Neutrality		Strongly agree
66	We have mutual respect	①	②	③	④	⑤
67	We have confidence to each other	①	②	③	④	⑤

68	We try to seek the other party's opinion	①	②	③	④	⑤
69	We enjoy dialogue with each other	①	②	③	④	⑤
70	We follow a win-win approach	①	②	③	④	⑤

The following statements are related to **Your Firm's Relationship Performance and Expected Performance of the Firm**. Please circle the number of your answer.

No	**17. Overall Performance**	Strongly disagree		Neutrality		Strongly agree
71	This partner has contributed to my firm's sales growth	①	②	③	④	⑤
72	This partner has contributed to my firm's revenue growth	①	②	③	④	⑤
73	Overall, the results of the relationship with this partner have contributed to my firm's technical development	①	②	③	④	⑤
74	Overall, the results of the relationship with this partner have exceeded my firm's expectations	①	②	③	④	⑤
75	The overall performance of my firm met expectations last year	①	②	③	④	⑤
76	The overall performance of my firm last year exceeded that of our major competitors	①	②	③	④	⑤
77	The overall performance of my firm last year was at a very satisfactory level	①	②	③	④	⑤

Finally, I would like to ask simple information about you and firm.

78. How long do you work for your firm?

① Less than 3 years ② Between more than 3 years and less than 10 years

③ More than 10 years ④ Owner

79. How many employees in your firm are there?

① Less than 10 ② between more than 10 and less than 50

③ between more than 50 and less than 100 ④ More than 100

80. What kind of products do your firm produce?

    ① Accessories parts   ② Body parts   ③ Brake system parts

    ④ Drive, T/M Parts   ⑤ Electrical parts   ⑥ Engine parts

    ⑦ Interior parts   ⑧ Others

81. What is the sales of your firm (If it is possible, please write the average sales for the past 3 years.)

_____

THANK YOU VERY MUCH FOR TAKING PART IN THIS SURVEY

Appendix B: Questionnaire (Korean version)

기업 관계 연구 설문지

안녕하세요?

바쁘신데도 불구하고 설문지에 응답해 주셔서 진심으로 감사합니다. 응답해 주신 설문 내용은 공급기업과 구매기업간의 관계에 관한 연구에 소중한 자료가 될 것이며, 오직 본 연구를 위해서만 사용될 것 입니다. 설문 내용은 개인적인 질문을 묻는 내용은 포함되지 않았음을 알려드립니다.

만일 설문지에 관해서 질문이 있으시면 아래 연락처로 언제든지 연락 주십시오.

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<참고>

대부분의 질문은 ①부터 ⑤중에서 하나를 선택하는 질문입니다.

주어진 질문에서 해당되는 답안에 동그라미를 해주세요.

매우 그렇지 않다 ①,

그렇지 않다 ②,

보통이다 ③,

그렇다 ④,

매우 그렇다 ⑤

<예제> 질문: 나는 이 설문에 진실하게 응답하겠다.

①	②	③	④	⑤
매우 그렇지 않다	그렇지 않다	보통이다	그렇다	매우 그렇다
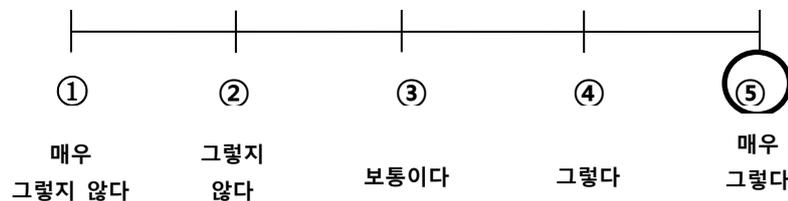
다음 질문은 귀하의 기업환경의 특성에 관한 질문입니다. 해당하는 답변에 O 표시를 하세요.

No	1. 복잡성 (Complexity)	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
1	현재 우리기업의 시장에는 **많은 수의 제품과 브랜드**가 있다	①	②	③	④	⑤
2	현재 우리기업의 시장을 많은 수의 **고객계층으로 분류할 수** 있다	①	②	③	④	⑤
3	현재 시장에는 고객에 따라 **다양한 욕구가 존재한다**	①	②	③	④	⑤
4	현재 우리기업의 시장에는 **다양한 경쟁 기업들**이 있다	①	②	③	④	⑤
No	2. 변동성 빈도 (Frequency of Change)	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
5	우리기업이나 경쟁기업에서 **생산 또는 판매하는 제품은 자주 변하는 편이다**	①	②	③	④	⑤
6	우리기업이나 경쟁기업의 **생산전략 또는 판매전략에는 잦은 변화가 있다**	①	②	③	④	⑤
7	제품특성에 대한 **고객의 선호도는 잦은 변화가 있다**	①	②	③	④	⑤
8	**경쟁전략과 경쟁강도에 잦은 변화가 있다**	①	②	③	④	⑤
No	3. 변동예측성 (Predictability of Change)	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
9	우리기업이나 경쟁기업에서 판매하는 **제품의 변화는 예측가능하다**	①	②	③	④	⑤
10	우리기업이나 경쟁기업의 **판매전략의 변화는 예측가능하다**	①	②	③	④	⑤
11	제품특성에 대한 **고객의 선호도에 대한 변화는 예측가능하다**	①	②	③	④	⑤
12	**경쟁전략과 강도에서의 변화는 예측가능하다**	①	②	③	④	⑤
No	4. 자원의 풍부성 (Munificence)	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
13	현재 우리기업에서 생산되는 제품에 대한 **수요는 많으며 점점 커지고 있다**	①	②	③	④	⑤

14	우리 제품은 **높은 시장 잠재성이 있다**	①	②	③	④	⑤
15	성장 잠재성에 대비해서 우리기업이 **사용할 자원은 풍부하다** (금전적 자산, 인적자원 등)	①	②	③	④	⑤
16	현재 시장에는 우리기업에 **필요한 자원들이 부족하지 않다**	①	②	③	④	⑤

다음 질문은 귀사의 기업 전략에 관한 질문입니다. 해당하는 답변에 표시를 해 주세요.

No	**5. 차별화전략 (Differentiation)**	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
17	우리기업의 전략은 **고품질 (high-quality) 제품에 초점을 두고 있다**	①	②	③	④	⑤
18	우리기업의 전략은 서비스 품질을 통해 **최고의 고객가치를 만들어 내는 것**에 초점을 두고 있다	①	②	③	④	⑤
19	우리기업의 전략은 **혁신적 마케팅 기술 개발**에 초점을 두고 있다	①	②	③	④	⑤
20	우리기업의 전략은 **혁신적 제품 개발**에 초점을 두고 있다	①	②	③	④	⑤
No	**6. 비용우위전략 (Cost leadership)**	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
21	우리기업 전략은 **경쟁기업의 제품 가격보다 낮거나 유사한 가격**에 초점을 두고 있다	①	②	③	④	⑤
22	우리기업 전략은 **총비용이나 다양한 비용들을 일일이 통제 관리**하는 데 초점을 두고 있다	①	②	③	④	⑤
23	우리기업은 **규모의 경제*** (economies of scale)를 추구하는 전략을 갖고 있다	①	②	③	④	⑤
24	우리기업은 **단위당 최저 비용을 추구**하고 있다	①	②	③	④	⑤

다음 질문(Q25-74)은 귀하의 가장 중요한 공급기업이나 구매기업 파트너 중의 한 기업과의 관계에 대한 질문입니다. 질문에 답하시기 전에 먼저 **귀사의 가장 중요한 파트너 중 하나를 선택하십시오**. 그리고, 그 파트너와의 관계에 대해 질문에 답변해 주시기 바랍니다.

귀하가 지금 생각하고 계시는 기업 파트너는 귀사의 _____.

　　　　　① 구매기업이다　　　　② 공급기업이다

다음 질문은 귀사와 파트너 기업간의 의사결정구조에 관한 질문입니다. 해당하는 답변에 O표시를 해 주세요.

No	7. 집중화(Centralisation)	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
25	파트너 기업은 작은 문제에 관해서라도 최종결정을 내릴 때 **우리기업의 의견을 존중한다**	①	②	③	④	⑤
26	파트너기업이 내리는 어떠한 결정도 **우리 승인이 필요하다**	①	②	③	④	⑤
27	파트너 기업은 **우리의 확인절차를 거쳐야만** 일을 진행할 수 있다	①	②	③	④	⑤
28	우리기업은 작은 문제에 관해서라도 최종결정을 내릴 때 **파트너기업의 의견을 존중한다**	①	②	③	④	⑤
29	우리 기업이 내리는 어떠한 결정도 **파트너 기업의 승인이 필요하다**	①	②	③	④	⑤
30	우리 기업은 **파트너기업의 확인절차를 거쳐야만** 일을 진행할 수 있다	①	②	③	④	⑤
No	8. 공식화 (Formalisation)	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
31	파트너와 우리기업은 우리가 따라야 하는 **문서화된 규칙들이 있다**	①	②	③	④	⑤
32	파트너와 우리기업은 우리가 따라야 하는 **표준화된 규칙들이 있다**	①	②	③	④	⑤
33	파트너와 우리기업은 우리가 따라야 하는 규칙을 문서화하고 **공식적 가이드라인을 정한다**	①	②	③	④	⑤
34	파트너와의 연락은 사전계획 후 **공식화된 통로를 통해서** 이루어진다	①	②	③	④	⑤

다음 질문은 귀사와 파트너 기업간의 상호관계에 관한 질문입니다. 해당하는 답변에 O표시를 해 주세요.

	9. 협력 행동 (Joint Action)	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
35	파트너에 영향을 줄 수 있는 **제품 수정**	①	②	③	④	⑤

		매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
	사항에 관해서는 항상 **파트너와 함께 결정한다**					
36	파트너에 영향을 줄 수 있는 **비용절감** 사항에 관해서 **파트너와 함께 결정한다**	①	②	③	④	⑤
37	**우리기업의 장기적 계획은 파트너와** 함께 세운다	①	②	③	④	⑤
38	우리기업과 파트너는 **양자간의 인적자원의 교육 훈련에 협조한다**	①	②	③	④	⑤
No	**10. 정보교환(Information Exchange)**	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
39	우리기업과 파트너는 서로 가지고 있는 **정보를 공유한다**	①	②	③	④	⑤
40	우리 기업과 파트너는 상대에게 도움이 될 수 있는 **정보가 있으면 서로 공유할** 것이라고 기대할 수 있는 관계다	①	②	③	④	⑤
41	우리기업과 파트너는 기업 내에 발생한 사건이나 기업의 변화가 상대방에게 영향을 미칠 것으로 예상되는 경우 **서로에게 정보를 줄 것이라고 생각한다**	①	②	③	④	⑤
42	우리기업과 파트너는 상대방에게 도움이 될 정보를 가지고 있다면 **서로 공유할 것이라고 생각한다**	①	②	③	④	⑤

다음 질문은 귀사와 파트너 기업간의 관계 정서에 관한 질문입니다. 해당하는 답변에 O 표시를 해 주세요.

No	**11. 신뢰(Trust)**	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
43	파트너 기업(담당자)은 우리에게 **정직**하다	①	②	③	④	⑤
44	파트너 기업(담당자)의 약속은 **믿을만**하다	①	②	③	④	⑤
45	파트너기업(담당자)은 과거에 우리를 위해 **양보한 적이 있다**	①	②	③	④	⑤
46	파트너기업(담당자)은 우리를 **잘 살피고 돕는다**	①	②	③	④	⑤
47	또 다른 기업과 우리기업의 경쟁상황에서 파트너는 **우리 편이라고 생각된다**	①	②	③	④	⑤

No	12. 몰입(Commitment)	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
48	필요하다면, 우리는 파트너에게 **더 많은 시간을 투자하고자 한다**	①	②	③	④	⑤
49	문제가 발생하면, 우리는 파트너에게 **특별한 도움을 제공하고자 한다**	①	②	③	④	⑤
50	우리기업과 파트너는 **상당한 결속력이** 있다	①	②	③	④	⑤
51	우리기업은 파트너와 상당히 **가까운 기업 관계를 발전시켜오고 있다**	①	②	③	④	⑤
52	우리는 이 파트너와 **장기적 관계를 지속할 것으로 기대한다**	①	②	③	④	⑤

다음 질문은 귀사와 파트너 기업간의 관계 가치에 관한 질문입니다. 해당하는 답변에 표시를 해 주세요.

No	13. 경제적 가치(Economic Value)	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
53	파트너와의 관계는 **우리의 업무에 도움이 된다**	①	②	③	④	⑤
54	파트너와의 관계는 **서로에게 가치가** 있다	①	②	③	④	⑤
55	상호 관계를 통해서 우리기업과 파트너는 **거래 비용을 줄일 수 있다**	①	②	③	④	⑤
56	상호 관계를 통해서 우리기업과 파트너는 **문제해결 시간을 줄여 오고 있다**	①	②	③	④	⑤
57	상호 관계를 통해서 우리기업과 파트너는 **미래의 문제해결 시간을 줄이고자 노력한다**	①	②	③	④	⑤
No	14. 업무적 가치 (Operational Value)	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
58	우리기업과 파트너는 **빠르게 의사결정을 내린다**	①	②	③	④	⑤
59	우리의 업무는 상호간의 **의사결정에 초점을 두고 있다**	①	②	③	④	⑤
60	우리기업과 파트너는 **정해진 시간 내에 의사결정을 내리고자 노력한다**	①	②	③	④	⑤
61	우리기업과 파트너는 **어려운 문제들을 잘 해결해 나간다**	①	②	③	④	⑤

No	15. 전략적 가치(Strategic Value)	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
62	우리기업과 파트너는 **새로운 주요 능력을 함께 개발한다**	①	②	③	④	⑤
63	우리기업과 파트너는 **전략적 기회를 함께 탐색한다**	①	②	③	④	⑤
64	우리기업과 파트너는 **전략적 경쟁이익을 강화하기 위해 서로 돕는다**	①	②	③	④	⑤
65	우리기업과 파트너는 **시장 상황의 변화에 잘 적응할 수 있도록 서로 돕는다**	①	②	③	④	⑤
No	16. 행동적 가치(Behaviour Value)	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
66	우리기업과 파트너는 **서로 존중한다**	①	②	③	④	⑤
67	우리기업과 파트너는 상대방을 **서로 신뢰한다**	①	②	③	④	⑤
68	우리기업과 파트너는 서로 **상대방의 의견을 따르고자** 노력한다	①	②	③	④	⑤
69	우리기업과 파트너는 **서로 간의 의사소통을 즐긴다**	①	②	③	④	⑤
70	우리는 **윈윈 전략(win-win approach)을** 추구한다	①	②	③	④	⑤

다음 질문은 귀사의 전반적 기업성과에 관한 질문입니다. 해당하는 답변에 O표시를 해 주세요.

No	17. 전반적 성과 (Overall Performance)	매우 그렇지 않다	그렇지 않다	보통	그렇다	매우 그렇다
71	파트너는 우리 기업의 **매출증가**에 공헌했다고 볼 수 있다	①	②	③	④	⑤
72	파트너는 우리 기업의 **이윤창출**에 공헌했다고 볼 수 있다	①	②	③	④	⑤
73	전반적으로, 파트너는 우리기업의 **기술적 발전에 공헌했다**	①	②	③	④	⑤

74	전반적으로, 파트너와의 **관계를 통해 얻는 이익들은** 우리 기업의 **기대 이상**이라고 할 수 있다	①	②	③	④	⑤
75	전년도 우리의 전반적 성과는 기대치에 도달했다	①	②	③	④	⑤
76	전년도 우리의 전반적 성과는 우리 경쟁업체 성과와 비교했을 때 초과달성되었다	①	②	③	④	⑤
77	우리의 전반적 성과는 **매우 만족스럽다**고 할 수 있다	①	②	③	④	⑤

끝으로, 다음에 대해서 간단히 답변해 주세요.

78. 귀하가 귀사에 근무한 근무년속년도는 얼마나 되십니까?

　　① 3 년 미만　　② 3 년 ~ 10 년 미만　　③ 10 년 이상　　④ 창업자 or 기업 대표

79. 귀사에 근무하는 직원의 수는 얼마나 됩니까?

① 10 명 미만　　　　　　　② 10 명 ~ 50 명 미만
③ 50 명 ~ 100 명 미만　　④ 100 명 이상

80. 귀사는 어떠한 제품을 생산 또는 판매 하십니까?

①악세서리　②바디 부품　③브레이크 시스템 부품　④드라이브 부품
⑤전자부품　　⑥엔진부품　　⑦인테리어부품　　⑧기타

81. 귀사의 판매량은 얼마입니까?

(가능하다면, 지난 3 년 간의 평균 판매량을 기입해 주세요.)

_____

설문에 응답해 주셔서 대단히 감사합니다

Appendix C:
Mplus Input Instructions for the Hypothesised model

TITLE: The research model with all sections together.

! Model name: IPC.inp

! X1=01 Complexity1: A number of products or brands sold in our market

! X2=02 Complexity2: A number of different customer segments in our market

! X3=03 Complexity3: Customer requirements vary across different customer

! X4=04 Complexity4: A number of companies competing in our market

! S1=05 Frequency of Change1: Products

! S2=06 Frequency of Change2: Sales strategies

! S3=07 Frequency of Change3: Customer preferences

! S4=08 Frequency of Change4: Competitive strategies - intensity

! P1=09 Predictability of Change1: Products

! P2=10 Predictability of Change2: Sales strategies

! P3=11 Predictability of Change3: Customer preferences

! P4=12 Predictability of Change4: Competitive strategies and intensity

! M1=13 Munificence1: The demand for our product is growing

! M2=14 Munificence2: A potential for high sales growth

! M3=15 Munificence3: An abundance of resources

! M4=16 Munificence4: No shortage of necessary resources

! D1=17 Differentiation1: high-quality products strategy

! D2=18 Differentiation2: on creating superior customer value through service

! D3=19 Differentiation3: developing innovative marketing techniques

! D4=20 Differentiation4: developing innovative products

! L1=21 Cost leadership1: on pricing at or below competitive price levels

! L2=22 Cost leadership2: controlling overhead and variable costs tightly

! L3=23 Cost leadership3: pursuing economies of scale

! L4=24 Cost leadership4: emphasizing low cost per unit

! C1=25 Central1: Even small matters referred to us for a final decision

! C2=26 Central2: Any decision partner makes for our product has our approval

! C3=27 Central3: This partner cannot go ahead w actions w/out checking w/us

! C4=28 Central4: Even small matters referred to partner for a final decision

! C5=29 Central5: Any decision we make f our product has this partner's approv

! C6=30 Central6: We cannot go ahead with actions w/out checking with partner

! F1=31 Formalisation1: written work rules for our job

! F2=32 Formalisation2: standard procedures and rules

! F3=33 Formalisation3: written rules and formal guidelines

! F4=34 Formalisation4: Contacts on a formal, preplanned basis

! J1=35 Joint Action1: all product modification issues

! J2=36 Joint Action2: all cost-cutting issues

! J3=37 Joint Action3: Our long range plans are formed jointly

! J4=38 Joint Action4: in training people in both companies

! I1=43 Information Exchange1: Proprietary information

! I2=44 Information Exchange2: any information that might help the other party

! I3=45 Information Exchange3: informed about events or changes

! I4=46 Information Exchange4: the party will provide proprietary information

! T1=47 Trust1: Being frank

! T2=48 Trust2: Being reliable

! T3=49 Trust3: Making sacrifices

! T4=50 Trust4: cares for us

! T5=51 Trust5: this partner has been on our side

! O1= 52 Commitment1: We devote more time to this partner

! O2=53 Commitment2: We provide special aid

! O3=54 Commitment3: A high sense of unity

! O4=55 Commitment4: a close business relationship

! O5=56 Commitment5: last for a long time

! VE1=57 Economic Value1: contributes towards a task or work

! VE2=58 Economic Value2: contributes to exchange value

! VE3=59 Economic Value3: reduce cost of interaction

! VE4=60 Economic Value4: save time

! VE5=61 Economic Value5: reduce future time requirements

! VO1=62 Operational Value1: make fast decisions

! VO2=63 Operational Value2: decision making

! VO3=64 Operational Value3: make decisions on time

! VO4=65 Operational Value4: address difficult problems well

! VS1=66 Strategic Value1: develop new core competencies

! VS2=67 Strategic Value2: explore strategic opportunities

! VS3=68 Strategic Value3: enhance our strategic competitive advantage

! VS4=69 Strategic Value4: adapt in changing market condition

! VB1=70 Behaviour Value1: mutual respect

! VB2=71 Behaviour Value2: confidence to each other

! VB3=72 Behaviour Value3: seek the other party's opinion

! VB4=73 Behaviour Value4: enjoy dialogue

! VB5=74 Behaviour Value5: win-win approach

! OP1=75 OPerf1: This partner has contributed to my firm's sales growth

! OP2=76 OPerf2: This partner has contributed to my firm's revenue growth

! OP3=77 OPerf3: Overall, the relationship contributed to technical devt

! OP4=78 OPerfo4: Overall, the relationship exceeded my firm's expectations

! OP5=79 OPerf5: The ov perf of my firm met expectations last year

! OP6=80 OPerf6: The ov perf of my firm last year that of major competitors

! OP7=81 OPerf7: The ov perf of my firm last year was a very satisfactory level

! SIZEE=83 Firm size - employees

! SIZES=87 Firm size - Sales (0.1 Billion Won: Korean Currency)

! PARTNER=86 Supplier (0)-Buyer (1)

! YEARS= 82Year that a respondent has worked for the firm - no owners

! SECTOR=85 Sector

! SUB=84 Subsector: Products manufactured by the firm

! IORM=88 Independent or multinational firm;

Data: FILE IS C: MASTERn.dat;
VARIABLE:
NAMES ARE
X1 X2 X3 X4 S1 S2 S3 S4 P1 P2 P3 P4
M1 M2 M3 M4 D1 D2 D3 D4 L1 L2 L3 L4
C1 C2 C3 C4 C5 C6 F1 F2 F3 F4 J1 J2 J3 J4
I1 I2 I3 I4 T1 T2 T3 T4 T5 O1 O2 O3 O4 O5
VE1 VE2 VE3 VE4 VE5 VO1 VO2 VO3 VO4
VS1 VS2 VS3 VS4 VB1 VB2 VB3 VB4 VB5

OP1 OP2 OP3 OP4 OP5 OP6 OP7

SIZEE SIZES PARTNER YEARS SECTOR SUB IORM;

CATEGORICAL ARE

X1 X2 X3 X4 S1 S2 S3 S4 P1 P2 P3 P4

M1 M2 M3 M4 D1 D2 D4 L2 L3 L4

C1 C2 C3 C4 C5 C6 F1 F2 F3 F4 J1 J2 J3 J4

I1 I2 I3 I4 T1 T2 T3 T4 T5 O1 O2 O3 O4 O5

VE1 VE2 VE3 VE4 VE5 VO1 VO2 VO3 VO4

VS1 VS2 VS3 VS4 VB1 VB2 VB3 VB4 VB5

OP3 OP4 OP5 OP6 OP7;

Missing are all (-99);

USEVARIABLES ARE

X1 X2 X3 X4 S1 S2 S3 S4 P1 P2 P3 P4

M1 M2 M3 M4 D1 D2 D4 L2 L3 L4

C1 C2 C3 C4 C5 C6 F1 F2 F3 F4 J1 J2 J3 J4

I1 I2 I3 I4 T1 T2 T3 T4 T5 O1 O2 O3 O4 O5

VE1 VE2 VE3 VE4 VE5 VO1 VO2 VO3 VO4

VS1 VS2 VS3 VS4 VB1 VB2 VB3 VB4 VB5

OP3 OP4 OP5 OP6 OP7;

ANALYSIS:

ESTIMATOR = WLSMV;

MODEL:

! Section 1

X BY X1 X2 X3 X4;

S BY S1 S2 S3 S4;

P BY P1 P2 P3 P4;

M BY M1 M2 M3;

X WITH S@0;

X WITH M;

S WITH M;

S WITH P;

P WITH M;

! Section 2

D BY D1 D2 D4;

L BY L2 L3 L4;

D WITH L@0;

! Section 3

C BY C1 C2 C3 C4 C5 C6;

F BY F1 F2 F3 F4;

J BY J1 J2 J3 J4;

I BY I1 I2 I3 I4;

T BY T1 T2 T3 T4 T5;

O BY O1 O2 O3 O4 O5;

C WITH F;

C WITH J;

C WITH I;

C WITH T;

C WITH O;

F WITH J;

F WITH I;

F WITH T;

F WITH O;

J WITH I;

J WITH T;

J WITH O;

I WITH T;

I WITH O;

T WITH O;

! Section 4

VE BY VE1 VE2 VE3 VE4 VE5;

VO BY VO1 VO2 VO3 VO4;

VS BY VS1 VS2 VS3 VS4;

VB BY VB1 VB2 VB3 VB4 VB5;

VE WITH VO;

VE WITH VS;

VE WITH VB;

VO WITH VS;

VO WITH VB;

VS WITH VB;

! Section 5

OF2 BY OP4 OP5 OP6 OP7;

! STRUCTURAL PART

OF2 ON VE VO VS VB C F J A T O X S P M D L;

VE ON C F J A T O X S P M D L;

VO ON C F J A T O X S P M D L;

VS ON C F J A T O X S P M D L;

VB ON C F J A T O X S P M D L;

C ON X S P M D L;

F ON X S P M D L;

J ON X S P M D L;

I ON X S P M D L;

T ON X S P M D L;

O ON X S P M D L;

OUTPUT:

TECH1;

TECH3;

TECH4;

STANDARDIZED;

RESIDUAL;

MODINDICES (ALL);

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