



# A quantitative exploration of communication's role in determining the governance of manufacturer–retailer relationships

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## Abstract

Today's managers are organising and managing a portfolio of interorganizational relationships (IORs); hence, the governance of exchange relationships has gained strategic consequence. Prior interorganizational research by the authors has indicated that communication may be central to IOR governance. One test of communication's potential in this area would be to examine if communication could delineate differing IOR types. To study this, we decided to utilize a type of test–retest statistical application. We first classified manufacturer–retailer relationship structures by using Donaldson and O'Toole's [J. Bus. Ind. Mark. 15 (2000) 491] original relationship strength framework (RSF) and discriminant analysis. Next, employing the same statistical technique, we classified the respondents after adding communication measures to the RSF. Results were limited. Only the inclusion of communication quality, one of the elements of communication behavior, in the RSF enhances its power to delineate relationship structures. However, we believe that it is in the ongoing management of relationships that the communication dynamic holds most promise.

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## 1. Introduction

It has been many years since Hunt (1983a) stated, "... the primary focus of marketing is the exchange relationship." Then, this concept "flew in the face" of traditional economic thinking on exchange based on transaction cost economics (TCE) (Coarse, 1937; Commons, 1950; Williamson, 1975, 1996) and agency theory (Jensen & Meckling, 1976; Ross, 1973). Today, the exchange relationship has become an integral component of marketing theory; current marketing theory integrates prior thinking and investigation of the sociality of interorganizational relationships (IORs) by Macaulay (1963) and Macneil (1980) with the traditional economic models.

The focus on the exchange relationship has produced a considerable body of work utilising a relationship marketing approach to the study of developing and maintaining close and profitable IORs. Yet, not all relationships be-

come close (Macneil, 1980), nor is it even desirable or feasible for them to do so (Donaldson & O'Toole, 2002); companies, like individuals, find themselves in the position of managing differing IOR types. This indicates that relationship marketing is not applicable to the governance of many types of exchange relationships; hence, underlying our study's approach is the theory of relational exchange.

Many IOR researchers have identified and examined variables intrinsic to the success of developing and managing relational IORs. However, with only a few exceptions, communication has not been recognized as an intrinsic IOR variable. Macneil (1980) has argued that an exchange task, no matter how discrete, occurs within a social matrix; therefore, exchange involves human interaction, and focal to human interaction is communication. If communication is vital to human interaction, then, due to the very nature of exchange, communication should be recognized as a critical relationship variable. The development of trust, the signaling of commitment and flexibility, the copper fastening of cooperation, the synchronising of coordination cannot be done without communication. Yet, as already indicated,

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little theoretical thought or empirical studies on IOR communication exists.

Of specific interest to the authors is the governance of IORs, and similar to other academics and researchers who have linked communication and governance (Krapfel, Salmond, & Spekman, 1991; Mohr & Nevin, 1990; Ring & Van de Ven, 1992), we perceive that communication is a key variable in IOR governance. The objective of this paper is to empirically explore the relationship between communication and IOR governance. We first discuss governance and communication. Next, we outline our methodology and results, followed by a discussion of the results and the study’s limitations. We then present our conclusion and future research directions.

**2. The governance of IORs**

Governance classification modes attempt to catalogue relationship structures based on the relationship’s underlying variables. Both the economic rationale of transaction cost economics and the behavioral rationale of relational exchange underlies governance theory; that is, the underlying motivation of organizations is economic, but the behavioral approach of exchange replaces the economic characterisation of humans as “self-seeking with guile” with a more “mutuality-seeking with openness” depiction. This duality, economic and behavioral, underlies much of IOR research (Donaldson & O’Toole, 2000; Ring & Van de Ven, 1992; Stern & Reve, 1980; Zaheer & Venkatraman, 1995).

Differences exist concerning the types of relationship structures. Heide (1994) presented three: market (discrete), hierarchical, and bilateral (relational). Ring and Van de Ven (1992) extended Heide’s (1994) governance structures to include another relational type: recurrent, whereas Macneil (1980) offered a continuum of relationships anchored by two extreme types: discrete and relational. Specific to this study, Ring and Van de Ven (1992) posited that there are four common relationship types: discrete, dominant (hierarchical), recurrent, and relational (bilateral). Discrete structures are arm’s-length relationships (market), whereas dominant relationships are structures that have a powerful, dominating partner who dictates the partnership’s decisions. Recurrent structures are analogous to Frazier, Spekman, and O’Neal’s (1988) just-in-time (JIT) relationships, but are not as close as bilateral relationships, which contain jointly shared systems and strategic operations. Ring and Van de Ven (1992) theoretically delineated these relationship types based on varying levels of both risk (economic factor) and trust (social factor). For example, a low level of risk and a low level of trust epitomize market structures, and a high level of trust and a high level of risk define relational structures. Ring and Van de Ven (1992) argued that the criteria of risk and trust influence the organiza-

tional choice of seeking “continuing cooperative relationships with other firms” (p. 483) rather than market or hierarchical (vertical/horizontal integration of a firm) forms of organizational governance. They maintained that the degree of risk and the degree of trust between the partners determined governance choice.

While Donaldson and O’Toole’s (2000) research employed these same governance types, they operationalized a framework for classifying relationship structures. Identifying key, discriminating variables in the governance literature, they developed a relationship strength construct as a classification mechanism. The classification occurs through the utilization of the construct as a key mediating variable (KMV) set (Morgan & Hunt, 1994). To develop their KMV set, Donaldson and O’Toole combined key behavioral and economic measures from the literature that signified a partner’s beliefs about and actions in an IOR; the measurement indicators are centered primarily on behavioral and economic aspects of trust and commitment, as closer IORs do not develop unless high levels of trust and commitment are present. The relationship strength framework (RSF) aims to capture both the economic ties and social bonding of the partners through items that measure the underlying motivation or assumptions guiding the relationship (beliefs) and the intensity of interaction between the partners (actions). For example, a discrete (market) relationship may be, for the extent of the transaction, cooperative and open, but the intensity of beliefs and actions that characterize closer relationships are relatively underdeveloped.

As indicated by Fig. 1, the RSF is a two by two matrix. Based, in part, on Ring and Van de Ven’s (1992) work, this matrix illustrates that relationships are delineated on the strength (high/low) of relational actions and beliefs: discrete, market-type structures involve little relational actions or beliefs; hierarchical structures are defined by a dominant partner and entail low beliefs and high actions; recurrent structures are high in beliefs and low in

		ACTION COMPONENT	
		High	Low
BELIEF COMPONENT	High	<b>BILATERAL</b>	<b>RECURRENT</b>
	Low	<b>HIERARCHICAL</b>	<b>DISCRETE</b>

Fig. 1. Relationship strength matrix. Adopted from Donaldson and O’Toole (2000).

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