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Duration and relational choices: Time based effects of customer performance and environmental uncertainty on relational choice

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Abstract

This paper investigates the influences of customer performance and environmental uncertainty on the customer's choice of relational exchange strategies over the duration of their relationship. Relational exchanges of short, intermediate, and long term duration are investigated with the results showing different performance outcomes and environmental factors impacting relational choice at different times in the relationship. The results help explain conflicts reported in prior relational exchange research and provide valuable insights for practitioners responsible for managing relational exchanges.

Keywords: Relational marketing; Customer–supplier relationships; Relational norms; Governance; Relational exchange choice

1. Introduction

Relational exchanges have captured the interest of both academics and practitioners over the past 20 years. Much of the interest has been driven by success stories of customers' narrowing the number of suppliers to reduce the cost of acquiring parts and raw materials, improve product quality, gain access to supplier knowledge, manage risk and uncertainty of complex or technology intensive tasks, and enhance manufacturing flexibility and time-to-market (Bertrand, 1986; Casciaro, 2003; Cusumano & Takeishi, 1991; Ellram & Edis, 1996; Wong & Fung, 1999). Academics have steadily built a body of knowledge on relational choices and the strategies they represent explaining them in light of environmental and technological uncertainties (Heide & John, 1990), customer performance, relationship duration, and customer loyalty (Kumar, Bohling, & Ladda, 2003; Reinartz & Kumar, 2000, 2003).

While the relational exchange success stories and academic research have captured much attention, there is still practitioner confusion on when relational exchanges are appropriate, what partners or products and services are best served by relational exchanges, and how to effectively manage these relationships. In the academic arena, prior research has yielded some conflicting conclusions. For example, technological uncertainty has been shown to be positively related to relational choice while resource availability uncertainty has been identified as being negatively related to that variable (Fink, Edelman, Hatten, & James, 2006).

In addition, some researchers urge caution about the many professed linkages between relational exchange choice and improved performance and suggest performance is related to relational exchange choice only in specific contextual or environmental situations (Reinartz & Kumar, 2003). Finally, there is a developing stream of research concerning the connection between the duration of customer–supplier relationships, relational exchange characteristics, and performance outcomes (Gulati, 1995; Pillai & Sharma, 2003; Poppo, Zhou, & Zenger, 2004). Some have suggested the duration of customer–supplier relationships is not significantly associated with performance (Dowling & Uncles, 1997; Kumar et al, 2003;

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Reinartz & Kumar 2000, 2003) while others have indicated that duration is positively linked to performance.

This paper adds value in addressing some of these conflicting results by studying relational exchanges from multiple perspectives. It has implications for both researchers and practitioners. Its focus is exchange choice as the duration of customer–supplier relationships extends over time. It provides a test of the predictive power of environmental uncertainty and performance in explaining relational choice during short, intermediate and long term customer–supplier relationships. The results show that the effects of different variables on relational choice shift with the duration of the relationship, revealing waxing and waning as the relationship extends. For practitioners, we suggest a set of revised expectations for use when making relational exchange choices.

The paper is survey-based and taps the extensive experience of industry practitioners who have managed relational exchanges in the U.S. pulp and paper industry. The focal customer–supplier relationship investigated is the relationship between the pulp, paper, and paperboard mills (the customers) and their process control equipment (PCE) suppliers. We selected this research setting for a variety of reasons. First, there is considerable evidence of dyadic power variations between customers and suppliers in this industry. The pulp, paper, and paperboard industry has over two hundred seventy firms which have mills in approximately five hundred twenty-six locations. Each of these firms uses process control equipment in its production operation. The equipment is purchased from approximately twenty-five process control equipment suppliers across the United States, and is used to (1) maintain product quality, (2) ensure compliance with Environmental Protection Agency (EPA) regulations, and (3) manage firm productivity. In other words, these purchases represent a significant and high involvement purchase for the pulp, paper, and paperboard mills (i.e., the customers) to manage critical operational processes. Thus, these mills are making important choices when they decide to utilize single or multi-vendor sourcing strategies, choose with whom to conduct business, and the type of exchange relationship (i.e., discrete or relational) they want. Because these relationships are so important, we believe that the managers surveyed would be able to recall salient characteristics of the relationships associated with such transactions and accurately recount them. Managers in this industry have a long experience in making important customer–supplier relationships decisions as evidenced by Ohanian's (1994) study of vertical integration choices of pulp and paper mills from 1900 to 1940.

The conceptual framework for the research is illustrated in Fig. 1. The question addressed is whether different variables explain relational exchange choice at different stages of the customer–supplier relationship. The relationships studied have extended in a large number of cases for more than 20 years. The framework specifies linkages between concepts that explain customer–supplier relational exchange choice and will also be used to summarize prior research in this area. This discussion will be followed by reviews of research hypotheses, methodology and research results. Finally, we address the implications of our investigation for managers and future research in this field.

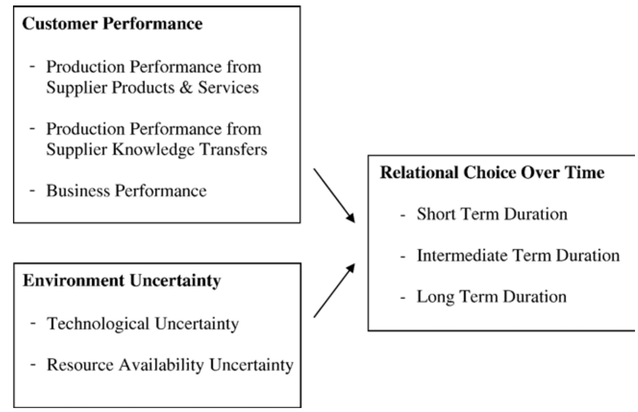

Fig. 1. Customer performance & environmental uncertainty influences on relational choice over time.

2. Theoretical and literature review

Fig. 1 illustrates the research framework and how it incorporates the concepts relevant to this research. In this section, we will discuss research relevant to each element in the framework and its value in expanding our understanding of relational choice. Initially, we will review how customer performance and environmental uncertainty are associated with relational choice. This will be followed by discussions of the literature on the duration of customer–supplier relationships and relational choice. Finally, we will review exchange governance and the use of behavioral norms in evaluating and measuring relational choice.

2.1. Performance, environmental uncertainty and relational choice

The research on performance outcomes associated with closer customer–supplier relationships has been quite varied and has emerged from multiple academic perspectives including strategic management and marketing. In the strategic management area, researchers have identified a range of potential performance improvements linked to relational choice. For instance, Cusumano and Takeishi (1991) explored the supplier relationship between U.S. and Japanese automotive firms operating in the United States and Japan, and found that the Japanese firms had fewer suppliers, longer term relationships, higher levels of information exchange, and more joint product development efforts than their U.S. counterparts. In addition, the Japanese firms reported superior purchasing and production performance over U.S. firms, presumably, because they sourced higher quality products from their suppliers at substantially lower prices than their U.S. competitors were able to negotiate.

Other strategy researchers have linked closer relationships with improved purchasing performance defined as the cost of the product obtained from the focal supplier (Berggren, 1992) or, alternatively, the reduction in administrative costs realized by customers working with specific suppliers (Cannon & Homburg,