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Creating and appropriating value in collaborative relationships

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ABSTRACT

Business relationships provide means for creating and appropriating superior value in the marketplace. To date, research pertains almost exclusively to the value after relationship creation and sharing among exchange partners. Consequently, the interaction between value creation and value appropriation remains relatively unknown in collaborative relationships. Drawing on equity theory, this study proposes a conceptual model that positions value creation and value appropriation as focal variables within the nomological net of business relationships. Data collected from industrial customer–supplier projects reveal that value appropriation is the strongest driver of project satisfaction. Customer firms perceive value creation as positive only if they appropriate a larger slice of the bigger value pie. Information exchange moderates customer firms' evaluations of value creation and appropriation efforts. In contrast to the highly competitive nature at the project level, embedding the supplier project in an ongoing sourcing relationship reveals cooperative elements in the customer–supplier interaction. Greater relational satisfaction favors less aggressive value appropriation efforts. These insights help bridge the gap between managerial metrics that focus on successful value appropriation and academic models that attend to variables that capture the quality of ongoing relationships.

1. Introduction

Over the past two decades, relationship marketing became the dominant perspective in academic marketing literature (Palmatier, 2008). Scholars advance understanding of the drivers, mediators, and performance outcomes of business relationships on the basis of both conceptual and empirical perspectives. In particular, widespread research attention centers on relationship quality as a key mediating variable (Kumar et al., 1995; Morgan and Hunt, 1994; Palmatier et al., 2006). As a composite concept, relationship quality summarizes “the diverse interaction characteristics required to create a high-caliber relational bond” (Palmatier, 2008, p. 22) by encompassing variables such as satisfaction, trust, and commitment.

As a mediating variable, relationship quality provides a means to an end. Companies do not build strong bonds with their customers and suppliers for their own sake. Rather, they adopt exchange designs that offer the best performance prospects (Carson et al., 1999). Companies prefer relational exchanges to arm's-length interactions when those exchanges help create and appropriate more business value in marketplaces (Ghosh and John, 1999).

For example, North American car manufacturers historically relied on an arm's-length model of supplier management, characterized by minimal commitment or dependence and the exploitation of bargaining power. The focus was clearly on value appropriation, frequently at the expense of the suppliers. Competitive pressure from Japanese auto manufacturers forced U.S. firms to reconsider this practice and adopt a partnership model, as firms like Toyota, Honda, or Nissan practiced in Japan and their North American transplants. Chrysler took the lead in adopting collaborative relationships with suppliers, which prompted suppliers to expend more relationship-specific investments, share knowledge more openly, and better coordinate independent product development and manufacturing tasks. In 1998 alone, Chrysler and its suppliers removed more than $2 billion in costs from the supply chain (Hartley et al., 2002) through the SCORE program, which relies on collaborative relationships. Chrysler and its suppliers shared the benefits (Dyer, 1996).

The Chrysler example illustrates that collaborative relationships can help create and appropriate superior value in business markets. With such a background, empirical research provided little insight into the interaction between value creation and value appropriation in collaborative relationships though. A growing body of literature demonstrates the value creation potential of collaborative relationships (Möller and Törrönen, 2003; Walter et al., 2003), yet the shared “value pie” remains underresearched (Jap, 2001). Empirical researchers virtually ignore the interplay between value creation and value appropriation at the individual business relationship level (Fang et al., 2008). Because “value creation and value sharing are the *raison d'être*

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of collaborative customer–supplier relationships" (Anderson, 1995, p. 348), this omission represents a major gap in the relationship marketing research agenda.

From a conceptual perspective, value creation and value appropriation represent two sides of the same coin. Value creation entails the total net value (i.e., total outcomes minus total inputs) created in a collaborative effort among exchange partners. Value appropriation depicts the net value that a focal firm claims successfully. Value creation is a win–win scenario; value appropriation means that a larger value slice for one party diminishes the remaining slice for the other partner. Previous relationship marketing scholars researched perceived value only after its creation and sharing among exchange partners (Lindgreen and Wynstra, 2005; Menon et al., 2005; Ulaga and Eggert, 2006), but this research perspective cannot reveal the underlying sources of value perceptions. That is, a focal firm might achieve superior value because of superior value creation among the exchange partners, superior appropriation of the value pie, or a combination thereof.

Understanding how business relationships facilitate value is important to marketing managers and academicians alike. From a practitioner's point of view, value creation and value appropriation enable the profitable management of business relationships. For example, many industrial suppliers now provide value-added services to customers, yet many fail to extract their fair share of the augmented value pie (Reinartz and Ulaga, 2008). From an academic perspective, research into value creation and appropriation represents an essential step toward crafting a value-based perspective of relationship marketing. If value creation and value appropriation represent the *raison d'être* of collaborative customer–supplier relationships, then a thorough understanding of the interaction between these value constituents is critical.

To shed light on the creation and appropriation of value in collaborative relationships, this study takes the following steps: The next section introduces equity theory as a framework for understanding the interaction between value creation and value appropriation in collaborative relationships. Against this theoretical background, the authors offer a conceptual model and discuss the hypotheses. After the description of the empirical study, the results and findings appear. Finally, the article concludes with some limitations of the study and further research opportunities.

2. Theoretical background

Equity theory (Adams, 1963; Homans, 1961; Walster et al., 1978) provides a suitable framework for researching the creation and appropriation of value in collaborative relationships. With roots in social psychology, equity theory explains the distribution of outcomes in interpersonal and interorganizational relationships. Equity theory receives empirical support from diverse research fields (e.g., Austin and Walster, 1975; Carrell and Dittrich, 1978; Greenberg, 1982; Ring and Van de Ven, 1994). Recently, it increasingly appears in relationship marketing settings (e.g., Fang et al., 2008; Homburg et al., 2007; Homburg et al., 2002; Jap, 2001; Scheer et al., 2003; Swan and Oliver, 1991).

In line with traditional economic thinking, equity theory assumes utility-maximizing actors (Walster et al., 1978) and thus extends traditional economic theory by postulating that exchange partners not only assess their own utility but compare what they take from an exchange (outcomes) to what they bring into the exchange (inputs) (Homburg et al., 2007). Equity theory also assumes the presence of relative justice in the exchange process (Huppertz et al., 1978), such that the absence of relative justice (i.e., inequity) produces negative sentiments and behavioral responses (e.g., dissatisfaction and leaving intentions) among relationship partners (Adams, 1965). With an explicitly subjective perspective, equity theory regards inputs and outputs as perceived rather than objective, and relative justice is also a subjective concept that exists "in the eye of the beholder" (Donnerstein and Hatfield, 1982, p. 310).

For the research context of this study, equity theory provides the means to develop hypotheses about the interaction between value creation and value appropriation and its impact on attitudinal and behavioral variables. Specifically, this study argues that an exchange partner's satisfaction and future collaboration intentions are functions of both the size of the total value pie created and the value slice appropriated. The next section outlines the conceptual model, details the hypotheses, and identifies an appropriate unit of analysis for the empirical study.

3. Conceptual model

By their very nature, collaborative interorganizational relationships are ongoing, which is a major challenge for investigating the creation and appropriation of value, because empirical research requires a clearly defined unit of analysis. This study therefore focuses on supplier projects, which share certain characteristics, including (1) a clearly defined beginning and end, (2) specified expectations and objectives, (3) specified participants, and (4) dedicated resources. In business practice, supplier projects serve a wide range of objectives, including joint cost reduction (e.g., Cannon and Homburg, 2001), quality improvements (e.g., Ulaga and Eggert, 2006), and collaborative innovation (e.g., Hoegl and Wagner, 2005).

Although clearly defined units of analysis, supplier projects also remain embedded in sourcing relationships. They depend on relationship history and likely influence partners' future collaborative behavior (Dwyer et al., 1987). The proposed conceptual model (Fig. 1) depicts the embeddedness of the supplier project in an ongoing sourcing relationship:

Relational satisfaction and relational trust are exogenous variables in the proposed model. Prior research (Crosby et al., 1990; Doney and Cannon, 1997) underlines the importance of satisfaction and trust as cumulative variables that characterize the quality of an ongoing relationship. These variables are not independent. Relational satisfaction represents the company's feeling toward the overall relationship with the partner (Crosby et al., 1990), and a satisfactory relationship enhances relational trust, or the "confidence in an exchange partner's reliability and integrity" (Morgan and Hunt, 1994, p. 23).

H1. Relational satisfaction has a positive impact on relational trust.

A high quality customer–supplier relationship motivates exchange partners to strive for relationship continuity and to collaborate on future projects (Palmatier et al., 2006). Therefore, both facets of relationship quality — relational satisfaction and relational trust — should increase the future collaboration intentions of relationship partners.

H2a. Relational satisfaction has a positive impact on the company's future collaboration intent.

H2b. Relational trust has a positive impact on the company's future collaboration intent.

Interorganizational collaboration aims to create and appropriate superior value (Carson et al. 1999), yet what do companies create (value pie), and what do companies claim (value slices)? Jap (1999, p. 461) introduces the value pie metaphor and defines the expansion of the pie as the "collaborative process of creating mutually beneficial strategic outcomes," which allows for sharing this "pie of benefits" (Jap, 2001). Greater relational trust leads to positive strategic outcomes and helps create value in ways that a transactional relationship could not effectively create or share among partners (Palmatier et al., 2006). Therefore,

H3a. Relational trust has a positive impact on value creation.

H3b. Relational trust has a positive impact on value appropriation.

According to equity theory, a negative link occurs between relational satisfaction and the value slice appropriated by the focal relationship