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Relational Resources in Interorganizational Exchange: The Effects of Trade Equity and Brand Equity

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Abstract

This research examines the effects of two key relational resources in relationships between retailers and national brand manufacturers. We introduce the new concept of trade equity, defined here as the value that accrues to a firm from being known in a trading network as a trustworthy trading partner, to explore the relational resources that are inherent in a firm's ties with trading partners. We consider brand equity to represent relational resources that are located in a firm's relational ties with end consumers. Based on data collected in a survey of 797 home appliance retailers, results show that a manufacturer's trade equity and brand equity have differential effects on the retailer's dependence and commitment to the manufacturer. Findings show that a manufacturer's brand equity strengthens the effect of its trade equity on the retailer's dependence and weakens the effect on the retailer's commitment.

Keywords: Trade equity; Brand equity; Relational resources; Retailer–manufacturer relationships; National brand manufacturers; Resource-advantage theory

The academic literature has long supported the notion that enduring, committed relationships with key customers and suppliers are fundamental to superior business performance (e.g., Alderson 1957; Arndt 1979). Previous research examines several aspects of long-term relationships, including external contingencies that influence relationship formation (Heide and John 1990; Oliver 1990), the process of relationship development (Dwyer, Schurr, and Oh 1987) and factors that contribute to the success or failure of relationships (Anderson and Narus 1990; Ganesan 1994; Heide and John 1988; Morgan and Hunt 1994). Underlying this research is the implicit assumption that interorganizational exchange is embedded in a social structure comprised of relational ties that affect economic action (Granovetter 1985; Macneil 1980). These ties have been conceptualized as *relational resources* that have the potential to contribute to a firm's ability to create value for some market segment(s) (Hunt 1997, 2000).

Although this body of literature provides significant insights into the nature of long-term relationships, some critical questions still remain unanswered: (1) How do firms know *with whom* they should create long-term relationships? That is, how do firms identify trading partners who are good candidates for long-term relationships? (2) Do relational ties with one set of key stakeholders affect relationships with other stakeholders? That is, does the strength of a firm's relationships with one group (e.g., end consumers) intensify or diminish the firm's relationships with other groups (e.g., trading partners)? (3) Does the influence of relational resources vary over time? That is, are relational resources more or less important in new relationships compared to long-term relationships? Our study addresses these three questions.

The first question recognizes the considerable challenge managers face as they decide with whom to create long-term relationships. The problem arises from the need to obtain reliable information about the availability, competencies, and trustworthiness of potential partners (Barney and Hansen 1994; Van de Ven 1976). Imperfect information increases search costs and exposes the firm to the risk of opportunism (Williamson 1985). To reduce these risks, firms tend to create voluntary relational ties with a limited set of preferred, long-term trading partners (Arndt 1979; Macneil 1980). Over time, relational ties among trading partners accumulate into a network of embedded exchange relationships that become a growing repository of

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valuable resources and information (Uzzi 1996, 1997). These relational ties can be conceptualized as relational resources that create value for a firm by connecting it to external resources located within a trading network (Srivastava, Shervani, and Fahey 1998). We argue that a firm's relational ties with trading partners not only provide access to valuable external resources, but also send a strong signal of the firm's availability and potential value as a long-term exchange partner. Indeed, such ties have been shown to serve as a reliable source of informational cues that influence the selection of long-term trading partners (Gulati and Gargiulo 1999). To facilitate the examination of relational resources that inhere in a firm's ties with trading partners, we introduce the new concept of *trade equity*, defined here as the value that accrues to a firm from being known in a trading network as a trustworthy trading partner.

To the second question, the marketing literature suggests that a firm's relationships do not exist in isolation and should be managed as a whole (Sawhney and Zabin 2002). In particular, relational ties with end consumers are proposed to exert a significant influence in interorganizational exchange relationships (Aaker 1991; Keller 1998; Srivastava, Shervani, and Fahey 1998; Webster 2000). To explore the effects of a firm's ties with end consumers, we draw on the concept of *brand equity*, which can be conceptualized as a relational resource that is located in relational ties between a firm's brands and the brands' consumers (Aaker 1991; Fournier 1998; Keller 1993). While there are conflicting views on the likely effects of consumer brand equity in interorganizational exchange, there have been no empirical studies to date that test these effects. On the one hand, brand equity is proposed to strengthen trade relationships by reducing uncertainty and assuring access to consumer markets (Aaker 1991; Keller 1998). On the other hand, brand equity may weaken relationships if trading partners have competing brands, such as the rivalry between a manufacturer's brands and the private label brands of powerful retail customers (Shocker, Srivastava, and Reuckert 1994). These mixed views prompted Webster (2000) to suggest that the assumed "tug-of-war" for consumer loyalty oversimplifies the complexity of relationships among brands, manufacturers, resellers and consumers and to call for a more detailed examination of the role of consumer brands in trade relationships. Our study responds to Webster's call.

Finally, previous research suggests it is important to consider the dimension of time in studies of interorganizational exchange (Dwyer, Schurr, and Oh 1987; Ring and Van de Ven 1994). The significance of factors that influence the character and performance of exchange relationships has been shown to vary systematically over time (Anderson and Weitz 1992; Doney and Cannon 1997). For example, the positive effect of affective commitment is stronger in long-term relationships, compared to new relationships (Verhoef, Franses, and Hoekstra 2002). We consider the time-dependency of the effects of trade equity and brand equity in this study.

The purpose of this research is to examine the effects of relational resources in interorganizational exchange. Specifically, the study investigates retailers' perceptions of the effects of manufacturers' relational resources. We accomplish our research objective in four ways. First, the study introduces and develops

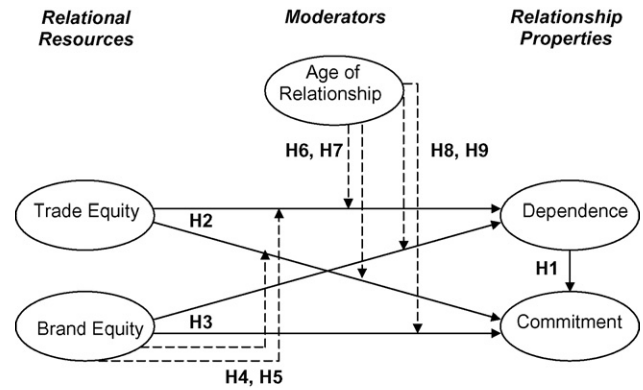

Fig. 1. The effects of relational resources on relationship properties.

the concept of trade equity to permit the examination of relational resources that inhere in a firm's ties with trading partners. Second, we consider relational resources that reside in a firm's ties with end consumers by exploring the effects of consumer brand equity in trade relationships. Third, we test the differential effects of these relational resources, and their interaction, on two fundamental properties of exchange relationships: dependence and commitment. Fourth, we examine differences in the effects of these relational resources in new and long-term relationships.

This paper is organized as follows. In the following section, we present the theoretical grounding for relational resources. Next, we introduce the concept of trade equity and discuss brand equity in the context of interorganizational exchange. We then propose a model of the differential effects of trade equity and brand equity on dependence and commitment (Fig. 1) and develop our hypotheses. We describe our research method, report the results and discuss the findings. We conclude with a discussion of the study's managerial and theoretical contributions.

Relational resources

The concept of relational resources is grounded in the resource-based view of the firm and the resource-advantage theory of competition, which attribute variation in firm performance to heterogeneity in firm resources (Hunt 1997, 2000; Rumelt 1984; Wernerfelt 1984). *Resources* are defined as the tangible and intangible entities available to a firm that enable it to produce a market offering that has value for some market segment(s) (Hunt 2000; Hunt and Morgan 1995). Available resources include not only those owned by the firm, but also those to which the firm has access. Hence resources may be internal or external to the firm. Such resources have been categorized as financial, physical, legal, human, organizational, informational, and relational.

Relational resources reside in relational ties between a firm and external entities such as end consumers, customers, suppliers, competitors, governmental agencies, and unions. They are proposed as a promising source of sustainable competitive advantage because they are asymmetrically distributed across firms, imperfectly mobile, difficult to imitate, and have no readily available substitutes (Barney 1991). The value of relational