

Linking Functions of Customer-Supplier Relationships, Business Relationship Value and Business Relationship Quality

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With the increasing interest in business relationship issues, business relationship value has emerged as an important aspect. What makes a business relationship valuable from the standpoint of the customer has become crucial for supplier. The importance of relationship quality has also been well established in the business-to-business marketing literature. Earlier studies report relationship quality is an outcome of direct and indirect functions of customer-supplier relationships. However, the nature of link between business relationship value and business relationship quality has not been explored. The purpose of this paper is to develop a mediator model of business-to-business relationships that links business relationship value, relationship functions and relationship quality in a novel way.

Field of research: Marketing

1. Introduction

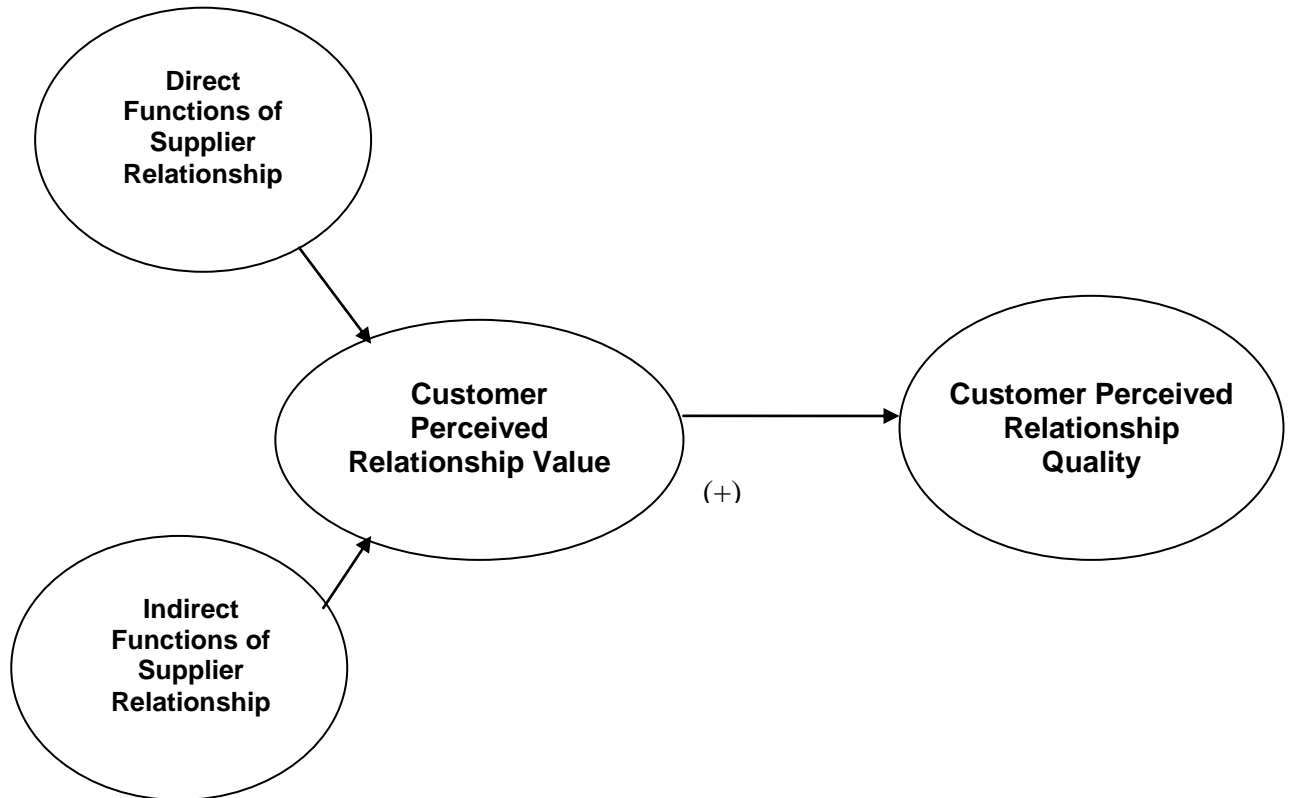
Customer perceived relationship quality has been gaining increasing attention in business-to-business marketing literature (Walter et al. 2003; Kumar, Scheer and Steenkamp 1995; Lagace, Dahlstrom and Gassenheimer 1991). Earlier studies e.g., Dorsch et al. (1998) reported that the development and implementation of effective preferred supplier programs could be based on customer perceived relationship quality. Consistent to this, Walter et al. (2003) suggest that the customer perceived relationship quality is important when the customer decides about developing and maintaining a long-term relationship with a particular supplier.

The present paper explores a very important question: what drives customer perceived relationship quality? What does a supplier have to do in order to develop a quality relationship from the point of view of customer? The answers to these questions will allow us to extend our understanding of the factors contributing to a lasting bond between the customer and the supplier. Earlier studies report that relationship functions drive business relationship quality (Walter et al. 2003). The present paper argues that a very important element of business-to-business relationships- business relationship value has a role in determining relationship quality. The paper develops hypotheses to explain the nature of links between the relationship functions, relationship value and relationship quality.

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The Conceptual Model

Figure 1 shows the theoretical links between the constructs.



The paper presents a review of literature in the next section. This follows with a discussion of the study hypotheses.

2. Literature Review

Customer-perceived Relationship Quality

Earlier research e.g., Crosby et al. (1990) advocate that the quality of the relationship determines the probability of continued exchange between buyers and sellers. In their study the authors focused on the customer-company relationship in the life insurance sector. They conceptualise that relationship quality consists of trust in the salesperson and satisfaction with the salesperson. There is, however, no consensus about what constitutes relationship quality. Previous studies in business-to-business relationships conceptualise relationship quality as a higher-order construct composed of relationship commitment, satisfaction and trust (Dorsch et al. 1998; Ulaga and Eggert 2004).

Drawing upon Dash et al. (2006) and the previous studies in buyer-seller relationship e.g., Kumar et al. (1995), the present paper conceptualises relationship commitment as a constituent of relationship quality. This is also consistent with the findings of Morgan and Hunt (1994) that a strong buyer-seller relationship involves a high level of trust and relationship commitment.

Relationship commitment

Interfirm relationship commitment refers to the extent to which a firm is dedicated to a close and enduring relationship with another firm (Kim and Frazier 1997). Commitment is recognised as a critically important element of long-term buyer-seller relationships and considered central to relational performance because without such commitment, it is unlikely that trading partners will be able to work closely and cooperatively (Dwyer et al. 1987; Gundlach et al. 1995). Furthermore, cooperative interfirm relationships are increasingly viewed as an important source of competitive advantage in domestic and international markets (Dyer 2000; Wilkinson and Young 2005). Commitment is described by the relationship marketing literature as an enduring desire to be in a valued relationship (Anderson and Weitz, 1992; Morgan and Hunt, 1994). Commitment is central to successful relationships because it allows firms to commit resources to relationship and to be interdependent (Geyskens and Steenkamp, 1995; Gundlach, Achrol, and Mentzer 1995; Wilson, 1995). From a resource-based view, organizational commitment helps realize the full value of interfirm collaboration (Wu and Cavusgil, 2006.) Relationship development involves considerable time and effort, including the commitment of relationship-specific and costly human effort, product, and service development. Such costs are even more significant and problematic in international business because of the problems of developing and maintaining business relationships across diverse and distant cultures.

Trust

Trust is said to be a vital component of business relationships (Anderson and Narus 1990; Doney and Canon 1997; Dertouzos, Lester and Solow 1989; Eriksson and Hallen 1995; Morgan and Hunt 1994; Young 2006). While there are a number of reasons given, underlying them is the importance of trust in human psychology. Trust is that thing that opens our minds to others and in doing so, opens the possibilities of leveraging business relationships and opening networks to achieve competitive advantage (Young 2006). It therefore has emerged as a substantial dimension in the interaction and network approach (Ford 1997; Hakansson and Snehota 1995). The literature on trust suggests that the establishment of trust is of paramount importance in the working relationship as it leads to more open communication, higher quality decision making, risk taking, cooperation, satisfaction in the decision-making, and relationship commitment (Beccerra and Gupta 1999; Kim and Frazier 1997; Svensson 2006). The considerable body of published work that conceptualizes, operationalizes and tests the importance of trust in business marketing concludes that it is central to business functions.

Satisfaction

Customer satisfaction is widely accepted as a strong driver for behavioural outcomes like repurchase intentions, word-of-mouth, loyalty (raval and Gronroos 1996; Liljander and Strandvik 1995). Previous studies e.g., Ulaga and Eggert (2004) found a significant link between satisfaction and trust.

Customer-perceived Relationship Value

Relationship value is the most important outcome of business relationships and the prime purpose for firms engaging in exchange relationships because value cannot be realized in arm's length relationships and purely transactional exchange processes (Anderson and Narus 1999; Biong et. al., 1997; Ganesan 1994; Wilson and Jantrania 1995; Wilson, 1995; Flint, Woodruff, and Gardial, 1997; Holm, Eriksson, and Johanson, 1999; Walter, Ritter, and Gemunden, 2001). Relationship value enhances customer loyalty (Berry and Parasuraman, 1991), especially when there are learning costs associated with switching vendors (Soellner, 1996, Bell, Auh and Smalley, 2005). Suppliers also receive value through reduction in inventory size, controlling manufacturing, administration and marketing costs, and better sales growth in comparison to supplier firms that use a transactional approach to servicing customers (Kalwani and Narayandas, 1995). This paper focuses on customers' perspective of value because supplier firms will only succeed in the marketplace once they offer more value to their customers compared to their competitors (Anderson and Narus 1999; Woodruff 1997).

While researchers acknowledge the importance of the customer value concept in marketing theory and practise and have made attempts to investigate some of the relationships between commitment, trust and value (Heskett et al. 1997; Lam, Shankar, Erramilli and Murthy, 2004; Gilliland and Bello, 2000; Walter and Ritter 200; Walter et al. 2003), the complex interrelationships between these constructs are still not well understood, particularly the mediating role of relationship value and the moderating impact of exit barriers on relationship value in driving relationship quality perceptions is missing. For example, while Walter et al. (2003) observe a positive effect of direct and indirect functions of supplier relationship on relationship quality, it does not address the question of what role does relationship value play for driving relationship quality? As Anderson and Narus (1999) regard value "as the cornerstone of business market management", it is critical for suppliers to comprehend the nature of impact of relationship value in determining customer's perceptions of quality of the relationship. Numerous studies, for example, Anderson and Weitz (1992); Hibbard and Iacobucci (1998); Holm, Desiree, and Johanson (1999); Morgan and Hunt (1994); and, Zineldin and Jonsson (2000) link relationship value to relationship commitment and trust.

Direct Functions and Indirect Functions of a Supplier Relationship

Previous studies conceptualise two types of relationship functions- direct value creating functions (also called primary relationship functions), and indirect value creating functions or network functions. The direct functions have an immediate effect on the value creation for the exchange partners as they stem from the business relationship itself and they are not dependent upon the other (connected)

relationships in the business market. Indirect functions have an oblique effect because they depend on the interconnections among activities, resources, actors and schemas across relations (Wiley et al 2006). Therefore, their relationship is directly or indirectly connected to other relationships and acts as a bridge through which access is gained to others and to information and insight. Earlier research in the business-to-business relationships area reports a range of value creating functions performed by the customer relationship (i.e., what the customer is contributing towards a particular supplier) as well as the supplier relationship (i.e., what is the contribution of the supplier toward the customer).

3. Hypotheses development

The impact of relationship functions on relationship value

A study by Walter, Ritter and Gemunden (2001) argued that functions of business relationships create value for the supplier. In line with Walter et al. (2001; 2003), regarding direct functions, this paper highlights four major areas- cost reduction, quality, volume and safeguarding. For customer, a major driver of value realization is reduction in the price quoted by the supplier. When the supplier performs the cost reduction function, the value perceptions of the customer will be higher. Similarly, the quality of the supplied product is important driver of value for the customer. In addition to cost and quality, customers' value perceptions are determined through bulk purchases as there are more discounts offered by the supplier. Last but not the least, the safeguard function is also important as in a uncertain situation, if a supplier can offer the needed product on time, that is seen by the customer as an insurance. Thus, the supplier's performance of the direct functions produces value for the customer. Therefore,

Hypothesis 1: Increasing fulfilment of the direct relationship functions by the supplier increases the relationship value perceived by the customer.

The indirect functions such as market function, scout function, innovation development function, and social support function are highlighted in earlier studies. Although the performance of these functions doesn't lead to a direct economic gain for the customer, these impact on value perceptions as there are some very important benefits like collaboration for new products, references to establish in a new market, good working atmosphere etc. which indirectly impact on value realization by the customer. Therefore,

Hypothesis 2: Increasing fulfilment of the indirect relationship functions by the supplier increases the relationship value perceived by the customer.

The impact of relationship value on Relationship quality

Earlier, Ulaga and Eggert (2004) hypothesized that value is an antecedent of relationship quality. In their study they conceptualized relationship quality as comprising of commitment, satisfaction and trust in manufacturing companies. In line with this,

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Hypothesis 3: The greater the relationship value perceived by the customer, the higher the relationship quality.

Relationship value is a mediator between Relationship functions and Relationship quality

Hypothesis 1, Hypothesis 2 and Hypothesis 3 lead to exploring the role of relationship value as a mediator between the direct and indirect functions, and relationship quality. Thus,

Hypothesis 4: Relationship value mediates between direct (and indirect) relationship functions and relationship quality.

4. Conclusion

If companies are to enjoy long-term success in the marketplace, they must effectively manage the relationships with their exchange partners. The notion of value-laden buyer-seller relationships is repeatedly emphasized in marketing literature and has considerable implications for companies. It demands an acquisition of knowledge about a firm's customers and suppliers. For suppliers, this is about gaining a better understanding of how customers use the supplier firm's products and services; what their motivations and inspirations are; and how they view their suppliers.

The article has considered the concept of business relationship value as the basis for developing better understanding of the firm's customers. The concept of business relationship value has been much appreciated in the literature of business-to-business marketing and a growing body of research has called for an investigation of value. However, the role of business relationship value is not properly understood as the previous studies investigate the direct links of value to other relevant relationship concepts like commitment, satisfaction, quality, trust etc. This paper argues that customer-perceived relationship quality mediates the link between the functions performed by a supplier in a business-to-business relationship and the relationship quality perceived by the customer.

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