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INTENDED RESOURCE INPUTS INTO CUSTOMER RELATIONSHIPS

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ABSTRACT

For buyer-seller relationships to work effectively and efficiently as conduits for transmitting and integrating resources, and hence to act as value creation vehicles, the partners need to invest in the relationship and need to make it easy for a the partner to access their resources. However, as every investment is risky and it is not sure whether their aimed-at objectives will be achieved, this paper addresses the question of which factors drive intention to invest into a customer relationship from a supplier's perspective. Three main factors are identified as investment drivers: first the relationship quality, second the suppliers' expectation of future access to the important intangible resources in their customers, and third the relationship value perceived by the supplier. We propose that all three have a positive effect on the supplier's intended resource inputs. After analyzing interview data from managers, the study analyzes survey data using the structural equation modeling technique and finds support for the propositions. We find that both relationship quality and the expectation of future access to the resources in their customers have direct effects on suppliers' intentions to invest. Relationship quality also has a strong effect, which is mediated by the other two drivers, because relationship quality positively influences the other two and thus operates through them.

KEYWORDS

Intangible; performance; relationship; resources

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1. INTRODUCTION

For buyer-seller relationships to work effectively and efficiently as conduits for transmitting and integrating resources, and hence to act as value creation vehicles, the partners need to invest in the relationship and need to make it easy for a the partner to access their resources. However, both making resource investments and allowing a partner to access one's resources both have risks, so relationship conditions need to be such that a firm has the confidence to do so. In this paper, we assess several factors that will affect whether or not a seller will invest in the relationship with a customer. This issue is important to both parties, particularly to the customer, as the rapidly developing customer attractiveness literature indicates (Hüttinger, Schiele, & Veldman, 2012; Schiele, Calvi, & Gibbert, 2012).

Several theoretical streams support the notion that a firm needs to invest in partner relationships for future profitability and to utilize its own and its partners' resources and integrate these sets of resources to develop future value if it wishes to be truly successful. Medlin (2006) has clearly demonstrated the importance of resource ties to relationship performance for sellers from an IMP point of view. Morgan and Hunt (1999) use their resource-advantage theory, based on the resource based view of the firm (RBV) (Barney, 1991), to list and describe a set resource categories to which a firm can usefully gain access through a buyer-seller relationship. These include such intangibles as the buyer's network of relationships and its informational resources in databases or elsewhere. Also with relation to RBV, Dyer and Singh (1998) argue in their Relational View that firms that are able to combine external resources in unique ways can generate relational rents and thus gain competitive advantages. Competence theory similarly identifies the usefulness to a firm of "firm-addressable resources" which are external resources that the firm does not own, but to

which it has access through a relationship (Sanchez & Heene, 1997). And the service-dominant logic (S-DL) of marketing (Ballantyne & Varey, 2006; Vargo & Lusch, 2008) provides support for the concept that the exchange of resources through a relationship leads to the creation of value-in-use by the relationship.

The resources that firms access through relationships are goods, services and money at the more tangible end of the spectrum and information resources at the more intangible end. Such informational resources are, for example, knowledge of customers' changing needs in downstream markets and knowledge of a customer's processes that will allow the supplier to deliver its services more effectively. Access to these resources is vital for healthy collaboration and for optimal co-creation of value in the relationship, so the success of investments in resources to build relationships that allow for their exchange is an important concern for firms.

On one hand, a selling firm invests resources in its customer relationships so that its exchanges with the customers provide fairly immediate, relatively tangible, benefits such as cash flows in exchange for the offerings of goods and services it supplies, because these benefits are essential to survival of the seller. These investments include such resources as salespersons' costs, managers' costs, adaptations to the offerings that pass through the relationship, and adaptations to the distribution and administrative processes that enable offerings and payments to pass between buyer and seller. Spending on these resources has an opportunity cost and hence the outcome of that expenditure must be accounted for.

On the other hand, managers become more and more interested in the knowledge-related intangibles that are so important to the longer-term survival of their firms, as illustrated by the kinds of tools that they currently focus on, such as Consumer Ethnography, CRM, and Knowledge Management systems (Rigby, 2011). Many of the intangible resources that such tools manage are internal to the firm (Griese, Pick & Kleinaltenkamp, 2012), but

many are also external to, but accessible by, the firm through relationships with other entities. A seller can thus gain much benefit from a customer's resources such as the customer's network of relationships, its employees' skills and its institutional knowledge. In service industries, for example, the "harnessing" of customer knowledge is noted as an area needing research (Ostrom et al., 2010, pages 12, 13). Managers are very much aware today of the value of these resources that reside in their customers.

Hence, it is vital that a seller's management of, and investment in, a relationship takes into account the potential access to the buyer's intangible informational resources as well as its more tangible ones. This focus on the seller's access to intangible knowledge-intensive aspects of the buyer through a customer relationship is a key requirement for the relationship to provide long-term sustainable competitive advantage and profitability to the supplier, as pointed out by the resource-based view of the firm (Barney, 1991). Morgan and Hunt (1999), based on application of their resource-advantage theory to relationships, provide arguments for the high potential for resource based competitive advantage that the more intangible organizational, informational and relational resources provide as compared with the more tangible resources such as financial and physical resources.

However, in order to access resources and tap into the potential for future value creation by resource integration both partners need to work on development of the relationship. In general, resource integration takes place at resource interfaces, where resources can interact (Waluszewski & Håkansson, 2007) and, of particular interest to this study of buyer-seller relationships, at knowledge interfaces (Strömsten & Håkansson, 2007). This requirement to work on the relationship means that each partner needs to put resources, both tangible and intangible, into the relationship (Ford et al., 1998 page 27), or at least make them available, in order to be able to tap into the buyer's resources. For example, if the seller wished to tap into the buyer's databases for information about downstream markets, it needs

first to negotiate the conditions and the benefits to both parties by doing so. This negotiation requires the allocation of boundary personnel resources in the form of the relevant managers' time and skills. The seller then needs to install the necessary processes and IT systems, which requires work by IT specialists together with other boundary personnel such as salespeople. After processes and systems are established, they will require ongoing surveillance and servicing by boundary personnel and maintenance by IT and other specialists.

But as every investment is risky it is not sure whether the aimed-at objectives of such investments into customer relationships will be achieved. And as those investments may cause high costs the question arises which factors drive a supplier's intention to invest into a customer relationship.

The IMP literature (e.g. Håkansson & Snehota, 1982), based on richly descriptive qualitative analysis, and the work of others such as Morgan and Hunt (1994) provides evidence that the nature of a relationship is an important factor in determining how well it allows for the transmission of intangible knowledge based resources and in turn how well it can aid long-term relationship success. Therefore, the study described in this paper proposes that the relationship quality in terms of trust and commitment into and satisfaction with the customer is a major driver of a seller's level of resource inputs into a relationship. The higher this relationship quality is the more two mechanisms are activated and at work that cope with or reduce the risks that are related to such investments: the first one is the expected accessibility to the buyer's resources and the second one is the value of the relationship the supplier holds with the customer. So, we further propose that the main effect of relationship quality on the supplier's intentions to invest resource into customer relationships is mediated by the expected accessibility to the buyer's resources as well as the value of the relationship.

Chiefly by analysis of quantitative data, the study provides support for the propositions outlined above. In the next section, the paper develops the conceptual model to

test the study's propositions by reviewing relevant literature. It then describes the methodology and the analysis results. Finally, the paper discusses the implications of the study and future research issues.

2. MODEL DEVELOPMENT

2.1 Model structure

The following discussion develops the structure of the model and its hypotheses as shown in Fig. 1.

Insert Figure 1 here

When investing resources into a customer relationship a supplier always has to deal with the trade-off between the attractiveness of the customer relationship as a positive expectation towards the relationship with this customer (Schiele, Calvi and Gibbert 2012) on the one hand and the risks of not achieving the intended objectives of the investments on the other. One can assume that the intentions to invest are higher the lower the perceived risk is that the investments will not result in the expected positive returns of what form ever. What are the drivers of such and assessment?

Literature on perceived risk states that it is based on two components: first the perceived importance of the consequences which might result from an incident ("Amount at stake") and second the perceived uncertainty about the incidence of negative consequences ("Probability that it might go wrong"). In a relationship setting this risk can mainly be seen as an endogenous uncertainty which refers to the behavior of the partner (Williamson 1985, Das

and Teng 1996). Besides that also exogenous risks exist that relate to environmental factors but which cannot be influenced by the relationship partners (Williamson 1985).

Against this backdrop and in line with the literature on customer attractiveness, supplier satisfaction and preferred customer status (Hüttinger, Schiele and Veldman 2012), we start from the premise that sellers' expectations on the customer behavior with respect to letting them receive the positive returns of their resource investments are essential for reducing their uncertainty. We assume that these assessments are mainly driven firstly by the seller's expectations on the accessibility to buyer's resources and secondly by the relationship value as assessed from the seller's point of view. Furthermore, we assume that both constructs are driven by the evaluation of the quality of the relationship with the respective customers. Thus, this study proceeds on the assumption that the supplier's intentions to invest into a customer relationship is mainly driven by the quality of the relationship. But this main effect is completely mediated by the seller's expected accessibility to buyer's resources on the one hand and the relationship value as assessed by the seller on the other hand.

2.2 Hypotheses

2.2.1 Expected accessibility to buyer's resources

Given the basic notion that getting access to customers' resources causes positive effects for the supplier the probability of receiving positive returns on investments into customer relationships should be higher the more likely it is that the supplier gets access to the certain customer resources. Hüttinger, Schiele and Veldman (2012) argue that a customer's attractiveness, and hence its ability to attract investment from a supplier, is based on expectations and is therefore future-oriented.

(Needs further elaboration and literature references)

This expectation will drive supplier behavior. Thus we hypothesize:

H₁: The higher the expected accessibility to buyer's resources is, the greater is the supplier's intention to invest into the customer relationship.

2.2.2 Relationship value

Recent research has stressed the importance of relationship value both on the customers' and the suppliers' behavioral intentions (Geiger et al. 2012). This relationship value can be defined as the sum of the benefits and cost reductions generated in an ongoing exchange with a business partner (Lefaix-Durand, Kozak, Beauregard, & Poulin, 2009). So far, research on relationship value is directed at better understanding the drivers of value creation within relationships (e.g. Lapierre, 2000; Ulaga & Eggert, 2006; Walter, et al., 2001; Zeithaml, 1988), the multidimensional and dynamic nature of value creation in business relationships (e.g. Beverland & Lockshin, 2003; Cannon & Homburg, 2001; Eggert, Ulaga, & Schultz, 2006; Flint, et al., 2002; Hogan, 2001), and the processes through which value develops (e.g. Lepak, Smith, & Taylor, 2007; Prahalad & Ramaswamy, 2004).

From the supplier perspective a high relationship value results in high contribution margin, high customer lifetime value and in receiving other benefits like references, innovations inputs etc. Therefore, if this happens or if this is expected it is reasonable to enhance the relationship. It has been supported by empirical evidence that a higher relationship value perceived by the supplier leads to a higher intention to enhance customer relationships (Geiger et al. 2012).

H₂: The higher the relationship value for the supplier is, the greater are the supplier's intentions to invest into the customer relationship.

2.2.3 Relationship quality

We assume that the expected accessibility to buyer's resources as well as relationship value are driven by the quality of the relationship. We assume that a good relationship quality has a positive impact on the supplier's intention to invest into the customer relations as it reduces a presumed risk related to the future behavior of the customer (Williamson 1985, Das and Teng 1996). In the context of this study behavioral risk stands for the fact that a customer might behave opportunistically and thus averting the seller from receiving the expected positive results out of getting accesses to the customer resources.

We see relationship quality as a three-dimensional construct consisting of trust, commitment and satisfaction (Ulaga & Eggert, 2006; Walter, Müller, Helfert, & Ritter, 2003). Whereas commitment and trust are often assessed from the perspective of the buyer in a buyer-seller relationship, the commitment, trust and satisfaction assessed in this study are from the perspective the seller. Dwyer, Schurr and Oh (1987) note that in bilateral relationships, trust and commitment grow in both parties. Hence, the commitment is conceptualized as commitment of the seller to the buyer and the trust as well as the satisfaction are conceptualized as trust and the satisfaction of the seller in or with the buyer.

Thus, we assume that the effect of relationship quality on the seller's level of resource input into the customer relationship is mediated both by the expected accessibility to buyer's resources and by relationship value. Thus, we hypothesize

- H₃: The better the relationship quality perceived by the seller is, the higher is the supplier's expected accessibility to buyer's resources.
- H₄: The better the relationship quality perceived by the seller is, the higher is the relationship value for the supplier.
- H₅: The better the relationship quality perceived by the seller is, the greater are the supplier's intentions to invest into the customer relationship. (No direct but fully mediated effect)

2.3 Model constructs

The study conceptualizes the resource input level construct as the level of effort that the seller puts into providing resources to the specific relationship which the respondent uses as the subject for the questionnaire. It is an assessment of the attitude of the regard that the seller has for the relationship in terms of the seller's allocation of resources to the relationship. Respondents are asked to rate the level of their firm's input into the relationship of a set of tangible and intangible resources that are representative of the kind of resources that a seller applies to a relationship.

The definitions and measures of trust and commitment in the study are those of Morgan and Hunt (1994). Although the Morgan and Hunt conceptualization of trust tends to be weighted towards its calculative aspects (Young, 2006) and their conceptualization of commitment tends to be predominantly affective (Geyskens, Steenkamp, Scheer, & Kumar, 1996), they are well-tested. The satisfaction construct adopts the conceptualization of Kumar, Stern, & Achrol (1992).

The study conceptualizes relationship value as the respondent's current perceptions of the value of the relationship to his/her firm. The "Expected accessibility of buyer's resources" construct is conceptualized as the extent to which the seller expects to get access to the more intangible resources of its customer. As noted above, the performance focus is on more intangible resources because these are relatively under-researched and are the ones that tend to be useful in creating longer-lasting and more unique competitive advantage, as Morgan and Hunt (1999) explain, based on their resource-advantage theory. The accessibility construct and its measures derive from resource categorizations of the intellectual capital literature (e.g. Roos, Roos, Dragonetti, & Edvinsson, 1997). The rationale for this theoretical basis is that the intellectual capital and resource-based frameworks have a common derivation

in the work of Penrose (1959). The focus on less tangible resources is also more in alignment with the important resources that the S-DL describes as operand than those the S-DL describes as operand.

The next section of the paper describes the study's method including data collection, measure development, and data analysis to test the components of the Fig. 1 model, including its measures and its paths labeled as hypotheses H₁ to H₃.

3. TESTING THE MODEL

3.1 Method

The empirical phase of the study pre-tested a questionnaire with relevant researchers and managers and then surveyed managers in sales and marketing positions, in New Zealand manufacturing business-to-business suppliers, who were involved in relationship management. The survey collected data on 7 point scales with anchor points such as “strongly disagree” to “strongly agree”. The unit of analysis was a relationship that the responding supplier had with a specific customer, as can be seen from the question formulation in the appendix. A pilot study indicated that, if left unguided, respondents tended to choose a “good” relationship, with a relatively narrow variance as the result. The main questionnaire mail-out therefore asked the respondent to choose their fourth-largest customer. The number of responses to the survey, after excluding incomplete questionnaires, was 314. Calculation of *t*-tests on the early and late responses to indicators of the constructs in the model did not indicate non-response bias (Armstrong & Overton, 1977). Models in the Amos software, as indicated in tables below, provide the basis to assess the data.

3.2 Measure development

As the appendix shows, the scale for resource input level has three items, reduced from four in the questionnaire, describing a mix of more and less tangible resources that are representative of the resources firms put into their relationships. The dollar input item does not perform as well as the other three in this scale, but remains in the scale on the basis that it is content valid (Rossiter, 2002), that its corrected item-total correlation is above 0.5 (Hair, Anderson, Tatham, & Black, 1998), and its removal does not increase the scale's Cronbach alpha.

Similarly, the measures for accessibility of buyer's resources are four resources that are representative of those more intangible resources that a seller would find useful if they were accessible from their customer, as noted above. The measures for commitment and trust are some of those used by Morgan and Hunt (1994), changed to the buyer's perspective. The satisfaction scale is that of Kumar, Stern, & Achrol (1992).

The study specifies all indicators as reflective or elicited (Rossiter, 2002). Morgan and Hunt (1994) and Kumar et al. (1992) designed and tested their scales that way, because they each are a sample of possible positions that respondents would take as outcomes of a situation where these relationship characteristics exist, at a scale level corresponding to the level of those characteristics in the relationship. The scale for the resource input level construct is reflective because the indicators are representative of the types of resource that a firm puts into a specific relationship in greater amounts in order to develop that relationship, as indicators of the level of resource input the seller intends to allocate to the subject relationship. Similarly, the indicators for accessibility of buyer's resources represent a sample of the types of resources that a supplier would be able to access in greater amounts from a

more accessible relationship, as indicators of an underlying positive attitude of the specific buyer to making its resources accessible. The indicators for relationship value are questions that a respondent will rate highly if he/she has a high perception of the value of the subject relationship.

3.3 Analysis

After exploratory analysis shows suitability, the survey data are analyzed in SPSS and Amos software. An unrotated exploratory factor analysis shows that there is no one factor that accounts for the majority of variance, so that common method variance is not likely to be a problem (Podsakoff, MacKenzie, Jeong-Yeon, & Podsakoff, 2003). The appendix shows the measures of constructs and the internal consistencies of scales, all of which have Cronbach alpha well in excess of 0.7 (Hair et al., 1998) and regression weights of indicators on constructs in excess of 0.7, apart from a few (notably, some are reverse-scored items), which are retained for content validity.

Table 1 shows that the measurement model, which includes all the Fig. 1 model's constructs and their items after purification of some items from the model, has good fit statistics (Hair et al., 1998; Hu & Bentler, 1999). The measures all have convergent validity, as their regressions on the constructs they measure are all significant at $p < 0.001$ and the average variance extracted for each construct is greater than 0.5 (Fornell & Larcker, 1981). The constructs all have discriminant validity because the bootstrapped correlations plus and minus the bootstrapped standard errors do not include the value of 1 (Anderson & Gerbing, 1988).

The study next estimates the Figure 1 structural model, whose fit statistics are in the second row of Table 1. All paths in Figure 1 are highly significant except for the H5 path,

which has a non-significant regression coefficient, meaning that the direct path from relationship quality to the supplier's intended resource inputs is fully mediated by the two indirect paths through expected accessibility to buyer's resources and relationship value. The Figure 1 model estimation shows that the indirect effect of relationship quality on the supplier's intended resource inputs has bootstrapped two-tailed significance of $p < 0.006$ and that the r^2 for supplier's intended resource inputs is 0.28.

Table 1 here

4. DISCUSSION

This study's analysis extends the customer attractiveness literature's findings that suppliers support customers at a level that is aligned to the gains expected by the supplier, by showing that this effect goes beyond the supplier's expectations in terms of financial outcomes to the supplier's expectations in terms of the more intangible informational resource benefits the supplier can get from its customer. The study's findings also support this paper's contention, based on several theoretical streams, but particularly on the IMP literature, that the beneficial development of relationships requires reciprocal exchange of resources in a positive context, illustrated in this study in terms of relationship quality and relationship value perceptions.

The service-dominant logic of marketing, and in particular its foundational premise FP9, is also useful for interpretation of this study. FP9 states that "All social and economic actors are resource integrators" (Vargo & Lusch, 2008). As Ballantyne and Varey (2006) explain, this integration takes place through communication of information between

relationship actors through the medium of a relationship. In order for the transfer and integration of information (intangible resources) to take place, the relationship must be well-developed in order to provide the optimum context.

Some specific examples of the way in which exchange and integration of resources takes place in a buyer-seller relationship will help ground the study's findings in practice. Taking one of the resources used as in the study as an indicator of the seller's resource input level as an example, if the seller's boundary personnel are resourced to give more time to the relationship, they are able to better communicate with and to better give information to their customer. This information gain can be of great value to the customer, because it allows the customer to better utilize products and processes. This study does not model the value gain from these increased capabilities, but it explains the importance to both parties of exchanging resources and also the importance of relationship quality to the process.

The study has limitations in terms of its cross-sectional view and the fact that it takes the perspective of only one side of the dyad. Extension of the model to the buyer's perspective is an opportunity for future research. Further to this issue of perspective, researchers are keenly aware of the need to extend research more deeply beyond dyadic considerations into the networks in which firms are positioned.

Another avenue for future research is to investigate the detailed mechanisms by which the resources of relationship partners are integrated and how this integration leads to improved performance in terms of accessibility of buyer's resources. It will be interesting to assess the effects of the distinct cognitive and affective aspects of trust (Johnson & Grayson, 2005) and similarly to assess these distinct aspects of commitment (Geyskens, Steenkamp, Scheer, & Kumar, 1996). An aspect of relationship and network research that needs further work at a micro level concerns how individual people as actors, such as salespeople, actually

operate within both dyadic and network relationships and, as they do so, how they modify them (e.g. Baxter & Olesen, 2008; Haas, Snehota, & Corsaro, 2012).

Manufacturers were the context for this current study. It will be interesting to investigate the same issues in other contexts such as services to assess this aspect of the generalizability of the findings.

The study's findings provide useful ideas for managers. They indicate that both parties in a buyer-seller relationship need to consider closely how the work on their relationship to build a positive context in terms of commitment, trust, satisfaction, and openness to resource accessibility, if they wish to receive reciprocal resource benefits.

Appendix: Scale items

Scales and items	Anchor points on 1 – 7 scale		Standardized regression weight	Cronbach alpha
Resource input level in future				0.779
Please consider again your firm's relationship with your chosen customer over the next 3 years. How high do you expect your firm's level of input of the following resources to be into the relationship, compared with your other customers?	Very much lower	Very much higher		
Dollars your firm puts into the relationship.			0.569	
Time input of your personnel.			0.851	
Your intangible inputs, such as your knowledge, skills, ingenuity and your business contacts.			0.814	
Accessibility of buyer's resources				0.857
Again, for the next 3 years, how effective do you expect the relationship with your chosen customer to be in giving your firm useful access to the following?	Not at all effective	Very effective		
To your customer's network of relationships			0.732	
To the capabilities in their organisation (e.g. the organisational knowledge, infrastructure, processes, and/or culture)			0.893	
To the capabilities of their personnel			0.841	
To their capabilities for the development of new products or processes			0.669	
Relationship value	I do not agree at all	I fully agree		0.855
This relationship currently is of great value to my firm.			0.923	
This relationship will be of great value to my firm in the next 3 years			0.914	
There is a lot of intangible value in this relationship			0.643	
Commitment				0.866
The <u>relationship</u> that your firm has with the chosen customer:	Strongly disagree	Strongly agree		
Is something you are very committed to			0.821	
Is something your firm intends to maintain indefinitely			0.693	
Is something your firm really cares about			0.834	
Deserves your firm's maximum effort to maintain			0.802	
Trust				0.907
In your relationship, your chosen customer:	Strongly disagree	Strongly agree		
Cannot be trusted at times (reverse scored)			0.682	
Is perfectly honest and truthful			0.782	
Can be counted on to do what is right			0.888	
Is always faithful			0.853	
Is someone that you have great confidence in			0.898	
Satisfaction				0.818
To what extent do the following statements describe your relationship with your chosen customer?	Not at all	Very much so		
The relationship of my company with this customer has been an unhappy one (reverse scored).			0.543	
My company is very pleased with its working relationship with this customer.			0.921	
Generally, my company is very satisfied with its overall relationship with this customer.			0.894	

- Notes:**
1. Numbers in the column headed "Standardised regression weight" are path weights between each measure and the construct it reflects in the measurement model whose fit statistics are shown in Table 1.
 2. Regression weights in this appendix are all significant at $p < 0.001$.

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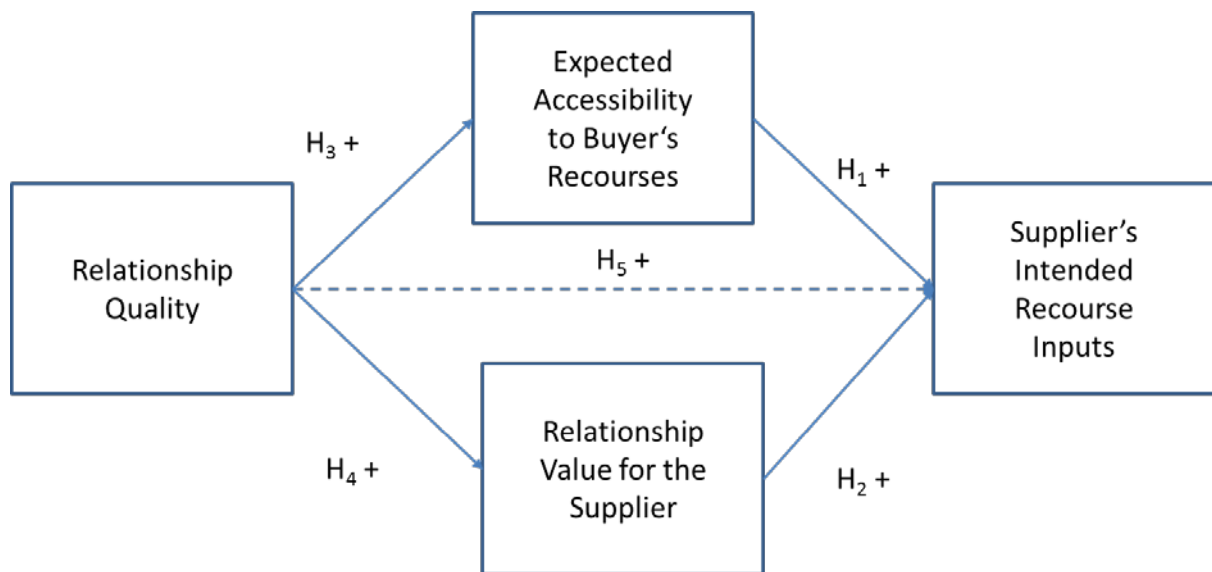


Figure 1: Conceptual model

Path	Regression weight	Significance,
H1	0.328	p < 0.001
H2	0.269	p < 0.002
H3	0.479	p < 0.001
H4	0.653	p < 0.001
H5	0.064	Not significant

Model	CMIN	Df	p-value	CMIN/Df	SRMR	RMSEA	TLI	GFI
Measurement model including all six constructs	301.11	194	0.000	1.55	0.04	0.04	0.97	0.92
Structural model as in Fig. 1	363.40	201	0.000	1.81	0.06	0.05	0.96	0.91

Table 1: Model fit statistics