Converting Relationship Value into Performance: The Effect of Commitment and Trust

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Abstract

Relationship outcomes, particularly their value and performance, are of interest to both academics and practitioners. This paper therefore reports on a study that attempts to elucidate the effect of two important constructs, namely commitment and trust, on a set of future financial performance outcomes of the more intangible aspects of relationship value. It is theoretically grounded in a resource-based view of the relationship and in the IMP literature. It supports the hypothesis that commitment is a mediator of the path from value to future financial performance, and suggests that trust has a more complex effect on the path than simple mediation.

Introduction

Relationship outcomes, particularly their value and performance, are of interest to both academics and practitioners. Following calls for more quantification and the development of better measures in marketing (Day & Montgomery, 1999; Srivastava, Shervani, & Fahey, 1998), the value of relationships has been a subject of research in recent years, in terms of both its drivers and its manifestations. But performance, which is a somewhat different, though closely related, construct, has not been the subject of much of the relationship research. Further, the factors that affect performance of relationships have also not been researched in depth. In particular, the future financial outcome of intangible relationship resources has not been the subject of much study, despite strong and specific calls for research into the future effects of and into the resource-based analysis of intangible marketing resources (Srivastava, 2001).

For the reasons noted above, this paper reports on research that attempts to elucidate the effect of two important constructs, namely commitment and trust, on a set of financial performance outcomes of the more intangible aspects of relationship value. The findings will be interesting because (i) the study concerns the financial performance of relationships in the future, which is little studied so far in the marketing literature, (ii) the perspective is of the effects on value of the seller's commitment to, and trust in, the buyer, rather than the commitment and trust being that of the buyer towards the seller (iii) the unit of analysis is the relationship and its processes, rather than the firm as a whole (iv) and the conceptualisation is grounded in the resource-based view and in the intellectual capital literature.

Based on a brief review of the literature, the paper first outlines the perspectives of the study, its key constructs, and the hypothesised relationships between them. It then describes the methodological approach to the study, and its analysis. Lastly, it discusses the findings.

Model conceptualisation

Understanding of this discussion will be aided by reference to Figure 1, which is modified from Baxter and Matear (2004). Potential for present intangible value provision to a seller by a buyer in a business to business buyer-seller relationship is conceptualised as providing financial performance of the relationship in the future.

The intangible aspects of a firm's resources are particularly important, as they are seen as of particular relevance in providing competitive advantage. In the terminology of the resource-based view of the firm (Barney, 1991), they are more rare, more inimitable and less substitutable than are tangible resources. This concept of the greater value of intangibles is extended to resources of relationships by Morgan and Hunt (1999). This study therefore focuses on the intangible aspects of relationship value and utilises the dimensions of intangible relationship value of Baxter and Matear (2004). These dimensions include three human dimensions and three structural dimensions of intangible relationship value.

Although it can be argued that a full assessment of relationship performance must include both hard (i.e. financial) measures and soft (non-financial) measures (O'Toole & Donaldson, 2002), this appears to be an issue of time perspective. As pointed out by Medlin (2004), time is a fundamentally important factor in the development of the interactions that take place in a relationship and therefore the time perspective is critical to understanding relationships and their value and performance. In fact, non-financial measures of relationship value are presumably only useful and relevant if they do in fact provide financial returns in the future, so in the longer term, it is measures of financial performance that are important. Srivastava et al. (2001) see intangible relational market-based assets and intellectual market-based assets as translating to financial performance through the firm's processes. This study is therefore conceptualised in terms of future financial performance measures, specifically over a 3-year horizon, and these are hypothesised as outcomes of the current value perception, as shown in Figure 1. The conceptualisation of the dimensions and structure of intangible relationship resources is based on a set of relationship resources derived from application of the resource-based view to relationships by Morgan and Hunt (1999). These resource types are operationalised by the synthesis of a framework from the intellectual capital literature.

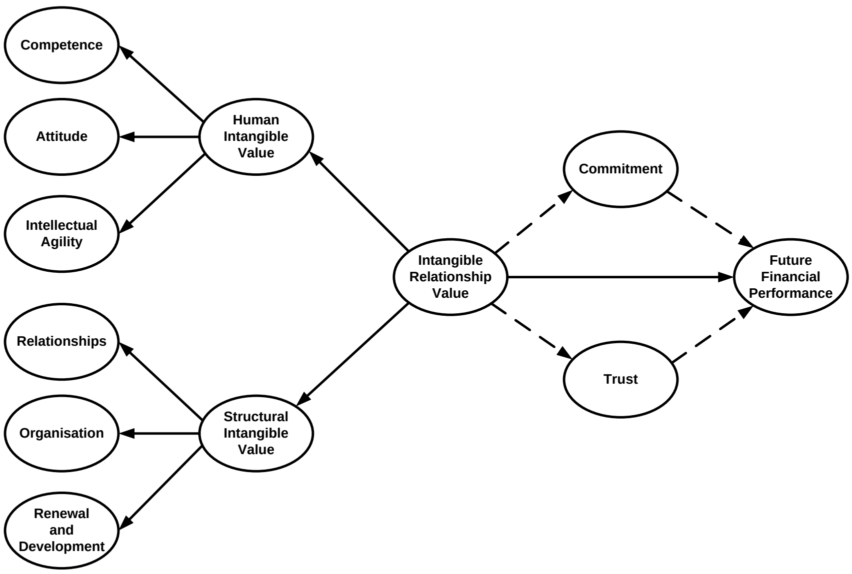

Figure 1: Provision of value and performance in B2B buyer-seller relationship

Relationships develop an "atmosphere" during interaction between the two relationship parties, in the view of the IMP group (Hakansson, 1982; Roehrich, Spencer, & Florence, 2002). Trust in, and commitment to, one relationship party by the other are seen as two aspects of this atmosphere and have been tested as mediators of the relationship between a set of constructs and relationship performance in a different context from this study (Medlin, Aurifeille, & Quester, 2005). The perspective in this study is, as noted above, the seller's commitment to, and trust in, the buyer, rather than the commitment and trust being that of the buyer.

Baxter and Matear's (2004) study and another study by Zhang (2004) have supported a fairly strong relationship between relationship value and future financial performance. The limited relevant literature (Hakansson, 1982; Medlin et al., 2005) suggests that commitment and trust in the relationship should also have a positive effect on the path to future financial performance. These two constructs are therefore hypothesised and tested as mediators of the path from value to future financial performance, with dotted lines in Figure 1. They fit their conceptualisation as mediators better than they would as moderators, because they are unlikely to be independent of value: for example, in Morgan and Hunt's (1994) study there is a positive path from relationship benefits to relationship commitment.

Measure development, data collection and analysis

The measures used for the intangible relationship value and future financial performance constructs for the study are those of Baxter and Matear (2004). The measures of commitment and trust constructs used are those of Morgan and Hunt (1994), modified to measure the trust of the seller rather than the buyer. These are relatively simple in their domain definitions, but were used because they have been well-tried and their simplicity helped to keep questionnaire length down. Some of the Morgan and Hunt indicators dropped out during scale purification.

The survey instrument used 7-point Likert-type scales for multiple items per construct, based on a literature review and interviews with managers. The survey was pre-tested with academics and practitioners and then pilot tested with members of the sample frame before the full mail-out to the sample frame of sales and marketing practitioners in a range of manufacturing firms, selected randomly from a commercial database. The respondent was requested to use their company's fourth largest customer as the subject of the questionnaire, to avoid having all respondents choose their "best" customer, which would lessen the variance in responses. Samples of the remaining scale items, after purification using published purification criteria in exploratory and confirmatory factor analyses, are shown in the Appendix. As shown in the appendix, all scales retained at least three items after purification and have alpha values well above 0.7, indicating reliability.

A measurement model of the first and second order value dimensions was estimated in Amos structural equation modelling software on the basis of the 314 good responses, which comprised a 23% response rate. The fit statistics for the structural model in Figure 1, without the mediating constructs, were good, as follows: CMIN/Degrees of freedom 1.495; SRMR 0.0474; RMSEA 0.04; TLI 0.963. There was sound support for convergent validity in this model based on its regression coefficients, for discriminant validity based on bootstrapped correlations between relevant constructs not overlapping with the value 1, and for nomological validity based on the significant path from intangible relationship value to future financial performance.

The Baron and Kenny (1986) tests for mediation of the path from intangible relationship value to future financial performance as drawn in Figure 1 were then applied for trust and commitment, using linear regression, as shown in Table 1. The path from intangible relationship value (IRV in Table 1) to future financial performance (FFP in Table 1) as in Figure 1 is already shown as significant (Baxter & Matear, 2004): its beta and significance level in linear regression are shown in Table 1 as “FFP dependent; IRV independent” in the first column. The Baron and Kenny mediation requirements are that (a) the regression of the mediator (commitment or trust: M in Table 1) on the independent variable (intangible relationship value: IRV in Table 1) should be significant (b) the regression of the dependent variable (future financial performance: FFP in Table 1) on the mediator (commitment or trust, M for mediator in Table 1) should be significant and (c) the regression of the dependent variable on the independent variable when the paths to and from the mediator are controlled, should be either (i) no longer significant, to show full mediation, or (ii) reduced from what it was without the mediator present, in order to show partial mediation. The inputs to the regressions for the intangible relationship value, future financial performance, trust, and commitment constructs were summations of the scales as shown in the Appendix.

Table 1: Tests for mediation

Regression:	**FFP dependent; IRV independent**	**M dependent; IRV independent**	**FFP dependent M independent**	**FFP dependent; IRV independent: M included in regression**
Commitment	0.376 (0.000)	0.363 (0.000)	0.286 (0.000)	0.313 (0.000)
Trust	0.376 (0.000)	0.453 (0.000)	0.217 (0.000)	0.349 (0.000)

Notes: (i) unbracketed figure is standardised regression coefficient, beta (ii) bracketed figure is significance level (iii) beta in last column is for IRV (iv) M is mediator, either commitment or trust

Discussion

The paths in Table 1 are all significant and the regression coefficients in the last column with the hypothesised mediator included in the regressions are smaller than in the regressions in the second column without the mediator included. In the case of commitment, it is, using the Baron and Kenny (1986) rules, a partial mediator of the path from intangible relationship value to future financial performance. However, in the case of trust, its regression coefficient in the regression that includes intangible relationship value is not significant, at $p < 0.05$, as it has the *t*-value 1.013. Hence the results do not support the hypothesis that trust is a mediator.

The study thus provides support, in the case of the commitment construct, for the suggestion that a positive atmosphere in a relationship positively affects the potential for a seller to convert current potential value, assessed as intangible relationship value, to superior future financial outcomes. It is an empirical application of the resource-based view to marketing resources and their financial outcomes, which can provide the base for future research into these resources and their outcomes. This is an indicator of the need for managerial strategy to include attention to the creation and maintenance of a positive atmosphere in relationships in order to ensure that current value is effectively converted into future performance. The fact that the trust construct did not show up as a mediator suggests that the relationship is more complex than a simple mediation. Perhaps trust mediates the relationship between intangible relationship value and commitment, as the study of Morgan and Hunt (1994) might suggest. This is an issue for further study. Another interesting subject for future study is the situation from the other side of the dyad. It would seem intuitively that a positive relationship atmosphere will have similar effects on the conversion of relationship value to future financial performance, from the perspective of the buyer, to those demonstrated in this study. This needs to be tested, probably with some contextualisation of survey items.

Appendix

Construct and sample scale items after purification (number of items after purification)	**Anchor points, from 1**	**to 7**	**Cronbach alpha**
Competence (3) Professional skills Practical know-how in the work they do with you	Very low levels	Very high levels	0.748
Attitude (4) They show enthusiasm for their work with you They share their ideas with you	Strongly disagree	Strongly agree	0.867
Intellectual agility (4) They are innovative in their approach They can adapt products/services to new situations	Not at all	To a very great extent	0.897
Relationships (4) To what extent does your relationship with your chosen customer allow you to utilise the relationships your customer has with the following? Key opinion leaders in your customer's field Business networks or other networks to which your customer belongs	Not at all	To a very great extent	0.843
Organisation (3) To what extent does your relationship with your chosen customer allow you to gain benefits from the following in their organisation? Their intellectual property, including patents, trademarks and copyrights Their information in databases and other documentation	Not at all	To a very great extent	0.780
Renewal and development (4) To what extent does your relationship with your chosen customer assist you in preparing for the future by helping with the following? By reporting and forecasting the trends in their markets By helping to develop new systems, including IT systems	Not at all	To a very great extent	0.807
Future financial performance (3) Thinking now about the next 3 years, how do you expect your chosen customer's performance to rate? Please rate on the scale at the right according to the following criteria, as compared with your other customers. The size of their business with you relative to your total business The profitability of your organisation's business with this customer	Very much lower	Very much higher	0.806
Commitment (5) The relationship that your firm has with the chosen customer: Is something your firm intends to maintain indefinitely Is something your firm really cares about	Strongly disagree	Strongly agree	0.820
Trust (5) In your relationship, your chosen customer: Is perfectly honest and truthful Can be counted on to do what is right	Strongly disagree	Strongly agree	0.907

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