

The 17<sup>th</sup> Annual IMP Conference

9<sup>th</sup> - 11<sup>th</sup> September 2001

Work-in-process paper

**"A multi-level perspective on the dissolution of business relationships"**

by

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July 31, 2001

## **Abstract**

This paper presents a multi-level approach to the dissolution of business relationships. A number of factors are postulated to attenuate the likelihood of relationship dissolution. Structural aspects, such as contracts, are emphasized in Transaction Cost Theory, whereas Relational Contract Theory highlights relational aspects, such as boundary spanner interpersonal bonds. In this study we argue that both macro level phenomena (such as structural ties) and micro level phenomena (such as interpersonal ties) have a potential impact upon relationship dissolution. Moreover, since business relationships are seen as inherently multi-level phenomena, structural and relational aspects would constitute a multi-level issue in these relationships. Furthermore, we suggest that the potential impact of structural and interpersonal ties upon the likelihood of relationship dissolution are moderated by properties connected to the organizational and interorganizational context. Macro level properties, such as size, formalization and centralization are thus seen to influence organizational members behavior. According to organization theory and research, individual's behavior, affective responses, motives and attitude are affected by structure. Related to the phenomena of business relationships, organizational structure and context may favor or constrain the development of interpersonal ties across organizational boundaries. Drawing on theoretical insights from multi-level theory, organization theory and multi-level research on business-to-business relationships, we suggest that a number of organizational and interorganizational dimensions moderate the impact of structural and interpersonal ties upon the likelihood of business relationship dissolution.

## ***'A multi-level perspective on the dissolution of business relationships'***

### *The concept of relationship dissolution*

Despite the importance of the dissolution of business relationships there has been little research on the termination phase of interorganizational relations (Hocutt 1998, Baker, Faulkner and Fisher 1998, Halinen and Täthinen 1999). A number of studies have however examined factors and events leading to relationship termination (e.g. Michell, Cataquet and Hague 1992, Gassenheimer, Houston and Davis 1998), but explanations regarding their impact on the dissolution process is yet lacking (Halinen and Täthinen 1999).

By *relationship dissolution* we mean the termination of a business-to-business relationship. In the literature, empirical evidence show that a number of factors are expected to reduce the likelihood of relationship dissolution.

### *Research question*

Scholars in the various literature fields have put emphasis on distinct aspects in business relationships, when it comes to potential impact upon the likelihood of relationship dissolution.

For example, structural aspects, such as contracts, are emphasized in Transaction Cost Theory (Williamson 1985), whereas Relational Contract Theory (Macneil 1980) highlights relational aspects (such as boundary spanner interpersonal bonds). In this study both macro level phenomena (such as structural ties) and micro-level phenomena (such as interpersonal ties) are postulated to have an impact upon the likelihood of relationship dissolution. Furthermore, we suggest that the organizational and interorganizational context moderate the potential impact of structural and interpersonal ties upon the likelihood of relationship.

Drawing on theoretical insights regarding multi-level issues (Rousseau 1985, Klein, Dansereau and Hall 1994, House, Rousseau and Thomas-Hunt 1995), organizational studies (e.g. Staw, Sandelands and Dutton 1981, Morand 1995, Morris, Berthon and Pitt 1999) and interorganizational research (e.g. Seabright, Levinthal and Fichman 1992, Doney and Cannon 1997, Murry and Heide 1998, Humphrey and Ashforth 2000), we claim specific organizational and interorganizational dimensions to moderate the effect of structural and interpersonal ties upon the likelihood of relationship dissolution. The above outline lead to the following research question:

**Research question:** *How are organizational and interorganizational dimensions moderating the impact of structural and interpersonal ties upon the likelihood of relationship dissolution?*

Further, we will give an account of factors at both macro and micro levels assumed to reduce the likelihood of relationship dissolution. Moreover, drawing on organizational theory and multi-level studies, we claim organizational-level properties to influence organizational member

behavior. Finally, we present a cross-level model illustrating our theoretical multi-level proposition.

#### *Macro-level factors attenuating the likelihood of relationship dissolution*

In consistency with Transaction Cost Theory, structural bonds in the form of partner-specific investments are assumed to represent barriers with respect to the termination of business relationships (Williamson 1985, Anderson and Narus 1990). Structural mechanisms for coordinating exchange, such as formalization and standardization procedures are also seen as effective in order to attenuate the likelihood of relationship dissolution (Van de Ven 1976, Williamson 1985).

According to Resource Dependence Perspectives, organizations enter relationships with other organizations in order to provide resources they need (Pfeffer and Salancik 1978). Resource fit between two organizations, therefore, becomes an important criteria with respect to the likelihood of dissolution.

The Resource Dependence Perspective is in accord with the position claiming that the dissolution of interorganizational relationships can be studied as the inverse of their formation. According to this approach organizations would terminate a relationship when the organization with which it has been doing business no longer provide resources or when another organization can provide a better offer, a view which excludes the potential impact of attachments (ties) between organizations. The recognition of attachments is important because *"...the conditions and processes associated with their formation of exchange relationships are not the same as those associated with their persistence or severance. The history of interorganizational relationships influences the conditions and processes leading to their dissolution"* (Seabright , Levinthal and Fichman 1992).

#### *Micro-level factors attenuating the likelihood of relationship dissolution*

In the relationship marketing literature great emphasis has been put on the key role of boundary spanners (such as salesmen), among other factors because they frequently play a significant role in the interface between two firms when establishing and managing business relationships. Boundary spanners are seen as germane in the relationship-building process as they facilitate customer trust, and thereby reduce the likelihood of relationship ending (Doney and Cannon 1997).

In a study examining interpersonal bonds in long-term channel relationships, Nicholson, Compeau and Sethi (2001) suggest that affective bonds (liking and trust) enhance both perceived and real switching cost, and thereby weaken the likelihood of relationship dissolution. Seabright, Levinthal and Fichman (1992) found that individual attachments reduced the risk of dissolution in an empirical study on client-auditor ties.

Yet, an important body of research postulates that interpersonal bonds between boundary spanner personnel lower the likelihood of switching (Wathne, Biong and Heide 2000).

Arguments claiming the attenuating effects of social ties upon relationship dissolution are in accord with Institutional theory (DiMaggio and Powell 1983), social exchange theory (Blau 1964), the theory of social embeddedness (Granovetter 1985, Uzzi 1996), and Relational Contract Theory (Macaulay 1963, Macneil 1980).

#### *Attenuating effects at multiple levels*

In accord with the above outline, a number of factors at multiple levels are expected to influence the likelihood of relationships dissolution, such as and interorganizational bonds at the macro-level (e.g. formal contracts and procedures etc.) and interpersonal attachments between boundary spanners. Since business relationships are inherently multi-level phenomena (Macaulay 1963), we claim in accordance with House et al. (1995), that a multi-level perspective can enhance our understanding of factors influencing the likelihood of relationship ending. In this study we therefore want to examine the impact of both macro- and micro-level factors on the likelihood of relationship termination.

With macro-level factors we mean *structural ties* between organizations. *Structural ties* refer to partner-specific investments in physical assets and/or formal contracts and organizational procedures. As the duration of the interorganizational relationship increases structural ties are assumed to increase.

With micro-level factors we mean *interpersonal ties* between boundary spanners. *Interpersonal ties* englobe personal skills, knowledge, and interpersonal relationships.

Boundary spanners are thus seen as the repository of such assets. Previous experience with boundary spanners thus refers to interpersonal history of learning and socialization during involvement in exchange activities. Interpersonal ties, however, are related to the tenure of individuals in boundary spanning roles in the exchange relationship. Consequently, boundary spanners establish and maintain interpersonal relationships as long as they are involved with specific exchange activities. Turnover in boundary spanning positions, thus, have the potential to attenuate business-to-business relationships (Seabright et al. 1992).

Besides the contention that factors at multiple levels influence the likelihood of relationship ending, we also claim that macro-level properties have an impact upon organizational members behavior.

#### *Organizations are not black boxes*

There is a considerable body of literature demonstrating that organizations affect the behavior of organizational members. Scholars dealing with interorganizational issues have to a great extent left behind the rich stream of organization theory (Fichman and Goodman 1996). During the last decades research on organizations have contributed to open up the *black box* of organizations (Porac, Meindl, Stubbart 1996). Individual's behavior, affective responses, motives and attitude are affected by structure (Berger and Cummings 1979). A number of organizational dimensions, such as size, formalization and centralization are assumed to influence decision-making in firms (Butler 1991, Shakleton 1996, Frazier 1999, Lau, Goh and Phua 1999).

#### *The non-specification of homogeneity, independence and heterogeneity*

Related to the phenomena of business relationships and embedded ties, we can think of several ways in which organizational structure and contexts favor or constrain the development of interpersonal embedded ties across organizational boundaries. Yet, a common held practice in studies dealing with inter-firm marketing relationships is the non-specification of individuals independence, homogeneity or heterogeneity within and between organizations (Klein, Dansereau and Hall 1994).

The majority of studies, nevertheless, have an implicit assumption of homogeneity or independence across levels in the organization (and in some cases also homogeneity across organizational boundaries). We claim that researchers assuming individuals independence are

at the same time assuming that organizational members operate in weak environments, with low or none influence upon micro-level phenomena. When assuming homogeneity among individuals across organizations, researchers neglect the possibility of heterogeneity among organizations (and/or that all organizations influence organizational members in the same way).

#### *Macro influences on individual behavior in business relationships*

Although little research have examined how organizational factors might effect interpersonal relationships in business exchange (Brock Smith 1997), extant studies show interesting findings. For example, Humphrey and Ashforth (2000) found that exit-voice strategies at the macro-level influenced the interpersonal relationships between company representatives and buyers. Moreover, the empirical study showed that "*(b)ecause of strong environmental pressures operating on buyers and suppliers, the interpersonal communications buyers and supplier agents use does not reflect their individual personalities so much as it does the situation*" (2000:728).

Murry and Heide (1998) explain that "*(m)any manufacturers indirectly promote the use of weak ties by systematically rotating salespeople across retail accounts*" (1998:59). Perrien, Paradis and Banting (1995) revealed that the dissolution of relationships mainly depends on the seller's organization and policies, and not on competition.

In reference to the above examples, we suggest that organizational dimensions have an impact on the role boundary spanners play and consequently the potential effect of embedded ties on relationship outcome. This argument is consistent with House, Rousseau and Hunt (1995) who argue that that micro phenomena - e.g. a salesperson's behavior - need to be studied in relation to organizational contextual variables. House et al. (1995) claim that "*...the failure to consider the effect of structural variables on micro phenomena is clearly a serious omission*"(1995:83). The aforementioned position is likewise in a growing number of studies in organization theory which analyse organizations as multi-level phenomena.

### *Theoretical perspectives*

As aforementioned, a number of factors are presumed to reduce the likelihood of relationship dissolution. Different research streams have however emphasized different aspects and their effect upon relationship outcome.

In the current study we focus on Transaction Cost Theory (Williamson 1979, 1991), and Relational Contract Theory (Macaulay 1963, Macneil 1980) in order to elucidate the logic behind the importance of structural and relational aspects in business relationships.

Although Transaction Cost Theory emphasizes more formal mechanisms and Relational Contract Theory highlights more informal mechanisms, neither Macneil (1980) nor Williamson (1979, 1985) reject the existence and importance of both formal and informal governance mechanisms in business exchange.

In consistence with our research question, we therefore contend that our view is not in conflict with either Transaction Cost Theory or Relational Contract Theory. Instead we see business relationships as multi-level phenomena, possessing both structural and relational ties. Accordingly, we argue that a number of organizational and interorganizational dimensions moderate the potential impact of interpersonal and structural ties upon the likelihood of relationship dissolution.

### *Propositions regarding the relationship between macro and micro phenomena*

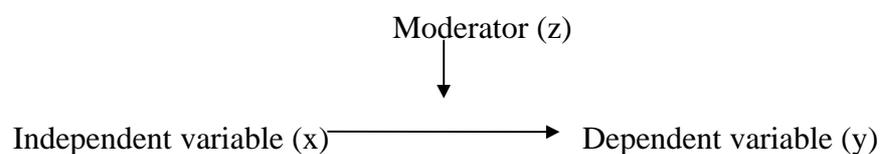
With respect to interlevel relationships, House et al. (1995) postulate propositions regarding the relative effects of macro and micro level variables on each other and also the moderating effects of organizational level on decisions. The authors further discuss under which conditions individuals (micro variables) tend to have greater impact upon organizational variables and vice versa. Drawing on theoretical insights on multi-level phenomena (Rousseau 1985, Klein et al. 1994, House et al. 1995), organization theory and interorganizational research (extant multilevel studies included), we suggest that a number of organizational and interorganizational dimensions in business-to-business relationships moderate the impact of structural and interpersonal ties upon the likelihood of relationship dissolution.

We postulate the following proposition:

Proposition 1: *The impact of structural and interpersonal ties on the likelihood of relationship dissolution are expected to vary dependent on specific organizational and interorganizational dimensions*

In accordance with earlier accounts, we present a theoretical multi-level proposition in the following model:

**Figure 1: Cross-level model**



In the above model interpersonal ties and structural ties are independent variables (x), organizational and interorganizational dimensions are presumed moderators (Z), and relationship dissolution is the dependent variable (y).

*The moderating effects of centralization, an example*

In the current study we postulate *centralization*<sup>1</sup> to have an impact upon organizational member's behavior.

By *centralization* we refer to the distribution of formal control and power within an organization (Lau, Goh and Phua 1999). In organizations with high degree of centralization, concentration of power and control are typically located among a limited number of organizational members, and likely at higher levels in the organization. In organizations with low degree of centralization, the distribution of power and control is more decentralized. In our study we treat *centralization* as the degree to which purchasing decisions are controlled and made by the boundary spanner or at higher levels in the organization (Lau, Goh and Phua 1999).

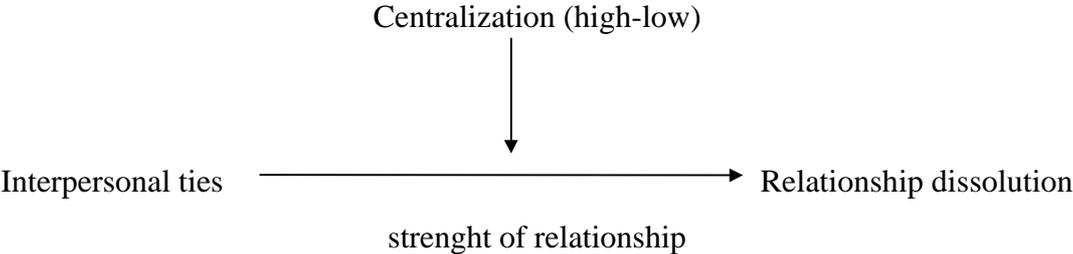
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<sup>1</sup> In order to give a concrete example, we present only one of the postulated moderators in this paper. Other moderators in the conceptual model are: Formalization and Size (organizational dimensions), History with organization and Levels of inclusiveness (interorganizational dimensions).

In harmony with our multi-level perspective we thus assume that the degree of centralization in an organization have an impact on boundary spanner behavior. We are therefore concerned with the structural relationship a boundary spanner has with respect to the organization he represents. We assume, for example, that the degree of centralization influence boundary spanner's degree of autonomy to make buying decisions. Whether boundary personnel act in an autonomous way or whether buying decisions are taken at higher levels in the organization, is highly relevant for the potential impact of interpersonal ties upon the likelihood of relationship dissolution.

Below we show an illustration of the postulated moderated effects of centralization (high-low) on the effect of interpersonal ties upon the likelihood of relationship dissolution. The effects of interpersonal ties upon the likelihood of relationship dissolution is expected to be higher when centralization is low.

**Figure 2: Moderating effects of centralization**



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