

**EVOLUTION OF EXCHANGE RELATIONSHIPS:
PAST RESEARCH AND FUTURE DIRECTIONS**

Kaisa Snellman

Swedish School of Economics and Business Administration, Helsinki

CERAS 509

Stanford University

Stanford, California 94305-3084

USA

kaisa@stanford.edu

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Abstract:

The purpose of this paper is to review and present extent research on evolution of exchange relationships conducted within the fields of industrial marketing, organisational theory and strategic management. The review shows that the current research field is very fragmented and characterised by a lack of cross-referencing between the three main theoretical domains. However, the findings are strikingly similar across disciplines suggesting good possibilities of integrating the field. The paper is organised around three major questions addressed by previous research: what changes as relationships evolve, what factors influence the evolution, and how do relationships evolve? As reviewed, relationship development has been observed in terms of change in *routines*, *resources*, *social bonds*, and *power* in a relationship. Factors influencing change include *outcome-related factors*, *relationship-specific factors* and *organisation-specific factors*. The underlying processes that shape development can be categorised into *review and negotiation processes* and processes where development of social bonds and norms and communication are emphasised. Finally, the paper identifies possible future research questions focusing on the interplay between network evolution and dyadic development and the relational and structural dimensions of relationships, and the mechanisms that determine the spread and magnitude of change.

Introduction

How do exchange relationships evolve and change over time? During the last two decades, the development of exchange relationships has inspired research within organisational theory, industrial marketing as well as strategy. But what have we found out so far? A literature review shows that the research on the evolution of exchange relationships has developed separately in the different disciplines. However, despite of the lack of cross-referencing the findings are strikingly similar, suggesting that there is ground for integrating the research streams. Accordingly, the purpose of this paper is to review and synthesize extant research on relationship development carried out within organisational theory, industrial marketing and strategy and to suggest directions for future studies.

The paper is organised around three major questions addressed by previous research: what changes as relationships evolve, what factors influence the evolution, and how do relationships evolve? The review shows that development has been observed in terms of change in *routines*, *resources*, *social bonds*, and *power* in a relationship. Factors influencing change include *outcome-related factors*, *relationship-specific factors* and *organisation-specific factors*. The underlying processes that shape development can be categorised into *review and negotiation processes* and processes where development of social bonds and norms and communication are emphasised.

Content of change

To speak of evolution of exchange relationships implies that the dimensions along which change takes place are explicit and defined. Thus, all studies have been obliged to ask and answer the question on what changes as a relationship evolves. Moreover, observing change in specific variables has been the main focus of some studies. As the review shows, relationship development has been observed in terms of change in *routines*, *resources*, *social bonds*, and *power* in a relationship

First, previous studies have looked at development in terms of change in *routines* in a relationship. Used dimensions include the nature and degree of adaptation (Doz 1996; Ford and Rosson 1982; Halinen 1994; Valla 1986), the content of communication (Wilson and

Möller) and frequency of communication (Dwyer et al. 1987; Halinen 1994; Larson 1992; Van de Ven 1976). Second, development has also been observed with respect to the intensity of *resource* flows (Halinen 1994; Van de Ven 1976) and the amount investments in the relationship (Dwyer et al. 1987; Wilson and Mummalaneni 1986).

Third, studies have linked changes in *social bonds* with evolution. For example, changes in the perceived levels of trust (Doz 1996; Larson 1992), reciprocity (Larson 1992), satisfaction (Halinen 1994) and commitment (Doz 1996; Dwyer et al. 1987; Ford 1980; Ford and Rosson 1982, Wilson, 1986 #229; Larson 1992) describe change in the relationship. Finally, shifts in the *power balance* in the relationship have been used to denote development. The degree of co-operation and competition (Alajoutsijärvi 1996; Alajoutsijärvi et al. 1999; Wilkinson and Young) and formalisation, centralisation, and complexity (Van de Ven 1976) characterises different stages of development. Similarly, the role of each party may vary between dominance and submission (Alajoutsijärvi 1996; Alajoutsijärvi et al. 1999).

Factors shaping the evolution of exchange relationships

While some studies have looked at relationship development only in terms of change in a number of variables, some studies have taken a step further to explain what causes the variance. The factors can be divided into outcome related factors, relationships specific factors and organisation specific factors.

Most frequently mentioned factors that influence the course of change are trust and commitment (Van de Ven 1976; Wilson and Mummalaneni 1986). Both trust and commitment develop over time and can be considered as outcomes of the interaction between the two parties. Commitment, and any other bonds that develop between the actors, dampens the influence of power structure and dependency. The recognition of commitment is what distinguishes perspectives relying social exchange theory from perspectives based on strictly economic change theory (Cook 1977; Cook and Emerson 1978). Other outcome related factors influencing relationship development include perceived effectiveness (Van de Ven 1976), reciprocity, satisfaction, experience they have of each other (Ford and Rosson 1982), and learning (Doz 1996).

Relationship-specific factors such as the amounts of mutual adjustments and investments (Wilson and Mummalaneni 1986) made in the relationship as well as the way the partners respond to outcome and process discrepancies (Kumar and Nti 1998) have an impact on the future course on the relationship. Organisation-specific factors such as the market position of an organisation, its stake in the relationship (Ford and Rosson 1982), dependency on the resources of the other party (Van de Ven 1976) as well as the perceived uncertainty about the future of their relationship (Ford and Rosson 1982) and standards of comparison influence (Frazier et al. 1988) the future decisions regarding the relationship.

However, in most cases, the causal relationships between the variables remain ambiguous and unproved. Instead, a process story is often used to explain the influence of an independent variable on the dependent variable, but the actual mechanisms and the process of change is not investigated. For example, a story may tell how increased trust leads to increase in investment in the relationships but it says nothing about the preceding events. Moreover, most studies have explained change with factors that are in fact outcomes of the result. The resulting circular explanation where trust results in more trust further complicates the picture. Surprisingly many of the studies use relationship specific independent variables and hence paint a very isolated picture of relationship development. The locus of change resides in the relationship itself and not in the environment.

Evolutionary processes

The third and least explored question asks how do relationships evolve in terms of sequences of events and activities. In other words, how does change take place? Van de Ven and Poole (1995) identify four theoretical explanations on the mechanisms that create change, namely life-cycle, evolution, teleology and dialectic. The studies that focus only on measuring change in specific variables tend not to explicitly discuss the process of change. However, many of the studies share an implicit assumption of development being deterministic and inevitable. Relationships are assumed to follow a specific life cycle and to move from one stage to another according to an internal code or rule. The different phases of development are results of the earlier phases and follow a particular order.

For example, Ford (1980) recognises five phases in relationship development, where changes in experience, uncertainty, distance, commitment and adaptation depict transitions from one stage to another. The development process starts with the evaluation of a new potential supplier. Ford distinguishes between the reasons for evaluation initiation and the factors that condition the evaluation process. In the second stage, the *early stage*, the buyer and seller start negotiating. As experience, commitment and adaptations increase and uncertainty and distance reduce, the relationship moves to the *development stage*, *long-term stage* and eventually to the *final stage*, where the relationship is characterised by strong institutionalisation.

Alternatively, a relationship can be seen to develop from one state to another in an unforeseeable order (Ford and Rosson 1982; Rosson 1986; Valla 1986). Using a metaphor of dancing, Wilkinson and Young illustrate how the nature of relationship changes as according to the degree of co-operation and competition between the two parties. While tango describes a relationship with extreme competition and co-operation, smooth waltz pictures a relationship with low competition and high co-operation. Relationships might vary in their tempo, complexity, and distance, just like different dances do.

The studies interested in explaining the process of change share the assumption that relationships do not follow a predetermined path of development and deviate from the life cycle models in this respect. Instead, development is described using evolutionary or teleological explanations. Studies using a processual perspective have described the evolution of exchange relationships through different types of cycles.

First, several studies have identified *evaluation and negotiation processes* that guide relationship evolution. Ring and Van de Ven (1994) describe relationship development in terms of formal, legal and informal social-psychological processes by which organisational parties negotiate, commit to, and execute their relationship in ways that achieve efficient and equitable outcomes and internal solutions to conflicts when they arise. If commitments are executed efficiently and rightfully, the parties expand their commitments. If not, they take corrective actions or reduce their commitments to the relationship. Frazier (1983) portrays relationship development in terms of initiation, implementation and review processes, emphasising review and evaluation of rewards and losses from exchange. Van de

Ven (1976) identified cyclical processes of need for resources, issue commitments, communication, resource exchange, and pattern maintenance over time.

Doz (1996) portrays a set of initial conditions that defines the tasks, interface structure, and expectations of the parties. The relationship evolves through sequences of learning, re-evaluation and readjustment. The parties learn as they interact, they evaluate the efficiency of the relationship and each other's equity and adaptability and revise the initial conditions according to these evaluations. Similarly, Ariño and de la Torre (1998) picture development of exchange relationship as cycles of efficiency and equity assessments triggered by external changes where relationship quality is both an outcome and a mediating variable. According to Kumar and Nti (1998), the evolutionary path of a relationship is determined by the convergence of outcome and process discrepancies experienced by the parties as well as by the assessments and reactions to these discrepancies.

In a study of the relationships between three paper mills and a paper machine manufacturers during period of 50 years, Alajoutsijärvi (1996) reveals a general development trend from competitive to co-operative relationships. Moreover, the empirical study shows two development cycles: a long-term development cycle and a shorter project-cycle. These cycles are influenced by the perceived successfulness of completed projects, the local network and the macro environment. He also brings forward the idea of a two-way interaction effect between a relationship and its local network and macro environment.

Second, processes where social bonds and norms develop have been used to explain relationship evolution. For example, Wilson and Mummalaneni (1986) view relationship development as a process in which satisfaction, investments, and commitment develop between the two parties in repeated successful interactions. Halinen (1994) examined relationship development in the advertising sector and portrays it in terms of an evolving relational infrastructure, relating to personal relationships, inter-firm knowledge, norms and contracts, and inter-firm roles and positions.

Dwyer et al. (1987) describe five possible phases for relationship evolution based on how the two parties regard one another, namely awareness, exploration, expansion, commitment and dissolution phases. Relationship development is seen as a process of deepening

dependence as a result of five sub-processes: attraction, communication and bargaining, power and justice, norm development and expectations development.

Directions for future research

During the past two decades, a fair amount of research has been done on the development of exchange relationships. Contributions have stemmed from the fields of organisational theory and industrial marketing, and more recently from strategy research. Three major questions have been addressed: in terms of what, why and how do relationships change over time (Table 1). Broadly speaking, development has been observed in terms of change in routines, resources, social bonds and power in the relationship. Factors influencing change include outcome factors, relationship specific factors and organisation specific factors. The underlying processes that shape development can be categorised into review and negotiation processes and processes where development of social bonds and norms and communication are emphasised.

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Despite the numerous studies conducted there seems to be a call for more research within this area. Firstly, the current research field is very fragmented and characterised by a lack of cross-referencing between the three main theoretical domains. However, the findings are strikingly similar across disciplines suggesting good possibilities of integrating the field. Secondly, the number of conceptual studies outweighs the number of empirical investigations. The rareness of longitudinal studies is clearly a disadvantage. Cross-sectional studies on relationship development can be criticised for their assumptions of all relationships following a similar life cycle. Even fewer studies have followed relationship development in real time.

Finally, in previous research, development has been viewed as an isolated process, where the exchange relationship exists in a vacuum and is not influenced by the environment (for few exceptions, see Alajoutsijärvi 1996; Alajoutsijärvi et al. 1999; Håkansson and Snehota 1995). The atomistic view on relationship development seems striking in the light of the shift there has been in the view of organisations from closed to open systems during the last

three decades. Research on networks of business relationship has called attention to the embeddedness of exchange relationship. Similarly, various theories from contingency theory and institutional theory to resource dependency theory and population ecology emphasise the relationship between organisations and their external environment. Clearly, studying relationship development from a network perspective would increase our understanding of the phenomena.

So far, previous research has dealt with three important questions relating to relationship development: what changes, what influences change and how does change occur. Now, what kind of questions should be addressed by future research?

Firstly, relationships should be studied within their context. A business network can be portrayed as a set of connected relationships, where exchange in one relationship is dependent on exchange in others (Emerson 1981). Connectedness of exchange relationships adds complexity in understanding their evolution. When two relationships are connected, the interaction in one relationship influences the interaction in the other. No relationship exists in a vacuum. Changes in the macro environment may reach the focal relationship through chains of connected relationships. Hence, *how does the focal network influence the development of exchange relationships?*

Secondly, relationships are not merely receivers of change. Explaining how the focal network influences the development of a relationship is just one side of the story. It is equally important to explain how exchange relationships influence their environments. A number of studies have focused on co-evolution of organisations and their environments. For example, Levinthal and Myatt (1994) studied the evolution of mutual fund industry as the outcome of the co-evolution of the capabilities of the firms and the market. Lewin, Long and Carroll (1999) have outlined the evolution of new organisational forms as a result of the co-evolution of the competitive environment, firm intentionality, and the institutional environment. However, similar kind of co-evolutionary approach in the context of exchange relationships seems still like unexplored territory. Hence, *how do exchange relationships influence their focal networks? Or, how do exchange relationships co-evolve with their environment?*

Thirdly, not all types of change have an equal impact on the environment. Change in a relationship may lead to change on three levels: the dyad itself, the organisations involved or the connected relationships (Håkansson and Snehota 1995). So while some changes are may influence only the organisations in directly connected to each other, some may be travel further but be damped during the journey, and some changes may have far-reaching impacts. Hence, *what kinds of mechanisms determine the spread of change?*

Fourthly, the set of relationships an organisation has with its environment is likely to change over time. New relationships may be established and existing ones may be terminated. How are structural changes reflected in the individual exchange relationships? Prior relationships and considerations of strategic interdependence influence partnership decisions between firms (Gulati 1995). New relationships are influenced by the social network of prior ties in which they are embedded. Interestingly, the formation of new relationships alters the network that influenced their creation in the first place, resulting “in an endogenous network dynamic between embedded organisational action and the network structure that guides but is also transformed by that action”(Gulati 1998).

The social context or the network of relationships has both structural and relational dimensions, both being constantly recreated. The structural dimension refers to the existence of a relationship where as the relationship dimension describes the substance of it. It is proposed here, that the existing network not only influences the formation of new relationships, but it also influences what the new relationship will be like. Similarly, the formation of a new relationship influences the existing network structure by adding a new linkage, but it also may influence the substance of the existing relationships. In other words, structural changes may also carry over to changes in the relational dimension. For example, a biotechnology company may establish new R&D relationships that differ with respect to the activities carried out and resources available within the relationship. Similarly, the dissolution of existing ties may influence the substance of existing ones. Hence, *how do the structural changes in the focal networks influence the development of exchange relationships? How do the relational changes influence structural changes in the focal network?*

TABLE 1: Content, determinants and processes of change

Content of change (what)	Routines:
	<ul style="list-style-type: none"> - nature and degree of adaptation (e.g. Doz 1996; Ford and Rosson 1982) - content and frequency of communication (e.g. Halinen 1994; Larson 1992) - formalisation, centralisation, and complexity (Van de Ven 1976)
	Resources:
	<ul style="list-style-type: none"> - resource flows (e.g. Halinen 1994; Van de Ven 1976) - amount of investments(e.g. Dwyer et al. 1987; Wilson and Möller)
Determinants of change (why)	Social bonds:
	<ul style="list-style-type: none"> - trust (e.g. Doz 1996; Larson 1992) - satisfaction (e.g. Halinen 1994) - commitment (e.g. Doz 1996; Ford and Rosson 1982; Wilson and Mummalaneni 1986)
	Power:
	<ul style="list-style-type: none"> - degree of co-operation and competition (e.g. Alajoutsijärvi 1996; Wilkinson and Young) - role of each party (\dominance/submission) (e.g. Alajoutsijärvi 1996; Alajoutsijärvi et al. 1999)
Underlying processes (how)	Outcome factors:
	<ul style="list-style-type: none"> - trust and commitment (Van de Ven 1976) - perceived effectiveness (Van de Ven 1976) - satisfaction (Ford and Rosson 1982) - learning (Doz 1996)
	Relationship specific factors:
	<ul style="list-style-type: none"> - mutual adjustments (Wilson, 1986 #229) - investments (Wilson and Mummalaneni 1986)
Underlying processes (how)	Organisation specific factors:
	<ul style="list-style-type: none"> - market position (Ford and Rosson 1982) - stake in the relationship (Ford and Rosson 1982) - dependency on the resources (Van de Ven 1976) - perceived uncertainty about the future of their relationship (Ford and Rosson 1982) - standards of comparison (Frazier et al. 1988)
	Review and negotiation processes:
	<ul style="list-style-type: none"> - negotiation, commitment and execution processes (Ring and Van de Ven 1994)) - initiation, implementation and review processes (Frazier 1983) - efficiency and equity assessments (Ariño and de la Torre 1998)
Underlying processes (how)	Development of bonds and norms:
	<ul style="list-style-type: none"> - resource need, issue commitments, communication, resource exchange, and pattern maintenance processes (Van de Ven 1976) - attraction, communication and bargaining, power and justice, norm development, and expectations development processes (Dwyer et al. 1987) - evolving social bonds, learning, norms and contracts, inter-firm roles and positions (Halinen 1994)

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