

## When does Organizational Support Matter More in Implementing Buyer-Seller Relationships?<sup>1</sup>

Dr. Prabakar Kothandaraman<sup>2</sup> Ph. D.

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<sup>2</sup> Dr. Prabakar Kothandaraman, Assistant Professor, Department of Marketing, Bennett S. LeBow College of Business, 503K, Matheson Hall (5<sup>th</sup> Floor), Drexel University, 32<sup>nd</sup> and Market Streets, Philadelphia, PA 19104-2875, USA. Tel: (215) 895-1033; Fax: (215) 895-6975; e-mail: [prabakar@drexel.edu](mailto:prabakar@drexel.edu).

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## ABSTRACT

This study focuses on the impact of organizational support in implementing buyer-seller relationships. The author identifies key dimensions of organizational support and using data from the field, tests its impact on external relationship behavior and relationship performance. Managers' cynicism towards cooperative business relationships is found to moderate the above relationship.

## **Introduction**

Success of marketing strategies relies on their effective implementation (Walker and Ruekert 1987) and relationship strategies are no exception. There is, however, only an emerging interest among researchers to understand implementation issues in buyer-seller relationships (Colgate and Danehar 2000) although several companies seem to be focusing on implementation of relationships with their suppliers. Studies on relationship implementation have focused on factors internal to the organization such as individual attitudes and organizational structural properties (e.g. Kothandaraman and Wilson 2000). In the current study we propose to capture another important aspect of implementation i.e. Organizational Support. More specifically, we propose and answer questions such as the following:

- What are the dimensions of organizational support when it pertains to implementing buyer-seller relationships?
- How do the dimensions of organizational support impact external relationship behaviors of managers handling buyer-seller relationships?
- Does managers' cynicism towards cooperative business relationships affect the impact of organizational support on relationship implementation?

## **Conceptual Framework and Hypotheses**

Absent established methodology for doing research on strategy implementation (Sashittal and Tankersley (1997), we use a grounded theory approach to get at the dimensions of organizational support as they pertain to relationship strategy implementation. Our field interviews suggest that there are three dimensions of organizational support that are key to successful strategy implementation: i) the top management advocacy of relationship

paradigm ii) availability of infrastructure to implement alliances and iii) a reward system that emphasizes collective goal achievement and long-term orientation. One additional factor that seems to frustrate senior managers constantly during the implementation phase is functional managers' cynicism towards cooperative relationships. We incorporate this cynicism factor as a moderator in the framework. It is presented in Appendix A.

### **External Relational Behavior**

Successful implementation of relationship strategy usually can be discerned from managers' positive, open and non-adversarial behavior towards its relationship partners. Based on prior research, Heide and John (1992) developed three norm types that discriminate relational exchanges: *flexibility, information exchange and solidarity*. We believe that the three components are particularly appropriate for buyer-seller relationship settings and signal effective implementation of relationship strategies.

### **Top Management Advocacy of Relationship Paradigm**

For the purpose of this study top management relationship advocacy is defined as the efforts of the firm's top management to emphasize the importance of relationships as a business philosophy. If managers in the company realize that doing relationships is top management's chosen way of conducting business whenever possible, they will pay more attention to alliance success factors. Literature on market orientation and new product development (e.g. "Product Champions") highlight top management's role on successful outcomes. Thus we propose the following,

H<sub>1</sub>: Top management advocacy of relationship paradigm will be positively related to an organization's external relationship behavior in buyer-seller relationships.

## **Infrastructure for Relationship Implementation**

We define infrastructure for relationship implementation as the specific set of organization-wide support systems that enable functional managers to initiate, develop and execute inter-organizational relationships or alliances. In order to succeed in relationships firms need to create infrastructure that will support the implementation of these relationships. Several organizations (e.g. UNISYS) have separate alliance management functions to help functional unit managers with forming and implementing alliances. Research in market orientation also calls for resource allocation and organizational support systems to implement market orientation. Thus, we propose the following:

H<sub>2</sub>: Infrastructure available for implementing relationships will be positively related to an organization's external relationship behavior in buyer-seller relationships.

## **Reward System**

There has been evidence that middle managers are not motivated to implement corporate strategies that conflict with their own self-interest. Balkin and Gomez-Mejia (1990) list several pay policies for different dimensions of organizations strategy. Viewing from a congruence lens of fit between relationship strategy and rewards, we pick two policies based on their relevance and alignment with the views expressed in our field interviews. *Risk-Sharing*. It reflects on an employees' ability to take risks with a portion of their pay to reach out, form and succeed in inter-functional initiatives such as alliances. Thus, we propose the following:

H<sub>3a</sub>: Use of risk-sharing policy as a part of the reward system will be positively related to an organization's external relationship behavior in buyer-seller relationships.

*Long-term pay.* This policy emphasizes that long-term cooperative relationships require long-term commitment and support from managers and recognizes that long-term results are more important than short-term results. Thus, we propose the following:

H<sub>3b</sub>: Use of long-term pay policy as a part of the reward system will be positively related to an organization's external relationship behavior in buyer-seller relationships.

### **Moderating Role of Cynicism towards Cooperative Business Relationships**

A factor that limits organizations ability to implement alliances is the orientation of the functional managers towards relational interactions as opposed to "arm's length" interactions that characterized the exchanges of the past. Campbell (1998) report that buyers who described supply partnerships as "just a buzz word" often followed competitive supply partnership norms. Thus, managers' deeply held convictions combined with cynicism towards cooperative buyer-supplier relationships could mean that top management's role is magnified in championing the cause of cooperative buyer-seller relationships. In instances where personal conviction levels of functional managers is low, top management may be required to try harder and make more direct efforts towards implementing relationship strategies. In instances of higher "buy-in" from the functional departments charged with implementing relationships, the impact of top management advocacy of relationship paradigm on external relational behaviors may not be significant. Thus, we propose the following:

H<sub>4</sub>: The impact of top management relationship advocacy on an organization's external relationship behavior will be higher when its functional manager's cynicism towards cooperative business relationships is higher compared to when cynicism towards cooperative business relationships is lower.

### **Relationship Outcome**

We examine the relationship partner's performance according to the rational goal model that views organizations as striving for efficiency and productivity. In line with past studies (e.g. Lusch and Brown 1996) we propose to use subjective measures of "objective" performance. Higher levels of external relational behavior are associated with better levels of information exchange, flexibility, and solidarity in relationships. This is a good thing for inter-organizational relationship performance (Lusch and Brown 1996). Thus, by freely exchanging information, remaining flexible in their dealings, and acting in solidarity with one another, relationship partners can achieve higher levels of performance. Thus, we propose the following:

H<sub>5</sub>: The greater the external relational behavior of the organization, the higher its performance in buyer-seller relationships.

### **Methodology**

In the interview (first) phase of the study, I specifically focused on dimensions of organizational support in implementing buyer-seller relationships. In the second phase, a survey was conducted using a random sample of 1000 members from the membership list of the National Association of Purchase Managers (NAPM). After adjusting for undelivered surveys, we got a response rate of 23% (N=126).

We developed measures of infrastructure and cynicism towards cooperative business relationships and adopted existing scales for the rest. Appendix B contains a sample of items from the final scales used in the study.

### **Analysis and Results**

We tested the hypotheses of organizational support and internal satisfaction impacting external relational behavior using OLS regression. The results of our analysis suggest that the overall model is significant ( $R^2=0.247$ ,  $F_{(5,121)}=7.384$ ,  $p<0.000$ ). Our data provide moderate support for a positive effect of top management relationship advocacy ( $b=0.130$ ,  $t=1.797$ ,  $p<0.076$ ), ( $H_1$ ), strong support for positive effect of infrastructure ( $b=0.185$ ,  $t=2.414$ ,  $p<0.018$ ), ( $H_2$ ) and long-term pay policy ( $b=.119$ ,  $t=2.059$ ,  $p<0.042$ ), ( $H_{3b}$ ) on external relational behavior. We also find external relational behavior positively impacting external relationship performance ( $R^2=0.311$ ,  $F_{(1,124)}=43.351$ ,  $p<0.000$ ) ( $H_5$ ).

### **Test of moderation**

We estimated the above model separately by forming groups with high and low cynicism towards cooperative buyer relationships using a mean split of the scale mean of cynicism towards cooperative business relationships. In the “high cynicism” group, we find the overall model of organizational support impacting external relationship behaviors significant ( $R^2=0.444$ ,  $F_{(5,52)}=8.989$ ,  $p<0.000$ ). Data suggests strong positive influence of top management relationship advocacy ( $b=.254$ ,  $t=2.785$ ,  $p<0.008$ ), and infrastructure ( $b=.221$ ,  $t=2.463$ ,  $p<0.019$ ) on external relationship behavior. None of the reward system variables are significant in the model. In the “low cynicism” group too we find the overall model of organizational support variables impacting external relationship behaviors significant ( $R^2=0.127$ ,  $F_{(5,64)}=2.894$ ,  $p<0.032$ ). Data suggests positive main

effects only for long-term pay on external relational behavior ( $b=0.147$ ,  $t=1.797$ ,  $p<0.079$ ). None of the other variables are significant in the model.

### **Discussion and conclusion**

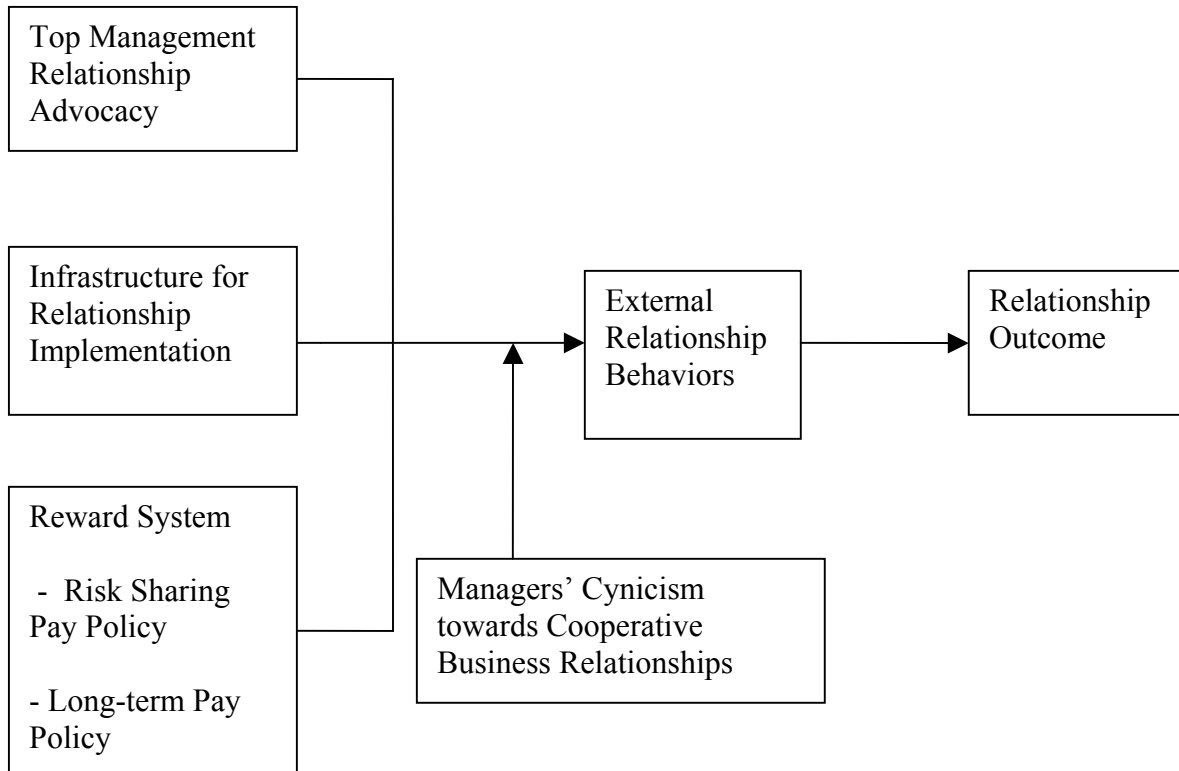
The results seem to convey the fact that top management relationship advocacy, a key ingredient of organizational support, on its own is only a modest predictor of external relationship behavior. However, along with the other key factor i.e. infrastructure for relationship implementation, top management advocacy matters more when there is cynicism among functional managers towards cooperative business relationship paradigm than when such cynicism is less prevalent. This is an important empirical finding and confirms what practitioners have feared all along. Our data indicates that this cynicism is a bigger problem in larger organizations (turnover >\$100 million) than in smaller organizations. This is interesting since larger organizations tend to rely on established systems to implement strategies and top management time available to champion various causes is quite limited. Our results suggest that only if the top management does a good job of communicating the rationale behind pursuing a cooperative relationship path, for instance, with their suppliers, and reduce the level of cynicism among its managers, the systems and processes themselves will insure successful implementation of relationships later on. Our study also suggests that having dedicated infrastructure in place for conducting inter-organizational relationships such as buyer-seller relationships and a long-term pay policy are important factors associated with successful implementation of relationships.

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## Appendix A

### A Framework of Impact of Organizational Support on Relationship Implementation



## **Appendix B**

### **Sample Items from Key Measures Used in the Study**

#### **1. External Relationship Behaviors (Existing scale; Alpha: 0.94)**

A 22-item scale adapted from Lusch and Brown (1996)

#### **2. Top Management Relationship Advocacy (New scale; Alpha: 0.88)**

“Top managers in the firm are frequently the most ardent champions of forming new relationships with other companies”

#### **3. Infrastructure for Relationship Implementation (New scale; Alpha: 0.72)**

“We have a separate alliance function that informs us about best practices in engaging in alliances and helps us with implementing relationships with our partners”

#### **4. Reward System (Existing scales)**

Scales adapted from Balkin and Gomez-Mejia (1990)

- a. Risk-Sharing Policy (Alpha: 0.81)
- b. Long-term Pay Policy (Alpha: 0.70)

#### **5. Managers' Cynicism towards Cooperative Business Relationships (New scale; Alpha: 0.74)**

“The idea of cooperative alliances is another business fad”

#### **6. Relationship Outcome (Adapted from existing scale; Alpha: 0.90)**

“Compared to the goals we set for ourselves for this relationship, our actual performance can be described as...”

