

**The Effects of Business Network Connection and Industry Knowledge on the
Development of Commitment and Cooperation in Service Relationships**

Work-in-progress paper

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Abstract

The purpose of our study is to examine the effects of business network connection and often overlooked concept of industry knowledge on relationship outcomes. Some studies have addressed the impact of connected relations on a focal relation from the supplier's side of the dyad, while this study addresses the problem from the customer's vantage point.

Introduction

Researchers have identified the integral elements of successful relationships (Cannon and Perreault 1999; Morris, Brunyee, and Page 1998; Wilson 1995); however, antecedents and moderators of relationship variables and contextual elements surrounding dyadic relationships are not known enough (O'Malley and Tynan 2003). Furthermore, dyadic relationships have been mostly studied in isolation (Anderson, Hakansson, and Johanson 1994; Blankenburg Holm, Eriksson, and Johanson 1996; Wilkinson 2001), not taking into account that business relationships are connected to one another (Axelsson and Easton 1992; Ford 2003; Hakansson and Ford 2002; Hakansson and Snehota 1995). Without constructs that would reflect the influence of this connectedness on the focal dyadic relationship, the antecedent constructs in dyadic perspective models can provide only a partial understanding of consequent constructs of interest (Anderson, Hakansson, and Johanson 1994). Dyadic relationships can be effectively examined within a context of connected¹ network relations (Anderson, Hakansson, and Johanson 1994; Blankenburg Holm, Eriksson, and Johanson 1996; Iacobucci and Hopkins 1992; McLoughlin and Horan 2000).

¹ Connected means the extent to which "exchange in one relation is contingent upon exchange (or non-exchange) in the other relation" (Cook and Emerson 1978, p. 725).

This study deals with the effects of business network connection (Blankenburg Holm, Eriksson, and Johanson 1996, 1999) and the concept of industry knowledge (Coulter and Coulter 2003) on relationship outcomes. Blankenburg Holm, Eriksson and Johanson (1996, 1999) were the first that published empirical studies which examined general effects of networks on dyadic business relationships. While their studies addressed the impact of connected relations on a focal relationship from the supplier's side of the dyad, this study examines the customer's side of the dyad.

Conceptual Framework

Within markets-as-network approach there are many case studies that describe the impact of the surrounding networks on single dyadic relationships (Hakansson and Snehota 1995), however, less attention has been given to studying it with structural models. This is an area where the present study is trying to make a contribution. This section provides conceptualizations for the variables under investigation and the following one develops propositions about relationships among them.

Blankenburg Holm, Eriksson and Johanson (1996, p. 1038) have defined **business network connection** (BNC) as “the degree to which a focal business relationship is connected to other business relationships”. They operationalized it using four indicators that have to do with the perceived influence of the partners' relationship with the third parties on the focal relationship (supplier's other customers, supplier's own suppliers, customer's own customers and customer's other suppliers) and measured only directly connected relationships. They argue that a focal business relationship is “an affair shared by the two relationships partners” and so are connected relationships that are brought to the focal relationship. Therefore, they suggest business relationship is embedded in a single business

network and not two separate business networks (Blankenburg Holm, Eriksson, and Johanson 1996).

The second examined construct is **industry knowledge (IK)** that is defined as “the degree to which the customer understands the nature of the service industry in question” (Coulter and Coulter 2003, p. 32). They operationalized it with three variables (“My associates would describe me as something of an expert in terms of this type of service provider”, “I know a great deal about this type of service provider”, “I am quite familiar with this service and related products”). Coulter and Coulter (2003) used this variable as a moderator in their study of trust in service relationships. They argue that although mixed results from the previous studies of trust may be a function of several factors (different dependent measures and different operationalisations of the independent and dependent variables) the findings may reflect the customers’ knowledge of the industry in question. Coulter and Coulter (2003) claim that knowledge and familiarity will increase over time as customers do business with various suppliers and get to know the range of products that they can expect to receive. However, they claim that this knowledge and familiarity is not connected to the length of time that the customer has spent in a relationship with its current service provider.

Commitment is an essential element of successful long-term relationships (Gundlach, Achrol, and Mentzer 1995). Commitment has been defined as “an implicit or explicit pledge of relational continuity between exchange partners” (Dwyer, Schurr, and Oh 1987, p. 19). It implies the willingness on the part of both partners to make short-term sacrifices to realize long-term benefits in the relationship (Dwyer, Schurr, and Oh 1987). Even though there are many different conceptualizations of commitment, the literature is evolving toward a three-component model: instrumental, attitudinal and temporal dimension. However, there are also significant differences in the conceptualization of these components (Gundlach, Achrol, and

Mentzer 1995). In this study we build on operationalisation by Moorman, Zaltman and Deshpande (1992) (“I am committed to my relationship with my researcher.” “I consider my researcher to be a part of my department.” “I really care about the fate of my working relationship with my researcher.”) and Morgan and Hunt (1994) (The relationship that my firm has with this service provider: 1. ... is something we are very committed to. 2. ... is very important to my firm. 3. ... is of very little significance to us. 4. ... is something my firm intends to maintain indefinitely. 5. ... is very much like being part of the family. 6. ... is something my firm really cares about. 7. ... deserves our firm’s maximum effort to maintain.)

There has been growing academic interest in **cooperation** in relationships and in particular in vertical cooperative relationships between firms in business markets (Blankenburg Holm, Eriksson, and Johanson 1999; Eriksson and Sharma 2003; Rindfleisch and Moorman 2003). Anderson and Narus (1990, p. 45) define cooperation as “similar or complementary coordinated actions taken by firms in interdependent relationships to achieve mutual outcomes or singular outcomes with expected reciprocation over time.” From an exchange theory perspective, cooperation is the extent to which both partners voluntarily make adaptations in their strategies or behaviours to accommodate each other’s needs or interests, share information, hold back from the use of power, and solve problems together (Heide and Miner 1992, in Smith and Barclay 1999). Cooperation in a relationship between two firms is contingent on the firms’ cooperation in relationships with other parties and the dyadic relationship should be considered within the context of the direct exchange network surrounding the dyad (Achrol, Reve, and Stern 1983; Anderson, Hakansson, and Johanson 1994; Kogut, Shan, and Walker 1992; in Blankenburg Holm, Eriksson and Johanson 1996). We operationalize cooperation building on Eriksson and Sharma (2003) (the customer’s contribution to the establishment and development of the relationship; the service provider’s

contribution to the establishment and development of the relationship; the extent of mutual adaptation between companies) and de Ruyter and Wetzels (1999) (keeping the service provider informed about the latest developments in customer's company; and 13 other measures).

Firms cooperate in business relationships in order to gain profit or some other payoff (Blankenburg Holm, Eriksson, and Johanson 1996). Therefore, we have to consider **relationship profitability** as another relationship construct. Blankenburg Holm, Eriksson and Johanson (1996) operationalize it using a single measuring variable: assessed profitability of relationship over the last five years, considering all costs and revenues associated with it. Additionally, we can measure realized competitive advantages that are defined as “strategic benefits gained over competing dyads that enable the dyad to compete more effectively in the marketplace” (Jap 1999, p. 466). Dyadic profit performance and realized competitive advantages are earned together and are expected to be direct payoffs of the dyad's coordination effort and unique investments (Jap, 1999). Here we follow operationalisation from Jap's (1999) research, where profit performance was operationalized with 3 items (companies have achieved a high level of joint profits between them; companies have generated a lot of profits together; companies have increased joint profits shared between them) and realized competitive advantages with four items (companies have gained strategic advantages over their competitors; the relationship has not resulted in strategic advantages for them (R); companies have gained benefits that enable them to compete more effectively in the marketplace; the relationship has not resulted in strategically important outcomes (R)).

Conceptual Model

This study builds a conceptual model of relations between business network connection, cooperation, commitment, industry knowledge and relationship profitability. Blankenburg

Holm, Eriksson, and Johanson (1996, 1999) in their study of international business-to-business relationships found that business network connection influences relationship commitment directly and relationship profitability indirectly (through relationship commitment) and that business network connection has a strong effect on mutual commitment, which has a strong effect on mutual dependence that has a strong effect on relationship value creation. Since firms cooperate in business relationships in order to gain profit or some other payoff, we can expect that cooperation would have a positive impact on profitability (Jap 1999). Accordingly, the following propositions about business-to-business service relationships can be established:

P1: Business network connection has a positive effect on relationship commitment between the exchange partners.

P2: Relationship commitment has a positive effect on relationship profitability.

P3: Cooperation has a positive effect on relationship profitability.

Blankenburg Holm, Eriksson, and Johanson's studies have not found a correlation between business network connection and cooperation, however, they have established a positive effect from relationship understanding (described as a basic quality of cooperation that places attention to more cognitive aspects of cooperation) to relationship commitment. In line with this, our fourth proposition is:

P4: Cooperation between the focal partners will have a positive effect on relationship commitment.

Results of Coulter and Coulter (2003) study indicated that customer knowledge and/or familiarity is an important moderator for the development of trust. Social exchange theory suggests mutual trust is necessary for cooperative relationships (Smith and Barclay 1999) and empirical evidence for correlation between trust and cooperation was found in relationships in channels of distribution (Morgan and Hunt 1994) and in buyer-seller relationships (Schurr and

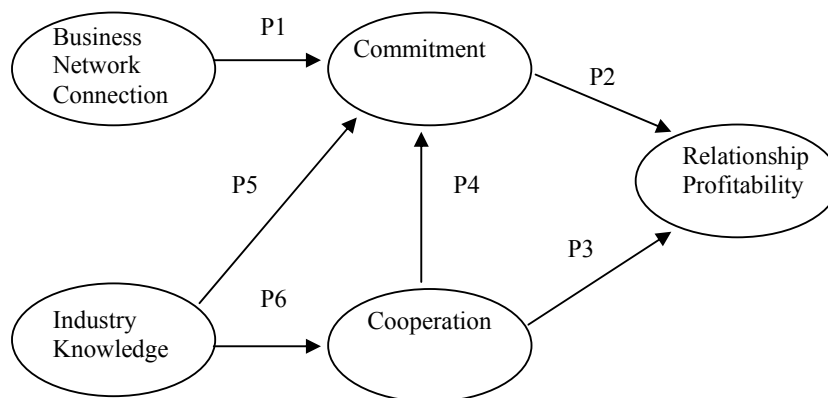
Ozane 1985; Seines 1998; in Smith and Barclay 1999). In line with this, we can expect that customer knowledge would also have an effect on commitment and cooperation. Therefore, the fifth and the sixth proposition are:

P5: Customer's industry knowledge has a positive effect on relationship commitment.

P6: Customer's industry knowledge has a positive effect on cooperation.

Proposed links are shown in the model in Figure 1.

Figure 1: Conceptual Model of Relations between Business Network Connection, Cooperation, Commitment, Industry Knowledge and Relationship Profitability



Conceptual model will be tested in context of the market research industry in Slovenia.

Variables from the structural model are going to be operationalized on the basis of operationalisations from past research as specified in the paper (Blankenburg Holm, Eriksson, and Johanson 1996, 1999; Coulter and Coulter 2003; de Ruyter and Wetzels 1999; Eriksson and Sharma 2003; Jap 1999; Moorman, Zaltman and Deshpande 1992; Morgan and Hunt 1994) with some modifications and developments.

Contributions

Specifically, the contributions of this study to the research field are: (1) modelling and later testing the effects of business network connection on the focal dyad from the customer's perspective in business-to-business service relationships and (2) including the often disregarded moderator variable of industry knowledge in the model of commitment and cooperation. Since this is a study of buyers its implications can be of value to suppliers when planning their strategies for business-to-business marketing.

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