The Impact of Governance Mechanisms on Relationship Quality:
Effects in Key Account and Non Key Account Dyads

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Abstract
Despite increasing interest in the effective combination of alternative governance mechanisms for the management of inter-organizational exchange, there is relatively little empirical research that examines the impact of different governance mechanisms on relationship quality. Moreover, few authors link governance mechanisms to situational factors. This paper, based on a written survey among purchasing managers (n = 297), explores the relative importance of three governance mechanisms (formal contracts, relational norms, and specific investments) for relationship quality (satisfaction, commitment, and trust) across business contexts (key account dyads vs. non key account dyads). Results indicate that while value creating norms have a highly significant impact on all three outcomes in all contexts, the importance of contracts and value claiming norms depends upon the specific context. Relationship-specific investments have no significant impact on the outcome variables.

Keywords: Key Account Management, governance mechanisms, commitment, trust, satisfaction
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Introduction

Since the 1980s, relationship marketing became a topic of outmost interest for scholars. Even if today this stream of literature is experiencing its first serious criticism as paradigm shift (Reinartz and Kumar 2000), many specific fields of research linked to this relational perspective remain very active. Key account management is on of them (Homburg, Workman and Jensen 2002; Workman, Homburg and Jensen 2003). Thus different business contexts (key account dyads vs. non key account dyads) can today be distinguished within the suppliers’ customer portfolio. Interfirm exchanges can be regulated along several governance mechanisms (for instance formal contracts, relational norms, and specific investments). Within different relationship contexts, the use of one governance mechanism or another may have a different impact on relationship quality (satisfaction, commitment, and trust).

Governance forms

As Heide (2003, p.18) underlines, "much of the recent research on interfirm relationships in marketing has relied on the theoretical notion of governance". Economic exchange processes can be organized in various ways. Although numerous authors classify inter-firm exchange along a continuum with two extreme points, different bodies of literature, e.g. transaction cost analysis (Williamson 1985, 1991), legal sociology (Macneil 1978, 1980), or marketing (Arndt 1979), provide different classifications. One end, usually referred to as market governance, is often described by attributes such as "complete transferability, primary focus on the substance of exchange, a sharp division of benefits and burdens and price as a regulatory mechanism" (Dwyer, Schurr and Oh 1987, p.12). The other end is constituted by organizational or quasi organizational forms as regulatory mechanisms. Depending upon the theoretical school of thought, long-term business relationships are positioned somewhere between the two poles of the continuum. They are referred to as the hybrid form (Williamson 1991), domesticated markets¹ (Arndt 1979, p.70), relational exchange (Macneil 1980), or clans (Ouchi 1980). In a marketing perspective, Heide (1994) proposes the term "non-market governance". These arrangements comprise horizontal forms of cooperation (e.g. joint ventures, strategic alliances or R&D partnerships), and vertical buyer-seller relationships (Arndt 1979).

Governance mechanisms

Our paper focuses on the topic of governance mechanisms, not on the broader topic of "governance". For Heide (1994) "the original framework as developed by Williamson (1975) views the governance decision as fundamentally a choice between a “market” based on a governance trough a price mechanism, and a “hierarchy” implying governance trough a unified authority structure" (p.73). Williamson and Ouchi (1981) define governance as “a mode of organizing transactions”. Thus, a governance mode is defined by a place (market, organization, …), a mechanism (price, authority…), and something else that encompasses contract, and other forms of control or monitoring. For instance Heide (1994) insists on the fact that governance “includes elements of establishing and structuring exchange as well as aspects of monitoring and enforcement”. Our paper is specifically concerned with monitoring or enforcement aspects of governance. Against this background, the design of effective governance structures is a critical issue. The challenge lies in the large number of available control mechanisms (Bradach and Eccles 1989). Recent contributions to plural form research focuses on three governance mechanisms: formal contracts (e.g. Cannon, Achrol and Gundlach 2000, Lusch and Brown 1996, Stinchcombe 1985), relational norms (e.g. Dant and Schul 1992, Heide and John 1992, Pilling, Crosby and Jackson 1994), and specific investments (e.g. Gundlach, Achrol and Mentzer 1995, Jap and Ganesan 2000). In empirical research, scholars have studied the interaction between formal contracts and norm-based behavior (Lusch and Brown 1996), and the effect of contracts and norms on relationship performance (Cannon, Achrol and Gundlach 2000). The most detailed study available to date (Jap and Ganesan 2000) examines the time-dependent nature of contracts, norms, and specific investments on commitment in retailer-supplier dyads.

¹ In a comment on Arndt’s article, Stidsen (1979) points to the work of Commons (1934) who already discussed forms of exchange which he referred to as rationing transactions. Goodman (1979) mentions the work of Alderson (1965) and Commons (1934): “The idea of continuity in relationships (…) is clearly evident from Commons, Alderson, and nearly all the work in organizational buying”.

2
Plural governance or plural forms of governance?

It is less problematic to understand each single mechanism than to combine them in an appropriate manner. Particularly, there is little empirical evidence about interaction effects of the different mechanisms in a specific governance structure. Such a structure is referred to as plural form governance in parts of the literature (Cannon, Achrol and Gundlach 2000, Gundlach and Achrol 1993, Heide 2003). What authors describe as plural governance (Heide 2003, Bradach and Eccles 1989) is the "practice of simultaneous deployment of different governance forms" or the "decision to combine governance forms into a single structure, strategy" (Heide 2003, p. 18). More recently, Heide (2003) provided an analysis of the phenomenon of plural governance through the empirical analysis of a firm using simultaneously market contracting and vertical integration for the same basic transaction. The author then shows that the simultaneous use of two governance mechanisms can be a good protection against "adverse selection" and "moral hazard". In our research we could not observe and analyse a situation of "governance mechanism mix" but we can compare the impact of different mechanisms used to regulate interfirm exchanges.

Article structure

The purpose of this article is to advance the understanding of the differential roles of contracts, norms, and specific investments in different relationship contexts. It complements extant studies in two ways. First, it draws upon a distinction made in the relational contracting school, but not yet introduced in the plural form governance literature. Indeed, Kaufmann (1987) distinguishes "norms that help create value" and "norms that control value-claiming behavior". Extending extant empirical work, we empirically study the role of both types of norms in a governance structure. Second, we take a more differentiated look at governance structures by studying the relative importance of alternative governance mechanisms in different types of dyads (key account relationships vs. non key account relationships). It is our objective to obtain more detailed insights into the design and the impact of plural governance systems than currently available. For that purpose, we study the effect of our focal governance mechanisms on three dimensions of relationship quality: customer satisfaction, commitment, and trust. The remainder of the paper is structured as follows. After discussing three alternative governance mechanisms (contracts, norms, and specific investments) we outline potential relationships with the dimensions of relationship quality. Then the sampling and data collection are described. Next, we report the results of the data analysis. Finally, we summarize the findings and provide some ideas for future research and managerial practice.

Plural forms of governance

Contract as a mechanism to regulate business exchanges

Written contracts are formal documents stating that two parties have agreed upon certain objects and conditions of exchange. They are widely used. However, their effectiveness and their relevance are subject to discussion. The classical school holds that the actors involved are able to project all relevant aspects of a transaction into the future, leading to the formulation of complete contracts. The primary focus of classical contractual law is on single transactions. They are believed to be static and uncorrelated (Gundlach and Murphy 1993). This perspective on contracts has been contested by scholars for many years now. For instance, Llewellyn observed as early as 1931 (p.737): "[Contracts are] a framework highly adjustable, a framework which almost never accurately indicates real working relations, an occasional guide in case of doubt, and a norm of ultimate appeal when relations cease in fact to work". In about the same perspective, an exploratory study (Macauley 1963) came to the conclusion that (contrary to the assumption of the classical school) praxi contracts have neither complete nor binding character. Particularly, the work indicates that in case of conflict between the parties involved in a relationship, seeking a solution from official courts was rather the exception than the rule. Among other reasons, the loss of time through formal legal disputes as well as the often inevitable dissolution of relationships induced by a party's recourse to legal sanctions may explain this phenomenon (Macauley 1963). More recent work (Frazier et Summers 1984, Palay 1985) confirms these findings.

Thus, as a reaction to classical contract law's problematic assumptions, two alternative interpretations have been developed: the neoclassical (e.g. Williamson 1991) and the relational school (e.g. Macneil 1980). While the neoclassical approach attempts to reduce the rigidity of the classical perspective through the introduction of concepts such as "good faith" or "fair dealing" (Uniform Commercial Code 1978), the relational school is based upon the principle of norms. This signifies that agreements between the parties involved comprise an explicit (written) part as well as an implicit (norms) part (Palay 1984), because as Macneil (1980) explains, nobody can, in an exchange, anticipate all contingencies...
and make complete plans. Hence, contracts comprise several tacit assumptions that may "range from general ones such as trust to highly specific ones such as assumptions about particular and precise trade usages" (p. 25). "When a contract is embedded within an identifiable relationship, (...) contractual obligations are often modified, supplemented or completely supplanted by the norms of the ongoing relation" (Hadfield 1990, p.929). In the written part, the actors often formulate objectives rather than develop detailed plans of action (Milgrom and Roberts 1992). Table 1 provides an overview of the interpretation of contracts by the three schools of thought.

Table 1: contracts in the light of different schools of thought

<table>
<thead>
<tr>
<th>Classical contract law</th>
<th>Neoclassical contract law</th>
<th>Relational contract law</th>
</tr>
</thead>
<tbody>
<tr>
<td>obligations only through written agreements</td>
<td>obligations primarily rooted in written agreements</td>
<td>evolutionary vision of relationships</td>
</tr>
<tr>
<td>Pacta servanda sunt</td>
<td>uncertainty about environmental conditions</td>
<td>written contracts will always be incomplete</td>
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<tr>
<td>settlement of conflicts through legal mechanisms</td>
<td>flexible mechanisms of conflict resolution, e.g. referees, standards, etc.</td>
<td>implicit norms complement and partially supplement written agreements</td>
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<tr>
<td>identity is irrelevant</td>
<td>identity is irrelevant</td>
<td>actors’ identity is relevant</td>
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<td>transactions are considered to be absolutely discrete</td>
<td>transactions are considered to be absolutely discrete</td>
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Norms as mechanisms to regulate business exchanges

In the literature, norms are either defined as expectations actors develop concerning other actors’ behaviors in a given context (Heide and John 1992) or as guidelines for appropriate behavior (Scanzoni 1979). They are "important social and organizational vehicles in exchange where goals are ill-defined or involve open-ended performance" (Cannon, Achrol and Gundlach 2000, p.184). While ex ante norms reflect expectations about future behaviors, ex post they serve as reference points for the evaluation of the conformity of actual behaviors with established standards. Because of their informal character, they are complementary governance mechanisms to written contracts. The members of a social group accept norms whenever they reckon that the control of an exchange process should be exerted by more than one party to the exchange. Sociologists explain the respect of norms through the actors’ motivations. When conforming to a norm, they expect such behavior to be beneficial. Put differently, they fear to suffer a loss in case they do not respect an established norm (Coleman 1991).

By developing norms which guide their actions in the exchange process the parties define their relational playing field. Whereas certain norms are being brought into the relationship others are defined by the parties concerned. Ouchi (1980) states that the existence of relational norms in a dyad is an indicator for the harmony of both parties’ interests which, in turn, reduces the risk of opportunistic behavior (1980). Relational Contracting Theory (Macneil 1978, 1980, 1981) provides a very comprehensive and differentiated set of norms. Unfortunately, marketing scholars, drawing upon Macneil’s thoughts, have not respected the structure of his framework. Rather, many authors only use part of Macneil’s relational norms in their models. In order to provide an overview of the way contract norms are discussed in marketing, a review of the extant literature was conducted. The 37 articles reviewed and the norms they consider are presented in table 2. It turns out that the use of relational contracting constructs is selective and fragmentary. The review also shows that a total of ten constructs are discussed under the label relational exchange framework. Table 3 provides a brief overview of the ten constructs’ content.

Although it has received only limited attention, the taxonomy suggested by Kaufmann (1987) is helpful in understanding the different roles norms may play. He argues that some norms help exchange partners create value whereas others control value-claiming behavior. Unfortunately, Kaufmann only discusses five out of the ten norms identified in table 2. Hence, a broader empirical test whether his taxonomy receives empirical support will need to be conducted. If it is confirmed, one might imagine dif-

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2 The articles included in this table were initially identified by using ABI Inform Global Quest - a database containing indices of key marketing journals (e.g. Journal of Marketing, Journal of Marketing Research, Journal of the Academy of Marketing Science). The filter criteria were relevant search strings such as ‘relational norms’, ‘exchange norms’, etc. The search process for relevant articles was then continued by integrating publications mentioned in the references of these articles as either conceptually or empirically dealing with the norm concept. This selection provides a representative, though not exhaustive, selection of work based upon the use of relational norms.
ferential impacts of value-claiming and value-controlling norms in different settings. We will discuss this in depth in the hypothesis section.

Table 2: Relational contracting norms in marketing literature
(light grey boxes: conceptional discussion of the construct, dark grey boxes: empirical test; several authors define second-order constructs: 1 = relational focus, 2 = relational social norms, 3 = cooperative norms, 4 = social norms, 5 = participation)

<table>
<thead>
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<th>Role integrity</th>
<th>Planning</th>
<th>Effectuation of consent</th>
<th>Flexibility</th>
<th>Solidarity</th>
<th>Mutuality</th>
<th>Conflict resolution</th>
<th>Restraint in the use of power</th>
<th>Information exchange</th>
<th>Long-term orientation</th>
<th>Monitoring</th>
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Table 3: Description of the ten focal norms

<table>
<thead>
<tr>
<th>Norm</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>long-term orientation</td>
<td>the desire and utility of an economic actor of having a long-term relationship with a specific exchange partner (Ganesan 1994)</td>
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<tr>
<td>(LTO)</td>
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<tr>
<td>role integrity (ROLE)</td>
<td>maintenance of complex multidimensional roles forming a network of relationships (Kaufmann 1987, p.76)</td>
</tr>
<tr>
<td>relational planning (PLAN)</td>
<td>proactive and bilateral goal setting for joint future action; plans subject to adaptation (Palay 1984, Heide 1994)</td>
</tr>
<tr>
<td>Mutuality (MUT)</td>
<td>the actors’ attitude that the realization of one’s own success passes through the partners’ common success (Dant and Schul 1992)</td>
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<td>Solidarity (SOL)</td>
<td>preservation of the relationship, particularly in situations in which one partner is in predicament. (Kaufmann and Stern 1988, Achrol 1997)</td>
</tr>
<tr>
<td>Flexibility (FLEX)</td>
<td>the actors’ readiness to adapt an existing implicit or explicit agreement to new environmental conditions (Noordewier, John, and Nevin 1990)</td>
</tr>
<tr>
<td>information exchange (INFO)</td>
<td>the parties’ readiness to proactively provide all information useful to the partner (Heide and John 1992)</td>
</tr>
<tr>
<td>conflict resolution (CONF)</td>
<td>application of flexible, informal and personal mechanisms to the resolution of conflicts (Kaufmann 1987)</td>
</tr>
<tr>
<td>Restraint in the use of power (POW)</td>
<td>expectation that no actor will apply his legitimate power against the partner’s interest (Kaufmann and Dant 1992)</td>
</tr>
<tr>
<td>Monitoring behavior (MON)</td>
<td>ex-ante and ex-post control or supervisory actions in business relationships (Noordewier, John, Nevin 1990)</td>
</tr>
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</table>

**Relationship-specific investments as mechanisms to regulate exchanges**

Specific investments are made in order to adjust structures, processes, and programs to an exchange partner’s needs or capacities (Hallén, Johanson and Seyed-Mohamed 1987). They represent resources which have the potential to increase future revenues from a customer relationship. The degree of specificity of an investment in a relationship can be measured through the loss of value it suffers if it needs to be redeployed (when deployed in a second best use) (Williamson 1985). Because of their adaptation to the customer’s needs they represent at least partially sunk costs. The higher the amount of sunk costs, the higher is the royalty effect of specific investments on the actor who made them (Heide and John 1988). At the same time, specific investments are a strong signal sent out to an exchange partner. They strengthen an actor’s trustworthiness because the pay-off time and their irreversibility are indicators for long-term orientation (Ganesan 1994). Against this background, the current marketing literature not only interprets specific investments as a dimension of transactions but as pledges (Anderson and Weitz 1992), as commitment input (Gundlach, Achrol and Mentzer 1995) or as control mechanism (Jap and Ganesan 2000). They are seen as alternative governance mechanisms along with formal contracts and social norms.

**Relationship quality**

In order to obtain more than only descriptive results about the design of governance structures in praxi, and in order to make statements about their contribution to the realization of customer management objectives, it is helpful to analyze the constructs’ impact on relevant performance measures in vertical marketing. Because here we are focusing on the management of long-term business relationships, the relationship marketing literature seems to provide an appropriate conceptual framework. In relationship management, objectives may be economic (e.g. turnover, customer penetration) and non-economic. Numerous authors consider relationship quality to be an appropriate non-economic indicator of relationship success (e.g. Bejou, Wray and Ingram 1996, Kiedaisch 1997, Werner 1997, Hennig-Thurau 2000). It is generally conceived of as a three-dimensional construct including satisfaction, trust, and commitment. Garbarino and Johnson (1999) show that satisfaction, trust, and commitment are not only three important indicators of relationship quality. They are also distinct, complementary variables.

**Satisfaction**

Satisfaction judgements express how positive or negative an individual interprets an event that lies in the past (Day 1984). While in discrete transactions the object to be evaluated is clearly delimited, in business relationships the picture is less clear. The reason lies in the complex nature of ongoing exchange. The person judging the relationship must integrate information related to different levels of exchange and to different phases of the relationship. Hence, the object of exchange is less evident to define than in the discrete case. In a complex evaluation process numerous and partially contradictory
aspects of exchange are being evaluated and integrated into a comprehensive satisfaction judgment (Homburg and Rudolph 1997).

Although in his R.P.O. model Donabedian (1980) posits that a customer’s satisfaction depends on a supplier’s actual performance as well as on interaction processes and supplier inputs, extant empirical studies (e.g. Homburg et al. 2002, Leuthesser and Kohli 1995) suggest that a supplier’s relational behavior is a major determinant of customer satisfaction. We argue that while formal contracts and specific investments represent input factors in vertical relationships, norms are based on behavioural aspects. Against this background we would expect norms to have a stronger impact on satisfaction than contracts or specific investments. Hence:

**H1a:** The existence of strong norms has a positive impact on customer satisfaction

**H1b:** The existence of formal contracts has no significant impact on customer satisfaction.

**H1c:** The existence of specific investments has no significant impact on customer satisfaction.

**Trust**

Trust is an attitude that can be defined as the “willingness to rely on an exchange partner in which one has confidence” (Moorman, Deshpandé and Zaltman 1993, p. 82). Morgan and Hunt (1994) indicate that many definitions of trust are based on Rotter’s view. For Rotter, trust is “a generalized expectancy held by an individual that the word of another... can be relied on” (Rotter 1967, page 651). As a customer expectancy, it is based upon information making it likely that a supplier firm "will not take unexpected actions that result in negative outcomes" for the partner (Anderson and Narus 1986). Such information can be structural or behavioral. Put differently, contracts as well as specific investments and norms should have a positive impact on customers’ trust. All these governance mechanisms are being used to make opportunistic behaviors unlikely. Therefore:

**H2a:** The existence of strong norms positively influences customer trust.

**H2b:** The existence of formal contracts positively influences customer trust.

**H2c:** The existence of specific investments positively influences customer trust.

**Commitment**

“Relationship Commitment” (just like trust) is mainly being interpreted as an attitude. Morgan and Hunt (1994, p. 23) define the construct as "an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinite”. It expresses a value judgement enabling the stabilization of a relationship. Wherever no formal barriers prevent customers from switching from one supplier to another, commitment serves as a bond. Morgan and Hunt (1994) show empirically that the costs a customer has to support when terminating a relationship are the most important determinant of his commitment. These costs comprise “all expected losses from termination and result from the perceived lack of comparable potential alternative partners” (Morgan and Hunt 1994, p. 24). Norms have the potential to increase commitment because in an ongoing exchange relationship they reduce control and adaptation costs (Söllner 1999). Contracts, on the other hand, cause initiation costs but do not generate follow-up costs. Hence, they should not lead to customer commitment. Suppliers’ specific investments also have no impact on the customers’ cost situation. Hence:

**H3a:** The existence of strong relational norms has a positive impact on customer commitment.

**H3b:** The existence of formal contracts has no significant impact on customer commitment.

**H3c:** The existence of specific investments has no significant impact on customer commitment.

**Key Account and Non Key Account Dyads : the customer’s importance for the supplier**

Different criteria can be used to classify customers. The degree of importance attributed to a customer determines the supplier’s marketing approach. Often, formal programs are implemented in order to manage particularly important customers. Such programs are referred to a key account management (Homburg,Workman and Jensen 2002). Pardo (2001, p.2) summarizes the essence of key account management (KAM): "KAM means the creation of a new mission (thus the creation of a new job, new practices, etc.) and its integration into the existing structure. This mission involves coordinating supplier information and action in time and space in relation to a customer in its entirety”. In many cases, key customers’ importance is based on their position in the market expressed in their turnover, market share or growth (Kempeners and van der Hart 1999). But other reasons exist why a customer can be
of strategic importance to a supplier. For example, he could dispose of valuable know-how, be particu-
larly innovative or serve as a reference for other customers (Boles, Johnston and Gardner 1999). Irre-
pective of the motive for introducing a KAM program, the supplier aims at mutual value creation 
through an optimal coordination of all customer directed activities. Because, by implementing KAM 
programs, more and more companies draw a clear distinction between average and key customers 
(Kempeners and Van der Hart 1999, Workman, Homburg and Jensen 2003) the question whether the 
two types of relationships require different governance modes is of practical relevance. Consider the 
following points. Firstly, because in average relationships interaction frequency tends to be lower than 
in key account dyads, norms are more difficult to develop. Hence, we expect their impact on relation-
ship quality (satisfaction, trust and commitment) to be lower than in KAM relationships. Secondly, low 
interaction frequency makes it more difficult for the customer to predict the supplier’s int enions and 
behaviors. Accordingly, suppliers’ specific investments, often more visible for the customer, should on-
tribute more to the explanation of variations in relationship quality in average dyads than in KAM dy-
ads. Thirdly, along with higher interaction frequency in KAM relationships we can expect to find higher 
levels of dependence between actors. We can also expect to have accumulated higher stocks of 
knowledge concerning the other side of the dyad than in non-KA relationships. Against this back-
ground, the existence of formal contracts should have less impact on relationship quality in key ac-
count relationships than in non-account relationships. Hence:

H4a: The more important a relationship, the higher the importance of norms for the ex-
planation of satisfaction, trust, and commitment.

H4b: The more important a relationship, the lower the impact of formal contracts on satis-
faction, trust, and commitment.

H4c: The more important a relationship, the lower the impact of specific investments on 
satisfaction, trust, and commitment.

In the following section, we conduct an empirical test of the four sets of hypotheses.

The empirical study

Design of the study

The study is based on a written survey among managers involved in professional purchasing proc-
exesses. Two industries were selected. The packaging industry represents a classical industrial goods 
market whereas the market research sector was chosen as an industrial service market. In both indus-
tries, long-term relationships play an important role. Questionnaires were distributed to purchasing 
managers for packaging goods on the leading German trade show "FachPack". Potential participants 
were identified at the entrance, asked to complete the questionnaire at their office and to return it 
within four weeks. On the market research side questionnaires were sent out to those members of the 
leading German market research association (BVM) who are concerned with the purchasing process 
of market information.

The questionnaire contained only closed questions. The respondents were asked to answer by con-
centrating on one selected supplier with whom they worked since at least two years. The selection of 
the supplier was left to them. A total of 1142 customer companies in two industries (packaging goods 
and market research) were contacted. 340 questionnaires were returned, 43 of which were insuffi-
ciently filled in or referred to foreign suppliers. In order to control for cultural bias, only questionnaires 
referring to German suppliers were taken into account. Hence, the available data base consists of n = 
297 cases. An analysis of potential non-response effects (Armstrong and Overton 1977, comparison of 
early vs. late responses) revealed no significant differences concerning the core constructs.

In all cases, the respondents had been concerned with the relationship for at least two years, so that 
we assume that they are knowledgeable. The participating customer companies cover all three major 
industry sectors (industry, retail and services). The sample consists of SMEs as well as large compa-
nies. The size structure of the supplier companies is closely correlated to the relative importance of 
these types of companies in their markets. Hence, sample representativity appears to be established.

In order to identify whether the replying customer is a key account the questionnaire contained the fol-
lowing question.

| What is your company’s position in the relationship with this supplier? | □ The supplier defines us as key account |
| □ We are an important customer, but not a key account |
| □ We are an average customer for this supplier |
| □ We are a rather small customer for this supplier |
91 participants answered that their supplier defines them as key account (KA). 129 customer companies do not hold key account status but are nevertheless important customers. 56 respondents define themselves as average customers of their suppliers, while 21 customers refer to themselves as small customers. Hence, the sample consists of 70% non-key account customers (NKAs) and of 30% KAs which indicates a slight bias as compared to average KA/NKA ratios. However, this deviation from the expected distribution appears to be of an order that remains to be tolerable for the aim of this study. Because the "small customer" cluster comprises only 21 cases, it has been merged with the mid-size cluster. This appeared to be justified because a comparison of the means for the two groups across the core variables in this study showed no significant differences.

**Scales**

With the exception of relationship safeguarding through formal contracts, all relevant constructs were operationalized based upon measurement instruments documented in the extant literature. Scales which had initially been developed for alternative research settings (e.g. channel relationships) needed to be reformulated to fit the two industries selected for this study. In order to test the questionnaires usability, in a pre-test phase all scales were intensively discussed and where necessary modified in interviews with buyers as well as sellers from both industries. This process led to the final questionnaire which was pre-tested again with a different set of buyers and sellers from both industries. Scale reliability was tested in two steps. First, coefficient alpha was calculated. Results for both subsamples as well as for the complete sample are documented in Table 4. All scales fulfill the generally accepted criterion of alpha > 0.7. In the total sample, 12 out of 14 scales have r-values lying above 0.8 (mean 0.853, median 0.857). In addition, each construct was assessed using confirmatory factor analysis. The results (factor reliability, average variance extracted, t-values) are documented in table 5. With one exception (conflict resolution) they are satisfactory.3

Table 4: Reliability of multi-item scales

<table>
<thead>
<tr>
<th>Coefficient alpha, basis: n = 297 (sample 1 „market research”, n = 206, sample 2 „packaging”, n = 91)</th>
<th>multi-item-scale</th>
<th>no. of items</th>
<th>sample 1</th>
<th>sample 2</th>
<th>total sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>trust</td>
<td>6</td>
<td>0.8539</td>
<td>0.8896</td>
<td>0.8623</td>
<td></td>
</tr>
<tr>
<td>solidarity</td>
<td>5</td>
<td>0.7886</td>
<td>0.8512</td>
<td>0.7866</td>
<td></td>
</tr>
<tr>
<td>long-term orientation</td>
<td>4</td>
<td>0.9321</td>
<td>0.9252</td>
<td>0.9303</td>
<td></td>
</tr>
<tr>
<td>information exchange</td>
<td>5</td>
<td>0.7642</td>
<td>0.8692</td>
<td>0.8076</td>
<td></td>
</tr>
<tr>
<td>flexibility</td>
<td>6</td>
<td>0.9279</td>
<td>0.8760</td>
<td>0.9104</td>
<td></td>
</tr>
<tr>
<td>monitoring</td>
<td>4</td>
<td>0.8038</td>
<td>0.9070</td>
<td>0.8418</td>
<td></td>
</tr>
<tr>
<td>planning behavior</td>
<td>4</td>
<td>0.8749</td>
<td>0.9008</td>
<td>0.8824</td>
<td></td>
</tr>
<tr>
<td>mutuality</td>
<td>6</td>
<td>0.8691</td>
<td>0.9139</td>
<td>0.8860</td>
<td></td>
</tr>
<tr>
<td>conflict resolution</td>
<td>4</td>
<td>0.7365</td>
<td>0.7431</td>
<td>0.7368</td>
<td></td>
</tr>
<tr>
<td>restraint in use of power</td>
<td>3</td>
<td>0.8670</td>
<td>0.8596</td>
<td>0.8608</td>
<td></td>
</tr>
<tr>
<td>commitment</td>
<td>5</td>
<td>0.8392</td>
<td>0.8781</td>
<td>0.8434</td>
<td></td>
</tr>
<tr>
<td>satisfaction</td>
<td>4</td>
<td>0.8680</td>
<td>0.8969</td>
<td>0.8720</td>
<td></td>
</tr>
<tr>
<td>specific investments</td>
<td>5</td>
<td>0.8519</td>
<td>0.8613</td>
<td>0.8554</td>
<td></td>
</tr>
</tbody>
</table>

3 The only scale to fail the tests is the one measuring conflict behavior. Given its low score in the alpha test, this outcome reveals measurement problems. Two alternative solutions exist. The scale can either be withdrawn from the study. This approach would make sense if a company’s power behavior could easily be explained through the other behavioral constructs integrated in our study. However, regression analysis led to the results that the remaining nine constructs merely account for 19.6% in the variance of a supplier’s power behavior. Given that the elimination of this aspect would imply a serious limitation to our aim to cover a large variety of relational behaviors, we opted for a second approach. The four scale items measuring power behavior were submitted to exploratory factor analysis (principal component analysis). The two-dimensional solution explains 82.3% of variance. Each factor represents two items. Accordingly, we decided to maintain power behavior in the analysis by defining two distinct constructs. Factor 1 was labeled CONF A, factor 2 became CONF B. Whereas CONF A reflects the formality of a company’s conflict resolution processes, CONF B measures how extensive conflict analysis and solution processes are. As a consequence of this decision, the subsequent analysis contains eleven relational behavior scales.

4 Because of the way role integrity was measured, it was impossible to calculate an overall Cronbach’s Alpha for all cases. Instead alpha was calculated separately for the 3 to 10-dimensional response formats. The values ranged from 0.7237 (4-dimensional case) to 0.9457 (10-dimensional case). This suggests good scale reliability.
A crucial point is whether there is an underlying structure to the norm variables considered here. The question was first raised by Kaufmann (1987) who posits that two types of norms can be distinguished: "norms that create value" and "norms that help control value-claiming behavior". However, his article is purely conceptual and only considers five norms. In order to verify if there is a factor structure underlying our data, we conducted an exploratory factor analysis of the eleven norm constructs included in our survey. The results indicate that applying Kaiser criterion and scree test, a two-dimensional solution best represents the data. Seven variables (long-term orientation, solidarity, information exchange, mutuality, planning, role integrity, and flexibility) load high on factor 1 whereas 4 variables (monitoring, power use, and the two aspects of conflict behavior) load high on factor 2. This constellation is plausible. It is in accordance with Kaufmann’s (1987) theoretical classification. Hence, we decided to label the two dimensions “value creation” and “value claiming”. A close parallel is observable with two principles (or core processes) which receive considerable attention in the strategic management literature (e.g. Ghosh and John 1999, Porter 1996). The two factors identified explain 53% of the variance in the data.

Results

Regression analysis is an appropriate method to apply in our context. In order to test the hypotheses formulated above, we test the following equation for each dimension of relationship quality (satisfaction, commitment, trust) three regression equations (for KAM relationships, important non-KAM relationships, small and medium sized non-KAM relationships):

$$satisfaction = b_0 + b_1 \text{contract} + b_2 \text{specific investments} + b_3 \text{value-creating norms} + b_4 \text{value-claiming norms}$$

According to Homburg and Baumgartner (1998) FR should be > 0.6, AVE > 0.5 and t-values > 1.645. KMO value = 0.85, anti-image test 18.2% < 25%, Bartlett-test negative at significance level < 0.01.
The effects of the independent variables on the outcome variables across all types of relationships are shown in Table 7. Together, depending on the customer group and on the dependent variable, the three governance mechanisms explain between 27.8% and 67.4% of the variance (adjusted R²). These values indicate that the focal governance mechanisms have an impact on the dimensions of relationship quality which is worthwhile to be considered. The expected interrelationship exists. The related F-values show that these interrelationships are statistically significant. Moreover, for the trust and commitment constructs we observe that the variance explained through the three governance mechanisms increases with the importance of the relationship. This indicates that the relative importance of other determinants of trust and commitment (e.g. product quality, service quality, or price) decreases, as the relationship intensifies. A parallel movement is not observed for satisfaction, which is plausible.

Table 7: estimations for the nine regression equations

<table>
<thead>
<tr>
<th>group</th>
<th>adj. R²</th>
<th>F-value</th>
<th>Spec. Inv.</th>
<th>Contract</th>
<th>Value creation</th>
<th>Value claiming</th>
</tr>
</thead>
<tbody>
<tr>
<td>satisfaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>.564</td>
<td>85.39***</td>
<td>0.024</td>
<td>0.059</td>
<td>.650***</td>
<td>.244***</td>
</tr>
<tr>
<td>2</td>
<td>.674</td>
<td>67.16***</td>
<td>0.035</td>
<td>-0.047</td>
<td>.736***</td>
<td>.191***</td>
</tr>
<tr>
<td>3/4</td>
<td>.511</td>
<td>20.84***</td>
<td>-0.005</td>
<td>-0.119</td>
<td>.703***</td>
<td>.132</td>
</tr>
<tr>
<td>trust</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>.523</td>
<td>36.47***</td>
<td>-0.047</td>
<td>-0.079</td>
<td>.568***</td>
<td>.198**</td>
</tr>
<tr>
<td>2</td>
<td>.427</td>
<td>36.64***</td>
<td>-0.040</td>
<td>.173**</td>
<td>.720***</td>
<td>.090*</td>
</tr>
<tr>
<td>3/4</td>
<td>.322</td>
<td>10.01***</td>
<td>-0.093</td>
<td>.162***</td>
<td>.434***</td>
<td>.036</td>
</tr>
<tr>
<td>commitment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>.504</td>
<td>39.48***</td>
<td>-1.42</td>
<td>0.139*</td>
<td>.742***</td>
<td>.139*</td>
</tr>
<tr>
<td>2</td>
<td>.436</td>
<td>25.77***</td>
<td>-0.679</td>
<td>-0.023</td>
<td>.650***</td>
<td>.096</td>
</tr>
<tr>
<td>3/4</td>
<td>.278</td>
<td>08.32***</td>
<td>-1.00</td>
<td>0.104</td>
<td>.555***</td>
<td>.080</td>
</tr>
</tbody>
</table>

Note that value claiming norms can be “filled with life” either in a relational or a discrete manner. Due to coding high values for value claiming norms reflect “relational” behaviors, i.e. restraint in the use of power, low formality of conflict resolution processes and low levels of monitoring.

Trust. Key accounts’ trust in their supplier is positively influenced by the existence of strong value creating norms. Large customers who do not have key account status also base their trust on the existence of formal contracts. For the group of small and medium sized customers we also observe the paired impact of formal contracts and value creating norms. However, as compared to the large non-KAM group, the significance of formal contracts’ impact on trust is higher for this group. Interestingly, the value claiming norms' only have a significant impact on trust in the KAM group of customers. This seems to indicate that as the intensity of the relationship increases, customers show less acceptance for a close monitoring of the relationship by the supplier, for the supplier’s use of his power positions in order to achieve his goals, and for formal conflict resolution mechanisms.

Satisfaction. We observe a similar tendency in the models where we test the influence of governance mechanisms on satisfaction. There, too, value creating norms have a positive impact on the dependent variable in all three equations. This impact increases as the intensity of the relationship increases. However, contrary to the trust models, formal contracts are not a determinant of satisfaction.

Commitment. As compared to the trust and satisfaction models, the explanation of customers’ commitment is more stable across the three types of relationships. Only the existence of strong value creation norms has a significant impact on customers’ intentions to maintain the relationship in the future. In non-KAM relationships specific investments, formal contracts, and value claiming norms do not contribute to the explanation of commitment. Only in KAM dyads, contracts and value claiming norms have a weakly significant impact.

Interestingly, in none of the nine estimated equations relationship-specific investments significantly influence the dimensions of relationship quality. This result is in line with H1c, H3c, and H4c. However, in H2c we expected that specific investments have a positive impact on trust. This apparent lack of importance will need to be discussed in the final section of this paper. More generally, the picture...
drawn by the results is more complex than our expectations formulated in the hypotheses. Table 8 provides an overview of the results.

**Table 8: Summary of the principal results**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Result</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1a</td>
<td>✔️</td>
<td>(partially) Norms positively influence satisfaction; for the group of small and medium sized customers value claiming norms had no significant impact</td>
</tr>
<tr>
<td>1b</td>
<td>✔️</td>
<td>Contracts have no significant impact on satisfaction</td>
</tr>
<tr>
<td>1c</td>
<td>✔️</td>
<td>Specific investments have no significant impact on satisfaction</td>
</tr>
<tr>
<td>2a</td>
<td>✔️</td>
<td>(partially) Norms positively influence trust; for the group of small and medium sized customers value claiming norms had no significant impact</td>
</tr>
<tr>
<td>2b</td>
<td>✔️</td>
<td>(partially) Contracts have a positive impact on trust for customers who are not key accounts; in KAM dyads they have no significant impact</td>
</tr>
<tr>
<td>2c</td>
<td>✔️</td>
<td>Specific investments have no significant impact on trust</td>
</tr>
<tr>
<td>3a</td>
<td>✔️</td>
<td>(partially) Only value-creating norms positively influence commitment; value-claiming norms only have a weakly significant impact in KAM dyads</td>
</tr>
<tr>
<td>3b</td>
<td>✔️</td>
<td>(partially) Generally, contracts have no significant impact on commitment; in KAM dyads they have a weakly significant impact</td>
</tr>
<tr>
<td>3c</td>
<td>✔️</td>
<td>Spec. investments have no significant impact on commitment</td>
</tr>
<tr>
<td>4a</td>
<td>✔️</td>
<td>(partially) As the importance of the relationship increases, the impact of norms on trust and commitment increases; there is no significant impact of norms on satisfaction</td>
</tr>
<tr>
<td>4b</td>
<td>✔️</td>
<td>(partially) As the importance of the relationship increases, the impact of contracts on trust decreases; there is no significant impact of contracts on satisfaction; there is a weakly significant impact of contracts on commitment in KAM dyads</td>
</tr>
<tr>
<td>4c</td>
<td>✔️</td>
<td>Spec. investments have no significant impact on satisfaction, trust, or commitment</td>
</tr>
</tbody>
</table>

In order to test whether the industry sector had an influence on our results, all analyses were replicated for the two sub-samples (market research, packaging). No significant differences were observed.

**Discussion**

**Managerial implications**

Governance structures have an important impact on the success of these relationships. Economic actors must safeguard their interests against opportunistic action. To this end, they may draw upon several alternative governance mechanisms. In the past, little attention has been paid to the “right” composition of the governance structure used in a specific dyad. Particularly, it was unclear what impact individual governance mechanisms had on key outcome variables in business relationships, such as satisfaction, commitment, and trust. In the future, companies - and particularly the supplier side - should pay increased attention to inter-organizational governance issues. Or, as Heide (1994, p.82) puts it, they need to realize that governance structures are a strategic decision field. For him, the different governance mechanisms companies dispose of for safeguarding relationships are “dimensions along which interfirm relationships can be structured (...) strategic decision variables in their own right, which can be made subject to deliberate design”. Hence, depending on their relational objectives and considering situational factors managers can combine instruments (such as contracts, norms, specific investments), but also other governance mechanisms not considered in this study (such as pledges, incentives, hostages etc.) in numerous ways. For such a design decision, the differentiated results obtained in this study (1) for different types of relationships and (2) for different outcome variables provide useful insights. Managers should give particular attention to the norm construct with its two dimensions: value-creating norms and value-claiming norms. Norms are the most important determinant of satisfaction, trust, and commitment across all types of relationships.

**Theoretical implications**

The present study contributes in several ways to a better theoretical understanding of governance structures. First, it broadens the emerging literature on “plural form governance”. It points to the fact that the governance structure is a hypothetical construct that helps relationship marketing scholars understand why some relationships succeed while others do not. Extant studies focused on the rela-
tionship between plural form structures and the more general performance construct (Cannon, Achrol and Gundlach 2000) or on the relationship with retailers’ perception of supplier commitment (Jap and Ganesan 2000). The customer-side outcome variables satisfaction, commitment, and trust are core constructs in relationship marketing. This central role in an emerging theory of relationship marketing is strengthened through our results. In addition, extant studies were conducted in the context of channel or industrial relationships. Our work is based on two subsamples, one from a classical industrial goods market, and the other from a business-to-business service market. Hence, it contributes to a stronger generalizability of the plural form thesis. Next, by building on Kaufmann’s distinction between two types of norms, a more detailed picture than in preceding studies emerges. The differential impact of the two norm categories on relationship quality raises doubts concerning the pertinence of the often rather undifferentiated use of the norm construct in earlier studies. Finally, this paper contributes to a further theoretical foundation of the key account management literature. Although KAM has received considerable attention from practitioners and scholars, few empirical studies examine the differences between “ordinary” dyads and KAM relationships. However, in order to justify academic work on KAM, we need evidence that KAM dyads are truly distinct exchange settings. By showing that the use of governance mechanisms shifts from rather formal to more informal instruments, this paper contributes to such a theoretical grounding of KAM.

Limitations
In this paper, customers’ perceptions of relationship quality were analyzed. A particular focus was on governance differences between key account dyads and non-key account dyads. We should emphasize that there are some limitations to consider. Consistent with previous studies, this study is limited to the impact of governance mechanisms on “soft” outcome variables of business relationships. Our hypotheses are motivated by the consideration that in relationship marketing relationship quality is considered to be an antecedent to financial performance. We do not include “hard”, i.e. monetary or other economic, variables in our regression models. Though the empirical results are mainly in accordance with the theoretical predictions, a recognized limitation of our analysis is the failure to account directly for relationship or market performance. Whether governance mechanisms have an impact on profit, customer penetration or customer contribution margin remains unanswered. Second, the study has been limited to the context of domestic relationships inside Germany. This approach allowed for a potential cultural bias. Nevertheless, other studies (e.g. Kiedaisch 1997) have shown that national and international business relationships do not follow the same rules. Future studies must prove whether the identified relationships are culture-specific. Finally, because the questionnaire used for this was rather long (it contained a large number of constructs) and because the available budget was limited, all variables were exclusively measured on the customer side. As far as the outcome variables are concerned, this approach is not problematic. However, measuring norms on only one side of the dyad is contrary to the constructs very essence as joint expectations. Although this measurement approach dominates in empirical research on norms (Ivens 2002), future research will have to overcome this limitation in order to grasp all of the complexity of both value-creating and value-claiming norms.
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Appendix A: scales

The total questionnaire comprised ten pages. It contained questions about the relationship (e.g. duration, type of products/services purchased), the respondent (e.g. function, experience with this supplier in years, role in buying process), focal supplier (e.g. company size, location of headquarters) as well as the following scales developed in order to measure the focal constructs. Unless indicated otherwise, all measurement instruments described below were based upon the 7-point Likert-type response scheme (1 = totally disagree, 7 = totally agree; R = reverse scaled).

* indicates that the item was deleted before final data analysis.
(R) indicates that the item is reversed scaled
FL = factor loadings

Satisfaction (adapted from Geyskens and Steenkamp 2000 and Homburg and Rudolph 1997, 1 = totally dissatisfied, 7 = totally satisfied)
How satisfied are you with …
1 the supplier’s order handling .857
2 the quality of the supplier’s products .868
3 the price-quality-ratio of the supplier’s products .786
4 the supplier’s service orientation .895
5 the supplier’s friendliness .866
6 the supplier’s interest in you as a person .914
7 the supplier’s respect for your work .889

Trust (based upon Doney and Cannon 1997)
1 This supplier keeps promises it makes to our firm .745
2 This supplier is not always honest with us (R) .828
3 We believe in information this supplier provides us .747
4 This supplier is truly interested in our own success .716
5 This supplier is trustworthy .852
6 We find it necessary to be cautious with this supplier (R) .766

Commitment (based upon Werner 1997)
1 We intend to maintain our relationship with this supplier as long as possible .839
2 We do all we can not to threaten the relationship with this supplier .821
3 We are ready to invest more as usual into this relationship .779
4 Our cooperation with this supplier is frictionless .737
5 From time to time we seek for alternatives to the products we buy from this supplier .751

Long-term orientation (from Ganesan 1994. items showing overlap with other constructs eliminated)
1 This supplier thinks our relationship is going to last .809
2 Maintaining an ongoing relationship with us is important to this supplier .862
3 This supplier has long-term goals for his relationship with us .836
4 This supplier believes that in the long run his relationship with us will be profitable .813

Role integrity (scale developed for this study)
Respondents were asked to indicate (yes/no) for each of the functions listed below whether they expect their supplier to fulfill this role or not. In case the answer was yes, they were asked to rate (from 1 = very poor to 5 = very good) how the supplier actually fulfills the function.

- Help in definition of customer’s information needs
- Selection of appropriate research design
- Data collection
- Data analysis
- Reporting
- Presentation of results
- Formulation of consequences for the customer
- Help in optimizing the customer’s marketing policy
- Establishment of contacts with other service providers (e.g. advertising agencies)
- Conception of packages
- Graphical design of packages
- Help in the development of new and in the improvement of existing products
- Production of packages
- Support in customer’s production processes
- Packaging of customer products
- Storage of packages for customer
- Storage of customer’s finished products
- Legal consulting
- Ecological consulting
- Help in optimizing logistical processes
Relational planning (derived from Palay 1984)
1 This supplier formulates plans for the future of our relationship .862
2 This supplier formulates goals for the future of our relationship .882
3 This supplier develops plans for core processes in our relationship .877
4 This supplier discusses questions which are crucial to the strategic development of our relationship with us .828

Mutuality (developed for this study from Boyle et al. 1992, Kaufmann and Dant 1992, Heide and Miner 1992, Pilling, Crosby, and Jackson 1994)
1 This supplier wants both parties to benefit from the relationship .816
2 This supplier is convinced that he will be compensated in the long-run for concessions he makes .707
3 This supplier makes any decision concerning our relationship transparent for us .796
*4 When taking important internal decisions this supplier asks for our opinion .467
5 In negotiations with us, this supplier is always fair .803
6 This supplier always treats us the way he would expect us to treat him .855
7 This supplier always shows the necessary respect for our company .825

1 This supplier is committed to improvements that may benefit our relationship as a whole and not only themselves .807
2 When we incur problems, this supplier tries to help us .855
3 This supplier also helps us with tasks that go beyond his core competencies .717
4 This supplier does not mind if we owe him a favor .777

Flexibility (developed for this study)
*This supplier shows a high degree of flexibility when we ask him to modify [different features of relationship, adapted to industry context]*

Information exchange (based upon Heide and John 1992)
1 This supplier provides us all necessary information that is useful to us .771
2 This supplier informs us in a timely manner about changes that concern us .763
3 This supplier provides us information about his cost structure .739
4 This supplier discusses his own strategic orientation with us .788
5 This supplier also provides us confidential information .700

Conflict resolution (based upon Kaufmann and Dant 1992)
CONF A – formalization of conflict treatment
1 This supplier has formal procedures for conflict resolution (R) .872
2 This supplier treats each conflict independent from who we are and what our relationship is (R) .872

CONF B – intensity of conflict management
3 This supplier carefully examines the reasons why conflicts arise in our relationship .939
4 In case we have a conflict, this supplier tries to find solutions that preserve and enhance our relationship .939

Restraint in the use of power (based upon Kaufmann and Dant 1992)
1 This supplier often mentions what power basis he disposes of in order to pursue his own interest (R) .878
2 In difficult situations this supplier is ready to put us under pressure (R) .930
3 This supplier only makes use of his power basis when he is sure not to threaten our relationship .852

Monitoring behavior (based upon Kaufmann and Dant 1992)
1 This supplier closely monitors the timeliness of our payments (R) .860
2 This supplier closely monitors the amount of our payments (R) .860
3 This supplier always monitors that we keep agreements (R) .797
4 Should we not keep an agreement, this supplier would not hesitate to draw our attention to our obligations (R) .778
Specific investments (based upon Werner 1997)
... has adapted his data collection approach to our needs .792
... has adapted his IT equipment (hard or software) to our needs .867
... has adapted his usual way of documenting or presenting data to our needs .912
... has adapted his human resources to our needs .834
... has strongly invested into the relationship with us .901
If we abandoned ... the investments he made into our relationship would be difficult to transfer to another relationship .933

Formal contracting
Each time we deal with this supplier, the mutual obligations are comprehensively documented in a written contract