

## **Incorporating the Emotional Climate into Inter-Firm Relationship Health.**

**Dr David Gray\***

**Macquarie University, Sydney Australia**

[david.gray@mq.edu.au](mailto:david.gray@mq.edu.au)

**Dr Stephane Bignoux**

**Middlesex University, UK**

[s.bignoux@mdx.ac.uk](mailto:s.bignoux@mdx.ac.uk)

**Dr Abas Mirzaei**

**Macquarie University, Sydney Australia**

[abas.mirzaei@mq.edu.au](mailto:abas.mirzaei@mq.edu.au)

\*Corresponding Author

### **ABSTRACT**

A recent study reported the potential loss of one million B2B salesmen in the United States between now and 2020 to self-service e-commerce. In light of these alarming claims this paper examines a new approach to the measurement of the health of inter-firm business relationships comprising problem solving/interactive skills, organisation and structure and the emotional climate which is something not often discussed in inter-firm relationships. Using US survey panel data of 500 inter-firm business relationships we build on previous research by exploring the relationship between a new measure of inter-firm relationship health (BRHI) and analyse its relationship with esprit de corp, relationship satisfaction, relationship trust, relationship commitment and inter-firm relationship performance. The results of the model confirm a strong direct positive relationship between healthy inter-firm relationships and explain 60 % of relationship performance. The BRHI contributes three times as much to relationship performance than does relationship satisfaction thus indicating its potential usefulness as a relationship monitor. What is also clear is that the emotional climate in a B2B inter-firm relationship also has a significant part to play in the overall health of an inter-firm relationship and whilst not as important as the problem solving/interaction skills is deemed to be as nearly as important as the organisational aspects of the inter-firm relationship. Both buyers and suppliers can now easily measure at either a point in time or over time, the health of their B2B relationship using the BRHI. The BRHI can assist relationship managers to prioritise investments in the B2B landscape based on the nature of their relationship and the extent to which that relationship constitutes the most important part of their target market.

### **Keywords**

B2B relationship health; B2B relationship performance, B2B relationship satisfaction, B2B emotional climate

### **Competitive Paper**

## INTRODUCTION

A recent study by Forrester's Research in 2015 and reported by Harvard Business Review has predicted the potential loss of one million B2B salesmen in the United States between now and 2020 to self-service e-commerce (Hoar, 2015). A major contributor to this calamitous situation is the emergence of the 'online multi-face B2B landscape'. This new landscape provides B2B buyers with some powerful disruptive technology tools allowing them to often bypass relationship managers and sales staff during the purchasing cycle. It is therefore disrupting the B2B relationship management and sales process and the way buyers and suppliers interact. If these emerging trends prove to be even remotely accurate then firms which do not adapt to the changing patterns of information search, learning, purchase, and follow-up service will not survive.

One suggested answer to the interfirm relationship issues as presented in the Harvard Business Review (Hoar, 2015) argues that B2B relationship managers need to be more engaged in the sales and service process focusing on their role as educators, negotiators, consultants and solution configurators. Prior research shows that B2B relationships are being increasingly used as a strategy to build competitive advantage and that this is enabled through the development of alliance competence (i.e. the ability to secure, develop and manage alliances (Hunt et al., 2002, Lambe et al., 2002). However, such advantage also heavily relies on the supporting relationship variables of trust, commitment, relationship benefits, quality of communication and so forth.

Despite the extensive literature on the drivers of B2B inter-firm relationships there is considerable evidence that they are still risky, unstable and vulnerable to failure with less than 50% of these relationships performing satisfactorily (e.g. Das & Teng, 2000).

What to make of this? On the one hand it appears that one of the consequences of technology change is diluting the involvement and influence of B2B relationship managers in the interfirm relationship through this multi-face online environment. Yet on the other hand it is suggested as above (Hoar, 2015) that to overcome these forces interfirm relationship managers need to become more like management consultants to ensure the survival of their interfirm relationships. It is in this context that this paper seeks to re-evaluate the drivers of relationship performance.

What are we missing in our understanding of these relationships? One possibility explored in this paper is a failure to adequately consider the role of emotion in these B2B relationships compared to its consumer behaviour counterpart (Tähtinen & Blois, 2011). The conventional wisdom (e.g. Kuhn et al., 2008) is that rational decision-making underpins B2B interfirm relationships. That is, what buyers are interested in a B2B context is price, speed and efficiency (O'Boyle, 2009). Whilst this is to some extent true, in this paper we investigate the role of emotion and argue that a compatible emotional climate is also required for the healthy operation of any B2B inter-firm relationship.

Given the above context the structure of this paper is first to examine the link between market orientation at the firm level and its evolution into a B2B relationship context. Second, and based on this analysis we review the literature which supports a new approach to the measurement of the health of a B2B interfirm relationship through the Business Relationship Health Index (BHRI). Third, we then empirically test the linkages between the BHRI and a number of relationship influence variables on B2B relationship performance outcomes.

## INTER-FIRM RELATIONSHIPS AND MARKET ORIENTATION

To understand interfirm B2B relationship health we first need to consider 'market orientation'. The argument over the last 20 years or so is that increasing market orientation leads to improved firm performance. It is defined as the "organization culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus continuous superior performance for the business" (Narver & Slater, 1990, p21). More specifically and particularly relevant for interfirm relationships is that Kohli & Jaworski (1993) identify inter-functional factors as antecedents to market orientation. They showed that conflict between departments could reduce market orientation through hindering the dissemination of intelligence between them and the

responsiveness of the organization to market conditions. Connectedness between departments is thus considered as a facilitator of internal market orientation by dissemination of intelligence between them. (Kohli & Jaworski, 1993).

Focusing on the customised needs of individual buyers or suppliers requires a high level of functional co-ordination (Narver & Slater, 1990) within and between organisations to facilitate an inter-firm relationship over the long-term. This kind of co-ordination focuses on the generation of internal information; the diffusion of that internal information and finally the facilitation of responses to that internal information. These behavioural dimensions of internal market orientation are adapted from Kohli and Jaworski (1990) and it is these behaviours as displayed by employees that will lead to their improved performance (Lings & Greenley, 2005).

Market orientation however, does not measure performance at the relationship level but rather it takes an overall firm perspective. This means that market orientation needs to be customised to operate at the relationship level in order to be an effective measure of interfirm relationship performance. Fortunately, we have the research of Helfert (2002) to assist in this endeavour.

### **CUSTOMISING MARKET ORIENTATION TO A RELATIONSHIP CONTEXT**

Helfert (2002) explored the concept of market orientation from an inter-firm relationship perspective. He noted that by definition 'market orientation' suffers from a generality limitation because it cannot focus on the customised needs of individual buyers. Helfert (2002, p1123) argues that in order to gain insight into specific buyer needs one must take a long-term perspective. In other words, it is the interaction between buyers and suppliers over the long-term that enables the building of trust and commitment and thus the sharing of information which allows the requirements of the inter-firm relationship to successfully unfold over time.

Helfert (2002) argued that there were four main relationship management task bundles that have to be performed by the actors in a buyer-supplier relationship: company exchange, co-ordination, conflict resolution, and adaptation. Exchange activities consist of product/service-related and information exchange activities, problem-related and support exchange activities and finally person-related exchange activities to build social bonds. Inter-firm co-ordination activities comprise the establishment, use, and control of formal rules and procedures and the exertion of informal influence. Conflict resolution activities arise in the event of extraordinary, non-standard situations which require a timely reaction, readiness for compromises and a sense of justice. Adaptation of products/services, manufacturing processes, logistics, delivery or payment modes activities arise to meet the special needs or capabilities of a partner.

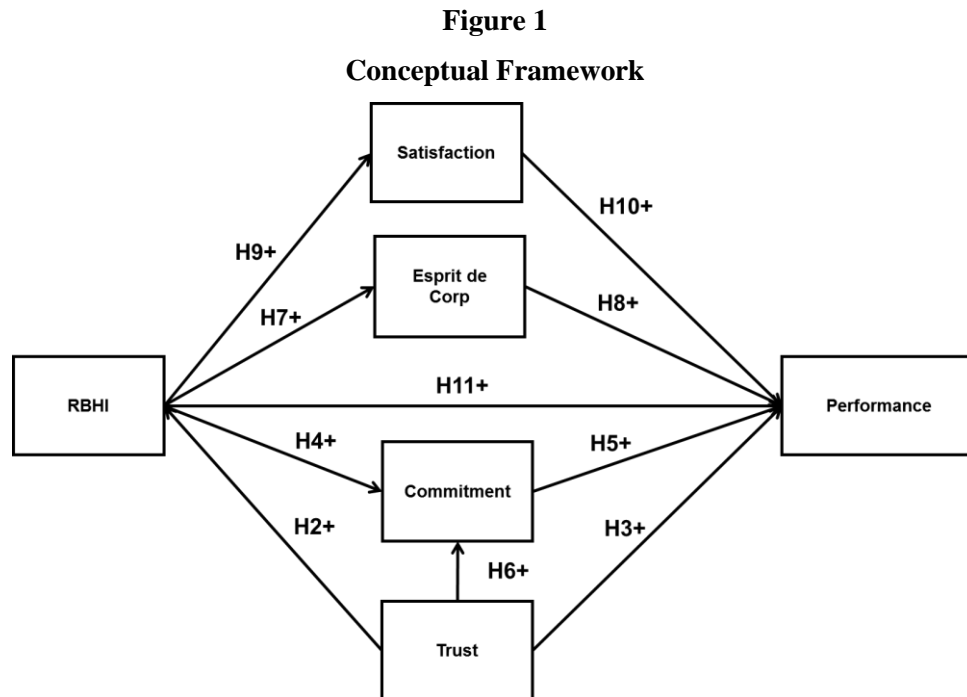
There have also been other researchers who approached inter-firm relationships from a variety of perspectives. For instance, some researchers have focused on 'relationship quality' to refer to the strength and atmosphere of the relational ties between exchange partners. That is, relationship quality reflects "the overall depth and climate in the inter-firm relationships" (Johnson, 1999) and "the calibre of relational ties between exchange partners that influence or restrain a partner's actions" (Palmatier, 2008). Lages et al., (2005) identified information sharing, communication quality, long-term orientation, and satisfaction as the indicators of relationship quality. Mysen & Svensson (2010) identified commitment, competitive intensity, continuity, cooperation, dependence, formalization, market turbulence, opportunism, specific assets and trust. Payan et al. (2010) identified cooperation, coordination, specific assets, satisfaction, trust, and commitment dimensions. All of which are indicators of relationship quality.

### **DEVELOPING A BUSINESS RELATIONSHIP HEALTH INDEX (BRHI)**

So, as shown above many previous researchers have identified a range of variables relevant to measuring the functionality of inter-firm relationships. However, all such approaches lack a common language and set of themes for describing inter-firm relationships. The development of such a common language approach in the area of strategic alliances and buyer/supplier relationships would make it easier to develop common approaches to intervention in the event of relationship problems.

This paper suggests an alternative approach to measuring the health of an interfirm relationship by adapting a concept from the field of psychiatry. Specifically, the Global Assessment of Relational Functioning (GARF) classification system allows the development of a common language for describing relational problems in the area of marriage and family therapy (Rosen et al., 1997).

An outcome of this research is to provide a conceptual model as shown in Figure 1 which could be successfully applied to measure the degree of health and functionality in a business partnering and buyer/supplier relationship marketing context. This figure identifies the relationship between the business relationship health index, relationship esprit de corp, trust, commitment, satisfaction and relationship performance. From a managerial standpoint the motivation for this research is a need to better understand how to successfully initiate and manage business partnerships and buyer/supplier relationships.



The GARF concept has been extensively evaluated and used in the field of Psychiatry however, it has never been applied to an inter-firm business relationship context. The attraction of the adaptation of GARF for evaluating inter-firm business relationships is that it presents a simple to use template for assessing the specific relational characteristics of buyer/supplier and business partnering relationships. To understand the relevance of such a concept we first consider the origin and structure of GARF and then show how it can be adapted to the business buyer/supplier context.

The three basic components of the original GARF template and adapted for this paper encompassed:

**Problem solving** – Problem solving/interactional skills for making this B2B relationship work well. It covers the skills in negotiating goals, rules, and routines; adaptability to stress; communication skills; ability to resolve conflict;

**Organisation and structure** – The way this B2B relationship is organised and structured. It covers the maintenance of interpersonal roles and subsystem boundaries; hierarchical functioning; coalitions and distribution of power, control, and responsibility;

**Emotional climate** – How members of this B2B relationship feel about being a part of this relationship. It covers the tone and range of feelings; quality of caring, empathy, involvement, and attachment/commitment; sharing of values; mutual affective responsiveness, respect, and regard; quality of sexual functioning (American Psychiatric Association 1994, p.758).

The GARF Scale (first included in the Diagnostic and Statistical Manual of Mental Disorders (DSM-IV; American Psychiatric Association, 1994) has been used as a family assessment tool to facilitate the marriage and family therapy (MFT) process by “reliably making distinctions among various levels of relational dysfunction and changes in the level of dysfunction during the course of family therapy,” (Yingling et al 1998, p viii). Associated therapeutic intervention models generally included: (a) the assessment of family system functioning data, (b) the conceptualisation of the data into a treatment plan, and (c) the use of MFT intervention techniques to implement the treatment plan (Yingling et al. 1998, p3). This paper now interprets the GARF concept into an inter-firm relationship context and explores each of the three components identified above in detail.

### **The Meaning of Business Relationship Health**

The Business Relationship Health Index (BHRI) measures the functionality of a buyer/supplier relationship at a point in time. That is, the BHRI measures the extent to which the relationship manager (whether buyer or supplier) believes the relationship is functioning effectively. Functionality is assessed by considering the extent to which the relationship manager rates a series of behavioural statements identified as being important to the overall success and survival of the relationship (see Table 1). The relationship manager’s assessment can vary from chaotic (1-20) to very satisfactory (81-100). That is, a rating of 81-100 for instance means that the relational unit is functioning satisfactorily from self-report of the relationship manager and from the perspectives of observers. The BHRI can be used as a single global rating from 1-100 and/or separately as a composite of ratings in the three major domains of problem solving/interaction, organisation and structure, and emotional climate.

### **Problem Solving/Interactional Skills**

The first component of the Business Relationship Health Index (BHRI) is ‘effective problem solving/interactional skills’. These skills cover negotiating goals, rules, and routines; adaptability to stress; communication skills and ability to resolve conflict.

Interaction has been defined in different ways. One stream of the literature defines interaction as the frequency of inter-firm meetings between various groups of stakeholders (Frazier, et al., 1988). Another defines it qualitatively, and includes cooperation, the limited use of power, flexibility, the use of give and take, joint decision making, planning and problem solving and goal identification (Frazier et al., 1988; MacNeil, 1980). For Doz and Hamel (1998), inter-firm relationships are characterised by ambiguity and instability: thus, managing the relationship over time is more important than structuring the original design. Effective management of an inter-firm partnership after it has been formed relies on the coordination capabilities that emerge from the process of interaction (Brouthers & Bamossy, 2006).

Problem solving is a co-ordination capability. Why is problem solving required? It is because increased interaction brings about the possibility of increased conflicts. Conflict results from disagreements between partners. Manifest conflict “is the frequency and intensity of disagreements between the distributor and manufacturer” (Anderson & Narus, 1984, p. 66). Conflict can be overt, e.g. verbal or written notices, or it can show itself as passive resistance (Habib, 1987). Conflict can affect relationship performance (Demirbag et al., 2003).

A problem is defined as a discrepancy between an individual’s conception of reality and a desired state of reality (Lang, et al., 1978). It begins with “the perception by someone who spots the problem and ends some time later when those affected by the problem perceive it to be solved” (Brown & Brucker, 1990 p. 56). Buyer and supplier firms are repeatedly confronted with problems that need to be solved to re-establish exchange performance (Rooks & Snijders, 2001; Skarp & Gadde, 2007). In the industrial literature, problem solving has been described as the ultimate aim of all exchanges. After all, “industrial buying can be traced back to the need to solve a problem” (Brown & Brucker, 1990). These problems are usually defined by the buyer. Hence, the main task of the procurement agent is to close the supply gap requirements between what the buyer expects and what the supplier provides (Bonoma & Johnston, 1978; Wilson et al., 2001), and the main task of the sales/marketing agent is to solve customers’ problems (Alderson, 1952; Bonoma & Johnston, 1978).

Broadly speaking the two types of problems faced by buyers and suppliers are strategic problems and operational problems. Most problems are not strategic problems. They are, in fact, operational problems, classified as 'handling problems' (Håkansson, 1982). Handling problems are not fundamental to inter-firm exchanges, but the manner in which they are solved affects efficiency and resource consumption. Hence, they have a direct impact on the performance of the inter-firm relationship and the partnering firms. This has long been known by purchasing researchers (Helper, 1991a, 1991b; Gammelgaard & Larson, 2001; Giunipero & Percy, 2000; Killen & Kamauff, 1995; Kolchin & Giunipero, 1993).

Two studies by Helper (1991a; 1991b) were concerned with the strategies for solving problems in inter-firm relationships. Helper (1991a; 1991b) applied Hirschman's (1970) exit/voice dichotomy to the automobile industry. The author found that buyers following an exit strategy found a new supplier when encountering a problem, while buyers following a voice strategy were more interested in working with their partner for joint problem solving. Exit strategies are designed to force the supplier to solve the problems on their own. Voice strategies, on the other hand, signals that the buyer is committed to the relationship and is willing to share knowledge. As such, it signals a joint approach to problem solving.

Other scholars have used an evolutionary dispute resolution framework to understand problem solving. Rooks and Snijders (2001) reported on a study of 1252 information technology transactions requiring problem solving. They applied an evolutionary dispute resolution framework to analyse problem solving. The problem solving framework consists of four steps 1. Grief (discovering the problem); 2. Claim (making the grief known to the supplier); 3. Dispute 1 (imposing sanctions); and 4. Dispute 2 (involving third party). They found that suppliers were contacted in 94% of the problematic transactions, but only 1% led to third party involvement.

Similar strategies are found within the negotiation literature. A particular branch of the negotiation literature deals with integrative bargaining (Perdue & Summers, 1991), which is one of many strategies used in negotiation, the others being competing, compromising, avoiding, accommodating, etc. (Ganesan, 1993). In line with Helper's voice strategy, this strategy requires buyers and sellers to establish business arrangements, in the process the two parties exchange information and search for alternative solutions, thereby taking into account the requirements of both parties.

In addition to the studies mentioned above, the B2B literature on problem solving has incorporated another branch describing the degree to which the parties solve problems jointly, known as joint problem solving (Ellram & Pearson, 1993; Landeros & Monczka, 1989), interactive problem solving (Skarp & Gadde, 2007), shared problem solving (Heide & Miner, 1992), mutual problem solving (Bonoma & Johnston, 1978) and joint responsibility (Johnston et al., 2004). From an inter-firm perspective, this is perhaps the most important branch of the literature as inter-firm problems often affect both buyer and supplier but the resources required to solve the problem may not available to any one firm (Van de Ven, 1976). Alternatively, the opposite could be true. Handling problems, such as those associated with quality and delivery, are often discovered by the buyer, but the resources required to solve the problem are most likely found in the supplier. Resolution of these problems often requires an effort by both companies. Several studies have found that joint problem-solving is positively related to satisfaction and commitment (Bantham et al., 2003; Cai et al., 2009; Claro et al., 2003).

The end result of the aforementioned conflict-problem solving cycle is adaptation as discussed by Helfert (2002). Adaptation is defined in the literature as the "behavioral or structural modifications at the individual, group or firm level, carried out by one firm, which are initially designed to meet specific needs of another firm" (Brennan & Turnbull, 1998, pp. 31). Cannon and Perreault (1999) define adaptations as "investments in adaptation to process, product or procedures specific to the needs or capabilities of an exchange partner" (1999, pp. 443). They occur when one or both parties in the relationship adapt their processes, procedures or products to suit the other party. This can include one off investments or gradual adaptations over time (Håkansson, 1982). Adaptation focuses on elements that bond buying and selling firms together, including changes to products, production processes, production schedules, delivery routines, and administrative routines. In a manufacturing

context, firms can adapt information exchange, transportation, physical product handling and payment routines (Håkansson & Snehota, 1995). Adaptations connect the buyer and supplier within a closer relationship by encouraging commitment (de Ruyter & Semeijn, 2002; Hallén et al., 1991). When partners adapt processes and products or specialise their investments this adaptation creates value for the other firm (Cannon & Perreault, 1999; Powers & Reagan, 2007; Wilson, 1995), which creates a barrier of entry to other suppliers trying to enter into that relationship (Hallén et al., 1991). Based on the evidence above we assert that problem solving/interaction skills is an integral component of an inter-firm relationship health index (BHRI).

### **Organization and Structure**

Effective organisation and structure are required for the healthy operation of any B2B inter-firm relationship. This component of an inter-firm relationship covers the maintenance of interpersonal roles and subsystem boundaries; hierarchical functioning; coalitions and distribution of power, control, and responsibility;

The way a B2B inter-firm relationship is organized and structured is partly a function of the bargaining that occurs before the two organisations enter into the relationship. Before entering into a relationship, managers painstakingly assess the potential investment. They struggle to agree on equity positions, plants, and production/operational resource allocation. They formulate detailed schedules for sharing rewards and outputs of the relationship. In other words, they work diligently on the hard functional (legal, financial and operational) aspects of the relationship (Cullen et al., 2000).

After the relationship has formed one of the main tasks that the partners face is to manage the relationship. This is where the issue of governance becomes important. Governance structures in an inter-firm context are the formal and social mechanisms that regulate exchanges. Governance mechanisms exist due to exchange hazards, i.e. opportunism (Geyskens et al., 2006; Masten, 2000). They also exist as a mechanism to coordinate interdependent tasks (Gulati & Singh, 1998). A need for coordination exists when, in the pursuit of value, firms engage in collaboration which involves interdependent tasks. This creates a need for coordination and mutual adaptation (Thompson, 1967).

Governance in an inter-firm relationship is enacted through control. Control mechanisms are the mechanisms that are used align the partner's incentives and monitor and reward outcomes and behaviours (Dekker, 2004). Much of what is seen in the literature today, in terms of control, has its foundations in the works of William Ouchi (1979) and Kathleen Eisenhardt (1985). Ouchi (1979) was the first to suggest that there were two basic approaches to control – bureaucratic control (also known as formal control) and clan control (also known as social control). Formal control is based on rules, procedures and policies, while social control is based on values, beliefs and internalization of goals. Formal control can be divided into behavior controls and outcome controls, while social control can be divided into cultures and norms (Ouchi, 1979).

Outcome controls measure and monitor the outputs of operations, using techniques such as performance measurement and are said to be suitable in situations of high output measurability and low task programmability (Langfield-Smith & Smith, 2003). High output measurability implies that actual performance can be observed and that a value can be assigned to it. Low task programmability implies that the requirements to complete a task cannot be codified into a set of rules and standards and cannot be transmitted in the same way (Ouchi, 1979). In interfirm relationships, outcome controls specify the outcomes to be realized by the inter-firm relationship and by its partners. It involves setting performance targets, then monitoring the achievement of these targets. It also involves setting goals and objectives that determine the direction of task performance (Dekker, 2004).

Behaviour controls involve the establishment of a comprehensive system of rules and procedures (Williamson, 1980) and are said to be suitable in situations of low output measurability and high task programmability (Langfield-Smith & Smith, 2003). Low output measurability implies that actual performance cannot be observed and that a value cannot be assigned to it. High task programmability implies that the requirements to complete a task can be codified into a set of rules and standards and this task requirement can be transmitted in the same way (Ouchi, 1979). Typical behavior controls used in inter-firm relationships are planning, rules, standard operating procedures (SOPs) and dispute

resolution procedures (DRPs) (Gulati & Singh, 1998). Behavior controls also include reporting and checking devices (RCDs), written notice of any departure from the agreement, accounting examination (AE), cost control, quality control, arbitration clauses, and lawsuit provisions (Das & Teng, 1998, pp. 507). Another form of behavioural control are contracts. Contracts represent obligations to perform particular actions in the future. They specify the rights and responsibilities of all parties in an exchange, how those rights and responsibilities will change as the exchange evolves, and how violations of the terms of the contract will be managed (Macneil, 1978).

The discussion of social control focuses on culture and norms (Ouchi, 1979). For instance, organizational culture is defined as “a system of shared values...that define appropriate attitudes and behaviors for organizational members” (O’Reilly & Chatman, 1996, pp. 160). Organization culture is a form of control because it unifies the way organizational members process information and react to the environment. People who share a common culture share the same understandings and assumptions. Their actions are guided by shared values and beliefs which make them voluntarily behave in a manner desired by other members (Das & Teng, 1998). Norms are principles of “right action binding upon the members of a group and serving to guide, control, or regulate proper and acceptable behavior” (Macneil, 1980, pp. 38). The literature mentions several types of norms. Some common contract norms for relational exchange are those of flexibility, solidarity, mutuality, conflict resolution, restraint in the use of power, information exchange and long-term orientation (Macneil, 1980).

Many scholars have used Ouchi’s (1979) and Eisenhardt’s (1985) conceptual models to explicate their own research on control. One topic of interest has been the use of various forms of control to increase the performance of inter-firm relationships (Langfield-Smith and Smith, 2003; Zhang, Cavusgil & Roath, 2003). The empirical evidence in this line of research supports a link between relational capital and inter-firm performance (Sarkar et al., 2001; Lee & Cavusgil, 2006). There is also supporting evidence linking formal controls, social controls and performance (Cannon et al., 2000; Fryxell et al., 2002; Poppo & Zenger, 2002) and direct empirical evidence that certain forms of control are better at controlling than other forms of control (Hernandez-Espallardo & Arcas-Lario, 2008; Langfield-Smith and Smith, 2003). Based on the evidence above we assert that problem organisation and structure is an integral component of an inter-firm relationship health index (BHRI).

### **Emotional Climate**

It is commonly and perhaps erroneously thought that business to business (B2B) buyers and their suppliers are uncommonly rational. Indeed, much of the research into B2B relationships has focused on cognitive/rationalistic view of trust but ignoring the emotional aspects of human interaction. It is difficult to know if this logic is incorrect as little empirical work has been done on testing emotion in inter-firm relationships. For instance, Kuhn et al., (2008) state that the value derived from a B2B brand happens through the functional qualities of the product and the product performance features. Features can encompass after sales service, the size of the supplier's profits and lead times (Mudambi et al., 1997). What customers are interested in a B2B context is price, speed and efficiency (O’Boyle, 2009). This is linked to the idea that the purchasing process in the B2B context is more rational than emotional. But, what we do know is that professional reputations and careers can be made or lost by B2B purchases. According to O’Boyle (2009) the baseline to develop an emotion in B2B purchases is rational satisfaction, which comes from satisfying the customer’s needs in terms of product features, price, speed and efficiency. This helps to build loyalty and positive word of mouth.

In this paper we argue that a compatible emotional climate is required for the healthy operation of any B2B inter-firm relationship however, the meaning of emotional climate has remained somewhat elusive in the B2B literature. For instance, Williamson (1975) defined relationship atmosphere in terms of the relational norms, emotions and perceptions held that govern exchange activities. Andersen & Kumar (2006, p524) express emotion as “a high intensity affective state that is a product of the actors’ ability or inability to attain their goals”. Andersen & Kumar (2006, p524) point out that cognition, emotion and behaviour are linked in a feedback loop which can influence trust and buyer and supplier negotiating strategies. Different types of emotion can also affect behaviour at different levels of the organisation differently. For instance, fear can induce interaction withdrawal; anger can



induce hostility; disappointment and frustration could lead to aggression; strong and positive emotions could triumph over analysis leading to biased decisions (Andersen & Kumar, 2006). Tähtinen & Blois (2011) identify ten kinds of emotions in B2B relationships including four positive emotions: pride, attachment, empathy, and emotional wisdom. Alternatively, six negative emotions were highlighted including: guilt, shame, embarrassment, envy, jealousy, and social anxiety.

To be consistent with the overall framework of this paper when we refer to emotional climate we mean that component of an inter-firm relationship which covers how members of this B2B relationship feel about being a part of this relationship. It covers the tone and range of feelings experienced by the actors in an inter-firm relationship; quality of caring, empathy, involvement, and attachment/ commitment; sharing of values; mutual affective responsiveness, respect, and regard (American Psychiatric Association, 1994, p.758).

In support of the influence of emotion in B2B relationships Kumar (2008) and others showed that emotions do influence strategic alliances' development and their future. Emotions are important in mediating interpersonal interaction (e.g., Kumar, 1997; Lawler, 2001). Andersen & Kumar (2006, p523) also pointed out that a “lack of personal “chemistry” or negative emotions may also prolong trust building or terminate relationships.... The central argument is that emotions influence the development of trust with trust influencing subsequent interaction”.

However, creating emotion is more involved than this. To create an emotion, it helps for suppliers to instil a sense of confidence in their product, demonstrate a sense of integrity and create pride and passion around the brand and/or service offering. Emotion is driven by the belief that the supplier can and will produce tangible change for the buyer (O'Boyle, 2009).

Based on the evidence above we assert that the emotional climate is an integral component of an inter-firm relationship health index (BHRI). In addition, and from an overall BHRI perspective based on the evidence, this study predicts that:

*H1: BHRI is comprised of the three reflective components of problem solving/interactions skills; organisation and structure and the emotional climate*

## **THE EFFECT OF BRHI ON TRUST AND COMMITMENT**

Trust and commitment (Morgan & Hunt, 1994) are two of the most commonly investigated concepts in the inter-firm relationship literature. One may not think of them as such however, the idea that they possess a strong emotional component means that managers must take into account not only the rational and logical processes for building trust but also to building the emotional connections between the partners. These two concepts when put together are known as relationship capital. Developing relationship capital requires the partners to attend to and invest time and effort in building positive emotions. No matter how beneficial and logical the relationship is at the start, without trust and commitment, the relationship will either fail or not reach its full potential. Trust and commitment are therefore the social glue that hold relationships together (Madhok, 1995).

### *Trust*

Trust has received a great deal of attention from scholars in various fields, from social psychology (Lewicki & Bunker, 1996) and sociology (Lewis & Weigert, 1985) to organizational behavior (Zaheer et al., 1998), strategic management (Barney & Hansen, 1994) and economics (Williamson, 1993). Trust is defined as “an expectation held by an agent that its trading partner will behave in a mutually acceptable manner (including an expectation that neither party will exploit the other’s vulnerabilities)” (Sako & Helper, 1998, pp.388). From this point of view, trust is a state of mind that is based on the expectation that one’s trading partner will behave in a predictable and mutually acceptable way.

The empirical evidence shows that trust is positively linked to supplier performance (Ganesan, 1994; Brock-Smith & Barclay, 1997). There is supportive evidence positively linking formal contracts and exchange performance (Poppo & Zenger, 2002), supplier performance (Cannon et al., 2000) and joint

venture performance (Luo, 2002a). However, the same independent variable is also negatively linked to alliance success (Woolthuis et al., 2005). There is supportive evidence positively linking competence trust to supplier performance (Ganesan, 1994; Brock-Smith & Barclay, 1997; Sako, 1997) but weak supportive evidence positively linking goodwill trust to supplier performance (Brock-Smith & Barclay, 1997). Much of the empirical evidence negatively links goodwill trust to supplier performance (Ganesan, 1994; Sako, 1997). Based on the evidence, this study predicts that:

*H2: A positive relationship between BHRI and relationship trust in supplier performance in buyer-supplier relationships.*

*H3: A positive relationship between relationship trust and supplier performance in buyer-supplier relationships.*

### *Commitment*

Commitment has been defined as an enduring desire to maintain a valued relationship (Moorman et al., 1992). The basis of long-term commitments are the structural bonds between organizations and the strength of cooperative relationships between buyer and supplier. Commitment reflects the actions and values of key decision makers within the partnering organizations in regards to the continuation of the relationship, acceptance of joint goals and values of the partnership, and also willingness to invest resources in the relationship (Cullen & Johnson, 1995). It requires both partners to answer one simple question: Does my partner intend to stay in the relationship and put forth effort for the relationship to succeed? If the answer is yes, then there is a good chance that the partner committed to the relationship and also to its success.

Two main types of commitment are often discussed in the literature. The first type of commitment is instrumental which can be thought of as being rational. The second type is attitudinal which is linked to emotion (Becker, 1960; Mowday et al., 1982). All partnerships have an instrumental base. This is due to the underlying economic reasons for engaging in a partnership. Put simply, firms enter into a partnership for economic reward. This motive drives instrumental commitment. For a partnership to continue there must be a positive assessment of the costs and benefits of the partnership. In other words, managers expect to see returns. This is the rational and economic side of commitment known as calculative commitment. Commitment also has an emotional component. This requires the partners to psychologically identify with and internalize the relationship, i.e. to value it emotionally. It is based on feelings of identification, loyalty and affiliation (Gunlach et al., 1995). Giving emotional value to the relationship increases the chances that the partners are going to be willing to nurture and care for it. It gives both partners a feeling of pride in their association. They go beyond the contractual obligations by dedicating resources and facing risks all in an effort to make the relationship work. This type of commitment is known as attitudinal commitment. The empirical evidence shows that commitment is positively linked to supplier performance success (Lambe et al., 2002). Based on the evidence, this study predicts that:

*H4: A positive relationship between BHRI and relationship commitment in buyer-supplier relationships*

*H5: A positive relationship between relationship commitment and supplier performance in buyer-supplier relationships*

*H6: A positive relationship between relationship trust and relationship commitment in buyer-supplier relationships.*

A number of researchers have found a positive influence of trust on commitment (Cater and Zabkar, 2009; de Ruyter and Wetzels, 1999; de Ruyter et al., 2001; Geyskens et al., 1996; Gounaris, 2005). Trust and commitment are distinct concepts even though they are closely related in practice and are mutually reinforcing in inter-firm relationships. From the perspective of an individual partner firm, trust provides a foundation for commitment (Cullen et al., 2000).

## **THE EFFECT OF BRHI ON ESPRIT DE CORP**

A major challenge to interfirm relationships is the relationship manager's ability to obtain cross-functional co-operation and commitment both inside their own firm and in the partner firm (Salojärvi & Saarenketo, 2013). Esprit de corp is included in the discussion because of its emotional component. It is defined as "a set of enthusiastically shared feelings, beliefs, and values about group membership and performance" (Boyt et al., 2001, pp. 324). Very little has been written about esprit de corps in the marketing and/or inter-firm relationship literatures. However, what we do know about esprit de corps is that it is positively linked to the concept of market orientation. That is, market orientation is an antecedent of esprit de corps and market orientation drives firm performance. Thus, it is likely that a high level of market orientation leads to a sense of pride in belonging to an organization in which all departments and individuals work toward the common goal of satisfying customers (Jaworski & Kohli, 1993). Logically, this can be translated down to the interfirm relationship level. Thus, accomplishment of common goals fosters commitment which has a positive effect on the performance of interfirm relationships and performance. Based on the evidence, this study predicts that:

*H7: A positive relationship between BHRI and Espirit de Corp in buyer-supplier relationships*

*H8: A positive relationship between Espirit de Corp and relationship performance in buyer-supplier relationships*

## **THE EFFECT OF BHRI ON SATISFACTION**

Satisfaction/dissatisfaction arises when a consumer's subjective expectations are met/not met when evaluating a product or service (Oliver, 1996, p13). Satisfaction, or dissatisfaction, may also result from a summary cognitive and affective reaction to a service incident, or a long-term service relationship (Oliver et al., 1997). Satisfaction can comprise both cognitive (Westbrook, 1987) and affective responses (Yi, 1990, Clemes et al., 2008). While satisfaction is an important part of inter-firm relationships, it is not a sufficient condition for relationship continuance or provider loyalty (Hellier et al., 2003; Patterson & Smith, 2003, White & Yanamandram, 2004, Woisetschläger et al., 2011) and switching costs that play an important role in the propensity to stay with or change service providers (Han et al., 2011, Woisetschläger et al., 2011, Dagger & David, 2012). It is however, more likely that a satisfied buyer/supplier in an interfirm relationship will be less likely change partners, but that past some point of inflection, dissatisfied consumers are likely to seek alternative service providers (Stewart, 1998; Mittal & Kamakura, 2001, White & Yanamandram, 2004). Positive generalized perceptions of the marketplace are also likely to lead to greater satisfaction with a service provider, because of learning and spill-over effects. Based on the evidence, this study predicts that:

*H9: A positive relationship between BHRI and satisfaction in buyer-supplier relationships.*

*H10: A positive relationship between satisfaction and supplier performance in buyer-supplier relationships.*

## **THE EFFECT OF BHRI ON INTER-FIRM RELATIONSHIP PERFORMANCE**

It is reasonable to assume that when organisations implement their buyer/supplier and business partnering relationships they are seeking specific outcomes, generally relating to higher levels of operational, financial and competitive performance. These inter-firm relationships can be deemed to be successful in multiple ways. It seems reasonable to argue that in this context inter-firm relationship performance could be constructed from combining a variety of existing performance measures such as Kohli & Jaworski (1993) – i.e. improved overall business profitability; Dean & Terziovski (2001) – improved product/service quality, improved competitive advantage compared to our rivals and

improved buyer/supplier relationships; Zou, Taylor and Osland (1998) – i.e. this relationship/project has fully met our expectations. Based on the evidence, this study predicts that:

*H11: A positive relationship between BHRI and supplier performance in buyer-supplier relationships.*

It is also reasonable to assume that inter-firm relationships with a strong BHRI should be able to perform better than those that have a low BHRI. Given the link between market orientation and firm performance which has previously been demonstrated, internal market orientation is identified as a key enabling competency for market orientation and improved performance that must be given further consideration (Ahmed & Rafiq, 2003; Gilmore, 2000; Gilmore & Carson, 1996). Furthermore, one can argue that internal market orientation will also have an indirect influence on inter-firm relationship performance and be mediated by the functional capability of these relationships as defined by the BHRI.

## **METHODOLOGY**

### **Adaptation of the Original GARF**

The adoption of the template used to adapt the original General Assessment of Relationship Functionality (GARF) used in family therapy to a buyer/supplier and business partnering context requires adapting the personal context of the criteria in the template to a business context. Adaptions were made by the authors to the original GARF to make it suitable for a business context and then tested for face validity with five senior Australian marketing academics. The consensus of the marketing academics was that the adapted template faithfully represented the concept of relational functionality. The results of the adaptation comprising the three elements of the business relationship health index (BRHI) are identified in Table 1. In this context an adequate understanding of the BHRI can be employed to guide each partner (or external consultant/facilitator) in a business alliance/partnership/ buyer/supplier relationship as to the functional health of the relationship and to direct the remedy of relational problems so as to improve the performance of the relationship. The anticipated application of the BHRI would be for each of the partners to complete the template and identify any gaps in relational functioning of the relationship.

### **Data Collection and Sample Profile**

Data was collected from an on-line nationally representative (by state, age and gender) self-report administered business panel survey in the United States of 500 respondents aged 18 and over. The recruitment specification to the panel provider was as follows: age: 18+, representative nationwide distribution by state, industry spread - 80% service/ 20% other, position: owner managers/sales manager/marketing manager. A pre-recruited internet market research business panel operated by a well-known provider SSI was used to compile a sample for this study. Survey respondents invited to participate were pre-qualified to ensure that their knowledge of the B2B relationship was adequate to answer the survey questions. Each respondent received a small cash credit for completing the survey. According to the U.S. Small Business Administration (Lichtenstein, 2014) in 2012 only 36% of business owners are female and 64% male. Age distribution is skewed to business owners over 50: under 35 (15.9%), 35-49 (33.2%), 50-88 (50.9%). The structure of the actual sample was in line with US Census data (Lichtenstein 2014): gender (36.2% female, 63.8% male) and age distribution was skewed towards younger age groups (21.8% 18-29, 27.2% 30-39, 21.0% 40-49, 17.4% 50-59, 12.6% 60 plus) group.

### **Overall Measurement Approach**

The model identified in Figure 1 defines the hypothesised relationships between the Business Relationship Health Index (BHRI) and esprit de corp, trust, commitment, satisfaction and relationship performance. It may seem a little complex to include esprit de corp, trust, commitment and satisfaction in the model however, because it is a new measure one needed to be sure that it could be successfully linked in with well-established existing relationship measures.

Building on prior research the BHRI is constructed as a multi-dimensional construct comprising the three reflective components of problem solving/interactional skills, organisation and structure and the emotional climate. To test the BHRI template (Table 1) in a conventional sense for reliability the overall rating 81-100 in Table 1 was translated into a nine-point reflective scale comprised of the three domains identified above. Each of the three domains contains three behavioural items as shown in Table 1. Espirit de corp was measured by including five items from Jaworski & Kohli (1993). Relationship trust was measured by including three items from Helfert et al., (2002). Likewise, relationship commitment was measured by including six items from Helfert et al., (2002). Relationship satisfaction was measured by including three items from Cannon & Perreault (1999). Relationship performance was measured adapting an eight item reflective scale from Ashnai, Henneberg et al., (2016). All scales use a 5-point Likert-type scale from 1 (strongly disagree) to 5 (strongly agree).

### **Partial Least Squares Analysis (PLS)**

Partial least squares (PLS) path modelling was used to simultaneously estimate both the measurement and structural components of the model. The model shown in Figure 1 was analysed using PLS software WarpPLS (Kock, 2015). WarpPLS simultaneously estimates the parameters of the structural equation model and the psychometric properties of the measurement model. PLS is a component based structural equation modelling technique.

### **The Measurement Model**

Using the two step approach recommended by Anderson & Gerbing (1988), the measurement model was estimated before testing the hypothesized relationships among the latent constructs in a structural equation model. Measures for this study were developed by procedures as recommended by (Kline, 2000; Gefen & Straub, 2005), where all but two of the normalised factor loadings onto constructs had to be greater than 0.70 (Kline, 20005) and be significant (see Table 5). All items in each factor loaded correctly onto the appropriate variable (See Table 5).

To test for both convergent and discriminant validity all measures met the cut-off of 0.50 (see Table 3), for the average variance extracted (AVE) as recommended by (Fornell & Larcker, 1981). To test for convergent validity Cronbach Alpha reliabilities were estimated and found to be well above the recommended point of 0.700 and ranged from 0.787 to 0.907 (i.e. see Table 2 and Table 3).

To confirm that the different latent variables extracted a higher share of variance from their own indicators than from other latent variables we tested for discriminant validity among the various constructs. The square root of the average variance extracted (AVE) by each of the latent variables as shown in the diagonal is higher than the correlation between the latent variable and all the other latent variables (i.e. see Table 2). The results of the measurement model are satisfactory; therefore, we can proceed to evaluate the structural model.

Multicollinearity was also tested (i.e. see Table 3) through calculation of the variance inflation factors (VIF) between the variables and found to be within tolerance (Kock, 2015).

**Table 1 Business Relationship Health Index Template**

<b>Overall</b>	<b>Interactional/Problem Solving –</b> Skills in negotiating goals, rules, & routines; adaptability to stresses; communication skills; ability to resolve conflict	<b>Relationship Organisation –</b> Maintenance of interpersonal roles and subsystem boundaries; hierarchical functioning; coalitions and distribution of power, control, and responsibility	<b>Emotional climate –</b> Tone and range of positive/negative feelings; quality of support, empathy, involvement, and commitment; sharing of values; mutual affective responsiveness, respect, and regard.
<b>81-100 Overall: Very Satisfactory</b> Relational unit is functioning satisfactorily from self-report of participants and from perspectives of observers.	Agreed on patterns or routines exist that help meet the usual needs of each relationship member; there is flexibility for change in response to unusual demands or events; and occasional conflicts and stressful transitions are resolved through problem-solving communication and negotiation.	There is a shared undertaking and agreement about roles and appropriate tasks; decision-making is established for each functional area, and subsystem (e.g. account manager, inside sales, production, operations, etc.) of the relationship	There is a situationally appropriate, optimistic atmosphere in the relationship; a wide range of feelings are freely expressed and managed within the relationship; there is a general atmosphere of support and sharing of values among all relationship members.
<b>61-80 Overall: Somewhat Unsatisfactory</b> - Functioning of relational unit is somewhat unsatisfactory. Over a period of time, many but not all difficulties are resolved without complaints.	Daily routines are present but there is some discomfort and difficulty in responding to the unusual. Some conflicts remain unresolved but do not disrupt relationship functioning.	Decision-making is usually competent, but efforts at control of one another are often greater than necessary or are ineffective. Individuals and relationship responsibilities are clearly demarcated but sometimes a specific subsystem is depreciated or scapegoated.	A range of feeling is expressed, but instances of emotional blocking or tension are evident. Support and sharing of values are present but are marred by a relationship member's irritability and frustrations
<b>41-60 Overall: Predominately Unsatisfactory</b> - Relational unit has occasional times of satisfying and competent functioning together, but clearly dysfunctional, unsatisfying relationships tend to predominate.	Communication is frequently inhibited by unresolved conflicts that often interfere with daily routines; there is significant difficulty in adapting to relationship stresses and transitional change.	Decision-making is only intermittently competent and effective; either excessive rigidity or significant lack of structure is evident at these times. Individual needs are quite often submerged.	Disquiet or ineffective anger or emotional deadness interfere with relationship satisfaction. Although there is some empathy and support for relationship members, it is usually unequally distributed.
<b>21-40 Overall: Rarely Satisfactory</b> Relational unit is obviously and seriously dysfunctional; forms and time periods of satisfactory relating are rare.	Relationship routines do not meet the needs of members; they are grimly adhered to or blithely ignored. Life cycle changes, such as departures or entries into the relational unit generate discomfort, conflict, and obviously frustrating failures of problem solving.	Decision-making is autocratic/coercive or quite ineffective. The unique characteristics of individuals in the relationship are unappreciated or ignored by either rigid or confusingly fluid coalitions or decision-making.	There are infrequent periods of satisfaction when relationship members interact together; frequent distancing or open hostility reflects significant conflicts that remain unresolved and quite disheartening.
<b>1-20 Overall: Chaotic</b> Relational unit has become too dysfunctional to retain continuity of contact and attachment.	Relationship routines are negligible (e.g. no teamwork, meetings or interaction schedule); relationship members often do not know where others are or when they will be in or out; there is a little effective communication among relationship members.	Relationship members are not organised in such a way that personal or generational responsibilities are recognised. Boundaries of relational unit as a whole and subsystems cannot be identified or agreed on.	Negatives attitudes and cynicism are pervasive; there is little attention to the emotional needs of others; there is almost no sense of attachment, commitment or concern about one another's perspective.
<b>Your Overall Rating out of 100 =</b>	<b>Your Score for Interaction/Problem Solving out of 100 =</b>	<b>Your Score for Organisation out of 100 =</b>	<b>Your score for emotional Climate out of 100 =</b>
<b>Importance Weighting. Note Combined components must add to 100</b>	Rate the Importance weighting of this factor to your relationship = ___/100	Rate the Importance weighting of this factor to your relationship = ___/100	Rate the Importance weighting of this factor to your relationship = ___/100

**Table 2 Correlations among latent variables with square roots of AVEs**

Variable Name	RBHI	PERF	SATIS	Trust	Commit	Espirit
RBHI	0.758***					
PERF	0.734***	0.725***				
SATIS	0.659***	0.635***	0.763***			
Trust	0.693***	0.598***	0.753***	0.837***		
Commit	0.689***	0.625***	0.607***	0.610***	0.709***	
Espirit	0.691***	0.625***	0.630***	0.646***	0.647***	0.786***

Note: Square roots of average variances extracted (AVEs) shown on diagonal. RBHI=Relationship Business Health Index; PERF=Relationship Performance; SATIS=Relationship Satisfaction; Trust=Relationship Trust; Commit=Relationship Commitment; Espirit=Espirit de Corp; \* p<.05, \*\*p<.01. Overall: Complete sample N=500.

**Table 3 Composite reliability, Cronbach Alpha and AVEs, R Squared and Collinearity**

Variable Name/ Measure	RBHI	PERF	SATIS	Trust	Commit	Espirit
Composite Reliability	0.924	0.909	0.828	0.875	0.857	0.889
Cronbach Alpha	0.907	0.887	0.712	0.787	0.800	0.844
AVE	0.575	0.526	0.582	0.701	0.503	0.617
R-Squared Coefficients		0.600	0.449	0.481	0.513	0.489
Full Collinearity VIFs	3.244	2.489	2.755	2.856	2.275	2.381

Note: RBHI=Relationship Business Health Index; PERF=Relationship Performance; SATIS=Relationship Satisfaction; Trust=Relationship Trust; Commit=Relationship Commitment; Espirit=Espirit de Corp; VIF=Variance Inflation Factor; AVE=Average Variance Extracted

## RESULTS

### Correlation Analysis

The analysis of correlation coefficients (Table 2) partially explains the relationships between each of the variables in Figure 1. The Business Relationship Health Index (BHRI) is positively and significantly correlated to relationship performance, relationship satisfaction, relationship trust, relationship commitment and esprit de corp.

### Structural Model- Direct pathways

The PLS structural equation model was compiled using WarpPLS (Kock, 2015) with ordinary least squares (OLS) regression and bootstrapping. The findings in Figure 2 and Table 6 demonstrate the important influence of the Business Relationship Health Index (BHRI) in relationship performance. The findings demonstrate the validity of the BHRI measure reporting a Cronbach Alpha measure of 0.907 and a composite reliability measure of 0.924 thus supporting H1.

The results show that the BHRI shows a strong positive influences on relationship trust (H2:  $\beta=.694$ ) thus supporting H2. However, relationship trust has no direct statistically significant relationship with relationship performance (H3:  $\beta=.001$ ) thus not supporting H3. This is consistent with trust being a relationship mediating variable in line with the Morgan and Hunt (1994).

The findings support H4 which shows a positive relationship between BHRI and relationship commitment in buyer-supplier relationships (H4:  $\beta=.521$ ). In addition, the results show a small positive relationship between relationship commitment and supplier performance in buyer-supplier relationships (H5:  $\beta=.126$ ). In line with Morgan and Hunt (1994) there is support for the positive relationship between relationship trust and relationship commitment, thus supporting H6 (H6:  $\beta=.251$ ). Interestingly the results find a moderately positive relationship between BHRI and Espirit de Corp in buyer-supplier relationships thus supporting H7 (H7:  $\beta=.251$ ). Espirit de Corp also has a

small direct positive influence on relationship performance thus supporting H8 (H8:  $\beta=.115$ ). Some of the strongest results identify the positive relationship between BHRI and satisfaction in buyer-supplier relationships, thus supporting H9 (H9:  $\beta=.671$ ). The results show a smaller but significant level of support for H10 identifying a positive relationship between relationship satisfaction and supplier performance in buyer-supplier relationships (H10:  $\beta=.191$ ). Finally, the results show a moderate level of support for H10 identifying a positive relationship between BHRI and supplier performance in buyer-supplier relationships (H11:  $\beta=.447$ ).

Interestingly, the results show that the Business Relationship Health Index makes nearly three times the contribution to relationship performance (Table 6) with BHRI  $R^2$  contribution at 0.331 compared to relationship satisfaction  $R^2$  at 0.122.

To assess the importance of each of the three domains of the BHRI (i.e. interaction/problem solving, organisation, and emotion) from an index perspective respondents were asked separately how healthy they viewed their overall relationship with customer X, how important each of the three domains was to the relationship. The results in Table 7 show that the average respondent perception of relationship health for each BHRI component was around 80%. Interestingly, the most important BHRI component was interaction/problem solving (40.11%) followed by organisation (30.73%) and finally emotional climate not far behind at 29.16%. So for the first time this paper measures the contribution of the emotional climate using a common language approach.

**Table 4 Path coefficients and P values**

Variable Names	RBHI	SATIS	Trust	Commit	Espirit
RBHI					
PERF	0.447***	0.191***	0.001	0.126***	0.115***
SATIS	0.671***				
Trust	0.694***				
Commit	0.521***		0.251***		
Espirit	0.700***				

Note: RBHI=Relationship Business Health Index; PERF=Relationship Performance; SATIS=Relationship Satisfaction; Trust=Relationship Trust; Commit=Relationship Commitment; Espirit=Espirit de Corp; \*  $p<.05$ , \*\* $p<.01$ . Overall: Complete sample  $N=500$ .

Overall, the results of this study show how a comprehensive and holistic model of relationship functionality in family therapy can be successfully adapted and applied to understand the health of an inter-firm relationship.

In this context the model does a reasonably good job with predicting inter-firm relationship performance with an average  $R^2=.508$ , relationship performance  $R^2=.600$ , relationship satisfaction  $R^2=.449$ , relationship trust  $R^2=.481$ , relationship commitment  $R^2=.513$  and finally Espirit de Corp  $R^2=.489$ . The overall quality of the model is acceptable with the Tenenhaus goodness of fit index (GoF)=0.545 indicating a large GoF for model quality (small  $\geq 0.1$ , medium  $\geq 0.25$ , large  $\geq 0.36$ , Kock, N. (2015).



**Table 5 Combined Loadings and Cross Loadings**

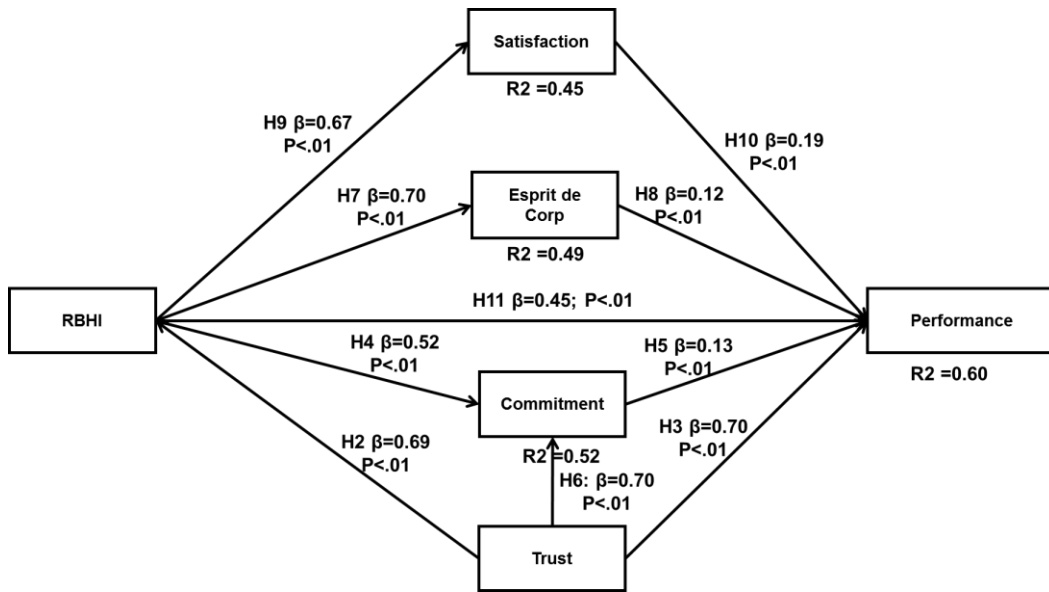
<b>Variable Names and Item Details</b>	<b>RBHI</b>	<b>PERF</b>	<b>SATIS</b>	<b>Trust</b>	<b>Commit</b>	<b>Espirit</b>
<b>Problem Solving/Interaction Skills</b>						
We have agreed on patterns or routines to help meet the usual needs of each relationship member	<b>0.73</b>	0.26	-0.07	0.24	-0.01	-0.14
We have flexibility for change in response to unusual demands or events	<b>0.76</b>	-0.02	-0.01	0.18	-0.04	-0.15
We resolve occasional conflicts and stressful transitions through problem- solving communication and negotiation.	<b>0.74</b>	-0.08	0.12	0.12	-0.07	-0.15
<b>Organisation and Structure</b>						
We have a shared undertaking and agreement about roles and appropriate tasks	<b>0.78</b>	0.02	-0.04	0.00	0.01	0.09
We have competent and effective decision-making processes for each functional area, and subsystem (e.g. account manager(s), inside sales, production, operations, finance, etc.) of the relationship	<b>0.74</b>	-0.02	-0.13	0.02	0.04	0.13
We appreciate the unique characteristics and merit of each subsystem (e.g. account manager(s), inside sales, production, operations, finance, etc.) in the relationship and their input into decision-making	<b>0.75</b>	0.09	-0.12	-0.10	0.00	-0.02
<b>Emotional Climate</b>						
We have a situationally appropriate, optimistic atmosphere in the relationship	<b>0.79</b>	0.04	0.22	-0.10	-0.11	-0.03
There are a wide range of feelings freely expressed and managed within the relationship	<b>0.73</b>	-0.15	-0.17	-0.10	0.16	0.20
There is a general atmosphere of empathy, support and sharing of values among all relationship members.	<b>0.80</b>	-0.13	0.16	-0.23	0.03	0.07
<b>Relationship Performance</b>						
We have helped reduce this customer's operating costs	0.02	<b>0.71</b>	0.01	-0.04	-0.08	0.06
We have helped improve this customer's processes	-0.03	<b>0.72</b>	0.05	0.21	-0.09	-0.09
We have helped this customer to increase their sales revenue	-0.14	<b>0.70</b>	-0.24	0.08	0.05	0.11
We have helped this customer to improve their competitiveness	0.03	<b>0.72</b>	-0.09	-0.13	0.02	0.14
The relationship with this customer helps our company to be more innovative.	0.07	<b>0.73</b>	0.02	-0.06	0.08	-0.11
The relationship with this customer helps our company to detect changes in end-user needs and preferences before our competitors' do	0.06	<b>0.75</b>	0.18	-0.16	-0.05	0.06
The relationship with this customer has a positive effect on our company's ability to develop successful new offerings.	0.11	<b>0.73</b>	0.19	0.13	-0.10	-0.23
The relationship with this customer contributes to our company's achieving a higher overall profitability	-0.12	<b>0.72</b>	-0.23	0.01	0.27	0.07
The relationship with this customer helps our company to improve its competitiveness	0.01	<b>0.74</b>	0.09	-0.02	-0.09	-0.01

**Table 5 Combined Loadings and Cross Loadings Continued**

Variable Names and Item Details	RBHI	PERF	SATIS	Trust	Commit	Espirit
<b>Relationship Satisfaction</b>						
Overall, we are satisfied in our relationship with customer X.	-0.05	0.13	<b>0.86</b>	-0.06	0.06	0.03
We are pleased with what we do for customer X.	0.00	-0.02	<b>0.88</b>	0.13	0.03	0.03
If we had to do it again, we would still choose to conduct business with customer X.	0.01	-0.06	<b>0.87</b>	-0.09	0.07	0.03
<b>Relationship Trust</b>						
This customer believes we are trustworthy	-0.13	0.02	0.24	<b>0.82</b>	-0.08	0.08
This customer knows that they can count on our support in important matters.	0.06	-0.03	-0.08	<b>0.86</b>	0.05	-0.09
This customer trusts us when we conduct activities they cannot perform on their own.	0.07	0.01	-0.15	<b>0.84</b>	0.02	0.01
<b>Relationship Commitment</b>						
We are very committed to this customer.	-0.09	0.08	0.60	0.32	<b>0.58</b>	-0.20
This customer regards our current collaboration as part of a long-term relationship.	0.12	-0.01	0.41	0.19	<b>0.67</b>	-0.07
This customer is willing to accept short-term disadvantages in order to maintain our relationship.	-0.10	-0.02	-0.21	-0.17	<b>0.71</b>	0.02
This customer is willing to invest time and money in order to work together with us in the long run.	0.12	-0.07	0.04	-0.06	<b>0.81</b>	0.03
This customer would not do business with others at our expense.	-0.10	0.04	-0.36	-0.05	<b>0.70</b>	0.18
This customer puts the long-term cooperation with us before his short- term profit.	0.02	0.00	-0.33	-0.14	<b>0.77</b>	0.01
<b>Espirit de Corp</b>						
People in this business unit are genuinely concerned about the needs and problems of each other.	-0.19	0.09	0.03	0.31	-0.04	<b>0.72</b>
A team spirit pervades all ranks in this business unit.	0.01	0.04	0.09	-0.10	0.05	<b>0.83</b>
Working for this business unit is like being a part of a big family.	-0.04	0.02	0.01	0.04	-0.01	<b>0.82</b>
People in this business unit feel emotionally attached to each other.	0.16	-0.16	-0.14	-0.18	0.09	<b>0.78</b>
People in this organization feel like they are "in it together."	0.05	0.02	0.00	-0.04	-0.10	<b>0.78</b>

**Note:** Loadings and cross-loadings shown are after oblique rotation and Kaiser normalization. Note: RBHI=Relationship Business Health Index; PERF=Relationship Performance; SATIS=Relationship Satisfaction; Trust=Relationship Trust; Commit=Relationship Commitment; Espirit=Espirit de Corp; \* p<.05, \*\*p<.01. Overall: Complete sample N=500.

**Figure 2 PLS Results**



**Table 6 R-squared contributions**

Variable Names	RBHI	SATIS	Trust	Commit	Espirit	Total
RBHI						
PERF	0.331	0.122	0.001	0.079	0.072	0.604
SATIS	0.450					0.450
Trust	0.482					0.482
Commit	0.362		0.153			0.515
Espirit	0.490					0.490

Note: RBHI=Relationship Business Health Index; PERF=Relationship Performance; SATIS=Relationship Satisfaction; Trust=Relationship Trust; Commit=Relationship Commitment; Esprit=Esprit de Corp; \*  $p<.05$ , \*\* $p<.01$ . Overall: Complete sample N=500.

**Table 7 Contribution to inter-firm relationship performance**

BHRI Variables	Min Value	Max Value	Average Value	Standard Deviation	Importance Factors %	Overall BHRI Weight
Health of Interaction/Problem Solving	2.00	100.00	79.98	18.37	40.11	32.08
Health of Relationship Organisation	13.00	100.00	79.01	18.62	30.73	24.28
Health of Emotional Climate	7.00	100.00	79.50	17.76	29.16	23.18
					100.00	79.54
Overall Health of your Relationship	8.00	100.00	80.44	17.30		

Note: Respondents were asked to rate on a score of 1-100 how healthy their relationship with firm X in relation to interaction/problem solving, organisation, and emotion. They were also asked to rate important to the relationship were each of the three factors. In addition, each respondent was asked to provide a score for the overall health of the relationship.

## DISCUSSION AND IMPLICATIONS

This paper seeks to present and test a conceptual model designed to focus attention on the interfirm behaviours which influence the performance of inter-firm relationships. In this paper we adapted a family therapy model devised in psychiatry to investigate the relationships between the Business Relationship Health index (BRHI) and inter-firm relationship performance. The model in Figure 1 was empirically tested in a cross-sectional survey of 500 American businesses. It shows how the BRHI combined with relationship satisfaction can predict inter-firm relationship performance with an  $R^2 = 0.604$ . In terms of contribution however, the BRHI has nearly three times more influence on relationship performance than relationship satisfaction (see Table 5).

What is also clear is that the emotional climate in a B2B inter-firm relationship also has a significant part to play in the overall health of an inter-firm relationship and is deemed to be as nearly as important as the organisational aspects of the inter-firm relationship. This paper clearly shows that there is a direct positive relationship between healthy inter-firm relationships and inter-firm relationship performance. From a measurement perspective the paper shows that the weighted average BRHI and the overall average BRHI are very close.

The implications of this research mean that both buyers and suppliers can now easily measure the health of their B2B relationship and prioritise investments in the B2B landscape based on the nature of their relationship and the extent to which that relationship constitutes the most important part of their target market.

A primary reason for adapting the GARF template from family therapy from an inter-personal context to an inter-firm context is to provide scholars and practitioners with a holistic view of the health of their inter-firm relationships. It provides scholars and practitioners with a diagnostic tool and a road map, helping them to identify the strengths and weaknesses of their relationship. Based on this score card inter-firm relationships can be ranked and evaluated in a particular category or a combination of categories. Relationships with low scores, i.e. those on the verge of failure, (i.e. a BRHI score between 41-60) can be identified and receive immediate attention. Relationships with high scores, i.e. those indicating a healthy relationship (i.e. a BRHI score between 81-100), can be further deepened.

In any case, the results will show the extent to which the B2B relationship is healthy or needs repair, re-evaluation, re-commitment, re-connection or re-positioning. When an organisation looks closely at its relationships, and considers possible changes, it becomes more buyer-centric. It starts to engage in activities that improve the health and quality of the relationship.

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