

INTERNATIONAL BUSINESS ADAPTATION: A STUDY ON THAI EXPORTERS

by

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Abstract

This study uses multiple regression analysis to examine credibility and benevolence of manufacturers as determinants of industrial buyer's commitment which, in turn, leads to this party's business adaptation in an international relationship. Results based on a sample of one hundred Thai industrial exporters reveal positive relationships between hypothesized variables i.e. benevolence, credibility and commitment, commitment and business adaptation. By using split-group analysis and Chow-test, moderating effects of environmental volatility and degree of asset specificity on commitment-adaptation, relationships were found.

INTRODUCTION

The purpose of this paper is to contribute to a more comprehensive understanding of international buyer-seller relationship by analyzing commitment of supplier in a trusting relationship as a determinant of this party's business adaptation. In defining trust, we follow Doney and Canon (1997) by conceptualizing trust as a multidimensional construct consisting of cognitive (credibility) and behavioral (benevolence) component. The former aspect of trust is derived from the confidence in customer's reliability, integrity and trustworthiness whereas the latter is related to the behavioral intentions and motivations, i.e. goodwill, of the exchange party. Based on previous literature on Social Exchange Theory, we posit that suppliers who trust in their customers will commit to the exchange relationship. Furthermore, by drawing on Transaction Cost Analysis, interfirm business adaptation can be viewed as transaction-specific investments, which require some kind of safeguarding mechanisms. According to this theoretical line of reasoning, therefore, we hypothesize a positive relationship between commitment and interfirm business adaptation. Finally, because interfirm adaptation is a situation-specific investment, we examine a moderating effect of asset specificity and

external uncertainty on commitment-adaptation relationship.

The contribution of this paper is threefold. Firstly, it is the first time that interfirm adaptation is explicitly conceptualized as a consequence of relationship commitment. Secondly, with few exceptions (e.g. Chow and Holden, 1997; Kalwani and Narayandas, 1995), most studies on buyer-seller relationship have focused on the principal or customer whereas this study is conducted from the supplier's perspective. The final contribution is related to the level of analysis of the study. The unit of analysis here is an individual export venture of the firm. That is, exporting of a particular product to a particular customer in a single foreign market. In doing so, the researcher believes that a more precise picture of the decision about business adaptation can be acquired.

Focal Constructs

Trust. As marketing theory and practice have shifted toward building long-term relationships with trading partners (Dwyer, Schurr and Oh, 1987; Kotler, 1991; Webster, 1992), the notion of trust has assumed center stage in this paradigm (Madhok, 1995; Morgan and Hunt, 1994). It is recognized as an essential ingredient for developing and maintaining long-term relationships in a business environment (Morgan and Hunt, 1994; Williamson, 1985;

Anderson and Narus, 1990) because it facilitates constructive dialogue and cooperative problem solving (cf. Pruitt, 1981). As a complex construct, trust has different meanings for different researchers and has been operationalized in many different ways. For instance, trust is defined as “a willingness to rely on an exchange partner in whom one has confidence” (Moorman, Zaltman and Deshpande, 1993, p. 82) whereas Thorelli (1986) contends that trust is the assumption that partners will fulfill their transactional obligations. Based on a study on working relationship, Anderson and Narus (1990, p. 45) defined trust as “the firm’s belief that another company will perform actions that will result in positive outcomes for the firms, as well as not take unexpected actions that would result in negative outcomes for the firm.”

However, most conceptualizations of trust, regardless of their source, pivot on two dimensions—cognitive and behavioral component. The cognitive component is derived from confidence in the reliability of a partner whereas the behavioral component is derived from confidence in the intentions, motivations or benevolence of a partner (Moorman, Zaltman and Deshpande, 1993; Ring and Van de Ven, 1992; Morgan and Hunt, 1994). In relationship marketing literature, trust is found to exist when both the cognitive component and the behavioral component are present (Morgan and Hunt, 1994). In this study, therefore, we follow Doney and Canon’s (1997) operationalization that was drawn on social psychology literature (Larzelere and Huston, 1980) and marketing (Ganesan, 1994; Kumar, Scheer and Steenkamp, 1995). According to Doney and Canon (1997), trust is a multidimensional construct and consists of two important aspects—credibility and benevolence. These authors determine the first dimension of trust as focus on the objective credibility of an exchange partner, an expectancy that their word or written statement can be relied on whereas benevolence refers to the extent to which one partner is genuinely interested in the other partner’s welfare and motivated to seek joint gain (Doney and Canon, 1997, p. 36). Based on this, credibility of the customer is the degree of confidence of the supplier which results from the belief that the customer is trustworthy and has high integrity. For benevolence, it focuses on the motives and intentions of customer rather than a specific behavior. In other words, customers who are

concerned with the outcomes of suppliers along with their own will be trusted to a greater extent than customers who are interested solely in their own welfare (Ganesan, 1994).

Commitment. Similar to trust, commitment is recognized as a critical component of any successful long-term relationship (Dwyer, Schurr, and Oh, 1987; Morgan and Hunt, 1994) and has been studied extensively in previous literature, for example, social exchange (Cook and Emerson, 1978), marriage (Thompson and Spanies, 1983), organization (Meyer and Allen, 1984) and marketing (Morgan and Hunt, 1994; Anderson and Weitz, 1992; Gundlach, Achrol and Mentzer, 1995; Moorman, Zaltman and Deshpande, 1992). It is also found to be associated with motivation and involvement (Mowday, Porter and Steers, 1982), positive effect and loyalty (Kanter, 1972), and the development of social norms of governance (Macneil, 1980). As such, relationship commitment is more than a simple, positive evaluation of the other party based on a consideration of the current benefits and costs associated with the relationship (Anderson and Weitz, 1992). Rather, it implies the adoption of such long-term orientation as willingness to make short-term sacrifices to realize long-term benefits from the relationship (Dwyer, Schurr and Oh, 1987).

In terms of conceptualization, commitment, as another complex construct, is defined in a number of different ways. For example, Morgan and Hunt (1994, p. 23) define relationship commitment as *an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it*, whereas Dwyer, Schurr, and Oh (1987, p. 19) determine this construct as an implicit or explicit pledge of relational continuity between exchange partners. This former definition of commitment is similar to that of Moorman, Zaltman, and Deshpande (1992, p. 316), who defined relationship commitment as *an enduring desire to maintain a valued relationship*. In support of the notion that commitment is a complex and multidimensional construct, Gundlach, Achrol, and Mentzer (1995) argue that commitment has three components: an instrumental component of some form of investment, an attitudinal component that may be described as effective commitment or

psychological attachment, and a temporal dimension indicating that the relationship exists over time. In this study, however, we believe that relationship commitment is theoretically a multidimensional construct. As such, following previous literature, commitment involves a willingness to make short-term sacrifices to strengthen a relationship (Dwyer, Schurr and Oh, 1987), which may be made through restricting the search for alternatives and foregoing better short-term options in favor of investing in an ongoing relationship (Cook and Emerson, 1978).

Business Adaptation. The literature on adaptation can be traced back to the study of biology, human and cultural ecology, organization theory, strategic management and marketing (see Hallen, Johanson and Seyed-Mohamed, 1991 for a review). In marketing literature, however, the studies of adaptation can be classified into two research streams namely the marketing mix perspective and the interaction approach of relationship marketing. From the marketing mix perspective, the studies of standardization and adaptation have focused on the adaptation of marketing variables such as marketing strategy, manufacturing, product and packaging, promotion and distribution—see Aaby and Slater (1989), Evangelista (1996) and Madsen (1987) for extensive reviews. The main arguments for standardization are based on the concept of economies of scale i.e. reduced costs and increased income (Jain, 1993; Levitte, 1983; Porter, 1980). In contrast, the arguments for adaptation rely on the theory of friction, flexibility and price discrimination (Shoham, 1996). In other words, the supporters of adaptation explicitly agree with the view that differences among markets exist. Based on this marketing mix perspective, most empirical studies have investigated the relationship between degree and extent of standardization/adaptation with such variables as product characteristic, cultural factors, experience i.e. business and international experience, and management and organization characteristics.

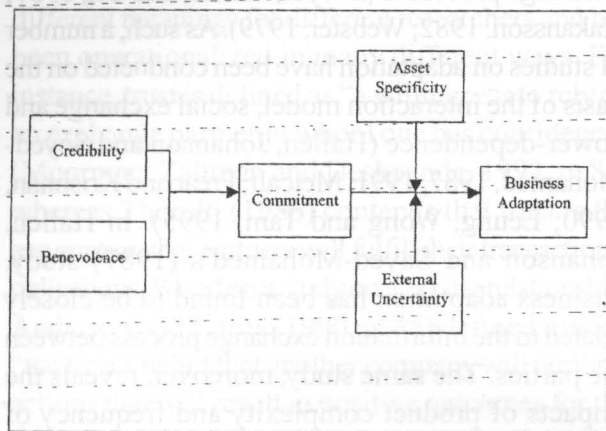
Another research stream of adaptation is derived from the interaction approach, which views business to business relationship as close, complex, long-term oriented, interdependent and mutual benefits (Ford, 1980, 1984; Rosson and Ford, 1982; Dwyer, Schurr and Oh, 1987). The studies of adaptation in relationship marketing are based on

previous literature, which suggests that business relationships can be viewed as interacting and ongoing exchange processes (Dwyer, Schurr, and Oh, 1987; Hakansson, 1982; Webster, 1979). As such, a number of studies on adaptation have been conducted on the basis of the interaction model, social exchange and power-dependence (Hallen, Johanson and Seyed-Mohamed, 1987, 1991; Metcalf, Frear and Krishnan, 1990; Leung, Wong and Tam, 1995). In Hallen, Johanson and Seyed-Mohamed's (1987) study, business adaptation has been found to be closely related to the information exchange process between the parties. The same study, moreover, reveals the impacts of product complexity and frequency of product exchange on interfirm adaptation as well as such consequences as relationship stability and strength have also been founded. The same authors' later study in 1991, however, was focused on the nature of interfirm adaptation i.e. unilateral or reciprocal, and its directions i.e. adaptation of production process, product and production planning, by utilizing the power-dependence model. Based on the interaction model, Metcalf, Frear and Krishnan (1990) found that the exchange of information and interpersonal contacts stimulate a co-operative environment, which leads to mutual adaptation of the exchange parties where as Leung, Wong and Tam's (1995) conclude that information exchange and mutual expectation are important factors affecting business adaptation between Hong Kong and Chinese companies.

As this study is an investigation of business relationship between organizations, i.e. supplier and customer, the concept of adaptation is borrowed from the relationship marketing perspective. According to this approach, the relationship in business market is close and long-term oriented and a large percentage of supplier's sales or customer's needs may be derived from the business in such relationship. As such, adaptation, here, refers to the extent of business adaptation of the supplier for the needs of a particular customer i.e. adaptation of production process and procedures, to enhance either initial fit or business expansion between parties.

Hypotheses Formulation

Figure 1 The Conceptual Framework



Trust and Commitment

According to relationship marketing literature, an ultimate goal of business marketers is to build long-term relationship with customers or suppliers to become competitive in rapidly changing environments. In developing and maintaining collaborative relationships between organizations, a critical ingredient which plays an important role in regulating such relationships is trust (Anderson and Narus, 1990; Dwyer, Schurr and Oh, 1987; Morgan and Hunt, 1994). Once trust is established, parties realize that the outcomes of coordination will exceed what they could achieve by acting alone (Anderson and Narus, 1990). Thus, trust has been postulated as “the cornerstone of the strategic partnership” (Spekman, 1988, p. 79) and any relationship characterized by trust is so highly valued that the exchange partners are willing to commit to such relationship (Hrebiniak, 1974). The notion that trust is a major determinant of relationship commitment has gained strong support from a number of studies (Morgan and Hunt, 1994; Doz, 1988; Achrol, 1991; Dwyer, Schurr and Oh, 1987; Barbarino and Johnson, 1999). This causal relationship is explained in the social exchange theory through the principle of generalized reciprocity, which holds that “*mistrust breeds mistrust and as such would also serve to decrease commitment in the relationship and shift the transaction to one of more direct short-term exchanges*” (McDonald, 1981, p. 834). However, as trust is a multidimensional construct, both dimensions should be considered in examining its consequence. For the credibility, high customer’s

credibility in terms of reliability, integrity and competency means supplier has a great belief that his/her words or statements can be relied on. A supplier is more likely to trust in and, consequently, to commit to a customer who has high credibility. Regarding the benevolence, customers who explicitly expressed their concern over a supplier’s welfare would motivate that party’s willingness to conduct business with. As the supplier believes that the customer cares for his/her interest and welfare, this particular exchange party would be willing to be committed to the relationship. Therefore, following previous literature, we posit that;

H1: In an industrial market, customer’s benevolence is positively related to relationship commitment of supplier.

H2: In an industrial market, customer’s credibility is positively related to relationship commitment of supplier.

Commitment and Business Adaptation

As commitment implies the degree of long-term orientation, exchange parties are willing to make short-term sacrifices to strengthen a relationship and confine searching for other alternatives (Dwyer, Schurr, and Oh, 1987; Cook and Emerson, 1978). From the supplier’s point of view, this can be made through investing in an ongoing relationship with the customer, for example, adapting the firm’s production process or customizing the product for a customer’s needs. This business adaptation demonstrates the credibility, reliability and willingness to commit to the relationship of the parties (Ford, 1980; Anderson and Weitz, 1992). Supportedly, Gundlach, Achrol and Mentzer (1995) argue that an investment for a specific relationship can be viewed as an instrumental component of relationship commitment. Empirically, the willingness to customize in terms of investment in specific equipment or production process was found as source of buyer trust in supplier credibility (Doney and Cannon, 1997). Similarly, Ganesan (1994) found that business-specific investment is a proof of supplier’s credibility and demonstrates its care for the relationship. In international relationship, the need to demonstrate credibility is even more acute due to the effects of cultural differences between parties. The need for cultural sensitivity requires the firm to make substantial

investment to signal commitments in the relationship and to suggest that it cares about the partner (Johnson et al., 1996). From a transaction cost perspective, as interfirm adaptation is a transaction-specific investment, trusting relationships provide a safe environment for safeguarding those assets. Reasonably, because of bounded rationality of human beings and the cost of writing, negotiating and implementing, a comprehensive contract involving a long-term relationship is not possible (Williamson, 1985). Therefore, this leads us to hypothesize that:

H3: In an industrial market, the commitment of supplier is positively related to business adaptation of this exchange party.

Moderating Variables

Asset Specificity

According to Williamson (1979, 1985), asset specificity refers to the transferability of the assets that support a given transaction, which include such investments as specialized knowledge, physical capital and working relationships built up over time by the exchange party. However, this construct here refers to the degree to which durable and/or transaction-specific assets i.e. physical and human assets, are required by supplier to support the transaction. This conceptualization of asset specificity is adapted from that of Klein, Frazier and Roth (1990). Because the investments are transaction-specific, from transaction cost analysis, those assets thus are nonredeployable and can lose substantial value unless the relationship is continued (Anderson and Weitz, 1992). As such, in making business adaptation to a particular relationship, the risk of opportunistic behavior of exchange partner, which is typically conceptualized as being the opposite of trust (Morgan and Hunt, 1994; Parkhe, 1993), is involved. For instance, the investment of supplier in idiosyncratic assets specific to a relationship with customer creates a dependence situation which Klein, Crawford and Alchian (1978) named—"hold-up problem", which could be exploited by the exchange partner. Therefore, the greater degree of asset specificity needed to support the transaction would lead the supplier to become more dependent on a particular customer. Thus, asset specificity is an important factor for a

supplier in deciding whether to hold-up in a particular relationship. Hence, it could be expected that:

H4: In an industrial market, asset specificity will have negative moderating effect on relationship between commitment of supplier and business adaptation of this exchange party.

External Uncertainty

External uncertainty has long been recognized as an important construct in organization theory, marketing and strategic management. Organizational structures and processes have been found to be considerably influenced by perceived external uncertainty of the management (e.g. Huber, O'Connell and Cummings, 1975; Huber and Daft, 1987). This important concept has been previously defined as a unidimensional until, recently, researchers have questioned this conceptualization (Milliken, 1987; Tosi and Slocum, 1984). However, external uncertainty is a broad concept to be treated unidimensionally, that is different aspects of external uncertainty may have different impacts on organizational decision-making (Klein, Frazier and Roth, 1990). Though there are a number of operationalizations available in the literature, the authors follow Klein, Frazier, and Roth's (1990) concept of external uncertainty. According to these authors, in agreement with Leblebici and Salancik (1981), external uncertainty consists of two dimensions—the volatility and the diversity of the environment. The rationale of selecting this operationalization is based on the context of this study, which is an international setting in which complexity is likely to be a greater concern (Rindfleisch and Heide, 1997).

Recall that Transaction Cost Analysis posits that adaptation of supplier to a particular customer can be viewed as a situation-specific investment. This investment decision will obviously have a considerable impact on the organization's structures and processes. For instance, to "hold-up" with an existing customer can reduce a supplier's transaction cost in terms of reducing discretionary expense i.e. selling, general and administrative overhead costs (Kalwani and Narayandas, 1995). In contrast, being committed to a few selected customers may reduce the supplier's flexibility for other alternatives. As the decision to invest in a situation-specific is crucial for the firm, external uncertainty then comes into

play. However, as external uncertainty is a multidimensional construct, we posit that different aspects of environmental uncertainty have different impacts on business adaptation of supplier. Firstly, the volatility, which refers to the extent to which the environment changes rapidly (Leblebici and Salancik, 1981), is expected to make the future outcome difficult to predict. Because of this difficulty, it is impossible to write a complete contract between parties which, in turn, would result in high transaction cost in terms of opportunistic behavior. As such, a supplier would be better off by adapting to strengthen long-term relationship with existing customers. Secondly, diversity, which refers to the extent to which there are multiple sources of uncertainty in the environment (Aldrich, 1979) i.e. many customers, final users and competitors, require supplier to become more flexible to cope with different demands. In such case, a supplier is more likely to maintain a degree of flexibility by not (less) adapting to only few selected customers. Thus, this argument leads us to believe that;

- H5: In an industrial market, volatility of external environment will have positive moderating effect on the relationship between commitment of supplier and business adaptation of this exchange party.
- H6: In an industrial market, diversity of external environment will have negative moderating effect on the relationship between commitment of supplier and business adaptation of this exchange party.

Methodology

Data Collection

The main purpose of our study is to test hypothesized positive relationship between trust-commitment and commitment-business adaptation, as well as to analyze impacts of environmental uncertainty and asset specificity on commitment-adaptation of supplier. As mentioned previously, the unit of analysis is export venture of the firm that is the exporting of a particular product to a particular foreign customer by a particular firm. As such, any informant who is responsible for more than one export venture may complete more than one set of questionnaire. The names and contact address of potential participants were acquired from the

Thailand’s Board of Trade directory. By applying a key informant methodology, respondents were initially screened by telephone and only those participants who had actual contact with the customer i.e. marketing manager, sales manager, export manager, and willing to participate in the study, were asked to complete the questionnaires. The informants were not selected at random from each organization, rather, they were deliberately selected as key informants by virtue of their positions within the firm. Our criteria for informant selection is based on Campbell (1955) who proposes criteria of being knowledgeable about the phenomenon under study as well as being able and willing to communicate with the researcher. In addition to knowledge and willingness, the organizations selected needed to have direct exchange relationship with the customers, not only their parent companies and/or affiliations.

On the basis of the telephone contact, 100 informants who met the criteria and consented to participate were included in the survey. With the exception of commodity products, the sample consisted mainly of export ventures from electrical equipment and components, automotive products and industrial chemicals industries. As the questionnaire required about two hours for completion, a personal interview was conducted for each participant in order to clarify any doubts about the questions. At the time of interviewing, a cover letter printed on university stationery from the researcher explaining the purpose of the study and the confidentiality of the responses was presented to informants. A general description of the sample is presented in Table 1.

Table 1 Sample Description

Items	Percentage
<i>Organizational characteristic</i>	
Length of relationship (mean = 6.88 years)	
less than 5 years	43
5 to 10 years	41
10 to 15	9
more than 15 years	7
Export intensity (mean = 53085)	
less than 25%	16
25% to 50%	38
51% to 75%	19
over 75%	27
Turnover of company in \$US (mean = 44.17)	

less than 1 million	4.1
1 million to 4.99 million	21.6
5 million to 9.99 million	11.4
10 million to 100 million	53.6
over 100 million	10.3
Product classification	
raw material	40.0
semifinished	15.0
component	42.0
minor equipment	1.0
heavy equipment	2.0
Respondent's Characteristics	
Business experience (mean = 16.32 years)	
less than 10 years	12.0
10 years to 15 years	38.0
16 years to 20 years	30.0
over 20 years	20.0
International experience (mean = 10.05 years)	
less than 5 years	12.0
5 years to 10 years	54.0
11 years to 15 years	25.0
over 15 years	9.0
Length of involvement in relationship (mean = 5.18 years)	
less than 5 years	54.0
5 years to 10 years	39.0
over 10 years	7.0

Operational Measures

Supplier adaptation was measured in terms of business adaptation items which were indicated by the questions: *what changes have been made by your company (or by the intermediary on your behalf) to adapt to the customer or his product or procedures..* Respondents were asked to rate 1-5 Likert-like scale ranging from no adaptation to very large adaptation. Credibility and benevolence, adapted from Doney and Cannon (1997), by which each variable is represented by multiple item scale measured trust, as a multidimensional construct. Regarding the commitment of supplier, four items were initially developed to measure this construct in terms of behavior and intention. Finally, the degree of asset specificity and environmental uncertainty, both were adapted from Klien, Frazier and Roth (1990), were measured by multiple items (1-5 scale), which captured the aspects of each construct.

Assessment of Multiple-Items Measures

After the data collection, the proposed measures were purified by assessing the *item-to-total* correlation for items in each proposed scale and items with correlation lower than 0.5 were

deleted (Hair et al., 1998). This results in the deletion of one item measuring asset specificity, two items for supplier adaptation and two items for environmental volatility, from the analysis. The remaining items were then factor analyzed by using a varimax rotation to confirm the underlying dimensionality. The result of factor analysis indicated that one item of both asset specificity and environmental diversity, which are not presented here, should be dropped from further analysis because these items, though appearing to be reliable with the scale, did not reflect the construct based on content validity. The factor loadings after a varimax rotation are reported in Table 2. It can be seen that all items load on only a single factor, which reveals the unidimensionality of the constructs. However, to ensure the unidimensionality, all measurement scales were then purified through confirmatory factor analyses using AMOS 3.61 (Arbuckle, 1997—Table 3). Evidence of each measure's reliability and with-in construct validity is described below.

For the credibility and benevolence, a seven-item measure was tested as a two-factor model with an acceptable fit (Chi-square = 68.65 with 19 degrees of freedom; $p = 0.00$; GFI = 0.87; AGFI = 0.74; CFI = 0.83; RMR = 0.08). The four-item measurement of commitment was tested by a single-factor model and confirmatory factor analysis provided a good fit (Chi-square = 3.87 with 2 degrees of freedom; $p = 0.14$; GFI = 0.98; AGFI = 0.91; CFI = 0.98; RMR = 0.06). The eight-item of business adaptation resulted in a single-factor model with a good fit (Chi-square = 34.43 with 20 degrees of freedom; $p = 0.02$; GFI = 0.93; AGFI = 0.87; CFI = 0.94; RMR = 0.11). Next, Table 4 presents the estimates, standardized estimates and the critical ratio of each construct and its predictors. Clearly, the confirmatory factor analysis provides support for the multiple-measure scales of this study. However, to evaluate any need for modification of the models, the normalized residuals of each construct was then examined (see Table 4). Here, the normalized residuals examination reveals no single value exceeding 2.58, which is the maximum acceptable level (Hair et. al., 1998).

Finally, to assess the internal consistency of measuring scales being used in the study, a reliability analysis was performed. With the exception of environmental diversity, the reliability of the scale, Coefficient alpha, for each construct was

Table 2 Factor Analysis of the Constructs

Construct (Mean, SD, Alpha)	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7
<i>Benevolence</i> (3.52, 0.81)							
1. This customer is genuinely concerned that our business succeeds (<i>bene1</i>).	0.71	0.19	0.13	0.04	-0.07	-0.25	0.22
2. When making important decisions, this customer considers our welfare as well as his own (<i>bene2</i>).	0.74	0.25	-0.07	0.02	-0.06	0.17	0.26
3. We trust this customer keeps our best interest in mind (<i>bene3</i>).	0.82	0.03	0.22	0.22	-0.08	0.11	0.13
Eigenvalue	2.86						
% variance explained	9.21						
<i>Credibility</i> (4.34, 0.58)							
1. This customer keeps promises he makes to us (<i>credit1</i>).	-0.01	0.84	0.02	0.13	-0.06	0.11	-0.06
2. This customer is always honest with us (<i>credit2</i>).	0.33	0.69	0.40	0.21	-0.07	-0.07	-0.01
3. This customer is trustworthy (<i>credit3</i>).	0.13	0.73	0.38	-0.09	0.16	0.07	0.07
4. We believe the information that this customer provides us (<i>credit4</i>).	0.35	0.58	-0.09	0.06	0.03	-0.04	0.15
Eigenvalue		2.25					
% variance explained		8.1					
<i>Commitment</i> (3.80, 0.96)							
1. We have made a major investment in this relationship (<i>commit1</i>).	0.25	-0.07	0.61	0.17	0.06	0.19	0.13
2. We are strongly committed to this customer (<i>commit2</i>).	0.26	0.13	0.76	0.22	-0.06	-0.14	0.07
3. We would not supply another customer at the expense of this current customer (<i>commit3</i>).	0.57	0.07	0.42	0.03	0.06	0.10	0.05
4. We consider the exchange of this product to be a part of a wider relationship with this customer (<i>commit4</i>).	-0.03	0.25	0.83	0.25	0.01	-0.02	0.12
Eigenvalue			2.62				
% variance explained			8.45				
<i>Asset Specificity</i> (3.48, 1.04)							
1. It takes a long time for a salesperson to learn about this product thoroughly (<i>asset1</i>).	0.08	0.10	0.08	0.57	0.01	-0.14	0.07
2. A salesperson's inside information on our procedures would be very helpful to our competitors (<i>asset2</i>).	0.10	-0.01	0.33	0.53	0.03	0.05	-0.02
3. Specialized facilities are needed to market this product (<i>asset3</i>).	0.13	-0.03	0.22	0.79	-0.14	0.15	0.19
4. A large investment in equipment and facilities is needed to market this product (<i>asset4</i>).	0.12	0.22	0.13	0.76	0.09	-0.05	0.12
Eigenvalue				2.23			
% variance explained				7.18			
<i>Environmental Volatility</i> (3.18, 0.98, 0.72)							
1. We are often surprised by the actions of retailers and wholesalers (<i>volat1</i>).	-0.16	0.04	0.12	-0.05	0.84	0.07	0.10
2. We are often surprised by the actions of competitors (<i>volat2</i>).	0.07	-0.06	0.08	0.02	0.76	-0.12	-0.08
3. We are often surprised by customer reaction (<i>volat3</i>).	0.02	-0.09	-0.04	0.11	0.77	0.08	0.14
Eigenvalue					2.34		
% variance explained					7.16		
<i>Environmental Diversity</i> (4.35, 0.88)							
1. There are many final users of this product in this market (<i>divers1</i>).	0.17	-0.04	-0.01	0.11	0.09	0.72	0.09
2. There are many competitors for this product in this Market (<i>divers2</i>).	-0.04	0.06	0.02	-0.13	0.08	0.81	0.03
Eigenvalue						1.68	
% variance explained						5.31	
<i>Business Adaptation</i> (2.51, 0.81)							
What changes have been made by your company (or by the intermediary on your behalf) to adapt to the customer or his products or procedures, regarding:							
1. Product modification (<i>pdtnmo</i>).	-0.04	0.11	0.20	0.21	-0.02	0.08	0.70
2. New product development for this customer's sake (<i>newpdtn</i>).	0.18	-0.05	0.05	0.06	0.11	0.04	0.77
3. Your production capacity (<i>pdtnncap</i>).	0.16	-0.12	0.34	0.18	-0.13	-0.03	0.59
4. Your production process (<i>pdtnpro</i>).	0.20	0.08	0.04	-0.08	-0.21	0.01	0.78
5. Your own delivery procedures (<i>delivery</i>).	0.31	-0.21	0.24	-0.27	-0.08	0.04	0.55
6. Your technical advisory service (<i>techad</i>).	0.13	0.24	0.15	0.06	-0.14	-0.08	0.55
7. Your technical information (<i>techinfo</i>).	-0.16	0.04	0.09	0.15	0.23	-0.15	0.67
8. Your quality control procedures (<i>qc</i>).	0.23	0.03	-0.07	0.01	0.07	-0.07	0.68
Eigenvalue							4.22
% variance explained							13.60

Table 3 Properties of Multi-item Scales (AMOS Estimate)

Construct (alpha)	Predictors	estimate	Standardized estimate	Critical ratio
Benevolence (0.82)	bene 1	1.00	-	-
	bene 2	1.35	0.19	7.13
	bene 3	1.20	0.17	7.03
Credibility (0.77)	credit 1	1.00	-	-
	credit 2	1.64	0.26	6.32
	credit 3	0.80	0.14	5.77
	credit 4	0.68	0.16	4.41
Commitment (0.75)	commit 1	1.00	-	-
	commit 2	1.14	0.22	5.30
	commit 3	0.86	0.20	4.35
	commit 4	0.86	0.17	5.08
Asset specificity (0.74)	asset 1	1.00	-	-
	asset 2	0.73	0.19	3.93
	asset 3	1.24	0.25	4.88
	asset 4	0.97	0.20	4.76
Volatility (0.71)	volat 1	1.00	-	-
	volat 2	0.81	0.18	4.37
	volat 3	1.12	0.23	5.05
Diversity (0.58)	divers1	1.00	-	-
	divers2	0.94	0.35	3.07
Adaptation (0.85)	pdtmo	1.00	-	-
	newpdt	1.40	0.25	5.50
	pdtncap	1.06	0.21	5.09
	pdtpro	1.37	0.23	6.02
	delivery	1.03	0.20	5.03
	techad	1.11	0.24	4.71
	techinfo	0.92	0.20	4.56
	qc	1.26	0.23	5.48

higher than 0.7 (see Table 3), which appears adequate for basic research (Nunnally, 1978). As Howell (1987) suggests, alpha is appropriate for measurement scales, the diversity then seems to be reliable with an alpha of 0.58. Rationally, this measure is an index rather than a scale (see Klein, Frazier and Roth, 1990, p. 201).

Results and Discussion

To test Hypotheses 1 through 6, regression analysis was conducted in three steps. Firstly, a multiple regression model was used to test the relationship between customer credibility/benevolence and the degree of supplier commitment. Then, another regression was performed to analyze the relationship of commitment and

Table 4 Normalized Residuals of the Predictors

Construct	Predictors	X1	X2	X3	X4	X5	X6	X7	X8
Credibility	X1 credit 1	.000	.002	.033	-.002	-.121	-.026	-.193	-
	X2 credit 2		.000	-.008	-.013	.026	-.007	.104	-
	X3 credit 3			.000	.004	-.033	-.002	-.048	-
	X4 credit 4				.000	.100	.044	.052	-
Benevolence	X5 bene 1					.000	.004	-.002	-
	X6 bene 2						.000	-.003	-
	X7 bene 3							.000	-
Commitment	X1 commit 1	.000	-.032	.123	.048	-	-	-	-
	X2 commit 2		.000	.016	.011	-	-	-	-
	X3 commit 3			.000	-.131	-	-	-	-
	X4 commit 4				.000	-	-	-	-
Asset specificity	X1 asset 1	.000	.300	-.094	-.045	-	-	-	-
	X2 asset 2		.000	-.047	-.163	-	-	-	-
	X3 asset 3			.000	.096	-	-	-	-
	X4 asset 4				.000	-	-	-	-
Volatility	X1 volat 1	.000	.015	.008	-.042	-.106	-	-	-
	X2 volat 2		.000	-.065	.062	.092	-	-	-
	X3 volat 3			.000	.025	.046	-	-	-
Diversity	X4 divers 1				.000	.022	-	-	-
	X5 divers 2					.000	-	-	-
Adaptation	X1 pdtmo	.000	.028	.081	-.056	-.121	-.096	.133	.073
	X2 newpdt		.000	.021	.095	.028	-.031	.166	-.324
	X3 pdtncap			.000	.106	-.038	-.245	-.084	-.039
	X4 pdtnpro				.000	-.023	.006	-.206	.020
	X5 delivery					.000	.129	-.096	.143
	X6 techad						.000	.025	.077
	X7 techinfo							.000	.105
	X8 qc								
.000									

dependent variable, supplier's business adaptation. Next, the moderator hypotheses (H4, H5 and H6) were tested using split-group analysis. That is, business adaptation was regressed on relationship commitment with subgroups consisting of low/high asset specificity, low/high environmental volatility and diversity. Subsequently, Chow test, a well-accepted methodology in assessing a structural change in two linear regressions, was conducted to see the significance of the differences in regression coefficients between commitment-adaptation across low and high groups. Prior to the regression tests, however, a correlation analysis was also performed to assess the degree of multicollinearity present in the sample data, the result of which is provided in Table 5. As can be seen, the bivariate associations between the independent variables reveal no serious problem of multicollinearity.

Table 6 shows the effect of independent variables, customer's credibility and benevolence, on commitment of supplier to the relationship. The regression equation is significant at the .01 level and 28% of the variance in supplier commitment is explained by customer's benevolence and credibility. Individual *beta* coefficients support both H1 ($\beta = .40, p < .01$) and H2 ($\beta = .21, p < .05$). As hypothesized, these findings indicate that the existence of customer's benevolence and credibility in international business relationship leads to greater commitment of supplier. However, from the above, the impact of benevolence seems to be stronger than that of customer's credibility. As shown in Table 5, there is a strong support for hypothesized positive relationship between commitment and supplier's business adaptation, with 19% of the variance

explained ($\beta = .44, p < .01$). Therefore, H3 is supported by the findings. Moderating effects of asset specificity, environmental diversity and volatility on the commitment-adaptation relationship were assessed through sub-group regression analysis (which is shown on bottom part of Table 7). The results strongly support the moderating effects under both low level ($\beta = .53, p < .01$) and high level of asset specificity ($\beta = .31, p < .05$). The result of Chow test ($F = 5.76, p < .01$) also reveals the differences in *beta* coefficients for low and high degree of asset specificity. Hence, H4 is supported by the results. This means that committed suppliers are more likely to adapt their business operation and procedures when the degree of asset specificity is low, and vice versa. For the moderating effect of environmental volatility, the results are not in support of our hypotheses. That is, positive relationship between commitment and adaptation of supplier is stronger under low level of volatility ($\beta = .51, p < .01$) while *beta* coefficient is lower under high level of volatility ($\beta = .40, p < .01$). Accordingly, these differences are statistically supported by the results of Chow test ($F = 3.49, p < .05$). Based on these, committed suppliers are more likely to adapt to the customers in low volatile situations but are less likely to adapt under high environmental volatility. As such, H5 is not supported. Finally, the findings partially support the hypothesized moderating effect of environmental diversity on commitment-adaptation relationship. Under low level of diversity, the relationship between commitment and adaptation of supplier is stronger ($\beta = .56, p < .05$) while there is no impact under high level of diversity ($\beta = .42, p < .01$). The results of Chow test ($F = 1.09$, not significant) also point no differences between *beta*

Table 5 Correlation Matrix

Variables	1	2	3	4	5	6	7
Customer credibility	1.00						
Customer benevolence	.47*	1.00					
Supplier commitment	.41*	.41*	1.00				
Diversity	-.01	-.31**	-.05	1.00			
Volatility	-.02	-.24**	-.05	.32**	1.00		
Asset specificity	.27**	.28**	.43*	-.02	-.04	1.00	
Supplier's adaptation	.16***	.39*	.37*	-.05	-.07	.24**	1.00

* $p < .01$; ** $p < .05$; *** $p < .10$

coefficients. Therefore, as a whole, H6 is not supported.

Conclusions

As a result of present competitive and rapidly changing environment, firms realize the need to strengthen business relationships with customers,

suppliers and others. One method to achieve this is by adapting their business operation and procedures as per the needs of exchange parties. This study is based on the behavioral approach of interorganizational relationship by examining the role of trust and commitment on the business adaptation decision of supplier. The empirical findings support the hypothesized impact of customer’s credibility and benevolence on the formation of

Table 6 Multiple Regression Results for Supplier Commitment

Predictors	Coefficient (t-value)
Customer benevolence	.40 (4.21)*
Customer credibility	.21 (2.22)**
R-square	.28
Adj-R square	.27
F-value	18.82*

* $p < .01$; ** $p < .05$

Table 7 Commitment-Adaptation Relationship and Moderated Regression Results Using Subgroup Analysis

Predictor		Coefficient (t-value)		
Supplier Commitment		.44 (4.79), $p < .01$		
R-square		.19		
Adj-R square		.18		
F-value		22.97		
Moderator Variables	R-square	Moderator Level(n)	Beta (commitment-adaptation)	Chow Test
Asset specificity	.29	low (32)*	.53, $p < .01$	F(2, 96) = 5.76, $p < .01$
	.10	high (58)**	.31, $p < .05$	
Volatility	.27	low (40)*	.51, $p < .01$	F(2, 96) = 3.49, $p < .05$
	.15	high (60)**	.40, $p < .01$	
Diversity	.33	low (36)*	.56, $p < .05$	F(2, 96) = 1.09, n.s.
	.19	high (64)**	.42, $p < .01$	

n.s.—not statistically significant even at $p = .10$

*sample who answered less than or equal to mean of each variable (3.48 for asset specificity, 4.35 for diversity and 3.19 for volatility).

**sample who answered higher than mean of each variable.

supplier commitment to the relationship. Though both dimensions of trust influence the degree of commitment, suppliers are more likely to consider customer's benevolence (behavioral component) as being more important than credibility (cognitive component). As such, customers who expressed their interest in the welfare of suppliers are more likely to be trusted and to gain relationship commitment from this exchange party.

This study has also empirically examined the direct association between relationship commitment and business adaptation of supplier. The results support the notion that commitment to the relationship leads to a supplier's business adaptation. As business adaptation in an existing relationship can be viewed as a transaction-specific investment, our model, additionally, considered the moderating effects of such related factors as asset specificity, environmental diversity and volatility. The findings reveal impact of asset specificity on commitment-adaptation relationship. That is, suppliers, though being committed to the relationship, are less likely to adapt their business procedures/operation to a great extent under high level of asset specificity, and vice versa. Rationally, business adaptation involves sunk cost that is the value of transaction-specific investments would be lower in case of relationship termination. However, the results of analysis show mixed support for the moderating effects of two constructs of environmental uncertainty—volatility and diversity. Regardless of rejection of hypotheses, industrial suppliers are more likely to adapt to existing customers when they perceive low level of both environmental diversity and volatility. This is in line with the Transaction Cost Analysis, which proposes that firms would not be interested in risky investments when the macroenvironment is perceived as uncertain (Williamson, 1985).

Managerial Implications and Applications

The findings of this study reveal a number of significant managerial implications, particularly from the customer's point of view. Firstly, in order to motivate relationship commitment of suppliers, customers should express sincere concerns over their welfare. This can be done through either actual behaviors i.e. win-win negotiation, or intentions

such as discussions with suppliers on how to achieve both parties' business goals. Additionally, as the supplier is more likely to be committed by considering customer's credibility, the customer should promote this dimension of trust by, for example, building the organization's reputation of being reliable and honorable. However, being a committed supplier does not guarantee the willingness to adapt to the needs of a particular customer. Therefore, to motivate suppliers to adapt to their needs in order to enhance the degree of competitive advantage i.e. just-in-time inventory system, customers should reduce their perception of high uncertainty. For example, a customer may intentionally order from a particular supplier regularly to enhance their confidence in the relationship.

Limitations and Future Research Directions

The findings of this study, regardless of implications and contributions, should be evaluated with some limitations. Firstly, we collected information from only one side of the dyadic relationship, the supplier. As such, data collection from one side of the exchange relationship may not capture the bilateral aspects of some variables such as trust and commitment. Future researchers are encouraged to use dyadic responses from both parties of the relationship. Secondly, although the study is focused on industrial business relationship, it is cross-sectional in nature. Therefore, the differences among industries in terms of, for example, degree of asset specificity and environmental uncertainty can be expected to exist. Consequently, this study's findings must be carefully applied to a particular firm in a particular industry. A replication of the study in a single industry would appreciably contribute to the relationship marketing literature. Finally, the mixed result of moderating effect of environmental uncertainty on the firm's decision to become flexible (less adaptation) or inflexible (more adaptation) is still questionable. Future research should consider the notion that, as there is also a conflict among researchers (for example, Klein, Crawford and Alchian, 1978; Williamson, 1975, 1985; Harrigan, 1985; Porter, 1980), whether external uncertainty requires business firms to be more flexible or vice versa.

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