

Working Paper No. 67/01

**A multi-level perspective on the
dissolution of business relationships**

Doctoral proposal

by

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SNF-project No. 6345: "Country-Origin Strategies in International Marketing of Bioproducts
SNF-project No. 6490: "Building Efficient Images – A Study of International Image
Programs for Norway"

The projects are financed by The Research Council of Norway

FOUNDATION FOR RESEARCH IN ECONOMICS AND BUSINESS ADMINISTRATION (SNF)
BERGEN, DECEMBER 2001
ISSN 0803-4028

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Abstract

This report presents a multi-level approach to the dissolution of business relationships. In the literature a number of factors are expected to attenuate the likelihood of relationship dissolution. Structural aspects (such as contracts) have been emphasized by e.g. transaction cost analysis, whereas relational aspects (such as boundary spanner interpersonal bonds) have been highlighted by e.g. relational contract theory. In this study we argue that both macro level phenomena (such as structural ties) and micro level phenomena (such as interpersonal ties) have a potential impact upon relationship dissolution. Moreover, since business relationships are seen as inherently multi-level phenomena, structural and relational aspects would constitute a multi-level issue in these relationships.

Besides the argument claiming that factors at multiple levels have an impact upon the likelihood of relationship ending, we also claim that macro-level properties have an impact upon organizational member's behavior. Scholars dealing with interorganizational research have to a large extent left behind the rich stream of organization theory. During the last decade research on organizations have contributed to open up the *black box* of organizations. Empirical studies have shown that individual's behaviors, affective responses, motives and attitude are affected by structure. A number of organizational dimensions, such as size, formalization and centralization are assumed to influence e.g. decision-making in firms. Accordingly, we argue that a number of organizational and interorganizational dimensions moderate the potential impact of structural and interpersonal ties upon the likelihood of relationship dissolution.

Preface

The many different aspects in business relationships are of great importance with reference to issues as export, international marketing, the evolution of distributions channels etc. Theoretical discussions and arguments in this report are partly inspired from my master thesis in economic geography dealing with business relationships among Norwegian exporters and French importers in the fish market. A major focus was the growing importance and power of retail chains in France, and consequently potential effects on interorganizational relationships due to this evolution. The study showed a variety regarding the use of governance mechanisms in business relationships. Some actors relied heavily on formal mechanisms (such as contract), while others resorted to more informal mechanisms (such as trust). There was also variation with regard to actor's behavioral intensions, such as the use of exit or voice. Thus, the actors exhibited different strategies for sourcing and selling in order to survive in a market characterized by fluctuations in both resources and price. Actors embedded in the fishing industry (e.g. exporters, importers and the processing industry) demonstrated similarities concerning a number of factors, such as the perception of contract, and relational norms (e.g. solidarity and flexibility). While, new entering actors in the fish market, specifically within the retailing business, possessed other views. Some Norwegian actors with ambitious market strategies had experienced these differences in viewpoints, and had suffered economically because of this. We suggest that the study of business relationships in international settings (such as the relationship between importer and exporter) is of specific interests since we assume that cultural backgrounds, language and modes of conduct add complexity to these relationships. Further, an investigation of the various aspects in business relationships should be of particular importance in markets characterized by great changes. My earlier study on business relationships in the fishing industry has provided me with insights that will be of relevance for my doctoral thesis.

In connection to the writing of this doctoral proposal I would like to thank for both academic and financial support during this process.

I will in particular give thanks to Aksel Rokkan, who is advisor for this proposal and will also continue as my adviser during the doctoral work.

Further, I want to include some thanks to the funding sources. I am most thankful for the funding from NHH, with a part-time HA stipend, as well as the part-time SNF projects:

SNF-project 6345: *Country-Origin Strategies in International Marketing of Bioproducts*, and

SNF-project 6490: *Building Efficient Destination Images – A Study of International Image Programs for Norway*

Finally I wish to thank Ingeborg Astrid Kleppe, who has helped me with the funding while working on this proposal. She has also been a helpful and valuable adviser for me during this first phase in a new place with a lot of challenges.

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1. Introduction

1.1 Theme problem

Business relationship dissolution

Research within the inter-organizational field have until recently focused on the formation and maintenance of business relationship. Scant attention has been directed towards the study of the dissolution of relationships, either theoretically or empirically (Ping 1993, Halinen and Tähtinen 1999). However, in real life business relationships are established and they terminate (Ping 1993, Grønhaug, Henjesand and Koveland 1999). Baker, Faulkner and Fisher (1998) explain that “*(t)he right to make and break relationships is a defining characteristic of modern society*” (1998:147), and should hence be subject to investigation. Seabright, Levinthal and Fichman (1992) argue for the need to study relationship dissolution, because “*(t)he conditions and processes associated with the formation of exchange relationships are not the same as those associated with their persistence and severance*”. The explanation for this is that “*(t)he history of inter-organizational relationships influences the conditions and processes leading to their dissolution*” (1992:123). Ping (1993) underpin that considerable costs, both economic and psychic, are associated with relationship dissolution. New insights regarding the dynamics and mechanisms within problematic marketing relationships could contribute to problem solving and relationship maintenance.

Factors attenuating the likelihood of relationship dissolution

Scholars in the various literature fields have put emphasis on distinct aspects in business relationships, when it comes to potential impact upon the likelihood of relationship dissolution. According to transaction cost theory, structural bonds in the form of partner-specific investments and contracts are assumed to represent barriers with respect to the termination of business relationships (Williamson 1985, Anderson and Narus 1990). Structural mechanisms for coordinating exchange, such as formalization and standardization procedures are also seen as effective in order to attenuate the likelihood of relationship dissolution (Van de Ven 1976, Williamson 1985).

In contrast, marketing scholars within the relationship marketing literature have, over the past decade, generated a considerable body of research emphasizing relational aspects of inter-organizational relationships (Arndt 1979, Dwyer, Schurr and Oh

1987, Granovetter 1985). In parallel to the emphasis put on relationship marketing strategies, the boundary spanner, such as sales representatives and purchasing agents, have gained greater attention (Doney and Cannon 1997). One reason for this is that boundary spanners frequently play a key role in the interface between two firms when establishing and managing business relationships. In relationship-building processes boundary spanners are seen as germane, as they facilitate and develop customer trust (Granovetter 1992, Doney and Cannon 1997). Further, important boundary spanner functions are communication and monitoring the implementation of collaborative arrangements (Currall and Judge 1995). Macaulay (1963) and Macneil (1980) contend that informal governance mechanisms, such as relational norms, are predominant and highly efficient in order to manage adjustments both inside and across organizations. Boundary role person's trust can therefore be considered as a 'relationship specific asset' facilitating communication and reducing the need to monitor (Currall and Judge 1995). Thus until today, the role of personal contacts in the formation and maintenance stages of exchange relationships has received much attention (Håkansson and Snehota 1995). Less is, however, known when it comes to the role of personal contacts with regard to the termination of business relationships (Halinen and Salmi 2001).

Business relationships are multi-level phenomena

In the relationship marketing literature researchers often display an implicit assumption with regard to the importance of 'close' customer relationships in business exchange. While, scholars theoretically presume the importance of relational aspects, scant research has addressed the relative effects of micro (e.g. personal relationships) and macro variables (e.g. contracts) in inter-organizational settings (Fichman and Goodman 1996). Further, although, in a number of studies, micro-level phenomena are assumed theoretically to have an impact upon macro-level phenomena, little research have examined potential effects of micro-level phenomena on macro-level-phenomena, or vice versa (Rousseau 1985). Few studies have, for instance, examined the relative effect of marketing mix variables and social bonds (Wathne, Biong and Heide 2000). Rousseau (1985) claimed, in her elaboration on level issues, that both macro phenomena and micro phenomena potentially have an impact upon relationship outcome. Further, organizations and inter-organizational relationships are by nature multi-level phenomena (Rousseau 1985). Consequently, multi-level issues should therefore be of greatest interest in these research fields.

Studies dealing with inter-organizational issues are confronted with highly complex measurements problems. For example, in the field of business-to-business marketing attributes aligned to objects frequently exist at multiple levels. The empirical studies typically deal with properties of departments, companies, business relationships (both at the inter-organizational level and at the interpersonal level), and in some cases networks of companies. The common practice of non-specification of levels specifically in these research fields, does often lead to confusion and level-related ambiguity when it comes to data-analysis (Klein, Dansereau and Hall 1994).

We argue that multi-level issues are of great relevance and importance to our study, since we intend to examine, among other factors, interpersonal ties between sales representatives and purchasing agents. The reason for this is that boundary spanners are organizational members possessing both intra and inter-organizational relationships, which in turn require different roles and knowledge (Seabright, Levinthal and Fichman 1992). For example, a salesmen and a buyer who have dealt with each other for many years, could develop a close relationships, which involves more than pure economic exchange (Macaulay 1963). This specific interpersonal relationship could attenuate the probability of business relationship termination. Moreover, we would assume that individuals who work in organizations, and therefore act on behalf of their organization, probably would be affected by factors, such as company culture, organizational norms and procedures (Grønhaug, Henjesand and Koveland 1999). Although, scholars dealing with inter-organizational issues to a large extent have left behind the rich stream of organization theory, a considerable body of research demonstrates that organizations affect organizational members behavior (Berger and Cummings 1979). For example, a number of organizational dimensions, such as size, formalization and centralization are assumed to influence e.g. individuals decision-making (Butler 1991, Shackleton 1996, Frazier 1999, Lau, Goh and Phua 1999). A firm context could therefore favor or constrain the development of personal relationships with a boundary spanner in an adversary firm, and consequently have an impact on how potential interpersonal ties may influence the likelihood of relationship dissolution. Consequently, we assume that boundary spanners are influenced by their own organization as well as the inter-organizational context, and further, both relationships are assumed to have an impact upon relationship outcome, such as relationship dissolution. In accord with House, Rousseau and Thomas-Hunt (1995) we, therefore, argue that a multi-level perspective

can enhance our understanding of the potential constraints and effects of both structural and interpersonal ties upon relationship outcome.

1.2 Definitions of structural and interpersonal ties

In the current study we intend to analyze business relationships at two levels: at the organizational level, which we label *structural ties*, and at the individual level, which we label *interpersonal ties*. In this study *structural ties* refer to partner-specific investments in physical assets and/or formal contracts and organizational procedures. As the duration of the inter-organizational relationship increases *structural ties* are assumed to increase.

Interpersonal ties refer to ties between boundary spanners. *Interpersonal ties* encompass personal skills, knowledge, and personal relationships. Boundary spanners are thus seen as the repository of such assets. Previous experience with boundary spanners thus refers to interpersonal history of learning and socialization during involvement in exchange activities. Interpersonal ties, however, are related to the tenure of individuals in boundary spanning roles in the exchange relationship. Consequently, boundary spanners establish and maintain interpersonal relationships as long as they are involved with specific exchange activities. Turnover in boundary spanning positions, thus, have the potential to attenuate business-to-business relationships (Seabright, Levinthal and Fichman 1992).

1.3 Research question

Theoretical perspectives

As aforementioned, a number of factors are presumed to reduce the likelihood of relationship dissolution. Different research streams have however emphasized different aspects and their effect upon relationship outcome. In the current study we focus on transaction cost theory (Williamson 1979, 1991), and relational contract theory (Macaulay 1963, Macneil 1980) in order to elucidate the logic behind the importance of structural and relational aspects in business relationships. Although, transaction cost theory emphasizes more formal mechanisms and relational contract theory highlights more informal mechanisms, neither Macneil (1980) nor Williamson (1979, 1985) reject the existence and importance of both formal and informal governance mechanisms in business exchange.

In consistence with our research question, we therefore contend that our view is not in conflict with either transaction cost theory or relational contract theory. Instead we see business relationships as multi-level phenomena, possessing both structural and relational ties. Accordingly, we argue that a number of organizational and inter-organizational dimensions moderate the potential impact of interpersonal and structural ties upon the likelihood of relationship dissolution.

Propositions regarding the relationship between macro and micro phenomena

With respect to inter-level relationships, House, Rousseau and Thomas-Hunt (1995) postulate propositions regarding the relative effects of macro and micro level variables on each other and also the moderating effects of organizational level on e.g. decisions. The authors further discuss under which conditions individuals (micro variables) tend to have greater impact upon organizational variables and vice versa. Drawing on theoretical insights on multi-level phenomena (Rousseau 1985, Klein et al. 1994, House et al. 1995), organization theory and inter-organizational research, we suggest that a number of organizational and inter-organizational dimensions in business-to-business relationships moderate the impact of structural and interpersonal ties upon the likelihood of relationship dissolution.

The above outline leads to the following research question:

Research question: *How do organizational and inter-organizational dimensions moderate the impact of structural and interpersonal ties upon the likelihood of relationship dissolution?*

We thus contend that there are organizational and inter-organizational dimensions, which constrain and favor the importance and potential impact of interpersonal ties and structural ties. By specifying macro and micro level variables, we increase the potential to examine the impact of macro and micro variables on the dependent variable (House et al. 1995).

1.4 Concept clarifications

Business relationships

In the current study we define the concept of *business relationship* in accord with Grønhaug, Henjesand and Koveland (1999). They state that business relationships often are identified through recurring transactions. According to the authors, however, the phenomenon of recurring transactions is not sufficient in order to be termed a relationship. The time dimension, in contrast is an important criterion. In addition, and in accordance with the Interaction and Network approach (e.g. Håkansson and Snehota 1995) business exchange relationships consist of three substantive elements: *activity links*, *resource ties* and *actor bonds*. Activity links include resource exchange, communication, co-ordination and adaptation processes. Resource ties may encompass technological, material and knowledge across firms involved. Finally, firms are connected via various actor bonds, which may include personal relationships, technological bonds, inter-firm knowledge, contracts, norms and inter-firm roles. In the current study we, however, specify relationships variables according to either macro or micro levels. There should also be some sort of continuity in the exchange relationship, and that the expectation of future exchange is manifested in the relational bonds, i.e. reciprocity, voluntary participation, trust and commitment between firms (Thäthinen and Halinen-Kaila 1997, Grønhaug, Henjesand and Koveland 1999).

With regard to *business relationship dissolution*, we notice that studies within the Interaction and Network approach examining business relationship dissolution (see section 4.1, e.g. Alajoutsijärvi, Möller and Tähtinen (2000), Thäthinen and Halinen-Kaila 1997) define the concept as a dichotomous variable: “*a relationship is dissolved when all activity links are broken and no resource ties and actor bonds exist between the companies*” (Alajoutsijärvi et al. 2000: 1272). The authors, however, acknowledge that there may remain interpersonal relationships across organizations, and that these can be re-activated in other contexts (e.g. Havila and Wilkinson 1997). With respect to our study we intend to treat the concept of relationship dissolution as a continuous variable. By treating relationship dissolution as a continuous variable, we position ourselves in consistence with the idea that possibly relationships never die. Nevertheless, we assume that there are differences among firms with regard to behavioral intentions variables, such as the intention to exit and switching behavior.

With regard to the concept of dissolution, we see a process towards cessation of transactions and de-escalation of partner-specific investments.

An elaboration on commercial friendship in business relationships

A number of scholars have addressed the lack of clarity of the concept of relationships in marketing (Bagozzi 1995). Since this research deals with relationships, and more specifically with interpersonal relationships in firm-to-firm relationships, we argue for the need to clarify our understanding of the concept.

Iacobucci and Ostrom (1996) elaborated on the theoretical structural differences of the multi-level relational phenomena. Literature commonly referred to as relationship marketing, researchers employ the same concept, whether they study individual-to-individual relationships, individual-to-firm relationships, or firm-to-firm relationships (Iacobucci and Ostrom 1996). The authors further underpin that the structures inherent in these different types of relationships might influence how meaningful and relevant different constructs are. Although similarities exist between different types of relationships, real differences occur among person-to-person, person-to-firm, and firm-to-firm relationships.

In accord with Price and Arnould (1999) we argue for the need to clarify the concept of commercial friendship. The authors claim that there is a lack of conceptual clarity in the friendship literature, when it comes to define friendships in a commercial context. Although the friendship literature offers some insights and indications of what kind of friendship one might find in an economic setting, it does not "*...address specifically the incidence, nature of, contexts for commercial friendships*" (Price and Arnould 1999). Further, different kinds of friendships are discussed and analyzed along the following dimensions: *instrumentality, sociability and reciprocity*.

Structural, individual, situational, and dyadic factors must coalesce for friendship to form (Fehr 1996). Much research has studied how individual characteristics, such as similarity and social skills influence friendship formation. Few studies have focused on how situational characteristics, such as anticipating future interactions, frequent interaction, and outcome dependency contribute to the development of friendships. Price and Arnould (1999) contend that the abovementioned characteristics show great similarity with aspects in commercial exchange contexts. It is also important to stress that situational aspects in commercial settings may also represent constraints on friendship formation (Gouldner and Strong 1987).

Alike work-based friendship, commercial friendships develop in settings in which cooperation and friendly relations serve instrumental goals (Fine 1986). Commercial friendship, however, differ from work-based friendships on several grounds. First, relationships between e.g. a salesperson and a buyer involve potential goal-conflict, as the two members serve two different organizations. A seller-buyer relationship does also involve the exchange of money and services, which is rare in work-based relationships. Commercial relationships therefore are assumed to be based more tangibly in instrumental goals than work relationships are (Price and Arnould 1999).

Summary

As mentioned above, firm-to-firm relationships are assumed to differ significantly from individual-to-individual relationships. Business-to-business relationships consist of multiplex linkages and contractual bindings. Interactions between organizational members inside a firm could presumably have implications for relationships with other firms (Iacobucci and Ostrom 1996). Commercial friendships are also assumed to differ from other friendships, including work friendship, because, for example, sellers and buyers often come from different "worlds" (two different organizations). The above factors do not, however, exclude the existence of personal relationships. We only want to stress that commercial exchange provides both opportunity for and defines the limits of sociability (Price and Arnould 1999).

1.5 Outline of the study

This doctoral proposal includes the theoretical foundation for an intended empirical study. The theoretical elaboration results in a conceptual model and hypotheses. Theoretical perspectives emphasizing structural and relational aspects in contracts will be presented in section 2. In the current study we focus on transaction cost theory and relational contract theory. Further, we refer to Macaulay's outline of the multi-level phenomena in business relationships, and claim that business relationships should be investigated with a multi-level perspective. In section 3 we give a theoretical foundation for multi-level studies. We point to inherent limitations of both macro- and micro-theories, and claim that since most phenomena existing in organizations possess multi-level and cross-level characteristics, they should be investigated with a multi-level perspective. A coherent framework to guide, codify, accumulate and integrate studies containing at least two levels is hence given. Further,

we focus on linkages between micro and macro phenomena and suggest relevant meso processes. Finally, we make clear relative effects of macro and micro level variables, and the moderating effect of organizational levels.

In section 4 we offer a literature review, first of studies having examined business relationship dissolution. Second, we give an account on how organizations affect individual's behavior. Third, we present studies with a multi-level perspective. In section 5, we offer a presentation of the development of hypotheses and the conceptual model.

2. Theoretical perspectives: structural and relational aspects in contracting

Introduction

Structural and relational components have been integrated and empirically tested in the inter-firm relationship marketing literature (Murry and Heide 1998, Wathne, Biong and Heide 2000). Different theory traditions have been employed to postulate the importance of either structural or relational ties or both; e.g. transaction cost theory (Williamson 1991), economic sociology (Granovetter 1985), organization theory (Ouchi 1980) and relational contract theory (Macaulay 1963, Macneil 1980). In the current study, we focus on transaction cost theory (Williamson 1979, Williamson 1991) and relational contract theory (Macaulay 1963, Macneil 1980) in order to elucidate the logic behind the importance of structural and relational aspects in business relations. In harmony with our research questions and our multi-level perspective, we will, in addition, point to similarities and complementarities in the two presented theories, since we contend that in business relationships it is not only a question of either structural or relational ties. These aspects would constitute a multi-level issue in exchange relationships.

2.1 Transaction cost theory

During the last decade transaction cost theory has supplanted traditional neoclassical economics. The new paradigm "New Institutional economics" introduced the concept of the firm, which in transaction cost theory is seen as a governance structure. Coase (1937) postulated initially that firms and markets constitute alternative governance structures, which differ in transaction costs. Transaction costs were defined as: "*costs of running the system*". These costs included both *ex ante* costs as e.g. negotiating contracts, and *ex post* costs like monitoring and enforcing agreements. Based on Coase's earlier work, Williamson (1975, 1979, 1985, 1991) have made several adjustments and refinements to the transaction cost framework. In the framework of a doctoral proposal we will not give a comprehensive outline of this theory, but concentrate on the main issues and focus on elements relevant for the current study.

The two main assumptions of human behavior

Bounded rationality refers to human beings limited cognitive capacity to act rationally. Williamson (1985), nevertheless, assume that economic actors have the intention to act rationally. He further assumes that decision makers have specific problems to absorb all relevant information when the environmental context is characterized by great uncertainty. Potential effects of environmental uncertainty are the constant need for adjustments. In situations where comprehensive contracts cannot be written, the economic actor will suffer important costs due to continuous negotiations. Other potential effects might be the performance evaluation problem, which cause extensive costs related for instance, to the gathering of information.

By the assumption of *opportunism* we understand that economic actors may seek to serve their self-interests, and that it is difficult to know in advance who is trustworthy and who is not. Williamson (1985) defines opportunism as "*self-interest seeking with guile*". Opportunistic behavior comprises e.g. lying, cheating and the violating of contracts. The risk and the effect of opportunism is considerable when specific investments have been made in the relationship, and where these investments have limited value outside the relationship.

The postulated behavioral assumptions are crucial in transaction cost theory, among other factors, because the choice of governance mechanisms is highly interlinked with them.

Key dimensions of transactions

The main dimensions, which distinguish transactions are 1) asset specificity, 2) uncertainty, and 3) frequency. Williamson (1985) further identifies four subcategories of the concept of asset specificity: a) site specificity, b) physical asset specificity c) human asset specificity, and d) dedicated asset specificity.

The basic logic of transaction cost theory

According to the basic logic of transaction cost theory, market governance will be chosen when adaptation, performance, and safeguarding costs are low. When transaction costs are high, firms tend to internalize transactions within the organization. Within the transaction cost theory framework internal organization is thought to possess superior properties (in contrast to markets and hybrids), such as

the ability to control and monitor exchange, and that this ability results in lower transaction costs. Organizational culture and socialization processes inside an organization are also thought to diminish opportunistic behavior (Williamson 1975). In addition to the two original alternative structures, market exchange and internal organization, increased theoretical and empirical interest have been directed towards the variety of hybrids. Concepts reflecting the hierarchical dimension, such as centralization and formalizing, have subsequently been employed on inter-organizational exchange (Williamson 1985). Recent empirical studies have also developed and extended the concept of vertical integration to compass, for example vertical control over suppliers decisions (Grossman and Hart 1986). Some empirical studies have also integrated and tested the effects of informal mechanisms, such as relational norms (Heide and John 1992).

2.1.1 The contract problem

Williamson explains that although the discrete transaction paradigm has served both law and economics well, "*...there is increasing awareness that many contractual relations are not of this well-defined kind*" (Williamson 1979:235). Thus, because transactions vary in nature, different forms of contract will be needed. With respect to the above position he considers the work of Macneil (1980) as a major contribution in the field, "*...as the legal rule emphasis associated with the study of discrete contracting has given way to a more general concern with the contractual purposes to be served*" (1979:235). Hence, the purpose behind any kind of contract is to facilitate exchange between economic partners. Different kinds of contracts and relevant contracting problems are described.

Classical contract law

With reference to classical contract law the major purpose is to enhance and intensify presentation. Presentation refers here to attempts to "*...make or render present in place or time; to cause to be perceived or realized at present*" (Williamson 1979: 236). In an economic context a complete presentation would entail comprehensive contracting where all future contingencies are taken into account. In order to fulfill discreteness and presentation, classical contract law also presumes the following. First, the identity of the parties is considered irrelevant. Second, the formal governance mechanisms are treated superior to informal governance mechanisms.

Third, when problems arise with respect to the exchange, formal and legal documents are seen as predominant in order to solve disagreements.

Neoclassical contract law

Not all kinds of transactions suit the classical contract criteria. Complete presentation is thought to be difficult when contracts are long term and when environmental situations are fluctuating and uncertain. In such conditions predicting and implementing all potential contingencies in a written contract is seen as very costly and rather impossible. In order to manage contracting under the abovementioned conditions, three alternative solutions are offered (Williamson 1979). First, transactions of this kind could be renounced. Second, this kind of transactions could be subject to internalization, and thereby controlled by hierarchical mechanisms. Finally, third party assistance by arbitration should be provided, as it possesses a number of advantages compared to litigation.

Idiosyncratic exchange

In his article "*Transaction-cost economics: the governance of contractual relations*", Williamson (1979) makes attempts to integrate insights from relational contract theory into a transaction cost framework. Although, Williamson recognize elements in Macneil's theory, he also identifies some weaknesses. He points out that Macneil (1974) makes clear that governance structures will vary with the nature of the transaction, but he does not explain the critical dimensions of contract, neither the purposes of governance. Williamson (1979) claims that the concept of *incomplete contracts* remains too vague. In addition, Williamson (1979) contends that "*harmonizing interests*" appear to be an important governance function in Macneil's elaboration of relational contracting, although this assumption is not explicitly stated. Williamson thus make attempts to clarify and define more closely attributes of transactions, by integrating the critical dimensions for characterizing transactions from Transaction Cost Theory: 1) uncertainty, 2) the frequency with which transactions recur, and 3) the degree to which durable transaction-specific investments are incurred (1979:239). These three dimensions must be analyzed together in order to assess the adequate governance structure for different types of exchange.

Idiosyncratic exchange, criteria and characteristics

Degree of transaction specific investments relates to problems of marketability. Is it, for instance, possible for customers to turn to alternative suppliers to buy the commodity? How important is the particular identity of the parties when it comes to consequences of costs? Exchanges are defined as *idiosyncratic*, where the identity of the parties has a major impact upon costs and where specific investments have little value outside the relationship (Williamson 1979). Physical capital investments (e.g. specific production equipment) and human capital investments¹ (e.g. specialized training) are according to Williamson (1979) the most important forms of asset specificity and which qualify to the definition of idiosyncratic exchange. In these exchanges, which are long-term and ongoing, institutional and personal trust most commonly evolves². One reason for this is that: "*(o)ther things being equal, idiosyncratic exchange relations which feature personal trust will survive greater stress and display greater adaptability*" (1979:240, 241). The author stresses that it is the lack of opportunistic behavior in idiosyncratic exchange, which makes ongoing sequential adjustments possible. Williamson (1979) does also contend that, due to the transaction-specific costs mentioned above, the ongoing relationship between the parties will over time be transformed to a *bilateral monopoly*. With the above outline Williamson (1979) thereby specify the inter-organizational dimensions under which relational aspects has an impact on relationship outcome, continuance and dissolution.

The problem of adaptability, bilateral and unified structures

Williamson (1979) underscores that the problem of opportunism also might occur in idiosyncratic exchange. In order to diminish opportunism one has to resort to governance structures presumed to create confidence. It is the problem of potential adjustments, which represent the main governance problem. In his article of 1979 he distinguishes two types of idiosyncratic exchange, *bilateral structures* and *unified structures*.

Unified structures, refers to *internal organization* (hierarchy) of transactions. Internal organization has with respect to adaptive capability superior properties. One reason

¹ Williamson refers to Polyani (1962) and Babbage (1832) who account for different types of human specific investments (1979:242-244).

² The following citation gives an illustration of what the author means: "Where personal integrity is believed to be operative, individuals located at the interface may refuse to be part of opportunistic

for this is the assumption of internal coordinating mechanisms (both informal and formal mechanisms), which are thought to diminish opportunistic behavior. Internal organization also requires less documentation when it comes to adjustments. Internal conflicts can be more easily and less costly resolved by fiat. Information is more easily exchanged and interpreted. Internal organization also has resort to a number of incentive instruments, such as career reward (Williamson 1991).

In contrast in *bilateral exchange* the parties involved are thought to confront major problems in coping with adjustments. One reason for this is that adjustments have to be mutually agreed-upon by the two autonomous parties. Potential conflicting interests and hence opportunistic behavior might therefore arise. Williamson, however, contends that the problem of opportunism varies according to the kind of adjustments required. The author argues that quantity adjustments are much easily adjusted than price adjustments, among other factors because of its better incentive-compatibility qualities. In addition, quantity adjustments should be induced by exogenous factors, and not by strategic goals. Williamson (1979), nevertheless, argues that price adjustments can be made, despite the hazards of opportunism. Price adjustments are however limited to be or relate to exogenous, germane, and easily verifiable events (Williamson 1979:250-254). The author disclose that requirements of both quantity and price adjustments would render idiosyncratic exchange impossible.

Thus, while Williamson (1991) recognizes the existence of internal coordinating mechanisms, and their assumed ability to diminish opportunism inside organizations, he is more reluctant to acknowledge inter-organizational coordinating mechanisms and their potential to attenuate opportunistic behavior across organizations. Consequently, when considerable adjustments must be done, internalization of transactions is recommended (Williamson 1979, 1991).

According to relational contract theory (Macneil 1980) accounted for below, other more informal governance mechanisms are seen predominant and highly efficient in order to manage adjustments both inside organizations and across organizations.

efforts to take advantage of (rely on) the letter of contract when the spirit of the exchange is emasculated" (79:240).

2.2 Relational contract theory

Definitions of contract

In more traditional contract in law perspectives *promise* is understood as a central concept. According to these perspectives (see 2.1.1), contract can for example be defined as "*...a promise or a set of promises for the breach of which the law gives a remedy, or the performance of which the law in some way recognizes as a duty*" (Macneil 1980:4,5).

Macneil's definition of contract differs significantly from definitions of contract in traditional law perspectives, as he defines contract as "*...no less than the relations among parties to the process of projecting exchange into the future*" (1980:4). Related to the concept of promise in contracts, and in contrast to the discrete contract paradigm, the author stresses that in a great number of contractual relations promise is of less importance and is less effective as an exchange projector. Several reasons underlie the above position.

The co-existence of promissory and nonpromissory projectors

First, promissory projectors are thought to be less important because of the existence of nonpromissory exchange-projectors, such as customs, status and habits, which are present in all societies. Thus, because contract occurs in society, Macneil (1980) disagrees with the idea that no relation exists between business partners except the simple exchange of goods. Contract between totally isolated, utility-maximizing individuals cannot possibly be thought of as contract, but rather war. As a consequence, the theoretical construct, discrete transaction can not exist neither in theory nor in reality.

Macneil (1980) contends that although some nonpromissory projectors, such as kinship, might be more important in societies characterized by a low level of division of labor, nonpromissory exchange-projectors are highly relevant for modern and complex societies as well. Some nonpromissory exchange-projectors, such as positions of command in hierarchies (in organizations) and bureaucracies are even more prominent in modern society. Macneil (1980) underscores that the abovementioned nonpromissory projectors often will be accompanied by promises. Promissory projectors are always accompanied by nonpromissory projectors. In order to govern and project exchange into the future, business partners, therefore, usually resort to both promissory and non-promissory projectors.

Second, in societies characterized by a complex and advanced division of labor promises will typically remain fragments of any contractual relation or transaction no matter how discrete, among other factors, due to human beings limited capacity to absorb information (i.e. bounded rationality). Thus, the inherently fragmentary nature of promises is also thought to explain the co-existence of both promissory and nonpromissory projectors in contracts.

The latter explanatory factor relates to how promises are understood. Business people are in a number of contexts thought to have an overt or tacit recognition that the promise made never is exactly the same as the promise received. This position is due to the fact that a promise always contains two promises, the buyer's and the seller's. As a consequence a number of non mutual understandings and interpretations might arise. Nevertheless, empirical studies (e.g. Macaulay 1963) explain that in contractual relations "*(m)uch promise breaking is tolerated, expected, and, indeed, desired*" (Macneil 1980:9). Thus, in order to compensate when promises are seen as less than absolute, nonpromissory projectors will occur.

2.2.1 Discrete transactions and modern contractual relations

Macneil (1980) gives a description of discrete transactions and modern contractual relations in his elaboration on "*The New Social Contract*". In order to elucidate differences between the two types of contract he presents them as fictional constructs at both ends of a continuum. Below, we see that modern contractual relations, in contrast to discrete transaction, integrate relational aspects in contracting. Business people involved in exchange are presumed to act according to prescribed norms and practices in society and in the specific business relationship. Thus, presuming that economic actors want to establish business relations in the future, one expects business partners to act in harmony with the existing norms, thus relying on a number of nonpromissory projectors (e.g. relational norms such as solidarity and flexibility). In discrete transactions however, promissory projectors are predominant, such as formal agreements and substance issues. We will not go through each dimension in detail, instead we present a summary in table (2.1) where all the dimensions are shown for discrete and modern contractual relations respectively.

Table 2.1 *Discrete transactions and modern contractual relations*

Discrete transactions	Modern contractual relations
<p><i>1. Personal relations</i> Nonprimary Limited in scope Involve a small part of the personality Formal communication</p>	Primary Unlimited in scope Involve the whole person Informal communication
<p><i>2. Numbers</i> Two parties</p>	A large number of people
<p><i>3. Measurement and specificity</i> High levels of measurement and specificity</p>	High levels of measurement and specificity Emphasis on processes and structures in the ongoing relation
<p><i>4. Sources of contractual solidarity</i> External sources of contractual solidarity</p>	External and internal sources of contractual solidarity Internal and external sources are closely intertwined
<p><i>5. Planning</i> High degree of measurement and specification <i>5.1 Substance process</i> Exclusive focus on substance issues <i>5.2 Completeness-specificity</i> Complete and specific <i>5.3 Tacit assumptions</i> Non-existent <i>5.4 Participation</i> Unilateral planning acquiring mutuality only by adhesion of the other <i>5.5 Post-commencement planning</i> Non-existent <i>5.6 Bindingness</i> Entirely binding</p>	High degree of measurement and specification Focus on both substance issues, structures and processes Incomplete Existent Mutual participation in planning Existent Subject to change
<p><i>6. Sharing and dividing benefits and burdens</i> Benefits and burdens are sharply divided between the parties</p>	Benefits and burdens are sharply divided between the parties Benefits and burdens are shared
<p><i>7. Obligations</i> Originate from the promises of the parties</p>	Originate from the promises of the parties Originate from the relation itself
<p><i>8. Transferability</i> Transferable</p>	Transferable
<p><i>9. Attitude</i> <i>9.1 Awareness of conflict of interest</i> High awareness of conflict of interest <i>9.2 Unity</i> Non-existent <i>9.3 Time</i> Presentiated <i>9.4 Trouble</i> Non-existent</p>	High awareness of conflict of interest High levels of interdependence produce common interests Presentiated and not presentiated Existent
<p><i>10. Power, hierarchy and command</i> The relative power of dependence is static, and given initially</p>	The relative balance of dependence is dynamic and becomes a product of the ongoing relation

2.2.2 Intermediate contract norms

Macneil (1980) further argues for the existence of intermediate norms. Intermediate norms are customs, social habits, morality and the like, which are thought to play a crucial role in economic life and in society in general. These norms can be either internal or external. Norms enforced by the legal system is an example of an external norm. Internal norms are specific for a particular relationship. However, internal and external norms typically merge in societies. Macneil (1980) develops nine intermediate norms: 1) role integrity, 2) mutuality, 3) implementation of planning, 4) effectuation of consent, 5) flexibility, 6) contractual solidarity, 7) the linking norms: restitution, reliance, and expectation interests, 8) creation and restraint of power, and 9) harmonization with the social matrix (See 1980:36-59). We will not give an account of all the above norms, however we will focus on a limited number relevant for this study.

Mutuality, flexibility and contractual solidarity

Mutuality originates "...from the fundamental nature of choice-induced exchange; it occurs only when all participants perceive a possible improvement from their pre-exchange positions" (Macneil 1980:44). By the norm of mutuality, we do not mean complete equality, but rather some kind of evenness. Given the existence of other alternatives to the parties taking part in exchange, mutuality entails the continuance of the relation. The sources of the norm of mutuality are several. Contractual solidarity, the social matrix of modern technological societies, and contractual norms developed in the specific relation, represent some potential sources.

As a result of human beings bounded rationality and the continuous changes in the economic world, the norm of *flexibility* is needed in contracting. In discrete contracts, the norm of flexibility will be found outside the transaction. The flexibility, therefore, is limited to the scope of transaction. In contractual relations, the norm of flexibility is internal within the relations, partly because of the nature of exchange (e.g. contracts are incomplete and long term). *Contractual solidarity* is the norm of maintaining exchanges together. No exchange would be possible without this norm.

The linking norms: restitution, reliance and expectation interest

The restitution interest is seen as the problem caused by someone profiting by making *promises* and then breaking them. The reliance interest is viewed in terms of reasonable reliance on *promises*. Finally, the expectation interest is similar to what has been *promised* (Macneil 1980:53). The above norms are called the linking norms because they have the capacity to link the other norms to more accurate rules of behavior, including legal rules.

In discrete contracts "*...the restitution, reliance, and expectation interests are served by rigorous adherence to their promissory definition, letting all else fall as it may*" (Macneil 1980:55). In modern contractual relations, the abovementioned linking norms will be subject to change in the ongoing relationship. The existence of nonpromissory projectors in contractual relations, which are thought to represent the foundation of *reliance interests*, contributes in making these relations work.

Creation and restraint of power

The author underpin that power is inherent in the concept of exchange. In order to make the abovementioned concepts happen, as the act of consent, the planning, the linking norms and the like the participants must have the ability to create and change power relations. In contractual relations we can find different types of power, such as economic, social, political, and finally legal power. Contracts are also heavily governed by the norm of restraining power. The other norms previously treated, such as mutuality, contractual solidarity and flexibility play a major role in restraining power in contractual relations.

In the outline on non-contractual practices that follows, we illustrate how and why our previous explanation of informal contractual governance mechanism functions in a business context.

2.2.3 Non-contractual relations

Prior to Macneil's (1980) elaboration on relational contracts, Macaulay (1963) revealed non-contractual relations in business contexts, and more specifically the functions and disfunctions of contract in an industrial context. We contend that Macaulay's findings highlight ideas on relational contracting presented earlier. With reference to his study, Macaulay (1963) understands contract by referring to two distinct elements (1963:266):

- a) *rational planning of the transaction with careful provision for as many future contingencies as can be foreseen, and*
- b) *the existence or use of actual or potential legal sanctions to induce performance of the exchange or to compensate for non-performance.*

In his article Macaulay (1963) gives account for the findings related to the use and non-use of contract in business relationships. In our proposal however, we will focus on the author's tentative explanations with respect to the limited practice and focus on detailed planning and legal sanctions in business relationships.

Tentative explanations of non-contractual practices

According to the author, business people usually do not see the need of contract in most situations. Several explanatory factors explain this statement. First, business people see other safe-guarding mechanisms as more effective. Consequently, business people prefer to rely on non-contractual governance mechanisms. In addition, in order to avoid misunderstandings and conflicts when it comes to expectations of, for example quality, products are often standardized and specified by professionals in the industry. The use of standardized purchase or seller order forms are also common in exchange. As a result, costs related to the writing and negotiation of contract is lowered.

Second, organizational members tend to follow norms widely accepted in the industry. One reason for this is that organizational members are continually confronted with the ruling norms, either by internal sanctions inside a department in the organization, or across levels in the organization. Organizational members are also confronted with sanctions across organizational boundaries. This is a position, which leads us to the third explanation.

Usually, business people have expectations for exchanges in the future. It is, therefore, in their interest to perform according to shared norms and values in an industrial context or in a specific business relationship. Business people are well aware of the fact that dishonest behavior and bad performance lead to negative reputation and negative reputation is seen as very damaging for future business exchange. Thus, according to the above explanations, informal and non-contractual practices are seen as effective governance mechanisms in business relationships.

Contract and undesirable consequences

In addition to the perception that contract is not needed contracts may also possess undesirable consequences. For example, claims from one party regarding details in contracts in order to plan contingencies is often seen in conflict with the norm of flexibility so often needed in contracting. Requirements of details in contracts may also be interpreted as a demonstration of lack of trust in your business partner, and hence create conflicting exchange relationships. Solving exchange conflicts by litigation or by the threat of litigation is also seen as costly and very damaging for future business relationships. Most business people will, therefore, make an effort to avoid a trial in court. Despite the negative feelings with respect to contracts, contractual practices however exist. A number of reasons underlie this fact. First, comprehensive planning is conducted when "*...planning and a potential legal sanction will have more advantages than disadvantages*" (1963:278). Thus, contract is needed when there is a probability that significant problems will arise. Second, detailed planning is usually accomplished when the contract can ease the communication inside the organization (e.g. between the sales manager and the product manager).

Summary

Findings in Macaulay (1963) show that basic behavioral assumptions, such as trust and good faith are common in business relationships. Non-contractual mechanisms are also seen as more efficient when it comes to making adjustments and solving disputes in an ongoing relationship. Opportunism seemed not be the ruling behavioral assumption among business people. In order to cope with adjustments, non-promissory projectors were present in most cases and were seen as or even more effective than promissory projectors. The norm of flexibility was in many situations seen as more important than detailed planning. Finally, common norms widely held in the business context represented effective sanctions towards individuals behaving in disharmony with the norms. The above-mentioned findings harmonize with Macneil's (1980) elaboration on modern contractual relations, as he contends that societal and relational aspects constitute important and efficient governance mechanisms in order to manage business relationships.

Transaction cost theory, however, is more reluctant when it comes to reliance upon more informal governance mechanisms across organizations. According to transaction cost theory, informal mechanisms, such as social norms are only effective and reliable inside organizations, and thus, bound to organizational boundaries. One exception is idiosyncratic exchange, where highly specialized assets produce a kind of bilateral monopoly. However, in bilateral exchange adjustments are thought to produce major contracting problems. Requirements of major adjustments will, therefore, according to transaction cost theory constitute a recurrent problem, mainly because of the presumed opportunistic behavior and because more formal governance mechanisms are seen as superior to more informal mechanisms. In accordance with earlier accounts we suggest that it is not only a question of either structural or relational ties, but that these two aspects constitute a multi-level issue in exchange.

2.2.4 The existence of both discrete and relational aspects in business relationships

Although relational contract theory emphasizes more informal governance mechanisms, and transaction cost theory highlights more formal mechanisms, neither Macneil (1980) nor Williamson (1979) rejects the existence and importance of both formal and informal governance mechanisms in business exchange.

With reference to Macneil's (1980) elaboration on discrete transactions and modern contractual relations, and accordance to table 2.1, we see that modern contractual relations possess both discrete and relational aspects (specifically dimension: 3, 4, 5, 5.2, 6, 7, 9.2).

The logic and explanation behind the need for discrete elements in contracting vary however between transaction cost theory and relational contract theory. Macneil (1980) argues that discrete elements in modern contractual relations are needed as a governance mechanism due to the advanced and complex division of labor in modern society. Transaction cost theory does also acknowledge complexity, but the underlying assumption of opportunism is central in order to bring forth the need to safeguard.

With respect to arguments leading to our research question (section 1), we contend that our view is not in conflict with either transaction cost theory or relational contract theory, but we see business relationship as a multi-level phenomenon, possessing both

structural and relational ties. Moreover, we assume that specific organizational and inter-organizational dimensions influence the impact of structural and interpersonal ties upon relationship outcome.

In the above-mentioned article, Macaulay (1963) also addresses multi-level phenomena in business relationships

2.2.5 Business relationships are multi-level phenomena

Macaulay (1963) makes clear that interpersonal ties across levels in an organization as well as across organizational boundaries do affect the ongoing business relationship. Although, personal relationships across levels of the two business units put pressure on individuals to perform in conformity to expectations, conflicts and incompatibility, however, typically exist among personnel across levels and firms. Different norms, cultures, rules, procedures, professional background and the like often exist intra- and inter-organizations. A salesman and a buyer may have dealt with each other for several decades, and a close relationship, which involves more than pure economic exchange may typically evolve. Top managers of businesses may also know each other socially in other settings, e.g. in trade committees and in rotary clubs. The author hereby makes clear that business relationships are a multi-level phenomenon. Macaulay's (1963) account for multi-level issues does also reveal an assumption of heterogeneity inside an organization as well as between organizations.

Perceptions of the need of contract

The above-mentioned accounts bring forth potential conflicts when it comes to perceptions of the need of contract. In consistency with the above outline on tentative explanations of business people's perceptions on contract, Macaulay (1963) argues that organizational members in different levels and departments in an organization and across organizations will have different attitudes towards the need to use contract. Salespeople are typically often opposed to use contracts, as contractual negotiations may represent "*...a hurdle in the way of a sale*" (1963:279). "*Holding a customer to the letter of the contract*" (1963:279) can also be damaging for future customer relationships.

Purchasing agents and their buyers are typically less hostile to contracts, but they may consider planning contracts as a waste of time. The control department, for example the treasurer might view contracts as an adequate organizing tool controlling the

activities inside the organization. Based on Macaulay's (1963) account on differences in the perceptions on the need of contract, we suggest that people at lower levels in the organization, such as sales-people and buyers, are more reluctant towards the use of contract. One reason for this might be that boundary spanners deal directly with representatives in other organizations. One might, therefore, suspect that relational components are involved when boundary spanners negotiate and establish business exchange. Consequently, individuals at lower levels in the organization are assumed to act in a more heterogeneous way. Although Macaulay (1963) addressed the multi-level issue years ago, researchers in the marketing field have, to a little extent, investigated business-relationships with a multi-level perspective (Fichman and Goodman 1996). In order to clarify our multi-level argument we give a theoretical foundation for multi-level studies in the following section.

3. A theoretical foundation for multi-level studies

3.1 Introduction

Rousseau (1985) underscores that most phenomena, which are investigated in organizational research³ intrinsically possess multi-level and cross-level characteristics. Multi-level issues should therefore be of great importance and interest in organizational research. Unfortunately, until today, few theories in organizational research address multi-level issues (Rousseau 1985). During the last decade, however, a variety of multi-level research has emerged⁴. In the field of inter-firm relationship marketing, the number of articles dealing with multi-level issues is even fewer (Fichman and Goodman 1996, Doney and Cannon 1997, Rokkan 1999).

A great number of theories in organization theory derive from several basic disciplines, such as psychology and sociology. Traditionally, research in organizational behavior has adopted the levels emphasized in the parent field. Rousseau (1985), however, argues for increased multi-level research as a means to establish organizational behavior as a discipline in its own right⁵. The neglect of multi-level issues make, for example, research dealing with organizational behavior hardly distinguishable from that published by their colleges in psychology and sociology (Whetten 1978).

Klein, Dansereau and Hall (1994) offer a theoretical argument for elaborating multi-level studies. The authors claim that three alternative assumptions underlie the specifications of levels of theory throughout organizational behavior:

- a) homogeneity of subunits within higher level units
- b) independence of subunits from higher level units
- c) heterogeneity of subunits within higher level units

³ In the theoretical articles dealing with multi-level issues (Rousseau 1985, Klein et al. 1994, House et al. 1995), the authors discuss organization theory and organizational research. In the current study, we are dealing with inter-organizational issues as well. We, however, contend that what the above-mentioned articles say about organizations and multi-level issues is equally relevant for inter-organizational research. For practical reasons, we use the term organization, as the authors do, when elaborating on multi-level issues.

⁴ House, Rousseau, and Thomas-Hunt (1995) reviewed six years of publications in two journals, *Administrative Science Quarterly* and the *Academy of Management Journal* from 1988-1993. These journals were chosen primarily because they are the leading U.S. journals in Organizational Behavior. Articles were defined as meso research when the examined effects spanned at least two levels, and included both micro and macro phenomena. The authors found 124 articles (32,2%), which could be classified as meso. The authors make a further classification, along different characteristics, for further reading (1995:104-106).

The authors further argue that the aforementioned "...assumptions influence the nature of theoretical constructs and propositions and should, ideally also influence data collection, analysis and interpretation" (Klein et al. 1994:195). The majority of the literature in the organizational field dealing with level issues put emphasis on the alternative assumptions: a) homogeneity and b) independence. The alternative assumption of heterogeneity has been dealt with in some previous work on level issues⁶ (e.g. Dansereau, Graen and Haga 1975, Rafaeli and Sutton 1991, Porter 1980). The authors, however, claim that the meaning, relevance and implications of heterogeneity have to a little extent been explored in the organizational literature. The authors further present a framework comprising guidance for level issues in theory development, data-collection and data-analysis⁷. In contrast to previous contributions (mostly statistical approaches) on level issues (one prominent exception is Rousseau's (1985) typology of mixed-level theories), the authors present a theory-based approach to multi-level issues. Literature having a statistical approach focus on, how to justify aggregation, how to analyze data in accordance with the level of theory, and/or how to analyze multilevel data (Klein et al. 1994). In organization research there has been controversy and confusion regarding the appropriate level of analysis, and thus the appropriate conclusions to be drawn from research in various topics. Klein, Dansereau and Hall (1994), however, claim that statistical approaches have not been able to solve levels-related ambiguities, controversies, and critiques. The authors instead argue for an emphasis on the primacy of theory in addressing levels issues. A theory-based approach, nevertheless, is not seen as incompatible with statistical indicators used to test level issues.

3.2 A theoretical foundation for meso theory and research

While House, Rousseau and Thomas-Hunt (1995) recognize the growing number of multi-level research, they acknowledge the lack of "...a coherent framework to guide, codify, accumulate, and integrate such research" (House et al. 1995:71). In order to argue for the need to integrate both macro and micro variables in this study, we will

⁵ From 1988 to 1993, 67% of the empirical articles in the leading journals addressed either micro or macro organizational level of analysis, and ignored the other (House et al. 1995).

⁶ We choose not to go in depth these examples as they do not deal with inter-organizational phenomena.

draw on insights and propositions elaborated in House et al. 's article: *"The meso-paradigm: A framework for the integration of micro and macro organizational behavior"*.

Meso theory and research concerns *"...the simultaneous study of at least two levels of analysis wherein a) one or more levels concern individual or group behavioural processes or variables, b) one or more levels concern organizational processes or variables, and c) the processes by which the levels of analysis are articulated in the form of bridging, or linking, propositions"* (House et al. 1995:73).

The authors offer critics towards both the macro paradigm and the micro paradigm, and claim that these paradigms possess inherent limitations, which in turn lead to non-specified theories of organizational behavior. In order to encourage further meso-research they give descriptions of how micro and macro theory and research can be incorporated into the meso paradigm. House et al. (1995) also suggest a number of propositions illuminating ways of linking macro and micro phenomena.

Inherent limitations of macro-theories

Impersonal aspects of organizations are addressed by macro theory, since it deals with *"..the behavior of organizations as entities and the nature and effects of their formal and collective parts"* (House et al. 1995: 75). The major causes for organizational actions and performance are assumed to be organizational form, technology, and environmental properties. Several macro variables are uniquely attached to organizations, e.g. hierarchical differentiation, chains of command, formalization, standardization and centralization. Examples of well known macro-theories in the inter-organizational field are agency theory, resource dependency theory, and transaction cost theory.

A common weakness of these theories is their tendency of making *"...predictions of organizational functioning and performance while treating individuals and groups as "black boxes" whose functioning they do not explain"* (House et al. 1995:76). All that matters is just impersonal social, political, economic and historical forces. Human processes and the role of human agency have received little attention in these macro theories, despite a growing number of empirical studies demonstrating that individuals and groups influence macro phenomena (e.g. Miner 1987).

⁷ We will not give a detailed presentation of Klein et al. 's elaboration in this section, but relevant insights and propositions from the article will be used when adequate throughout the proposal.

Micro-level phenomena and their potential impact upon macro-level phenomena

Micro-level phenomena are thought to have potential impact upon organizations. One basic reason for this is that organizations do not act, but organizational members do. Not all organizational members do, however, have an equal potential in order to affect organizational-level phenomena. Staw and Sutton (1992) suggest several processes by which micro forces have effects in organizations. Organizational members occupying specific organizational roles are assumed to have a great deal of discretion in representing organizations, such as salespersons, retail buyers, recruiters, investment bankers etc. Powerful individuals possessing top-manager positions can formulate strategic decisions influencing behavior in the organization. Organizational members at lower-order levels (e.g. in sales departments) may, however, influence the implementation of strategies initiated by individuals at higher-order levels. Organizational climate and culture are thought to be the aggregate of individual attributes, beliefs, and emotions (House et al. 1995). There are thus a number of ways that individual and group level behavior affects organizations. For example, boundary spanning groups both affect organization structure and themselves are affected by structure (Ancona 1990). Boundary spanning individuals are also assumed to potentially influence the decision making not only within their own organization but also in partner organizations (Gulati 1998). In parallel with the emphasis put on relationship marketing strategies, micro-phenomena, such as the role and importance of the salesperson, have gained increased attention in the marketing literature. Little research has however addressed relative effects of micro and macro variables in inter-organizational settings (Fichman and Goodman 1996).

The need for meso theorizing in order to develop a meso paradigm

House et al. (1995) give six arguments for the need to integrate micro and macro phenomena in research in order to understand organizational behavior. First, they underpin that 1) several micro and macro phenomena are unique to organizations; 2) meso research can contribute to specify the appropriate level of analysis; and thereby avoid level-related measurement problems and ambiguities; 3) there are a number of

phenomena which are common across levels of analysis and hierarchical echelons⁸; 4) there are a number of phenomena which vary across levels of analysis and hierarchical echelons, 5) postulating questions within a meso perspective offers a more integrative investigation, and last 6) the meso framework permits "*...codification of empirical findings in a manner that reveals consistencies and gaps in knowledge and facilitates accumulation of knowledge*" (House et al. 1995:79).

Furthermore, the authors claim that if scholars in organization theory shift their focus of research and variables to the study of organizationally relevant behavior in organizational contexts and develop tools to conduct research within this perspective, a new paradigm will emerge.

3.3 Linkages between micro and macro phenomena

Meso research investigates the relationships between organizational contexts and behavior of individuals, groups, organizations and the like, and evaluates how those relationships shape outcomes. As mentioned earlier, there is a constant mutual feedback process going on in organizations linking macro phenomena and micro-phenomena. In order to elaborate on meso research we need mechanisms which can "*...help us conceptualize the complex relations between units at different levels of analysis, or at different hierarchical echelons, in organizational settings*" (House et al. 1995:86). In addition, the authors explain that there are "*...several processes by which micro and macro variables interact and affect each other in ways important for organizational scholars...*" (House et al. 1995:87). The three generic meso processes considered important are: *isomorphisms*, *discontinuities* and *interlevel relationships*. Within these three groups several under-categories are identified. In this proposal however we only give an account for the phenomena considered relevant to our study.

Isomorphisms

Isomorphism is the degree to which the constituent component of a phenomenon and the relationships among the components are similar across levels of analysis (House et al. 1995: 87). House et al. (1995) argue that when isomorphisms are identified, consistent patterns of important behavior across individual, group, and organizational

⁸ In order to distinguish two qualitatively different levels, House et al. (1995) employ the word *echelon* to refer to hierarchical or organizational levels, while *level of analysis* refers to, for example individuals, dyads, groups, organizations or cluster of organizations.

processes are revealed, which, consequently, contributes to the integration and coherence of organizational research. Scholars should therefore search for isomorphisms in order to develop theory of behavior in organizations. A description of an isomorphic phenomena consists of two kinds of assertions (House et al. 1995:88): 1) a composition assertion specifying the underlying similarity of constructs at different levels of analysis; and 2) a multi-level assertion specifying causal relations between constructs, which could be generalized across levels.

The authors suggest five isomorphic phenomena: *inclusiveness*, *entrainment*, *selection effects*, *sense making* and *situational ambiguity*. Inclusiveness and entrainment are structural phenomena; selection effects and sense making are psychological processes; situational ambiguity is both structural and social phenomena. In our study we will focus on inclusiveness.

Inclusiveness

The concept of inclusiveness refers to the proportion of the activity of a unit dedicated to or involved in those of another unit (as in individuals in groups or task forces in organizations). *Inclusiveness* among units at different levels of analysis are hence thought to be an important moderator of effects of one level on another. The more the activities of one unit are involved with those of another, the more impact one will have on the other (House et al. 1995:89). The phenomenon of inclusiveness does not only occur inside organizational boundaries, for example, across echelons (i.e. hierarchies in organizations). The phenomenon occurs equally between organizations, such as among network partners, due to task interdependence, resources dependence, and institutional affiliations (House et al. 1995:90).

The phenomenon of inclusiveness is highly relevant to questions concerning the role, the function and the autonomy of boundary spanners. For example, a salesperson; who is highly dependent and integrated towards another department of the organization (e.g. the product development department) will have to play a different role than salespersons who is less included with respect to specific departments in the organization. A prominent example of boundary spanners with a low level of inclusiveness would be agents (or salesmen who work for different organizations, but are not regular employees). Agents who only work temporarily for organizations, would be less influenced by the culture, the norms, and other specific features connected to the organization, than a full-time employee. Consequently, we can

assume that his work motivation would be better predicted by individual predictions (or in some cases driven by the customers needs rather than by the needs of his temporarily employer). Agents with low levels of inclusiveness with the organization thus give rise to autonomous behavior (House et al. 1995).

House et al. (1995:90) postulate the following propositions:

- 1) *Effects of one level of analysis on another will be proportionate to the degree to which one level is included in the other.*
- 2) *Inclusiveness in a lower level unit of analysis will be highest when⁹:*
 - a) members of the lower units are disposed to be susceptible to the influence of higher level unit members
 - b) resources are shared by members of unit
 - c) information is shared by members of unit
 - d) members of units serve common clients or customers

Inter-level relationships and the relative effects of macro and micro level variables

With respect to inter-level relationships, the authors postulate propositions regarding the relative effects of macro and micro level variables on each other, and the moderating effects of organizational level on decisions (House et al. 1995:98). Moreover, the authors discuss under which conditions individuals tend to have a greater impact upon organizational-variables, and vice versa under which conditions organizational variables tend to have greater impact upon micro-variables.

We will summarize the discussion in the following propositions (House et al. 1995:99):

- 1) *Under conditions of situational ambiguity and where organizational routines and cultural norms have not been established, micro level variables (e.g. boundary spanners) will have their greatest influence on macro level variables (e.g. formalized processes).*

Thus, individuals are thought to have less impact upon organizational variables, when the organization is old, large and where stable and strong organizational cultures are

⁹ We only focus and point to factors relevant to this study.

institutionalized. Micro-phenomena are thought to have greater impact upon organizational variables when organizations are young.

The moderating effect of organizational levels

Another relevant dimension addressed by House et al. (1995) is the degree to which units at different echelons are loosely versus tightly coupled. A *tight coupling* is assumed to provoke dependence or interdependence. *Tight coupling* refers to the degree to which the behaviors of units of analysis covariate with each other. Behaviors of coupled units are assumed to be interactive (not additive), as they bring forth results by reciprocal influence and coordination. Thus, tightly coupled units are more interdependent, since the behaviors of the units are strongly relevant to each other. *Loosely coupled* units are more independent of each other and the behavior in each unit is less relevant to each other. The above discussion leads us to the following proposition:

1) *The tighter the coupling between and among units located at different hierarchical echelons or levels of analysis, the larger will the effect of actions taken by units at one echelon or level on the activities of units at other echelons or levels.*

The above proposition is highly relevant to studies dealing with business relationships. When we have a high degree of inclusiveness, the behavior of boundary spanners are assumed to covariate with the effect of structural factors. And as the two behaviors are interdependent, only high effects of both units can produce a positive relationship outcome.

4. Literature review

In this section we present studies dealing with business relationship dissolution, literature on how organizations affect individuals, and business studies with a multi-level perspective. The body of research investigating dissolution can roughly be divided in two parts, one, whose focus is the factors leading towards dissolution and who uses a quantitative approach, the other, whose focus is the process, and who employs a qualitative research design. In reference to the studies we intend to focus on the neglect of multi-level issues, and problems connected to this.

4.1 Studies investigating business relationship dissolution

In the empirical studies conducted by Ping (1993, 1994, 1995, 1997, 1999) the major focus is to examine either antecedents or structural constraints of retailer exit intention. Theoretical perspectives are mainly drawn from the political economy framework (Stern and Reve 1980), from economics (Hirschman 1970), employee turnover literature and the ending of intimate relationships (Duck 1982). Further, the author investigates existing relationships, and uses behavioral intention variables (e.g. the intention to exit, the propensity to exit) in order to test associations related to the termination of relationships. The empirical research is conducted in retailer settings using field surveys. Structural equation technique is used to analyze the data.

In Ping (1993), the author studied the effects of satisfaction and structural constraints on retailer exiting, voice, loyalty, opportunism, and neglect. The proposed antecedents were overall satisfaction with the relationship, and the relationship “structural constraints” of alternative attractiveness, relationship investment and switching costs. Exiting associations was explained mainly by satisfaction and alternative attractiveness.

In another study, Ping (1994) examined whether satisfaction moderates the association between alternative attractiveness and exit intention. The study supported the conceptual buyer-seller relationship framework proposed by Dwyer, Schurr and Oh (1987) showing that higher satisfaction attenuates the alternative attractiveness-exit intention association. The study provide significant findings, i.e. that satisfaction moderated the alternative attractiveness-exit intention association, and moreover, satisfaction attenuated the alternative attractiveness-exit intention interaction.

An examination of antecedents of retailer exit intention was done in Ping (1995). In addition to satisfaction, the author included traditional economic variables, such as retailer revenue and productivity, and hence tried to fill the gap in the channel reactions-to-dissatisfaction literature¹⁰. In this study economic variables such as revenue, return on investment, and revenue-per-employee were postulated to affect exit intention. Findings suggest that satisfaction was the most important antecedent of exit intention. Revenue, return on investment, revenue-per-employee, and competitive stores were about half or less influential on exit intention by comparison. Years in business and years with the wholesaler did not affect exit intention.

In his empirical study, Ping (1997) postulates that cost to exit, overall relationship satisfaction, and demographic variables affect a firm's voice. In addition, demographic variables, such as partner firm revenue, years with partner, years in business, the number of employees, revenue per employee, competition, and return on investment, are included in the study. In the study Ping uses the term structural commitment, which is argued to encompass the following dimensions: alternative attractiveness, investment, and switching costs. The author labels the second-order construct, cost-of-exit. Overall satisfaction had the largest overall effect on voice. Increased retailer cost-of-exit also enhanced the use of voice. Years with the wholesaler was positively correlated with satisfaction and cost-of-exit, which suggest that long-term relationships were associated with increased satisfaction and higher cost-of-exit. Therefore, years with wholesaler were positively, but indirectly, associated with voice.

In his study, Ping (1999) suggests that overall satisfaction with a relationship and lack of alternative attractiveness reduce exiting. Moreover, literature shows that the use of voice attenuates exiting. In his study, Ping (1999) tested the proposed linkages among exit-propensity¹¹, and other responses to relationship problems, such as loyal behavior, voice and neglect. Of the proposed hypotheses involving the relationship among loyal behavior, voice, neglect, and exit-propensity, all but the voice-exit-propensity associations were significant.

¹⁰ whose focus is psychosocial rather than economic

¹¹ Exit propensity is the disinclination to continue the current relationship

Heide and Weiss (1995) studied two aspects of buyer decision making in high-technology markets¹²: 1) whether buyers include new vendors at the *consideration* stage of the process, and 2) whether they switch to new vendors at the *choice* stage of the process. Further, buyer's consideration sets may be defined as *closed*, i.e. restricted to existing vendors, or *open*, i.e. can include new vendors. Moreover, the authors main focus is on the factors, which influence whether buyers include new vendors at the consideration stage of the process, and whether they stay with an existing vendor or switch to a new vendor, once the consideration stage is formed. Three categories of factors are included: 1) *buyer uncertainty*¹³, 2) *switching costs*¹⁴, 3) *situational factors*¹⁵. Findings show that prior experience had no significant effect on buyers consideration set decision. Switching costs had a limiting effect on buyer's consideration process. Moreover, vendor related costs restricted buyer's choice behavior. Decision importance demonstrated significant and negative effects upon buyer's propensity to use a closed consideration set. The variable did not demonstrate any significant effect on switching behavior. Buying process formalization was found to restrict the buyer's decision process, both at the consideration and switching phases. While, centralization of buyer authority influenced buyers with open consideration sets to favor new vendors at the choice stage. Centralization did not, however, affect the consideration decision.

Summary

Findings in Ping (1993, 1994, 1995) could indicate that overall satisfaction with a relationship serves as a form of mobility barrier. However, since the level is not specified, it is confusing what the author refers to¹⁶. We argue that multi-level issues are neglected in studies conducted by Ping (1993, 1994, 1995, 1997, 1999). The author refers in his articles to literature whose focus is interpersonal relationships (e.g. Duck 1982, Rusbult, Johnson, and Morrow 1986) without discussing potential problems connected to the analogy from individual-to-individual relationships to firm-to-firm relationships. By not taken into consideration the multi-level issue, the author, thereby, implicitly assume independence of individuals from higher-level

¹² which are characterized by high uncertainty and the presence of switching costs tied to technologies or vendors

¹³ pace of technological change, technological heterogeneity, and lack of experience

¹⁴ technology and vendor-related

¹⁵ buying process centralization and formalization, and purchase importance

¹⁶ For example is the respondent satisfied with the competence of the boundary spanner, or the ability of the adversary firm to deliver products in time etc.

orders or homogeneity of individuals within higher-level orders (e.g. Ping 1993, 1994). Heide and Weiss (1995) also lean to literature, whose focus is not a firm-to-firm relationship. We argue that constructs, such as experience, formalization and centralization are aligned to the organizational level without a sufficient theoretical argument. In Ping (1993, 1999) the behavioral response, neglect, was explained as ‘emotional’ exiting characterized by impersonal, reluctant, even ‘grudging’ exchanges. The measure was also explained as the intention to reduce physical contact with the partner firm. These are inherently individual-level characteristics, and the wording of the items gives the impression that the author deals with an individual-to-firm relationship¹⁷, although the author examines a firm-to-firm relationship (see section 1.4). Further, Ping (1993, 1999) explains that neglect involves reduced contact and reduced social exchanges, but not necessarily reduced exchanges with the other party. With regard to this construct it is not clear whether Ping (1999) means that disengagement originates from deteriorated interpersonal bonds, or whether other factors exogenous to the interpersonal relationship leading to business relationship termination leads to deteriorated interpersonal bonds.

A number of studies have investigated the dissolution of relationships by using a qualitative approach. In order to study this phenomenon this research draws on theories mainly from economics (e.g. Hirschman 1975), sociology (e.g. Simmel 1950), and social-psychology (e.g. Baxter 1985, Duck 1982). The majority of studies focus on the process of the relationship ending (e.g. Tähtinen and Halinen-Kaila 1997, Havila and Wilkinson 1997, Giller and Matear 2000, Alajoutsijärvi, Möller and Tähtinen 2000). Some authors do, however, discuss and propose factors influencing the process (e.g. Tähtinen 1998). Communication strategies employed by the actors during the dissolution process are also studied by some scholars (e.g. Giller and Matear 2000, Alajoutsijärvi, Möller and Tähtinen 2000, Tähtinen 2001). Potential factors connected to a relationship that would affect firm’s choice of communication strategies are specified *ex ante* by the authors. Being a minority, Havila and Wilkinson (1997) focus on the situation resulting after the dissolution of a business relationship.

The majority of studies use a qualitative research design with a strong weight on longitudinal case studies. Findings result, in some studies, in process models and

¹⁷ This is also the case for the constructs: investment, loyalty, exit, voice, and opportunism.

typologies (e.g. Tähtinen and Halinen-Kaila 1997, Tähtinen and Halinen 1999, Alajoutsijärvi, Möller and Tähtinen 2000, Tähtinen 2001) trying to cover all kinds of endings and all stages of the termination process. Thus, the main contribution of these studies within the literature investigating relationship ending is knowledge of the dissolution phase *per se* (Halinen and Tähtinen 2000). Although the authors main purpose of their research is to describe and understand the phenomenon of dissolution, we point to some suggestions and results from the studies.

Personal ties and effects

Havila and Wilkinson (1997) found that, although, interpersonal bonds existed, boundary spanner bonds did not demonstrate any influence upon the decision to end the focal relationships, due to factors either endogenous to the company (such as organizations policy or new market strategies) or because of exogenous reasons (such as political factors, market changes, network changes). This finding indicates that individuals taking part in business relationship activities have limited decision-making power with regard to major decisions. In contrast, with regard to the choice and use of communication strategies, relational bonds had an impact. For instance, Alajoutsijärvi, Möller and Tähtinen (2000) found that the beauty of exit was emphasized when strong personal bonds had been developed. Giller and Matear (2001) showed that prior closeness between the firms¹⁸ led to the use of less indirect and more other-oriented strategies. Social bonds also had the tendency to facilitate the termination of the relationship.

¹⁸ The authors refer to close relationships among boundary spanners.

Summary

Contrary to the studies presented earlier (Ping 1993, 1994, 1995, 1997, 1999, and Heide and Weiss 1995), the above studies discuss and include both individual- and organizational-level variables (such as personal relationships, technological bonds, inter-firm knowledge, contracts, norms and inter-firm roles). We, however, argue that the neglect of multi-level issues is likewise in this research tradition. The reason for this is the non-specification of levels, and the mix of levels (e.g. Tähtinen and Halinen-Kaila 1997, Alajoutsijärvi, Möller and Tähtinen 2000). Further, the extension of constructs from individual-level to organizational-level is rarely questioned nor theoretically justified. The ambiguity of the multi-level nature of a number of constructs is not addressed. In accord with Rousseau (1985), Heide and John (1994), Iacobucci and Ostrom (1996), and Blois (1999), we argue that alignment from one level to another ought a theoretical justification.

Moreover, the researchers employ a number of theories, whose focus is individuals, without discussing potential limitations when applying these theoretical frameworks on business-to-business settings. Some researchers do, nevertheless, address that business relationships are more complex, and that the theories employed may possess some limitations. For example, Giller and Matear (2001) explain that financial, legal, technical and administrative bonds in business relationships do render these relationships more complex and complicated. Alajoutsijärvi, Möller and Tähtinen (2000) state that Baxter's model did not completely grasp the multi-level and multi-actor complexity of the strategies so obvious in business relationships. A number of studies do also suggest that reasons or factors leading towards dissolution may come from multiple levels, such as the individual, the company, the dyad, the network and the environment (e.g. Havila and Wilkinson 1997, Tähtinen and Halinen-Kaila 1997, Tähtinen 2001). No theoretical discussion underlies, however, this account, and the relative effect of the various factors are not postulated. Consequently, it is unclear what kind of factor, or from which level the process of dissolution originates. Moreover, Halinen-Kaila (1997) and Tähtinen (2001) suggest variability among firms with respect to a number of firm characteristics, and that these may have an impact upon firms exiting and use of voice. These assumptions of heterogeneity are not, however, discussed theoretically and not proposed further for testing.

None of the scholars do discuss the issue that individuals in organizations act on behalf of their organization, and probably are affected by for example company

culture, norms and procedures, in contrast to individuals¹⁹ and consumers who act on behalf of themselves. Grønhaug, Henjesand and Koveland (1999) point to this issue and state that “*(s)ales representatives and purchasing agents are constrained and influenced by their organizational context as well, e.g. by organizational rules and procedures directing tasks and the way in which they are assumed to be done*” (1999:179).

One study addresses the possibility that individuals may be influenced by, e.g. the cultural dimension in contexts²⁰ (Halinen and Salmi 2001). Further, the authors address power differences among individuals at unlike hierarchical levels (2001:14). To conclude they point to the issue of managing personal relations, and thereby introduce the idea that macro-levels can affect individual relationships.

With regard to our study we argue that there is a need to specify the level of constructs, and to test constructs at different levels. Furthermore, we claim that variables, which appear to interact with the theoretical constructs in the study, should be included in the conceptual model on a logical and theoretical basis (McGrath and Brinberg 1983, Heide and John 1994, Klein et al. 1994). Halinen and Salmi (2001) suggest in their article that little is known about the role of personal contacts in the termination phase. Since, organizational members probably are affected by organizational and inter-organizational relationships, we argue that a multi-level perspective could shed light on this issue.

4.2 Organizational effects on individual’s behavior

Since we expect that variables at higher-level orders have an impact on variables at lower-level orders, it is of great importance to highlight the theory and logic behind our assumptions (Klein, Dansereau and Hall 1994). In this section we lean to Morand (1995) and his elaboration on formal and informal interaction orders. Further, we explain the logic behind and the effects of centralization, formalization and standardization. Moreover, we refer to the buyer center literature, which, we claim, take into consideration the multi-level issue.

¹⁹ in individual-to-individual relationships

²⁰ The authors do not specify what level, e.g. the nation, an industry setting, a company?

Formal and informal interaction orders

Morand (1995) gives an interesting elaboration concerning organizational context and how contexts can encourage either formal or informal "interaction orders". The author reveals how behavioral informality may be instrumental in the social construction of innovative, organic work of organizations and how formality is implicated in the social construction of bureaucratic, impersonal work organizations. With the terms formality and informality two distinct forms of "interaction orders" are meant. These two forms of interaction possess distinct sets of understandings or conventions about how actors are to orient and conduct themselves (Morand 1995). The former signals looser, more casual modes of behavior and situational involvement, the latter more disciplined, and more impersonal modes. Morand's (1995) elaboration ends up in a model showing how formality and informality can play a functional role in different types of organizational settings (1995: 843).

Morand's argument is highly relevant for the current study, because he addresses the potential impact of organizational factors upon the development of interpersonal relationships. In consistence with Morand (1995) we also underscore that not all organizations wish to encourage the development of close, personal ties. In some organizations, such as public offices, personal relations with clients are even thought of as inappropriate.

The logic behind and effects of centralization, formalization and standardization

Staw, Sandelands and Dutton (1981) discuss the logic behind increased centralization, formalization and standardization and their effects. The authors link the enhancement of control processes to threat. We, however, contend that their discussion is equally important to organizations in constant confrontation with different forms of environmental changes (e.g. competition, market changes etc.). In addition the authors discuss control processes with a multi-level perspective, which is highly relevant to the study. Staw et al. (1981) contend that for organizations it is logical to enhance control and coordination processes when they are exposed to threats. A general phenomenon in organizations follows:

"...as the importance of decisions increases, they are made at progressively higher levels within an organizational hierarchy, presumably because top-level decision making is less likely to differ from the core values or goals of the organization" (Staw et al. 1981:513).

Furthermore, the authors claim that "*(b)ecause lower-level personnel have more heterogeneous interests, it is also easy to see why a threat situation instills greater coordination and control*" (Staw et al. 1981:519).

To conclude, we assume that in organizations with high degree of centralization and formalization, organizational members at lower-order levels have less impact upon the decision making in the organization. The potential effect of interpersonal ties is therefore thought to have less impact upon decisions. In organizations with low degree of centralization and formalization the potential effect of interpersonal ties is expected to have greater impact.

4.3 Buyer center literature

The buyer center literature is relevant with respect to this study, among other factors, because a large number of the empirical studies employ a multi-level perspective, since they focus on individual, group or buying center, and organizational level variables. In the buyer center literature purchase decisions are also understood as complex. One reason for that is that a large number of organizational members are involved in the decision making. Dimensions at higher-level orders (i.e. at the buyer center-level and at the organizational level) are assumed to influence individual or group behavior.

Katrichis (1998) found that departmental level interaction patterns influenced organizational purchasing decisions. Morris, Berthon and Pitt (1999) suggest that the structure of industrial buying centers have an impact upon purchase decisions. A number of studies have examined the effect of buyer center structural dimensions on industrial boundary personnel behavior. According to organization theorists and organizational behavior scholars, complexity, formalization and centralization constitute the principal dimensions of organizational structure (Lau, Goh, Phua 1999). According to Webster and Wind's model, industrial buying behavior is influenced by (in an hierarchical manner) by environmental, organizational, interpersonal, and individual factors (Lau, Goh, Phua 1999). Shet (1973) explains that industrial behavior is influenced by situational factors, company-specific factors, product-specific factors and psychological factors.

Kohli (1989) gives an overview of the main research streams examining the composition of influence in buying centers. The first stream empirical studies show that individuals influence on purchase decisions is related to information control,

expertise, position in communication flows, specific self confidence, perceived importance in the decision, formal authority, reward power, risk or novelty of the purchase decision, and size of the buying center.

In the second stream, scholars investigate the pattern of influence of different positions or departments in buying decisions. Findings demonstrate that influence varied according to product type, the stage of the decision process, the decision type, organization size, and organizational structure.

Thus, according to the above outline a number of dimensions designating organizational structure; such as organization size, centralization and formalization; have an impact upon individuals influence on purchase decisions. Although, the above studies are conducted in a smaller context (the buyer center), we assume the results to be relevant for our study.

4.4. Business-to-business relationship studies with a multi-level perspective

We can think of several ways in which organizational and inter-organizational dimensions may favor or constrain the development of interpersonal ties. Based on an exploratory study, Brock Smith (1997) reveals that sales representatives and managers are able to identify a number of organizational factors, which they think impede the development of interpersonal relationships. His observations are in harmony with inter-organizational exchange theory, which underpin that separation in structure, strategy, goals, culture and technology must be overcome to actualize exchange.

Murry and Heide (1998) examined effects (independent and joint effects) of both interpersonal relationships and organization-level variables on two aspects of participation, more specifically 1) retailer agreement to participate in point-of-purchase programs, and 2) retailer compliance with established agreements. The authors found that the presence of strong personal relationships does not diminish the importance of other variables. Economic incentives (e.g. incentive premiums and monitoring efforts) were stronger determinants of participation than interpersonal relationships. Related to the findings they explain that "*(m)any manufacturers indirectly promote the use of weak ties by systematically rotating salespeople across retail accounts*" (1998:59).

Humphrey and Ashforth (2000) found that exit-voice strategies at the macro-level influenced interpersonal relationships between company representatives and buyers. Moreover, the empirical study showed that "*(b)ecause of strong environmental*

pressures operating on buyers and suppliers, the interpersonal communications buyers and supplier agents use does not reflect their individual personalities so much as it does the situation" (2000:728).

Perrien, Paradis and Banting (1995) revealed that the dissolution of relationships mainly depends on the seller's organization and policies.

Hughes (1996) reveals that British retailers establish close, interactive and collaborative relations with manufacturers in order to develop new own-label products (private label). The social and informal aspect of the relationship is thought to foster innovative product development. The same retailer may, however, establish a different type of relation with other manufacturers within basic own-label categories. These relations lack the aspects of innovation and collaboration, and tend to be more formal and adversary. In consistency with our account on interpersonal relationships in firm-to-firm exchange, these examples show that interpersonal interaction in business relationships tend to be more tangibly based in instrumental goals (see section 1.4).

One of the few studies dealing with business-to-business relationships, which explicitly focus on relationship constructs at more than one level is Doney and Cannon's (1997) empirical study examining the nature of trust in buyer-seller relationships. Doney and Cannon (1997) underscore the importance to recognize that trust of an individual differs in nature from that of an organization. *"Trust of a supplier firm and trust of a supplier's salesperson, though related, represent different constructs"* (Doney and Cannon 1997:35). The authors stress that a buyer can develop trust in a salesperson as well as in the supplier firm; however, the nature of trust will differ as we deal with an impersonal and a personal nature of the two targets of trust. The findings show, however, that neither trust in salesperson nor trust in the supplier were related to a specific purchase decision, but were related to intentions to use the vendor in the future. Also other studies have shown that the relationship between trust and outcomes, such as purchase decisions, are not obvious. Possible explanations might be that purchase behavior varies according to contextual factors, such as the level of dependency and the role that the salesperson plays (Doney and Cannon 1997). Wathne, Biong and Heide (2000) examined how relationship variables (social and structural) and marketing variables influence supplier choice. The study demonstrates that social bonds had limited effect relative to structural and marketing variables on supplier choice and the likelihood of switching. Social bonds do not, as previously

suggested in the literature, play the role of a buffer protecting against competition. The authors also found that buyers and suppliers hold systematically distinct views of the determinants of switching.

In reference to the above examples, we suggest that organizational and inter-organizational dimensions have an impact on the role boundary spanners play and consequently the potential effect of interpersonal ties on relationship outcome. Some of the abovementioned studies demonstrate that relationship variables (interpersonal relationships) in business-to-business contexts do not overplay the role of either structural and marketing variables. These findings are consistent with Iacobucci and Ostrom (1996) and Price and Arnould's (1999) position in that friendships in commercial settings (specifically in firm-to-firm structures) differ fundamentally from other types of friendships, and in that they are based more tangibly in instrumental goals.

5. Development of hypotheses and conceptual model

5.1 Likelihood of relationship dissolution

In the literature, empirical evidence shows that a number of factors are expected to reduce the likelihood of relationship dissolution. Scholars in the various literature fields, however, put emphasis on distinct aspects in business relationships, when it comes to potential impact upon the likelihood of relationship dissolution.

In consistency with transaction cost analysis, structural bonds in the form of partner-specific investments represent barriers with respect to breaking business relationships (Williamson 1985, Anderson and Narus 1990). Structural mechanisms for coordinating exchange, such as formalization and standardization procedures are also seen as effective in order to attenuate the likelihood of relationship dissolution (Van de Ven 1976, Williamson 1985).

An important body of research in marketing postulates that interpersonal bonds between boundary spanner personnel lower the likelihood of switching (Seabright et al. 1992, Wathne et al. 2000, Nicholson, Compeau and Sethi 2001). Relational contract theory (Macaulay 1963, Macneil 1980), theory of social embeddedness (Granovetter 1985, Uzzi 1996) claim that relational aspects within inter-organizational arrangements facilitate coordination and attenuate opportunistic behavior, and thereby lower the likelihood of breaking business relationships.

Accordingly, we formulate the following hypotheses:

H1: Structural ties are expected to reduce the likelihood of relationship dissolution

H2: Interpersonal ties are expected to reduce the likelihood of relationship dissolution

However, in harmony with our research question, we want to examine the impact of micro and macro variables on the likelihood of relationship dissolution, dependent upon specific organizational and inter-organizational dimensions. We thus assume that organizational as well as inter-organizational dimensions moderate the impact of structural and interpersonal ties upon the likelihood of relationship dissolution.

In consistency with our theoretical argument for multi-level studies (see section 3), we postulate the following proposition:

Proposition 1: *The impact of structural and interpersonal ties on the likelihood of relationship dissolution are expected to vary dependent on specific organizational and inter-organizational dimensions*

In accordance with earlier accounts for multilevel studies, we illustrate the theoretical multilevel proposition in the following model:

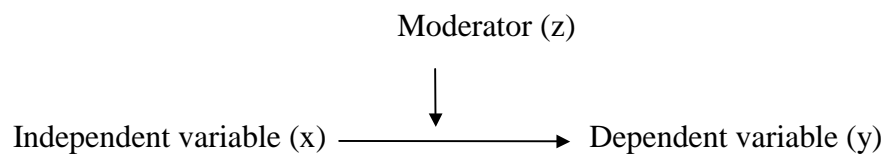


Figure 5.1: Cross-level model

In the above model interpersonal ties and structural ties are independent variables (x), organizational and inter-organizational dimensions are presumed moderators (Z), and relationship dissolution is the dependent variable (y).

5.2 Dimensions in organizations

Extant literature shows that specific dimensions in organizations have an impact on organizational members behavior (see section 4.2, 4.3). In harmony with our earlier outline, we assume that organizational characteristics, for instance, formalization plays a functional and instrumental role in order to favor or constrain the impact of interpersonal ties in business exchange. In this study, we assign our macro variables to the organizational level. We thus assume homogeneity across echelons with respect to the variables designating dimensions in organizations. Moreover, we choose two hierarchical dimensions: *centralization* and *formalization*. We also include *size of organization* as one dimension presumed to influence the impact of interpersonal ties upon the likelihood of relationship dissolution.

Centralization

By *centralization* we refer to the distribution of formal control and power within an organization (Lau, Goh and Phua 1999). In organizations with high degree of centralization, concentration of power and control are typically located among a limited number of organizational members, and likely at higher levels in the organization. In organizations with low degree of centralization, the distribution of power and control is more decentralized. In the study *centralization* is treated as the degree to which purchasing decisions are controlled and made by the boundary spanner or at higher levels in the organization (Lau, Goh and Phua 1999). In harmony with the proposed multi-level perspective we assume that the degree of centralization in an organization have an impact on boundary spanner behavior. We are, therefore, concerned with the structural relationship a boundary spanner has with respect to the organization he represents. Furthermore, we assume that the degree of centralization influence boundary spanners degree of autonomy making buying decisions. Whether boundary personnel acts in an autonomous way or whether buying decisions are taken at higher levels in the organization, is highly relevant for the potential impact of interpersonal ties upon the likelihood of relationship dissolution.

Formalization

By *formalization* we refer to the degree to which written plans, rules, policies, and procedures are clearly stated and followed by boundary spanners. In organizations with *high degree of formalization*, boundary spanners are assumed to have less discretion on, for example, purchase decision making. In organizations characterized by *low degree of formalization*, boundary spanners are thought to be more autonomous and enjoy more discretion in their decision making. In this study *formalization* is defined as the degree to which purchasing decisions are formally prescribed by rules, policies, and procedures required to be followed (Lau, Goh and Phua 1999). In consistency with the proposed multi-level perspective, we presume that the degree of formalization has an impact on boundary spanner behavior. Therefore, the focus is on the structural relationship a boundary spanner has with respect to the organization he represents. Degree of formalization is thought to influence the potential impact interpersonal ties has upon the likelihood of relationship dissolution.

Size of the organization

By *size of organization* we indicate the organization's overall size and its markets share position (Doney and Cannon 1997). According to House et al. (1995) and their account on the relative effect of micro and macro variables, organizational size, age and institutionalization need to be considered. The reason for this is that organizational members by socializing create specific social realities, which in turn evolves to specific norms guiding organizational behavior. These norms will in turn exist independently of the specific individual. When the organization is large, organizational specific norms are expected to have great impact upon individuals. When the organization is small, we assume that individuals will have greater impact upon for example norms existing in a firm. The authors thus contend that when organizations become large and mature, individual organizational members (micro variables) are assumed to have less impact upon macro level variables. Boundary spanners working in large size organizations are thus presumed to act in a non-autonomous way. In contrast, in small size organizations, boundary spanners are thought to act in a more autonomous way.

For example in very small organizations we might not find two levels, as the manager and the boundary spanner are the same person, or play the same roles interchangeably. In large firms, boundary personnel responsible for purchase decisions may have to consider and consult both higher level managers and other departments in the organization before making a purchase decision. In consistency with the research question, this study is concerned about the potential impact of interpersonal ties and structural ties upon the likelihood of relationship dissolution. With respect to this concern, Lovett, Harrison and Virick (1997) argue that small size organizations frequently compete and depend upon close interpersonal relationships with business partners, among other factors because small organizations are less able to compete on a cost basis. If social obligations are thought to be an important source of competitive advantage for small businesses, we assume that interpersonal ties have a great impact upon the likelihood of relationship dissolution. Large organizations, however, are less dependent upon specific organizational members, since the organization size exhibits a signal (e.g. reputation, competence, market share, etc.) that this firm can be trusted, independently of interpersonal relationships (Doney and Cannon 1997). We therefore assume that interpersonal ties have less impact upon the likelihood of relationship dissolution in large organizations.

In the current study and with respect to the research hypotheses, we assume that both structural ties and interpersonal ties will have an impact upon the likelihood of relationship dissolution (RD). Thus H1 and H2 are valid in reference to the following hypotheses formulated in this section. However, according to the research question we assume the effect of structural ties (ST) and interpersonal ties (IPT) to be moderated by organizational and inter-organizational dimensions.

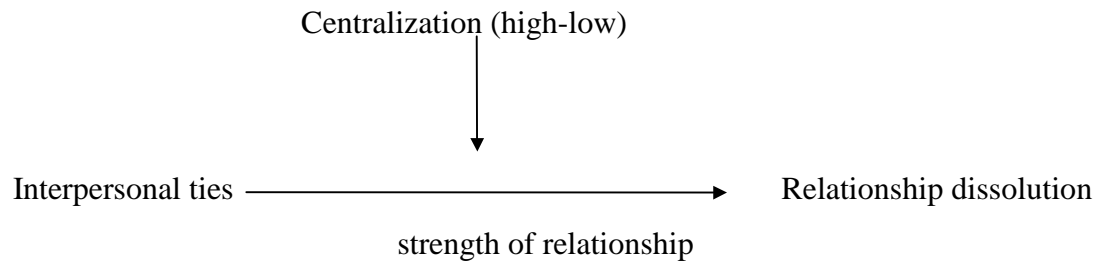


Figure 5.2: Moderating effects of centralization

Thus, in harmony with the above discussion the following hypotheses are formulated:

H3a: Presuming H2, we expect the effect of interpersonal ties upon the likelihood of relationship dissolution to be higher when 1) centralization is low, 2) when formalization is low, and 3) when organization size is small.

H3b: Presuming H1, we expect the effect of structural ties upon the likelihood of relationship dissolution to be higher when 1) centralization is high, 2) when formalization is high, and 3) when organization size is large.

5.3 Levels of inclusiveness

Earlier (see section 3.3) we explained the phenomenon of inclusiveness, and its assumed moderating effect of one level on another. The phenomenon of inclusiveness occurs across echelons as well as across levels. In this study we want to investigate if levels of inclusiveness (across echelons) moderate the effect of interpersonal and structural ties upon the likelihood of relationship dissolution. The *level of inclusiveness* we refers to the degree to which a boundary spanner is dependent and linked to the activities conducted by other members in the organization (House et al. 1995). First, we investigate the level of inclusiveness the boundary spanner in the focal organization has with respect to the organization he represents. Second, we want to examine the level of inclusiveness the boundary spanner in the adversary

organization has with respect to the organization he represents. Both structural relationships (i.e. the structural relationship boundary personnel has with respect to their organizations) are assumed to moderate the effect of interpersonal and structural ties upon the likelihood of relationship dissolution. Boundary spanners with high levels of inclusiveness are presumed to coordinate and manage activities and information across echelons and across levels. Boundary spanners ability to understand, to exchange information, and to solve conflicts among different departments and organizations, is thought to be of great importance in order to reduce the likelihood of relationship dissolution. Because of the number of tasks and the nature of organizational boundaries (such as levels of inclusiveness) interpersonal ties between boundary spanners are thought to have great impact.

Accordingly, the following hypotheses are formulated:

H4a: Presuming H2, we expect the effect of interpersonal ties upon the likelihood of relationship dissolution to be higher, when the boundary spanner in the focal organization has high levels of inclusiveness with the organization he represents.

H4b: Presuming H2, we expect the effect of interpersonal ties upon the likelihood of relationship dissolution to be higher, when the boundary spanner in the adversary organization has high levels of inclusiveness with the organization he represents.

In contrast, under *low levels of inclusiveness*, the boundary spanner role change as the nature of organizational boundaries becomes less complex. Abilities of information exchange, understanding and conflict solving are assumed to be of importance in situations with low levels of inclusiveness as well, but the challenges under these conditions are minor compared to situations with high levels of inclusiveness. Specific requirements regarding competence and coordinating abilities are, therefore, not as important in simple exchange as in more complex exchange. We thus assume that the effect of interpersonal ties is minor in situations with low levels of inclusiveness.

H4c: Presuming H1, we expect the effect of structural ties upon the likelihood of relationship dissolution to be higher when the boundary spanner in the focal organization has low levels of inclusiveness with the organization he represents.

H4d: Presuming H1, the effect of structural ties is expected to be higher when the boundary spanner in the adversary organization has low levels of inclusiveness with the organization he represents.

5.4 History with organization

Selling and buying in markets typically involve uncertainty and entail dependence. One way to reduce the amount of risk and to attenuate potential opportunistic behavior is to establish close and long term business relationships (Cannon and Perreault 1999). A major governance mechanism in business relationships, such as trust, most typically evolves over time. Thus, one might assume that the initial conditions and processes associated with the formation of the business relationship are not the same as those associated with their persistence (Seabright et al. 1992). Doney and Cannon (1997) make clear that prior history with business partners provide a framework for subsequent interaction. Håkansson and Snehota (1995), Chatman (1991), and Gulati (1995) explain that the existence of strong relationships often reflects prior selection and socialization processes between the parties. Previous business exchange also facilitates coping with potential conflicts (Dwyer, Schurr and Oh 1987), and increases the understanding of each other's idiosyncrasies (Williamson 1985).

Although, we recognize theoretically that history with organization can influence the selection of business partners, we focus on potential moderating effects of previous business exchange (history with organization) upon the impact of interpersonal ties and structural ties upon the dependent variable.

Macaulay (1963) highlights the role of personal relationships in managing exchange, and argues that interpersonal ties contribute to diminish opportunistic behavior. However, and accounted for earlier (section 1.2), interpersonal ties are related to the tenure of individuals in boundary-spanning roles. Strong reliance upon interpersonal relationships (and relational norms existing between boundary spanners) in business-to-business relationship in order to manage and coordinate inter-organizational exchange, could, therefore, represent a risky strategy. However, relational norms in business relationships may evolve and persist despite the occurrence of turnover in boundary spanner positions. The reason for this is that an institutionalization of habits, norms and rules of business practices typically arises as business exchange persists. The beliefs and social meaning shared by the members in the organizations involved

thus evolves to a specific culture, which is thought to survive and be transferred despite the fact that organizational members leave the organization (House et al 1995). Hence, relational norms, such as trust is not necessarily derived from a specific interpersonal relationship (relational trust) (see Rousseau, Sitkin, Burt and Camerer 1998), but may be created in a more intentional way in harmony with shared values developed in the business-to-business relationship (Lorenz 1988). Thus, in accordance with House et al. (1995), we suggest that variables such as organizational age, size and institutionalization have inter-level influence. When business-relationships are young, and an institutionalization of norms and business practices have not been established, interpersonal ties are assumed to have an impact upon the likelihood of relationship dissolution. In contrast, when business-to-business relationships have lasted for many years, interpersonal relationships are thought to have less impact upon the likelihood of relationship dissolution. The reason for this is that specific norms existent in business relationship are assumed to influence organizational member behavior. One might also assume that organizations are reluctant to jeopardize years of business exchange because of tension between two boundary spanners.

Accordingly, we hypothesize that:

H5a: Presuming H2, we expect the effect of interpersonal ties upon the likelihood of relationship dissolution to be higher when history with organization is short

However, we also contend that structural ties might have a great impact upon relationship dissolution when business relationships are young. A number of reasons underlie this position. In the beginning of a business exchange we can assume that interpersonal bonds are weak, and that positive effects of close interpersonal relationships have not yet been realized. Thus, investments of human assets among boundary spanners are assumed to be minor, and boundary personnel have less to lose if business relationships fail. We thus assume structural ties to have great impact upon the likelihood of relationship dissolution when history with organization is short.

H5b: Presuming H1, we expect the effect of structural ties upon the likelihood of relationship dissolution to be higher when history with organization is short.

Below we present our conceptual model:

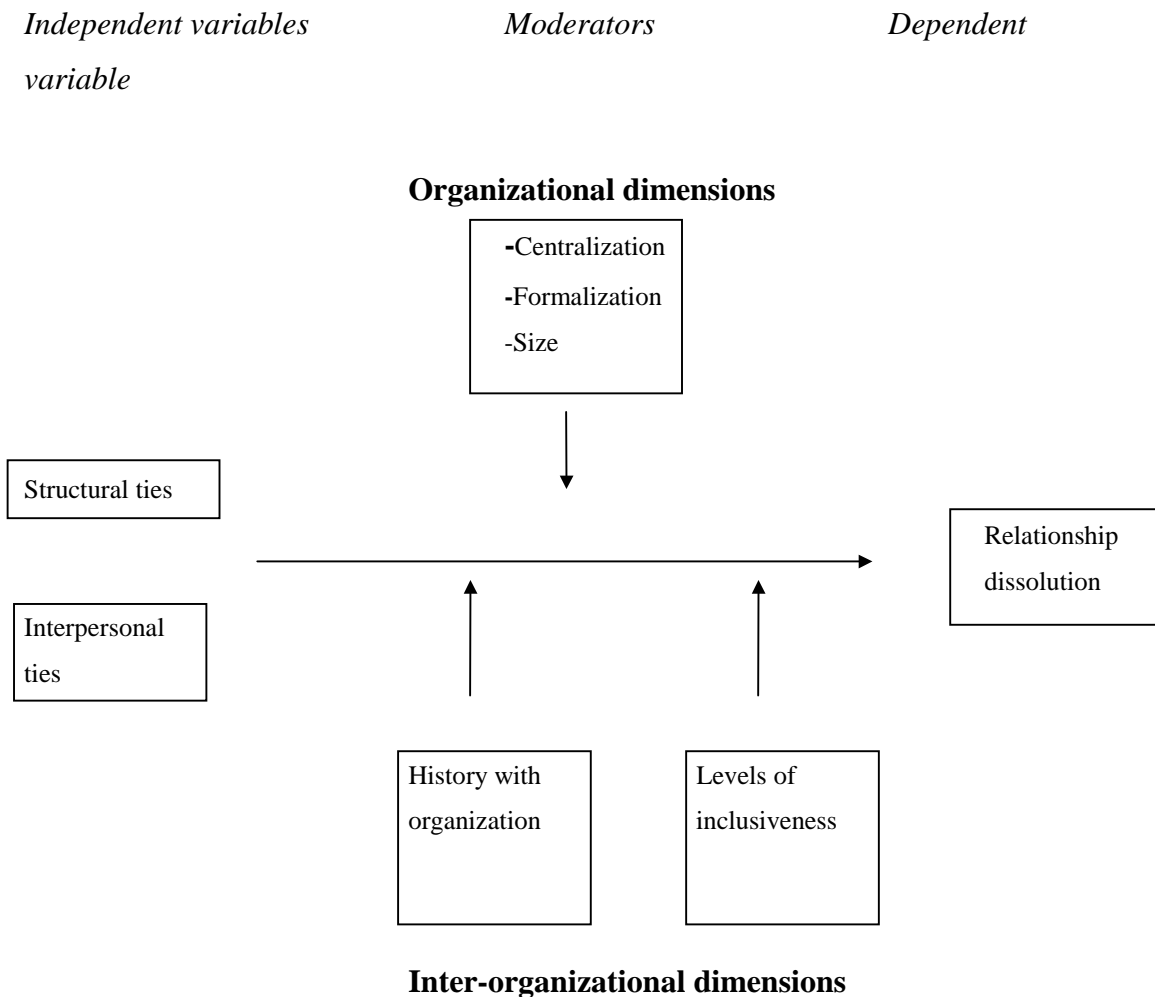


Figure 5.3: Conceptual model

Some suggestions for research design

As aforementioned, this doctoral proposal presents a theoretical foundation for an intended empirical study, consequently a thorough elaboration on methodological challenges connected to measurement, data collection and analysis are not included. However, to finalize we would give some suggestions concerning research design. The empirical research will be conducted in a market channel setting using a field survey, thus the methodological approach is a cross-sectional design. A structural equation technique will be used in order to analyze the data.

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