

Complete citation: Hastings, Kathy and Brown, Les and Ng, Eric and Cassidy, Frances (2006). Building quality international channel partner relations – a dyadic perspective. In Yunus Ali, and Maria van Dessel (Eds.). ANZMAC 2006 Conference Proceedings: Advancing Theory, Maintaining Relevance, 4-6 Dec 2006, Brisbane, Australia. Brisbane, Australia: School of Advertising, Marketing and Public Relations, Queensland University of Technology.

This is the final manuscript of the paper at <http://www.anzmac2006.qut.com/>

Building quality international channel partner relations – a dyadic perspective

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Abstract

This paper investigates how Australian exporters and importers in Japan and Malaysia rate their current business relationships and areas that need improvement. These areas were investigated in terms of the characteristics of the five states of business-to-business relationship development from the literature. A series of 25 in-depth interviews with Asian importers and Australian exporters about what constituted satisfactory trading relationship development from a dyadic perspective revealed that unless the early stages have been properly completed then consequent dissatisfaction in such relationships can be attributed primarily to communication problems emanating from neglect in the early stages. Conversely, excellent relationships exhibited characteristics such as trust, commitment, shared goals and co-operation.

Introduction

The importance of forming and maintaining business relationships has received increasing research attention over the last decade, however despite the growing number of cross-border business relationships being formed, applications of relationship marketing to international settings have so far been limited (Ambler and Styles, 2000). In the context of marketing channels, considerable attention has been paid to the construct of channel member satisfaction (Geysken and Steenkamp, 2000) however less attention has been paid to evaluating the relationship as a whole. It is recognised that most relationship marketing research does not specifically address dyadic issues with reference to both sides of the dyad with the exceptions of that of Deshpande, Farley and Webster (1993; 1998) and Ahmed, Patterson and Styles (1999) (Ambler and Styles, 2000). Therefore, the purpose of this paper is to evaluate current long-term relationships from both sides of the dyad and investigate the relation between the evaluation and areas of improvement. The research problem is '*how to develop quality relationships with international channel partners*'.

Literature Review

Research in international business, that is, exchanges between a supplier firm in one country and a customer firm in another, has shown that such exchanges are not based only on the 'buying and selling transaction', but can encompass a whole range of activities that build a

relationship (Axelsson and Easton, 1992). A relationship evolves when one of the firms takes the initiative and contacts the other party. Once the counterpart responds, interaction commences and both firms gradually make commitments based on the establishment of trust (Blankenburg-Holm, Erikson and Johanson, 1997). During this evolutionary process, each firm learns about each other. A synthesis of this process is provided in Table 1. The five states which are used in this research will be discussed next (Batonda, 1995; Blankenburg-Holm et al., 1996; Christopher, Payne and Ballantyne, 1991; Dwyer, Schurr and Oh, 1987; Ford, 1990; Gronroos, 1994). The term 'state' rather than the earlier terminology 'stage' which was developed to represent the fluid relationship development of a firm (Batonda, 1995) is used in this research.

Table 1: The evolution process of business relationships

State of relationship development	Authors	Characteristics evident in each state	Activities
Pre-relationships	Berry (1983); Dwyer, Schurr and Oh (1987)	Performance satisfaction, adaptation, length of time and patience, communication	<ul style="list-style-type: none"> • Search and trial for potential exchange partners both on economic and social aspects • Preliminary negotiation about the nature of the proposed exchange relationship (obligations, benefits and burdens)
Stage 2 – Early	Anderson and Narus (1990); Macneil (1986); Wilson (1995)	Social bonds, performance satisfaction, adaptation, time and patience, communication,	<ul style="list-style-type: none"> • Testing for compatibility of exchange partners based on abilities and long term synergy. • Determining and defining set of mutual goals and objectives
Stage 3 – Development	Axelrod (1984); Dwyer, Schurr and Oh (1987); Morgan and Hunt (1994)	Social bonds, performance satisfaction, shared values, adaptation, time and patience, asset specific investments and termination costs	<ul style="list-style-type: none"> • Joint planning efforts subject to change and modification • Increased interdependence through enhancement of mutual benefits and attractiveness • Adaptations and adjustments through agreement, negotiation and self control
Stage 4 Long-term	Gundlach, Achrol and Mentzer (1995); Morgan and Hunt (1994); Berry (1983) Gronroos (1994)	Trust, commitment, co-operation, social bonds, performance satisfaction, shared values, adaptation, time and patience, joint-decision making, asset specific investments and termination costs	<ul style="list-style-type: none"> • Increased commitment and recognition of mutual benefits through institutionalised conflict resolution process • Integration of operations and strategies
Stage 5 – Retain/terminate relationship	Christopher (1996); Christopher, Payne and Ballantyne (1992); Gummesson (1993); Ford (1990)	Trust, commitment, co-operation, social bonds, performance satisfaction, shared values, adaptation, time and patience	<ul style="list-style-type: none"> • Long term rewards based on mutual behaviour and trust • Termination based on extent of mutual interest and cost benefit analysis of continuing in the relationship

Source: adapted from Batonda (1995); Blankenburg-Holm, Eriksson and Johanson (1996); Christopher, Payne and Ballantyne (1991); Dwyer, Schurr and Oh (1987); Ford (1990) and Gronroos (1994) with the third column being a new contribution.

The five states of relationship development are: (1) pre-relationships, (2) early, (3) development, (4) long-term and (5) termination. *Pre-relationships* occur when buyers

evaluate potential suppliers and some common ‘ground’ is established. In the *early* stage firms exchange information about wants and needs and samples encapsulating these wants and needs are developed. *Development* then takes place; this is when contracts are signed and delivery takes place. *Long-term* describes the occurrence of several major transactions between the firms (Ford, 1990). A further state that of *termination* has been added since then (Heide, 1994; Kanter, 1994). The termination of a relationship will be based on an evaluation of the level of partner dissatisfaction, the cost of discontinuation of the exchange or modification against perceived benefit to the relational exchange (Baxter, 1983). Termination can occur after any stage, and does not necessarily occur after the long-term state (Batonda, 1995).

Theoretical and empirical work in relationship marketing and more specifically in the application of relationship marketing to marketing channels, has identified a number of key factors that contribute to long-term relationships (Ahmed, Patterson and Styles, 1999; Anderson, Lodish and Weitz, 1987; Anderson and Narus, 1990; Morgan and Hunt, 1994). A synthesis of the research into the variables associated with relationship development is developed in Table 1, column 3. This reveals the importance of trust, commitment, communication, shared norms and co-operation as some of the key factors for relationship development. What is also evident in Table 1 is that certain characteristics are more evident than others at different states of the relationship. For example trust and commitment are essential characteristics of long-term relations particularly in Japanese markets (Lohtia, Bello, Yamada and Gilliland, 2005).

This research will evaluate current channel relationships and identify how such relationships can be improved. The areas of improvement are then linked to Table 1 to identify states associated with the characteristics for improvement. The objective is to investigate if markets have equal evaluations and what and where are the similarities and differences.

Research Methodology

The research design for the case studies was based on choosing cases that were likely to replicate or extend the emergent theory (Donellen, 1995; Parkhe, 1993; Yin, 1994). Therefore, the research design for this study investigated six cases, which were distributed across two levels of economic development and three product types. The unit of analysis was the channel. Within these six channel cases, twenty-five interviews were conducted with representatives of Australian-Japanese and Australian-Malaysian firms in commodities, processed and industrial sectors, together with four interviews to act as a control sample from organizations outside the field of view of the research, were conducted (refer table 2). This design was adopted in order to ensure theoretical and literal replication.

Table 2: Research matrix of this study

Product Stage of Channel dev.	Commodity	Processed	Industrial	Control Sample of Industry
Japanese importers	2	3	2	1
Malaysian importers	2	2	1	1
Australian exporters	3	3	3	2
Total	7	8	6	4

Source: developed for this research

The justification for the product categories is based on the literature (Gronroos, 1994) which suggests that product type can influence the relationships that in marketing channels. The categories selected were designed to cover the widest possible range of firms, and sample cases were drawn from both small and large firms in capital as well as regional cities. The main criterion was that the Australian firm conducted business in Asia. While the choice of Asia was justified due to its importance in international trade for Australia, the specific choice of the market needs of Japan and Malaysia was justified as a means of studying markets at different stages of evolution. Japan accounts for 20.4% of Australia's total exports and is Australia's major trading partner and is considered to be a mature economy. Malaysia on the other hand represents 2.8% of Australia's total exports and is considered an emerging economy (DFAT, 2006). Furthermore, each of the respondents considered themselves to be in a 'long-term' relationship with their other channel partner.

Results

The data clearly showed agreement across international channel members on what needed improvement at each level of the relationship. Table 3 summarizes the views of each end of the channels about the relationship and their comments for improvement.

Table 3 –Rankings of existing relationships

Relationship (country to country)	Responses	No. of responses	Ranking
Japan – Australia	<ul style="list-style-type: none"> • Communication • Quality product/on time • Continuity of supply/quality product complying with specification • Be natural and honest/ good relationships don't lie/ offer a complete service 	1 1 1 5	Below average Average Above average Excellent
Japan – Australia'	<ul style="list-style-type: none"> • Much better information sharing needed/ communication/ better synergy/ no doubling up on procedures • Systems need more work/ more commitment needed • Continuity of supply/quality product complying with specification • Be natural and honest/ good relationships don't lie/ offer a complete service 	1 2 2 2	Below average Average Above average Excellent
Australia – Malaysia	<ul style="list-style-type: none"> • A lot of misunderstandings/ communications need to improve • Competitively priced products • Need to work together more/ offer a complete service 	1 1 2	Below average Average Excellent
Malaysia – Australia	<ul style="list-style-type: none"> • Solve our current problems before we can move forward • Offer a complete service and work as a team 	2 1	Average Excellent

Source: developed from fieldwork data

Consider those firms who thought their current relationship as in need of improvement. Comments such as lack of communication, lack of information sharing and lack of synergy between the members were found to be common across Australia and Japan. 'We need much better information management; we need much clearer channels of communication between here and Australia'. Firms in an average or above average relationship tended to be concentrating on achieving reliability and consistency in product and service. 'Continuity of supply, regular high quality product, and each company complying with the other's wishes on a regular and consistent basis, together with regular payments and increased business'.

Firms who rate their relationships as excellent indicated how comfortable and happy they were within their current arrangement. 'Our relationship with the people we do business with in all our markets is excellent. I only deal with one person whom we have been dealing with for twenty-five years, because I know him personally. He is a friend and if we ever have a problem I know that what he tells me is right and he pays market prices'. This clearly shows the elements of social bonding and shared values. In brief, lack of communications was cited as the main cause of poor relationships while those firms enjoying a average and above average relationship were concentrating on ways to improve their business (consistency and reliability) thus providing both parties with mutual benefits from the relationship. Those in an excellent relationship cited social bonding, shared values, joint decision making in addition to performance satisfaction as important.

This research supports the notion of an evolution in business relationships but it also contributes to the literature by highlighting that if the foundations of the pre-relationship and early relationship states are not met then although the partners may consider themselves in a long-term relationship the quality of this relationship is clearly lacking. Conversely if the states of the pre and early relationship are met, then the partners move to higher concerns such as product specifications and efficient systems. Excellent relationships are characterised by long-term elements such as trust, commitment, co-operation and shared values. The results indicate that to develop high quality relationships with channel partners there is a need to concentrate on getting the basics characteristics of the pre and early states to allow the relationship to mature level characterised by trust, commitment and co-operation.

Conclusions

This research found that while firms do not always follow an incremental logical progression in their relationships it is important for them to have the characteristics of the earlier states in place to maintain high quality relationships. In-depth interviews with 25 Japanese and Malaysian importers and Australian exporters of commodities, processed and industrial goods revealed that all channels evaluate their relationships in the same manner with most identifying similar problems in equally evaluated relationships. Data revealed that if the foundation stages do not include the development of satisfactory levels of communication then the necessary levels of trust and commitment will not be achieved and this will be reflected in subsequent problems in such trading relationships. Also high quality relationships exhibited the characteristics of long-term relationships such as trust, commitment, shared values and co-operation.

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