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I am submitting herewith a dissertation written by Russell K. Smith, Jr., entitled "A Social Exchange Perspective of Environmental Change and Dyadic Relationships." I have examined the final copy of this dissertation for form and content and recommend that it be accepted in partial fulfillment of the requirements for the degree of Doctor of Philosophy, with a major in Business Administration.

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We have read this dissertation
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Accepted for the Council:

Associate Vice Chancellor and
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# A SOCIAL EXCHANGE PERSPECTIVE OF ENVIRONMENTAL CHANGE AND NORMATIVE RESPONSE IN MARKETING RELATIONSHIPS

A Dissertation

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Degree

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To my children,

Victoria and Benjamin

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# ABSTRACT

This study considers changes in the business environment and how they may threaten long-term marketing relationships, as well as the process by which relational dissolution is predisposed. Various norms that are employed by long-term relationships are defined, drawing on different facets of Social Exchange Theory. It is hypothesized that norms deteriorate under conditions of extreme threat (substantive and rapid change in the environment), as relationships are pressured to redefine new environments and realign themselves with new environmental resources. Alternatively, it is hypothesized that under moderate environmental threat, relational norms are more strongly emphasized. This would be the case when exchange partners turn to one another as a means of enduring more moderate environmental changes. Evidence that norms are emphasized under moderate environmental threat was found; however, no evidence of normative de-emphasis under high environmental threat was uncovered.

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# CHAPTER I

# INTRODUCTION

Two related issues motivate this study. The first issue focuses on organizations that are party to long-term marketing relationships and how their relations enable them to overcome and endure disruptive environments. However, it is also evident that organizations are able to respond to more substantive environmental threats by redefining or even terminating the relationship.

The second issue motivating this study is more diffuse and abstract in nature. It is a theoretical interest concerning dyadic interactions (e.g., exchange processes within long-term marketing relationships) and how they both form and in turn, are encompassed and influenced by, collective social structures (e.g., environments, channels of distribution). Explicitly addressing this issue requires differentiating "micro" and "macro" social phenomena--a task well beyond the scope of a single study. However, it is hoped that this topic's influence on many of the tangential discussions accompanying the focal study will illuminate this topic for the future development of marketing theory.

## LONG-TERM RELATIONSHIPS AND ENVIRONMENTAL ADAPTATION

With regard to the study's central interest--that of marketing relationships and their response to environmental changes, it is assumed that marketing interactions represent an open system of exchange (Alderson 1965) and that buyer/seller relationships must be aligned with environmental resources. This implies that changes in patterns of dyadic interaction are

necessary in order for a relationship to accommodate the evolving context in which they are embedded (Weitz 1981; Frazier, Gill, and Kale 1989). Yet, because long-term relationships, by definition, are stable entities and have demonstrated their robustness in the face of external impositions, there is a suggestion that they also dismiss or ignore changes, which are more transitory and benign. Indeed, it is the latter characteristic--that of being stable and predictable--which has, in part, resulted in long-term relationships being positioned as a desirable form of market interaction. This form of consistency is purported to give the individual organization an advantage when confronted with threatening environments.

But what of environmental conditions that more seriously stress these relationships?--to the extent that their dissolution is predisposed. If we assume that the formation of new relationships, and the abandonment of old ones, is one means for a market system (i.e., industry) to adapt to environmental changes (McIntyre and Kale 1988), we must consider the process by which relationships dissolve or at least how they modify previous definitions of relational expectations. Not only would this be important for an industry's survival, it might also be necessary for each individual organization to substantively respond to, and survive, more serious changes in their array of external resources. Kumar, Stern, and Achrol (1992) pointed out that assessing a channel partner's performance must consider the framework by which the focal organization establishes goals. An open systems perspective (Pfeffer and Salancik 1978), for example, stipulates that environmental adaptation is of high importance. Acordingly, sudden and substantial environmental changes may require changing partners rather than depending upon an established partner's ability to evolve with the environment (Achrol 1991).

In order to pursue this question, social norms that are active in long-term marketing relationships and the role that they play in relationships exposed to a changing context were

considered. Others have identified that norms comprise a central underlying component of long-term relationships and serve as mechanisms that stabilize a relationship when enforced, or alternatively, destabilize a relationship when violated (Macneil 1980, Dwyer, Schurr, and Oh 1987). This characteristic makes an actor's normative behavior a tractable theme for considering a relationship's condition or state of being.

## Theoretical Underpinning

Macneil's (1980) framework of Relational Exchange was employed to consider the nature of long-term relationships and how norms are active in the processes by which relationships respond to environmental changes: whether the response calls for the relationship to endure minor environmental disruptions or to make more substantive responses to significant external threat. Macneil's framework has served elsewhere and will be used here, first, as a means of defining long-term relationships and organizing the behavioral processes of dyadic exchange. Second, it will be used to specifically identify norms of exchange which enable and maintain relationships.

Other streams of sociological theory are also relevant for identifying and examining the normative component of long-term relationships. Status Value Theory, as developed by Berger, Zelditch, Anderson, and Cohen (1972) and Berger (1992), and Distributive Justice, as developed by Eckhoff (1974), are also theoretical streams grounded, as is Macneil's Relational Exchange, in an exchange perspective. Together, the three theoretical streams provide insights into the processes by which exchange relationships evolve over time that each framework, by itself, is unable to. These frameworks are elaborated in Chapter II.

Status Value Theory and Distributive Justice Theory detail the means by which social relationships are endorsed and perpetuated within an exchange setting, while considering the

external setting as a significant factor that shapes the nature of dyadic intercourse. However, they are rather complex in their morphology as well as extensive in their coverage of social behavior. In order to simplify and integrate their several common themes, as well as underscore their normative implications, the concept of "equity" is considered as a foundational component upon which both are grounded.

"Equity" refers to an individual's motivation to achieve a "fair" or "just" outcome from an exchange transaction or exchange relationship. It has been employed to consider how relationships are perpetuated, or how they are predisposed to dissolution, due to balance or an imbalance in exchange benefits (Adams 1965; Ganesan 1994). In that norms also function to stabilize a relationship by insuring fairness, norms are frequently defined through explicating the contingencies of "equity." That is, an "equitable" relationship implies that sequential laws of dyadic behavior (i.e., norms) have been employed to regulate what would otherwise be complex forms of interaction.

After a brief examination of Macneil's Relational Exchange, as well as Status Value Theory and Distributive Justice, as organized around the theme of "equity," all three of their normative implication's for long-term relationships and how norms are altered by varying degrees of environmental disruption are considered. Specific norms, drawn from each of these three frameworks, are identified as being potentially sensitive and reactive to environmental change. Chapter II continues by developing a supposition that these norms serve two functions because, as identified above, long-term relationships have two potential responses to changing or disruptive environments. The first is for a relationship to endure or overcome disruptive forces through the activation of norms, which have a stabilizing effect on relationships.

The second potential response, as seems reasonable given a resource dependence perspective, is for the relationship to dissolve or substantively redefine its nature and purpose.

It will be suggested that norms are also important in this instance. Not only will norms be positioned as stabilizer's for disruptive circumstances, their violation under more extreme duress will also be described as a functional means by which to predispose and prepare a relationship for dissolution. (See Figure 1.) Accordingly, a set of paired hypotheses for each of the norms will stipulate that actors either emphasize or de-emphasize normative behavior under one of two types of environmental conditions. The first proposes that as environmental conditions go from relative calm to moderately disruptive, norms will be activated and emphasized, thereby solidifying the relationship. Under a second condition, that of an environment becoming more seriously distressing on a working relationship, norms will be abandoned or altered.

In order to demonstrate how these normative changes might occur within long-term relationships, an exploratory study was used to provide illustrative examples of how normative behavior functions, relative to environmental change. The study, described in Chapter III, focuses upon individuals who were involved with agricultural industry during the 1980s. During this period the agricultural industry experienced significant environmental changes which severely disrupted relationships between banks, agri-businesses, and farmers. Unstructured interviews with bankers, farmers, agri-business operators, and so forth, were employed to consider normative changes in relationships and corresponding changes in the environment.

Following the exploratory study, Chapter IV describes how a cross-sectional quasi-experiment, employing a mail survey, was used to collect data and formally test the

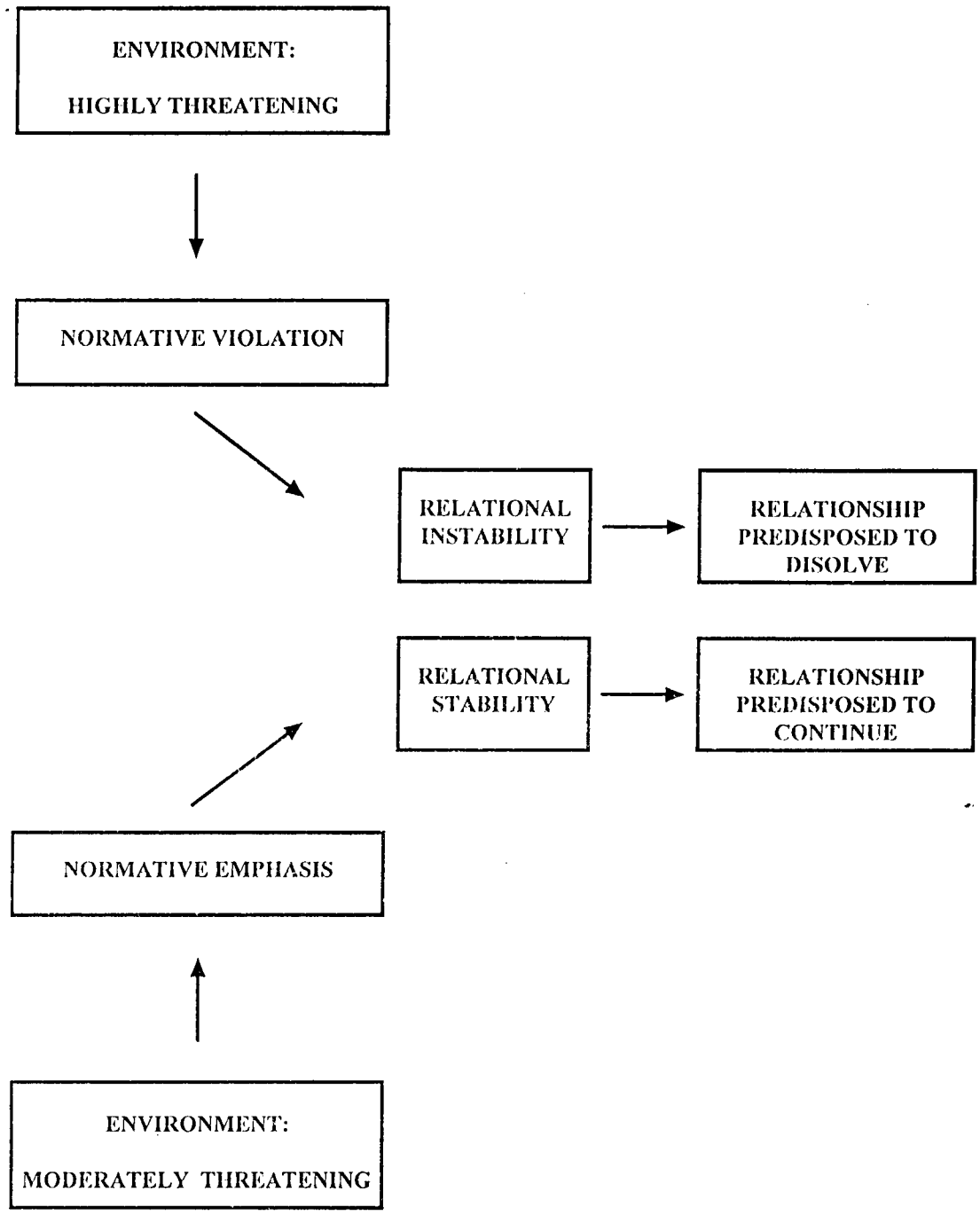


Figure 1. Functional means by which to predispose and prepare a relationship for dissolution.

hypotheses. Likert-scale items were developed to measure the normative emphasis participant's put on their relationships with long-term customers, as well as their perception of how threatening or disruptive the environment seemed. Building material suppliers and their relationship with industrial roofing contractors served as the target population.

The data collected from this survey was analyzed. The results and interpretation of this analysis is described in Chapter V.

## MICRO VERSUS MACRO FORMS OF MARKETING BEHAVIOR

The secondary issue, identified above as that of considering the relationship between micro and macro social phenomenon, parallels the investigation of norms and their role in evolving relationships. Normative behavior can be considered as a form of micro interaction, while an organization's environment, in reality, represents macro structures collectively constructed from micro interaction. Though seldom described in these terms (Venkatesh and Nikhilesh 1986), business environments have received considerable attention in the development of marketing theory. They are positioned as a force that perpetuates changes in marketing relationships. In turn, these changes are of particular interest because they are assumed to alter the nature of broader marketing structures and processes (e.g., channel structures and processes).

However, within the development of marketing theory, an illusive language has developed that prevents certain logical inconsistencies among these many relationships from being identified. Primary environments, secondary environments, macro-environments, marketing publics, constituencies, channels, and social structures, are all collective forms of micro or dyadic interaction which, in turn, are described as external forces that determine

dyadic intercourse (Anderson and Weitz 1989; Frazier and Summers 1986; Keith, Jackson, and Crosby 1990; Oh 1987). On the other hand, various terms have evolved (e.g., political and economic processes, relationship elements) that are positioned as being more suitable for discussing the impact that dyadic interactions have on social structures (Achrol, Reve, and Stern 1983; Robicheaux and Coleman 1994). The inconsistency is that all of these describe aspects of the dyad, at various levels of analysis. While speculating about one levels impact on the other is interesting and necessary, it is important to make explicit the assumptions and their interrelationships. Often the language of marketing thought obscures these issues (Achrol, Reve, and Stern 1983; Etgar 1977; Stern and Reve 1980; Achrol 1991). Few works have addressed the problem within marketing. However, some attention has been directed toward new analytical methods (i.e., network analysis) that hold potential (Anderson, Hakansson, and Johanson 1994).

These issues and are related works of social theory are not addressed in a systematic fashion in this work. Rather, this issue is underscored here in order to first identify that it is a conceptual concern, and second, to justify the de-emphasis of certain streams of research within marketing that may seem relevant (e.g., environments, channels processes and structures, and marketing relationships). For example, a tradition for examining marketing environments has been established whereby various environmental forms are identified, characterized, and considered for the nature of their impact on dyadic interaction (Etgar 1977; Dwyer and Welsh 1985). Discussions of these various environmental forms and how they differentially impact market relationships often neglect the conceptual difficulties of transcending multiple levels of analysis.

The motivation of this study is less ambitions. That is, it was simply assumed, as an axiom, that environments shape the nature of dyadic interaction and, accordingly, that

substantive environmental changes represent a threat to a relationship. The interest is in the dynamic by which micro interaction is altered, enabling the relationship to change. The goal was to describe the means by which participants to dyadic exchange "loosen" relational bonds, enabling themselves to embrace new environmental constraints and opportunities (e.g., channel designs). This is deemed interesting in and of itself, and sufficient for a single work's scope of study. It is a "smaller" step, which may be more appropriate than the simultaneous consideration of multiple levels of analysis between environments, relationships, channels, and so forth, as has been attempted in related streams of work. Explicating the means by which social levels are "linked," how the broader social system impacts the actions of individuals, and how individual actions collectively emerge into social process which is neither intended nor anticipated by constituent players, presents a formidable theoretical challenge. Pursuing this challenge is greatly simplified by considering only one micro/macro shift at a time.

In this study, by considering only that changes in the environment represent threats to the alignment of social relationships, and then by only considering the behavioral processes that are engaged to address those changes, a "macro" to "micro" relationship has been given as an assumption. It assumes that external change is a stimulus that either strengthens and fortifies a relationship by "causing" behaviors which redefine and entrench the relationship (e.g., normative emphasis), or as something that destabilizes a relationship and predisposes its dissolution (e.g., normative deterioration) and change. It is commensurate with the assumption that relationships are dependent upon, and therefore responsive to, environments.

Taking this sequence another step would be difficult. For example, it would be tempting to consider the collective impact that these changes in dyadic interaction would have and impute them to changes in channel structures or processes. However, this would entail redefining changes at the dyadic level as a causal variable--one that stimulates environmental

response. The discourse is tempting, but difficult to manage, especially when one considers that an environment is, in reality, nothing other than the universe of one dyad's set of other dyadic relationships. Terminology referring to environmental structures would then become an inappropriately convenient vocabulary (Robicheaux and Coleman 1994), permitting an inconsistent switching of "levels" of social analysis.

Again, the goal here is more conservative. It is simply to begin developing systematic propositions of how the mechanisms of micro-dyadic change occur in response to macro changes. It is a more fundamental but necessary step toward developing bridges between the two levels of marketing phenomena. This is contradictory to what may be expected of a nontraditional development of "large" theories concerning marketing systems and how they operate across various environments (Coleman 1990).

However, it is only after a systematic examination of the mechanisms by which relationships loosen and prepare for change, or alternatively, how they tighten and inoculate themselves from change, that the more ambitious undertaking of elaborating an entire system's evolution over time may be consiered. Consequently, this study's consideration of normative behavior in long-term relationships, with respect to channel's literature, is considered only tangentially for the purpose of offering implications for further research.

## CHAPTER II

# LONG-TERM MARKETING RELATIONSHIPS

## INTRODUCTION

The structures and processes of long-term marketing relationships have received considerable attention in recent years. They have been described as: "domesticated markets" (Arndt 1979), "exchange relationships" (Dwyer, Schurr, and Oh 1987), "working partnerships" (Anderson and Narus 1990), "ongoing relationships" (Frazier 1983), and "transorganizational markets" (Achrol 1991). These terms all describe enduring buyer/seller associations which are characterized by some degree of constancy and are differentiated from shorter-term, more restricted, market interactions.

Long-term business relationships are touted as being significantly advantageous to an organization's performance. For example, they are purported to strengthen businesses by providing better response to changing environments (Achrol 1991; Rockford and Wotruba 1993), enhancing competitiveness by improving new product development and performance (Hallen, Johanson, and Seyed-Mohamed 1991), improving communication and information exchange (Moorman, Deshpande, and Zaltman 1993), lowering transaction costs (Frazier, Spekman, and O'Neal 1988), easing interorganizational coordination (Anderson and Naurus 1990), and goal attainment (Buchanan 1992; Dunn and Thomas 1994). Generally, long-term relationships have become analogous with "good marketing" (Houston and Gassenheimer 1989).

However, long-term relationships are also much more complex than shorter-term market interactions (Anderson, Lodish, and Weitz 1987) and impose costs and burdens upon the participants (Dunn and Thomas 1994). For instance, they require greater buyer/seller commitment and trust (Schurr and Ozanne 1985; Reddy and Marvin 1986), a willingness to adapt (Hallen, Johanson, and Seyed-Mohamed 1991), heightened sensitivity and responsiveness to partner expectations (Anderson and Weitz 1989), greater dependency and vulnerability (Lohtia and Krapfel 1994; Frazier, Spekman, and O'Neal 1988), more complex communications (Anderson and Weitz 1989; Brown and Inman 1993), more negotiation and bargaining (Roering 1977; Perdue, Day, and Michaels 1986), and are predisposed to higher levels of conflict (Dant and Schul 1992).

The complexities and greater demands of these relationships require the implementation of customized governance or behavioral mechanisms (Gundlach and Murphy 1993; Dwyer, Schurr, and Oh, 1987; Heide and John 1990) which serve to systematically guide daily interactions between buyers and sellers. These mechanisms reflect multidimensional moral and value structures of the society in which a relationship is embedded (Macneil 1980; Houston and Gassenheimer 1987), thereby linking the processes of a relationship to the rules and expectations of a broader societal context. Behavioral norms are one form of governance mechanisms which serve to define [in]appropriate behavior within longer-term relationships.

## Norms

Norms may be defined as social rules that prescribe desirable behaviors for members of a social group, serving as standards for their actions (Harré and Lamb, 1986). Although social sanctions or coercion may be used to implement or validate norms, the interest of this

study was in legitimized norms (Stolte 1987) and internalized norms (Macneil 1980), or those validated through group consensus and integrated with moral values (Nisbet and Perrin 1977). Norms are often embedded within a society's legal system and guide contractual obligations (Gundlach and Murphy 1993) or they may be less visible, going unnoticed in our daily routine (Collins and Makowsky 1983, pp. 109, 230). In all cases, their pervasive influence serves to establish patterns of daily interaction which endure over time.

This does not mean that norms dictate all of the specific behaviors necessary for interaction. However, even under unfamiliar circumstances involving uncertain actions, behaviors are often guided by first identifying related norms and then reaching beyond them to moral principle upon which the norms are based to establish an appropriate outcome for a specific instance (Macneil 1980). For example, a seller may be unfamiliar with the protocol which is appropriate when doing missionary sales work in a new geographic area; however, knowledge of the general industries' norms will provide a normative "base-line" with which to make judgments as to whether or not making cold calls are appropriate.

*Exchange norms* represent a special subset of norms which specifically apply to marketing interactions and set the stage for the development of future relationships. They enhance trust by giving substance to expectations and standardizing behavior. They also serve to moderate each actor's vulnerability by establishing a level of predictability and by specifying appropriate uses of power. They extend the familiarity of routine interaction into the future by "normalizing" new and unencountered circumstances. Norms also advance tolerance by moderating the consequences of errors and by prescribing remedies for potentially injurious contingencies.

Consideration of norms is playing an increasingly important role in the development of marketing thought. For instance, norms have been demonstrated to specifically influence

the nature of competitive interaction (Thomas and Soldow 1988), enhance purchase performance (Noordewier, John, and Nevin 1990), alter governance mechanisms between buyers and sellers (Heide and John 1992), mediate the level of conflict across channel relationships (Kaufmann and Stern 1988; Dant and Schul 1992), and generally act as vehicles and guidelines for organizational interaction (Achrol 1991; Angelmar and Stern 1978).

This investigation was concerned with the specific role that norms play in evolving relationships. In defining relationships using an "exchange" perspective, three theoretical streams of social exchange were examined in order to identify specific norms relevant to understanding relationships undergoing change. "General contract norms" of Relational Exchange Theory as developed by Macneil (1980), the normative use "Social Characteristics" defined within Berger's Status Value Theory (Berger, Zelditch, Anderson, Cohen, 1972), and "Justice Norms" defined with Distributive Justice Theory as developed by Eckhoff (1974), were all three considered for their normative implications. None of these, by themselves, was adequate to characterize the full range of norms that may be relevant to understanding the dynamics of long-term relationships. However, each theory is derived from an exchange perspective, so there are no conceptual contradictions. Although the scope of this investigation constrained a full examination of each framework's theoretical foundations, key concepts were surveyed and presented throughout this chapter in order to selectively borrow specific norms useful for the task at hand. For this research, in that many of the themes that tie these frameworks together can be organized around normative implications that they have in common, a brief summary of these linkages follows:

I. All norms are given legitimacy, and are internalized through some form of enduring social mechanism that gives substance to normative interaction, although the mechanism may differ across various frameworks:

   Relational Exchange — *time* is considered a primary element for the development of a number of relational elements, including norms

| | |
|---|---|
| Status Value Theory | *repetitive exposure* to various exchange situations normatively "links" various status characteristics with different levels of rewards |
| Distributive Justice | *enculturation* defines appropriate outcomes for various members of a social system; a member's claim, which is normatively legitimized on social benefits, is determined by a number of criteria, including transitory goals, familiarity with group members, frequency of interaction, and so forth |

II. In all cases, the norms of each framework are linked to the broader social context in which relationships are embedded; however, there are some differences regarding the level at which norms are positioned as being actively implemented:

| | |
|---|---|
| Relational Exchange | dyad |
| Status Value Theory | dyad, small groups |
| Distributive Justice | dyad, small groups, collectives |

III. All of the frameworks specify that normative interaction determines a "fair" outcome, where "fairness" is linked to some form of equality:

| | |
|---|---|
| Relational Exchange | equality with the expectations that motivates one to participate in a series of transactions over time |
| Status Value Theory | equality with one's social identity, as defined by one's social characteristic |
| Distributive Justice | equality with one or several of five dimensions made salient by various conditions and circumstances (e.g., need, social position, contribution to group goal, opportunities, another's net benefit) |

IV. In assuring "fair" outcomes, each framework's norms guide aspects of exchange relationships:

| | |
|---|---|
| Relational Exchange | norms prescribe specific transactional behavior |
| Status Value Theory | norms define one's identity |
| Distributive Justice | norms consider relevant conditions, circumstances, and contingencies in allocating benefits |

To complete the purpose of this chapter, it will:

1. review the three theoretical streams which identify exchange norms relevant to long-term relationships:
   - Relational Exchange Theory
   - Status Value Theory
   - Distributive Justice Theory
2. identify and examine the normative implications of these theories,
3. demonstrate conceptual links between these various theoretical streams, and
4. consider the role of norms relative to long-term buyer/seller relationships which are undergoing change.

However, long-term relationships will first be explicated through Macneil's (1980) Theory of Relational Exchange, which will be important to gain an understanding of how this form of relationship is dependent upon underlying behavioral components, such as norms, and how they are likely to evolve over time.

## LONG-TERM RELATIONSHIPS DEFINED AS RELATIONAL EXCHANGE

Among the theories and frameworks which have attempted to conceptualize the nature and characteristics of long-term marketing relationships is Macneil's Theory of Relational Exchange (1980). Applied to marketing by Dwyer, Schurr, and Oh (1987), it has made a significant contribution to our understanding of norms, as well as other behavioral mechanisms that moderate and structure marketing relationships.

Macneil's framework has been used to differentiate longer-term, enduring marketing relationships (relational exchange), from shorter-term and more transient transactions (discrete

transactions). A number of characteristics differentiate discrete transactions from relational exchange. For example, buyer/seller performance and the value of the commodities exchanged (transactional benefits) represent the sole motivation for discrete transactions. They are short in duration, simplistic, and involve benefits that are measurable and predetermined. By contrast, relational exchange is long-term, more resilient, and de-emphasizes the importance of a single transaction (Macneil 1980)

The nature of these two forms of interaction result in different behavioral patterns on the part of the actors (Dwyer, Schurr, and Oh 1987). For example, discrete transactions do not require that the identity of the participants be known. They involve minimal communication, as the character and values of the exchange partners have marginal impact on their interaction. An example may be a purchasing agent who identifies a vendor through a trade directory to replace a rarely used component and makes a subsequent one-time purchase. Selection of a supplier would be based on the perceived value of that single transaction (e.g., cost of the component versus perceived quality and compatibility). By contrast, an underlying assumption of relational exchange is that the *relationship* itself is valued over the transaction and transactional benefits (Frazier and Summers 1984). In part, this is because the benefits of long-term relationships are more obscure, futuristic, and assumed, making them difficult to evaluate. Consequently, the focus is shifted from the commodities of exchange in discrete transactions to "relational elements" (the behavior and intentions of the participants) for the purpose of evaluating the worth or quality of the relationship (Ganesan 1994). For example, a buyer may make a straight rebuy from an established vendor, paying little attention to the cost and quality of any single purchase but becoming more aware of the responsiveness or attentiveness of the sales representative.

Relational elements include socially interactive mechanisms such as trust, communication, dependency, and *behavioral norms*--the focus of this study. Norms act to differentiate long-term relationships from discrete transactions, guide interactions, define the nature of a relationship, and establish general standards by which the quality of the relationship may be judged. A norm may stipulate that a seller should wait a "reasonable" period of time for a late payment before choosing to withhold future shipments to a buyer. The supplier's compliance with this norm would contribute to the buyer's perception of that supplier's "quality."

Others have also recognized and attempted to explicate the differences between short-term and more enduring relationships by considering types of behavioral elements. For example, Clark, Quellette, Powell, and Milberg (1987) discussed a type of relationship similar to relational exchange, calling it "communal exchange." They defined communal exchange as a long-term exchange relationship where an individual's actions are motivated by the condition or predicament of the exchange partner. It would imply that a buyer may feel that a supplier should extend a line of credit simply because his/her predicament requires it. Communal exchange is similar to relational exchange in that the relationship and exchange partner serve as the motivation for participation in the exchange, as opposed to the reciprocal exchange of actual economic benefits.

Ekeh (1974) used a similar approach on a societal or "macro" level, to discuss the implications of long-term versus short-term relationships for an entire social system. He identified that some social systems are collectives of discrete, short-term, individual transactions, guided by reciprocity, while others are based on exchange relationships which are less reciprocal and more "generalized." Ekeh described "generalized relationships" as involving multiple exchange partners who benefit from participation in the broader system

over a longer period of time, rather than by strict reciprocity with a specific other. Interestingly, Ekeh speculated that short-term relationships, because they are dependent upon reciprocity, are also "brittle" or more prone to dissolution. That is, their maintenance is difficult as it requires immediate and observable performances upon the part of each actor.

Similarly, Bagozzi (1975) recognized a fundamental difference between more temporal relationships and those which are longer-term and enduring. He attempted to extend Ekeh's framework to marketing by describing different types of buyer/seller associations, describing generalized exchange as contributions that members of a collective might make to the system in general, without expectation of immediate and specific compensation. This form of exchange is exemplified by industry associations and constituent members who donate time and effort to improving the condition of all who are involved.

Macneil's framework of relational exchange appears to have been better received than the frameworks mentioned above. In part, this may be due to Macneil's systematic specification of behavioral "elements," such as norms, that are critical to understanding the dynamics of longer-term relationships. The relational or behavioral elements of Macneil's framework have been better grounded in marketing applications and more systematically defined such that they lend themselves to more objective analysis (Robicheaux and Coleman 1994; Ganesan 1994; Kaufman and Stern 1988; Dwyer, Schurr, and Oh 1987; Kaufman and Dant 1992; Noordewier, John, and Nevin 1990). Hence, in this study, Macneil's framework was selected as a conceptual foundation with which to discuss the nature of long-term relationships.

## "CHANGE" AS AN INVESTIGATIVE THEME

As described earlier, the norms of relational exchange are of interest because they are assumed to provide a tractable reflection of changes in the relationship itself--tangential interest being a changing business contest or environment that would stimulate such a change. In order to more carefully consider change as an investigative theme, Macneil's Framework is used again to organize principles of a relationship's evolution.

### Developmental Stages of Long-Term Relationships

Dwyer, Schurr, and Oh (1987), in discussing implications of Macneil's relational exchange, introduced a framework emphasizing that long-term relationships are evolutionary in nature and suggested that exchange relationships should be considered relative to their level of development (or deterioration). They identified five stages of relational development: awareness, exploration, expansion, commitment, and dissolution. In accord with this study, the premise of Dwyer et al. was that changes in long-term relationships are reflected by changes in their relational elements. Employing a model of relationship formation developed by Scanzoni (1979), they discussed how marketing partnerships develop into exchange relationships by expanding various behavioral elements--including behavioral norms.

An underlying assumption of their investigation established a focus for this work, which is that changes in behavioral elements (e.g., norms) reflect the general condition of a relationship, and that as relationships expand, relational elements must also *expand* or augment buyer/seller interactions. It follows then, as relationships dissolve, or "break up," so must the relational elements which bond two or more social actors. This premise is important to subsequent discussion as it informs the hypotheses developed in the following chapter concerning normative deterioration under environmental stress.

In considering the changes that a relationship undergoes, Dwyer et al. (1987) noted that there was a lack of research and, subsequently, a lack of understanding concerning relational dissolution or the breakdown of relationships which may be due to marketing's focus on initiating, establishing, and maintaining sales relationships (Frazier, Spekman, and O'Neal 1988; Dabholkar, Johnston, and Cathey 1994).

Concern for managing business relationships underscores the importance of recognizing, anticipating, and potentially managing the termination of a supplier or customer. Although it is reasonable that the creation and maintenance of new relationships should receive a great deal of attention, the abandonment or the deterioration of an old relationship often precedes such action and also needs to be considered, which underscores the point that as organizations grow, evolve, and adapt to new markets, relational marketing must be viewed as a dynamic process--one which requires an awareness and competency across all of its developmental stages.

The deterioration of a relationship is particularly relevant when an organization's relationships are viewed as a set of resources that provide for its maintenance and growth in a changing environment (Zeithaml and Zeithaml 1984). Business environments have been described as changing, evolutionary, and turbulent in nature, implying that some form of adaptation in an organization's marketing processes and structures is necessary to accommodate external contingencies. Accordingly, various studies have considered changes in channel processes and structures relative to various environmental types (Achrol, Reve, and Stern 1983). The implication is that new forms of relationships are required as a means of organizational adaptation. However, adaptation may require the abandonment of old relationships, or at least a significant change in interactive patterns. It follows that an organization's adaptation to new environments will ultimately disrupt or "stress" certain

relationships. Managing relationships across difficult environments requires consideration of the termination or disruption.

This may seem counterintuitive in that long-term relationships have been posited as being better able to endure difficult environments as they enable an organization to better maximize resources (Morris and Morris 1992; Rockford and Wotruba 1993). This environmental stability is accomplished through the implementation of behavioral elements (e.g., norms). That is, as environments become more difficult, behavioral mechanisms such as *trust, communication, commitment to mutual expectations*, solidify and empower a relationship. These mechanisms act as environmental "shock absorbers," stabilizing an organization in the face of environmental threat. This feature, in part, is what makes the attainment of long-term relationships desirable. However, with regard to the deterioration of relationships and/or those experiencing environmental stress, it is seldom considered that it may be necessary to terminate a relationship in order to optimize an organization's set of resources, which could be especially true for relationships impacted by environmental changes that are fundamentally menacing and permanent. Under this condition, the continued maintenance of a relationship would be counterproductive, or even dysfunctional, given that the maintenance of one relationship would require foregoing developing another relationship (i.e., resource). In this case, dissolution may not only be inevitable, but desirable. Accordingly, the relational elements (e.g., *norms*) which stabilize a relationship would also become counterproductive or dysfunctional. This underscores one of the questions motivating this research--are norms abandoned under this condition and, if so, what type of relational stress leads to their abandonment? It may be that opportunism leads to the abandonment of norms, as well as the relationship, as organizations are forced to seek opportunities elsewhere. It has been generally accepted that opportunistic behaviors are incompatible with established

relationships and relational behavior (Wiener, LaForge, and Goolsby 1990; Ganesan 1994; Bonoma 1976; John 1984; Norton 1987). However, if the continuity of a relationship is questioned or there is a loss of long-term orientation, then it would be reasonable to anticipate that relational elements will deteriorate (Roering 1977; Noordewier, John, and Nevin 1990; Ganesan 1994).

To complete the definition of this study's purpose, then--the purpose is to consider relationships undergoing stress and the corresponding changes which occur in their behavioral elements (*norms*) when initiated by moderate as well as fundamental and menacing changes in the business environment. To accomplish this the behavioral elements of Macneil's relational exchange, described by Dwyer and Welse (1985) as "subprocesses," will be examined in more detail while considering norms as a special case of relational elements. Macneil's norms of Relational Exchange will be followed by examining norms of Berger's Status Value Theory and Eckhoff's Distributive Justice, organized around the theme of "equity."

## NORMS AND OTHER BEHAVIORAL ELEMENTS OF RELATIONAL EXCHANGE

Behavioral Elements or "subprocesses" define a relationship, providing the substance of Interaction. This facilitates goal formation and fulfillment. A brief summary of behavioral elements as identified by Macneil (1980) follows.

### Behavioral Elements

*Expectations*: Because long-term relationships are the consequence of repetitive interactions which occur over time, buyer/seller expectations emerge. Expectations are an important component of relationships in that they establish guidelines and standardize behavior for future periods. In contrast, because discrete transactions are momentary and have a

distinct beginning and end, and because their benefit is delivered within the transaction itself, there are few expectations or obligations concerning future periods other than those formally sanctioned by law.

*Communication*: Communication, necessary for the development of relationships, serves to reduce uncertainty and to promote the achievement of mutually favorable outcomes. Therefore, as relationships become more complex, communication must also increase in frequency and complexity. Detailed communication also increases an organization's vulnerability and need for trust. Discrete transactions require less communication and are therefore often made uniform across transactions. Examples include disclosure laws, the employment of conventional language developed for specific purchase events (e.g., saying "fill'er up" to a service station attendant), and routine information that is made available to the general public (e.g., an advertisement).

*Tolerance*: Another consequence of the diminished importance of transactions within exchange relationships is the need for greater tolerance of variation in the net benefit received from a single transaction. As participants establish a commitment to and interest in the relationship itself, there is often a "blurring" of exchange responsibilities, benefits, and even organizational boundaries. Not only does this make it more difficult to evaluate the value or legitimacy of a single transaction, there is likely to be less uniformity in benefits delivered by each transaction. In contrast, discrete transactions require clear definitions of the benefits and burdens, as a single transaction's variation, in and of itself, represents the transaction's net gain or loss.

*Trust*: An underlying component of all behavioral elements is trust. Trust is generally accepted as being fundamental to all interpersonal behavior (Golembiewski and McConkie 1975), promoting the cooperation and planning required to stabilize marketing relationships.

Trust is less important in momentary transactions where the exchange of benefit is immediate. In addition, commercial laws and standardized contracts largely eliminate the need for interpersonal trust in shorter-term relationships.

*Adaptation*: Close, prolonged interaction also results in a tendency for each organization to adapt transactional processes and performances to meet the needs of the other. In part, this is a key reason for the greater performance and efficiency that motivates the development of longer-term relationships. However, adaptation also increases dependency which, again, implies greater vulnerability. Therefore, as adaptation occurs, there is greater concern for the inappropriate use of power imbalances, and heightened levels of potential conflict.

Taken together, these characteristics of long-term relationships imply greater responsibility for another's net benefit or outcome over time, a greater need to tolerate variation in the short run, an increase in dependency and vulnerability, and ultimately a greater potential for conflict. Consequently, long-term relationships may be described as "relationally intense" or "burdensome." Norms represent an additional behavioral element. However, they are instrumental in that they serve to simplify these complexities while ensuring that the behavioral obligations described above are fulfilled.

## Norms of Relational Exchange--A Subset of Relational Elements

In describing the general nature of exchange (discrete or relational), Macneil (1980) identified "common contract norms" as those norms which establish consistency in behavioral patterns and establish a basis for exchange relationships to occur. An elaboration of these norms, and Macneil's propositions of their application, provides an overview of how norms augment long-term relationships. A more detailed treatment of two specific norms--

consistency and flexibility--is important for considering distressed relationships confronted with changing environments.

*Role Integrity*: Participants to an exchange assume that their partner is able and willing to deliver a value that reflects unique skills, abilities, and specializations. The behaviors and actions required to create and deliver such a value represent one's role in the relationship. The role may be simplistic, in the instance of a single transaction, or it may become quite complex as task specialization develops over time. In all cases, the exchange partners develop expectations that the other will maintain behaviors commensurate to their role. Macneil identified three components of role integrity: *consistency*, *conflict*, and *complexity*.

Consistency refers to a relationship's requirement that the expected behaviors and performances, which constitute a role, endure over time. Conflict, or "exchange tension," refers to an individual's struggle to balance the desire to maximize immediate gains with the longer-term goal of maintaining working relationships. The struggle or tension implies that optimal equilibrium will be reached in an exchange when, for example, one finds an acceptable price to charge for goods. This "tension" is identified as beneficial and productive when longer-term relationships are desired. Complexity refers to the multiplicity of tasks and performances that must be integrated to maintain a single relationship.

*Mutuality*: Mutuality refers to the expectation held by all parties to an exchange that some level of benefit should and will be realized by their participation in the exchange. Further, mutuality implies that there is an underlying dimension of *fairness* which is known and will be implemented to establish a fair division of exchange benefits.

*Implementation of Planning*: In order for exchange to be beneficial, there must be some contemplation and prior arrangement of the conditions and mechanisms that execute a

transaction or series of transactions. To some extent, each party must have prior knowledge of these contingencies, implying that some form of planning occurs. Planning also requires a dependency upon and commitment to prior communication.

*Effectuation of Consent*: Effectuation of consent refers to the necessity of each party to forego other opportunities and commit to an exchange. It implies that one willingly endows another with the power to limit one's choices. Planning and consent are closely related, as consent is legitimized by the assumption that some form of communication and planning occurred prior to its effectuation.

*Flexibility*: This norm moderates planning and effectuation of consent by providing each party, to some degree, with a means to address unforeseeable and/or unexpected contingencies. It mitigates the rigidity of prior commitments, and recognizes that planning and consent occur within a limited knowledge of and ability to logically consider all contingencies.

*Contractual Solidarity*: Contractual solidarity reinforces one's commitment to the processes and activities of an exchange agreement, over time, whether formally represented in a contract or more informally implied through communication and posturing. Largely a function of time, contractual solidarity reflects the resolve of exchange partners.

*Linking Norms--Reliance, Restitution, and Expectations*: Macneil referred to these norms as "linking" norms in that they are common, or implicit, across all other norms. The premise of linking norms is that parties enter into exchanges, *relying* upon some expectation--implicit or explicit, rational or irrational, valid or invalid. Upon violation of this expectation, there is a propensity for *restitution*. These norms are foundational to formalized systems of exchange and establish legitimacy for action against those who are in violation of agreements, such that they may result in injury to the other.

*Normative Creation and Restraint of Power*: Within exchange, power imbalances inevitably arise. For example, there is an inevitable and deliberate shift in power as one becomes dependent upon another for the delivery of a specialized product. Further, disclosure and effectuation of consent increases vulnerability and, therefore, power imbalances.

Although these power imbalances are inevitable, norms prescribe the limits and conditions of such imbalance. To some extent, all of the norms referred to above limit the accumulation of power and its abuse. For example, mutuality and planning establish conditions that constrain the inappropriate use of one's power. However, the creation and limitation of power also requires the development of specific norms within relationships for the express purpose of limiting and prescribing power imbalances and its use.

*Harmonization with the Social Matrix*: General societal norms also influence and activate the processes of exchange. These norms may be so pervasive within a culture that their impact on exchange transactions is difficult to identify by those immersed in the social context that defines them. Yet, the ideologies, values, and beliefs of a social system still exert a strong influence upon exchange. This influence is referred to as "harmonization with the social matrix."

*Supracontract Norms*: Finally, Macneil identified "supracontract norms" as distinctly relational in nature. This refers to norms that exist outside the relationship, yet impose obligations and expectations upon the behavior of exchange partners. They generally correspond with the norm of harmonizing with a social matrix. However, in this context, the relevant social matrix may be more specific (e.g., organizational, cultural, industry norms).

*Application of Norms--Discrete and Relational Exchange*

Each norm type is applicable across both relational and discrete exchange. However, they function differently and with different intensities depending on the exchange. For example, *planning* and *consent* may be less discrete in nature. That is, to the extent that discrete transactions are momentary and largely void of relational elements, *planning* and *consent* may be norms that are only minimally necessary for an exchange to occur.

Role integrity is especially important to the development of long-term relationships. As specialization of functions and performances become more intertwined and complex, the development and extension of roles, as well as each party's responsiveness to its role, is underscored.

Contract Solidarity, renamed "preservation of the relationship" when applied to relational exchange, is also more strongly emphasized in exchange relationships. This norm is especially pertinent to longer-term relationships as the commitment it implies is foundational to trust and communication.

In that conflict is especially threatening to long-term relationships, combinations of other norms that mediate conflict become important. For example, *flexibility* may assist in diffusing conflict under conditions of change.

Other differences between norms of discrete versus relational exchange reside in their application. For example, *flexibility* is necessary for the survival of all organizations, whether their interaction is relational or discrete in nature. It allows for a single or collective "changing of mind," which is often necessary when unexpected contingencies or alterations are encountered. Within discrete exchange, flexibility is maintained by establishing many exchange partners, while committing to none. Here, variety of choice ensures some level of flexibility and, therefore, maneuverability. By contrast, flexibility is achieved in relational

exchange by the procedures and limits of deviation legitimized by the actors in the relationship.

Which of these two alternatives an organization selects in order to achieve flexibility becomes an issue in uncertain environments (Raydel and Utecht 1992) and requires assessment of various relationships and their stage of development. It is also an issue relevant to transaction-specific assets. However, in the case of relational exchange, norms of flexibility provide for changes across unanticipated and injurious circumstances, by permitting one exchange partner to prevail upon the other to tolerate deviation from plans and commitments.

### *Consistency and Flexibility Norms*

Consistency (an element of role integrity) and flexibility were chosen for further empirical analysis. These norms seemed especially relevant to the study of relationships operating in a changing environment and undergoing relational change.

*Consistency*: Over time one is likely to encounter conditions which would make it personally advantageous to violate an expected behavior or performance. The norm of consistency serves to circumvent one's inclination to act opportunistically under this condition, obligating compliance with another's expectation (Kaufman and Stern 1988).

Intuitively, it seems that unanticipated changes in the external business environment would make this norm especially important to preserving the integrity of a relationship. That is, changing environments could make violating expectations especially tempting. For instance, an environmental change opening new sales opportunities could entice sudden price increases. However, the consistency norm would slow such a response. The implication of the consistency norm would be for a seller to not act opportunistically.

This norm is especially interesting given that a utilitarian, self-oriented perspective would be to de-emphasize this normative obligation under stressful environments. This raises the question as to what extent this norm is emphasized when environments are perceived as being more than merely "difficult" and are defined, instead, as being permanently altered in a way that compels a change in an organization's array of resources (e.g., exchange partners). That is, self-preservation would seem to dictate that an exchange partner be abandoned when continued maintenance of a relationship jeopardizes one's own organization. Under this circumstance, it would seem that the norm of consistency would be de-emphasized or even abandoned.

This paradox results in two possible hypotheses relating consistency to environmental changes. The first would consider moderate levels of environmental change and the implication that this norm must expand or be emphasized under this condition. The second hypothesis would predict that this norm will deteriorate at higher levels of distress found under conditions of extreme environmental threat. These hypotheses will be developed more thoroughly through an exploratory study of the farming industry described in the following chapter. This study provided additional support for the selection of consistency as a relevant norm within the context of a changing environment. Respondents demonstrated readiness to discuss this norm and that the norm was oprational during a period of change within this industry.

*Flexibility*: Flexibility performs a similar function in maintaining relationships (Kaufman and Dant 1992). However, it addresses the need to modify behavior over time in order to accomplish mutually agreed upon results. While consistency represents one's need to tolerate external variations and maintain the integrity of one's role, flexibility represents one's

need to tolerate variation within the relationship when the other party is forced to respond to external and/or unforeseen changes.

In short, consistency represents one's commitment to maintain a behavior and thereby avoid violating another's expectation, while flexibility represents the extent of one's tolerance for the other's very failure to be consistent. Clearly, these norms, acting in combination, can have a powerful stabilizing effect on relationships experiencing turbulence from the business environment. Consequently, flexibility was also chosen for further investigation. Like consistency, flexibility was also shown to be highly relevant to respondents interviewed in the exploratory study that follows.

As with consistency, two hypotheses concerning flexibility are developed further in the following chapter. The first concerns the need for flexibility to expand relative to environmental difficulties, while the second considers that flexibility will deteriorate as threatening environments distress relationships.

## Other Exchange Theories with Normative Implications: Status Value Theory and Distributive Justice

One reason for the popularity of Macneil's framework in explicating marketing relationships is that it is based upon an exchange paradigm. Exchange has emerged as a central theme for integrating marketing principles, practices, and theory (Bagozzi 1975; Hunt 1983; Houston and Gassenheimer 1987). However, "exchange" should not be considered as a theory, in the formal sense, as being based upon a discrete set of systematic propositions and specific underlying assumptions. Rather, it is a perspective, useful for organizing a number of interrelated theories.

As identified earlier, Status Value Theory, in the tradition of Berger, Zelditch, Anderson, and Cohen (1972), and Distributive Justive Theory as developed by Eckhoff (1974) are two such theories especially useful for identifying norms of exchange. Their common grounding in "exchange" makes them compatible and, as this study hopes to establish, commensurate with Macneil's Relational Exchange. However, in that exchange is a very broad and somewhat abstract perspective with which to organize the interrelationships between the theoretical frameworks mentioned above, the examination of a more specific dimension of exchange--*equity*--is required.

"Equity" has provided a guiding theme for elaborating exchange processes and relationships, cutting across a number of different exchange frameworks, such as Status Value Theory and Distributive Justice. Equity introduces a dimension of "fairness" or "justice" to transactions which in turn motivate and perpetuate exchange relationships. Equity is important to this discussion as it establishes normative implications for exchange processes, while grounding exchange norms in a social context external to the dyad (e.g., a business environment).

Equity implies that judgments occur within the dyad as to how "fair" or "appropriate" a particular transaction, or series of transactions, may be. Judgments of equitable exchange are assumed to maintain or stabilize relationships, while judgments of inequity are assumed to destabilize a relationship. In that equity judgments are tied to the external environment, it follows that equity frameworks would be useful for understanding how normative judgments within the dyad must evolve in order to maintain correspondence with the external context.

## Equity

Equity can be defined, simplistically, as an equality of the benefits received by each party involved in an exchange transaction. Homans (1965) expressed it as an equality of the difference between costs and rewards, which represents the "profit" motivating a transaction. "Rewards" of exchange were generally regarded by Homans as any materially or socially valued outcome. "Costs" of exchange were broadly defined as the required physical, mental, material expenditures, or as opportunities foregone:

$$\text{Equity:} \quad \underset{\text{(Self)}}{\text{Reward - Cost}} = \underset{\text{(Other)}}{\text{Reward - Cost}}$$

This definition of equity reflects the economic roots of modern exchange theory and its assumption that human behavior is linked to rational utilitarianism (Turner 1986). This characteristic made original equity formulations logically appealing and seem eloquently efficient. It implied that the stability of a buyer-seller relationship could be measured by the relative costs/benefits of cumulative sales interactions. Ironically, this very feature was also determined to be a weakness, in that it isolated exchange participants (i.e., the dyad) from the influence of social context and normative practices of interaction (Ekeh and Blau 1964). For example, within an industry, implicit costs may be automatically born by either the seller or buyer as a matter of precedent and consequently not be easily modeled as dyadic transactional benefits. Therefore, much of the theoretical and empirical work concerning the equity construct since its conception has focused on developing the social and normative elements that moderate the utilitarian implication of equity judgments (Cook and Emerson 1978).

### *Social Context--a Moderator of Equity Judgment*

Casper Homans (1961) recognized that social elements relevant to dyadic exchange are generated by an external social system. Further, he acknowledged that these social dimensions constrain exchange transactions and modify equity judgments. To account for their influence while maintaining the efficiency of economic utilitarianism in the equity formula, Homans introduced a psychological-social dimension, identified as "investments."

*Investments*: Investments were defined as nontransactional, socially constructed elements that modify one's more objective, utilitarian evaluation of an exchange outcome. Investments were described as the indirect, yet socially valued and legitimate, costs or contributions that one brings to a transaction which, in turn, are compensated apart from the material exchange itself. The implication was that an individual normatively anticipates being compensated for relevant social investments with more tangible benefits. For example, social characteristics (e.g., age, experience, gender) may be construed as valid "contributions" or costs in a transaction, demanding their own "equitable" compensation or reward. Consequently, a more experienced, older male salesperson may expect to be attributed with a higher level of expertise and ability and therefore be more reluctant to spend time (a cost) demonstrating his products' performance, expecting buyers to take them at his word.

This extension of a "fair" or "just" exchange has powerful implications for understanding the interpersonal dynamics of longer-term relationships. It introduces social characteristics into the basic equity formula and compels consideration of the social contexts that legitimize social characteristics. That is, it *normatively* links socially defined elements to one's claim on a greater net benefit than another. This interpretation of equity can then be given as a ratio.

$$\frac{\text{Reward - Cost}}{\text{Investment (Self)}} = \frac{\text{Reward - Cost}}{\text{Investment (Other)}}$$

Adam's Formulation: Extending Homans' formulation, Adams (1965) proposed that it is the ratio of inputs and outcomes (or rewards and costs as described by Homans) upon which equity judgments are made, rather than the net profit of an exchange. Adams more generally defined "inputs" as anything that invokes compensation, or the value one brings to or puts into an exchange. This definition of inputs included the social elements or contributions Homans' had defined separately:

$$\frac{\text{Input}}{\text{Outcome (Self)}} = \frac{\text{Input}}{\text{Outcome (Other)}}$$

Adams' formulation was an improvement over Homans' formulation in that it does not reflect absolute amounts of inputs and outcomes. This basic form of equity has been used in various marketing applications, including customer satisfaction within salesperson/customer sales interactions (Hupperitz, Arenson, and Evans 1978; Oliver and DeSarbo 1988; Oliver and Swan 1989), interorganizational exchange behavior (Frazier 1983), and to consider the legal/ethical implications of marketing (Gundlach and Murphy 1993).

However, Adams' formulation has several weaknesses. The key weakness of interest to this investigation was the difficulty it presents in integrating dissimilar "input" elements (e.g., money, social characteristics) into common input units. That is, although the formulation seems intuitively correct, the diversity of elements which might constitute *inputs* (social and tangible alike) makes empirical testing and application of the formula difficult, at best. To address this issue, Farkas and Anderson (1979) considered "input integration" and "equity integration."

Farkas and Anderson (1979) modified the equity formulation by directly incorporating social characteristics into the equity ratio. They reasoned that an individual's equity judgment in accounting for various types of inputs (i.e., material and social) must involve some form of cognitive integration of these elements. They proposed that similar inputs are integrated (or summed) and then compared with a final reward or outcome ("input integration"), while inputs that are disparate are used to form separate equity judgments. The various equity judgments are then combined for an overall assessment of exchange outcome ("equity integration").

Although their perspective is theoretically capable of considering various social elements that intervene in equity judgments, it is most often used to accommodate elements of exchange that can in some way be intuitively considered as "contributions" to the exchange (e.g., experience, skill) rather than social characteristics that are further removed from exchange benefits, such as the social attributes of the individual (e.g., age, education).

## Status Value Theory

By contrast, a stream of thought known as *Status Value Theory* (Berger, Zelditch, Anderson, and Cohen 1972) also addresses dissimilar inputs or "multidimensional characteristics" of equity judgments. However, it more specifically considers how external social characteristics emerge and are employed across various exchange contexts (i.e., "task situations") serving to alter equity judgments. This perspective better accommodates the social "attributes" of an exchange partner that are legitimized by society as appropriate claims on benefits. Accordingly, this perspective is more "normative" in nature.

Status Value Theory represents an extensive body of research. However, to link Berger's Status Value Theory framework with the normative influences relevant to marketing relationships, only a few of its fundamental concepts will be considered.

At the core of Status Value Theory is the concept of "status characteristics." Status characteristics comprise an individual's social description, to which "expectation states" or expectations of rewards, performance, and behavior are tied. Expectation states are activated by specific and recognized "task situations" or exchange situations (e.g., a new buy). In turn, task situations establish a context that legitimizes one's anticipation of an outcome, given a relevant set of status characteristics.

Status Value Theory takes on normative implications by incorporating the idea of "referential structures." Referential structures are socially legitimized frames of reference that reflect socially shared normative beliefs. They specify which status characteristics are relevant to a task situation, and how they should alter reward distributions. Referential structures establish a bridge between those social characteristics that are relevant to an exchange, and the ideologies, values, and beliefs of the social system in which an exchange relationship is embedded (e.g., an industrial/organizational culture).

"Generalized others" is another construct important to Status Value Theory. They are cognitively constructed referents, representing composites of relevant social characteristics (e.g., a *successful* salesperson, a *reliable* distributor). Referential structures identify and employ referents or generalized others who serve as a point of comparison within a particular exchange context, or a "task situation."

These comparisons serve to determine appropriate exchange behavior and establish appropriate expectations for specific types and levels of reward, or "reward states." Therefore, referential structures specify how given states of social characteristics *should*

correspond with reward states, providing a means for *self* to estimate a socially legitimate "just" reward or reward expectation within a particular exchange context.

Different *classes* of referential structures (Berger, Fisek, Norman, and Wagner 1983) may be *activated*, or deemed relevant across different task situations. For example, "categorical structures" reflect general interactant or diffused attributes that describe who you are, linking more distant social characteristics to general expectation states (e.g., one's nationality to quantitative aptitude).

"Ability structures" (e.g., a salesperson's motivation, technical training) refer to characteristics that are assumed more directly relevant to the outcome of a task, though not directly associated with one's performance within a particular exchange, whereas "performance outcome structures" directly associate rewards with actual achievements or performance within a time frame relevant to a specific task situation (e.g., a salesperson's sales quota).

Referential structures, status characteristics, and reward states are relevant to previous definitions of equity and equity judgments. Simply stated, they position equity as an extension of one's reward expectation relative to a reward state. Moreover, they imply that reward expectations take on a moral quality of right or wrong, especially when specific status characteristics are clearly and repeatedly associated with specific rewards (Berger 1989).

Compared to Farkas and Anderson's (1979) extension of Adams' formula, Berger's interpretation of equity judgment ties "fairness" of exchange more explicitly to the external social context by way of comparisons with prototypical others. Because it considers how social characteristics normally invoke specific reward levels, it is less dependent upon an equity comparison within the dyad. For example, salespersons, who have attributed themselves with a certain set of characteristics, may come to expect a certain level of reward

for their effort within a product category, given a characteristic selling situation, and given a certain level of effort, motivation, and expertise. This expectation may be formed without regard to a specific buyer or transaction in mind. Consequently, Status Value Theory is more useful for considering the social and historical context of social characteristics that normatively influence exchange.

This perspective clarifies how social characteristics, in combination with social context, ultimately influence one's judgment of a relationship and the behavior of another as being appropriate and/or valuable. Accordingly, it also extends our understanding of how relationships may become unstable and ultimately dissolve. It suggests that, as an individual fails to realize his/her expectations, given a definition of the exchange context, a relationship or set of relationships may be judged as inequitable. In turn, perceptions of inequity can be interpreted as an individual's perception that a set of exchanges have become unbalanced and costly, relative to what a social system defines as appropriate.

### *Status Characteristics and Long-Term Relationships*

This concept can be applied to longer-term relationships by first assuming that, in order for a relationship to endure, perceptions of equity have generally prevailed over time. Accordingly, by definition inequitable exchange will stress a relationship and predispose actors to abandon it. This implies that the actors must have identified mutually relevant social characteristics and appropriately accounted for their transactional contributions across multiple transactions if a relationship has endured.

Extending this idea to relationships under distress, consider the proposition suggested earlier--that relational disruption requires an abandonment of norms, along with a general deterioration of other relational elements. It follows that, under environmental conditions so

adverse that relational dissolution might occur, there must be a concurrent abandonment of, or at least a gradual disregard for, status characteristics and the legitimacy of their corresponding expectation states. This seems intuitively correct. As environmental changes occur, by definition, social contexts (*referential structures*) would also change. If we further consider that referential structures establish relevancy for status characteristics and substantively represent or make up the external environment, the rationale for understanding how environmental changes *deactivate* relational elements (e.g., status characteristics) becomes clear. That is, if social characteristics are validated by the external social system, it is reasonable that changes in the external system would de-emphasize the use of those characteristics, providing a means for exchange participants to abandon and redefine relevant exchange partners who are more fitting with the new environment (i.e., new performance-outcome structures).

### *Relational Exchange and Status Value Theory*

It is important to recognize that norms of exchange should have common theoretical grounding. Accordingly, the similarities of Macneil's Relational Exchange Framework and Berger's Status Value Theory are considered.

Although Status Value Theory and the general body of work concerning equity originated within a stream of research disinterested in relational exchange, as defined by Macneil, they have common themes. First, both theories rely on the use of norms that originate in an external social context that encompasses the dyad. In addition, both theories recognize that a relationship's stability is dependent upon the perceptions of both parties in the dyad that exchange outcomes are fair or appropriate. Hence, both Relational Exchange and

Status Value Theory acknowledge a relationship's dependence upon internal and external legitimacy.

Although it is beyond the scope of this work to consider all of the "intermediate" norms identified by Macneil, similarities are also apparent at this level of specificity. For example, Berger's conception of a *referential structure* which legitimizes the expectations and rewards of a particular task situation is very similar to Macneil's use of *harmonization with the social matrix*. Both link normative exchange with an external social network. This similarity may be an important step toward operationalizing Macneil's social matrix, a task noted to be difficult, if not impossible, in previous research (Kaufman and Stern 1988).

### *Maintaining Normative Implications of Equity*

It is also important to recognize that the social dimensions of Status Value Theory are based upon equity judgments which are, in turn, normative in nature. Often, within marketing applications of equity, more restrictive and simplistic applications of equity and related frameworks such as Status Value Theory have dismissed or de-emphasized the social and normative aspects of equity.

Equity related frameworks have been employed in marketing largely because of their appeal of incorporating the costs and benefits of a transaction into a single construct. However, applications of equity frequently reduce transactional costs and benefits to only the simplistic tangible elements, such as money and products, or slightly less tangible elements, such as effort.

For example, Oliver and DeSarbo (1988) employed Berger's Status Value framework, likening multidimensional inputs to an exchange participant's role description--specifically, a salesperson's role definition and role performance relative to a specific sales transaction.

While it is reasonable to integrate role definitions with other inputs of an equity formulation and performance evaluation (Kohli 1980; Solomon, Suprenant, Czepiel, and Guitman 1985), limiting the definition to this element is overly simplistic.

Role performance probably best corresponds to what Berger called a "performance structure." However, in limiting all status characteristics to one's role, the social elements of an equity judgment are likewise limited to those characteristics which are directly tied to performances within an exchange. This neglects the less intuitive influence of the general social and historical setting and, with it, the social legitimization of norms.

For example, limiting the definition to a salesperson's role neglects a salesperson's expected [in]competencies, appearance, and social status in society. This interpretation would also fail to account for relationships that are unstable due to a salesperson's failure to realize definitions of who they are, what they look like, and how they act outside the exchange. It also fails to account for tendencies to moderate performances relative to these characteristics.

Oliver and DeSarbo (1988) justified this simplification, arguing that noneconomic elements were not "totally appropriate for commercial exchange or customer-salesperson behavior." Their concern was that specific consideration of social inputs would "degenerate into a simple role assessment study," complicated by the difficulty in determining a common role assessment standard across buyers. This is counterintuitive to the theoretical frameworks they employed. A basic assumption of Status Value Theory is that social standards impact equity judgments across dyadic interactions *because* the social context legitimizes the status structures.

The narrow definition of equity, such as that employed by Oliver and DeSarbo (1988) and Oliver and Swan (1989), would be especially limiting to the study here. They employed a buyer/seller scenario of nonindustrial customers who interact infrequently within a product

domain (e.g., the purchase of a new car). Research by Oliver and Swan (1989) employed what may be defined as a "discrete exchange." That is, there would be little chance for a perpetual and complex relationship to evolve within an automobile purchase/task. Therefore, although normative interventions are still theoretically important, they are likely to play a less significant role. However, dismissing the importance of these social elements when considering relational exchange would be more problematic. Relationship marketing, by definition, requires a more sophisticated awareness and understanding of others within the marketing network (social context).

Similarly, Frazier (1983), in developing a framework for interorganizational exchange behavior, also employed a limited definition of equity. Equity was treated, simplistically, as a dimension that buyers and sellers use to evaluate prospective relationships. He discussed equity judgments as being based on expectations of deserved rewards compared with economic investments, rather than normatively established standards. The influence of social contingencies was constrained to an evoked set of competing, alternative organizations, made salient through deliberate search and information processing. Again, external social contingencies were not explicitly integrated into the definition of "deserved reward." Frazier's (1983) treatment of equity judgments assumed them to be exclusively dyadic in nature, with expectations of rewards and costs formed through "detailed discussions between participants," rather than by considering external normative influences.

Although equity judgments themselves are dyadic, the present investigation assumes that the social characteristics (*status characteristics*), which substantiate equity judgments, act as legitimate internalized norms and reflect the ideologies and values of the social context. Based on this discussion, status characteristics are assumed to be especially important to long-term relationships. However, describing status characteristics and their implications for

marketing may also parallel similar research in salesperson performance (Kohli 1989; Leigh and McGraw 1989).

### *Implications of Changes in Status Characteristics*

Referential structures provide the linkage between status characteristics and the environmental ideology that legitimize their use. This linkage is theoretically important in that it ties the activation of normative structures to an external entity. That is, given that social characteristics are active in exchange and made relevant by a social system, it follows that as external structures evolve, the relevancy of specific social characteristics must also be altered, which implies that, given a changing environment, old referential structures and their corresponding characteristics would deteriorate as new ones are constructed. As for our interest in the normative evolution and ultimate dissolution of long-term relationships, it would be reasonable to assume that status characteristics are abandoned as relationships are distressed. However, under less extreme disruption, it is also likely that status characteristics become more salient, which might result as transactional costs and transactional benefits unavoidably become more variable due to environmental turbulence. Under these conditions, it is likely that exchange partners will place greater emphasis on their definition of <u>who</u> another is, rather than the actual transaction. Chapter III further develops related hypotheses concerning the normative use of status characteristics under these two environmental conditions--those that are moderately and those that are highly threatening. These hypotheses are exemplified through examples taken from the exploratory study as discussed in Chapter III. Unlike the other normative behavior investigated in this study, however, respondents were more reluctant to discuss their use of customer characteristics as a basis for

decision-making. Yet, after initial probing, a rich description of status descriptors was uncovered, establishing their relevance during periods of environmental change.

Finally, the previous discussion raises interesting questions beyond the scope of this investigation. Do norms deteriorate because exchange partners ignore them as they attempt to dissolve their partnership in an effort to establish new relationships which are more commensurate with a new environment? If so, a conscious and deliberate change in normative behavior by the actors would be implied. Or, do social systems de-legitimize present norms as new social characteristics evolve and are made salient through the demands of new task situations? If so, a *functionalist* perspective would be reflected, suggesting that the social system itself acts to end dysfunctional relationships apart from the awareness and intentions of the participants.

### Distributive Justice and Distribution Rules as Norms

Eckhoff (1974) developed a framework of Distributive Justice that elaborated a specialized subset of exchange norms used to determine appropriate material allocations for individuals, groups or entire social systems. These norms are referred to as "distribution rules," or "justice norms" when used in a normative context. Justice norms are purported to be universal in nature and work in combination with one another to determine fair or just outcomes. They are introduced to represent a third perspective of behavioral elements relevant to understanding the evolving nature of relationships. Justice norms meet the general criteria of exchange norms previously discussed. They modify the more objective, utilitarian based judgments of what constitutes a *fair* transaction. They reflect an ideology for an external social collective and accordingly are formally and informally implemented through social controls of material allocations within society.

Certain aspects of justice norms differentiate them from those identified by Macneil, or the normative influence of status characteristics as identified by Berger. First, they are more general than the norms discussed earlier in that they function as guidelines for various forms of social interaction other than dyadic exchange. Consequently, they have implications for small groups or broad segments of society, as well as dyads. For example, justice norms may be directly linked to actions taken by industry associations to support smaller, struggling business.

Another departure of justice norms from the norms identified previously is that they employ multiple criteria. Rather than simply focusing on the benefits and costs of a transaction to determine a fair division of benefits, other considerations such as the nature of a group goal, the situational needs of individuals, and past behaviors may all be considered relevant.

The various criteria defining justice norms are guided by a general precept of equality, though not necessarily a simplistic equality of profits. Eckhoff applied equality to a number of criteria to yield the following classification of norms (Stolte 1977, 1987; Cook and Hegtvedt 1983):

*Need*: When equality is applied to the dimension of one's *need* and the norm of "subjective equality," the *needs* rule is established. The *needs* rule establishes that benefits should be distributed such that they are equal, relative to each party's need. A subjective equality may establish a normative expectation, within a longer-term relationship, for an exchange partner to respond and help the other when in distress, apart from "equitable" judgments of transactional benefits. For example, a distributor may extend credit to a buyer who is in financial trouble--simply because of financial trouble.

*Social Status*: Social status, as used here, is not hierarchical in nature. Rather it refers to one's social identity as identified by relevant social characteristics. It is similar to, and will be treated the same as, Berger's status characteristics for the purposes of this investigation. Using one's social characteristics as a relevant dimension to distribute benefits was identified by Eckhoff as "rank order equality" (i.e., social ranking rule), where benefits received are equal to one's social identity.

*Equality*: If the absolute amount of benefit received in a distribution is emphasized, then "objective equality" (i.e., equal outcomes rule) assures that all members of a group or system receive equal portions. This is an allocation rule, representing the ideological opposite of economic systems that are based on exchange. It requires only that one's membership in a group be established.

*Contributions*: If one's contribution to a transaction serves as the criterion for distribution of benefits, then "relative equality" (i.e., contributions rule) is implemented. This rule is a more utilitarian based norm, and is very comparable to Homans' original formulation of equity. It stipulates that one should benefit proportionately according to what one contributes.

*Opportunity*: Finally, providing all members of a group with the opportunity to participate in a system of distribution establishes "opportunity equality" (i.e., equal opportunity). This rule focuses on the availability of benefits at the onset or beginning of a distribution process, rather than the outcome. This rule is reflected in many affirmative action programs that facilitate, or even compel, the support of minority-owned organizations.

*Common Normative Themes of Justice Norms*

As previously noted, all exchange norms should have a common theoretical grounding, as well as empirical correspondence. Accordingly, several similarities between Macneil's relational norms, Berger's status characteristics, and Eckhoff's justice norms will be discussed.

Like relational norms and status characteristics, justice norms have their origin in the ideology and value system of an external context. Further, implementation of these norms is usually dependent upon individuals who are involved in, or are close to, the interaction in question. Therefore, their application is still driven by relevant actors' perceptions and interpretations. As before, if the application of these norms is deemed inappropriate by the parties involved, stress and instability will characterize the relationship. In addition, as did Macneil, Eckhoff provided for several norms to operate simultaneously within a single relationship or within a single transaction, varying in their importance or emphasis relative to the individual's interpretation of each norm's relevancy at the time.

There are also similarities between individual justice norms and specific norms discussed previously. These similarities can be demonstrated by expanding upon a few of the contingencies that guide the application of justice norms.

There is evidence that a group's characteristics may play a role in their selection of justice norms. In the case of group members who perceive themselves as being similar to each other, more emphasis is placed on absolute equality (i.e., equal outcome rule), rather than on a contributions rule. Similarly, it has also been suggested that friends are less likely to invoke a contributions rule, while strangers prefer a contributions rule (Cook and Hegtuedt 1983). The distinction between friends versus strangers, as well as the distinction made concerning

similar others and dissimilar others, parallels Macneil's distinction between those who are party to relational versus discrete exchange.

It is reasonable that relational actors would feel they have more in common and are more similar to each other than others outside the relationship. That previous research (Cook and Hegtvedt 1983) has shown this to result in a de-emphasis of the contribution's rule reinforces Macneil's suggestion that actors of relational exchange put less emphasis on transactional costs/benefits and emphasize mutuality instead. Cook and Hegtvedt (1983) also noted that groups de-emphasize a contributions rule when their goal is to promote group harmony, again demonstrating that more importance is placed on the relationship rather than the transactional benefits received.

There may also be a link between Macneil's mutuality and the subjective equality (i.e., needs) norm. "Mutuality" implies that actors who perform within a group, or single context, evolve perceptions of having a common fate. It emphasizes that all members of a relationship, to some degree, must succeed or fail together as they confront the same threats, resources, and opportunities. While mutuality does not dismiss compensation based upon performance, it moderates transactional competitiveness by underscoring that today's partners are also tomorrow's partners. It also distributes the responsibility for the fate of a single individual across others within an exchange network. The justice norm of subjective equality plays a similar role and may provide a more explicit and operative framework for considering mutuality than does Macneil's definition.

### *Subjective Equality (Need)*

It is beyond the scope of a single investigation to consider the entirety of Eckhoff's normative classification. Therefore, a single norm, subjective equality or the *needs* rule, and

how it functions within deteriorating relationships was selected for further investigation. Some of the implications of previous research concerning a distinction between "micro" and "macro" norms motivated the selection of this norm. A brief discussion of this issue, as well as the *needs* rule's relevance to changing environments follows.

*Micro versus Macro Norms*

"Micro" justice norms refers to those norms which, in order to be implemented, require specific information about the individuals who are party to the exchange. Examples are subjective equality, which requires knowledge of another's needs; rank order equality, which requires knowledge of another's social characteristics; and relative equality, which requires knowledge of another's contribution. However, "macro" norms refer to norms which require no information about the individuals (equal opportunity and objective equality). Brickman, Goode, and Schul (1981) used this distinction to make a case that micro norms are more relevant to *micro* justice or perceived justice within a constrained set of players (e.g., a long-term relationship). Norms that are not dependent upon individual characteristics establish *macro* justice which motivates action taken by a broader political/economic system.

An implication of this distinction is that local and individualistic interaction is required to gather the information necessary to implement micro norms. With macro norms, policymakers, further removed from local interaction, must rely on more simplistic criteria such as verifying one's membership in a group to establish equal opportunity (e.g., affirmative action). In that other theoretical streams considered previously were dyadic in nature, it would seem appropriate to select micro justice norms for further investigation. Of the three norms that are micro in nature, subjective equality, or the *needs* rule, seemed most relevant to the study at hand.

The second micro norm, rank-order equality, closely parallels status characteristics. In stipulating that one's social position defines an equitable outcome, it follows that socially defining characteristics are employed to establish rank-order equality. Therefore it is assumed that the status value framework, discussed earlier, encompasses the normative implications of rank-order equality.

The third micro norm, relative equality, also parallels simplistic interpretations of equity, and can be assumed to be implicit in all exchange transactions. The contribution's rule, in fact, is present in both short-term transactions and longer-term relationships, represented by transactional costs and benefits. Of the "micro" norms then, subjective equality remains. It was therefore considered for being relevant to a changing environment.

Changing Environments

The *needs* rule seemed very relevant to changing environments, especially when the well-being of a relational partner is of concern, such as in times of distress caused by external conditions. This norm compels an exchange partner to respond to another's adversity, holding the partner responsible for the outcome of another. However, as with the norms discussed previously, under conditions of extreme environmental turbulence and change, there would seem to be a temptation to neglect or abandon a partner's need, especially when the worth of that particular relationship is in question. This relationship was also demonstrated in the exploratory study that follows.

As in the case of Macneil's norms of flexibility and consistency, and as in the case of Berger's status characteristics, two related hypotheses are developed in the next chapter with regard to the justice norm of need. The first considers a relationship's normative response to another's need under moderate levels of environmental threat, while the second considers

more extreme and menacing environmental conditions, sufficient to threaten the relationship itself.

## SUMMARY AND INTRODUCTION TO CHAPTER III

Three theoretical streams have been considered to identify norms relevant to long-term business relationships--Macneil's Theory of Relational Exchange, Status Value Theory in the tradition of Berger, and Distributive Justice as developed by Eckhoff. Macneil's Theory of Relational Exchange also provided a theoretical base for generally defining long-term relationships, how they function, and how they differ from shorter-term transactional exchanges (i.e., "discrete transactions").

Dwyer, Schurr, and Oh (1987), using Macneil's framework, identified that long-term relationships evolve through a series of stages, ending in a relationship's deterioration and final dissolution stage. Noting that little research exists on relationships undergoing deterioration, a key motivation identified for this study was to consider the process by which relationships weaken and become predisposed to dissolution. Environmental threat and the resulting stress imposed upon relationships were identified as conditional catalysts that might initiate the deterioration of a relationship. Therefore, environmental threat was included as a secondary area of interest.

Specifically, this study purported to observe normative changes in long-term relationships, both as they confront "difficult" but manageable conditions and more extreme "crisis-like" conditions. The former would seem to invoke a greater reliance upon norms, while the latter is suspected to move relationships closer toward dissolution and, ultimately, abandonment of normative obligations.

An exploratory study was conducted in order to gain practical insight into the normative actions of participants involved in long-term relationships, and to observe their response when confronted with environmental threat. Centered on the farming industry, unstructured interviews with farmers, agricultural lending institutions, and other farm-related business owners and/or operators were utilized. The study was conducted in a small rural community in the southeastern United States, with the objective of gaining an understanding of how exchange relationships are altered when confronted with changes in the broader business environment.

In the following chapter, insights from the exploratory study are used to refine and formalize the hypotheses of normative behavior suggested above, after a more specific examination of business and environments and a definition of environmental threat is developed.

# CHAPTER III

# ENVIRONMENTAL STRESS AND HYPOTHESES DEVELOPMENT

An environmental condition, generally referred to in the previous chapter as "stressful" or "threatening," was positioned as a stimulus that produces normative changes in relationships. This chapter formally develops "environmental threat" as the construct which represents this condition. Further, its impact on normative behavior is demonstrated through the use of an exploratory study.

The study employed interviews with decision-makers who had experienced high levels of environmental disruption during the "farming crisis" of the late 1970s and early 1980s. During this period, many financial institutions in the agricultural industry, as well as other agribased organizations, were forced to terminate or redefine their relationships with farming operations. The impact that these changes had on interpersonal relationships or, more specifically, on the relational elements that shaped those relationships, provide a format to exemplify the theoretical implications of normative interaction developed in Chapter II. From these insights illustrating changes in normative behavior relative to changes within the farm industry, formal hypotheses concerning specific norms (e.g., flexibility, consistency, need, and the use of status characteristics) were developed under two environmental conditions: (a) those that are moderately threatening, and (b) those that are highly threatening.

The agricultural industry was selected to explore environmentally induced normative change because its confrontation with numerous environmental difficulties has been well documented. During the farming crisis farmers experienced high rates of negative profitability

and general business failure. These problems were attributed to changes in monetary policies, regulatory policies, commodity prices, and other generally unfavorable economic trends. However, farmers were not the only ones affected during this period. Agricultural lending institutions and other farm-related businesses also failed or experienced reorganization as a result of their dependence on farmers. Consequently, long-established relationships and interpersonal and/or organizational behavioral patterns were dramatically challenged. The setting was appropriate to consider environmental changes and how they threaten long-term relationships, how relationships evolve and/or dissolve under adverse conditions, and, ultimately, how normative behaviors are altered.

As interviews with farm owners/operators, agribusiness managers, and key decision-makers in local banking and/or loan organizations were conducted, respondents were probed for their perceptions of what constituted *appropriate* and *fair* behavior. Of course, how they had changed these normative definitions was of special interest.

However, before considering the norms identified above and developing specific hypotheses of how they are moderated by environmental context, the condition of "environmental threat" will first be defined as a context suitable for examining these issues.

## ENVIRONMENTAL CLASSIFICATION

There is little consensus in the literature as to how environmental conditions should be characterized, nor how they should be measured. To discuss issues relevant to defining and measuring environments, examples of various approaches are organized into three general categories. They are identified here as "environmental domains," "environmental dimensions," and "environmental interpretations."

*Environment Domains*: A traditional approach to defining business environments describes various physical domains of the environment (e.g., competitive, economic, technological), while identifying the nature and proximity of changes within these domains. Often, qualitative work, such as interviews with industry professionals, are used to specify the elements within each domain that are relevant to the industry under investigation (e.g., interest rates, GNP, consumer confidence). This approach frequently serves as a teaching device in introductory marketing and management courses.

*Environmental Dimensions*: A second approach uses a higher level of abstraction to characterize more general environmental conditions (Jurkovich 1974; Aldrich 1979). For example, Achrol, Reve, and Stern (1983) specified various environmental conditions using a set of dichotomies developed by Aldrich (1979): (1) concentration/dispersion, (2) lean/rich, (3) heterogeneous/homogeneous, (4) turbulence, and (5) stability/instability. These dimensions are frequently used to investigate marketing environments (i.e., Achrol, Reve, and Stern 1983; Achrol and Stern 1988; Dwyer and Welsh 1985; Gundlach and Achrol 1991; Morris and van Erkom Schurink 1993). Achrol and Stern (1988) positioned this approach as being more useful for describing the general character of an environment than itemizing its elements. They argued that identifying and itemizing the specific elements of an environmental domain was subject to researcher bias/interpretation, as well as being susceptible to errors of omission.

*Environmental Interpretation*: A third approach to environmental classification employs an even higher level of abstraction, which is based upon the actor's summary interpretation of a more holistic, overall environmental condition. This approach has become especially popular over the last decade and includes more general, ambiguous concepts such as environmental uncertainty (Achrol and Stern 1988; Lysonski, Singer, and Wileman 1988),

environmental dependence (Dwyer and Welsh 1985), knowledge-rich environments (Achrol 1991), volatile environments (Achrol 1991), and "information intensive" (Glazer 1991).

These interpretations have several common themes:

1. They hold that environments are unique to individual decision-makers and therefore are "enacted" or perceived relative to one's interpretation of the environment (Achrol, Reve, and Stern 1983). Consequently, it employs a more ambiguous terminology which lends itself to the unique interpretation of individuals.

2. Environmental interpretations shift the emphasis from conditions or characteristics of the environment to consequence(s) of the environment on decision-makers. That is, each interpretation implies a behavioral response on the part of the actor or organization. For example, environmental uncertainty may be defined as a function of the availability of information about the environment *and* its consequence of causing uncertainty in the decision process (Pfeiffer and Salancik 1978).

3. Finally, these more holistic interpretations often focus on the accessibility of environmental resources (e.g., economic resources, information) which function as inputs to a system, de-emphasizing the environmental condition which was responsible for altering the distribution of resources. Such interpretations reveal the influence that theories of organizational strategy have had on this approach and the common ground a "systems" approach provides for each one's theoretical justification.

*Bridging Levels of Abstraction*: It could be argued that there is a fourth category of environmental typologies. It includes attempts to link the three different levels of abstraction

identified above. For example, Achrol, Reve, and Stern (1983), focusing on environmental uncertainty, employed Aldrich's (1979) dichotomies of environmental dimensions to characterize various dimensions of uncertainty. Dwyer and Welsh (1985) used an itemized approach to specify elements of various environmental domains in order to measure uncertainty and dependence. These approaches entailed mapping relevant domains (i.e., degree of regulation, technology, consumer demand, level of competition, availability of resources, and cultural correspondence) across environmental elements to assess the respondents' perceptions of environmental dependence and uncertainty. Later, Achrol and Stern (1988) had limited success in associating other environmental dimensions (e.g., turbulence, rich versus lean) to environmental uncertainty.

## Criteria for Defining Environmental Threat

Given the different levels of abstraction that have been used to characterize the environment, the diversity of characteristics employed within each level, and the various attempts to link these approaches, it is not surprising that there has been little consensus of how to characterize business environments. However, there are a number of important criteria that can be gleaned from these studies in developing a construct for the purpose of this study--an environmental condition which would motivate changes in normative interaction.

First, it is the position of this researcher that environments are, in fact, individually enacted or perceived. Itemizing environmental elements and/or domains is assumed to be inappropriate. It would be difficult, if not impossible, to identify and itemize all environmental elements which would motivate modifications in normative behavior. Using exploratory work (e.g., interviews) to identify these elements would assume that respondents

are actually aware of and are capable of articulating the elements which form their more holistic impression.

Research that has taken this approach has not been entirely clear on the motivation to itemize an environment. If the concern is with various environmental conditions and their impact on more macro, or aggregated, marketing structures and processes (e.g., level of channel integration within an industry), then itemizing and describing characteristics of the environment may be appropriate, and would be useful for predicting the consequence of changes in specific environmental domains (e.g., interest rates) on market activity (e.g., sales).

However, if the concern is with behavioral changes of individuals relative to their interpretation of the environment, as is the case in this study, then it would seem that understanding *why* a respondent has interpreted an environment in a certain way is less relevant. Rather, the primary issue would be to identify whether or not a particular interpretation has occurred. For example, if the interest were in decision-maker uncertainty and the consequences of uncertainty on centralizing decision policy, then the "cause" of the uncertainty would seem secondary to establishing that uncertainty has occurred.

The same line of reasoning applies to attempts at mapping abstract characteristics to more tangible environmental conditions. The very interest in environments underscores the importance of taking one's perception of context (i.e., time, place, history) into consideration. It may be that moving to higher levels of abstraction and asking for an individual's interpretation of reality is adequate, as opposed to comparing the individual's interpretation of reality to reality itself. Asking individuals to tie their perceptions of the environment to specific conditions undermines the assumption that reality is relative and subject to individual perceptions.

The problem with attempting to map environmental elements to one's perception can be demonstrated by an example. Stern and Reve (1980) proposed that lean environments (versus rich environments) are associated with decision-maker uncertainty. As expected, they found a significant relationship between perceptions of uncertainty and environments defined as "lean." However, the theoretical implications of their findings may be limited.

Stern and Reve overlooked the social and historical context of their study. Lean environments are only uncertain to the extent that they are unusual. The study in question was conducted in 1988, at the end of one of the longest and most consistent economic growth periods in United States history. It is not surprising that the prospect of a diminishing consumer demand would be interpreted by respondents as an *uncertain* condition. If the same study had been conducted in 1938, it is possible that rapid growth (a rich environment) would have been perceived as equally uncertain. The implication is that examining specific environmental conditions may only have practical applications for specific industries at specific points in time.

For the purpose of this investigation, environments were assumed to be subject to individual interpretation, and relative to a given time and place. This position corresponds with a basic premise of the theoretical frameworks introduced earlier: that social systems (e.g., groups, organizations, industries) evolve norms, as well as other behavioral mechanisms, which correspond with their environmental context. It is counterintuitive to consider that patterns of interpersonal interaction could be in conflict with the limitations and opportunities of a given environment. Therefore, uncertainty or any other environmental interpretation, by definition, cannot be tied to a fixed and tangible condition.

Likewise, for the task of defining "environmental threat," it must be positioned as <u>any</u> interpreted condition that is perceived to jeopardize a system, apart from tangible attributes

which induces that interpretation. Further, it is implicit that changes in context predispose perceptions of jeopardy when, and as, contexts change.

## Environmental Threat

Given that a relatively high level of abstraction is desirable for establishing an environmental construct, and that no attempt was made to link the construct to specific elements in the environment, the construct itself is now considered.

"Perceived Environmental Threat" is defined here as one's perception of the degree of threat an environment represents to an organization with a given set of resources. This definition is a relevant environmental descriptor, when compared with other environmental interpretations found in related literature, for the purpose of examining normative change in buyer/seller relationships predisposed to dissolution. The usefulness of using perceived environmental threat to examine normative change will be demonstrated by contrasting it with *environmental uncertainty* and *environmental dependence*.

Environmental uncertainty has been an important theme for examining environmental impact on organizational strategy (Duncan 1972; Downey and Slocum 1979)). More recently, it has received much attention in marketing (Achrol and Stern 1988; Murray and Mentzer 1993). Environmental uncertainty can be defined as a function of the availability and diversity of relevant environmental information and its effect on decision-makers (Dwyer and Welsh 1985). Stern and Reve (1980) argued that uncertainty was a central notion in studying changes in channel structures and processes. The influence of environmental uncertainty upon issues such as channel conflict, power, integration, and centralization of decision-making has been clearly demonstrated.

Environmental dependence has also been addressed in marketing literature (Dwyer and Welsh 1985). It refers to the prevailing flow of resources across system boundaries and implies the degree to which an organization *fits* the environment. Dwyer and Welsh (1985) operationalized the construct as variability in the channel's (primary task environment) output and competitive intensity. Environmental dependency and uncertainty have properties similar to environmental threat. All three imply that contextual changes have occurred which predispose other changes within marketing systems or relationships (Etgar 1977). However, environmental threat was used in this study for several reasons.

First, environmental threat may be more useful for examining changes in interpersonal behaviors (i.e., norms). There is a fundamental difference between interpersonal or dyadic behavior and collective behavior which result from aggregated actions across multiple relationships. As discussed in Chapter II, collective behavior is useful for describing a channel of distribution (Achrol, Reve, and Stern 1983) or a structure comprised of multiple relationships within a primary task environment. It encompasses dimensions such as vertical integration, level of channel conflict, and centralization of decision-making power. These are aggregated measures of collectively defined constructs.

Studies which have incorporated uncertainty and dependency into marketing, almost without exception, are concerned with this higher level of aggregation. Although this does not necessarily invalidate their use as relevant constructs at the dyadic or interpersonal level, as is required in this study, neither does this body of previous research establish their usefulness at the dyadic level. An environment described as "threatening" may provide a stronger motivation for the relational or dyadic changes of interest here.

The focus of this study was on interpersonal, buyer/seller relationships and how they dissolve, or become prone to dissolution. In that buyer/seller relationships are assumed to be

regulated by normative behaviors, it follows that change is actively avoided by exchange partners--by definition, they are "nonnormative." Accordingly, it would seem that external conditions which would stimulate normative changes must be perceived as enduring, menacing, and imminent. An environment perceived as "threatening" seems more apt to meet these criteria. Where uncertainty and increased dependency simply imply that change is strategically desirable for the organization, an environment interpreted as threatening is more likely to compel change as it evokes stronger impressions of injury which are imminent.

A second concern with uncertainty and dependency is that they evolved within theories of organizational strategy. Appropriately, they have been used to explain changes in strategic planning and decision-making (Tullous and Utecht 1992) . However, by definition, strategic decisions purposely consider the availability and diversity of environmental information and resources (i.e., uncertainty). That is, strategic decisions are ongoing and deliberate attempts to consider and respond to environments (Shelley 1991; Laczniak and Lusch 1987). Therefore, a decision-maker's uncertainty, or degree of felt dependency on a secondary or macro environmental resource, could alter strategic decisions. The same assumption cannot be made of changes in interpersonal norms. Norms are less conscious and are maintained by convention, not by deliberate and rational implementation of strategic policy.

For example, if a building-material supplier's customers (i.e., the primary task environment) have chosen to postpone building contracts because of uncertainty in financial markets or because of higher interest rates (i.e., greater dependency), the resulting consequence on the supplier would not be described as an uncertain or dependent condition, but rather as a threatening condition. Yet, environmental uncertainty may be very appropriate

to describe the more general climate across the channel as a whole, or at a more macro level of analysis.

### Environmental Threat--Definition

Environmental threat, because of its level of abstraction and because it conveys a strong impression of environmental consequence, lends itself to an individual's unique interpretation of an environment which would motivate changes in interpersonal behaviors. Accordingly, "environmental threat" is defined here as an individual's perception of how threatening a business environment is to his/her own organization.

The business environment for many farmers of the late 1970s and early 1980s provides a good example of this condition and exemplifies this condition's consequence on normative behavior. This form of investigation, that of being more "qualitative," takes an inductive approach to the investigation of norms. This was deemed necessary due to the lack of research within marketing that focuses on relational deterioration and dissolution. Further, norms of Distributive Justice and Status Value Theory lack precedence in this field. Theoretically linking them with Macneil's norms of Relational Exchange demanded a method of exploration that yielded a first-hand exposure to their application in order to provide this researcher with a more intuitive familiarity with their function in a business setting.

## EXPLORATORY STUDY--FARM CRISIS

The exploratory investigation of farm-related business was not sufficient in scope to provide quantifiable data for a formal interpretive analysis. However, information and insights from the interviews were used to exemplify the theoretical implications developed previously. Illustrations of norms operating in daily interactions will also facilitate development of formal

hypotheses concerning normative changes in relationships operating under adverse environments. Specifically, illustrations were considered that demonstrate how flexibility, consistency, the use of status characteristics, and one's response to subjective equality (need) might be implemented by participants in long-term relationships under varying levels of environmental threat. However, all of the hypotheses reflect a general supposition that normative behavior is emphasized as environments are interpreted to change from nonthreatening to moderately threatening; and that normative emphasis must diminish or be de-emphasized as environmental conditions are interpreted to worsen and become highly threatening.

## Consistency Hypothesis

Agricultural lenders, the focus of most interviews, were sensitive to the hardships experienced by farmers. Yet, this group was also instrumental in making decisions that ultimately resulted in the failure of many farm operations (e.g., denial of credit, foreclosure). The conflict they experienced in denying farmers credit or foreclosing on their assets provides insight into the norm of consistency and how it operates.

One lender described an unpleasant visit to a farmer and his family, explaining how he sat down with them, showed them a financial analysis of their farm operation and, finally, told them that "he just didn't see how he could help them." This loan officer had been provided with a rigorous set of financial criteria developed by corporate management and presented to him prior to his meeting with this farm owner. A new set of corporate criteria had been implemented to guide decision-making for farm loans and, at the same time, his personal discretion on "borderline cases" had been removed.

In terms of Macneil's definition of *consistency*, he had been forced to compromise his *role integrity* by acting *inconsistently* with past behaviors (i.e., the use of new financial criteria). In doing so, he terminated a long-term relationship, in that this farmer would have qualified for another operating loan using previous decision criteria. However, this decision was beyond his personal control since corporate policy had removed his personal discretion.

The loan officer was clearly distressed by his forced decision to terminate this farmer's operation. However, when asked if he believed that the farmer had been treated unfairly, he paused and replied, "he wasn't treated as he had expected to be treated." What was interesting about this case was that the officer believed that the new corporate criteria, and his decision, were correct. His frustration emanated from the simple fact that he was compelled to respond in a manner that violated the farmer's expectations. The internal conflict of being "caught in the middle," as experienced by middle managers coping with difficult environments, has been linked to managerial "burnout" (Lysonski, Singer, and Wileman 1988). Lynsonski et al. (1988) identified that managers with more job experience are more likely to suffer from role conflict when coping with changes initiated from the outside.

The example described above corresponds with Macneil's propositions that role integrity is based upon performance consistent with an exchange partner's expectations, and that those expectations evolved from repeated interactions over time. Additional information gained from this loan officer's story, and others who held similar positions, confirmed that the norm of consistency had been very salient over previous periods of financial difficulty. Consistency seemed to expand as threatening conditions began to emerge--then, often abruptly, ended as changes in decision criteria were imposed upon the dyad, resulting in the termination of many long-term relationships.

Agribusiness lenders frequently related that they knowingly made "bad" (high risk) loan decisions prior to the crisis decade. They considered their decisions "bad" because loans were made in spite of their personal knowledge that the agricultural industry was facing such adverse conditions, yet they continued to grant loans to farmers who were already in financial distress. Various sources of information concerning the agricultural industry (e.g., corporate lending authorities, investors who were further removed from local operations, interpersonal interaction) had provided ample indicators of worsening conditions, as well as admonishments to tighten loan criteria. However, these indicators had had little impact on the behavior of local long-term interactants who were guided by normative precedence.

These observations support the theoretical implication developed earlier: as threatening environmental conditions emerge, *consistency* (role integrity) seems to expand. Consistency compels interactants to maintain behavior that meets their partner's expectations, despite personal costs. As threatening environmental conditions persist and intensify, however, key decision-makers may begin to interpret the new, external conditions as personally menacing and permanent. When this condition occurs, business policies are altered, resulting in the violation of past expectations and, in some instances, the termination of certain relationships:

**Hypothesis 1a: The emphasis on Role Integrity (consistency) will increase as perceived environmental threat increases.**

**Hypothesis 1b: Role Integrity (consistency) will be de-emphasized under conditions of high environmental threat.**

## Flexibility Hypothesis

Flexibility also imposes normative obligations on relationships. Respondents used phrases such as "working with them" and "helping them out" to describe situations where they voluntarily compromised or suspended their own expectations to accommodate circumstances neither party had anticipated. *Flexibility* seemed to be invoked frequently, though with a great deal of discretion.

A demonstration of how flexibility may be obligatory in long-term relationships--until an appropriate limit of tolerance is reached--was provided by a farm implement dealer. This dealer had sold a combine (an expensive piece of equipment used to harvest corn) to a farmer who had been a long-term customer. Following the sale, the farmer repeatedly called upon the dealer to repair a component on the combine that was causing him difficulty. Since the relationship between this farmer and the dealer was well established, the dealer felt *obligated* to repair the equipment rapidly and without charge, though he could have delayed his response time and charged a service fee.

After many free service calls, the dealer called the farmer to explain that he (the farmer) must not be using the combine correctly, and that he (the dealer) would no longer continue to repair the equipment without charge. The farmer responded accordingly and corrected the problem himself. The interesting issue here is not that the dealer was initially flexible then suddenly became inflexible, but that he told the story to demonstrate a certain expertise regarding the appropriate use of flexibility in this relationship. He recounted that his service people did not ask for his advice to repair the equipment, but rather on how long they should comply with the farmer's requests for free services. The dealer had developed an intuition--a certain normative expertise--that enabled him to operate effectively and appropriately within his culture. He related the story as though it was his normative expertise,

as well as his technical knowledge of farm equipment, that qualified him to manage the dealership.

As with consistency, flexibility appears to be obligatory within relationships as circumstances require it. However, a veiled flexibility "limit" also seems to preexist which, when realized, provides for a legitimate abandonment of the norm. Accordingly, it appears that flexibility first expands to accommodate unanticipated violations of expectations, and then contracts. With regard to environmental threat, it would seem that flexibility, like consistency, is emphasized relative to the intensity of threat. However, it would also seem that under high levels of threat, a legitimate abandonment of the norm would occur sooner. As in the case of the implement dealer, self-preservation required a limitation on uncompensated responses to unexpected circumstances.

**Hypothesis 2a: The emphasis on Flexibility will increase as perceived environmental threat increases.**

**Hypothesis 2b: Flexibility will be de-emphasized under conditions of high environmental threat.**

## Status Characteristics Hypothesis

Respondents were more reluctant to discuss their use of *status characteristics* when making a customer decision than they were in discussing flexibility or consistency. There seemed to be a demand bias against revealing decision criteria which could not be easily positioned as profit driven or as benevolence (as in the case of flexibility and consistency). However, most respondents eventually acknowledged that an individual's status characteristics, socially defined as relevant, were used in order to define the nature of the relationship and, as a result, to guide decision-making.

*Berger--Status Value Theory*

Support of Berger's proposal, that various status characteristics are given meaning by alternative referential structures, was provided in the pilot study. Status Value Theory holds that different *classes* of social structures are defined by different input and outcome equity combinations (Berger, Fisek, Norman, and Wagner 1983). "Categorical structures" reflect general interactant attributes (e.g., gender, religion), "ability structures" identify characteristics that are indirectly relevant to a task (e.g., experience, education), while "performance-outcome structures" associate rewards with actual achievements or performance (e.g., past levels of achievement).

Performance-based characteristics were easily identified and readily discussed by respondents--for example, using one's credit history as a loan-decision criterion. Performance-based characteristics are easily accommodated by simplistic equity formulations because they are directly related to the tangible costs and benefits of a transaction, which are of immediate value to an exchange partner. Accordingly, performance characteristics are probably considered in all transactions, but more so in discrete exchanges, as defined by Macneil.

For example, anyone who is in need of a professional service, but lacks prior experience or knowledge of providers of that service, might ask for references, as well as check with the Better Business Bureau. This information could then be used to develop a select set of vendors, based on their past performances. This form of performance characteristic would be relevant, even in the case of a single transaction, with no anticipation of future interaction.

Reasonably, respondents in the pilot study felt most comfortable discussing performance status characteristics, since this criterion is easily justified and well legitimized by society. Interestingly, and conversely, there was some evidence that loan officers were

reluctant or uncomfortable in asking clients of long-term relationships to provide performance-based information. It seemed that, in more established relationships, asking for this type of information may have implied doubt and mistrust, and may be socially appropriate only in the case of more discrete interactions.

Respondents also discussed their customers' *ability characteristics* which identify a partner's *potential* to deliver benefits, rather than their actual performance. Respondents had more difficulty articulating how and when ability-based characteristics were made applicable, probably because this characteristic contributes only indirectly to transactional benefits over time--for example, the size of one's farm and years of experience.

The best example of ability-based information was the financial statements provided by farmers to loan officers. Past loan decisions had been based primarily on a farmer's balance sheet (assuming that there were formal information requirements at all). Based upon their financial condition, as reflected by the balance sheet, farmers enjoyed varying degrees of leniency and personal freedom in their use and repayment of funds.

A balance sheet indicates net worth, revealing the size and overall financial condition of one's operation. One perspective might be that balance sheet information serves as a potential tangible input to an equity equation. Land, identified on the balance sheet as a tangible asset, could be repossessed by the lender in case of default. Land, therefore, is a potential transactional input. In fact, several financial officers positioned the land asset as a loan-decision criterion, in justification of the balance sheet requirement.

It is questionable, however, whether this was the only purpose of the balance sheet. It may have also served to define the farmer's identity, demonstrate importance in the community, and reflect potential for long-term success or equity. In relating a network of

characteristic information indicating ability, it corresponds to what Berger called an "ability-structure."

As agricultural environmental conditions worsened, balance sheets were replaced by income statements. Often parties who held an interest in farming profitability, but were further removed from local relationships and interactions (e.g., stockholders, corporate board members), began to require a more rigorous examination of farm operations than a simple examination of balance sheets. Income statements, rather than revealing cumulative success over time, reveal recent and direct performances in more recent time periods. The income statement identifies not only success or failure, but reveals the [in]effectiveness of the farmer as a manager and decision-maker. The income statement represents a different network of information, best described as the performance characteristics of a farm operator, and therefore represents a *performance structure*.

Finally, the most difficult of all norms to uncover was the use of categorical characteristics, as defined by *categorical structures*. This difficulty was probably because categorical characteristics are tied least directly to tangible transactional benefits resulting in a reluctance to discuss what could be interpreted as nonobjective or inappropriate decision criteria. However, respondents' knowledge and use of an individual's categorical characteristics, as acquired through experience and familiarity with farm operations, were revealed after considerable discussion. Expectedly, they seemed most prevalent in long-term relationships.

Examples of categorical characteristics, validated by a categorical structure, were those that identified a farmer as a *good ol' boy*. Farmers who had attained membership to this group were often given loans without collateral, and occasionally, without formal financial indicators of performance or ability.

One lender described how he typically did not impose rigid and financially driven criteria on farmers who were members of this group. When asked why, he responded "they had come to expect it," and that granting loans to this group contributed to good "public relations." Apparently, meeting the needs of *good ol' boys* was an expectation held by part of the community as well as the farmer. Although the loan officer described his behavior as "breaking the rules," his use of this characteristic was clearly sanctioned and normatively driven.

The use of *good ol' boy* criteria and the categorical referential structure it reflected were de-emphasized as environmental conditions worsened. Several lenders openly acknowledged that previous use of *good ol' boy* criteria, rather than using objective financial criteria (i.e., performance characteristics), was one cause of the worsening financial condition within the farming industry. Despite this awareness, powerful outside influences were often required to circumvent use of this criteria in loan decisions. One bank manager, who was "brought in from the outside" by a corporate board of directors, explained how he worked at the local level to eliminate the use of *good ol' boy* loan criteria.

> *"Many of the rural banks were operating on the old family name and their [the farmer's] standing in the community--Ol' Joe has always paid me and I'm not going to worry about him--that loan's okay.' I, personally, had not been familiar with agriculture, so I looked at things different. I didn't know Ol' Joe's family, so when Ol' Joe came in I would look at it [the loan application] hard--just on the basis of sound, basic credit criteria. I didn't have that backlog, like the local people. A lot of the loan officers had grown up next door to these people and went to school with them. I wasn't blinded by all of this."*

The "backlog" this bank manager referred to represents the felt obligation of a normative response to social characteristics, identified and legitimized by the local agricultural community. He went on to explain that he had removed the lending authority of individual loan officers, except for small amounts of money. Loan decisions at this bank are now made by a committee.

The family name, a characteristic of *good ol' boy* status, is almost, but not totally, void of characteristics that reflect transactional potential. Consider that the normative use of status characteristics may evolve out of rational decision mechanisms. One's family name, under stable environments, may be a very good indicator of overall potential for profitability. Land, capital, and work ethic are generally passed down within a given family. By basing a business decision on the family name, one may actually maximize the expected value of multiple relationships and transactions. Accordingly, it is reasonable that, over time, the farmer, others in the community, and even the lender may begin to legitimately use one's family name as a dimension that merits benefit. That is, one's family name may become an input to an equity formula, as predicted by Berger et al. (1972).

Balance sheets (an ability structure) and *good ol' boy* status (a categorical structure) were typically used in combination. Under stable environments, these structures identified a set of characteristics that served as easily administered and robust indicators of future success. Reasonably, the repeated use of these characteristics legitimized their normative implementation. However, it appeared that as environmental conditions became more threatening, there was a tendency to abandon their use.

For example, the replacement of balance sheets with income statements reflected the changing environment. Because income statements do not reveal accumulated wealth and power, they tend to de-emphasize or de-legitimize the ability and categorical structures that prescribe *good ol' boy* and balance sheet characteristics. Rather, income statements show profitability over a defined period of time (e.g., annually, semiannually, quarterly), providing a more discrete measurement of current transactional inputs and outputs. Accordingly, an income statement may be considered *nonrelational* in nature, reflecting a functional transition

from relational to discrete exchange during a time in which environments need to be redefined.

As expected, many farmers opposed the replacement of *good ol' boy* criteria and the use of balance sheets with more objective information in the loan application process. They often considered income statements to be a violation of their privacy. Several farmers refused to submit them, foregoing financial assistance altogether. It is likely that this change in lending policy was seen as a normative violation that threatened a deeply rooted value system. It may also be that farmers, who had always relied upon nonperformance status characteristics as transactional inputs, had lost ability to perform along standards measured by performance structures (i.e., income statements). One older farmer, quite despondent with his financial circumstances, referred to himself as a "dying breed." His dairy operation was suffering from below average production, yet he seemed uninterested in trying new technology offered by the local farm extension agent, which may have improved his income statement performance. This type of nonadaptive behavior was characteristic of older farmers entrenched in established social structures who were confronted with redefining expectations.

It is reasonable to expect that, under conditions of moderate environmental threat, a farm's profitability and performance will be momentarily interrupted. For example, droughts, floods, other weather-related setbacks, or one year of low crop prices will necessarily result in late loan payments and generally poor financial performance. Under this condition, it is likely that status characteristics are normatively emphasized.

That is, rather than uniformly foreclosing on all delinquent loans, lenders are likely to show a great deal of discrimination in dealing with their customers. They are likely to make greater use of status characteristics in order to differentiate classes of exchange partners in administrating individual accounts. As discussed earlier, this reinforces the implication that

status characteristics act in a normative manner to solidify and stabilize relationships, as well as simplify interaction.

For example, an agricultural credit agent used a composite of various status characteristics to identify *row-croppers* (farmers who planted row crops such as corn or soy beans for resale), dairymen, tobacco growers, and so forth. He then managed individual accounts differently during periods of environmental distress and according to the circumstances which were unique to the account's status group.

For instance, dairy farmers sell their product daily and receive monthly checks. Consequently, loan payments were set up on a monthly basis. However, when dairy farmers were late with their monthly payments, there was more concern and greater likelihood of taking action to collect the loan than with other groups, as their income flow was somewhat "fixed." Tobacco growers are paid once a year (after their annual harvests) and are therefore granted notes which are payable annually. Beef farmers may have a cash inflow upon demand (whenever they decide to sell cattle) and are therefore more active in planning repayment schedules.

However, as the environment became more menacing, the normative use of status characteristics was deemed dysfunctional and subsequently de-emphasized. The loan officer, just described, stated that identifying a farmer as a dairyman had become less meaningful in formulating loan repayment terms than it had been in prior years. Decisions were increasingly based upon the individual's specific, short-term transactional pattern, rather than the status group with which the customer was associated.

**Hypothesis 3a: The emphasis on a customer's status characteristics will increase as perceived environmental threat increases.**

**Hypothesis 3b: The emphasis on a customer's status characteristics will be de-emphasized under high environmental threat.**

*Redefining Criteria (Norms)*

Grouping exchange partners along status dimensions simplifies business decisions and smoothes individual transactions. The use of standardized input and outcome combinations reduces the tedium of negotiation and financial evaluation of individual transactions. As discussed, it also lends stability to relationships by developing longer-term expectations which permit variations within individual transactions without prompting substantive relational changes. However, extreme changes in the business environment may require a reevaluation of relationships and transactional guidelines.

As existing relationships are reevaluated, transactional elements must also be redefined. Within a "new" environment, old referential structures have proven inadequate to effectively guide decisions. The terms of long-range expectations and individual decision criteria must be redefined, apart from preexisting status group identities. The new evaluation criteria, by comparison, are probably considered a time-consuming and laborious form of interaction. Yet, it may be a necessary requirement to optimize a new arrangement of environmental resources. Once new criteria are identified and new optimal combinations of inputs/outcomes are established, dimensions for new referential structures may emerge.

This process describes an evolutionary response to changing environments that would imply ever-changing market structures characterized by an increasingly complex array of market participants. However, this implication is reasonable given the evidence at the time of this study of industrial markets becoming more fragmented in the face of social upheaval, as

well as evidence that relationships are more often being built around smaller market niches (Shani and Chalasani 1993; Barone 1984).

## Need Hypothesis

Local Farm and Home Association (FHA) offices provide an excellent demonstration of an exchange network ideologically supporting the use of the *needs* rule, as defined by Eckhoff (1983). The FHA's stated mission is to act as a "lender of last resort" and provide "supervised lending" to the economically or socially distressed. By definition, their mission is to enhance exchange advantages of those in "need." However, as one FHA manager acknowledged, the FHA had acted as an indiscriminate lender during the 1970s and early 1980s. That is, the FHA made many loans without regarding the relative advantage or disadvantage of their clients.

Large sums of money were lent to farmers, often with little consideration of the economic and financial *need* criteria formally set by federal policy. In part, this may have been due to the abundant financial resources made available to FHA, coupled with insufficient manpower to properly administrate the lending.

The FHA's encroachment upon conventional lending domains may have also reflected their normative application of the *needs* rule toward all farm businesses, as an entire industry fallen into distress. The FHA's indiscriminate lending enabled farmers to continue in business relationships that had become increasingly stressed as a result of misalignment with the greater environment and environmental resources. The pervasive stress encountered by the farm community as a whole may have gradually caused FHA officers to simply classify all farmers as a group in "need." In turn, this classification justified the FHA's diminished rigor of examining individual levels of need on a case by case basis.

This behavior is better described as the use of an objective equality rule, as defined by Eckhoff (1974). It stipulates that benefits are to be distributed across a system's members equally; in this case, that of simply being a farmer. Given that objective equality requires no knowledge of the individual (i.e., a macro norm), it is an easy rule to identify and use. As discussed earlier, other research suggests that "macro norms" (objective equality and equal opportunity) are often used by formalized social agencies to establish "macro justice." This seems intuitively correct when one considers that the administration of government policies is inept at making finer distinctions between individuals, as a need dimension would require.

The FHA has recently submitted to policy reform in an attempt to enforce actions more in line with their intended purpose of addressing a social (industry) need. One FHA agent related that, "FHA agencies are making a greater effort at working with farmers of economic and social disadvantage," but who have financial stability sufficient to justify the assumption that they can ultimately survive and repay their loans. This has been accomplished in part by the FHA's decision to reduce drastically the number of direct loans made by working with local lending institutions to guarantee loans, rather than to make the loan directly.

This action has resulted in greater reliance upon private lending institutions to assess and monitor the individual farmer's performance, rather than forcing FHA agencies to make gross judgments regarding an individual's relative need and capabilities. By offering financial incentives to banks, the FHA motivates private lenders to take more responsibility for the risks associated with *need* lending. It is probably not coincidental that the FHA policy reform came just when lending institutions were dramatically improving their ability to analyze individual operators through improved and more sophisticated information technologies (e.g., computerized analysis).

The pilot study also revealed other less formal implementations of the *needs* rule. For example, an agent of a privately owned but government subsidized lending association described a loan he made to a farmer who was involved in building a new barn. The construction costs of the barn had run over budget, leaving the farmer without the necessary funds to finish it. The local building material supply store had cut off his credit for nonpayment, leaving the barn half finished. This lending agent decided to grant the farmer a loan so that he could finish the project, going on to comment, "I probably shouldn't have done it because I had no way to know that he could pay us back."

When pressed to justify his action, he explained that without the loan the farmer's credit rating would have been in jeopardy, and that a completed building was very much *needed* to shelter livestock. Consequently, he felt compelled to make the loan on what appeared to be sheer altruism. In another example, one equipment dealer extended credit to a farmer who needed his tractor repaired, though this farmer had "gotten into trouble once before and was unable to pay off his first line of credit."

These decisions and other similar examples were often framed as *exceptions* to normal practice by phrases such as, "I shouldn't do those things," or "I'm just too soft hearted." However, the respondents showed little (real) regret, indicating their inability to explain the influence of a well-internalized norm.

### *The Needs Rule and the Exchange System*

The *needs* rule serves an important function for an exchange system. As suggested earlier, it serves to modify more objective, utilitarian assessment of relationships, resulting in greater stability during adversity. Consider that a relationship's achieving balance may require multiple transactions over time. Consequently, determining whether or not an expectation is

violated depends upon the time frame allotted for an expectation to be fulfilled. A *needs* rule can extend the time frame for expectations to be met.

Financial statements, income tax returns, fiscal budgets, and so forth, are measures of performance and potential performance that are time bound. However, the natural world does not necessarily provide for timely, systematic performances. Some resources evolve and are exploited over longer, less predictable periods. One year a farmer might experience a drought, in the following year a disease may ruin his crops, but, over a longer period (i.e., a lifetime), a net equity may be achieved. During the interim, profit and exchange inputs may have to be assumed by exchange partners as an outcome of the longer-term effort.

Objective and rigid implementation of transactional standards, constrained to discrete time periods, could eliminate an individual's participation in the system, weakening the system overall. By invoking a *needs* rule, a potentially contributing member of an exchange network may be maintained or salvaged. To this end, the *needs* rule may be considered functional--beyond the anticipation or intention of individual purposes, it acts to maintain the broader system. This is congruous with various actors who feel compelled to help those in need without the ability to articulate their motivation to do so.

However, during periods of widespread turbulence and environmental threat, actors must necessarily be less willing to invoke a *needs* rule as their own resources are being depleted. Over time, it would seem that collective violations of the *needs* rule will gradually force weaker operations to adapt to changing environments or exit the system.

Hypothesis 4a: The emphasis placed on a *needs* rule will be increased as perceived environmental threat increases.

Hypothesis 4b: A *needs* rule will be de-emphasized under levels of high environmental threat.

## A Final Note

That the four norms selected from the three different theoretical streams discussed earlier were demonstrated to be salient to interactive processes qualified them for further investigation. However, an additional motivation for their selection was that they represented three different perspectives of dyadic interaction, all of which are grounded in an exchange framework. This was a goal because of the potential that linking these perspectives has for the further development of marketing theory.

# CHAPTER IV

# METHODOLOGY

## INTRODUCTION

Chapter IV outlines the methodology used to examine the relationship between normative behaviors and environmental threat, as hypothesized in Chapter III. Population Definition, justifies selection of the target population and defines the sampling domain. Research Design and Method, summarizes the design and method of data collection, and discusses the implications and limitations of a quasi-experimental design, (i.e., a mail survey). Key issues include generalizability of the study's results and methodological validity. Survey Procedure, outlines the survey process. Measurement, documents the procedure used to develop Likert scale items purported to measure the constructs, and tests the measures' validity and reliability. It also provides a review of each of the constructs and lists items used to measure each.

## POPULATION DEFINITION

The construction industry (i.e., material suppliers for commercial roofing contractors) was selected for testing the hypotheses developed in Chapter III. An industry other than the agricultural industry was selected for a more "quantitative" analysis for two reasons. First, it was desirable to establish some degree of generalizability with regard to the application and functioning of norms. Second, it was also desired to identify what was *currently* experiencing

environmental difficulty as opposed to one having already experienced environmental upheaval. The construction industry also offered other advantages to this study:

First, intuitively, it would seem normative behavior is most influential between organizations which are relatively small. Although this proposition has not been clearly documented in previous research, it would seem that smaller organizations are less likely to formalize sales policies, which would circumvent individual decision-making. Building-material suppliers met this criterion (i.e., 70 percent of the organizations in this study had sales volumes less than $10 million). Second, the age of an organization, as well as the industry itself, appears to impact the importance of normative behavior (Anderson and Weitz 1989). Clearly, interaction over time is required for norms, normative-sanctions and expectations to evolve (Heide and George 1992). The construction and roofing industries provide a strong element of time. The National Roofing Contractors Association (NRCA) which provided member lists that served as a sampling frame for data collection was founded in 1885. The typical organization in the actual sample was thirty or more years old (up to 95 years old). Some of the individual respondents to the survey had worked in the roofing industry as long as 50 years.

Third, the construction industry's sensitivity to environmental and economic change is historically well established. For instance, general economic indicators typically include construction activity (e.g., building-starts and other industry-measures). Preliminary interviews conducted with industry professionals, as well as industry publications, indicated economic conditions, changes in technology, and changes in regulatory policy, to be *difficult* or threatening at the time of this survey. Several respondents reported that the roofing industry was being targeted for reform by the EPA (Environmental Protection Agency), OSHA (Occupational Safety and Health Administration), and other government agencies

concerned with environmental, health, and safety issues. Together, these changes provided evidence for assuming that members of the roofing industry would consider environmental conditions to be less than desirable, or at least, marginally threatening. This issue was important to this study in that moderate and highly threatening conditions were necessary to fully test all hypotheses.

Fourth, the construction industry was familiar to this researcher. Previous experience in the construction and building-materials industry provided an efficient, effective use of industry information and systems.

Finally, the construction industry has seldom been researched. In part, this might have been due to the complex, unique interpersonal and inter-organizational networks that characterize this industry. Ironically, this very feature made the construction industry an excellent test for the issues at hand. That this industry had not been examined more closely in the past was unfortunate from a more pragmatic point of view in that the impact of construction markets is an important part of the U.S. economy.

In summary, the construction industry is a well established market of smaller businesses consisting of long-term relationships. It appeared to be affected by change in several sectors of the business environment. It is also an industry that received little attention from researchers in the past, yet represents a significant part of the economy.

## RESEARCH DESIGN AND METHOD

A quasi-experimental, cross-sectional field study, employing a mail survey of building material distributors, was used to examine the relationship between norms and environments. There were several reasons for selecting this method and design. However, as with any design

and method, there were also a number of inherent limitations. A discussion of the advantages and disadvantages follows.

## External Validity

"Realism" refers to the external validity of a study's findings, encompassing the authenticity of conditions under which a study is conducted. Field settings provide a more realistic setting than a laboratory and, therefore, are generally considered to be more externally valid (Churchill 1987). External validity is an important consideration, as it implies generalizability, or the extent research findings in one context can be applied to another (Campbell and Stanley 1963).

Realism was an important consideration in designing this study and in fact, a high degree of realism was achieved. It employed professionals who were active in the industry and elicited responses concerning issues relevant to daily decision making. It also placed the questionnaire in their own environment.

However, it may be overly simplistic to presuppose that realism, alone, establishes generalizability. Calder, Phillips, and Tybout (1981) suggested there are two forms of generalizability: (1) generalizability of effects to alternative "real world" settings, or applied research (Kerlinger 1986) and (2) generalizability which focuses on research effects used to extend theory (as opposed to the application of theory).

*Generalizability of Effects*: The first focuses on the degree to which the findings of marketing research can be applied to other, real world situations, (application of theory). Here, realism is necessary to understand how the effects of a manipulation might be useful in other contexts. It provides for a more precise prediction of other real world outcomes.

Clearly, realism is important to achieving real world generalizability. However, generalizing results to alternative real world applications also requires a random sampling of domains, as well as respondents (Rentz 1988), in combination with an appropriate design of the data analysis (Anderson and McLean 1974). This study's sampling design (i.e., simple, random sampling of respondents within a single population) and analysis (i.e., complete random design) provides few inferences regarding the application of effects and effect size to other applications.

This was of less concern in that the primary goal of this project was not to extend theoretical application to alternative contexts, nor to apply normative models to any particular industry or organization. Rather, the primary purpose of this study was to extend theory and bridge various theoretical constructs. This refers to the second form of generalizability.

*Generalizability to Extend Theory*: Realism and the external validity play different roles with regard to generalizability which focuses on extending theory. Here, the concern is expanding conceptual understanding of interrelated constructs or "basic research" (Kerlinger 1986). Caulder, Phillips, and Tybout (1981) discounted the importance of realism in achieving generalizability of research effects to extend theory, arguing that a laboratory setting provides more control over extraneous variation, allows more precise manipulation of independent variables, and establishes a stronger effect size. This argument assumes that examining the relationship *between* constructs is fundamental to theoretical extension.

This issue is important to current study in that its priority was the extension of theory. Admittedly, there was less control over extraneous variation and an inability to manipulate indicator variables. However, Lynch (1983) disagreed with the assumptions of Caulder et al.'s (1981) argument for using a laboratory setting to extend theory. Lynch argued that background factors, or the extraneous variation a laboratory setting attempts to eliminate or

control, plays a more important role in theoretical development. This perspective considers that instead of introducing unwanted *noise* into the measures of key constructs, the background factors introduced by "realism" interact with the constructs of interest, altering their very nature. Essentially, he proposed that the setting, or realism of the study itself, provides meaning. He also contended that a real world context can neither be duplicated nor manipulated in a lab setting, as this presupposed that the researcher was aware of and capable of replicating all relevant background factors. Hence, he concluded that the realism (or external validity) of a study was necessary for generalizability of research effects to theory, as well as for generalizing research effects to other real world applications. This position implies that external validity is necessary to establish construct validity, or correspondence between abstract constructs and the procedures used to operationalize them. The argument contends that any attempt to measure a construct, not exposed to conditions under which it normally exists, would yield an invalid distribution of its occurrence across any other construct. Hence, variables which are unrealistically isolated are assumed to be distorted.

McGrath and Brinberg (1983) addressed this controversy by differentiating the two forms of construct validity. The more traditional form (Churchill 1979), which was of primary concern to Caulder et al. (1981), considers only the construct itself. It is best established in a laboratory setting and is traditionally assessed using measures of reliability, convergent validity, and discriminant validity (Peter 1981).

However, motivation for choosing a field setting in this study was concern for the second form of construct validity, which McGrath and Brinberg (1983) described as the construct validity of the relationship *between* constructs. This form of validity emphasizes the theoretical network linking constructs discussed by Cronbach and Meehl (1955) as its nomological network.

Concern for a valid relationship between constructs motivated the selection of a field setting for the survey used here. As discussed earlier, a primary goal of this project was to bridge several different theoretical streams, as well as several varied constructs originating within those theories. Further, in that a second focus of this study was the environment, or the context under which interpersonal exchange occurs, it would seem that a field setting was not only preferable, but minimally necessary for any type of theoretical inference regarding how individuals react to and interpret their environment. That is, removing the environment, in order to study it, is counterintuitive.

It is assumed here that normative behaviors are given meaning by the context (environment) in which they exist. Norms, by definition, evolve out of continuous, repetitive interaction with others, as well as exposure to the culture they collectively form. It is unlikely that this condition could be replicated in a lab setting.

However, field settings also present limitations. One disadvantage is that field settings are not conducive to studying dyads. There have been few successful, quantitative studies of dyadic relationships in the field (Gundlach 1987). However, this study did not require measures of dyadic behavior. Rather, it focused upon the relationship between the individuals' interpretation of the environment and their normative response to others. Although examining the corresponding behaviors of the exchange partner in response to normative actions would be interesting, it was not necessary for the task at hand.

A second limitation of all field settings concerns the very complexity of the extraneous variation which, as previously discussed, establishes the realism of the setting. Although the background factors are important in establishing external validity, and in turn construct validity, they also introduce "noise" into the analysis. When interactive relationships among variables affect the variation of a single construct, more random variation is necessarily

present, making it more difficult to verify a hypothesized relationship and increasing the likelihood of Type II errors.

## Internal Validity

Internal validity is another criterion of scientific inquiry. It attests that a measured relationship between two or more variables reflect an actual relationship and provides evidence of one variable's effect upon another, as opposed to an alternative explanation (Churchill 1987). Internal validity is generally considered to be prerequisite to causal inference (Campbell and Stanley 1963).

Establishing causality is a motivation for using an experimental design (Kerlinger 1986), an experiment provides stronger evidence of a cause and effect relationship between variables. Nonexperimental, preexperimental, quasi-experimental and descriptive studies all refer to designs which provide weaker forms of causal evidence.

There are three forms of causal evidence: (1) the presence of concomitant variation between two or more variables of interest must be established, (2) time ordered occurrence of events, and (3) the elimination of other causal factors as potential explanations (Churchill 1987). Concomitant variation establishes that two or more variables vary together in predictable fashion, or that they are correlates (McDaniel and Gates 1993). Time ordered occurrence of events stipulates that a change in a causal variable must occur before a corresponding change occurs in the *effect* variable. Third, control over extraneous variation allows one to *rule out* alternative explanations of the relationship (Kerlinger 1986).

Experimental designs provide the strongest form of all three types of causal evidence (Campbell and Stanley 1963) the distinguishing feature being its ability to control extraneous variation. That is, by randomly assigning treatment groups or manipulating the causal

variable, one may infer that changes in the effect variable are the exclusive consequence of the manipulation, rather than other factors (Campbell and Stanley 1963).

The method employed for this study was a quasi-experimental, cross-sectional design in that two of the three forms of causal evidence described above are lacking or are present only in a weak form. This is due to an inherent inability to manipulate the *causal* variable (i.e., environmental threat). That is, the nature of the constructs in this study are such that they are already manifest within the elements of observation. Manipulation of the causal variable would essentially require altering industry professionals' perceptions of the environment.

This study also measured variables at a single moment in time due to limited time and resources. Consequently, it was impossible to say with certainty that changes in the environment occurred before change occurred in normative behavior. This, in turn, could be problematic in that the designation of the "dependent" and "independent" variables were subjectively designated. That is, the implication of the hypotheses set forth in Chapter II is that perceived environmental threat *causes* a change in one's normative response to an exchange partner. However, other explanations are possible. For example, changes in one's normative response to another may represent a form of symbolic interaction by which actors interpret their environment. This alternative interpretation would assume that the normative responsiveness of others provides a means for one to identify changes in the environment and evaluate the environment's level of threat. This is comparable to arguing that normative behaviors *cause* environmental interpretation. This explanation is indeed plausible and is addressed further in Chapter V.

In all instances, the design of this study did not provide the time sequence data, nor the control of extraneous variables through manipulation, which are necessary to rule these

alternative explanations. Accordingly, the strongest form of causal evidence remaining was that of concomitant variation. Hence, much of the internal validity of this study rests upon covariation, rendering empirical evidence more descriptive in nature--an admittedly tenuous form of support for arguing causality.

In that the internal validity of this study rests upon concomitant variation, the importance of a second form of validity is underscored. Statistical conclusion validity requires that strong statistical evidence of covariation exists (Campbell and Stanley 1963). It is established by using an appropriate statistical analysis, where the nature of the measurements and the data itself meet the assumptions of the analysis. It also requires establishing significance levels which yield high levels of confidence, while observing the rules of a designated sampling design. These criteria are addressed in Chapter IV.

## SURVEY PROCEDURE

A mail survey was selected, as opposed to other survey methods, for several reasons. First, a mail survey provided respondents maximum privacy. This was important in that several questions pertained to what could have been interpreted as sensitive information regarding differential treatment of customers. Second, several of the questions on the questionnaire were demanding of the respondents. A mail survey permits respondents more time and higher quality responses when more demands are placed upon them. A mail survey was also most practical, given the study's constraint of resources.

Another advantage of mail surveys is that their administration is more consistent across respondents than surveys which rely upon interviews. However, this also makes the presentation and *cosmetics* of the survey, as well as the correspondence which accompanies

the survey, more important (Alreck and Settle 1984). This concern was addressed by incorporating certain features of Dillman's Total Design Method (TDM) (Dillman 1978) such as sending a reminder letter, followed by a second questionnaire to nonrespondents, as well as consideration of printing, folding, and paper designs. However, resources precluded complete adherence to the TDM. For example, a third questionnaire was not mailed to nonrespondents, economic incentives were not offered, and envelopes were not hand-stamped nor hand-typed.

Two surveys using random samples of the population were conducted. The first served as a pretest of the survey procedure, provided data with which to test the performance of items used to measure key variables and provided an estimate for the response rate (percentage of eligible surveys that would be returned) to insure an adequate sample size for the second and final data analysis.

The pretest involved mailing the survey to 100 randomly selected distributors from the NRCA's list of "Regional and Local Suppliers." This mailing included a cover letter providing a brief explanation of the research project's purpose and encouraged distributor participation. A second letter was sent to each distributor one week later to serve as a reminder. Out of the original 100 surveys, 10 were determined ineligible (e.g., returned "no forwarding address"). Of the remaining ninety (90), thirty-four (34) responded, yielding a response rate of 38 percent.

This response rate was deemed sufficient to make the assumption that the number of returned questionnaires in the final data collection would be reasonably representative of the target population. However, the second and final questionnaire was longer and appeared more complex because additional measures (not relevant to this study) were included. Consequently, it was assumed that response rates could fall and, therefore, a third letter with an additional questionnaire was sent to nonrespondents three weeks after the initial mailing.

The final survey provided the data for the analyses reported in Chapter V. It included a mailing to 480 distributors who were randomly selected from the NRCA's regional/local list. Sixty-seven distributors out of the original sample were determined ineligible, resulting in a final eligible sample of 413. Of the eligible sample, 136 surveys were returned for a final response rate of almost 33 percent.

## MEASUREMENT

A framework provided by Churchill (1979) guided an iterative procedure used to generate items to measure Perceived Environmental Threat and each of the norms (i.e., Need, Flexibility, Consistency, and Use of Status Characteristics). Using this framework, Likert Scale items were generated, tested, refined, and retested as described below. The process considered feedback from peers, informal debriefing of a small convenience sample, data from a pretest of the questionnaire using a simple random sample of the population, and finally the survey itself (see Figure 2).

### Item Generation

Six-point Likert scale items consisting of vague quantifiers, (i.e., strongly agree, somewhat agree, slightly agree, slightly disagree, somewhat disagree, and strongly disagree) served as measurements for environmental threat and each of the norms. The statements were generated from a conceptual understanding of the constructs, as well as a review of related literature using the same or similar constructs, as described earlier. They were designed to be brief and easily interpreted, employing language familiar to the target population. Peer review was used to ensure their readability.

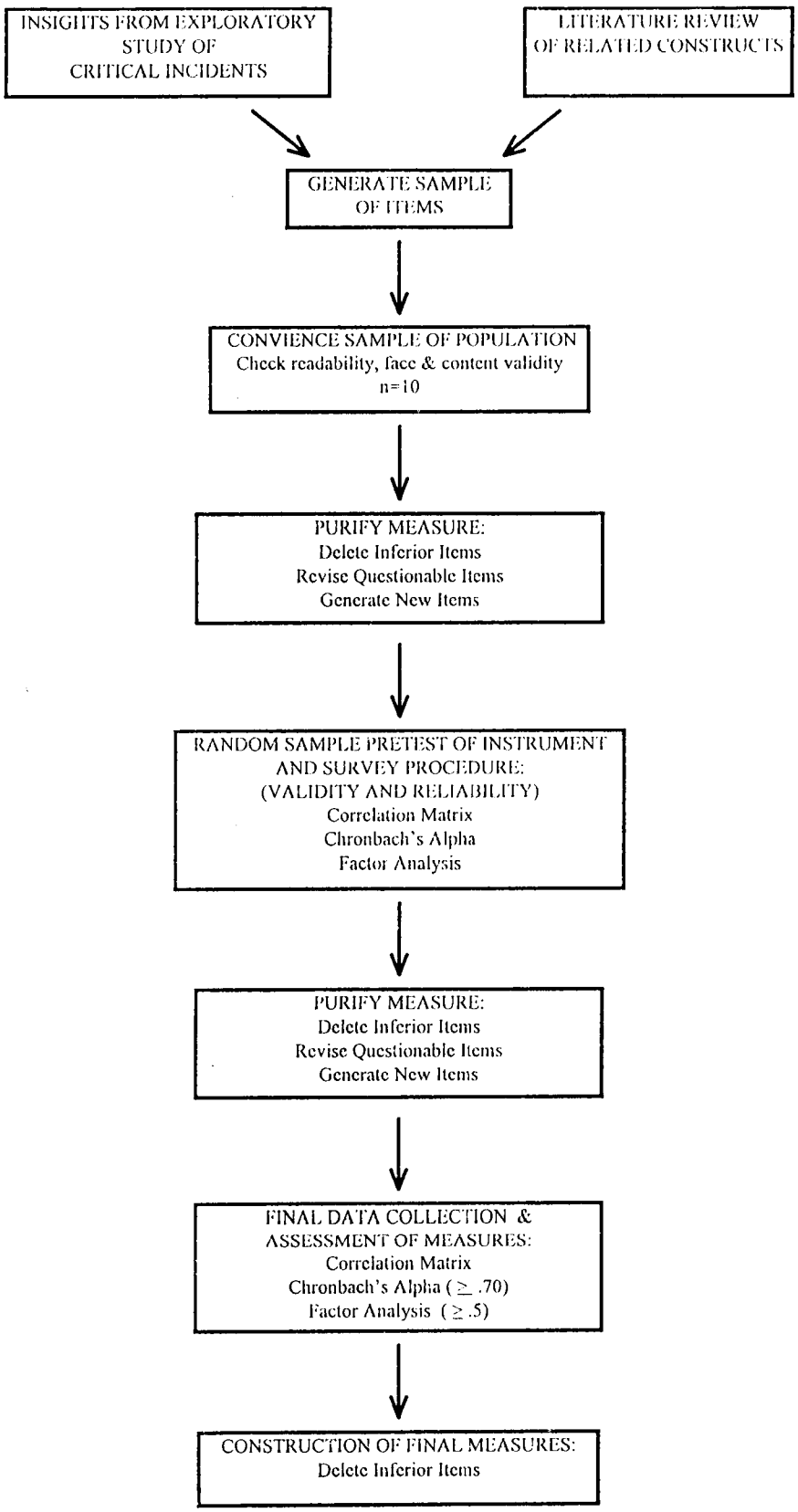


Figure 2. Procedure used to generate items to measure perceived environmental threat and each of the norms.

Next, a preliminary questionnaire containing these items was administered to a small convenience sample of ten industry professionals. Using feedback from debriefings, items were eliminated or rewritten to create a second set of measures. This second set of items was then tested in a larger, random sample pretest ($\underline{n}$ = 90). This procedure provided a higher level of confidence that the selected statements adequately sampled the domain of interest (face validity, content validity) (Churchill 1979).

Data collected from the pretest was then used to further assess the measures' construct validity and reliability through examination of correlation matrixes and a factor analysis (Campbell and Fisk 1959; Peter 1979; Churchill 1979; Peter 1981; Kerlinger 1986). Items with factor loadings of less than .5 and those with irregular correlational patterns were again deleted or rewritten. This provided the items used in the final survey, including 11 items to measure "Perceived Environmental Threat," 6 items measuring "Need," 6 items measuring "Flexibility," 5 items measuring "Consistency," and 5 items measuring one's tendency to employ "Status Characteristics." (See Appendix A.)

Upon collection of the final data the items were reassessed. As a result of this last assessment, some of the items included in the final questionnaire were eliminated in the concluding measurement of the constructs. Chronbach's Alphas and factor loadings for each of the constructs are provided in Tables 1-3 along with the final items themselves. A correlation matrix of the final items appears in Appendix B. For the final measurements, Chronbach's Alpha of .7 was established as a minimum. Standard for reliability, along with factor loadings of .5 or higher and intuitively consistent correlation patterns. Justification for employing those criteria follow.

TABLE 1

**FACTOR PATTERN FOR**
**PERCEIVED ENVIRONMENTAL THREAT**

| FACTOR 1 | |
|---|---|
| #1 | 0.84 |
| #2 | 0.69 |
| #3 | 0.84 |
| #5 | 0.80 |
| #6 | 0.75 |
| #7 | 0.85 |
| #8 | 0.74 |
| #10 | 0.72 |
| #11 | 0.65 |

CHRONBACH'S ALPHA = .83

1. I may be forced to drastically change the way I do business as a result of negative changes in the business environment

2. I feel the need to protect my organization from the business environment.

3. Recent trends in the business environment are having an especially negative impact on my business.

4. OMITTED

5. I am extremely concerned about changes in the business environment.

6. I find it difficult to make important decisions because of so many "unknowns" in the business environment.

7. Currently, our business environment is much more threatening than usual.

8. It is much more difficult to be successful today than in the past, because of changes in the business environment.

9. OMITTED

10. Forces in my business environment are actually threatening the survival of my organization.

11. Which of the following terms best characterizes your perception of the current business environment?

    1. Crisis
    2. Threatening
    3. Difficult
    4. Adequate
    5. Good
    6. Very Good
    7. Excellent

TABLE 2

ROTATED FACTOR PATTERN FOR:
NEED (FACTOR 1), FLEXIBILITY (FACTOR 2), CONSISTENCY (FACTOR 3)

| | FACTOR 1 | FACTOR 2 | FACTOR 3 |
|---|---|---|---|
| Need #1 | 0.59 | 0.14 | 0.25 |
| Need #4 | 0.73 | -0.10 | 0.08 |
| Need #5 | 0.70 | 0.11 | 0.02 |
| Need #9 | 0.61 | 0.28 | 0.06 |
| Need #14 | 0.68 | 0.29 | 0.17 |
| Flexibility #7 | 0.24 | 0.59 | 0.24 |
| Flexibility #11 | 0.15 | 0.76 | 0.18 |
| Flexibility #12 | 0.01 | 0.81 | -0.01 |
| Flexibility #13 | 0.17 | 0.68 | 0.08 |
| Consistency #3 | 0.10 | 0.20 | 0.81 |
| Consistency #6 | 0.10 | 0.03 | 0.80 |
| Consistency #15 | 0.16 | 0.14 | 0.74 |

NEED (Chronbach's Alpha = .72)

1. When a customer's business is in trouble, it is only fair that I stick by them.
4. You should give more to a customer whose business is in trouble.
5. I feel obligated to continue working with customers who are experiencing difficulties.
9. Customers who are in difficult circumstances deserve special consideration.
14. You have a special obligation to customers who are in trouble.

FLEXIBILITY (Chronbach's Alpha = .73)

7. It's important to be flexible when dealing with a customer whose circumstances have changed.
11. When a customer is confronted with a new situation, I'm willing to work out a new deal, rather than hold them to original terms.
12. I usually respond when customers request changes in a business agreement.
13. Sometimes you have to break the "rules," especially with someone who has special needs.

CONSISTENCY (Chronbach's Alpha = .71)

3. It's not fair to customers when you unexpectedly change the way you conduct business.
6. Customers should be able to depend upon my business practices staying the same over relatively long periods of time.
15. You should not change sales policies if it causes injury to customers who have come to rely on you.

TABLE 3

**ROTATED FACTOR PATTERN FOR:**
**STATUS CHARACTERISTICS (FACTOR 1) AND**
**OBJECTIVE MEASURES (FACTOR 2)**

| | FACTOR 1 | FACTOR 2 |
|---|---|---|
| Status Characteristic #1 | 0.91 | -0.06 |
| Status Characteristic #2 | 0.91 | -0.08 |
| Objective Descriptors #3 | -0.06 | 0.89 |
| Objective Descriptors #4 | -0.08 | 0.88 |

1. I can use nonfinancial information about a customer or customer's organization to predict how they will perform.

2. I use nonfinancial information about a customer or a customer's organization to determine how I should deal with them.

3. You cannot really judge a customer's organization, unless you have objective financial information about that organization.

4. OMITTED

5. Making a customer decision without full financial information about that customer is extremely high risk.

## Reliability

Reliability reflects the degree to which a measurement consistently measures what it was intended to measure; it can be conceptualized as the measure's correlation with itself (Peter 1979). The internal consistency of a measure, a well accepted indicator of reliability (Peter 1981), was determined using Cronbach's (1971) coefficient alpha. It was decided that alpha's near or above .7 would provide strong evidence of reliability (Nunnally 1978). All of the coefficient alpha's met this criteria (see Tables 1-3).

## Convergent and Discriminant Validity

Convergent and discriminant validity are also important components of construct validity. Convergent validity provides confirmation that each item measures a single construct. Discriminant validity distinguishes between different measurements of similar traits (Churchill 1987). Although criteria for construct validity can be considered using Campbell and Fisk's (1959) multitrait-multimethod (MTMM) matrix, only a casual examination of their correlations were considered, given that methods were deemed not to meet the criteria of being "maximally different" (Peter 1981). However, an examination of their correlational patterns, a factor analysis, deductive reasoning concerning their behavior, and their correspondence with hypothesized interrelationships was determined to sufficiently demonstrate convergence and discrimination (Chronbach 1971; Peter 1981). These practices were also deemed sufficient given that many of the constructs have little or no history of measurement within marketing, and that repetitive studies employing these constructs will eventually be necessary to establish their nature (Peter 1981).

A correlation matrix provids evidence of trait validity by demonstrating that items discriminate between similar constructs. Correlations in the "validity diagonal" are expected

to be higher than correlations occupying the triangles which include item correlations with different traits measured by the same items. This assessment did, in fact, increase confidence that the items were reasonably successful in measuring alternative norms.

That is, items within a single construct had correlation's consistent with expectations; however, several items measuring different constructs were also moderately correlated (Appendix B). This might have been expected, considering that norms are conceptually and theoretically similar. For example item number 14, intended to measure "Need," was highly correlated with several items representing "Flexibility" and "Consistency." Item 14 refers to "obligations to people in trouble." Clearly, the content of this item corresponds to the normative obligation to those in need; however, the overlap of this item with consistency and flexibility is expected, given that one is also likely to be flexible and consistent with those in trouble.

Generally, the correlation patterns of the matrix were intuitively correct and provided evidence of trait validity. However, the similarity of these constructs motivated use of factor analysis to further "purify" the measures and establish the commonality of the core concept that each set of items was intended to measure (Churchill 1979).

### *Factor Analysis*

Factor analysis can be used to identify various dimensions (norms) within the context of a more general concept (normative behavior) (Churchill 1979). It can also be used to identify measures which introduce unwanted dimensions in the measurement of a single concept. A Principle Component Factor Analysis was used to refine the measurement of environmental threat by identifying items that uniquely measure each norm. (The norms which reveal status characteristics were considered apart from other norms in that they share less,

conceptually, with the other norms.) An orthogonal rotation was used to assess each set of norms. Items measuring environmental threat were assessed without rotation.

Factor analysis proved especially useful for examining constructs of Flexibility, Consistency, and Need. It was expected and desired that items would modestly overlap, yet clearly "load" on separate factors. Items that loaded less than .5 on the desired factor or greater than .5 on competing factors were discarded in all cases. (See Tables 1-3.)

### *Construct Definition*

Environmental Threat

As noted earlier, at the time of this study there had been little research within the field of marketing which specifically considered "threatening environments" (Etgar 1977). Although the term, "environmental threat," has intuitive meaning and has been used descriptively by others, there have been few attempts to systematically measure it. Consequently, the theoretical domain of this concept was developed through the use of comparisons of similar constructs in the previous chapter. The definition of environmental threat as developed through that discussion is repeated here for convenience of discussion.

> PERCEIVED ENVIRONMENTAL THREAT is defined as an one's perception of the degree of threat an environment represents to an organization with a given set of resources.

The Likert Scale items used to measure perceived environmental threat are presented in Table 1. In some instances, items used to measure related environmental conditions, such as environmental dependence (Dwyer and Welsh 1985) and environmental uncertainty (Achrol and Stern 1988) were rewritten to reflect threat, instead of dependency or uncertainty. Other items were constructed through insights gained from interviews with industry professionals and the exploratory study discussed earlier.

Need

The normative response to another's *need* was discussed earlier as one of the justice norms developed by Eckhoff (1974). It represents one dimension of a more general expectation of exchange equality (i.e., subjective equality) within a system of distribution, and is often referred to as the "need rule." It meets the criteria of a relational norm, acting to determine appropriate allocation of material benefits to individual members within a group (Cook and Hegtvedt 1983).

Schwartz (1975) defined "need" as one's sacrifice of one's own resources for the benefit of another, without hope of external reward. Almost altruistic in nature, it calls upon one to forego self-reward in order that another may realize gain, without the recipient having an objective basis for claiming the benefit. The *needs* rule may reflect a cooperative element imposing a responsibility on a group for specific members who are in need (Deutsch 1975).

> *NEED is defined here as one's willingness to respond, without a specific expectation of an external compensation, to another's adversity by adjusting the terms, conditions or expectations regarding a sale or a sales relationship.*

The final Likert Scale items employed to measure Need are presented in Table 2.

Flexibility

Flexibility was identified as a "general contract norm" discussed within the context of relational exchange by Macneil (1980). It provides parties in an exchange relationship the opportunity to respond to changing environmental circumstances (Kaufmann and Dant 1992). By establishing guidelines and procedures for accommodating potentially injurious circumstances, it helps to define appropriate deviation in exchange behavior under atypical circumstances (Macneil 1980).

*FLEXIBILITY is defined as one's willingness to adjust the terms, conditions or expectations regarding a sale or a sales relationship in order to accommodate changing circumstances.*

The Likert Scale items used to measure Flexibility are presented in Table 2.

Consistency

Consistency is also a general contract norm representing a component of "Role Integrity" (Macneil 1980). It reflects one's willingness to maintain sales policies and performances, in order to meet an exchange partner's expectations.

Role integrity is based upon a complex set of behaviors which are relevant to both specific transactions and to issues outside of the transaction (Kaufmann and Stern 1988). Consistency provides predictability, a necessary element of relational exchange, serving to stabilize the relationship (Kaufmann and Dant 1992).

In one sense, consistency and flexibility represent complimentary behaviors within a single relationship. While consistency reflects a willingness to personally bear the costs of changing circumstances in order to behave consistently with past behaviors, flexibility reflects one's willingness to deviate in order to accommodate an exchange partner's inability to accommodate environmental change.

*CONSISTENCY is defined as one's willingness to incur personal costs by acting consistently with a customer's expectations of the terms or conditions of a sale or a sales relationship.*

The Likert Scale items used to measure Consistency are presented in Table 2. The refinement of these items, and steps taken to establish their validity and reliability are discussed later.

Status Characteristics

Status characteristics refers to characteristics used to describe or identify various groups within a system of distribution, forming a normative basis for their rewards and expectations (Cook and Hegvtedt 1983), apart from the transactional costs and benefits of an exchange transaction. Berger identified these characteristics as a means of linking groups to reward expectations that are legitimized by a social system. That is, status characteristics establish an expectation for a group or individual with regard to their *just* share of a resource. It is the basis for Berger, Fisek, Norman, and Wagner's (1983) status-value theory of distributive justice.

Homans (1958) also recognized the role that status characteristics play in social exchange, describing them as an individual's investments, or individual attributes that entitle one to claim a "disproportionate" compensation. This perspective has been elaborated by Farkas and Anderson (1989), Cook and Yamagishi (1983) and others (e.g., Jasso and Rossi 1977) to extend properties of Equity Theory. Within this perspective, individual status characteristics are discussed as multidimensional inputs to an equity formula.

The premise of both perspectives is that the status characteristics of an exchange partner form a normative basis for altering or adjusting sales policies, as well as the terms of specific transactions.

> *STATUS CHARACTERISTICS is defined as one's propensity to use descriptive characteristics of a customer or customer organization to adjust or alter sales policies and/or specific transactions.*

The Likert Scale items used to measure Status Characteristics are presented in Table 3.

However, there was an unanticipated outcome of the factor analysis concerning status characteristics. Instead of identifying a single factor or dimension, which generally measured

the tendency of one to use status characteristics as decision criteria, it appeared that there were two separate dimensions. It was decided that one represented a similar but different variable and was added, post hoc, to the analysis.

The original definition of the variable, status characteristics, was best represented by two items, presented earlier in Table 3 as items #1 and #2. However, a second, related variable, represented by items #3 and #4 represented a variable that had a strong negative correlation with status characteristics. It appeared to reflect the degree to which one relies upon objective financial measures instead of status characteristics. The two variables did not appear to be unidimensional in that they did not load as positives and negatives on the same factor. This indicates that the tendency to use status characteristics as a decision factor does not preclude one from also using objective financial indicators. The second variable, representing the use of objective financial information for the purpose of decision-making, is identified in subsequent analysis as "Objective Descriptors."

### *Central Tendency and Dispersion of Variables*

The variable, perceived environmental threat, was constructed as the sum of Environmental Threat items meeting the criteria listed above. Each of the norms was constructed as the arithmetic mean of each norm's corresponding items meeting the same criteria. Table 4 summarizes the potential range of each variable, along with the actual dispersion, standard deviation and mean, tabulated from the final data.

TABLE 4

SUMMARY OF POTENTIAL RANGES

| | Potential Range | Actual Range | Mean | Deviation |
|---|---|---|---|---|
| Environmental Threat | 9-55 | 20-50 | 38.4 | 6.07 |
| Need | 1-6 | 1-5.6 | 3.7 | .81 |
| Flexibility | 1-6 | 2-6 | 4.5 | .79 |
| Consistency | 1-6 | 1-6 | 4.4 | 1.10 |
| Status Characteristics | 1-6 | 1-6 | 4.6 | 1.00 |
| Objective Characteristics | 1-6 | 2-6 | 4.8 | 1.02 |

An examination of box plots and stem and leaf diagrams for each of the variables revealed approximate normality, with a slight skewness toward higher levels for each of the norms. The variation and mean response for each of the norms were approximately similar, with the exception of NEED, which was somewhat lower than the others. The overall distribution of all five norms appeared reasonable. The response ranges were also judged to be sufficient to provide an adequate test of the hypotheses.

The distribution of perceived environmental threat was cause for greater concern, with regard to providing a strong test of the hypotheses. The paired hypotheses for each norm requires a sufficiently wide range of perceived threat, especially respondents perceiving high levels of threat. The potential range of the environmental threat scale was 9-55; however, the range of actual responses markedly failed to reach either extreme.

Although the overall mean level of perceived threat was slightly higher than midscale, individuals perceiving threat to be extremely high were rare, with fewer than 10 percent scoring above 45. This might indicate that the industry was experiencing environmental

difficulties but not at levels sufficient to threaten normative response patterns. This condition posed a concern in testing the second hypothesis in each set, which stipulates that normative responses diminish at very high levels of threat.

Noting this exception, the remaining summary examination of variables and data patterns, as summarized above (e.g., reliability, validity, variable response distributions), were judged to be adequate to proceed with the final data analysis. This analysis is presented in Chapter V and includes a simple statistical description of the sample, the use of ANOVA's to test the hypotheses developed earlier and a secondary examination using simple linear regression.

# CHAPTER V

# RESULTS AND INTERPRETATION

## CHARACTERISTICS OF THE RESPONDENTS

More than 75 percent of respondents reported working in the building materials industry 15 or more years, averaging 20.75 years. They had worked in their present organization an average of 12.6 years, with more than 90 percent being affiliated with their firm more than 3 years, they had held their current position for an average of 10.3 years. The typical organization had been in business 28.66 years, ranging from 2 to 95 years. Together, these characteristics provided evidence that the respondents were well acclimated to their industry and had been locally interactive long enough to have at least had the opportunity to establish longer-term relationships with customers.

When asked to identify their position, most reported that they were CEO's (47 percent). The second most common response was that of Vice President (14 percent), followed by General Manager (16 percent). The remaining 23 percent of the respondents were distributed almost equally across Sales Manager, Salesperson, Division Manager, Consultant, or Other. In addition, out of the total responses, 56 percent reported that they were actually the owner or majority owner of the organization. This indicated that a high percentage of respondents were influential in higher level business decisions (e.g., CEO's, presidents, vice-presidents, general managers). This was both expected and desired. The cover letter accompanying the questionnaire requested that respondents have active participation in the decision-making process regarding customer policies and sales (Appendix A).

Most respondents described their organization as an independent distributor or wholesaler or as part of a local/regional "chain." Fewer described their organization as part of a "national chain" and/or as being involved in some aspect of manufacturing in addition to the resale of building materials. This was desirable in that the preponderance of organizations being locally owned established the local environment as being more salient with regard to forming/changing business policies.

## Data Analysis

A simple test of the effect that perceived environmental threat had on each of the norms was conducted using an analysis of variance (ANOVA), as stipulated by the hypotheses developed in Chapter III. Cases making up the underlying data were assigned to one of three levels of threat. Respondents whose measured level of perceived threat was greater than 44 were identified as High Threat. Those whose perceived threat measured greater than 32 and equal to or less than 44 were classified as Moderate Threat. Those scoring less than or equal to 32 were classified as Low Threat. This partitioning scheme corresponded to what appeared as "natural" breaks in the distribution of threat. Moderate kurtosis was present in the distribution due to disparate responses at both the low and high ends of the distribution. The extended tails of the distributions were marked by clear drops in the number of responses at Threat levels given about as the points of partitioning.

Further justification for these partitions is based upon a high correlation that was uncovered between Threat and an additional single item measure intended to reflect the respondent's perception confidence in the future (see item #12; Part I, Appendix A). This item inquired as to whether respondents felt that they would be better off, worse off, or the

same in five years as they were at the time of the study. This measure had a strong and highly significant correlation with their perceived threat (R = .40; p = .0001).

Upon examining the distribution of the 62 respondent who felt that they would be "worse off," only 2 fell in the classification of Low Threat as given above, while all except four of the High Threat respondents felt that they would be "worse off." Further a corresponding drop in response frequency of this distribution occurred at approximately the same points as did the marked drop in the distribution of Threat. Table 5 gives the mean level of normative response, as well as other summary statistics, for each of the norms relative to each of the three levels of threat.

*Results*

Without further analysis, comparing each norm's *mean*, between Moderate and High Threat, demonstrates that the data fails to support the second set of hypotheses for each of the norms. That is, as the mean increases between low and moderate Threat, it is contrary to the effect purported by the second hypotheses, which is that the normative emphasis will diminish as Threat escalates between these two levels (see Table 5).

With regard to the first set of hypotheses--that normative response would increase as perceived threat increased from Moderate to High Threat, the effect was in the direction predicted. That is, the mean level of normative response increased in all cases. Therefore, an ANOVA was performed on the data using each of the norms as a dependent variables to determine if the general model of differences in normative means was statistically significant across the three levels of Threat. Using the general model, the ANOVA revealed no statistically significant differences (alpha = .05), except with regard to the hypotheses concerning Need.

TABLE 5

ANOVA: NORMS EQUAL ENVIRONMENTAL THREAT

| Variable | N | Mean Value | Standard Deviation | Minimum Value | Maximum Value |
|---|---|---|---|---|---|
| **Low Threat** | | | | | |
| Flexibility | 21 | 4.50 | 0.66 | 3.00 | 6.00 |
| Consistency | 21 | 4.02 | 1.29 | 1.00 | 5.50 |
| Need | 21 | 3.41 | 0.76 | 1.80 | 4.60 |
| Social Characteristics | 21 | 4.26 | 1.34 | 1.00 | 6.00 |
| Objective Characteristics | 21 | 4.50 | 1.25 | 2.00 | 6.00 |
| **Moderate Threat** | | | | | |
| Flexibility | 97 | 4.50 | 0.79 | 2.25 | 6.00 |
| Consistency | 97 | 4.48 | 1.11 | 1.67 | 6.00 |
| Need | 97 | 3.69 | 0.83 | 1.00 | 5.40 |
| Social Characteristics | 97 | 4.71 | 0.93 | 1.00 | 6.00 |
| Objective Characteristics | 97 | 4.82 | 1.01 | 2.00 | 6.00 |
| **High Threat** | | | | | |
| Flexibility | 18 | 4.85 | 0.93 | 2.00 | 6.00 |
| Consistency | 18 | 4.72 | 0.70 | 3.33 | 5.67 |
| Need | 18 | 4.12 | 0.62 | 3.20 | 5.60 |
| Social Characteristics | 18 | 4.72 | 0.86 | 3.00 | 6.00 |
| Objective Characteristics | 18 | 5.14 | 0.74 | 3.50 | 6.00 |

Flexibility: $F(2,133) = 1.53$; ($p = .22$)

Consistency: $F((2,133) = 2.17$; ($p = .12$)

Need: $F(2,133) = 3.97$; ($p = .02$)

Status Characteristics: $F(2,132) = 1.80$; ($p = .17$)

Objective Financial Characteristics: $F(2,133) = 1.91$; ($p = .15$)

A discussion of these results and further analysis of individual norms follows.

The data generally indicated that the emphasis placed on normative guidelines increased as perceived threat increased. However, the analysis of variance, which employed an ordinal conversion of Threat into categorical data, supported none of the hypotheses, except in the case of a decision-maker's normative emphasis on their customer's level of need. As shown above, this model was significant at alpha $< .05$. However, even in this case, further analysis using pair-wise t-tests (Bonderonni $p < .05$) revealed that the significant difference in one's emphasis on Need lied between Low Threat and High Threat and not between Moderate Threat and High Threat as the first of the Need hypotheses predicted. Hence, it is concluded that none of the hypotheses were supported, though the effect was in the hypothesized direction for the first of each hypotheses pair (see Table 6). Because the underlying data failed to support the predictions developed earlier, a further examination of the effects was deemed necessary.

Least-squares, simple linear regression was used to further consider the nature of normative response relative to threat, using the original interval scaling of Threat and each of the norms. Various iterations of simple linear, as well as "higher-order" curvilinear models (quadratic, cubic, etc.), which specified with each norm as a response variable and Threat as the predictor variable, were fit to the data. In each case, a positive, simple linear model was found to provide the best fit of the data. Further, all of the norms modeled, except Flexibility,

TABLE 6

**HYPOTHESES AND RESULTS**

| Norm | Going from Low to Moderate Threat | Result | Going from Moderate to High Threat | Result |
|---|---|---|---|---|
| **Consistency** | Increase in normative emphasis | Change was in predicted direction; Not significant | Decrease in normative emphasis | Change was not in predicted direction |
| **Flexibility** | Increase in normative emphasis | Change was in predicted direction; Not significant | Decrease in normative emphasis | Change was not in predicted direction |
| **Use of Status Characteristics** | Increase in normative emphasis | Change was in predicted direction; Not significant | Decrease in normative emphasis | Change was not in predicted direction |
| **Need** | Increase in normative emphasis | Change was in predicted direction; Not significant | Decrease in normative emphasis | Change was not in predicted direction |
| **Use of Objective Descriptors (posthoc hypothesis)** | Decrease normative in emphasis | Change was not in predicted direction | Increase in emphasis | Change was in predicted direction; Not significant |

were found to be significant at $p < .05$. A summary of the models follows, along with each one's level of significance and coefficient of determination (R-Squared):

*Need* = *2.6 + .03(Threat); R-Squared = .04; (p = .01).*

*(Log) Consistency* = *-.34 + .49 (Log Threat); R-Squared = .07; (p = .0009).*[*]

*(Log) Social Characteristics* = *.16 + .37 (Log Threat); R-Squared = .04; (p = .01).*[*]

*Objective Characteristics* = *3.41 + .04 (Threat); R-Squared = .04; (p = .01).*

In the case of Flexibility, no statistically significant model was found. However, a quadratic model provided the best fit of the data:

*Flexibility* = *6.9 + .13 (Threat) + .09 (Threat-Squared); (R-Squared was minimal ); (p = .08).*

## Discussion Secondary Analysis

The regression analysis models the nature of the relationship between each response variable (i.e., each of the norms) and varying levels of perceived threat. The simple relationship suggested by the data is that normative response increases across the full range of threat. That is, for all of the norms except Flexibility, normative responses increase as perceptions of threat increase. Another facet of the data revealed by the analysis was that the proportion of variation in each normative response explained by perceived threat (indicated by

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[*]Log-linear models, employing a log transformation of the response variables, provided the best fit for Consistency and Social Characteristics. This type of model may simply be interpreted as meaning that for every percentage change in the predictor variable, there is a direct and proportionate percentage change in the response variable. They are not curvilinear.

the coefficient of determination or R-Squared) was relatively small but approximately equal across the norms.

The analysis raises three issues to be considered further. First, that normative responses failed to diminish at the highest levels of threat, as hypothesized earlier. Second, that the proportion of variation in each norm, as explained by changes in a perceived threat, were all relatively small. Third, that the proportion of variation explained in norms was approximately equal.

### *Failed Hypotheses*

One possible explanation for failing to find a normative deemphasis at higher levels of threat is, of course, that norms are not deemphasized under this condition. However, this would suggest that relationships which are under severe stress, and presumably, are predisposed to dissolution, maintain their normative emphasis to the end. This seems counterintuitive, in that it implies that relationships would end suddenly without a prior decomposition of behavioral elements. That is, dissolution, or the antecedents to dissolution as tested here, do not result in the disassembly of the behavioral elements (e.g., norms) which originally defined and maintained the relationship.

This explanation may be plausible. That is, norms may be so deeply engrained that they are maintained to the end. This was indicated in the exploratory study in the case of several bank manager's who had to be legally removed from their position because of their refusal to adopt new lending policies concering the treatment of farmers during the farm crisis.

Another explanation may be that the relationships included in the study sample were not, as a whole, experiencing stress at levels sufficient to predispose dissolution. This would

be the case if a preponderance of the respondents perceived the environment to be nonthreatening or only moderately threatening. That is, under the hypotheses, if only moderate levels of threat were being experienced, normative rules of interaction would not yet be breaking down and instead would still be functioning to stabilize and maintain preexisting relationships. If this were true, then an alternative explanation of the results would be that, in fact, the first set of hypotheses concerning normative behaviors as environmental threat goes from low to moderate, was upheld. Subsequent examination of the sample as well as the industry under investigation would seem to support this supposition.

### *Threat Scale*

Threat measurements ranged from 20 to 50 on a scale with a potential range of 10 to 55. There were no responses realizing the upper 10 percent of the scale's potential range. Further, an examination of the actual distribution of Threat scores indicated that remarkably few respondents were even in the upper 20 percent of the Threat scale. A total of 18 respondents' measured level of threat was above 44. This indicated that few respondents were actually experiencing high levels of environmental threat. Consequently, it would seem appropriate that normative breakdown would not be occurring.

The few respondents who had high Threat scores were considered more carefully for characteristics or responses that would differentiate them from the remaining sample. A number of descriptors and responses were examined (e.g., owner versus nonowner, number of years of experience, geographic region of the country). There appeared to be no significant difference among these respondents along these other dimensions, except for their responses to several items intended to assess recent trends in sales patterns and their outlook for the future. All had experienced less than normal sales during past periods and/or were relatively

pessimistic concerning future periods. This warranted further investigation of the overall sample's response to items on the questionnaire that considered past, current, and projected future sales and their future confidence.

### *Past Sales Trends and Future Outlook*

Included in the questionnaire, were items concerning each respondent's more general appraisal of recent and current sales levels, as well as items measuring their confidence in the future. Sales volume, as argued earlier, is only one facet of an individual's environmental interpretation. Consequently, sales volume alone is inadequate to represent an individual's more general perception of environmental threat and opportunity. However, even though sales volume, or any other indicator of economic activity, is insufficient to consider one's holistic interpretation of the broader environmental condition, it is at least one important indicator. Therefore, it is reasonable to assume that sales activity would partially explain one's level of optimism/pessimism concerning their condition. The summarized responses to the items examining these issues follows:

When asked to indicate the amount of their sales directly linked to commercial roofing contractors in 1992:

17 percent reported $1 million or less,
30 percent reported $1 million to $5 million,
24 percent reported $5 million to $10 million,
19 percent reported $10 million to $25 million,
11 percent reported more than $25 million.

Further, when asked if this amount was above or below normal:

13 percent reported "much less than normal,"
25 percent reported "less than normal,"
35 percent reported "normal,"
21 percent reported "above normal,"
5 percent reported "much more than normal."

When asked to indicate the amount of their sales in general, regardless of customer type:

6 percent reported $1 million or less,
29 percent reported $1 million to $5 million,
22 percent reported $5 million to $10 million,
17 percent reported $10 million to $25 million,
26 percent reported more than $25 million.

Further, when asked if this amount was above or below normal;

9 percent reported "much less than normal,"
25 percent reported "less than normal,"
27 percent reported "normal,"
25 percent reported "above normal,"
14 percent reported "much more than normal."

These items, in combination, indicate that past sales volumes were judged by most respondents to be normal or above normal. Less than half of the sample reported that sales volumes during the past period had been below normal, with fewer than 15 percent reporting "much less than normal." As discussed above, sales volume is only one dimension of an individual's appraisal of their environment. However, the responses summarized above indicate that the industry sampled had not actually experienced widespread change with regard to at least this single indicator.

When asked about anticipated sales for the then current year (1993), with regard to commercial roofing contractors:

3 percent anticipated sales to be "much less than normal,"
22 percent anticipated sales to be "less than normal,"
35 percent anticipated sales to be "normal,"
34 percent anticipated sales to be "more than normal,"
6 percent anticipated sales to be "much more than normal."

For a broad measure of the respondents' outlooks for the future, they were asked what they anticipated the condition of the general construction-business environment would be "five years from today:"

30 percent reported that they felt it would be better than today,
25 percent reported that they felt it would be the same,
45 percent reported that they felt it would be worse than today.

The first of these two items questioned the respondents' outlooks for the near future (i.e., the then current year). Again, their interpretation of current conditions appeared to be approximately "normal," with a near normal distribution of "less than normal" and "more than normal" anticipated sales. This indicates that the near normal conditions of the past were anticipated to carry over into the then current year. (The questionnaire had been distributed during the Spring of 1993, before most building material and construction activity was well under way. Consequently, although some current year data was available, respondents were still required to project sales into the remaining year in order to answer this question.).

However, interestingly, this pattern of "normality" did not carry over to their outlook for the more distant future. The second item, questioning their outlook for conditions "five years from today," indicates more pessimism than sales trends of the recent past would indicate. Nearly half of the sample reported that they felt conditions "five years from today" would be worse than "today."

Their anticipation of worsening conditions was revealed during the exploratory phase of this study and may have been mistaken, by this researcher, as a currently threatening environment. At that time, several sources of information were consulted in selecting an industry for study which was experiencing at least moderate to high levels of environmental threat. Industry professionals, a convenience sample of building material distributors, a variety of industry publications, and discussion with official representatives of the N.R.C.A. (the predominant professional association representing roofing material distributors and contractors) all expressed concern for the external conditions affecting this industry. They identified changes in government regulations regarding the demolition and disposal of

hazardous waste (e.g., asbestos, synthetic insulation, asphalt), anticipated downturns in building activity, changes in OSHA laws concerning worker safety, changes in building specification codes, public concern for the environmental impact of certain building materials, and the failure of a newer but widely implemented technology that had, at the time of this research, replaced traditional roofing practices. The election of a new U.S. President and the significant shifts in power between the Republican and Democratic parties may have also exaggerated this concern. Supporting this idea, a number of respondents made unsolicited comments concerning this change in political officials on their questionnaires.

Clearly, all of these issues had raised concerns among decision-makers within the industry and, as a result, negative changes were widely anticipated. However, in retrospect, the concerns identified during the exploratory study were with regard to future outcomes. As reports of sales data just prior to this study would indicate, the conditions at the time of this study may have been approximately normal and reasonable. The distinction is between conditions where changes have already occurred and seem to be sufficiently enduring as to make their projection into the future reasonable, as compared with changes anticipated but not yet experienced. Although it is beyond the scope of this discussion, the distinction may be useful for differentiating environments characterized as "uncertain" and those characterized as "threatening."

What may have been interpreted, by this researcher, as an industry under threat from the environment, may have instead, been simply an industry that was uncertain of the future due to impending change. Failure to make this distinction may have resulted in the selection of an industry that was only moderately stressed but highly apprehensive due to rumor, supposition, and official industry outlooks. If this were true, the underlying data would not have provided for a strong test of the second set of hypotheses.

However, as an aside, this result may further attest to the validity and robustness of the scale developed to measure Perceived Environmental Threat. It appears that it successfully measured the target construct, as opposed to environmental uncertainty or other characterizations of the environment which be less substantive and ominous.

A stronger test of this proposition could be provided by a future study which systematically tracks an industry as it enters "crisis-like" conditions. Obviously, anticipating a "crisis" condition ahead of time would be impossible and could only be found by consistently "monitoring" an industry over time. This form of investigation would not only be theoretically useful for explaining relational dissolution, but could prove valuable to practitioners as well. Should characteristic patterns of changes in normative behavior be uncovered as industries encounter various levels of environmental threat, systematic measures of normative change could provide a more sensitive leading indicator of negative changes in local environmental conditions than the macro indicators typically used (e.g., changes in interest rates, GNP, Consumer Confidence scales).

## EXPLAINED VARIANCE

A second issue raised by the regression analysis concerns the seemingly small portion of variation accounted for in normative behavior by the respondents' perceptions of threat (R-Squared), which ranged from .04 to .07. These small levels may initially indicate that perceptions of threat have a relatively minor influence on normative behavior. However, this could have been predicted, considering the nature of normative interaction.

Any single norm need not change a great deal in response to a changing context in order for the combined effect of all norms to have a significant moderating influence. For

example, consider that a distributor may become more responsive to a customer's individual problems and needs, become more flexible with regard to enforcing formal sales policies, make a stronger commitment to a customer's expectations, and place greater emphasis on a customer's defining characteristics as environmental conditions worsen. The cumulative benefits of these combined actions would not only be substantial, but would probably be instrumental to maintaining a relationship experiencing environmental problems. This reaffirms that normative behavior is robust, as expected. Further, it indicates that the cumulative impact of norms may be quite powerful.

Accordingly, consider the consequences if these normative responses ultimately level off, or actually decline under more adverse circumstances, as suggested by the hypotheses developed earlier. In this case, a relatively minor withdrawal, or even a simple nonresponse under extreme distress, could be equally destructive to the relationship and represent a significant force in moving the relationship toward dissolution.

As an aside, consider the cumulative lack of such a normative response across an industry. Diminished normative behavior, within an industry as a whole, could be a key characteristic of an industry in "crisis." This condition could result in a network of interrelationships which are relatively "brittle"--a term used earlier by Ekeh (1964) to describe relationships that are highly dependent upon immediate reciprocity and are focused upon transactional benefits. They would be comparable to what Macneil referred to as discrete exchange. However, in this case, a sort of dysfunction is implied, in that the dependency and power imbalances of relational exchange would still prevail, creating a series of "brittle" relationships. This characterization of relationships within an interrelated network would, under this condition, be more prone to realignment with a "new" environment.

This is what seemed to have happened in the agricultural industry. The exploratory study revealed sweeping changes resulting in advancements in information and product technology, and changes in lending laws, organizational structures, and performance standards for individual farming operations as normative deterioration forced individuals to identify new relationships and redefine exchange values. In essence, normative breakdown and relational dissolution seemed to have a positive effect on the long-term survival of the industry as a whole, as well as industry performance. This "functional" view of relational breakdown needs more consideration within various streams of marketing theory and research. Marketing's preoccupation with relationship building and maintenance has neglected managerial issues concerning the need to identify those behaviors that are entended to salvage, what may be, dysfunctional relationships.

## SUMMARY OF NORMATIVE RESPONSE AND ENVIRONMENTAL THREAT

Several important conclusions can be drawn from this analysis. First, this study clearly establishes that one's normative response to customers are impacted by interpretations of environmental threat. Generally, as distributors perceive the environment to be more threatening, they become more responsive to their customers' adversities (needs), more willing to incur the costs of meeting previously established expectations (consistency), and place more emphasis on the social characteristics of their customers. There was also weak evidence that they become more flexible. The posthoc analysis regarding objective financial information also indicated, reasonably, that this type of information also receives greater consideration.

This clearly establishes that normative responses are related to changes in context. Although the results of the analysis failed to validate all of the hypotheses, many of the underlying assumptions of social exchange theory, examined earlier, were supported. For example, norms as interpersonal mechanisms, were in fact responsive to conditions external to the dyad, a necessary condition if norms are to be considered environmentally adaptive and collectively functional. That is, in order to assume that normative behaviors solidify and perpetuate social systems, they must also be assumed to be "evolutionary" in nature.

An additional implication of this analysis is the empirical link it establishes between norms identified from broadly different theoretical streams. It appears that different types of norms not only behave similarly at different levels of perceived threat, but that their emphasis relative to environmental change is approximately the same (as judged by the adjusted R-squared). Demonstrating a relationship between theoretical streams is important to further develop the theoretical properties of long-term relationships. Relational Exchange originated within theories of contract law, Distributive Justice's definition and description of the diversity of social systems, and Status Value Theory's explanation of how relationships are judged to be [in]equitable are all relevant to marketing. Further, all have common theoretical grounding in "exchange." This study established that they have similarities in their predictive ability. This is important in that they also assume that first, the perpetuation of interaction must be guided by mutual definitions of "appropriate" behaviors and second, that considering the context in which a series of transactions are embedded is necessary. This underscores that consideration of a relationship's context should play an important role in future attempts to explain the behavioral mechanisms long-term relationships.

Finally, it should be noted that only a limited number of norms have been examined in this study. Each of the three theoretical streams introduced earlier have implications for

additional norms that could be similarly measured and tested. These additional norms, in combination with those examined here, could further contribute to an overall explanation of normative response relative to environmental change. Future work should continue in the perspective established here that these norms are all related and should be examined in combination.

## Theoretical Definition of Cause and Effect

A final note is required concerning the theoretical difference between environmental response and environmental condition. A political economy framework (Reve and Stern 1980) underscores the importance of defining an environment relative to its interactive distance from a focal dyad.

A macro environment may appropriately be characterized by a macro political economy's GNP, aggregated consumer confidence, and other gross measurements of various prevailing conditions. However, more directly, a dyad is impacted by its primary task environment. At this level an environment is capable of being characterized by the behaviors of identifiable others, as opposed to an overall aggregated condition.

A primary task environment is comprised of other dyadic actors, who directly interact with participants to a focal dyad. That is, a primary task environment is defined by any single actor's set of relationships. This is the level that is most relevant and most salient to a focal dyad, in that all environmental changes must be experienced through social interaction. By definition, if an "environmental" change is not experienced at an interactive, dyadic level, then the change is not contained in a dyad's environment. Accordingly, environments are

defined through a dyad's experience with its primary task environment, or the entire set of other dyadic interactions that each member of a focal dyad is party to.

Given this interpretation, the distinction between an environmental condition (i.e., environmental threat) and an environmental response (i.e., diminishing or expanding normative response) is blurred. That is, any actor's increased or diminished normative response to another, which is explained as a response to his interpretation of an environmental condition, is in reality, based on another's normative response to them. In short, one's response is another's context and serves to define the other's contextual experience. Hence, from this perspective it may seem logically inconsistent to define environmental threat as a causal variable and normative behavior as a response behavior. This distinction is only meaningful, relative to a specific dyad, which permits distinguishing between that normative behavior that is contextual (causal) and that which is consequential (responsive).

This study has extended our understanding of marketing relationships by grounding them in the interpersonal behaviors of dyadic intercourse. It is hoped that the significance of viewing marketing as a social phenomena has been established. It is all too easy to lose this "humaness" of marketing within a proliferation of terms and constructs used to describe structures and systems.

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# APPENDICES

# APPENDIX A

# QUESTIONNAIRE AND LETTERS

QUESTIONNAIRE

Part I

**Directions:** Based on your experience in the **commercial roofing industry**, think about the **business environment** confronting your organization and the local industry as a whole. Forces making up the business environment might include government regulations, the economy, availability of needed resources, or other forces beyond the organization's control, which impact day to day decisions.

We are interested in knowing if you feel that the roofing industry's business environment has been especially threatening. For example, consider government regulations and the challenges they represent to individual organizations. Although adjusting to these regulations is always challenging, occasionally some regulations actually threaten the very existence of an organization. As another example, consider economic conditions. Although changes in the economy are typically difficult to content with, some conditions are especially threatening.

With this in mind, we would like to know the extent to which you agree or disagree with each of the following statements. Please circle number 1 if you strongly agree with the statement, circle number 6 is you strongly disagree. If your feelings are less strong, circle on the numbers in the middle. There are no right or wrong answers . . . all we are interested in are your current feelings toward the commercial roofing industry's business environment.

1. I may be forced to drastically change the way I do business as a result of negative changes in the business environment.

    1 Strongly Agree
    2 Moderately Agree
    3 Slightly Agree
    4 Slightly Disagree
    5 Moderately Disagree
    6 Strongly Disagree

2. I feel the need to protect my organization from the business environment.

    1 Strongly Agree
    2 Moderately Agree
    3 Slightly Agree
    4 Slightly Disagree
    5 Moderately Disagree
    6 Strongly Disagree

3. Recent trends in the business environment are having an especially negative impact on my business.

    1 Strongly Agree
    2 Moderately Agree
    3 Slightly Agree

4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

4. I feel that I am able to deal with the current environment.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

5. I am extremely concerned about changes in the business environment.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

6. I find it difficult to make important decisions because of so many "unknowns" in the business environment.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

7. Currently, our business environment is much more threatening than usual.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

8. It is much more difficult to be successful today than in the past, because of changes in the business environment.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree

5 Moderately Disagree
6 Strongly Disagree

9. I feel very confident in my decisions, despite changes in the business environment.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

10. Forces in my business environment are actually threatening the survival of my organization.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

11. Which of the following terms best characterizes your perception of the current business environment?

1 Crisis
2 Threatening
3 Difficult
4 Adequate
5 Good
6 Very Good
7 Excellent

12. What do you think the business environment will be like five years from today?

1 Better than today
2 No significant change from today
3 Worse than today

Part II

**Directions:** We would now like you to consider your relationship with customers who are **commercial roofing contractors.** The following statements focus on some of the interpersonal aspects of those relationships. Again, we would like to know the extent to which you agree or disagree with each statement.

1. When a customer's business is in trouble, it is only fair that I stick by them.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

2. I'm willing to make adjustments in ongoing relationships to cope with a customer's changing circumstances.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

3. It's not fair to customers when you unexpectedly change the way you conduct business.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

4. You should give more to a customer whose business is in trouble.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

5. I feel obligated to continue working with customers who are experiencing difficulties.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

6. Customers should be able to depend upon my business practices staying the same over relatively long periods.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

7. It's important to be flexible when dealing with a customer whose circumstances have changed.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

8. I'm willing to listen to a customer's reasons for wanting to break an agreement.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

9. Customers who are in difficult circumstances deserve special consideration.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

10. I feel obligated to continue providing customers with what they have come to expect, even if I have to take a loss.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

11. When a customer is confronted with a new situation, I'm willing to work out a new deal, rather than hold them to original terms.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

12. I usually respond when customers request changes in a business agreement.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

13. Sometimes you have to break the "rules," especially with someone who has special needs.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

14. You have a special obligation to customers who are in trouble.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

15. You should not change sales policies if it causes injury to customers who have come to rely on you.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

16. You should follow through with an agreement, even when you're not obligated to.

1 Strongly Agree

2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

17. How long does it take to develop a good relationship with a customer?

_____ months _____ years

18. On average, how long have you had a relationship with your "better" customers?

_____ months _____ years

Part III

**Directions:** Business decisions frequently require you to make judgements about specific customers. Often, customer decisions are based upon objective financial criteria (e.g., a customer's purchase and payment pattern, anticipated sales volume, their past financial performance). However, other important information may focus less on objective financial criteria.

For example, the number of years a customer has been in business may be an important consideration but it is not, strictly speaking, financial information. You may use other information which describes the customer or customer's organization. We would like you to think about the different types of information you use when making decisions regarding **commercial roofing contractors** and the extent to which you rely on information which is not financial in nature. As before, indicate whether you agree or disagree with each of the following statements.

1. I can use nonfinancial information about a customer or a customer's organization to predict how they will perform.

   1 Strongly Agree
   2 Moderately Agree
   3 Slightly Agree
   4 Slightly Disagree
   5 Moderately Disagree
   6 Strongly Disagree

2. I use nonfinancial information about a customer or a customer's organization to determine how I should deal with them.

   1 Strongly Agree
   2 Moderately Agree
   3 Slightly Agree
   4 Slightly Disagree
   5 Moderately Disagree

6 Strongly Disagree

3. You cannot really judge a customer's organization, unless you have objective financial information about that organization.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

4. It would be difficult to identify a "good" customer by relying exclusively on financial information.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

5. Making a customer decision without full financial information about that customer is extremely high risk.

1 Strongly Agree
2 Moderately Agree
3 Slightly Agree
4 Slightly Disagree
5 Moderately Disagree
6 Strongly Disagree

6. Listed below are a few nonfinancial characteristics which might be used to describe a customer or customer's organization. We would like to know which characteristics you consider to be the most important when making a fairly high risk decision regarding a specific customer.

Please identify the five most important characteristics by numbering them from the most to least important. Place the number 1 beside the characteristic you consider to be the most important, the number 2 beside the second most important, and so on--up to the fifth most important. Again, there are no right or wrong answers. We are only looking for those five characteristics which seem most important to you.

**1 = MOST IMPORTANT, 2 = 2nd MOST IMPORTANT, ..., 5 = 5th MOST IMPORTANT**

____ How long a customer has been in business

____ A customer's business reputation

____ Their level of expertise

____ The reputation of a customer's customers

____ The size of their organization

____ The type of contract they typically use (e.g., negotiated, competitive bid)

____ The type of suppliers they rely upon (e.g., manufacturer's reps, independent suppliers)

____ Participation in professional activities (e.g., association conferences)

____ The type of projects they typically do (e.g., new construction, re-roofing)

____ The personal character of the owner or key decision makers

____ The quality of their workmanship

____ The type of roofing they typically install (e.g., EPDM, BUR)

____ The type of relationship they have with their employees

____ Their willingness to try new technology

____ Their level of contact with industry professionals (e.g., architects, consultants)

____ Other _____

Part V

Finally, we would like to ask a few questions about you and your organization for statistical purposes. Again, all of the information you provide will be kept confidential.

1. Number of years you have worked in the building materials industry:

____ YEARS

2. Number of years you have been affiliated with this particular organization:

____ YEARS

3. Number of years in your current position:

____ YEARS

4. Which of the following best describes this organization? (circle number of your answer)

   1 Independent Distributor or Wholesaler
   2 Part of a Local Chain
   3 Part of a Regional Chain
   4 Part of a National Chain
   5 Manufacturer's Representative
   6 Manufacturer
   7 Other: _____

5. Are you the owner or majority owner of this organization? (circle number of your answer)

   1 YES
   2 NO

6. Your title: (circle number which best describes your title)

   1 President/CEO
   2 General Manager
   3 Sales Manager]
   4 Salesperson
   5 Vice President/Secretary/Vice President
   6 Division Manager
   7 Consultant
   8 Other: _____

7. Number of years this organization has been in business.

   ____ YEARS

8. In 1992, the amount of this organization's sales volume directly linked to commercial roofing contractors was: (circle number of your answer)

   1 MUCH LESS THAN NORMAL
   2 SOMEWHAT LESS THAN NORMAL
   3 ABOUT NORMAL
   4 SOMEWHAT MORE THAN NORMAL
   5 MUCH MORE THAN NORMAL

9. What is the range of this organization's normal annual sales volume directly linked to commercial roofing contractors? (circle number of your answer)

   1 LESS THAN $500,000
   2 $500,000 TO $1 MILLION
   3 $1 MILLION TO $3 MILLION
   4 $3 MILLION TO $5 MILLION
   5 $5 MILLION TO $10 MILLION
   6 $10 MILLION TO $15 MILLION
   7 $15 MILLION TO $25 MILLION
   8 MORE THAN $25 MILLION

10. In 1992, the amount of this organization's sales volume in general, regardless of customer type was: (circle number of your answer)

    1 MUCH LESS THAN NORMAL
    2 SOMEWHAT LESS THAN NORMAL
    3 ABOUT NORMAL
    4 SOMEWHAT MORE THAN NORMAL
    5 MUCH MORE THAN NORMAL

11. What is the range of this organization's normal annual sales volume in general, regardless of customer type? (circle number of your answer)

    1 LESS THAN $500,000
    2 $500,000 TO $1 MILLION
    3 $1 MILLION TO $3 MILLION
    4 $3 MILLION TO $5 MILLION
    5 $5 MILLION TO $10 MILLION
    6 $10 MILLION TO $15 MILLION
    7 $15 MILLION TO $25 MILLION
    8 MORE THAN $25 MILLION

12. I anticipate that our sales volume for 1993, which is directly linked to commercial roofing contractors, will be: (circle number of your answer)

    1 MUCH LESS THAN NORMAL
    2 SOMEWHAT LESS THAN NORMAL
    3 ABOUT NORMAL
    4 SOMEWHAT MORE THAN NORMAL
    5 MUCH MORE THAN NORMAL

---

COMMENTS OR QUESTIONS?...

THE UNIVERSITY OF TENNESSEE
KNOXVILLE

College of Business Administration
Department of Marketing, Logistics and Transportation
310 Stokely Management Center
Knoxville, Tennessee 37996-0530
(615) 974-5311

[DATE]

[ADDRESS]

Dear [NAME OF RESPONDENT]:

The Department of Marketing at The University of Tennessee is conducting research into the impact that changes in the business environment have on buyer/seller relationships. This project has been made possible through the support of The National Roofing Contractors Association and The National Roofing Foundation.

This project will focus on the nature of supplier/contractor interactions, as well as the current business environment facing the roofing industry. We would appreciate your assistance and would like you to take 20 minutes or so to fill out the enclosed questionnaire. We would like the opinion of a key decision maker in your organization - anyone who makes or influences customer policies. If this organization is a branch or regional office and customer policies are established at a central office, we still want the opinions of an upper level decision maker at this location. (Please do not send it to the central office.) Your insights matter and are vital to this research.

You may be assured of complete confidentiality. The questionnaire has an identification number for mailing purposes only. Your name will never be placed on the questionnaire itself nor released to anyone else. After we have collected the questionnaires, your identify will be discarded. Only a summary of the overall results will be made available to industry associations or other academic researchers. Please take time now to complete the questionnaire and return it in the self-addressed, postage-paid envelope we have provided.

You are playing an important part in business research for the construction industry, by helping us to better understand the impact that business environments have on industry performance. If you have any questions or comments, please write or call. I will be happy to talk with you. The telephone number is (615) 974-5311. Thanks again for your assistance.

Sincerely,

Russ Smith

Enclosure

THE UNIVERSITY OF TENNESSEE
KNOXVILLE

College of Business Administration
Department of Marketing, Logistics and Transportation
310 Stokely Management Center
Knoxville, Tennessee 37996-0530
(615) 974-5311

[DATE]

[ADDRESS]

Dear [NAME OF RESPONDENT]:

About three weeks ago I wrote to you asking for your opinion on various aspects of the commercial roofing industry. We have not yet received your completed questionnaire.

We have undertaken this study to better understand how supplier/contractor relationships are affected by changes in the business environment. This is an area which is poorly understood by industry associations, policy makers, and others who might impact this industry.

I am writing to you again because of the significance each questionnaire has to the usefulness of this study. Your name was drawn through a scientific sampling process in which every supplier/distributor had an equal chance of being selected. In order for the results of this study to be truly representative of the opinions of this industry group, it is essential that each person return their questionnaire. Again, whoever impacts customer policy at your office may fill out and return this questionnaire.

In the event that your questionnaire has been misplaced, a replacement is enclosed. Your cooperation is greatly appreciated.

Cordially,

Russ Smith
Project Director

Enclosure

## APPENDIX B

# CORRELATION TABLES

TABLE A-1

**PEARSON CORRELATION COEFFICIENTS / PROB > |R| UNDER H0:RHO=0 / NUMBER OF OBSERVATIONS (EXHIBIT 1)**

| | Need #1 | Need #4 | Need #5 | Need #9 | Need #14 | Consistency #3 | Consistency #6 | Consistency #15 |
|---|---|---|---|---|---|---|---|---|
| Need #1 | 1.00000 | 0.29610 | 0.30220 | 0.28163 | 0.38329 | 0.22334 | 0.16028 | 0.29003 |
| | 0.0000 | 0.0005 | 0.0004 | 0.0010 | 0.0001 | 0.0095 | 0.0643 | 0.0007 |
| | 134 | 134 | 134 | 133 | 134 | 134 | 134 | 132 |
| Need #4 | 0.29610 | 1.00000 | 0.30838 | 0.30265 | 0.41206 | 0.16087 | 0.12373 | 0.14273 |
| | 0.0005 | 0.0000 | 0.0003 | 0.0004 | 0.0001 | 0.0614 | 0.1512 | 0.0999 |
| | 134 | 136 | 136 | 135 | 135 | 136 | 136 | 134 |
| Need #5 | 0.30220 | 0.30838 | 1.00000 | 0.35843 | 0.37420 | 0.13487 | 0.14707 | 0.12433 |
| | 0.0004 | 0.0003 | 0.0000 | 0.0001 | 0.0001 | 0.1175 | 0.0875 | 0.1523 |
| | 134 | 136 | 136 | 135 | 135 | 136 | 136 | 134 |
| Need #9 | 0.28163 | 0.30265 | 0.35843 | 1.00000 | 0.35305 | 0.16783 | 0.21414 | 0.09971 |
| | 0.0010 | 0.0004 | 0.0001 | 0.0000 | 0.0001 | 0.0517 | 0.0126 | 0.2535 |
| | 133 | 135 | 135 | 135 | 134 | 135 | 135 | 133 |
| Need #14 | 0.38329 | 0.41206 | 0.37420 | 0.35305 | 1.00000 | 0.23015 | 0.15761 | 0.37270 |
| | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0000 | 0.0072 | 0.0679 | 0.0001 |
| | 134 | 135 | 135 | 134 | 135 | 135 | 135 | 133 |
| Consistency #3 | 0.22334 | 0.16087 | 0.13487 | 0.16783 | 0.23015 | 1.00000 | 0.52978 | 0.47672 |
| | 0.0095 | 0.0614 | 0.1175 | 0.0517 | 0.0072 | 0.0000 | 0.0001 | 0.0001 |
| | 134 | 136 | 136 | 135 | 135 | 136 | 136 | 134 |
| Consistency #6 | 0.16028 | 0.12373 | 0.14707 | 0.21414 | 0.15761 | 0.52978 | 1.00000 | 0.42795 |
| | 0.0643 | 0.1512 | 0.0875 | 0.0126 | 0.0679 | 0.0001 | 0.0000 | 0.0001 |
| | 134 | 136 | 136 | 135 | 135 | 136 | 136 | 134 |
| Consistency #15 | 0.29003 | 0.14273 | 0.12433 | 0.09971 | 0.37270 | 0.47672 | 0.42795 | 1.00000 |
| | 0.0007 | 0.0999 | 0.1523 | 0.2535 | 0.0001 | 0.0001 | 0.0001 | 0.0000 |
| | 132 | 134 | 134 | 133 | 133 | 134 | 134 | 134 |
| Flexibility #7 | 0.38760 | 0.09183 | 0.16604 | 0.29130 | 0.28629 | 0.28005 | 0.19495 | 0.20146 |
| | 0.0001 | 0.2877 | 0.0534 | 0.0006 | 0.0008 | 0.0010 | 0.0229 | 0.0196 |
| | 134 | 136 | 136 | 135 | 135 | 136 | 136 | 134 |
| Flexibility #11 | 0.25933 | 0.09134 | 0.19881 | 0.29552 | 0.29676 | 0.30638 | 0.15587 | 0.26148 |
| | 0.0025 | 0.2903 | 0.0203 | 0.0005 | 0.0005 | 0.0003 | 0.0700 | 0.0023 |
| | 134 | 136 | 136 | 135 | 135 | 136 | 136 | 134 |
| Flexibility #12 | 0.08354 | 0.02810 | 0.16338 | 0.17796 | 0.19113 | 0.09650 | 0.06688 | 0.16613 |
| | 0.3372 | 0.7454 | 0.0574 | 0.0389 | 0.0264 | 0.2638 | 0.4391 | 0.0551 |
| | 134 | 136 | 136 | 135 | 135 | 136 | 136 | 134 |
| Flexibility #13 | 0.12444 | 0.08660 | 0.17899 | 0.25744 | 0.36165 | 0.28161 | 0.12890 | 0.14093 |
| | 0.1520 | 0.3161 | 0.0371 | 0.0026 | 0.0001 | 0.0009 | 0.1348 | 0.1043 |
| | 134 | 136 | 136 | 135 | 135 | 136 | 136 | 134 |

TABLE A-1 (continued)

**PEARSON CORRELATION COEFFICIENTS / PROB > |R| UNDER H0:RHO=0 / NUMBER OF OBSERVATIONS (EXHIBIT 1)**

| | Flexibility #7 | Flexibility #11 | Flexibility #12 | Flexibility #13 |
|---|---|---|---|---|
| Need #1 | 0.38760 | 0.25933 | 0.08354 | 0.12444 |
| | 0.0001 | 0.0025 | 0.3372 | 0.1520 |
| | 134 | 134 | 134 | 134 |
| Need #4 | 0.09183 | 0.09134 | 0.02810 | 0.08660 |
| | 0.2877 | 0.2903 | 0.7454 | 0.3161 |
| | 136 | 136 | 136 | 136 |
| Need #5 | 0.16604 | 0.19881 | 0.16338 | 0.17899 |
| | 0.0534 | 0.0203 | 0.0574 | 0.0371 |
| | 136 | 136 | 136 | 136 |
| Need #9 | 0.29130 | 0.29552 | 0.17796 | 0.25744 |
| | 0.0006 | 0.0005 | 0.0389 | 0.0026 |
| | 135 | 135 | 135 | 135 |
| Need #14 | 0.28629 | 0.29676 | 0.19113 | 0.36165 |
| | 0.0008 | 0.0005 | 0.0264 | 0.0001 |
| | 135 | 135 | 135 | 135 |
| Consistency #3 | 0.28005 | 0.30638 | 0.09650 | 0.28161 |
| | 0.0010 | 0.0003 | 0.2638 | 0.0009 |
| | 136 | 136 | 136 | 136 |
| Consistency #6 | 0.19495 | 0.15587 | 0.06688 | 0.12890 |
| | 0.0229 | 0.0700 | 0.4391 | 0.1348 |
| | 136 | 136 | 136 | 136 |
| Consistency #15 | 0.20146 | 0.26148 | 0.16613 | 0.14093 |
| | 0.0196 | 0.0023 | 0.0551 | 0.1043 |
| | 134 | 134 | 134 | 134 |
| Flexibility #7 | 1.00000 | 0.33432 | 0.38911 | 0.31856 |
| | 0.0000 | 0.0001 | 0.0001 | 0.0002 |
| | 136 | 136 | 136 | 136 |
| Flexibility #11 | 0.33432 | 1.00000 | 0.50677 | 0.41854 |
| | 0.0001 | 0.0000 | 0.0001 | 0.0001 |
| | 136 | 136 | 136 | 136 |
| Flexibility #12 | 0.38911 | 0.50677 | 1.00000 | 0.34936 |
| | 0.0001 | 0.0001 | 0.0000 | 0.0001 |
| | 136 | 136 | 136 | 136 |
| Flexibility #13 | 0.31856 | 0.41854 | 0.34936 | 1.00000 |
| | 0.0002 | 0.0001 | 0.0001 | 0.0000 |
| | 136 | 136 | 136 | 136 |

TABLE A-2

**PEARSON CORRELATION COEFFICIENTS / PROB > |R| UNDER H0:RHO=0 / NUMBER OF OBSERVATIONS (EXHIBIT 2)**

| | Social Characteristic #1 | Social Characteristic #2 | Financial Characteristic #3 | Financial Characteristic #5 |
|---|---|---|---|---|
| Social Characteristic #1 | 1.00000<br>0.0000<br>135 | 0.64862<br>0.0001<br>135 | -0.12266<br>0.1580<br>134 | -0.09831<br>0.2566<br>135 |
| Social Characteristic #2 | 0.64862<br>0.0001<br>135 | 1.00000<br>0.0000<br>135 | -0.10285<br>0.2370<br>134 | -0.16932<br>0.0496<br>135 |
| Financial Characteristic #3 | -0.12266<br>0.1580<br>134 | -0.10285<br>0.2370<br>134 | 1.00000<br>0.0000<br>134 | 0.57086<br>0.0001<br>134 |
| Financial Characteristic #5 | -0.09831<br>0.2566<br>135 | -0.16932<br>0.0496<br>135 | 0.57086<br>0.0001<br>134 | 1.00000<br>0.0000<br>136 |

TABLE A-3

PEARSON CORRELATION COEFFICIENTS / PROB > |R| UNDER H0:RHO=0 / NUMBER OF OBSERVATIONS (EXHIBIT 3)

| | Threat #1 | Threat #2 | Threat #3 | Threat #5 | Threat #6 | Threat #7 | Threat #8 | Threat #10 |
|---|---|---|---|---|---|---|---|---|
| Threat #1 | 1.00000 | 0.66153 | 0.66949 | 0.64988 | 0.59174 | 0.62973 | 0.51000 | 0.53384 |
| | 0.0000 | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0001 |
| | 136 | 135 | 136 | 135 | 136 | 135 | 135 | 136 |
| Threat #2 | 0.66153 | 1.00000 | 0.50909 | 0.52221 | 0.43419 | 0.46635 | 0.37188 | 0.38071 |
| | 0.0001 | 0.0000 | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0001 |
| | 135 | 135 | 135 | 134 | 135 | 134 | 134 | 135 |
| Threat #3 | 0.66949 | 0.50909 | 1.00000 | 0.66441 | 0.50343 | 0.71004 | 0.57931 | 0.53020 |
| | 0.0001 | 0.0001 | 0.0000 | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0001 |
| | 136 | 135 | 136 | 135 | 136 | 135 | 135 | 136 |
| Threat #5 | 0.64988 | 0.52221 | 0.66441 | 1.00000 | 0.58067 | 0.64121 | 0.44297 | 0.46090 |
| | 0.0001 | 0.0001 | 0.0001 | 0.0000 | 0.0001 | 0.0001 | 0.0001 | 0.0001 |
| | 135 | 134 | 135 | 135 | 135 | 134 | 134 | 135 |
| Threat #6 | 0.59174 | 0.43419 | 0.50343 | 0.58067 | 1.00000 | 0.64398 | 0.54937 | 0.48498 |
| | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0000 | 0.0001 | 0.0001 | 0.0001 |
| | 136 | 135 | 136 | 135 | 136 | 135 | 135 | 136 |
| Threat #7 | 0.62973 | 0.46635 | 0.71004 | 0.64121 | 0.64398 | 1.00000 | 0.67691 | 0.59035 |
| | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0000 | 0.0001 | 0.0001 |
| | 135 | 134 | 135 | 134 | 135 | 135 | 135 | 135 |
| Threat #8 | 0.51000 | 0.37188 | 0.57931 | 0.44297 | 0.54937 | 0.67691 | 1.00000 | 0.47242 |
| | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0000 | 0.0001 |
| | 135 | 134 | 135 | 134 | 135 | 135 | 135 | 135 |
| Threat #10 | 0.53384 | 0.38071 | 0.53020 | 0.46090 | 0.48498 | 0.59035 | 0.47242 | 1.00000 |
| | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0001 | 0.0000 |
| | 136 | 135 | 136 | 135 | 136 | 135 | 135 | 136 |

# VITA

Russell K. Smith, Jr., began his graduate studies at The University of Tennessee, Knoxville, in the fall of 1988, after graduating from Drake University in Des Moines, Iowa. He completed his Doctor of Philosophy in Business Administration, Spring 1995. He is currently an Assistant Professor of Marketing at Winona State University, Winona, Minnesota.