

Slide 1

# The Evolution of Relationship Marketing: A Framework for Analysis

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## Relationship Marketing

- Morgan and Hunt (1994)
  - "Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges."

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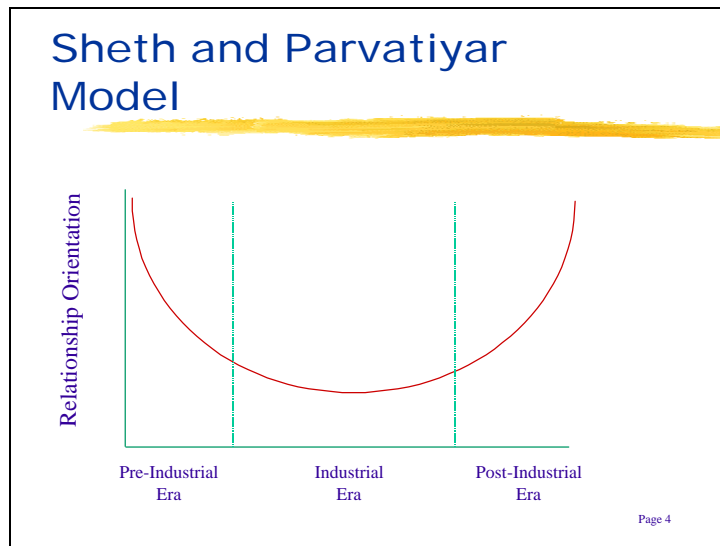
## Need for Relationship Marketing

- Global Competition
- Industry Consolidation
- Customer Fragmentation

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Slide 4

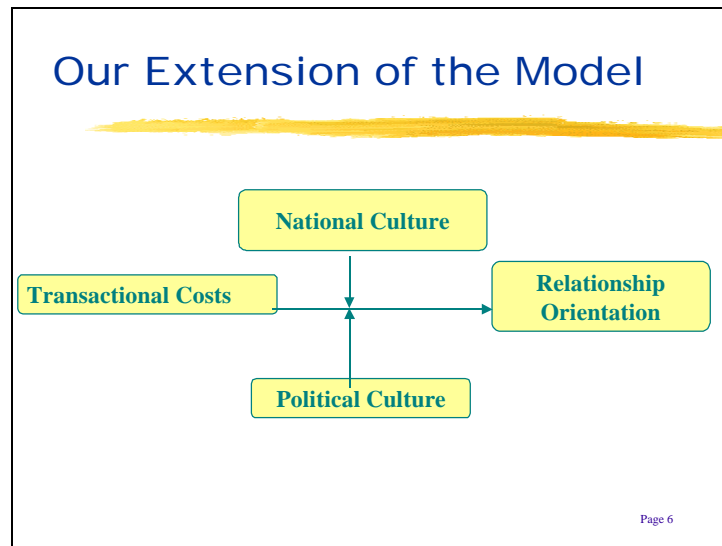


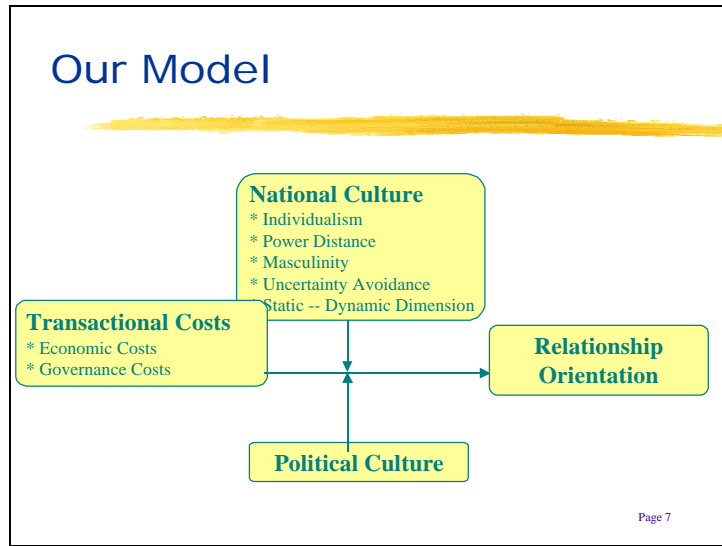
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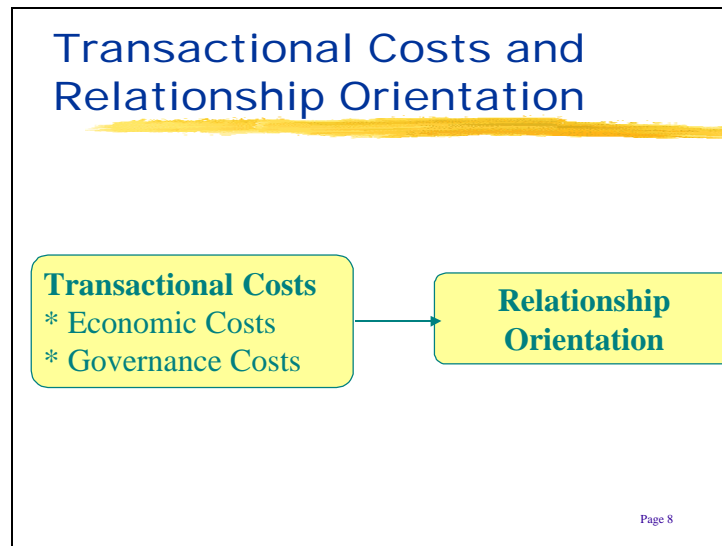
## Motivation



- Why Understand the Evolution of Relationship Marketing
  - Paradigm Shift from Transactions to Relationships
  - Dominant Relationship Themes in Countries
  - Failure of Alliances -- The Relationship Orientation of Firms







## Transactional Cost Analysis

- Balance between transactional and relationship costs
  - $\Delta C = \text{Relationship production/product costs} - \text{Transactional production/product costs}$
  - $\Delta G = \text{Relationship governance costs} - \text{Transactional governance costs}$ , is normally negative

## Choice of Strategy

### ■ Transactional Orientation:

- When the sum of these costs is positive, i.e., when  $\Delta C + \Delta G > 0$ , it will be more expensive to maintain relationship orientations.

### ■ Relationship Orientation

- When the sum of these costs is negative, i.e., when  $\Delta C + \Delta G < 0$ , it will be less expensive to maintain relationship orientations.

## Choice of Strategy

- In the initial stages of markets, relationship orientation prevails (Sheth and Parvatiyar)
  - Since there are no mass producers,  $\Delta C$  is not positive or sufficiently positive, and  $\Delta C + \Delta G < 0$  -- relationship orientation prevails.
  - From the initial relationship orientation, firms first move toward transactional orientation then relationship orientation.

## Choice of Strategy

### ■ Shift in Relationship to Transactional Orientation:

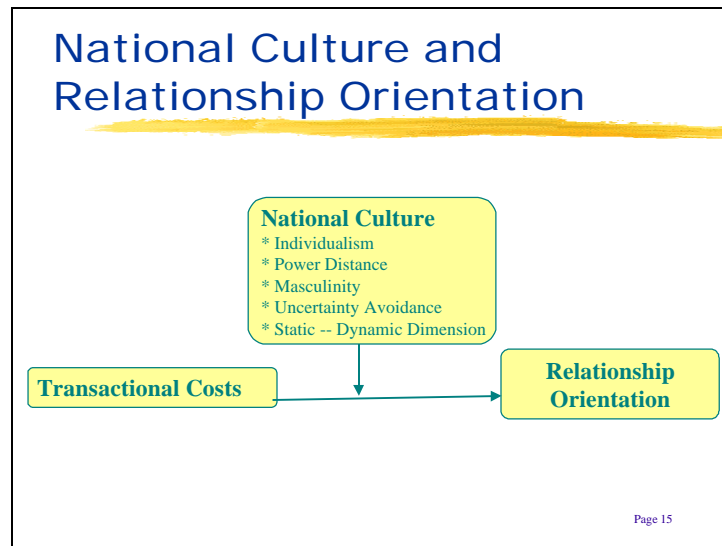
- Mass production makes  $\Delta C$  positive, i.e., mass producers have a differential cost advantage over local producers.
- Manufacturers control quality, making  $\Delta G$  less negative.
- When the sum of these costs is positive, i.e., when  $\Delta C + \Delta G > 0$  -- transaction orientation prevails.

## Choice of Strategy

- Shift in Transactional to Relationship Orientation
  - Specific Technology Assets of Suppliers negatively effects  $\Delta C$ .
  - Specific Assets that can not be shared by other buyers negatively effects  $\Delta C$ .
  - Technology has reduced governance costs negatively effecting  $\Delta G$ .

## Choice of Strategy

- Shift in Transactional to Relationship Orientation
  - Enhanced Buying Volumes negatively effects both  $\Delta C$  and  $\Delta G$ .
  - "Quality debasement externalities," i.e., criticality of product/service negatively effects  $\Delta G$ .



## National Culture Framework

- Individualism
- Power Distance
- Masculinity
- Uncertainty Avoidance
- Static -- Dynamic Dimension

## Relationship Orientation and National Culture

- Consensual management style enhances relationship orientation between firms
  - Individualism
    - | Self-interest is associated with individualism
    - | Individual holding group values not associated with individualism
  - Individualism decreases relationship orientation

## Relationship Orientation and National Culture

### ■ Power-Distance

- Distribution of power within an organization
  - | Autocratic firms demonstrate high power distance, i.e., India.
  - | High Power Distance leads to clans and cliques.
- High power distance is associated with relationship orientation

## Relationship Orientation and National Culture

### ■ Masculinity

- | High masculinity is associated with achievement, tasks and performance
  - Need for achievement leads to opportunistic behavior
- | Low masculinity is associated with people, quality of life, and helping others
- High masculinity is associated with low relationship orientation

## Relationship Orientation and National Culture

- **Uncertainty Avoidance**
  - Uncertainty avoidance is associated with relationship orientation
- **Static-Dynamic Outlook**
  - Static orientation leads to operational relationships.
  - Dynamic outlook leads to strategic relationships.

## Summary

- Why Examine?
  - Paradigm Shift
  - Emphasis on Relationships
- Investigation of the antecedents of relationship orientation will help understand underlying marketing processes

## Where do we go from here?

- Solicit Feedback from Academics and Managers
- Understand Political Influences
- Test the model with
  - Across Industries
  - Across Nations