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Why does loyalty–cooperation behavior vary over buyer–seller relationship?

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ABSTRACT

This study argues that a favorable relationship (with trust and commitment) existing between two parties might not necessarily guarantee that subsequent transactions or partnerships can be stabilized. Each party in a relationship is required to conduct specific investments on behalf of the other to prevent discontinued trading or transaction relationships. Hence, this study combines relationship marketing and specific asset investment concepts within the transaction cost theory to investigate the relationship between inter-firm trust and commitment and loyalty and cooperation. By focusing on listed and over-the-counter-traded companies in Taiwan of industries that possess complete supply chains, this study collects 153 effective surveys for empirical analysis. The results show that commitment is more important than trust in a business-to-business (B2B) relationship for increasing the willingness of business customers and/or partners to participate in specific asset investments, thus increasing their loyalty and cooperation in the B2B relationship.

1. Introduction

In the business-to-business (B2B) context, how to inspire business customers or partners to continue transacting and collaborate is often the central focus of business strategies. Furthermore, an excellent cooperative relationship not only enhances communication quality and speed, which enables resource sharing for the parties that are conducting business together, but also creates sustainable competitive advantages (Brito, Brito, & Hashiba, 2014). From the perspective of the resource-based view (RBV), aside from the resource itself possessing valuable, rare, imperfectly imitable, and non-substitutable (VRIN) characteristics, the production of sustainable competitive advantage and isolating mechanisms are crucial for determining sustainability and maintainability (Mahoney & Pandian, 1992). For cooperative relations, the specificity of the relationship is a critical isolation mechanism (Shaalan, Reast, Johnson, & Tourky, 2013).

Because of the specificity qualities of relationships, competitors cannot obtain such relationships through market transactions (Miquel-Romero, Caplliure-Giner, & Adame-Sánchez, 2014). Similarly, the establishment of exclusive relationships has path-dependence characteristics that increase the imitation difficulties for competitors. However, not all business transactions between enterprises can obtain the value created by an exclusive relationship. A transaction or cooperation relationship, as such, might typically require specific asset investments that can easily cause hold-up risks and weaken a party's own negotiating powers. For example, Cui, Wen, Xu, and Qin (2013) find that transaction-specific investments enhance the damaging effect of managerial guanxi on new product innovativeness. Kang and Jindal (2015) declare that opportunism is recognized as a key factor that can affect the quality of relationship between buyers and sellers. However, there is a relative lack of research in the antecedents of opportunism; in this study, opportunism is considered as similar to specific asset investments.

Firms are under the premise that contracts are unable to fully eliminate potential opportunistic behaviors; they are often reluctant to engage in specific asset investments. Based on transaction cost economics (TCE) and existing relationship marketing literature, this study provides an explanation on how firms establish transaction loyalty and maintain cooperative relationships. To establish bilateral business dealings, firms must at least perceive that the benefits outweigh the losses (or costs) for both parties to mutually engage in a transaction or cooperative relationship (Zaheer & Venkatraman, 1995). The strategic idea in maintaining the relationship between firms is the investment of specific assets. The party that invests in a specific asset ensures the value of the specific asset, and does not easily abandon the relationship between the parties. This helps to maintain the willingness or behavior of business transactions or cooperation between firms (Brito et al., 2014; Sawhney & Zabin, 2002). As a result, the existence of a specific asset investment may perpetuate the parties' business transactions or their willingness for further cooperation (Chiou & Droge, 2006; Williamson, 1985).

Because investing in specific assets has hold-up risks, parties are strongly inclined to avoid investing specific assets (Cui et al., 2013).

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Hence, under the premise of a lack of effective safeguards, reducing the safeguards during business cooperation behaviors between firms and encouraging their willingness to engage in specific asset investments must be considered. In that case, the relationship-marketing perspective can provide a reasonable explanation because trust and commitment can in effect reduce transaction costs and maintain excellent relationships between parties (Cui et al., 2013; Jia & Wang, 2013; Shaalan et al., 2013). Across multiple studies, trust and commitment are consistently identified as focal constructs of relationship marketing. More broadly, researchers have coined the term relationship quality to describe business relationships. Although definitions vary slightly across study contexts, relationship quality is typically assessed through some combination of trust and commitment (Ulaga & Eggert, 2006). Strengthening the relationship quality between a firm and its client or partner effectively expands the subsequent willingness of the parties to engage in specific asset investments. The strategic activities among the firms to engage in relationship marketing must sufficiently offer the possibility of investing in specific assets to achieve continual follow-up transactions or cooperation relationships.

According to literature on relationship marketing, namely the trust–commitment theory (Morgan & Hunt, 1994), for firms to maintain long-term business relationships, the parties must possess elements of trust and commitment (Cui et al., 2013; Jia & Wang, 2013; Shaalan et al., 2013). As a result, trust and commitment have been viewed as the key elements to promote communication, share information, strengthen relationship quality, maintain business transactions, and increase the willingness for cooperation (Anderson & Narus, 1990; Miquel-Romero et al., 2014). However, in actuality, although trust and commitment exist between firms, their continued transaction or cooperative behaviors may cease at any time, or a party may turn to the competitors of the partnering party to engage in transactions or develop new partnerships. The above arguments put forth a question: besides trust and commitment, is specific asset investment also a critical factor that connects relationship quality and that maintains long-term business transaction or cooperative behaviors between firms?

This study combines the theoretical perspectives of relationship marketing and TCE to propose an integrated framework for solving this question, and to complete and extend the explanatory power of relationship marketing. More specifically, this paper attempts to answer the following research questions: how does trust and commitment affect the willingness of enterprises to engage in specific asset investments? And, how does a specific asset investment affect loyal and cooperative behaviors for continuous transaction among enterprises? This paper provides a review of the literature and presents research hypotheses in Section 2. Section 3 introduces the measurement and research methods. Section 4 provides the empirical findings. The final section offers concluding remarks.

2. Theoretical background and hypothesis development

2.1. Relationship quality as trust and commitment

Relationship quality is considered as a bundle of intangible values that augment products and services and result in an expected interchange between buyers and sellers. In the B2B field, trust and commitment are representatives of relationship quality (Jia & Wang, 2013; Lohtia, Bello, & Porter, 2009; Mukherjee & Nath, 2007; Rauyruen & Miller, 2007). For example, Morgan and Hunt (1994) explore relationship channels between firms, and use trust and commitment to represent relationship quality. Subsequent studies follows suit (Hadjikhani & Thilenius, 2009; Keh & Xie, 2009).

For long-term orientated partnerships, trust between firms must be established on the premise of mutual integrity in the transaction relationship without cheating or ulterior motives (Jia & Wang, 2013; Mukherjee & Nath, 2007). Wong and Sohal (2002) examine the retailer industry and find that regardless of whether corporate customers face salespersons or retailers, a good sense of trust positively affects the corporate customers' commitment to the salespersons or retailers. Keh and Xie (2009) investigate the service relationship of two B2B firms and confirm that trust has a positive influence on commitment. Accordingly, business customers form confidence benefits based on a trust that the operational integrity of the other party and traded products or services help reduce unnecessary intangible risks and transaction costs for business customers. Hence, business customers' attitudes tend to identify with future trading partnerships with firms.

H1. In a dyadic B2B relationship, a firm's trust is associated positively with a firm's commitment toward its partner.

2.2. Specific asset investment

Specific asset investment is a tangible or intangible asset invested by a buyer to establish transactional relations, and requires substantial switching costs when the trading target is changed. If a buyer has invested numerous specific assets in a certain trading relationship, the buyer's future inclinations to replace the seller are reduced because this change will transform those specific assets into sunk costs (Joshi & Stump, 1999; Williamson, 1985). Thus, the value of a specific asset cannot apply to trade relationships with other sellers.

The majority of specific assets in B2B-related studies have generally focused on the investment of physical and human assets (e.g., Heide, 1994; Kang, Mahoney, & Tan, 2009). Physical assets are the asset investments of a firm that can only be used for the production of a particular form of products or services during a partnership or transaction, such as specific equipment or operating systems for the production of specific merchandise. Human assets are the unique human resources invested by a firm for the other party, such as employees with cumulative exclusive knowledge of operating unique machine equipment or employees who are familiar with a specific trading system between two firms. The training skills received by employees must be specific knowledge accumulated through experience, limited to mutual transactions, and cannot be used for other purposes (Wang, He, & Mahoney, 2009).

An increase in switching costs is generally associated with specific asset investment. Accordingly, a relationship marketing perspective can inspire business customers to reduce their cognition of this cost sacrifice, and enhance their specific asset investment in the mutual trade relationship. Based on the social exchange theory, Morgan and Hunt (1994) indicate that trust is a type of willingness of manufacturers to believe or rely on a partner, and bear the risks of uncertainty in the future behavior of the other party. The trust relationship established during a trade transaction process can inspire a partner to believe that the manufacturer would not deceive or engage in opportunism behaviors, thereby reducing transaction risks. Therefore, the partner tends to establish its trust in manufacturers through business transactions, and subsequently, increase their possibility of specific asset investments. Another example is that when a business customer purchases a certain brand of an information system and has confidence in its quality, the customer would purchase the peripheral products or certain system-specific accessories for the system.

Kaufman, Wood, and Theyel (2000) indicate that a supplier's trust in a buyer is positively correlated to the degree of inclination for the supplier to invest in specific assets. Chiou, Wu, and Sung (2009) explore online auction websites and sellers and find that if an Internet platform (e.g., the YAHOO auction website) provides an excellent shopping system stability, operating interface, and E-service quality, corporate customers or sellers will have more confidence in this auction system platform, and will be more willing to present more products through this platform. As a result, those sellers' specific asset investments in this platform are increased and the inclination of shifting to other online auction platforms (e.g., eBay) is reduced.