The efficacy of relational governance and value-creating relational investments (VcRIs) in revenue-enhancement in downstream networks

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ABSTRACT

A conceptual model is presented which integrates and extends insights from relational exchange theory (RET) and value exchange model (VEM) to discuss the efficacy of relational governance and value-creating relational investments (VcRIs) to affect certain revenue-enhancing (relational) behaviours (ReBs). It is postulated that value-creating relational investments (VcRIs) made in a highly relational environment successful enough to engender high relationship quality (manifested through total partner satisfaction and inter-organizational trust) result in higher interorganizational commitment. This commitment ultimately translates into superior performance of the focal firm since partners exhibit revenue-enhancing behaviours (ReBs) like longevity of relationship, increased business share, positive word-of-mouth and reduced partial defection. It is further argued that the dynamics of model may vary across different phases of relationship life cycle (RLC) and are moderated by the nodes' relational polygamy.

KEY WORDS

Relational Governance, Relational Investments, Relationship quality, Strategic Networks

The success of an interfirm relationship, to a great extent, depends upon quality of the ecosystem in which transactions take place (Roehrich *et al.*, 2002; Yaqub, 2009b). An ideal ecosystem provides higher levels of social, economic and political egalitarianism. In such an environment, the participating nodes equitably benefit from their efforts made in arriving at win-win solutions for their economic and social problems, and ultimately end-up in attaining a state which leaves everyone better-off or at least as well off (in social, economic, and political sense) as they were before becoming a part of that structural arrangement. The main obstacle to achieving such an environment is opportunism, which has been identified by a number of scholars as the key antecedent to reduced cooperation (Gulati *et al.*, 1994; Kogut 1988, 91; Parkhe, 1993). In order to escape the problem of opportunism, the focal actors in such collaborative relationships eventually fall back upon efficient mechanisms to govern these structural arrangements. Consonant with Lieblien *et al.* (2002), who argued that firms' performance is contingent upon an alignment between governance decisions and degree of contractual hazards, the deployment of efficient and effective exchange governance has been revealed as an important determinant of superior exchange performance in strategic management literature (Lubell and Scholz, 2001; Malhotra and Murnighan, 2002; Tenbrunsel and Messick, 1999). Research in transaction cost economics (TCE), resource-based view (RBV), and the relational view of strategic networks have debated a lot on the efficacy of many formal and informal governance mechanisms like explicit contracts, transaction specific investments (TSIs), vertical integration, relational norms, or trust in order to effectively deal with opportunistic hazards like hold-up, 'tragedy of commons', and agency problems like adverse selection, moral hazards etc. in the context of strategic alliances, supplier-buyer partnerships, joint ventures, and virtual organizations. (Dwyer and Oh, 1988; Heide and John, 1992; Kaufman and Stern, 1988; Klien, 1996; Kogut, 1988; Macneil, 1980; Reuer and Arino, 2006; Williamson 1979, 85)

The governance structures can be seen more broadly as institutional modes (Williamson, 1979) that establish the context of exchange through a 'system of rules plus the instruments that serve to enforce these rules' (Furubotn and Richter, 1997). Dominated primarily by transaction cost economics (TCE) and relational exchange theory (RET), exchange governance literature has differentiated between two types of governance: transactional governance and relational governance. Both can be considered as the two ends of a continuum along which various other exchange governance configurations can be attained or described. In consonance with Williamson's (1985, p. 17) claim that: 'economic institutions of capitalism have the main purpose and effect of economizing on transaction costs', TCE centres on a reduction in the costs of minimizing exploitation risk that is magnified by the market structure surrounding the exchange relationship (Zajac and Olsen, 1993). Based on Williamson's (1991) discriminating alignment hypothesis, TCE suggests the focal firms to seek an efficient governance mechanism contingent upon transaction attributes such as asset specificity, environmental uncertainty, and transaction frequency in such a way that the transaction cost is minimized. It advances TSIs, explicit contracts, and vertical integration as key protective devices against the possible (opportunistic) exchanges hazards.

Although, TCE is a popular framework because of its clear delineation of governance structures, it has been widely criticized for its over-reliance on the assumption of opportunistic behaviour and an exclusive focus on efficiency and/or cost-minimization as the only means to profit-maximization (Zhang *et al.,* 2003). It overlooks strategic objectives like establishing commitment, improving coordination, enhancement of competitive position etc. Zajac and Olsen's (1993) proposed the transaction value analysis (TVA) as an extension to the transaction cost analysis (TCA) framework for the following reasons;

> Transaction cost perspective has two limitations, 1) a single party cost-minimization emphasis that neglects the interdependence between the exchange partners in the pursuit of joint value, and 2) an over emphasis on the structural features of inter-organizational exchange that neglects important process issues .... Cooperative relations are more a function of anticipated value gains, rather than anticipated losses due to the costs of constraining the opportunism.......... It is the opportunities for value maximization, rather than simply transaction cost minimization that drive the decision to continue or reconfigure a relationship........... The pursuits of joint value-maximization sometimes require the use of less efficient (from TCE perspective) governance structure, with the expectation that joint-value gains will outweigh the transaction cost efficiency losses. (pp. 134-40)

Relational exchange theory, on the other hand, considers relational norms as a distinct form of governance (the relational governance) that prescribes commitment and proscribes opportunism in exchange relationships (Joshi and Stump, 1999; Mcneil, 1980; Morgan and Hunt, 1994). Relational norms evolve over time as a function of previous transacting experiences of exchange partners (Granovetter, 1985; Gulati, 1995; Gulati and Nickerson, 2008; Ring and Van de Ven, 1992; Zaheer and Venkatraman, 1995). The extent of relational governance is gauged through strength of relational norms prevalent in exchange (Noordewier *et al.,* 1990) where strength refers to the rigour of norms-mix as well as the degree of 'normative compliance' exhibited by the actors in a structural arrangement. Low levels of rigour and compliance with relational norms can be equated with transactional or contractual governance (Ferguson *et al.,* 2005).

Inspired by the works of Mcneil in law during 1980s, a handful number of researchers in social-contracting theory have espoused relational norms as an alternative to formal ownership and/or contractual governance (Dyer and Singh, 1998; Granovetter, 1985; Gulati, 1995; Larson, 1992; Lusch and Brown, 1996; Poppo and Zenger, 2002). According to Heide and John (1992, p. 34), 'Relational norms promote subordination of individual interests by engendering a win-win exchange atmosphere; and as the partners will not like to jeopardize it so they will refrain from acting opportunistically'. Cochet *et al.* (2008, p. 68) concluded that 'relational forms of governance can play a prominent role in reducing the costs from exchange hazards thereby paving the way for successful decentralized structures, especially within networks of small business owners'.

In our opinion, prior research in TCE or RET is deficient on two accounts; 1) by elaborating upon the role of a number of protective devices against opportunism, they have concentrated more upon cost-minimization rather than on revenue-enhancement as a mean to profit-maximization, 2) even with respect to control mechanisms, the focus has been more upon antecedents rather than the consequences of such instruments (Anderson and Weitz, 1992; Lusch and Brown, 1996; Stump and Heide, 1996). In this research paper, based on a review of literature in strategic management, marketing, law, social psychology and economic sociology, we propose a model that addresses these deficiencies by elaborating upon the roles of various instruments espoused by TCE and RET (i.e. relational governance, and value-creating relational investments) as antecedents to superior (focal-firm) performance resulting from a variety of revenue-enhancing (rather than cost-reducing) relational outcomes. The model is conceptually grounded in theoretical frameworks like relational exchange theory (RET), value-exchange model (VEM), social contracting theory, transaction cost economics (TCE), agency theory, value-based management (VBM), and a real options view of strategic networks. The next section presents some research gaps that this framework intends to fill out.

Morgan and Hunt (1994) described the scope of focal firm exchanges relationships to include supplier partnerships, lateral partnerships, internal partnerships, and buyer partnerships. Buyer partnerships are further sub-divided into partnerships with 1) the ultimate customers, and 2) the intermediate customers. Even though there is proliferation of research on the first type, the latter has received only scarce attention in literature so far. The model introduced here makes up for this deficiency. Even though our framework has, primarily, been intended at explaining dynamics of the supplier-intermediate buyer dyad exchanges, however, with little adaptation it can be generalized not only across upstream partnerships but also across other (more) elaborate forms of strategic networks like virtual organizations, strategic alliances etc.

Based on the means-end principle, efficient exchange governance can be regarded only as means to an end, which in our case is achieving superior performance. Profitability is perhaps the most pronounced indicator of superior performance in strategic management literature. Since profit depends on revenues and costs, there can be three possible avenues to profit-maximization: 1) lowering costs, 2) enhancing revenues, or 3) a combination of both. Whereas there is plethora of research (in almost all perspectives of strategic networks) geared to explain dynamics of profit-maximization through the first avenue, there has been scarcity of efforts directed at explaining the same from a revenue-enhancement perspective. The model presented here bridges this research gap. It takes the joint effect of relational governance and value-creating relational investments (VcRIs) as means, relationship quality and inter-organizational commitment as mediating constructs, and certain revenue-enhancing benefits as the (relational) outcomes. Moreover, by taking into account the complementary effect of relational governance and VcRIs, the model also contributes to the complimentarity research (Poppo and Zenger, 2002) in exchange governance.

Another gap bridged through this framework has been pointed out by Fink *et al.* (2007: p. 31) as: 'prior research has mostly focused on improving customer performance with limited attention to supplier performance'. Our framework explicitly takes a supplier perspective and considers the benefits to the focal firm which accrue as a consequence of complying with relational norms and making value-creating relational investments (VcRI) in the partnering nodes. As such, this framework provides one possibility to address the managerial problem posited by Fink *et al.* (2007: p. 38) i.e. 'how should suppliers manage their relationships with the stakeholders to achieve closer cooperation and a reciprocal improvement in their performance?'

In an empirical study involving 206 purchasers of market research information, Ivens (2004) found the relational behaviours such as role integrity, mutuality, flexibility, solidarity, and long-term-orientation to be positively associated with the three determinants (i.e. satisfaction, trust, and commitment) of relationship quality as perceived by the customer. One of the limitations of this study in his words has been:

> "From a supplier's vantage point, relationship quality constitutes an important objective. However, it is unclear to what extant it is directly linked to economic success (contribution margins, turnover, penetration rates etc.). Future research might examine this link". Ivens (2004: p. 307)

The model addresses this limitation by elaborating upon the consequences for a supplier when it manages to secure higher perception of relationship quality and commitment among the participating nodes.

Finally, following Wilson (1995) who reveals that various aspects of exchange may have systematically differing effects over time, this model takes into account the moderating effect of relationship life cycle (RLC). This can be regarded as yet another unique feature of this framework as previous research has not undertaken many efforts to explain the time-dependent effects of the governance instruments on critical performance outcomes.

Before describing model in detail, we will discuss its conceptual foundation in the first section of this paper. Section two presents a detailed discussion on the nature, scope and interaction of all constructs of the structural model. In the third section, beyond summarizing the discussion, we have highlighted certain avenues for future research.

CONCEPTUAL BACKGROUND

Granovetter (1992) argued that economic institutions are socially constructed i.e. they result from actions taken by socially situated individuals embedded in networks of personal relations with economic as well as non-economic goals like sociability, approval, status, power etc.. Similarly, from an in-depth case study, Larson (1992) concluded that economic transactions cannot be separated from the social context in which they take place. As such, to view firms as atomistic entities competing for profits against each other in an impersonal marketplace becomes increasingly inadequate (Gulati *et al.*, 2000). Social institutions, norms and interactions improve and shape individual action (Camic, 1979). In Granovetter's (1992) opinion, economic action and outcomes (like all social actions and outcomes) are affected by 1) actors' history of dyadic relations (the relational-embeddedness argument), and 2) structure of the actors' overall network of relations (the structural-embeddedness argument). Whereas the standard economic analysis neglects the identity and past relations of individual transactors, the central theme in economic sociology is the necessity of trust and trustworthy behaviour (as a function of past interactions as well as the future expectations) for even the normal functioning (let alone the superior performance) of economic action and institutions (Granovetter, 1992).

Consonant with the economic-sociological account, Achrol (1991), in early 90s, forecasted the rise of 'true marketing-companies' within networks of functionally specialized organizations whose norm-driven interrelationships would be held together and coordinated by 'market-driven focal organizations' by means of norms of sharing, and commitment based on trust. This conceptualization reveals two important facets along which research in the relational exchange theory (RET) progressed in subsequent years. These two facets include;

1. Relationalism which refers to the degree of relational-orientation prevalent in the exchange environment and is measured on a (Discrete – Relational) continuum based on relational norms' mix
2. Commitment-Trust Theory (CTT) which reveals the mediating role of trust and commitment between the antecedents and consequences of successful relationships

By elaborating upon the central tenets of relationalism and the commitment-trust theory, relational exchange theory (RET) explains the essence of relational governance as being an ‘impetus to successful exchange relationships’. Relational governance envisages the creation of a ‘relational environment’ by putting in place a social contract based on a multitude of relationship-preserving norms (Blios and Ivens, 2006). The criterion for the successful culmination of such an environment is its ability to promote trust and commitment among the participating nodes (Ivens, 2004). Empirical research has shown relational governance to be positively associated with superior performance in a wide array of B2B contexts while employing trust and commitment as key mediating variables (Bello *et al.,* 2003; Ferguson *et al.,* 2005; Mohr and Spekman, 1994; Pauline *et al.,* 1997). Commitment-trust theory (CTT), quite exhaustively, explains the mediating role of these constructs.

We have integrated relational exchange theory (RET) with value-exchange model (VEM) to explain the interactive effect of relational governance and value-creating relational investments (VcRIs) on certain (revenue-enhancing) relational outcomes in inter-firm relationships. The bases for choosing RET and VEM has been the exhaustiveness with which they discuss relational governance and relational investments respectively. We will now briefly discuss these reference frameworks.

Relational Exchange Theory (RET)

Whereas the theory of economic exchange puts economic transactions at the centre, the theory of relational exchange considers them of secondary importance and only as a consequence of strategic (long-term) relationships. If the nodes continuously perceive their relationship with a focal actor to be of sufficiently high quality, the transactions automatically follow. Following the ‘principle of generalized reciprocity’ developed in social-exchange theory the nodes reciprocate relational behaviours of the focal actor. This behaviour ultimately results in a host of desirable relational outcomes for the focal firm (Ring and Van de Ven, 1992). Since perceptions of high relationship quality emerge from experiencing higher satisfaction and trustworthiness in exchange episodes with the focal firm (Crossby *et al.,* 1990), RET suggests that focal firms should recognize the development and promotion of trust-based commitment as the key strategic objective. The likelihood of successful accomplishment of this objective is maximized when the focal firm exhibits significant conformance to just the “right” kind of relational norms/standards for value-maximizing behaviours (Joshi and Stump, 1999). Relationalism, which exhaustively covers the nature, scope and efficacy of such (relational) norms, and CTT, which reveals how trust and commitment mediate between these (relational) norms and the desirable relational outcomes, constitute agenda for the discussion to follow.

Relationalism (Relational Governance)

Explicit contracts are the most pronounced protective devices against possible opportunistic exploitation in transaction cost economics. By providing formal rules and procedures to govern the relationship, these contracts serve as deterrence against possible opportunistic exploitation since a violation of contracts may lead to adverse economic and legal consequences besides the loss of reputation. Especially when the likelihood of potential value loss increases due to investments in specific assets, firms find it beneficial to negotiate more complex contracts which serve not only as an insurance against breach and termination but also as an instrument with which such consequences or threats will be handled (Dyer, 1997; Poppo and Zenger, 2002). Even though this complexity may increase the bureaucratization in economic life (Lange 1938), signal mistrust (Jap and Ganesan, 2000; Gulati and Nickerson, 2008), and increase the costs to negotiate, monitor, and enforce such contracts, these are still considered quite efficient to reduce the costs and performance losses caused by exchange hazards like hold-up, moral hazards, and resource appropriation (Macneil, 1978; Heide, 1994). Research in marketing channels by Young and Wilkinson (1989), however, concluded that the disadvantages due to inflexibility and signalling mistrust outweigh the advantages offered by specific guidelines and specification of sanctions against an opportunistic behaviour.

As an alternative, relational governance or relationalism conceives of exchange relationships functioning within a context of socialized contractual norms of behaviour (Macneil, 1978; Kaufman and Stern, 1988). Norms are expectations about behaviour that are partially shared by a group of decision makers and directed toward collective goals (Gibbs, 1981; Macneil, 1980; Moch and Seashore, 1981; Thibaut and Kelly, 1959). Norms that govern exchange behaviour in discrete transactions are different from those in relational exchange (Kaufman and Stern, 1988). Norms associated with discrete exchanges are more likely to create an environment where, while ruthless opportunistic behaviour may not be tolerated, it is assumed that an exchange partner will give his own interests priority over those of the other party or even over cooperative gains. With discrete norms, partners adjust terms of trade through bargaining before entering into an exchange arrangement (Mcneil 1978, 1980). On the contrary, relational norms support cooperative adaptation by stressing behaviours that will preserve the relationship even when pure self-interest might suggest otherwise (Mcneil, 1980). In Blios and Ivens's (2006: p. 353) opinion, 'norms associated with relational exchanges are those that might be expected to enable trust and commitment to develop'.

Commitment-Trust Theory

Morgan and Hunt's (1994) commitment-trust theory, also known as the key mediating variable (KMV**)** model, reveals the mediating role of trust and commitment between the antecedents and consequences of successful relationships. It focuses on one party in the relational exchange and that party's trust and commitment. Trust refers to the confidence that exchange partners have for each other's reliability and integrity (Zhang *et al*., 2003), whereas commitment refers to partners' desire to continue a valued relationship (Moorman *et al.*, 1992) and a willingness to make short-term sacrifices to preserve that relationship (Anderson and Weitz, 1992). The mediating role of trust and commitment has been corroborated by Friman *et al.* (2002) in B2B context, Keith *et al.* (2004) in service industry, Martin *et al.* (2004) in customer relationship management (CRM) context, Styles and Hersch (2005) in international joint ventures, Macmillan *et al.* (2005) in non-profit organizations, Tokman *et al.* (2006) in joint ventures, Mukherjee and Nath (2007) in online retailing, and Yang *et al.* (2008) in supply chain alliances. The model presented in this paper explains how these relational constructs mediate between relational governance and VcRIs as antecedents, and certain revenue-enhancing (relational) behaviours (ReBs) as consequences in context of supplier-intermediate buyer dyadic exchanges.

Value-Exchange Model (VEM)

Advanced originally in context of CRM by Grant and Schlesinger (1995), the value-exchange model (VEM) centers on second of the following three ways to maximize profits from customer relationships;

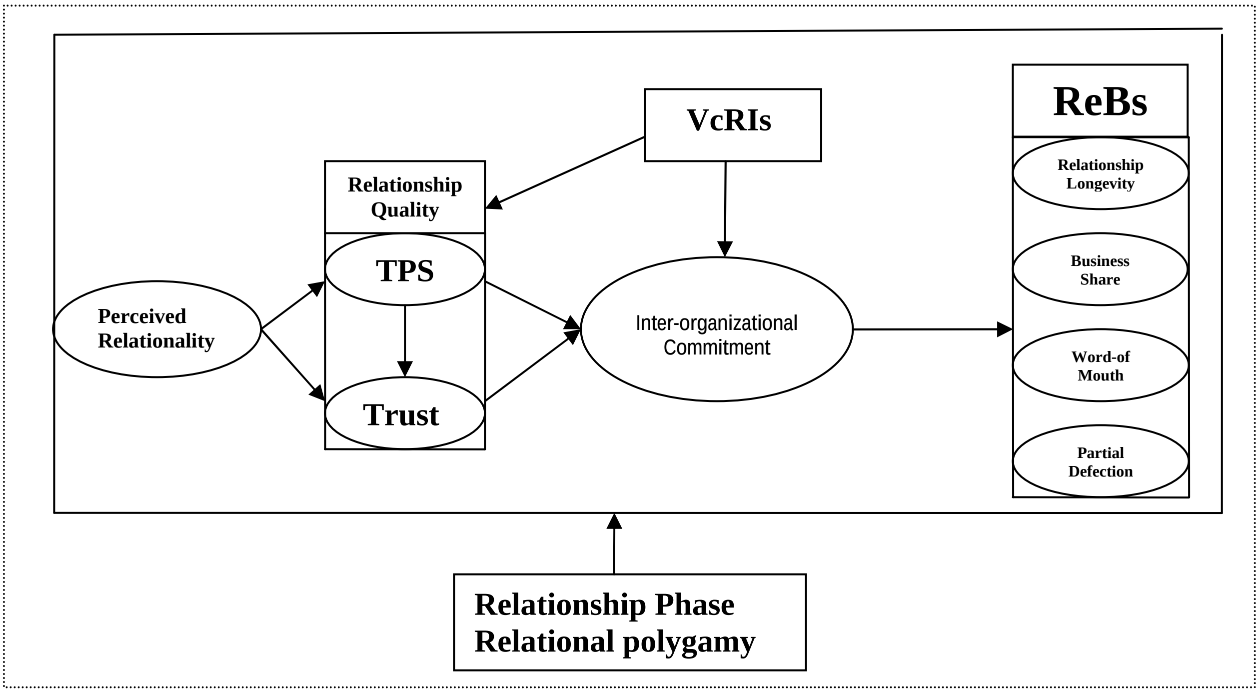
1. by acquiring new customers
2. by enhancing the profitability of existing customers
3. by extending the duration of customer relationships

Grant and Schlesinger (1995) suggest that reaping the full profit potential of each customer relationship should be the fundamental goal of every business. As the means to achieve this end, they prescribe to follow a value-based segmentation and positioning strategy, commit value-based relational investments, align business processes with customer needs, and foster an organization-wide value-orientation. Value exchange in VEM is regarded as the relationship between a company's financial investment in a customer relationship and the return that the customer generates in response to that investment.

The Value-exchange model, in principle, bases itself upon the logic of leverage rather than the logic of opportunity. When applied to the focal-node dyadic relationships, it suggests the focal actors to concentrate more on the high value nodes in their relational portfolios when making relational investments. The leverage potential can serve as a criterion to differentiate between the high value nodes from the low and/or medium value nodes. Getting VEM integrated with RET, we postulate that (value-gap based) value-creating relational investments (VcRIs) made in a highly relational transaction climate induce inter-organizational commitment in nodes that ultimately adds to the focal actors' bottom-line by leveraging the revenue-potential of these nodes. The nature, rationale, and scope of such investments and their consequences are discussed in the following sections.

THE CONCEPTUAL MODEL

Figure 1



TPS	Total partner satisfaction
VcRIs	Value-creating relational investments
ReBs	Revenue-enhancing behaviours

Figure 1 portrays the conceptual model that describes the joint effect of relational governance and value-creating relational investments (VcRI) in ensuring superior focal firm performance through inducing certain revenue-enhancing (relational) behaviours in the partnering nodes. In the rest of this paper, we will discuss the nature, scope and roles of all constructs in this model.

Perceived Relationality (Relational Governance)

An exchange’s degree of stability, to a substantial extent, is determined by conductivity of the overall atmosphere of relationship (Roehrich *et al.,* 2002) which, sometimes, is distinct from formal governance (Humphrey and Ashforth, 2000). The key to the development of such an atmosphere is to put in place (as governance mechanism) a relational contract based on an adaptive mix of satisfaction, trust and commitment preserving relational norms. These norms constitute the expectations shared by partners about what constitutes the “right” behaviour within their relationship (Heide and John, 1992; Morgan and Hunt, 1994). An intensification of norms conforms to more pronounced content in a business liaison (Mcneil, 1980). Cochet *et al.* (2008) assert that relational governance becomes more intense when the specific norms considered are perceived by a node to be increasingly relevant for his behaviour.

In an operational sense, relational governance can be considered a single higher order construct in a second order factor model where the first order is the set of highly correlated (relational) norms (Noordewier *et al.,* 1990). Several such norms have been revealed in the relationalism literature. For example, Mcneil (1983) argued that various levels of ‘relationality’ can be tracked or attained along a discrete-relational continuum, where each level characterises a different mix of relational norms like role integrity, contractual solidarity, harmonisation of relational conflict, supracontractual relations, and proprietary of means. Kaufman and Stern (1988) reduced Mcneil’s list to three norms i.e. solidarity, role integrity, and mutuality. Later studies added a number of other relational norms such as information exchange, participation, fairness, flexibility (Blios and Ivens, 2006; Heide and John, 1992; Jap and Ganesan, 2000) to this list and revealed them to be positively associated with superior performance in a variety of business contexts (Dwyer and Oh, 1988; Kaufman and Stern, 1988; Macneil, 1980). Bercovitz *et al.,* (2006) concluded that an adequate compliance to these norms leads to benefits like increased within-relationship adaptability, smoother coordination, reduced opportunism, and greater effort by transacting parties. The context of exchange, however, influences the relative importance of each norm in ensuring the desired performance levels (Pauline *et al.*, 1999).

As Kaufman (1987) differentiates between value-creating and value-claiming types of relational norms, it is the former that matter the most in breeding satisfaction, inter-organizational trust and inter-organizational commitment in the exchange relationships (Ivens, 2004). If the nodes perceive higher normative compliance (referred here as high relationality) in the focal firm behaviour, it induces in them a belief for a higher efficacy of the partnership in achieving the desired outcomes (Ferguson *et al.*, 2005). Consequently, such a belief fosters higher satisfaction and inter-organizational trust in the nodes which eventually result in an increased (affective) inter-organizational commitment. Moreover, as relational norms evolve, they get internalized by the exchange partners (Kelman, 1958) and hence come to serve as moral controls that promote pro-relationship behaviours like (normative) commitment, and discourage detrimental unilateral behaviours like opportunism (Joshi and Stump, 1999).

A number of studies such as Artz and Brush (2000); Aulakh *et al* (1996); Ivens (2004); Joshi and Stump (1999); Kaufman and Stern (1988); Pilling *et al.* (1994); Skarmeas and Katsikeas (2001); Vazquez *et al.* (2007); and Zhang *et al.* (2003) have, in a variety of business contexts shown a positive association between adherence to relational norms and firms' superior performance while employing relationship quality or its individual determinants (satisfaction and inter-organizational trust) as mediating constructs. However, it is important to note that the perceived level of relational norms can deviate from the expected level as the development of such norms is the result of complex social processes that management cannot directly and fully control. From a survey of 182 R&D collaborative alliances, Bercovitz *et al.* (2006: p. 724) concluded: 'exchange performance suffers when the realized level of cooperative exchange norms falls below the expected level, but overshooting expectations lays a critical groundwork for repeat transactions'.

Firms can build relational assets that competitors have difficulty in imitating (Barney 1991; Dyer, 1996). While management can put directives and incentives to develop cooperative norms, these mainly emerge from complex social processes which the management cannot fully control (Bercovitz *et al.*, 2006). Even though, in early relationships, the level of expected relational norms in an exchange can be the result of a calculative process facilitated by transaction attributes like joint transaction-specific investments and observability (Bercovitz *et al.*, 2006), these norms, at large, evolve over time as a consequence of partners' transacting experiences (Granovetter, 1985; Gulati, 1995; Gulati and Nickerson, 2008; Ring and Van de Ven, 1992; Zaheer and Venkatraman, 1995). Relational norms mature through time and require substantial up-front investment of time, money and personnel from exchange partners (Frazier *et al*., 1988). Rather than following a 'more-is-better' approach, it is advisable to follow the standard economic logic for achieving adequate levels of 'relationality' as the benefits from relational behaviours accrue at diminishing rate while the cost of ensuring such behaviours accrues at increasing rates (Bercovitz *et al.*, 2006). Maintenance of these fragile constructs is still more problematic and can best be achieved through a reciprocity-based socialization process (Crosby *et al.*, 1990; Johnston and Lawrance, 1988; Gundlach and Achrol, 1993). Putting in nutshell, if an adequate compliance to the relationship-preserving norms is reflected in partners' behaviours, it not only reduces transaction cost by substituting more elaborate governance, but also contributes to revenues by promoting trust-based commitment.

Relationship Quality

Relationship quality refers to the appropriateness of a relationship to fulfil needs of an actor associated with that relationship (Henning-Thurau and Klee, 1997). The relationship quality model basically assumes that an actor's perception of the appropriateness of a relationship influences his decision to stay in or exit from that relationship. Quite consistent with the pioneers Crossby *et al.* (1990), majority of the researchers have considered relationship quality as a two-dimensional higher order construct containing the two dimensions of satisfaction and trust. Recently, in an empirical study conducted among purchasers of market research information, Ivens (2004) found evidence that supplier behaviours such as role-integrity, flexibility, mutuality, solidarity, and long-term orientation have a positive impact on different dimensions of customer-perceived relationship quality. He included commitment as the third dimension of relationship quality. Earlier, Henning-Thurau *et al*. (2002) in a review of relationship quality literature also concluded that commitment should be designated as another dimension of relationship quality. However, a significant body of empirical research has espoused trust and satisfaction as important drivers of commitment (Macintosh and Lockshin, 1997; Morgan and Hunt, 1994). Geyskens *et al.* (1999) further substantiate the argument by concluding that over the time, satisfaction develops first, trust develops in the medium term, and commitment emerges only in the long-term as a result of the two. Therefore, we have incorporated a bi-dimensional view of relationship quality in our model i.e. satisfaction and trust are the two dimensions of relationship quality while commitment has been treated as its natural consequence. The next section discusses in detail the nature, scope and interaction among these relational constructs.

Total Partner Satisfaction (TPS)

Satisfaction is defined as a positive affective state resulting from the appraisal of all aspects of a firm's working relationship with another firm (Frazier *et al.*, 1989; Gaski and Nevin, 1985). Schul *et al.*, (1985) argued that satisfaction affects partner's morale and the resulting incentive to participate in collective activities. Hunt and Nevin, (1979) concluded that satisfied channel members are less prone to exit the channel, less inclined to file lawsuits against other channel members, and are not keen to seek protective legislation.

In a focal-node context, satisfaction can be seen as the degree to which a focal firm rises up to or exceeds expectations of the nodes in relation to their motives to collaborate. Interfirm relationships are formed with expectations of success and complementary benefits. These benefits fuel the future of relationship and give the parties an incentive to stick together (Anderson and Jap, 2005). As the scope of such benefits can be quite wide, including economic, social, informational, political and other dimensions, satisfaction is a multi-faceted construct. Geyskens and Steenkamp (2000) have interpreted satisfaction in B2B relationships as a two dimensional construct consisting of economic satisfaction and social satisfaction. Economic satisfaction refers to the evaluation of economic outcomes that flow from the relationship whereas social satisfaction refers to the psychological aspects of the relationship. It consists of an exchange partners' evaluation of the personal contacts and interactions with the other partner. In an empirical study, Ivens (2004) found certain relational behaviours like role integrity, flexibility, and mutuality to be positively associated with both economic and social satisfaction in supplier-buyer relationships. Geyskens *et al.* (1999) demonstrated that satisfaction is both conceptually and empirically separable from related constructs like trust and commitment. However, they concluded that 'the distinction between satisfaction and trust is less pronounced when satisfaction is operationalized in non-economic as opposed to economic terms' (p. 234).

Interfirm relationships evolve in successive collaboration cycles through a process of negotiations-commitment-execution contingent upon partners' evaluations of complementarity of contributions, benefits and changed priorities in strategic interests across different stages of network life cycle (Ring and Van de Van, 1994). Each stage of cooperation provides a receptive context for the initiation and evolution of economic and social exchanges in the subsequent stages (Park and Ungson, 2000). Therefore, single-shot satisfaction, i.e. satisfaction in a single instance or cooperation cycle becomes insufficient as it fails to engender process-based trust. Totality needs to be ensured which, in this sense, refers to the 1) satisfaction in all episodes of economic and social exchange, and 2) satisfaction experienced in all constituents of the offer i.e. product/service, personnel, process etc.

Hagedoorn *et al.* (1998) found that negative reactions are more likely when outcomes and processes are considered unfair in workplace. Similarly, Porter and Fuller (1985) argued that an alliance is stable for as long as contributions and rewards by each partner are perceived to be balanced and equitable. Asymmetry in resource contributions provokes the (resource) dominant partners to expect and appropriate greater payoffs. This asymmetric resource-dependence creates power asymmetry. Consequently, the powerful players who are not inequity-averse sometimes manage to appropriate larger share of the pie beyond their equitable share leaving a state of discomfort in the power recessive players. If the incentive structure fails to ensure distributive justice, such players are not only negatively reinforced to contribute or even participate in the successive cooperation cycles, but also begin to distrust the partner for such a display of opportunism. Samouel (2007) concluded that establishing enduring relationships and supportive norms can serve as an effective protective device against deviant and opportunistic behaviour in bilateral exchange featuring asymmetry both in economic and relational power.

Inter-organizational Trust

Whereas trust has been treated as redundant or even misleading in transaction cost economics (Nooteboom *et al.*, 1997), the central tenant of economic sociology is the necessity of trust and trustworthy behaviour for the normal functioning of economic action and institutions (Granovetter, 1992). Actors behave in trustworthy ways because: 1) they think it is in their best social and economic self-interest (the under-socialized account), 2) they think it to be morally right, whatever the incentives (the over-socialized account), and/or 3) they aspire to rise up to the regularised expectations that characterise their relationships with their partner. As per the relational-embeddedness argument, an actor A may deal fairly with B not because it is in his best interest, or because he has assimilated B's interest to his own (the approach of interdependent utility functions), but because they have been close for so long that they expect this of each other, and A will be mortified and distressed to having cheated on B even if B did not find out (Granovetter, 1992).

Trust is a multifaceted construct that can been viewed from many different perspectives. Trust, generally, has been defined in one of the two possible ways; 1) as a confident belief or expectation (i.e. a trusting belief), and/or 2) as a willingness or intention to depend on the trustee (i.e. a trusting intention) (Dicky *et al.,* 2007). Trusting beliefs involve perceptions that the other party will act in ways favourable to the trustor (Boone and Holmes, 1991), or that the other party has ethical, efficacious, or favourable characteristics (Hagen and Choe, 1998). Some of these beliefs, as revealed in previous research, include: continuity of natural order, competence, and fiduciarity (Barbar, 1983); dependability (Kumar, 1996); ability, benevolence, and integrity (Mayer *et al.,* 1995); competence, judgement, and openness (Mishra, 1996); reliability, and predictability (Rempel *et al.*, 1985). By contrast, trusting intention involves a willingness to become vulnerable to the other or willingness or intention to depend on the other (Baier, 1986; Currall and Judge, 1995) based on the expectation that the other will not exploit this vulnerability (Mayer *et al.,* 1995). Some evidence that trusting beliefs predict trusting intention has been documented in studies on trust in leaders (Mayer and Davis, 1999).

Organizational theorists tend to think about trust at either the micro level (i.e. interpersonal) or the meso level (i.e. inter-organizational) (Hosmer, 1995). In Mouzas *et al.* (2007) opinion, trust as a concept, appears to be more applicable at the level of inter-personal relationships than the inter-organizational relationships. Zaheer *et al.* (1998) has described these two types/levels of trust as related but distinct constructs which play different roles in affecting B2B exchange performance. Based on the premise that it is individuals as members of organizations rather than the organizations themselves who trust, they have defined interorganizational trust as the extent of trust placed in a focal organization by members of the partner organization.

From a relational perspective interorganizational trust has been defined as the expectation that an actor 1) can be relied on to fulfil obligations (Anderson and Weitz, 1989), 2) will behave in a predictable manner, and 3) will act and negotiate fairly when the possibility for opportunism is present (Anderson and Narus, 1990, Bromiley and Cummings, 1995). Whereas communication and fairness early in the relationship are keys for the development of trust (Ferguson *et al.,* 2005), relational trust, at large, emerges out of the quality of experience or interaction with a particular exchange partner (Ring and Van de Ven, 1992). More specifically, relational trust emerges from mutually beneficent successive collaboration cycles among the participating nodes. By transacting repeatedly, partners become familiar with one another and develop social attachments (Gulati, 1995; Ring and Van de Ven, 1994) which foster stronger forms of trust like process-based trust and familiarity-based trust as a consequence of opportunities to share information and learn about each partner's proclivities toward trustworthy behaviour (Gulati, 1995; 1998). However, on a futuristic account, Luhmann (1979) argued that trust stems from a growing confidence in a firm's expectations of the future. Granovetter (1992; p. 42) also asserted that 'the fact of a continuing relation with certain partners offers incentives to be trustworthy so as to ensure future transactions. But continuing economic relations become overlaid with social content that, apart from economic self-interest, carries strong expectations of trust and abstention from opportunism'. Duncan and Weiss (1979) and Fiol and Lyles (1985), however, asserted that it is the history of past transactions that sets precedence for future exchanges and provides information thorough which the focal firms can establish expectations about the future behaviour of its partner(s). Schelling (1960, p. 134) also provides a rational account by positing that, 'trust is often achieved simply by the continuity of the relation between the parties and the recognition by each other that what he might gain by cheating in a given instance is outweighed by the value of the tradition of trust that makes possible a long sequence of future agreement'. However, for the partners new to the structural arrangement, trust assumes the form of characteristics-based trust with reputation, size, economic power etc. being the focal characteristics.

Aulakh *et al.* (1996) proposed that trust mediates the relationship between relational norms such as continuity, flexibility and information exchange, and export partnership performance. Zhang *et al.* (2003) conclude that incorporating bilateral solidarity, maintaining flexibility, and fostering information exchange with channel partners have positive effects on trust in the international channel setting. Similarly, Ivens (2004) has reported a positive association between relational norms such as role integrity and mutuality, and the interfirm trust. Mutuality refers to an attitude that the realization of one's own success depends on partner's overall success (Dant and Schul, 1992). It prevents the focal actors to optimize at the cost of the nodes, assures distributive justice, and consequently breeds trust through increased fiducairity. Role integrity implies the focal actors to dispel their roles, rights and obligations in consonance with their charter of engagement with the nodes. A conformance here infuses trust through increased fiability i.e. enhanced total satisfaction, and predictability.

Trust in interfirm exchange is beneficial and can be a source of competitive advantage (Barney and Hansen 1994). It is central to almost every relationship (Mishra, 1996), and becomes particularly important in situations of risk, uncertainty or high likelihood of opportunism (Cummings and Bromiley, 1996). In organizational economics literature, trust has been theorized to reduce cost associated with opportunistic hazards, ultimately resulting in more efficient governance (Bromiley and Cummings, 1995; Poppo *et al.*, 2008). The choice of trusting behaviours reduces cost and thus results in transaction efficiency (Ganesan, 1994; Volery and Mensik, 1998). Where there is trust, appropriation concerns are likely to be mitigated and organizations may not choose to rely on detailed contracts that are costly to write, monitor, and enforce (Gulati, 1995). Finally, Hwang (2006) concluded that trust and commitment attenuate the fear of exploitation due to higher TSIs.

For relational exchange, trust is so crucial that Spekman (1988) postulated it to be the 'cornerstone of strategic partnerships'. The 'Principle of generalized reciprocity' in social exchange theory holds that 'mistrust breeds mistrust' and as such not only decreases commitment in the relationship but also shifts the transaction to one of more short-term exchanges (McDonald, 1981). More recently, Croonen (2008; p. 201) also concluded that 'franchisees' perceptions of distrust and unfairness result in destructive responses like aggressive voice, neglect, or even exit, towards the franchisor'. Achrol (1991) has posited relational trust to be the major determinant of relationship commitment. Because commitment entails vulnerability especially when perceived risk is high (as is the case in volatile environments), parties in an exchange relationship seek only trustworthy partners (Morgan and Hunt, 1994). As trust constitutes the basis of socially embedded exchanges (Granovetter, 1985; Uzzi, 1997) and relational patterns of governance (Macneil, 1978), the partners in an interfirm relationship need to continuously earn and re-earn mutual trust so as to fuel the longevity of such relationships.

Inter-organizational Commitment

Commitment is the focal construct in our model as it signifies the highest form of relational bonding between firms (Dwyer *et al.*, 1987) and contributes to the longevity of relationships (Gundlach *et al.*, 1995). Defined as an attitude that reflects the desire to continue a valued relationship (Moorman *et al.*, 1992) and as willingness to make short-term sacrifices to maintain that relationship (Anderson and Weitz, 1992), commitment has been examined quite extensively in consumer contexts (Sharma and Patterson, 2000; Verhoef *et al.*, 2002), work-place contexts (Luthans, 2006; Allen and Meyer, 1990), and business-to business contexts (Gruen *et al*., 2000; Morgan and Hunt, 1994). Extending Luthans's (2006) view of workplace commitment to the relational context, we define commitment as a predisposition that comprises of an actor's willingness to 1) stay long in the relationship, 2) accept the norms and values that govern the relationship, and 3) contribute maximally for the welfare of the relationship.

Whereas organizational researchers like Morgan and Hunt (1994), Garbarino and Johnson (1999) viewed commitment as a unidimensional construct, a vast majority of researchers has regarded it as a multidimensional construct in a variety of business contexts (Allen and Meyer, 1990, Cullen *et al.*, 1995; Geyskens *et al*,. 1996; Gundlach *et al.*, 1995; Kumar *et al.*, 1994;). Whereas Geyskens *et al.*, (1996) differentiated between affective commitment and calculative commitment; Allen and Meyer (1990) have revealed three dimensions of commitment which include: continuance commitment (cost-based attachment), affective commitment (desire-based attachment) and normative commitment (obligation-based attachment). Considerable support has been established for these three dimensions of commitment and that these dimensions were appropriate regardless of target of commitment (Bansal *et al.*, 2004; Herscovitch and Meyer, 2002). In our model, we have extended the Allen and Meyer's (1990) multidimensional view of workplace commitment to the interorganizational context, and have theorized that relational norms and value-creating relational investments (VcRIs) induce all three types of commitment.

Social scientists across a wide range of literature have examined the effects of commitment on effectiveness or performance related outcomes (Jap, 2001; Sarkar *et al.*, 2001; Skarmeas *et al.*, 2002; Voss *et al*, 2006). Commitment has been shown to be positively associated with cooperation (Morgan and Hunt, 1994), relationship longevity (Ryu *et al.*, 2007), and satisfaction (Mohr and Spekman, 1994) in structural arrangements like joint ventures, strategic alliances, buyer-supplier partnerships etc. Axelrod (1984) noted that long-term commitments can generate a state of cooperation between partners due to the 'shadow of the future'. With each partner anticipating doing business with the other well into the future, cooperation between them is more likely. Game-theorists also suggest that committed relationships establish an expectation of repeated exchange, which discourages opportunistic behavior whenever expected payoffs from continued exchange surpass short-term gains from defection (Abreu, 1988; Axelrod, 1984; Taylor, 1987). Rather then this quid-pro-quo face of commitment, the relational governance seeks to foster a trust-inspired commitment. Ryu *et al.*, (2007), in context of manufacturer-supplier relationship, have revealed relational norms and satisfaction with supplier performance as the antecedents of trust which has been described as an essential precursor of the manufacturer's long-term commitment. Moreover, considerable conceptual and empirical evidence in marketing channels research concludes that commitment is the ultimate outcome with causal precedence of satisfaction and trust (Anderson and Weitz, 1992; Hess and Story, 2005; Morgan and Hunt, 1994).

Value-creating Relational Investments (VcRIs)

There are two approaches to increase relational revenues;

Static; following logic of opportunism, the focal firm sets out to appropriate a bigger slice of the pizza i.e. increase her share in the surplus generated by the relationship

Dynamic; following logic of cooperation, the focal firm together with the nodes sets out to increase size of the pizza which will eventually result in increased economic value for all the partners

As it leads to a win-win situation through joint value-creation, we would favour the dynamic approach over the former. Hwang (2006) argued that greater productivity gains from cooperation are possible only when firms are willing to commit specific investments to a relationship and combine resources in unique ways. Relational investments have also been emphasized by Grant and Schlesinger's (1995), in their value-exchange model (VEM), as an important instrument to harness customers' fullest profit potential. Consequently, we have postulated value-creating relational investments (VcRIs) as an important antecedent to increased nodes' commitment. VcRIs are a behavioural manifestation of value-creating relational norms and create (economic) satisfaction and (calculative) trust that further strengthen (continuance) commitment. As an example for VcRIs, consider the context of a pharmaceutical company-clinic dyadic relationship context, where they would include renovating and/or upgrading the customer's clinic, facilitating training and/or learning endeavours, upgrading the knowledge of medical staff, facilitating automation, providing social networking opportunities etc.

In the following section, while making an appeal to the theoretical frameworks like relational exchange theory (RET), real options view of strategic networks, and value-based management (VBM), we will elaborate upon the rationale, process and (relational) consequences of making such investments.

Value-creating Relational Investments (VcRIs): The Rationale

Kaufman (1987) classified relational behaviours into two types as; 1) value-creating behaviours, and 2) value claiming behaviours. Ivens (2004) found a significant positive association between certain value-creating relational behaviours and enhancement in satisfaction, trust and commitment. Relational investments are an important manifestation of focal actor's value-creating relational norms such as mutuality and long-term-orientation. We therefore consider value-creating relational investments (VcRIs) by the focal firm as an instrument to enhance the nodes' capacity to create value for themselves with an assumption that, following the norm of reciprocity, they will equitably share these benefits with the focal firm.

Research in TCE has long established that investment of idiosyncratic assets by an actor increases the commitment of the other partner(s) (Anderson and Weitz, 1992). The real options view of strategic networks espouses that investments made today facilitate capitalization upon growth opportunities in future (Myers, 1977). In our view, such investments should not be limited just to those serving to increase focal firm's asset-specificity in relational space so as to signal a 'hostage-ship' (as prescribed by TCE) to the nodes or merely as gimmicks to artificially prolong the relationships, but these should also include investments geared at enhancing nodes' capacity so that they manage to bring more surplus to themselves and to the network.

Value-based-management (VBM) urges the focal firms to avoid self-centric optimization. It suggests them to adequately consider the value gains and losses to all stakeholders (in addition to their own) while formulating their business strategy. If a focal firm grows exponentially and requires a catch-up response from its partners (i.e. an enhancement in their efficiency), it is not ethical to leave this task of efficiency-enhancement solely up-to them while being the major (if not the only) beneficiary of all such improvements. We theorize that the investments in partners' value-creation-ability (VcRIs) not only facilitate those partners in fulfilling that particular focal firm's growing requirements but also facilitate them in avoiding service re-appropriations resulting in an annoyance of some of their valuable accounts other than the focal firm. Owing to the norm of reciprocity, the nodes are expected to generate a similar response to the focal firm. In other words, such a benevolent behaviour will not only inspire a positive state-of-affect but will also induce strong (normative) commitment among these nodes. Moreover, if these investments are made sequentially, these induce continuance commitment as it becomes imperative for the nodes to play fair or otherwise loose candidature for the subsequent investments. This culmination of commitment eventually reduces the agency risk (moral hazards) especially when exponential growth increases focal firm's vulnerability and dependence on the fiduciarity of these nodes.

Value-creating Relational Investments (VcRIs); the process

Relational investments will not be equally rewarding across all nodes, as Fink *et al.* (2007, p.37) reflect in context of supplier-buyer relationships;

> "While the competitive market may dictate supplier relational investments to retain customer business, it should be done with the full understanding that their performance may not improve'. Therefore, suppliers need to be very selective in targeting buyers for relational investments."

Following Pareto's 20/80 rule, we can presume that 80% of the firms' relational value will result from 20% of the relationships in its portfolio; therefore it becomes quite rational to appropriate relational investments according to the nodes' value. In order to increase precision of the flow of VcRIs both within and outsides the high value-segments, leverage potential/value-gap coupled with relational polygamy can be used as criterion to appropriate VcRIs. Leverage-potential refers to the difference between current and the maximum revenue potential whereas the extent of relational polygamy is gauged by the number of rival elements in a node's supplier portfolio.

The higher the leverage potential, the greater the value, and consequently the greater should be the appropriation of relational investments. However, if the partners feature high relational polygamy (as is often the case in virtual organizations) basing investment decisions solely upon the value-gap can be misleading. If the focal firm does not occupy a lead position in such partners' hierarchy of preferences, the risk of unavailability of desired contributions (the moral hazards) increases as the node (as a rational agent) will allocate more of its capacity/efforts to the rivals elements higher in its hierarchy of preferences. In order to escape this problem, the focal firm may make the investment management process more rigorous by considering nodes' degree of relational polygamy in addition to the leverage-potential. Based on the two criterions, the following classification of partners can be used so as to add to the precision of the allocation of VcRIs;

Relational polygamy / **Value-Gap**		**Relational Polygamy**	
		Low	**High**
Value Gap	**High**	**1** Value-Busters	**2** Real Candidates
	Low	**3** Over-embedded ties	**4** Potential Divorces

Adapted from Yaqub, M. Z. (2009). A conceptual model for the value-based management in strategic networks, International Journal of Knowledge, Culture, and Change Management, 8(11), 105-115

Value Busters feature high leverage potential which is easy to harness as the node's supplier portfolio contains only few rival elements. Every focal firm needs to maintain a handsome number of such elements in her portfolio since larger value streams flow from them. Real Candidates are of equal value but they are tough targets as the value created might be shared with a number of rival actors. The firms need to commit considerable investments to turn such real candidates into the value-busters. Over-embedded ties are the low value ties with low levels of relational polygamy. Here, focal firm needs to escape what Uzi (1997) calls the 'paradox of embeddedness' and should avoid over-investment beyond an optimal level. Potential divorces are the partners featuring lower value-gaps besides being tied to a higher number of rival actors. Investment in such players can prove to be an unnecessary cost until and unless it has strong future implications. The relational investments should flow from quadrants 3 and 4 to the quadrants 1 and 2. In other words, focal firms may re-appropriate investments from potential divorces and over-embedded ties to real candidates and value busters, if the situation warrants so.

Revenue-enhancing Behaviours (ReBs)

Up to now, transaction cost perspective, which elaborates upon cost-minimization as a means to increased profitability seems to have dominated research in all perspectives of strategic networks, although the ultimate relational outcome is increased profitability, not just reduced costs. Even in the relational view of strategic networks, recent studies have focused on the roles of relational norms, trust and commitment in enhancing firms' performance through cost-minimization (Gulati and Nickerson, 2007; Gulati and Sytch, 2008). We have theorized that in addition to reducing transaction cost, relational investments augmented with relational governance stimulate a number of revenue-enhancing relational behaviours, aggregated in our higher order formative construct ReBs. This cause and effect relationship is mediated through relationship quality and the inter-organizational commitment.

Previous empirical research in business-to-business relationship contexts has reported a number of benefits from increased satisfaction, trust and commitment such as an increase in acquiescence and cooperation, and a decrease in propensity to leave, functional conflicts, social uncertainty, and opportunism (Crosby *et al.*, 1990; Morgan and Hunt 1994). However, most of these benefits are attributable to the up-stream relationships. More explicit downstream revenue-enhancing relational outcomes of having a loyal customer base have been well documented in service provider context. Loyal customers can lead to: predictable sales and profit streams (Aaker, 1992); increased revenue for the firm (Reichheld, 1993; 1996); more purchases of additional services i.e. upselling, and cross-selling (Reichheld, 1996); generation of new business from positive word of mouth (Reichheld 1996; Reichheld and Sasser 1990; Zeithmal *et al.*, 1996); lower customer turn-over (Reichheld and Sasser, 1990); and decreased cost as loyal customers are less demanding (Reichheld 1996). Extending some of these outcomes to the supplier-(intermediate) buyer context, we have postulated that strong relational bonding (i.e. commitment) stemming from higher perceived relationality and value-creating relational investments (VcRIs) results in higher levels of ReBs manifested through an increased longevity of relationship, increased business share, positive word-of-mouth effect, and reduced partial defection in the node. These effects ultimately translate into increased supplier's profitability through increased revenues. Let us have a brief account of these formative indicators.

Longevity of Relationship

Relational behaviours like mutuality, solidarity, and role integrity promote trust that together with long-term-orientation creates (affective) commitment in the nodes (Ivens, 2004). Moreover, as discussed earlier, relational investments induce (normative) commitment in the nodes. Lastly, such investments, if made sequentially, make it imperative for the node to continue the relationship and play fairly in order to keep appropriating future streams of such investments, and thus spur the (continuance) commitment. No matter whatever is the impetus to commitment, it leads to increased longevity of relationships that has been revealed in value-exchange model (VEM) as one of the three possible means to maximize relationship profitability (Grant and Schlesinger, 1995).

Increased Business Share

It is human nature that they like to patronize those with whom they share strong emotional bonds (Ring and Van de Van, 1994). On the same analogy, if a focal firm manages to secure strong commitment with certain nodes, they patronize the focal firm by sharing more of their increased business with her, especially when this increase has been a consequence of the focal firm's support in the form of VcRIs. In other words, a node will share its enhanced business surplus equitably with a focal firm (i.e. proportional to the relational investments) if it exhibits higher inter-organizational commitment.

Word-of-mouth effects

The nodes occupying highest positions on the loyalty-ladder (Murrey, 1980) not only patronize the focal firm by giving her more business by themselves but also act as its "part-time marketers" by spreading positive word-of-mouth (Gummesson, 2002). This WOM establishes and/or improves the focal firm's reputation as a good candidate to network with. This reputation of trustworthiness benefits the focal firm not only in attracting new business but also in leveraging revenue-gaps of elements in its existing buyers' portfolio.

Reduced partial defection

Axelrod (1984: p. 140) asserts that 'the ability to recognize defection when it occurs is not the only requirement for successful cooperation to emerge but it certainly is an important one'. Glady *et al.* (2008) define a churner as someone whose life-time value (LTV) is decreasing over time. Reichheld (1996) while differentiating between full and partial defection designates such a decrease in LTV as a partial defection. In case of high relational polygamy, it is possible that the increased surplus is not equitably shared with the focal actor by the node(s). As an example, consider the following scenario;

> Node A has been sharing his total business volume of $10,000 as $5000, $3000, and $2000 with focal firms X, Y, and Z at time 't'. At time t+1, his total business volume doubles, and his new business volume break-up subsequently becomes $8,000, $12,000, and $0 for X, Y, and Z respectively.

Let X is the focal firm here. Even though there seems to be a (nominal) increase in her business volume (from $5000, to $8000), in fact there is a decrease in terms of business share i.e. from 50% to 40%). We postulate that such partial defections decrease with an increase in the VcRIs-cum-relationality-induced commitment.

MODERATING VARIABLES

We postulate that efficacy of the two instruments, as revealed in the aforementioned theoretical framework, may vary with respect to the phase in relationship life cycle (RLC) and the extent of a node's relational polygamy for the reasons discussed in the following section.

Relationship Phase

Relationships evolve through phases characterised by distinct behaviours, processes, and orientations (Dwyer *et al.,* 1987; Ring and Van de Ven, 1994). The term 'relationship phase' refers to the major transitions in how parties in an exchange regard each other (Dwyer *et. al.,* 1987; Thibaut and Kelly, 1959). Four such phases as described by Jap and Ganesan (2000) include: exploration, build-up, maturity, and decline. We have theorized that efficacy of the two instruments varies across different phases of relationship life cycle (RLC).

The exploration phase is characterised by high levels of risk and uncertainty (Berger and Bradac, 1982; Kent *et al.,* 1981), therefore, relational investments can prove to be more instrumental in inducing commitment (much lower though) than relational norms which are not well-developed as yet (Jap and Ganesan, 2000). During the build-up phase, partners experience a continuous increase in benefits and interdependence. A display of relational behaviour by the focal firm promotes greater trust and commitment among the participating nodes in this phase. During maturity phase, as the parties implicitly or explicitly have made a pledge to continue the relationship on regular basis (Blau, 1964) for the reason of consistently embracing relational benefits, tangible assurances like relational investments may not be as instrumental in fostering commitment as in the other phases. Rather, it is the most appropriate time to harness incremental benefits attributable to such VcRIs. In the decline phase, the parties become short-term oriented in their dealings with each other and at least one party begins to signal relationship termination due to the perception of declining relationship quality. It is not optimal to make relational investments at this stage. However, relational norms- as they signal a willingness to manage the decline process constructively- can prove to be more useful in preventing the relationship termination from turning into a debacle (Jap and Ganesan, 2000).

Relational Polygamy

As discussed earlier the relational investment management process needs to be moderated by the leverage potential/value-gap of a node: the greater the value-gap, the greater should be the allocation of VcRIs. However, an important consideration here is the node's ethical proficiency since increasing its stake in the node makes a focal firm more vulnerable to ex-post opportunism (Williamson, 1985; Anderson and Weitz, 1992; Gulati *et al.,* 1994). The likelihood of such an opportunistic exploitation increases if the node(s) maintain polygamous relationships. Consequently, the instrumentality of both instruments increases with an increase in the number of competing elements in a node's supplier portfolio. An abundance of equally competing alternatives may infuse a transactional-orientation in the node. A sequential deployment of VcRIs can protect relationships from becoming transactional provided the node exhibits a higher valence for such investments. However, this becomes quite unlikely if the rival firms offer equal or more competent packages.

SUMMARY AND FUTURE RESEARCH

In this paper, a conceptual model has been presented where we have integrated and extended insights from relational exchange theory (RET) and the value exchange model (VEM) to explain profit-maximization in supplier- (intermediate) buyer dyadic relationships from a revenue-enhancement perspective. The model is conceptually grounded in theoretical frameworks such as relational exchange theory (RET), value-exchange model (VEM), social contracting theory, transaction cost economics (TCE), value-based management (VBM), and a real options view of strategic networks. It elaborates upon the effects of relational governance and value-creating relational investments (VcRIs) in ensuring superior performance of the focal firm by causing certain revenue-enhancing relational behaviours (ReBs) in the nodes. It is theorized that value-creating relational investments (VcRIs) augmented with relational governance, positively affect a node's perceptions of relationship quality (manifested through total partner satisfaction and trust). The culmination of total satisfaction and interorganizational trust leads to increased interorganizational commitment that eventually translates into increased focal firm profitability through embracing revenue-enhancing relational behaviours (ReBs) like longevity of relationship, increased business share, positive word-of-mouth, and reduced partial defection. It is further argued that efficacy of the two instruments varies across different relationship phases and extent of the nodes' relational polygamy. Relational norms are more valuable in transition phases (i.e. build-up and decline) because they act as emotional and procedural buffers that minimize stress associated with change in these phases, whereas relational investments are more instrumental in exploration phase of the relationship life cycle. Finally, it is argued that the instrumentality of both the antecedents increases with an increase in relational polygamy since an abundance of equally competing alternatives may infuse a transactional-orientation in the node(s).

Even though the individual links of the model are well established in prior researches in a variety of inter-firm relationship contexts, the model, as a whole, needs to be empirically tested in context of the supplier-intermediate buyer dyadic relationships which sets a useful agenda for future research. On a theoretical account, the model presents a detailed account of the processes involved in translating the joint effect of relational governance and value-creating relational investments (VcRIs) into increased inter-organizational commitment. However, it is not equally exhaustive in revealing the dynamics of translation of inter-organizational commitment into superior performance of the focal firm. Future researches can destine to make-up for this deficiency. Lastly, by making an appeal to a variety of theoretical frameworks, the model has laid down a basic foundation for the development of an integrated framework for interfirm relationships. The explanatory power of the model can be enhanced by integrating insights from more theoretical perspectives like property rights theory and information economics.

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