

## **Conceptualization of Relationship Quality in online B2B Retail services**

**Key Words: Relationship Quality, online retailing, retailers, web Solution Service Providers**

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## **Abstract**

Increasingly, retailers are responding the challenges of trading in online environments by building strong collaborative relationships with customers, suppliers and service providers. Furthermore, Small and Medium-sized (SME) retailers are adopting third party web service providers to help leverage the technical expertise and knowledge needed for developing consumer-facing websites (Ray and Ray, 2006). However, in order to work together both parties rely heavily on making agreements that are dependent on high levels of trust and commitment (Morgan and Hunt, 1994).

However, there is a paucity of literature and theoretical frameworks for examining how such business relationships develop in an e-business context (Pavlou and Gefen, 2004). Extant studies have tended to focus on issues associated with hard operational and logistical factors in the supply chain and the tangible benefits of customer relationship management systems rather than focusing on the significance human factors such as relationship quality. Furthermore, the need for understanding how to build successful relationships, especially for SMEs operating in highly complex and challenging online trading environments is not only important for furthering academic research but also has significant practical and managerial implications..

This paper present a critical review of a dynamic and developing body of literature and it argues that whilst the literature is well developed in certain areas there are significant gaps especially from the retailer perspective in an e-business context. Furthermore, work from this perspective has tended to focus on scoping the field rather than focusing on softer organisational issues, which arguably is as important if not more so to the future development of online retailing. This analysis identifies a framework for future research. In particular, it has highlighted the importance of understanding the role and impact of softer human skills in the development of longer-term B2B relationships.

Finally, it is pertinent to acknowledge the limitations of the study: a literature review aims to set out the scope for a research study and in doing so it raises more questions than it answers. Furthermore, even though the literature has grown significantly during the last two decades the Internet literature is fragmented and in areas lacking in substantive theoretical grounding. Notwithstanding, this limitation this work has set out a clear and robust framework for further exploratory research, which can make a significant contribution to the business to business literature.

This paper presents a literature review, a conceptual model; a discussion of the justification for the key elements which make up the model and highlights the gaps in the literature and the contribution of the study

### **1. Relationship Quality: Model Development**

Sourcing and relying on specialist solution providers for the commercial adoption of the Internet, can enable SME retailer's to speed up the adoption process, bypassing the potentially slow procedures associated with in-house development (Hong and Zhu, 2006) which stem from lack of suitable knowledge of emerging Internet technologies and web development expertise. The adoption of web services is a new phenomenon and knowledge about the role of third parties and the services they provide is highly emergent (Daniel *et al.*, 2004). Literature offers limited insight for exploring how relationships develop between web

solution providers and retail firms. As a result this discussion draws on a range of management literature in order to develop a conceptual framework. Please note, Web Solution Service Providers (WSSPs) is a term developed for this research to describe firms offering customised services for developing, designing, and marketing websites including, hosting, domain registration, and maintenance and support services specifically tailored for their customers' online business. The following three sub-sections discuss influences in the trading environment, which are ultimately predicted to affect relationship quality.

## **2.1 Technology Influences**

The technological environment consists of the technology's characteristics that influence the adoption process. According to [Tornatzky and Fleischer \(1990\)](#), the Internet would be classified as a 'discontinuous' technology since it involves the development of significantly new processes within the organisation. While much attention has been given to the readiness of consumers to adopt new technologies including such models as the Technology Acceptance Model (TAM) ([Davis, 1989](#)) and the work on diffusion of innovations, less attention has been given to the issue of how ready organisations are to adopt new technologies or to apply already adopted technologies in innovative ways ([Jung-Yu and Chorng-Shyong, 2010](#)). Technology readiness, in a consumer context, is defined as "people's propensity to embrace and use new technologies for accomplishing goals in home life and work" ([Parasuraman, 2000, p. 308](#)). In a B2B context, the readiness of organisations to engage with new and existing technologies is important especially for small retailers who need to exploit the benefits of the Internet as a medium to extend their business activities. When an organisation introduces the Internet to transform itself into an e-business, other components of the business often simultaneously adjust to damp out the impact of the innovation ([Jung-Yu and Chorng-Shyong, 2010](#)). However, there is therefore strong evidence to suggest that organisations that do not embrace technology will not reap the benefits from that technology ([Abdinnour-Helm et al., 2003](#)). We posit that organisations that have a low readiness to embrace technology will be more reliant on their web service solution provider and may have difficulty in trusting the provider due to their innate lack of readiness to embrace the technology.

## **2.2 Organisational influences**

Internet adoption amongst retailers is also affected by the organisational environment in which web development takes place, and from this perspective it is the structure of the firm, its resources, processes, and managerial capabilities, which are most likely to affect how the company conducts its' business ([Zhu et al., 2003](#)). Early commercial activity online suggested, smaller organisations might be best able to leverage market advantage due to flexible organisation structures that could take advantage of low cost investment requirements ([Charterjee and Narasimhan, 1994](#)). But it soon became clear; the companies which were succeeding online also had softer skills: internal management capabilities, which played an equally important role in the development of their online businesses. Researchers, ([Doherty, Ellis-Chadwick and Hart, 2003](#)) highlighted the role and significance of management commitment and experience in developing online trading operations and in doing so focused attention on the importance of softer skills, which might ultimately affect the development of good quality B2B relationships. In the context of this research, it is suggested that past experience of web sourcing will influence a firms' propensity to be willing to commit to a trusting relationship with a WSSP ([Pavlou, 2004](#)). Similarly, [Mohr and Sohl, \(1995\)](#), offered insight into how communication flows can have a positive or negative effect on relationships and management behaviour and ultimately affect achievements in distribution channels. Moreover, [Morgan and Hunt \(1994\)](#) highlighted that communication is a key precursor of

trust and ultimately commitment, especially in high technology service relationships (Kim et al., 2008). Arguably, if a retailer identifies a WSSP and subsequently develops a trusted and working relationship based on past experience, good communications and mutual dependence the outcome of the relationship is more likely to result in the development of a successful online business than if aspects of the relationship fail and conflict ensues (Kumar et al, 1995).

### 2.3. Environmental influences

Rapid technological change and global commercial development of the Internet, '*enabled many firms to rewrite the rules of competition*', by connecting directly with their target markets (Kotha, 1998). The argument was that a lower-cost channel structure resulting from the "disintermediation" of middlemen such as distributors, wholesalers and bricks-and-mortar retailers could reward new intermediaries, such as web-based retailers, with better margins, and improved profitability (Rayport, 1999). However, for retail a firm, success online depends on how well they can utilise and tailor the online interface to meet the needs of the consumer. So whilst the online market place presents new trading opportunities, most retailers face a major challenge of how to navigate the complexities of the online environment and build effective online stores. Many retailers rely on outsourcing the development of their online shops and websites to third party providers as they do not have the required technological infrastructure and or the perquisite knowledge to enable the development and management of an online store. Selecting an appropriate intermediary presents the retailer a number of challenges. Ganesan (1994) advocated that managers must understand the complexities of environment in which they trade if they are to develop productive long-term relationships. Heide and Weiss (1995), also focused on environmental complexity in technology markets and suggested that organisational buyers faces many problems associated with uncertainty and the impact of switching costs, when current service providers fails to deliver, which ultimately impacts on relationship quality.

## 3. Relationship Quality

This section is based on the relationship quality (RQ) literature and suitability to the context of online B2B retail services markets. It is suggested that these dimensions can explicate the influence of RQ on retailer loyalty, or lack of, to their chosen WSSPs. The conceptual model (see Figure 1) focuses on RQ by applying a retailers' perspective to business relationships with their WSSP relationship quality (RQ), operationalised as a general assessment of relationship strength and the extent to which it meets the needs and expectations of the parties involved, has emerged as an important research stream in which to investigate the value of business to business relationships (Crosby et al., 1990; Rauyruen and Miller, 2007). Despite the lack of consensus on which dimensions make up RQ, considerable overlap exists in the various conceptualisations and discussions of RQ often emphasise the importance of trust and commitment (Anderson and Narus, 1990; Crosby et al., 1990; Ganesan, 1994)

Figure 1 is developed to explore relationship quality (RQ) in online B2B retail services. As with prior research this model proposes RQ as a higher or "umbrella construct" (Mysen and Svensson, 2010). In addition to trust and commitment the model presents additional constructs of satisfaction, service quality and power.

With the satisfaction construct Geyskens and Steenkamp (2000) highlight the need to acknowledge two types of satisfaction; economic and social satisfaction (evaluation of the psychosocial aspects). The model suggests that both types of satisfaction will impact the retailers' evaluation of the relationship quality they have with their WSSP. Power and satisfaction are closely related constructs in that a partner's use of power is seen as an important determinant of satisfaction (Geyskens and Steenkamp, 2000). The use of power, or

influence strategies, has been conceptualised as an exercise in coercive or non coercive power (Ramaseshan et al., 2006). The use of such influence strategies is hypothesised to affect the quality of the relationship between partners. The inclusion of perceived service quality as a dimension of RQ is suggested by Rauyruen and Miller (2007) who argues that because the exchange of products/services is the fundamental feature of any buyer seller relationship the overall service related quality perception should be included as a basic component of RQ.

Morgan and Hunt (1994) conceptualize trust as existing when one party has confidence in an exchange partners reliability and integrity. According to Moorman et al. (1992: 82), trust is “a willingness to rely on an exchange partner in whom one has confidence” in this case the retailers’ WSSP. These collaborations rely on relational exchanges characterized by high levels of trust (Ganesan, 1994), which enables the parties to focus on longer-term benefits of the relationship. Trust reduces tensions and conflicts between firms and facilitates information disclosure (Dwyer et al., 1987). The institutional view of trust has recently been adopted by e-commerce researchers and Zucker (1986) describes two dimensions of institutional trust (1) third party certification, such as licenses, regulations, and laws and (2) escrows. The model hypothesises that higher levels of institutional trust will lead to higher levels of RQ.

Extant research has found commitment to be the key component of establishing and maintaining long-term relationships between business partners (Cater and Zabkar, 2008; Geyskens et al., 1996; Morgan & Hunt, 1994). Within the organizational literature commitment has been identified as comprising of multiple components, which are affective (emotional attachment), calculative (instrumental worth of the relationship) and normative commitment (feelings of obligation to stay) (Mayer et al., 1997). The model proposes that differing levels of commitment among retailers, or at differing stages of the process, will impact the relationship quality.

#### **4. Loyalty**

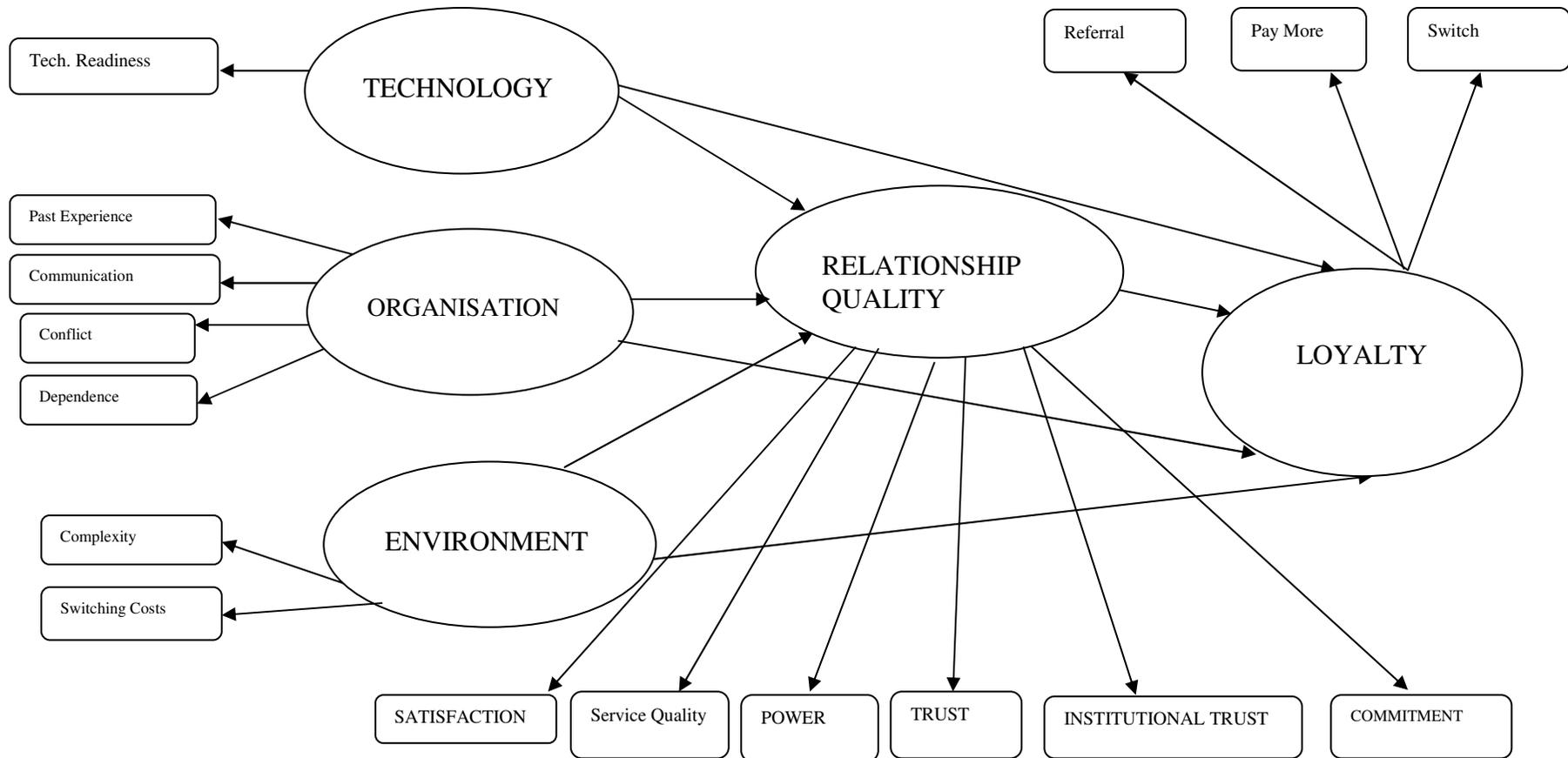
There is a significant literature on loyalty at a B2C level but there is still a lack of research at a B2B level (Lages, et al., 2008) especially in the e-business domain (Parasuraman and Zinkhan, 2002; Parasuraman et al., 2005) which is the focus of this paper. Many academics and practitioners consider customer loyalty to have a powerful impact on company performance (Rauyruen and Miller, 2007). In the B2B context, evidence shows that relationship elements significantly affect customer loyalty. For example, Ricard and Perrien (1999) found that relationship variables have a direct impact on customer loyalty. There are three main streams of loyalty research: behavioural loyalty, attitudinal loyalty and composite loyalty. Composite loyalty is a mix of behavioural and attitudinal loyalty (Chaudhuri and Holbrook, 2001). The loyalty literature (Dick and Basu, 1994) supports the utilization of a composite measure of loyalty having behavioural and attitudinal aspects. The use of composite loyalty is important as relationship variables may affect the different aspects of loyalty differently as found by Rauyruen and Miller (2007) in their study on SMEs using courier delivery services.

#### **5. Contribution and Future Directions**

This paper offers a critical review of a dynamic and developing body of literature and it argues that whilst the literature is well developed in certain areas there are significant gaps especially from the retailer perspective in an e-business context. Furthermore, work from this perspective has tended to focus on scoping the field rather than focusing on softer organisational issues, which arguably is as important if not more so to the future development

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**Figure 1 Conceptual Model of Relationship Quality in Online B2B Retail Services**



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