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The Configuration and Function of Strategic Benefits

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Abstract

This paper overcomes limitations evident in extant literature by examining the foundations of the relationship benefits concept and developing a theoretical model that is tested and validated. The findings indicate that salient relationship benefits evident in business-to-business relationships can be classified as cost, service, image and flexibility benefits, or more broadly, as strategic benefits that facilitate competitive advantage through the operationalisation of a cost leadership, differentiation or all-rounder strategy.

Keywords: relationship benefits, business-to-business marketing, value

Introduction and Literature Review

Morgan and Hunt (1994) defined relationship benefits as benefits derived from partnerships that add value. However Morgan and Hunt's (1994) hypothesised association between relationship benefits and commitment did not eventuate, leading them to conclude in part, that their measurement of the concept was limited. Given this conclusion and the paucity of subsequent detailed inquiry pertaining to relationship benefits, it is evident that there is a need for the development of a better understanding of what relationship benefits are. To do that the first reference point used is Morgan and Hunt's definition of relationship benefits, which indicates that we are seeking to identify benefits that add value.

It has been argued that relationship value can be derived by client firms via three mechanisms. These have been identified as the securing of strategic goals associated with competitive advantage, development of core competencies and the creation of market position; economic benefits from simple cost reduction through to cost savings in design, assembly, field service and reducing time to market; and social bonding necessary for the development of trust in the relationship (Wilson and Jantrania, 1994, pp. 62-63). Other researchers have also pointed to similar sources of relationship value, with arguments being presented that partnering has three main benefits, identified as the reduction of duplication and waste, leveraging core competence and creating new opportunities (Rackham, Friedman and Ruff, 1996, pp. 42-43); and that a firm creates value that justifies a premium price through two mechanisms, one of which is reducing buyer costs and the second increasing buyer performance (Porter, 1985).

Other, more specific benefits identified in the literature as being valued by client firms include superior product quality, brand/image, tailoring, supporting services and the reduction of sacrifices (Ravald and Gronroos, 1996); cost reduction in general (Cannon and Homburg, 2001) and inventory and logistics cost reduction in particular (Mentzer, Min and Zacharia, 2000); activities that make products (or services) easier to sell (Anderson, Lodish and Weitz, 1987); training the client firm's sales people, providing dedicated electronic link-ups for inventory control and ordering, and offering information on new products (Ganesan, 1994); superior logistics services and cooperative advertising programs (Fontenot and Wilson, 1997); direct functions (characterised as reducing purchasing costs, delivering quality, covering a large volume or serving as a safeguard) and indirect functions (characterised as greater access

to market, use of the supplier's information base and gaining inspiration for innovation through the supplier) (Walter, Muller, Helfert and Ritter, 2003); and enhanced gross profit, customer satisfaction, and product performance (Morgan and Hunt, 1994).

Extant literature has also presented the argument that '...value creation and value appropriation are required for achieving sustained competitive advantage' (Mizik and Jacobson, 2003, p. 63) for one or both partners. For example it has been argued that 'an essential sustainable driver of performance management in collaborative economies is the sharing of knowledge and best practice' (Basu, 2001, p. 12); that '...firms in many industries have entered into a variety of interorganizational relationships to improve their competitive advantages' (Clark and Lee, 2000, p. 85); that '...partners in a network build dependency on resources controlled by others in the network, positioning themselves to make future use of these resources' (O'Farrell and Wood, 1999, p. 139); and that the purpose of relationships and networks is that interaction with others gives a company the '...capabilities to perform its activities' (Ford, Hakansson and Johanson, 1997b, p. 56).

By synthesising these perspectives regarding how value is created in business-to-business settings and what relationship benefits are we are left with two primary conclusions. The first is that the specific benefits valued by client firms will be contingent upon the nature of the relationship and the needs of both partners, the nature of the network within which the relationship exists and the nature of the industry and market within which the relationship and network resides. Therefore, identifying specific benefits within the context of a specific relationship may mean that the generalisability of findings may be limited and add little to theory.

The second conclusion is associated with the proposition that the most valued relationship benefits are those that underpin the creation of competitive advantage for both partners. It is a view explicit in the statement, 'we use relationships to gain competitive advantage, to strengthen our core competencies and to create market position' (Wilson and Jantrania, 1994, p. 62). Building from this second conclusion, it may then be argued that the benefits most valued by client firms are those that underpin their securing of competitive advantage, which Porter (1980) stated can be achieved through adopting generic strategies categorised as cost leadership, focus or differentiation strategies¹. The existence, operationalisation and veracity of these strategy settings have been validated by empirical research results (Dess and Davis, 1984; Govindarajan, 1988; Chenhall and Langfield-Smith, 1998; Vorhies and Harker, 2000) while the argument presented here is specifically supported by two conceptual papers which concluded that strategic partnerships can facilitate competitive advantage through the pooling of skills and resources that assist the securing of cost and differentiation advantages (Varadarajan and Cunningham, 1995, p. 285; Mentzer et al., 2000, p. 565). Therefore, it is argued that relationship benefits, defined as benefits derived from partnerships that add value, can be further and more usefully characterised as valued benefits that support the realisation of strategies designed to secure competitive advantage, and that the Porter framework provides a basis for classifying these benefits.

Following from this line of reasoning it is argued that there is a gap in the literature pertaining to the identification and classification of relationship benefits. To address this gap the following research question is addressed through synthesising findings from the literature with exploratory research with the aim being to develop a conceptual framework for understanding relationship benefits in a business-to-business context. The proposed model is

subsequently tested through survey research. The specific research question to be addressed is: RQ1: What benefits are valued by customers in a business-to-business setting?

Methodology

To address the research question the population represented by the Australian community pharmaceutical industry was selected. In selecting respondents for initial in-depth interviews, theoretical replication logic as opposed to sampling logic was applied (Eisenhardt, 1989; Yin, 1989; Patton, 1990). This led to two banner group representatives and two community pharmacists being selected. Six community pharmacists were then contacted and asked to participate in a further six in-depth interviews following the convergent interviewing process. From these interviews and evaluation of the literature a conceptual model and survey instrument were developed.

Self-administered mail questionnaires were selected as the most efficient and effective data collection technique for the confirmatory stage of the research. All salient concepts identified via in-depth interviews were measured using scales adapted from extant literature, with seven point semantic differential scales being used. The survey was pre-tested by each of the six interviewees included in the second round of interviews and five academics. Measures are detailed in Appendix 1.

A list of all registered New South Wales pharmacists, current as of August 26, 2002, was secured from the Pharmacy Board of New South Wales. This resulted in 1340 discrete community pharmacy businesses being selected. A total of 278 responses were returned with twenty four responses being discarded as a result of late arrival or missing data, resulting in 254 usable responses being used in subsequent analysis. To determine the effective response rate, the percentage of known ineligible, identified by a telephone follow-up undertaken by a tele-marketer, was calculated following suggestions in the literature (Zikmund, 2000) with the effective response rate being calculated as 21.4%.

In preparing the data a variance-covariance matrix was used and the data analysed using AMOS 4.01, with measurement models for each construct being tested for unidimensionality, reliability and validity prior to the specification of the structural model. Unidimensionality of measures was assessed by a review of fit indices derived from confirmatory factor analysis (Gerbing and Anderson, 1988; Ping, 2004), construct reliability was calculated for identified unidimensional measures and convergent validity assessed through an investigation of the significance of regression coefficients between indicators and latent factors (Anderson and Gerbing, 1988) and through consideration of the average variance extracted (AVE) statistic, with convergent validity being indicated by an AVE statistic greater than .50 (Fornell and Larcker, 1981).

To facilitate this process, the data set was split using the random selection function available in SPSS 11.0 for cross-validation², degrees of freedom were gained by applying equality constraints on parameters where necessary and composite variables were used to ensure an acceptable ratio of respondents per estimated parameter, a process that has the added benefit of eliminating interpretational confounding by separating measurement issues from model structure in structural equation models. The final model was subsequently evaluated for offending estimates and the structural model was evaluated using goodness of fit measures based on suggestions in the literature.

Results

In summary, the list of benefits identified by respondents during the exploratory stage were categorised as image, service, cost and flexibility benefits. Image benefits were characterised as brand name, promotion and reputation benefits; service benefits as benefits designed to enhance service delivery by community pharmacists; flexibility benefits as benefits that enhance responsiveness to competitor actions and customer demands through innovation, competitive responsiveness and the ability to react to the environment; and cost benefits as benefits that assist community pharmacies reduce costs through improved systems and procedures. Final measures for service, cost, image and flexibility benefits were subsequently developed through a synthesis of items used to evaluate the Porter framework by Dess and Davis (1984) and Chenhall and Langfield-Smith (1998) and the results of in-depth interviews. Figure 1, which demonstrates the final structural model, also demonstrates the conceptual framework developed from the exploratory research, with relationship benefits shown as a concept reflected by image, service, cost and flexibility benefits. This structure was evident with relationship benefits being conceptualised by respondents as a higher order more abstract concept than its components following the logic that the identified relationship benefits were delivered to smaller firms by their larger counterparts as a 'package', with some firms providing a great deal and others very little. Beyond the theoretical justification, the significant and positive correlations between factors provide empirical support for a reflective model (Stetz et al., 2000).

Table 1, based on the results of survey research, details the fit of the modified measurement models for flexibility, image, cost and service benefits, and indicates that they satisfy the requirement of unidimensionality. Items removed from any of the measures are identified in Appendix 1. Evaluation of construct reliability was then undertaken and indicated that service benefits had a reliability of .836b, flexibility benefits .807b, image benefits .834a and cost benefits .770b. All measures also demonstrated convergent validity with all regression coefficient's between indicators and latent factors being significant at <.001. Convergent validity was also supported with AVE's for service, flexibility, image and cost benefits of .634b, .586b, .633a and .539b respectively.

Subsequently, the second-order model was evaluated. This model was constructed with composite scores³ being calculated for each factor with results reported in Table 1 indicating that the model did fit the data extremely well on all indices. Construct reliability for the second order factor was found to be .934⁴ while all coefficients between the second and first order factors were significant at <.001 indicating that the second order model had convergent validity. Convergent validity was also indicated by an AVE for the second order model of .780. Given these findings, it was concluded that the second order factor model was a good representation of the construct. The final second order model incorporating standardised loadings as evaluated against the entire sample of 254 respondents is illustrated in Figure 1.

Table 1: Fit Indices for Measurement and Structural Models

Model	2 (df)	P	SRMR	RMSEA	CFI	GFI
Image benefits ^a	1.614(1)	.204	.015	.049	.998	.997
Service benefits ^b	.474 (1)	.491	.009	.000	1.000	.998
Flexibility benefits ^b	1.520(1)	.218	.018	.063	.996	.992
Cost benefits ^b	.008(1)	.930	.002	.000	1.000	1.000
Relationship benefits model	2.522(2)	.283	.012	.032	.999	.995

Figure 1: Relationship Benefits Structural Model Showing Standardised Coefficients



Discussion and Conclusions

Results from both exploratory and survey research indicate that salient relationship benefits can be classified as cost, service, image and flexibility benefits, or more broadly, as strategic benefits that in turn facilitate competitive advantage through the operationalisation of a cost leadership or differentiation strategy (Porter, 1980; Varadarajan and Cunningham, 1995; Mentzer et al., 2000), or an ‘all-rounder strategy’ which has no particular emphasis (Campbell-Hunt, 2000). As noted previously, such a conceptualisation is offered broad and more specific support in the literature.

Significantly, explicit identification and measurement of these types of benefits in the context of business-to-business relationships has not previously been undertaken. By using such categorisation, greater scope for generalisation of findings from one population to another has been provided. Benefits are not seen under this conceptualisation as relationship or context specific, but as types of benefits that underpin competitive advantage. The findings also provide evidence that relationship benefits, when conceptualised as suggested, should be considered as a focal concept that will facilitate greater understanding of how relationships and networks function in business-to-business contexts.

The findings also demonstrate the veracity of claims detailed in the literature review that the purpose of relationships and networks is that interaction with others gives a company the capabilities to perform its activities; that partners in a network build dependency on resources controlled by others in the network, positioning themselves to make future use of these resources; that we use relationships to gain competitive advantage, to strengthen our core competencies and to create market position; and that strategic partnerships can facilitate competitive advantage through the pooling of skills and resources associated with cost and differentiation advantages. Therefore, findings reported in this paper as they pertain to research question one contribute to theory by providing evidence regarding the types of capabilities, competencies and resources that are transferred as benefits from larger to smaller

firms and that facilitate the pursuit by client firms of strategic goals associated with competitive advantage.

The primary limitations of this paper are that it involved a single set of relationships between community pharmacists and their large suppliers and that no strategic benefit associated with a focus strategy was identified. It is concluded that this non-finding may reflect the geographic controls imposed on community pharmacy businesses by government legislation which effectively provides these firms with a geographic focus advantage.

¹ One premise in Porter's work that has been challenged is that being 'stuck in the middle' is by definition a low-profit alternative. Campbell-Hunt (2000) states that there is a need to 'encourage a reconceptualization of the no-distinctive-emphasis design, from its current status as the 'lemon' of competitive strategy, to an "all-rounder" design that is well adapted to a specified set of competitive conditions' (p. 149). Similar arguments have previously been posited by Buzzell and Gale (1987) and on the weight of current evidence accepted in this paper.

² Throughout subsequent discussion results are identified as being derived from the 'a' sample consisting of 123 respondents or the 'b' sample consisting of 131 respondents. If there is no label then the results have been derived from the full sample of 254 respondents. Use of a split sample strategy to assess unidimensionality, reliability and validity is justified in the literature.

³ Ping (2002) and Hair et al. (1998) recommend that for a single indicator specification of an unobserved construct, its loading is estimated by the square root of its coefficient alpha reliability multiplied by the variables variance value, and its measurement error variance is estimated by $\text{Var}(X)(1 - \alpha_X)$, where α_X is the coefficient alpha reliability of X and X is the indicator. Composite variable reliability and variance were calculated and applied using this procedure.

⁴ Composite factor scores for each of the four first order factors were used to calculate reliability and an estimate of coefficients relating to the second order factor model.

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Appendix 1: Measurement Scales for Cost, Service, Image and Flexibility Benefits*

Measures for service, cost, image and flexibility benefits were developed through a synthesis of items used by Dess and Davis (1984) and Chenhall and Langfield-Smith (1998) and the results of in-depth interviews.

Construct	Items
Service benefits	Providing customers with dependable delivery promises# Effective after sales service and support Customer service skills Merchandising skills
Flexibility benefits	Quick introduction of new products/services# Customised products and/or services to meet customer needs Specialised products and/or services Responsiveness to competitors actions
Image benefits	Good reputation in serviced markets Recognised and positive brand name attached to business Effective promotions (either T.V., radio, press or catalogue promotions)
Cost benefits	Delivering low prices to customers# Managing administration costs (order entry, invoicing and stock control etc.) Managing staffing costs (hiring, firing, training and remunerating staff etc.) Managing business development costs (promotions, market research and planning etc.)

*The question: 'To what extent does your banner group assist your business in achieving goals that relate to each of the following factors?' preceded these items. A seven point semantic differential scale was used where 1 = no assistance and 7 = a great deal of assistance.

#Items removed from the final measure following assessment of unidimensionality.