The explanatory foundations of relationship marketing theory

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Abstract

Purpose – Drawing on resource-advantage theory and a diverse literature base, this article seeks to further the development of the explanatory foundations of relationship marketing theory by proposing, and then providing, tentative answers to three "why?" questions in relationship marketing: why is relationship marketing so prominent now? Why do firms and consumers enter into relationships with other firms and consumers? Why are some efforts at relationship marketing more successful than others?

Design/methodology/approach – Before addressing the three questions, the paper begins by discussing the different forms of relationship marketing.

Findings – Although relationship marketing is a relatively young field of inquiry, relationship marketing theory is an extremely rich area of research. Relationship marketing can take many forms and, as a result, relationship marketing theory has the potential to increase one's understanding of many aspects of business strategy.

Research limitations/implications – The answers to the three questions in this paper provide a strong foundation for the further development relationship marketing theory and are useful for both relationship marketing theorists and practitioners.

Originality/value – As relationship marketing theory and practice are developed further, the authors hope that the article will provide useful guidance to those involved. From a marketing theory standpoint, the eight kinds of factors provide guidance to researchers exploring the many forms of relational marketing. For practitioners, they provide a useful framework for evaluating extant relationship marketing strategies and for developing future strategies.

Keywords Relationship marketing, Resources, Competences, Public policy

Paper type Conceptual paper

An executive summary for managers and executive readers can be found at the end of this issue.

The purpose of theory is to increase scientific understanding through systematized structures capable of both explaining and predicting phenomena (Hunt, 2002; Rudner, 1966). This way of looking at the purpose of theory emphasizes the importance of explanation in science. Indeed, many philosophers of science maintain that the explanation of phenomena is the *sine qua non* of science: without explanation, there is no science. Furthermore, the philosophy of science views scientific explanations as scientific answers to "why" questions (Hempel, 1966). Therefore, the purpose of relationship marketing theory is to provide systematized structures that, at the minimum, explain the relationship marketing phenomena. That is, relationship marketing theory should provide answers to "why" questions.

The purpose of this article is to further the development of the explanatory foundations of relationship marketing theory by proposing, and then providing tentative answers to, three "why?" questions in relationship marketing:

1. Why is relationship marketing so prominent now?
2. Why do firms and consumers enter into relationships with other firms and consumers?
3. Why are some efforts at relationship marketing more successful than others?

Before addressing these three questions, we begin by discussing the different forms of relationship marketing, for how one answers the three questions depends, in part, on how one views the forms of relationship marketing.

The forms of relationship marketing

Understanding relationship marketing requires distinguishing between the discrete transaction, which has a "distinct beginning, short duration, and sharp ending by performance," and relational exchange, which "traces to previous agreements [and] ... is longer in duration, reflecting an ongoing process" (Dwyer *et al.*, 1987, p. 13). Categorized with reference to a focal firm and its relational exchanges in supplier, lateral, buyer, and internal partnerships, Figure 1 shows ten forms of relationship marketing:

1. The partnering involved in relational exchanges between manufacturers and their goods' suppliers, as in "just-in-time" procurement and "total quality management."

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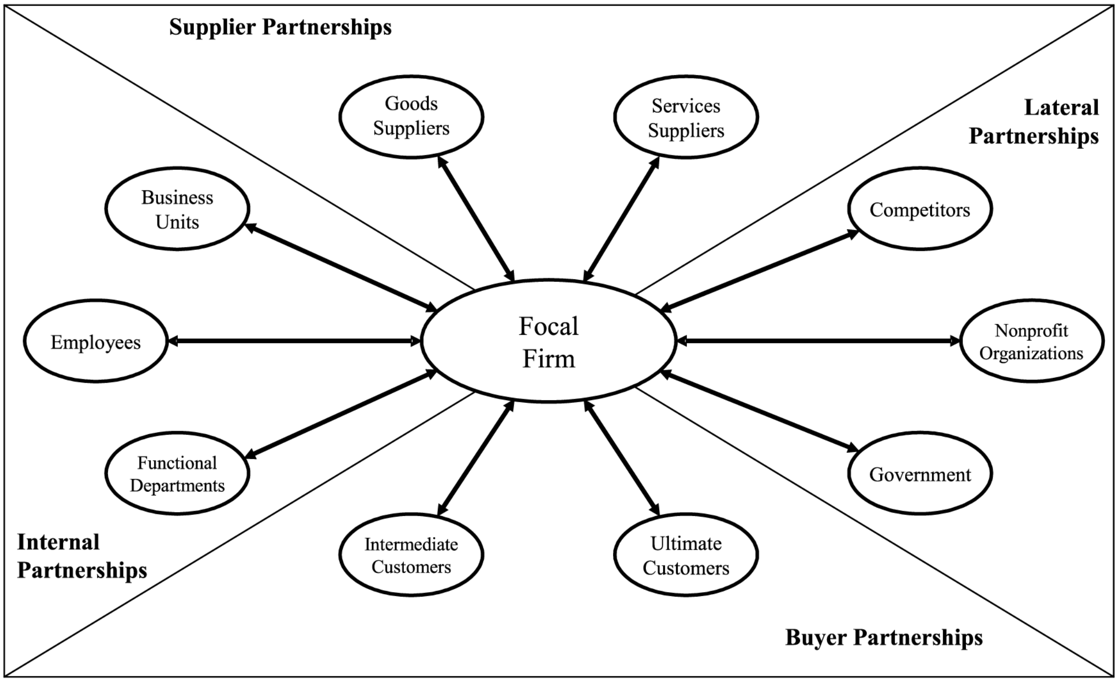
Figure 1 Forms of relationship marketing



Source: Morgan and Hunt (1994)

2. The relational exchanges involving service providers, as between advertising or marketing research agencies and their respective clients.
3. The strategic alliances between firms and their competitors, as in technology alliances, co-marketing alliances, and global strategic alliances.
4. The alliances between a firm and nonprofit organizations, as in public purpose partnerships.
5. The partnerships for joint research and development, as between firms and local, state, or national governments.
6. The long-term exchanges between firms and ultimate customers, as implemented in "customer relationship marketing" programs, affinity programs, loyalty programs, and as particularly recommended in the services marketing area.
7. The relational exchanges of working partnerships, as in channels of distribution.
8. The relational exchanges involving functional departments.
9. The relational exchanges between a firm and its employees, as in internal market orientation in particular and internal marketing in general.
10. The within-firm relational exchanges, as those involving such business units as subsidiaries, divisions, or strategic business units (Morgan and Hunt, 1994).

Should all the partnerships in Figure 1 be construed as forms of relationship marketing, or should only, for example, those involving ultimate customers? Consider the definitions of relationship marketing that have been offered. Berry (1983, p. 25) defines relationship marketing as:

> Attracting, maintaining, and – in multi-service organizations – enhancing customer relationships.

Berry and Parasuraman (1991) propose that:

> Relationship marketing concerns attracting, developing, and retaining customer relationships.

Gummesson (1994, p. 2) proposes that:

> Relationship marketing (RM) is marketing seen as relationships, networks, and interaction.

Grönroos (1996, p. 11) states that:

> Relationship marketing is to identify and establish, maintain, and enhance relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met; and that this is done by a mutual exchange and fulfillment of promises.

Sheth (1994) defines relationship marketing as:

> The understanding, explanation, and management of the ongoing collaborative business relationship between suppliers and customers.

Sheth and Parvatiyar (1995) view relationship marketing as:

> Attempts to involve and integrate customers, suppliers, and other infrastructural partners into a firm's developmental and marketing activities.

Some of these conceptualizations of relationship marketing are broader than others.

Because, they argue, all ten of the exchanges in Figure 1 are relational in nature, Morgan and Hunt (1994) propose that all ten are forms of relationship marketing. Therefore, they suggest, "relationship marketing refers to all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges" (Morgan and Hunt, 1994, p. 22). It is this "broadened" view of relationship marketing that is adopted here. This broad view is consistent with the conclusion of Aijo (1996, p. 15):

> There is a growing consensus on the definition of RM as involving the following aspects: a close long-term relationship between various (network)

participants involved in exchanging something of value (total market process).

Note that his consensus definition does not restrict relationship marketing to customer relationships. With the preceding conceptualization of relationship marketing in mind, we address our first question.

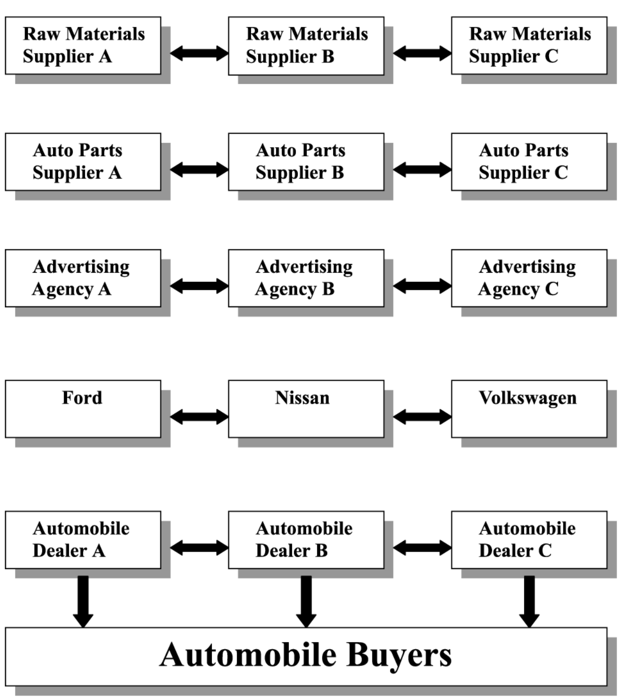
Why prominent now?

If one should input "relationship marketing" into a search engine, one will record well over 200,000 "hits." Why the enormous emphasis on a concept that was not even in the marketing vernacular until Berry (1983) first used it in the early 1980s? Mulki and Stock (2003) discuss several environmental factors that have contributed to the rise of relationship marketing. These include the trend for firms in advanced economies to be services oriented, adopt information technologies, be global in nature, be niche-oriented, and be information-oriented (see also Grönroos, 2000; Gummesson, 2002; Sheth, 1994; Sheth and Parvatiyar, 1995; Webster, 1992). A factor that has been underemphasized, we argue, is the trend toward strategic network competition. Consistent with Hunt and Morgan (1994), we argue that the rise of strategic network competition, as an alternative to traditional and hierarchical competition, has given a significant impetus to the rise of relationship marketing. To understand network competition, we first distinguish it from traditional and hierarchical competition.

Traditional view of competition

Figure 2 illustrates the traditional view of competition, using the auto industry as an example. Competition is horizontal and firm-to-firm at each level; that is, auto manufacturers compete with other auto manufacturers, materials suppliers compete with other materials suppliers, advertising agencies compete with other advertising agencies, and so on. In this kind of competition, each firm is a free-standing, independently owned and managed entity.

Figure 2 Traditional view of competition



Source: Hunt & Morgan (1994)

As Hunt and Morgan (1994) point out, the advantages of traditional competition in such an industry structure are numerous, both for individual firms and for society as a whole:

- all firms specialize in those activities they do best, i.e. their core competences;
- all firms are optimally positioned to take advantage of economies of scale, because marketplace forces punish firms that are either too large or too small;
- the discipline of marketplace prices ensures efficiency, because all firms negotiate at "arms length";
- the capital investment of each firm is kept to the absolute minimum; and
- all firms can (and must) adapt quickly to changes in the environment, such as technological advances. For example, if a new firm develops a radically new battery that would obsolete all capital equipment of current battery producers, automakers could adopt the new battery without thinking about the investment losses of its current battery suppliers.

Traditional, firm-to-firm competition is efficient, productive, and dynamic. However, traditional competition suffers from high transaction costs, high opportunism, decreased control, low coordination, and planning difficulties. Enter the hierarchical competition alternative.

Hierarchical competition

Even though traditional, firm-to-firm competition has many advantages, its inherent disadvantages (e.g. high transaction costs) have prompted some companies to engage in the kind of integration that results in competition between "hierarchies" (Williamson, 1975). In its early days, Ford was, for all intents and purposes, "just" an assembler of automobiles made from parts that were manufactured by other companies. Over the years, however, Ford adopted the structure illustrated in Figure 3, integrating backward to such an extent that at one time it even made its own steel.

In contrast with traditional, firm-to-firm competition, the highly integrated firms in hierarchical competition have:

- lower transaction costs, realized by not having to buy and sell goods/services from independent suppliers;
- less likelihood of being the victim of opportunistic behavior, such as suppliers not fulfilling their contractual responsibilities;
- more autonomy, such as increased control over the resources necessary for survival and growth;
- better coordination of activities, such as new product development; and
- greater opportunity to plan for the future.

By 1980, Ford was one of the most highly integrated corporations in the world (as were Chrysler and General Motors). The benefits of integration, thought many, exceeded the disadvantages of decreased competency fit, potential diseconomies of scale, lack of price discipline on components produced "in-house," high investment expense, and the lack of flexibility and adaptability.

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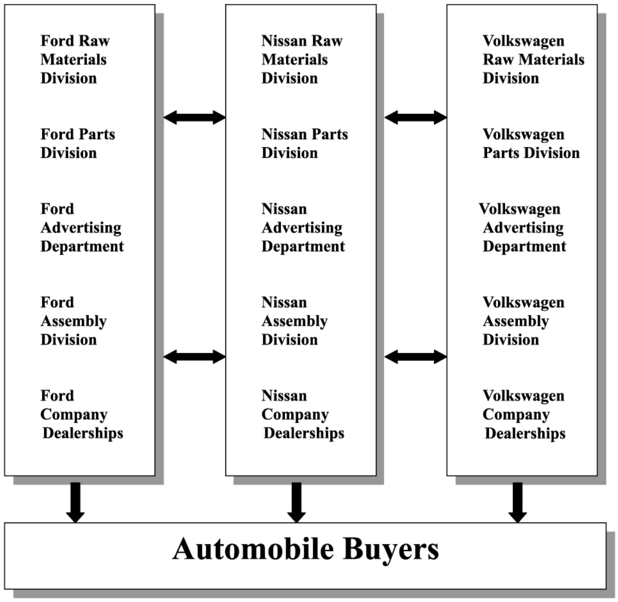
Figure 3 Hierarchical view of competition

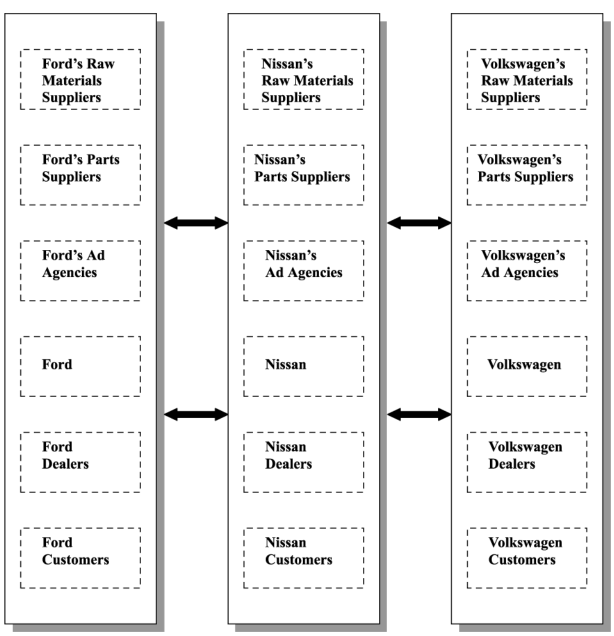


Source: Hunt & Morgan (1994)

Strategic network competition

During the 1980s, business academics, prompted by the seminal work of Thorelli (1986), began theorizing about a form of competition that could not only combine the best parts of both traditional and hierarchical competition, but do so without incurring the disadvantages of either. This resulted in the concept of strategic network competition, as illustrated in Figure 4 and exemplified by the Japanese car companies and their keiretsu.

Figure 4 Network view of competition



Source: Hunt & Morgan (1994)

Formally speaking, a network is a group of independently owned and managed firms that agree to be partners rather than adversaries. Because each partner's individual success is tied to the success of the overall network, the firms actively pursue common goals. They engage in cooperative behaviors and coordinated activities in such areas as marketing, production, finance, purchasing, and R&D. Although each firm is independently owned, the extent of cooperation and coordination among the firms is so great that company boundaries become "fuzzy," as illustrated by the dotted lines surrounding each firm in Figure 4.

Network competition best describes the current situation in the auto industry. Ford no longer just competes with Nissan and Volkswagen; rather, Ford and all its partners compete with Nissan and its partners and Volkswagen and its partners. Although (arguably) not as far along as the auto industry, competition in such industries as computers, communications, and consumer electronics increasingly is leaning toward a network orientation. Firm after firm is turning from discrete, short-term, arms-length exchanges with large numbers of suppliers toward long-term, relational exchanges with a smaller number of partners.

Why is relationship marketing so prominent now? We argue that the rise of strategic network competition has given a tremendous boost to the rise of relationship marketing. That is, the rise of strategic network competition, with its emphasis on firms cooperating within networks to compete with other networks, has boosted the importance of relationship marketing.

Why enter relationships?

Why do firms and consumers enter into relationships with other firms and consumers? That is, what motivates the relational exchanges in relationship marketing? We begin by examining why consumers engage in relational exchanges with firms, before turning to the motivations for firms to engage in relational exchanges, both with other firms and with consumers.

Why do consumers?

Several writers have explored the motivations of consumers for engaging in relational exchanges with firms. The easy answer, of course, is that consumers must perceive that the benefits of engaging in relational exchange with particular firms exceed the costs incurred. How this answer is articulated, however, is a subject of much discussion.

First, in their "commitment-trust" theory of relationship marketing, Morgan and Hunt (1994) identify "relationship benefits" as a key antecedent for the kind of relationship commitment that characterizes consumers who engage in relational exchange. Furthermore, consumers desire relationship partners that they can trust. They do so because a trusted partner reduces the risks associated with relational exchange, because trust is associated with a partner's reliability, integrity, and competence. Finally, Morgan and Hunt propose that consumers are motivated to engage in relational exchanges with partners with whom they share values. That is, they seek firms that agree with them as to what is important vs unimportant, right vs wrong, appropriate vs inappropriate, proper vs improper, and significant vs insignificant. For example, some consumers

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will engage in relational exchanges only with those firms that they deem to be socially responsible.

Second, Sheth and Parvatiyar (1995, p. 256) propose:

> That consumers engage relational market behavior to achieve greater efficiency in their decision making, to reduce the task of information processing, to achieve more cognitive consistency in their decisions, and to reduce the perceived risks associated with future choices.

Note that Sheth and Parbvatiyar focus on relational exchange as achieving "greater efficiency." Consistent with the Howard and Sheth (1969) theory of buyer behavior, relational exchanges reduce the costs involved in consumer search, as in "routinized response behavior." Also, their focus on reducing perceived risk is consistent with the view that consumers look for trustworthy partners with whom to engage in relational exchange.

Third, Bagozzi (1995, p. 273) maintains that:

> The most common and determinative motive for entering a marketing relationship is that consumers see the relationship as a means for fulfillment of a goal to which one had earlier, and perhaps tentatively, committed. That is, people have goals to acquire a product or use a service, and a relationship then becomes instrumental in goal achievement.

In his view, relationship marketing should more thoroughly investigate consumers' goals. In particular, Bagozzi stresses that, for many consumers, "moral obligation" and "moral virtues" play an important part in motivating relational exchange. That is, similar to the view that "shared values" (Morgan and Hunt, 1994) are important considerations, consumers' sense of morality informs choices of relational exchange.

Fourth, Vargo and Lusch (2004, p. 15) evaluate marketing's evolving "dominant logic." In this logic, the "focus is shifting away from tangibles and toward intangibles, such as skills, information, and knowledge, and toward interactivity and connectivity and ongoing relationships." As to why consumers engage in relational exchanges with firms, the evolving, dominant logic "implies that the goal is to customize offerings, to recognize that the consumer is always a co-producer, and to strive to maximize consumer involvement in the customization to better fit his or her needs" (Vargo and Lusch, 2004, p. 12). Therefore, the answer of Vargo and Lusch, as to why consumers engage in relational exchange, is that relational exchange contributes to the production of goods and services that are customized to consumers' individual needs, wants, tastes, and preferences.

In summary, relationship marketing theory maintains that consumers enter into relational exchanges with firms when they believe that the benefits derived from such relational exchanges exceed the costs. The benefits include:

- the belief that a particular partner can be trusted to reliably, competently, and non-opportunistically provide quality market offerings;
- the partnering firm shares values with the consumer;
- the customer experiences decreases in search costs;
- the customer perceives that the risk associated with the market offering is lessened;
- the exchange is consistent with moral obligation; and
- the exchange allows for customization that results in better satisfying the customer's needs, wants, tastes, and preferences.

The costs include:

- the premature exclusion of market offerings from other firms that might potentially be superior;
- the monetary and time costs of co-production;
- the decreased prices that might result from accepting standardized market offerings; and
- the increased potential vulnerability of the consumer to the partner's opportunistic behavior.

The preceding is not to say that relationship marketing theory has identified all the benefits and costs that motivate consumers to enter into relational exchanges with firms; it is to say that theory is making good progress at such an identification.

Why do firms?

Why do firms enter into relationships that involve relational exchanges with other firms and consumers? Because competition is so central to market-based economies, we propose that the answer to this question is that firms enter into relational exchanges with other firms and with consumers when such relationships enable firms to better compete. That is, relationship marketing involves a strategic choice. Specifically, the fundamental imperative of relationship marketing strategy is that, to achieve competitive advantage and, thereby, superior financial performance, firms should identify, develop, and nurture a relationship portfolio (Gummesson, 2002; Hunt and Derozier, 2004). Therefore, to explicate how certain kinds of relationships can make firms more competitive, we need to draw on resource-advantage (R-A) theory, for R-A theory is a theory of competition that can provide a grounding framework for relationship marketing strategy (Hunt, 2002; Hunt and Derozier, 2004).

R-A theory is an evolutionary, disequilibrium-provoking, process theory of competition, in which innovation and organizational learning are endogenous, firms and consumers have imperfect information, and in which entrepreneurship, institutions, and public policy affect economic performance. At its core, R-A theory combines heterogeneous demand theory with a resource-based theory of the firm. That is, intra-industry demand is viewed as significantly heterogeneous with respect to consumers' tastes and preferences, and firms are viewed as combiners of heterogeneous, imperfectly mobile entities that are labeled "resources." For R-A theory, competition is viewed as a process that consists of the constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage and, thereby, superior financial performance. Once a firm's comparative advantage in resources enables it to achieve superior performance through a position of competitive advantage in some market segment(s), competitors attempt to neutralize and/or leapfrog the advantaged firm through acquisition, imitation, substitution, or major innovation.

For R-A theory, resources are defined as the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering for some market segment(s). Furthermore, resources can be categorized as financial (e.g. cash resources and access to financial markets), physical (e.g. plant and equipment), legal (e.g. trademarks and licenses), human (e.g. the skills and knowledge of individual employees), organizational (e.g. competences, controls, policies, and culture), informational (e.g. knowledge from consumer and competitive intelligence), and relational (e.g. relationships with suppliers and customers).

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Therefore, why do firms enter into relationships with other firms and consumers? That is, why do firms enter into relational exchanges? For R-A theory, the answer is that they do so when such relationships contribute to the competitiveness of firms. When will relationships contribute to the competitiveness of firms? Relationships will contribute to the competitiveness of firms when they constitute relational resources. Under what circumstances will relationships be relational resources? Relationships become relational resources when they contribute to the firm's ability to efficiently/effectively produce market offerings that have value for some market segment(s). For example, firms enter into relational exchanges with individual customers when, as a result of the relationships, firms are better able to develop market offerings that are customized to the tastes and preferences of the individual consumers. Firms enter into strategic alliances with other firms when the relationship between the firms results in the acquisition or development of complementary and/or idiosyncratic resources. Firms enter into relational exchanges with nonprofit organizations when the association of the firm with the nonprofit organization increases the value of the firm's market offering to consumers. And so on.

To conclude this section, the preceding is not to say that relationship marketing theory and R-A theory are the same thing. It is to say that R-A theory, a theory of competition, provides a grounding for relationship marketing theory, a theory of strategic choice (Hunt, 2002; Hunt and Derozier, 2004).

Why success?

Firms that implement relationship marketing-based (RM-based) strategies recognize the importance of developing and maintaining long-term cooperative relationships with other firms and/or consumers. Specifically, RM-based strategy emphasizes that to achieve competitive advantage and, thereby, superior financial performance, firms should identify, develop, and nurture an efficiency-enhancing, effectiveness-enhancing portfolio of relationships (Hunt, 1997). However, RM-based strategies require considerable time and effort to implement. In addition, to be successful at such strategies, firms must devote substantial amounts of resources (e.g. training and/or money). Moreover, as with all strategies, engaging in RM-based strategies makes sense only if the rewards outweigh the costs. Therefore, to make well-informed decisions regarding whether or not to engage in RM-based strategies and how to implement such strategies, an understanding of the benefits of well-executed RM-based strategies is necessary. That is, what are the indicators of relationship marketing success?

Relationship marketing research identifies a number of outcomes, goals, or indicators of successfully designed and implemented RM-based strategies. In general, RM-based strategies are designed to allow firms to more easily share, develop, and leverage resources (e.g. information, processes, and/or competences) with other firms and/or consumers. The result is that, by cooperating, firms are able to compete more efficiently and/or effectively (Morgan and Hunt, 1994). Specifically, as shown in Figure 5, successful RM-based strategies have been linked to:

- improvements in competitive advantages in the marketplace (Barclay and Smith, 1997; Day, 2000; Hunt, 1997);
- superior financial performance (Boles *et al.*, 2000; Hunt, 2000; Kalwani and Narayandas, 1995; Walter and Gemünden, 2000; Weber, 2000);
- increased levels of customer satisfaction (Abdul-Muhmin, 2002; Schellhase *et al.*, 2000);
- organizational learning (Selnes and Sallis, 2003);
- partners' propensity to stay (Gruen *et al.*, 2000; Jap, 2001; Verhoef, 2003);
- acquiescence by partners (Kumar *et al.*, 1992; Morgan and Hunt, 1994); and
- decreases in uncertainty (Achrol and Stern, 1988; Morgan and Hunt, 1994).

These indicators of success, it should be noted, are not considered independent. For example, competitive advantage is posited to promote superior financial performance (Hunt, 2000).

Given that many firms adopt (or claim to adopt) RM-based strategies, why are some firms' efforts more successful than others? Research in the area of relationship marketing has identified a minimum of eight types of factors that influence RM-based strategy success:

1. Relational factors.
2. Resource factors.
3. Competence factors.
4. Internal marketing factors.
5. Information technology factors.
6. Market offering factors.
7. Historical factors.
8. Public policy factors.

We discuss the theoretical reasoning underlying each.

Relational factors

Relationship marketing theory concerning relational factors and their influence on RM-based strategy success builds on social exchange theory (Blau, 1964; Homans, 1958; Macaulay, 1963; Thibaut and Kelley, 1959) and relational contracting (Macneil, 1980). Studies examining relational factors distinguish between discrete and relational exchanges. The former have a definite beginning, a definite end, a short duration, and involve anonymous parties, while the latter involve a series of exchanges over a long (or indefinite) period of time, with parties who know each other (Dwyer *et al.*, 1987; Macneil, 1980). The relational factors view suggests that successful relationship marketing results from certain aspects of the relationships that characterize successful relational exchanges.

Although extant research identifies numerous factors associated with successful relational exchanges, the six factors cited most often are:

1. Trust (Dwyer *et al.*, 1987; Morgan and Hunt, 1994; Sividas and Dwyer, 2000; Smith and Barclay, 1997; Wilson, 1995).
2. Commitment (Anderson and Weitz, 1992; Day, 1995; Geyskens *et al.*, 1999; Moorman *et al.*, 1992).
3. Cooperation (Anderson and Narus, 1990; Morgan and Hunt, 1994).
4. Keeping promises (Grönroos, 1990, 1994).
5. Shared values (Brashear *et al.*, 2003; Morgan and Hunt, 1994; Yilmaz and Hunt, 2001).
6. Communication (Mohr and Nevin, 1990; Mohr *et al.*, 1996).

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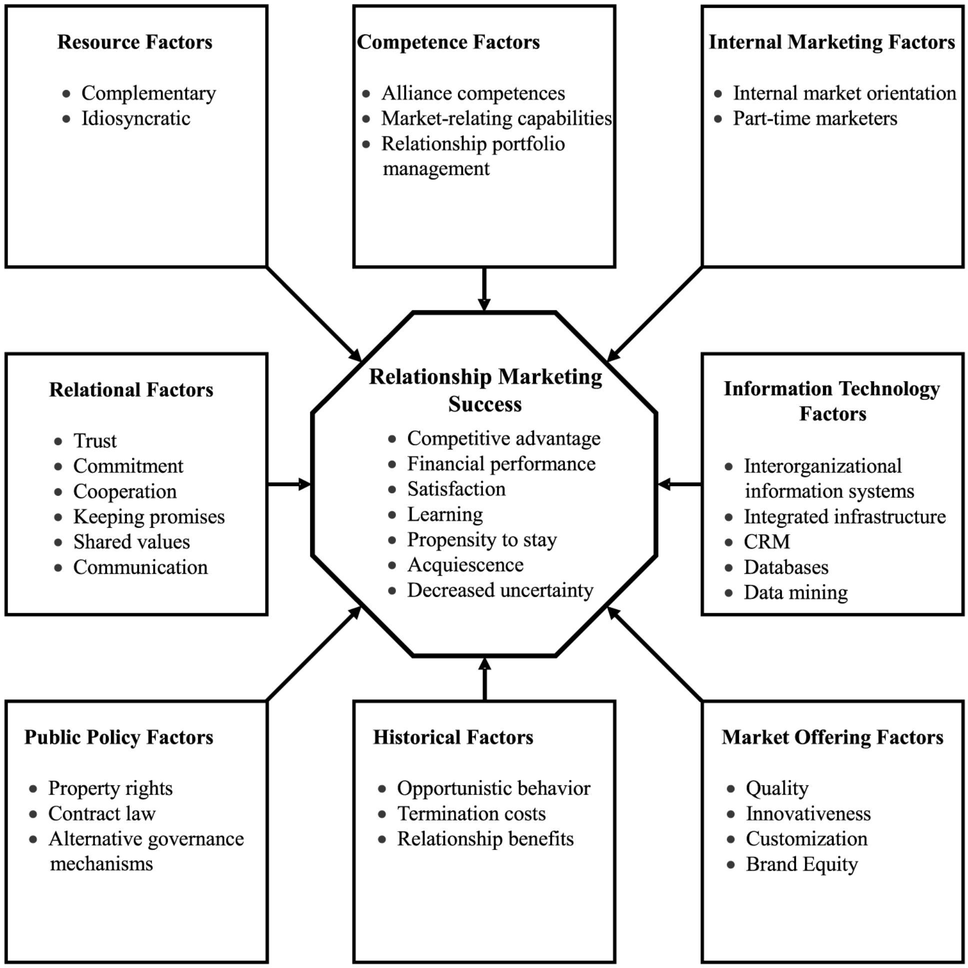
Figure 5 Factors accounting for relationship marketing success



Source: Hunt and Arnett (2004)

For example, Spekman *et al.* (2000, p. 43) maintain that trust and commitment "are the *sine qua non* of alliances, for without trust and commitment, there can be no alliance." Furthermore, interfirm relationships are based on the thesis that firms must often "cooperate to compete" (Morgan and Hunt, 1994). Relationships characterized by effective communication, shared values, and keeping promises generate inter-firm trust, which promotes cooperation (Grönroos, 1990, 1994; Morgan and Hunt, 1994; Sarkar *et al.*, 2001). Effective cooperation, in turn, allows partners to successfully combine their resources in ways that contribute to the development of competitive advantages (Madhok and Tallman, 1998). Therefore, the relational factors explanation of RM-based strategy success urges marketers to develop and nurture the characteristics of relationships that are associated with successful relational exchange, that is, trust, commitment, communication, keeping promises, shared values, and cooperation.

Resource factors

Relationship marketing theory that focuses on resource factors and their influence on RM-based strategy traces to the work of Penrose (1959) and the seminal articles of Lippman and Rumelt (1982), Rumelt (1984), and Wernerfelt (1984) that have developed the "resource-based view" of the firm. In turn, the resource-based view of the firm provides input to the resource-advantage theory of competition (Hunt, 2000; Hunt and Morgan, 1995). Resources are defined as:

> Any tangible or intangible entity available to the firm that enables it to produce efficiently and/or effectively a market offering that has value for some market segment(s) (Hunt and Morgan, 1995, p. 11).

The fundamental thesis of the resource-based view of the firm is that resources are significantly heterogeneous across firms. Consequently, each firm's resource set is in some ways unique. In addition, some resources cannot be easily bought, sold, and/or traded in the marketplace (i.e. they are imperfectly mobile) (Das and Teng, 2000; Dierickx and Cool, 1989). As a result, resource heterogeneity among rivals can persist over time, and resource differences among firms explain performance diversity (Connor, 1991).

As to inter-firm relationships, researchers maintain that RM-based strategy success is influenced significantly by the resources that each partner contributes to a relationship and the extent to which new resources are created within a relationship (Jap, 1999). Das and Teng (2000, p. 36) suggest that RM-based strategy "is about creating the most value out of one's existing resources and by combining these with others' resources." However, it is rare that all of a partner's resources are essential for superior performance. As Das and Teng (2000) point out, the resources of partners may be "overlapping" (i.e. common to both partners) or "nonoverlapping" (i.e. unique to a given partner). They maintain that overlapping resources can be either useful to an alliance ("supplementary" resources) or not useful ("surplus"). Similarly, they maintain that non-overlapping resources can be either useful to an alliance ("complementary" resources) or not useful ("wasteful"). Although supplementary resources benefit RM-based strategies, research suggests that complementary resources are especially important to success (Das and Teng, 2000; Sarkar *et al.*, 2001). For example, Jap (1999) suggests that partners with complementary resources are compelled to overlook difficulties and focus on strategic outcomes because they recognize that they can produce outcomes together that are superior to those that either firm could produce singly.

In addition to the resources that partners bring to a relationship, some relationships also develop new resources. Such relationship-derived, "idiosyncratic resources" are:

- developed during the life of a relationship;
- created by combining the respective resources of partners; and
- unique to the relationship (Lambe *et al.*, 2002).

Research suggests that idiosyncratic resources are prominent in RM-based strategy success. For example, Lambe *et al.* (2002) examine 145 strategic alliances and find that idiosyncratic resources represent a key mediating variable in their alliance competence model. Therefore, the resource factors explanation of RM-based strategy success urges marketers to search for partners with complementary resources and diligently create idiosyncratic resources.

Competence factors

Relationship marketing theory concerning competence factors draws on the strategic management literature. There, a competence is defined as "an ability to sustain the coordinated deployment of assets in a way that helps a firm to achieve its goals" (Sanchez *et al.*, 1996, p. 8). Research on competences traces to the seminal works of Selznick (1957), Andrews (1971), Chandler (1990), Hamel and Prahalad (1989, 1993, 1994a, b), Prahalad and Hamel (1990), Reed and DeFillippi (1990), Lado *et al.* (1992), and Teece and Pisano (1994). Because competences are crucial to enabling firms to use their resources efficiently and/or effectively, competences represent a logical extension of the resource-based view (Lado *et al.*, 1992; Reed and DeFillippi, 1990). Indeed, R-A theory considers competences to be "higher order" resources (Hunt, 2000). Competences are often sources of competitive advantage because they are tacit, complex, and firm-specific (Reed and DeFillippi, 1990). As Nonaka (1994, p. 16) emphasizes, competences are:

> Difficult to accurately describe and are deeply rooted in action, commitment, and involvement in a specific context.

Therefore, because many competences cannot be explicitly articulated, they are "learned by doing" (Polanyi, 1966). Furthermore, because competences involve complex interrelationships among the skills of many individuals (Winter, 1987), they "are deeply embedded within the fabric of the organization" (Day, 1994, p. 38).

As to inter-firm relationships, researchers suggest that RM-based strategy success is influenced significantly by a firm's ability to develop an alliance competence, which is defined as "an organizational ability for finding, developing, and managing alliances" (Lambe *et al.*, 2002, p. 145). To improve RM-based strategy success, firms must identify and integrate resources that promote the identification, development, and management of alliances. Knowledge management is a key component of alliance competence development and maintenance. As Kale *et al.* (2002) maintain, firms must be able to collect and disseminate alliance "know-how," which often consists of tacit knowledge that is based considerably on a firm's alliance history. A significant portion of this knowledge resides within the individuals involved in relationship management. Firms that can find ways to facilitate the dissemination of individual-based knowledge (both within and between partners) will be more successful at forming and maintaining inter-firm relationships. For example, Simonin (1997) finds that, when alliance managers learn how to collaborate with alliance partners (i.e. share knowledge), alliances are more successful. Therefore, the development of an alliance competence requires knowledge accessibility, facilitative mechanisms, and effective knowledge leveraging (Inkpen, 1998; Spekman *et al.*, 2000).

Day (2000) maintains that firms can develop a market-relating (customer-relating) capability (or competence). For him, a market-relating capability results from firms developing concomitantly three organizational components:

1. "An organizational orientation that makes customer retention a priority and gives employees, as an overall willingness to treat customers differently, wide latitude to satisfy them."
2. "A configuration that includes the structure of the organization, its processes for personalizing product or service offerings, and its incentives for building relationships."
3. "Information about customers that is in-depth, relevant, and available through IT systems in all parts of the company" (Day, 2003, p. 77).

As Day (2000, p. 24) acknowledges:

> Not every firm can or should try to master the market-relating capability.

However, because market-relating capabilities are difficult to imitate, they often result in sustainable competitive advantages over rivals.

Not all relationships should be nurtured. As Gummesson, 1994, p. 17) emphasizes:

> Not all relationships are important to all companies all of the time ... some marketing is best handled as transaction marketing.

That is, not all of the possible relationships with potential stakeholders are advantageous. Therefore, it is important that managers develop an ability to manage effectively their "relationship portfolios." Hunt (1997) suggests that firms should develop a relationship portfolio that is comprised of relationships that add to firm efficiency and/or effectiveness. He maintains that:

> Every potential and existing relationship should be scrutinized to ensure that it contributes to the firm's ability to efficiently and/or effectively produce a market offering that has value to some market segment(s) (Hunt, 1997, p. 439).

Therefore, the competence explanation of RM-based strategy success urges marketers to develop alliance competences, hone their market-relating capabilities, and manage well their relationship portfolios.

Internal marketing factors

Relationship marketing theory highlights the importance of personal interactions not just for individuals across firms but also for employees within firms. Therefore, RM-based strategy research investigates "internal marketing" factors. For example, the "Nordic School" approach to service marketing emphasizes the importance of developing employees who view themselves as part of the overall marketing process (Grönroos, 2000; Grönroos and Gummesson, 1985; Gummesson, 1991, 1997). However, as Gummesson (1991) points out, many of the employees who influence RM-based strategy success are not "full-time marketers." That is, many employees are (and ought to be) part-time marketers:

> They carry out marketing activities but, in contrast to the full-time marketers, they do not belong to the marketing or sales department (Gummesson, 1991, p. 60).

Internal marketing theorists emphasize that employee "buy-in" is crucial for RM-based strategy success. Indeed, as Arnett *et al.* (2002, p. 87) maintain:

> To implement new marketing approaches successfully, it is often necessary to first alter the culture of an organization to help align employees' attitudes with the new strategy.

In general, this necessitates the development of a service orientation within the firm, which, in turn, requires the development of good relationships among employees in the organization. As Grönroos, 2000, p. 330) stresses:

> Without good and well-functioning internal relationships, external customer relationships will not develop successfully.

To implement successfully RM-based strategies, managers should identify and satisfy the wants and needs of employees. That is, they must have an internal market orientation (Lings, 2004). An internal market orientation increases internal aspects of performance (e.g. employee satisfaction and employee commitment), which, in turn, impacts positively both the firm's external market orientation and external aspects of performance (e.g. customer satisfaction and profit). Therefore, the internal marketing explanation of RM-based strategy success urges marketers to ensure that all employees of the firm participate in developing the intra-firm relationships that promote relationship marketing success.

Information technology factors

Relationship marketing theory notes that collaborative relationships require considerable transfers of technology and knowledge sharing among partners (Lam, 1997). As a result, successful RM-based strategies often require firms to adopt interorganizational information systems (e.g. electronic data interchange (EDI) systems) and to create organizational processes that are conducive to knowledge use and sharing.

For example, to foster supplier-manufacturer relationships, the US automobile manufacturers developed an Extranet called the Automotive eXchange Network (AXN), which links automobile manufacturers with several thousand suppliers (Evans and Wurster, 1997).

The decision to adopt an interorganizational information system, however, is not a unilateral one. "Interorganizational systems involve the cooperation and commitment of all participating members" (Premkumar and Ramamurthy, 1995). Therefore, the successful adoption of interorganizational information systems requires the existence of a close relationship among the firms involved to foster involvement or the exercise of power to force involvement. In the former case, partners adopt the technology because they perceive that it will further the goals of the relationship and those of their individual firm. In the latter case, a firm (e.g. a large automobile company) requires its suppliers to adopt a specific interorganizational information system as a requisite for future business. The benefits of adopting successfully interorganizational information systems include increases in both internal and interorganizational efficiency (Bakos and Treacy, 1986; Johnston and Vitale, 1988), improvements in relationships among partners (Vijayasarathy and Robey, 1997), and increases in inter-firm cooperation (Konsynski and McFarlan, 1990; Vijayasarathy and Robey, 1997).

However, the development of interorganizational information systems is not sufficient for ensuring cooperation. To improve the success of interorganizational information systems, firms must also adapt their existing infrastructures in ways that facilitate the collaboration and sharing of knowledge across internal organizational boundaries (Gold *et al.*, 2001). A firm's infrastructure must link its information systems with its communication systems. As Menon and Varadarajan (1992, p. 53) emphasize:

> Relevant information must be produced and disseminated to the various departments and managers in the most appropriate form to enhance use.

Therefore, information technology (IT) infrastructure facilitates knowledge use and knowledge sharing through better internal communication flows. Therefore, the information infrastructures and the communication infrastructures within firms must be integrated.

Managing relationships with customers is especially challenging for many firms because they engage in many different types of transactions, and their customers' needs and wants vary considerably. To meet these challenges, many firms are turning to formal, customer relationship management (CRM) programs that center on segmenting customers based on needs and/or profitability and designing and implementing programs to allocate efficiently/effectively the appropriate resources to each customer (Srivastava *et al.*, 1999). Appropriate resource allocation enables benefits to flow to both the organization and its customers (Ramsey, 2003). CRM programs involve a relationship management component (e.g. support teams and loyalty programs) and a data-driven component (e.g. identifying profitable segments through statistical techniques) (Dowling, 2002). The first component of CRM is stressed by the Industrial Marketing and Purchasing (IMP) Group (Axelsson and Easton, 1992; Ford, 1990; Hakansson, 1982). In this approach, informational technology supports the CRM process by providing a mechanism by which customer needs can be uncovered. In contrast, the second component of CRM is driven by information technology. That is, customer data are analyzed to uncover previously unknown relationships that can be used to develop marketing strategies.

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Data-driven CRM programs emphasize databases and the use of data-mining techniques such as decision trees, neural networks, and cluster analysis (Nairn and Bottomley, 2003):

> Data-mining attempts to formulate, analyze, and implement basic induction processes that facilitate the extraction of meaningful information and knowledge from unstructured data (Grossman *et al.*, 1999, p. 1).

Such approaches are based on the premise that the sheer amount and complexity of information-rich data collected and stored within firms prevents managers from seeing all of the useful relationships within their databases. The results of CRM data-mining efforts may be insights, rules, or predictive models that can be used to better manage customers. For example, data-mining can be used to:

- predict customer responses to direct marketing efforts;
- identify important customers who warrant special attention; and
- isolate customers who cost more than they contribute and, therefore, should be abandoned (Peacock, 1998a, b).

Therefore, the information technology explanation of RM-based strategy success urges marketers to develop interorganizational information systems, integrate their information and communication infrastructures, and implement CRM programs to manage efficiently and effectively their customer relationships.

Market offering factors

Relationship marketing theory concerning market offering factors notes that one firm's market offering may become a valued resource for other firms' strategies. For example, a retailer may form a long-term relationship with a supplier because it allows favored access to the supplier's valuable market offerings. For the retailer, the supplier's market offerings become a resource because they enable it to provide more value to its own customers. The more valuable the supplier's market offerings are, the more desirable the ongoing relationship becomes:

> A market offering is a distinct entity that (1) is composed of a bundle of attributes, which (2) may be tangible or intangible, objective or subjective, and which (3) may be viewed by some potential buyer(s) as a want satisfier (Hunt, 2000, p. 43).

Most market offerings have blends of tangible (e.g. a car's motor and body style) and intangible attributes (e.g. a car's warranty and reliability). If tangible attributes predominate, market offerings are referred to as goods; if intangibles predominate, they are services. Attributes of market offerings considered to be relatively more objective or subjective depending on the degree of uniformity across buyers as to the importance weights given to different attributes, the extent to which different market offerings have or do not have different attributes, and the extent to which different offerings have different levels of attributes. In all cases, consumer perceptions – that is, subjective factors – are dispositive. The result is that market offerings perceived by consumers to be closer to their ideal constellation of attributes are, indeed, more valuable.

Common attributes used by consumers for comparison purposes include quality, innovativeness, and the degree to which the market offering can be customized to meet individual needs. As to quality, higher levels of quality are associated with market offerings that are perceived as:

- better meeting consumer needs and wants;
- are more reliable; and
- are more durable (Clark *et al.*, 1994; Crosby *et al.*, 2003; Garvin, 1987).

As a result, high quality market offerings, by providing more value to consumers, often enable firms to occupy marketplace positions of competitive advantage (Hunt and Morgan, 1995).

As to innovativeness, this refers to a market offering's perceived newness, originality, uniqueness, and radicalness (Henard and Szymanski, 2001). Research suggests that innovative products tend to be more successful (Cooper, 2000; Troy *et al.*, 2001). Kleinschmidt and Cooper (1991) find that innovative market offerings are more likely to:

- be successful and more profitable;
- have higher domestic and foreign market shares;
- open new windows of opportunity; and
- meet sales and profit objectives.

One resource that has been identified as a valuable source of competitive advantage for many organizations is the equity that has accrued to their brands (Aaker, 1991; Bharadwaj *et al.*, 1993; Keller, 1998). Indeed, "perhaps a firm's most valuable asset for improving marketing productivity is the knowledge that has been created about the brand in consumers' minds from the firm's investment in previous marketing programs" (Keller, 1993, p. 2). This knowledge, if positive, adds value to the organization's market offerings. Benefits derived from a strong brand include greater customer loyalty (Keller, 1998), less vulnerability to competitors' actions (Aaker, 1991; Kamakura and Russell, 1991; Keller, 1998), product differentiation (Bharadwaj *et al.*, 1993; Park *et al.*, 1986), and larger profit margins (Keller, 1998; Yoo and Donthu, 2001).

The added value associated with brand equity constitutes a complex, "higher order" resource for organizations (Hunt, 2000). That is, the development of brand equity results from organizations using an effective combination of resources (e.g. financial, physical, organizational, relational, legal, informational, and human resources) and marketing strategies (e.g. product selection and promotional campaigns). Indeed, brand equity has characteristics that often allow it to become a source of long-term competitive advantage for organizations because, at least in part, trademark laws protect the names and symbols used by organizations to represent their businesses and/or their market offerings. Therefore, competitors cannot simply duplicate the offerings of competitors by appropriating their competitors' brand names. One of the most important consequences of a strong brand name stems from the fact that equity requires a considerable time to develop (i.e. there are time compression diseconomies). Therefore, competitors, in their efforts to respond to competitors' high-equity brands, may find it difficult to develop quickly strong brand names of their own. Therefore, the market offering explanation of RM-based strategy success urges firms to focus on relationships that can provide access to high-equity market offerings and/or contribute to the development of high-equity market offerings.

Historical factors

Relationship marketing theory takes note that successful relationships require time to develop. Unlike short-term (transaction-based) exchanges, successful, long-term relationships have a history. As a result, partners' behaviors, past and present, have the ability to affect future interactions. As Morgan (2000, p. 485) emphasizes:

> Partners must view past interactions with their partners favorably and believe that future actions by their relationship partners will be constructive – they must perceive that they and their partners are, and will continue to be, compatible.

Research suggests that historical factors can have a significant impact on inter-firm relationships (Anderson and Narus, 1990; Bucklin and Sengupta, 1993; Morgan and Hunt, 1994). Identified factors include, opportunistic behavior, past relationships benefits, and the build-up of high termination costs (Morgan and Hunt, 1994).

Opportunistic behavior entails "deceit-orientated violation of implicit or explicit promises about one's appropriate or required role behavior" (John, 1984, p. 279). For example, a manufacturer may shift business away from a long-time supplier in a manner that violates the established norms of the relationship. Such behavior, if revealed, may reduce the suppliers trust in the manufacturer, which, in turn, may affect future interactions (e.g. price negotiations). In contrast, some historical factors influence positively the relationship development/maintenance process. For example, the purpose of many RM-based strategies is to allow firms access to needed resources that enable them to offer more value and/or lower costs than rivals (i.e. they enable both partners to gain competitive advantages over rivals), which, in turn, leads to superior financial performance (Hunt, 2000; Hunt *et al.*, 2002; Lambe *et al.*, 2002). That is, many RM-based strategies result in substantial relationship benefits. Relationship benefits, in turn, strengthen the relationship commitment of partners. As Morgan and Hunt (1994, pp. 24-25) maintain:

> Because partners that deliver superior benefits will be highly valued, firms will commit themselves to establishing, developing, and maintaining relationships with such partners.

The development of relationships among firms often requires partners to invest in resources that have little or no value outside the relationship (i.e. idiosyncratic resources) (Anderson and Weitz, 1992; Heide and John, 1988; Mentzer, 2000). That is, relationships require partners to practice joint adaptation (Narus and Anderson, 1995). For example, the development of interorganizational information systems (e.g. EDI systems) often requires partners to invest in computer technology that is non-fungible. Such idiosyncratic investments, coupled with other factors that make relationship dissolution more difficult, increase relationship termination costs:

> Termination costs are all expected losses from termination and result from the perceived lack of comparable potential partners, relationship dissolution expenses, and/or substantial switching costs (Morgan and Hunt, 1994, p. 24).

Relationships characterized by high termination costs result in the ongoing relationship being viewed as important, which results in increased relationship commitment. Therefore, the historical factors explanation of RM-based strategy success urges marketers to manage the interactions with all relationship partners so that, through time, opportunistic behaviors are minimized, benefits are equitably distributed, and termination costs are monitored.

Public policy factors

Relationship marketing theory acknowledges that sometimes firms must cooperate to compete (Hunt, 1997; Morgan and Hunt, 1994). However, as with other marketing strategies, RM-based strategies are affected by public policy. The law sets boundaries for all forms of exchange, including relational exchange. Therefore, changes in rules and regulations often have profound effects on inter-firm relationships. First, antitrust laws restrict cooperative efforts. It is widely acknowledged that current antitrust law is strongly guided by neoclassical, equilibrium economics, with its hostility to inter-firm cooperation (Hunt and Arnett, 2001). Therefore, RM-based strategy success depends on how regulators interpret and respond to firms' cooperative efforts.

Second, as Gundlach (1996, p. 186) points out:

> Two key areas of law constituting the legal infrastructure of exchange include property law and contract law.

Property law applies to exchange through assigning basic rights and responsibilities to those having an interest in both intangible (e.g. ideas) and tangible (e.g. buildings) objects (Cribbet, 1986). In contrast, contract law addresses the rules, procedures, and remedies for exchanging the objects in which firms and individuals have the associated rights and responsibilities (Calamari and Perillo, 1987). Both property law and contract law tend to evolve as the nature of exchange evolves. As Vargo and Lusch (2004, p. 1) point out:

> Marketing has shifted much of its dominant logic away from the exchange of tangible goods (manufactured things) and toward the exchange of intangibles, specialized skills and knowledge, and processes (doing things for and with).

The shift from an emphasis on tangibles to intangibles has produced unique challenges for public policy. As a result, even the most basic definitions (e.g. what constitutes "property") are in a constant state of transition (Cribbet, 1986). Therefore, public policy must keep up with the realities of exchanges in the marketplace. For Gundlach (1996, p. 199):

> As to the public policy concerning the law of property, considerable challenges exist. On the one hand, continued emphasis of this body of law toward clearly defined, market-based exchanges stands in contrast to the nature of exchange relationships and the practice of relationship marketing. At the same time, however, the interests that underlie the principal values of property law represent important social goals. In this respect, a future challenge of public policy is the development of property-related law that retains its emphasis of clear rights in property and its inalienability while being sensitive to the continued evolution of exchange toward the relational archetype.

Although public policy concerning the laws that govern exchanges is adapting to more closely match the realities of the marketplace, some scholars highlight the fact that property and contract laws will never be able to accommodate the complex nature of relational exchanges (Morgan and Hunt, 1994). Instead, research emphasizes the need to rely on alternative bases of governance (e.g. trust-based governance) (Hunt and Arnett, 2003). From a public policy perspective, when such governance mechanisms result in positive outcomes not just for firms, but also for society, they must be recognized and supported. Therefore, the public policy explanation of RM-based strategy success urges marketers to understand the current state of antitrust, property, and contract law and work toward revising laws that inhibit the adoption and implementation of societally beneficial relational exchange.

Conclusion

Although relationship marketing is a relatively young field of inquiry, relationship marketing theory is an extremely rich area of research. As Figure 1 shows, relationship marketing can take many forms and, as a result, relationship marketing theory has the potential to increase our understanding of many aspects of business strategy. To further the development of the explanatory foundations of relationship marketing theory, we provide answers to three "why" questions:
1 Why is relationship marketing so prominent now?
2 Why do firms and consumers enter into relationships with other firms and consumers?
3 Why are some efforts at relationship marketing more successful than others?

The answers to these questions, we argue, provide a broad base from which to view relationship marketing theory.

First, we suggest that the prominence of relationship marketing is due not just to the rise of services, technology, and information-oriented firms, but also to the rise of strategic network competition. Strategic network competition, which involves independent owned and managed firms agreeing to become partners within a network, emphasizes the importance of inter-firm cooperation as a means to compete successfully with other networks. To be successful (both individually and as a network), the firms in a strategic network must become proficient at relationship marketing.

Second, relationship marketing theory implies that consumers enter into relational exchanges with firms when they believe that the benefits derived from such relational exchanges exceed the costs. We identify the benefits to include:
- the belief that a particular partner can be trusted to reliably, competently, and non-opportunistically provide quality market offerings;
- the belief that the partnering firm shares values with the consumer;
- the customer experiences decreases in search costs;
- the customer perceives that the risk associated with the market offering is lessened;
- the exchange is consistent with moral obligation; and
- the exchange allows for customization that results in better satisfying the customer's needs, wants, tastes, and preferences.

We identify the costs to include:
- the premature exclusion of market offerings from other firms that might potentially be superior;
- the monetary and time costs of co-production;
- the decreased prices that might result from accepting standardized market offerings; and
- the increased potential vulnerability of the consumer to the partner's opportunistic behavior.

Third, using R-A theory, we argue that firms engage in relationship marketing because it increases their competitiveness. In other words, they do so when relationships contribute to the firm's ability to efficiently/effectively produce market offerings that have value for some market segment(s). That is, they do so when relationships become resources. Relational resources have the potential to improve a firm's marketplace position and, in turn, its financial performance.

Fourth, based on relationship marketing theory and shown in Figure 5, we outline and discuss eight factors that influence RM-based strategy success:
1 Relational factors (e.g. trust and commitment).
2 Resource factors (e.g. complementary and idiosyncratic resources).
3 Competence factors (e.g. alliance competences and market-relating capabilities).
4 Internal marketing factors (e.g. internal market orientation and part-time marketers).
5 Information technology factors (e.g. interorganizational information systems and CRM).
6 Market offering factors (e.g. quality and innovativeness).
7 Historical factors (e.g. opportunistic behavior and termination costs).
8 Public policy factors (e.g. property rights and contract law).

These factors, with each being important for relationship marketing theory, are drawn from diverse literature streams. Therefore, they are often examined independently of each other. For example, the competence-based factors explanation of RM-strategy success draws heavily on the strategic management literature, while the relational factors view draws on the relationship marketing literature, and the information technology factors approach stems from the information technology literature. Each approach constitutes (or should constitute) a component of relationship marketing theory. Together, they provide a strong foundation for developing relationship marketing theory.

As relationship marketing theory and practice is developed further, we hope that our article will provide useful guidance to those involved. From a marketing theory standpoint, the eight kinds of factors in Figure 5 provide guidance to researchers exploring the many forms of relational marketing outlined in Figure 1. For practitioners, they provide a useful framework for evaluating extant relationship marketing strategies and for developing future strategies.

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