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Competing Through Relationships: Grounding Relationship Marketing in Resource-Advantage Theory

A common element of all views of relationship marketing is the "co-operate-to-compete" thesis. That is, to be an effective competitor often requires one to be an effective co-operator. One implication of this thesis is that not all instances of firms co-operating with each other constitute anti-competitive collusion. *This article argues that, although neoclassical, perfect competition theory cannot provide a theoretical foundation for relationship marketing's "co-operate-to-compete" thesis, the recently developed "resource-advantage" theory of competition can do so. Furthermore, this article uses resource-advantage theory to address the relationship portfolio conundrum. Specifically, the paper argues that firms should develop a relationship portfolio that is comprised of relationships that constitute* relational resources.

Introduction

Numerous definitions of relationship marketing have been offered. For example, 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," and Morgan and Hunt (1994) propose that "relationship marketing refers to all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges."

Although the various perspectives on relationship marketing differ, one common element is that all view relationship marketing as implying that, increasingly, firms are competing through developing relatively long-term relationships with such stakeholders as customers, suppliers, employees, and competitors. Consistent with the Nordic School (Grönroos and Gummesson 1985; Grönroos 1990) and the IMP

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Group (Hakansson 1982; Ford 1990; Axelsson and Easton 1992), the emerging thesis seems to be: "To be an effective *competitor* (in the global economy) requires one to be an effective *cooperator* (in some network)" (Morgan and Hunt 1994). Indeed, for Sheth and Parvatiyar (1995), the "purpose of relationship marketing is, therefore, to enhance marketing productivity by achieving efficiency and effectiveness."

Two observations on the "co-operate-to-compete" thesis can be made. First, theoretically grounding the thesis requires a theory of competition that is radically different from neoclassical theory. This is because neoclassical theory customarily views firms' co-operating as constituting anti-competitive *collusion*. Second, none of the previously cited authors naively maintains that a firm's efficiency and effectiveness are always enhanced by establishing relationships with all potential stakeholders. Clearly, advocates of relationship marketing recognize that firms should at times avoid developing certain relationships. As Gummesson (1994, p. 15) observes, "Not all relationships are important to all companies all the time...some marketing is best handled as transaction marketing." Indeed, he counsels firms: "Establish which relationship portfolio is essential to your specific business and make sure it is handled skillfully" (p. 15). As to how to determine the composition of the portfolio, he urges firms to "calculate the cost and revenue of the relationships and ultimately the contribution to profits from the portfolio" (p. 17).

However, as Gummesson (1994) points out, determining which relationships should go into the relationship portfolio by explicitly calculating the profitability of each prospective relationship is extraordinarily difficult—if not, at least sometimes, impossible. Therefore, addressing the conundrum of establishing an optimum relationship portfolio requires examining why some relationship portfolios, some relationship "mixes", are in general, more profitable than others. More specifically, under what circumstances will firms' developing relationships with such entities as suppliers, competitors, employees, and customers likely lead to enhanced financial performance?

This article has two objectives. First, I argue that the "resource-advantage theory of competition," (hereafter, R-A theory), as developed in Hunt (1995, 1996, 1997*a*,*b*) and Hunt and Morgan (1995, 1996, 1997), can provide a theoretical foundation for relationship marketing. R-A theory was originally developed to overcome certain deficiencies of the currently dominant theory of competition, i.e. neoclassical "perfect" competition. The various works explicating R-A theory reveal that it:

(1) contributes to explaining firm diversity (Hunt and Morgan 1995);
(2) contributes to explaining differences between market-based and command economies on the dimensions of productivity, quality, and innovativeness (Hunt and Morgan 1995);
(3) contributes to explaining why the Soviet Union's economy stopped growing after 1960 (Hunt 1995);
(4) contributes to explaining why societal institutions that promote social trust are productivity enhancing (Hunt 1997*b*);
(5) is genuinely dynamic (Hunt 1995; Hunt and Morgan 1996);
(6) provides a theoretical foundation for endogenous growth models (Hunt 1996);
(7) has all the requisite building blocks and attributes of a phylogenetic, non-consummatory, evolutionary theory (Hunt 1997*a*);
(8) accommodates path dependencies (Hunt and Morgan 1996);

(9) incorporates perfect competition as a limiting, special case (Hunt and Morgan 1997);
(10) incorporates the predictive successes of neoclassical theory (Hunt and Morgan 1997); and
(11) preserves the cumulativity of economic science (Hunt and Morgan 1997).

The question addressed here is whether R-A theory can provide a theoretical foundation for the "co-operate-to-compete" thesis in particular, and relationship marketing in general.

Second, I use R-A theory to address the relationship portfolio conundrum. Specifically, I argue for the following position: Firms should develop a relationship portfolio that is comprised of relationships that constitute *relational resources*. First, this article briefly provides an overview of the pedigree and structure of R-A theory. I then show how R-A theory can theoretically ground relationship marketing and conclude by exploring the nature of relationships that should be in the relationship portfolio.

The Pedigree of R-A Theory

The pedigree of R-A theory traces to several different literatures. First, it traces to the resource-based theory of the firm (Penrose 1959; Wernerfelt 1984; Conner 1991). Defining resources as the tangible and intangible entities available that enable a firm to produce a market offering that has value for some market segment(s), this theory views firms as combiners of heterogeneous, imperfectly mobile resources. Consistent with the view of institutional economics that the most important firm resources are intangibles (DeGregori 1987; Ranson 1987), the "resource-based view" has been significantly developed by Barney (1986, 1991, 1992), Barney and Hansen (1994), Black and Boal (1994), Brumagim (1994), Collis (1991, 1994), Conner (1991), Dierickx and Cool (1989), Grant (1991), Lado and Wilson (1994), Peteraf (1993), Prahalad and Hamel (1990, 1994), Schendel (1994), and Schoemaker and Amit (1994). Resource-based theory provides a significant part of the undergirding for Teece and Pisano's (1994) "dynamic capabilities" approach, Kay's (1995) "distinctive capabilities" view, and for what Nicolai Foss (1993) calls the "competence perspective" of the firm.

Second, R-A theory draws on marketing's heterogeneous demand theory (Alderson 1957, 1965; Chamberlin 1933). This theory holds that, because intra-industry demand is significantly heterogeneous, different market offerings are required for different market segments in the same industry. Third, R-A theory draws on competitive advantage theory (Alderson 1957, 1965; Clark 1961; Porter 1985). In this theory, marketplace positions of competitive advantage/disadvantage determine superior/inferior financial performance. Thus, firms can have an efficiency advantage, i.e. more efficiently producing value. Or they can have an effectiveness advantage, i.e. efficiently producing more value. Or they can have an efficiency/effectiveness advantage, i.e. *more* efficiently producing more value.

Fourth, R-A theory draws on evolutionary economics (Hodgson 1993; Marshall 1898; Nelson and Winter 1982; Schumpeter 1950). Evolutionary economics views competition as a selection process, a *struggle*. It is this process of competition that produces innovation, "creative destruction," increases in productivity, and economic

growth. Fifth, R-A theory draws on "Austrian" economics (Hayek 1935; Kirzner 1979; Mises 1920). For the Austrians, competition is a process of competitive rivalry in which information is dispersed and tacit. Therefore, competition is a knowledge-discovery process in which entrepreneurship and economic institutions are important.

Sixth, R-A theory draws on socio-economics and institutional theory (DeGregori 1987; Etzioni 1988; North 1990; Ranson 1987). R-A theory recognizes that societal institutions, such as customs, taboos, traditions, codes, and laws, produce order by structuring political, economic, and social interaction. The kind of order produced by societal institutions influences productivity and economic growth. Because societal institutions constrain individual and firm activities, moral codes matter. In particular, both individual and societal moral codes, which are primarily deontological in character, constrain utility and profit maximization. As just one consequence, trust is not only possible in R-A competition when participants share a moral code, but it also plays a significant role in fostering productivity and economic growth.

Although R-A theory draws on the previously cited streams of literatures, it is not precisely the same thing as any of the works in its pedigree. This can be most clearly seen by examining the structure of R-A theory (Figures 1 and 2) and its foundations (Table 1).

The Structure of R-A Theory

Figures 1 and 2 provide a schematic depiction of R-A theory's key constructs, and Table 1 shows its foundations. My overview here will follow closely the theory's treatment in Hunt (1995) and Hunt and Morgan (1996).

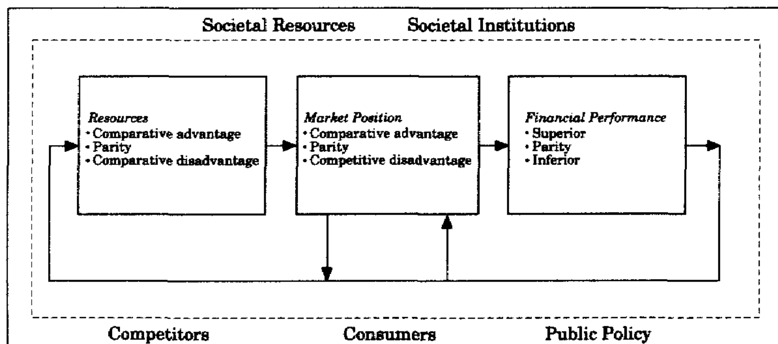

Figure 1. A schematic of the resource-advantage theory of competition. Competition is the disequilibrating, on-going process that consists of the constant struggle among firms for a comparative advantage in resources that will yield a marketplace position of competitive advantage and, therefore, superior financial performance. Firms learn through competition as a result of feedback from relative financial performance "signalling" relative market position, which, in turn signals relative resources. **Source:** *Adapted from Hunt (1995).*

Relative Recource-produced Value

Relative Resource Costs		Lower	Parity	Superior
	Lower	1 Indeterminate Position	2 Competitive Advantage	3 Competitive Advantage
	Parity	4 Competitive Disadvantage	5 Parity Position	6 Competitive Advantage
	Higher	7 Competitive Disadvantage	8 Competitive Disadvantage	9 Indeterminate Position

Figure 2. Competitive Position Matrix*. The marketplace position of competitive advantage identified as Cell 3 results from the firm, relative to its competitors, having a resource assortment that enables it to produce an offering for some market segment(s) that (a) is perceived to be of superior value and (b) is produced at lower costs.* Source: *Adapted from Hunt and Morgan (1995).

Because R-A theory draws heavily on Austrian economics and the Schumpeterian tradition in evolutionary economics, (i) innovation and organizational learning are endogenous to R-A competition, (ii) firms and consumers have imperfect information, and (iii) entrepreneurship and institutions affect economic performance. Because R-A theory incorporates marketing's heterogeneous demand theory, intra-industry demand is viewed as significantly heterogeneous as to consumers' tastes and preferences. Therefore, different market offerings are required for different

Table 1. Foundational propositions of Perfect Competition and Resource–advantage Theory

	Perfect competition theory	*Resource-advantage theory*
P1. Demand is:	Heterogeneous across industries, homogeneous within industries, and static.	Heterogeneous across industries, heterogeneous within industries, and dynamic.
P2. Consumer information is:	Perfect and costless.	Imperfect and costly.
P3. Human motivation is:	Self-interest maximization.	Constrained self-interest seeking.
P4. The firm's objective is:	Profit maximization.	Superior financial performance.
P5. The firm's information is:	Perfect and costless.	Imperfect and costly.
P6. The firm's resources are:	Capital, labour, and land.	Financial, physical, legal, human, organizational, informational, and relational.
P7. Resource characteristics are:	Homogeneous and perfectly mobile.	Heterogeneous and imperfectly mobile.
P8. The role of management is:	To determine quantity and implement production function.	To recognize, understand, create, select, implement, and modify strategies.
P9. Competitive dynamics are:	Equilibrium-seeking, with innovation exogenous	Disequilibrium-provoking, with innovation endogenous.

Source: Adapted from Hunt and Morgan (1995).

market segments in the same industry. Adopting strategic management's resource-based view of the firm, firms are theorized to be combiners of heterogeneous, imperfectly mobile resources. Combining the resource-based view of the firm with heterogeneous demand and imperfect information results in diversity in the sizes, scopes, and levels of profitability of firms not only across industries, but also within the same industry. R-A theory stresses the importance of market segments, a comparative advantage/disadvantage in resources, and marketplace positions of competitive advantage/disadvantage.

Market segments are intra-industry groups of consumers whose tastes and preferences for an industry's output are relatively homogeneous. (The ultimate segment is, of course, a segment of one.) Resources are the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s). Because many of the resources of firms within an industry are significantly heterogeneous and relatively immobile, some firms will have a comparative advantage and others a comparative disadvantage in efficiently/effectively producing market offerings that have value for particular market segments.

When firms have a comparative advantage (disadvantage) in resources, they will occupy marketplace positions of competitive advantage (disadvantage), as shown in Figure 1 and further explicated in Figure 2. Marketplace positions of competitive advantage (disadvantage) then result in superior (inferior) financial performance. Competition, then, is the constant struggle among firms for a comparative advantage in resources that will yield marketplace positions of competitive advantage for some market segment(s), and, thereby, superior financial performance. Competitive processes are significantly influenced by five environmental factors: the societal resources upon which firms draw, the societal institutions that form the "rules of the game" (North 1990), the actions of competitors, the behaviors of consumers, and public policy decisions.

R-A theory distinguishes between *pro-active* and *reactive* innovation. The former is innovation by firms that, although motivated by the expectation of superior financial performance, is not prompted by specific competitive pressures—it is genuinely entrepreneurial in the classic sense of "entrepreneur". In contrast, the latter is innovation that is directly prompted by the learning process of firms' competing for the patronage of a market segment(s). Both pro-active and reactive innovation contribute to the dynamism of R-A competition.

As the feedback loops in Figure 1 show, firms learn through competing as a result of the feedback from relative financial performance signalling relative market position, which, in turn, signals relative resources. When firms competing for a market segment learn from their inferior financial performance that they occupy positions of competitive disadvantage (cells 4, 7, and 8 in Figure 2), they attempt to neutralize and/or leapfrog the advantaged firm (or firms) by acquisition and/or reactive innovation. Reactive innovation includes imitating the resource, finding (creating) an equivalent resource, or finding (creating) a superior resource. Here, "superior" implies that the innovating firm's new resource enables it to surpass the previously advantaged competitor in terms of either relative efficiency, or relative value, or both.

Firms occupying positions of competitive advantage (cells 2, 3, and 6 in Figure 2) can continue to do so if:

(1) they engage in pro-active innovation;
(2) they continue to re-invest in the resources that produced the competitive advantage; and
(3) rivals' acquisition and reactive innovation efforts fail.

Rivals will fail (or take a long time to succeed) when an advantage producing resource is either protected by such societal institutions as patents or it is causally ambiguous, socially complex, highly interconnected, tacit, or has time compression diseconomies or mass efficiencies.

On Theoretically Grounding Relationship Marketing

In order for a theory of competition to provide a theoretical foundation for relationship marketing, the theory must admit at least the possibility that some kinds of co-operative relationships among firms may actually enhance competition, rather than thwart it. Neoclassical theory cannot ground relationship marketing, I suggest, because of how it conceptualizes resources. In particular, as Table 1 shows, neoclassical theory admits only capital, labour and land to qualify as firm resources, where "capital" is generally construed to be such tangible assets as machinery, inventory and buildings. Therefore, such intangibles as relationships, being outside the scope of the concept "resources" in neoclassical theory, cannot be considered as having value in the production process. Thus, it is no wonder that relationships among firms are generally viewed with great suspicion in neoclassical works as being evidence of anti-competitive collusion.

At first glance, one might believe that neoclassical theory could accommodate relationship marketing by the simple expedient of permitting such intangibles as relationships to be resources. But this it cannot do. As Table 1 shows, the commitment of neoclassical theory to the derivation of demand and supply curves requires that all resources be homogeneous and mobile. That is, it is only by neoclassical theory viewing each unit of each "factor" of production as being obtainable in the marketplace and identical with other units that neoclassical theory can draw demand and supply curves for each factor. Why, then, couldn't neoclassical theory simply discard the necessity of having demand and supply curves for each factor of production? Because demand and supply curves are necessary for determining prices in static equilibrium—which is the very cornerstone of neoclassical theory's "hard core" (Lakatos 1978).

Therefore, because (i) all relationships considered in relationship marketing have unique characteristics; and (ii) all such relationships are relatively immobile, i.e. they are not for sale, neoclassical theory cannot possibly accommodate the competition-enhancing aspects of relationship marketing. "Tinkering" with neoclassical theory won't suffice—a new theory is required. Indeed, what is required for a theory of competition to ground relationship marketing is that both the concept of resources must be expanded and the nature of resources must allow for heterogeneity and imperfect mobility. This is precisely what R-A theory does.

R-A theory defines resources as the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s). By expanding the view of resources to include all entities that have an enabling capacity, the multitude of potential resources can be

usefully categorized as financial (e.g. cash reserves and access to financial markets), physical (e.g. plant, raw materials, and equipment), legal (e.g. trademarks and licenses), human (e.g. the skills and knowledge of individual employees), organizational (e.g competencies, controls, policies, and culture), informational (e.g. knowledge about consumers, competitors, and technology), and — most importantly for relationship marketing — relational (e.g. relationships with competitors, suppliers, employees, and customers).

Note carefully that resources need not be owned by the firm, but just be available to it. Indeed, the relationships involved in relationship marketing are never owned by firms, but only available to them for the purpose of producing value for some market segment(s).

The relationships that a firm has access to become part of what R-A theory views as *organizational capital*, Falkenberg (1996) calls "behavioural assets", and Gummesson (1995, p. 17) refers to as "structural capital", which he defines as "those resources built into the organization such a systems, procedures, contracts, and brands which are not dependent on single individuals". As he points out, there is a strong shift towards recognizing that the total value of a firm is primarily determined by what he calls soft assets, not inventory and equipment. Thus, the value of many organizations "cannot be correctly assessed from traditional information in the balance sheet and the cost and revenue statements of the annual report" (p. 18). Even though accounting procedures for valuing these soft assets are in their infancy, firms are beginning to recognize "the fact that the customer base and customer relationships are ... assets, even the most important assets" (p. 18).

The recent work of Falkenberg (1996) provides data on just how important organizational capital is in determining the value of a firm. Falkenberg divides a firms's resources into physical assets, valuable paper (e.g. cash), and "behavioural assets," which he defines as the "routines and competencies of the people involved ... which are located not only inside, but outside the firm" (p. 4). As support for his thesis that it is behavioural assets that are the main source of wealth creation, he calculates the ratio of market price to book value for numerous firms in different industries in different years. Because book value reflects only the (depreciated) value of physical assets and valuable paper, the difference is an (albeit crude) estimate of the value of a firm's behavioral assets.

Falkenberg's study finds substantial across-industry variation. For example, whereas the behavioural assets of Home Depot, Inc., are valued at 6·6 times its book value, Texaco's behavioural assets are only 2·0 times its book value. Furthermore, he finds substantial within-industry variation. For example, not only did his sample of consumer goods' companies range from 0·8 (RJR Nabisco) to 15·0 (Coca-Cola), but even within the petroleum industry the ratios ranged from 2·0 (Texaco) to 3·2 (Phillips Petroleum). Moreover, even across only two years time (1993–1995), the ratio for individual firms changed dramatically, both up and down. For example, whereas Apple Computer went from 3·1 in 1993 to 2·1 in 1995, IBM went from 1·1 to 2·4.

In short, Falkenberg's work strongly supports the view that it is organizational capital — including a firm's relational resources — that is the principal determinant of its wealth-creating capacity, at least as viewed by investors. Furthermore, it strongly supports R-A theory's contention that firm resources are significantly heterogeneous and immobile. Thus, not only does R-A theory accommodate

relationship marketing by expanding the concept of resources to include intangibles, but it also views firm resources to be significantly heterogeneous and imperfectly mobile. Indeed, it is because of resource immobility that resource heterogeneity can exist through time despite the efforts of firms to acquire the same resources of particularly successful competitors (Dierickx and Cool 1989; Collis 1991; Peteraf 1993). Therefore, firms can have a sustainable competitive advantage and enjoy superior performance through time.

The preceding can be illustrated using strategic alliances as an example of a relationship in relationship marketing. Not only can R-A theory accommodate the fact that the alliance between Ford and Mazda is a *resource*, but also that the Ford–Mazda alliance differs significantly from that of General Motors and Toyota, i.e. it is a *heterogeneous* resource. Similarly, because it is not committed to static equilibrium solutions, not only can R-A theory accommodate the fact that the Ford–Mazda and General Motors–Toyota alliances are heterogeneous resources, but also that they are, for all intents and purposes, completely immobile — neither alliance can be bought or sold. Indeed, just as there is no neoclassical market — no demand or supply curve — for reputations, there is no *market* for relationships with suppliers, customers, employees, and competitors.

Because R-A theory admits intangibles as resources and because it views firm resources as significantly heterogeneous and immobile, it can theoretically ground relationship marketing. Thus relationships in R-A theory are not presumptively anti-competitive collusion. Indeed, relationships involved in relationship marketing are considered to be pro-competitive when they constitute relational resources, i.e. when they contribute to firms efficiently and/or effectively producing market offerings that have value to a market segment(s).

The Relationship Portfolio Conundrum

How should firms address the relationship portfolio conundrum? The thesis advanced here is that firms should develop a relationship portfolio that is comprised of relationships that constitute relational resources. That is, 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). Consider, again, the highly successful, long-term relationship between Ford and Mazda. On Ford's side, it has gained significantly in the areas of manufacturing and product development. On Mazda's side, it has gained from Ford's expertise in the areas of international marketing, finance, and marketing research. Thus, the relationship contributes to both firms' efficiency/effectiveness.

R-A theory places great emphasis on the importance of understanding the role of organizational competencies (Prahalad and Hamel 1990), which can be thought of as higher-order, socially complex, highly interconnected, combinations of tangible and intangible basic resources that fit coherently together and enable a firm to efficiently/effectively produce valued market offerings. In this regard, Teece and Pisano (1994) highlight the importance of "dynamic capabilities", which they define as "the subset of the competencies/capabilities which allow the firm to create new products and processes, and respond to changing market circumstances". They

argue that a firm should develop its strategy by taking into close account its "managerial and organizational processes, its present position, and the paths available to it" (p. 541). By "position," they refer to the firm's "current endowment of technology and intellectual property, as well as its customer base and upstream relations with suppliers...[and] its strategic alliances with competitors" (p. 541). As Teece and Pisano (1994) note, a firm with organizational competencies "cannot be usefully modeled as a nexus of contracts."

Consistent with the view of Teece and Pisano (1994) that firms should carefully consider their present "position" as to strategic resources, we urge firms to conduct periodically a strategic resource audit as a standard part of its corporate planning. The strategic resource audit should pay close attention to the core competencies of the organization and the role that relationships with suppliers, customers, employees, and competitors can play in enhancing the total "mix" of strategic competencies.

From the perspective of relationship marketing, therefore, firms should develop a relationship portfolio or "mix" that complements existing competencies and enables it to occupy positions of competitive advantage, as identified in Table 2. However, it is important to recognize that relationship portfolios are *developed* not *selected*. Interestingly, because it conjures the image of being like a portfolio of stocks, Gummesson's concept of a relationship portfolio has the same systemic ambiguity as the marketing mix.

The standard, textbook versions of the marketing mix concept often imply that some marketing manager sits down at a specific point in time and *selects* both a target market and a particular combination of price, product, place, and promotion that is believed to be optimal. Although this may occur on rare occasions, much more commonly these decisions are made sequentially, i.e. through time. That is, it could well be the case that the first decision actually made was the nature of the product. Then a market segment is targeted for the product. Following that, the price, channels of distribution, and promotional programmes are developed. The point is that, in contrast with standard textbook treatments, marketing mixes are most often developed through time, not selected at a point in time.

A similar ambiguity emerges in the concept of a relationship portfolio. Even more so than the marketing mix, relationship portfolios are not selected at a point in time, but developed through time. Indeed, good relationships take time to develop. Therefore, though it is important to develop a relationship portfolio that complements existing organizational competencies in an optimal manner and it is important to strategically plan for such relationships, the relationships that comprise the relationship portfolio can only be developed through time. Therefore, though both are *portfolios*, the relationship portfolio differs dramatically from a portfolio of stocks, for it is at least possible to select a portfolio of stocks at a single point in time.

Finally, in developing the relationship portfolio the firm should be mindful of the stricture of Grönroos (1996, p.7) that "the objectives of all parties involved are met; and that this is done by a mutual exchange and fulfillment of promises." Consider the alliance between General Motors and Toyota, in which Toyota sells the GM-made Chevrolet Cavalier in its home market with a Toyota nameplate (Business Week 1996). Sales of these "Toyota" Cavaliers are running only 500 cars per month. The problem? General Motors simply can't seem to deliver its promises to produce a car

that meets the expectations of Japanese car buyers. Indeed, the defect rate on the "Toyota" Cavalier is about 50 times that of comparable Japanese vehicles (Business Week 1996).

The message for relationship marketing is clear: firms should enter into relationships, as Grönroos admonishes, only when they can fulfill their promises. Stated somewhat differently, in seeking relationships that constitute relational resources, one should "choose partners carefully" (Hunt and Morgan 1994).

Conclusion

A consistent theme in works on relationship marketing is the "co-operate-to-compete" thesis: being an effective competitor in the global economy often requires one to be an effective co-operator in some network. This thesis, a central part of relationship marketing, implies that at least some co-operative arrangements among firms are pro-competitive. However, the co-operate-to-compete thesis cannot be grounded in neoclassical, perfect competition theory because it admits only capital, labour, and land to qualify as firm resources. As discussed, no tinkering with perfect competition will suffice — what is needed is a new theory of competition.

The resource-advantage theory of competition can theoretically ground relationship marketing because it expands the view of resources to include all entities that have an enabling capacity, including such intangible entities as relationships with competitors, suppliers, customers, and employees. Importantly for grounding relationship marketing, firm resources need not be owned by the firm, only available to it. For R-A theory, when such relationships contribute to firm efficiency or effectiveness, they constitute relational resources. A firm's relational resources contribute to its organizational capital. Because relational resources are heterogeneous and immobile, they can result in positions of competitive advantage that persevere through time, resulting in sustained superior performance.

Because relational resources can contribute to organizational capital and a firm's marketplace position of competitive advantage, the strategic planning process should include plans for developing relationships that complement existing organizational competencies. Ideally, a firm would wish to calculate the profit potential of each relationship, both existing and potential. Because the explicit calculation of profits to be derived from a specific relationship is frequently impossible, addressing the relationship portfolio conundrum requires focusing in a more qualitative manner on the efficiency/effectiveness-enhancing characteristics of each relationship.

R-A theory suggests that a useful starting point for developing an optimal relationship portfolio is to periodically conduct a strategic resource audit. This audit would bare little resemblance to a conventional balance sheet. Rather, it would focus on the core competencies of the firm and the role relational resources can play in enhancing the total mix of strategic competencies.

Although the concept of a relationship portfolio or mix ought to be very useful in strategic planning, we should be mindful that a strategic portfolio of resources is very different from a portfolio of stocks. One major difference is that, at least in principle, a portfolio of stocks can be *selected* at a point in time. In contrast, strategic competencies and the relational resources that contribute to these competencies

must be *developed* through time. In developing the portfolio of relational resources, a key criterion should be that the firm can fulfil its obligations to its partners. In short, not only should firms "choose partners carefully" (Hunt and Morgan 1994) by avoiding opportunists, but one should also choose partners with whom one can fulfil one's own obligations.

In conclusion, the resource-advantage theory of competition can both theoretically ground relationship marketing and provide insights on the process of developing a firm's relationship portfolio. This does not mean, of course, that there are not other theories of competition that could potentially ground relationship marketing. Indeed, relationship marketing scholars are strongly encouraged to propose rival theories that could do so. What is needed, of course, is that each rival's *structure*, and the *foundational propositions* underlying that structure, be clearly articulated. It is only by comparing rival structures and foundational propositions that one can clearly evaluate how and why theories are consistent or inconsistent, saying different things or saying the same things differently, genuinely rival or actually complementary.

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