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Theory and Evidence on the Liability of Relationship Commitment: Towards an Understanding of Why Vendor Firms Persist in Underperforming Customer Relationships

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Theory and Evidence on the Liability of Relationship Commitment: Towards an Understanding of Why Vendor Firms Persist in Underperforming Customer Relationships

Abstract

In this multi-method study, we extend and complement extant research on relationship commitment through rigorous field research and an in-depth cross-functional review to develop a model of the antecedents of vendor firms' commitment to underperforming customer relationships. The conceptual model incorporates relationship-, performance-, organizational-, and investment-related factors as antecedents to vendor commitment. We then test the model with two survey-based studies, and compare and contrast the impact of these various antecedents across 382 underperforming and above-average performance customer relationships. The results indicate that continuity of relationship personnel, relationship age, performance stability, nature of performance change, visibility of the relationship, senior management involvement, orientation towards customer retention and risk, co-development, efficaciousness of the investment and resource commitment explain vendor firms' commitment to under-performing relationships. In contrast, customer reputation, asset specificity along with relationship age, customer retention orientation and resource commitment are related to vendor firms' commitment to above-average performance customer relationships. Further, using a conjoint type approach, we identify and rank-order (in terms of effectiveness) a set of remedial actions that vendor firms take to turnaround an underperforming customer relationship. Specifically, reframing the joint goals of the relationship, reevaluating internal processes, improving communications with the customer, developing better performance measurement systems, changing sales force compensation to be based on profitability and changing the relationship personnel are strategies for turning around underperforming customer relationships.

Theory and Evidence on the Liability of Relationship Commitment: Towards an Understanding of Why Vendor Firms Persist in Underperforming Customer Relationships

Relationship marketing scholars have long noted the benefits of long-term customer relationships in business markets. Relational elements such as long-term orientation have been found to enhance the performance outcomes of buyer-seller relationships (Noordewier, John, and Nevin 1990). Anderson and Weitz (1992) who refer to a long-term orientation in a relationship as "commitment," suggest that mutual commitment results in customer and vendor firms working together to better serve customer needs and increase profitability. Ganesan (1994) identifies competitive advantage derived from information on best-selling products and competitive activity, better cooperative advertising, and special displays for merchandise as some of the suppliers' benefits from long-term relationships with retailers. Finally, Kalwani and Narayandas (1995) find empirical evidence of pay-off for industrial vendors who persist in long-term customer relationships. Such evidence, and the belief that it is less expensive and consequently more profitable to serve existing customers than to acquire new ones, accounts for the prevailing wisdom that vendors should focus on retaining their current customers (e.g., Reichheld and Teal 1996).

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Other evidence, however, raises questions about the wisdom of persisting in long-term relationships with *all* customers. Shapiro et al. (1987) found a wide dispersion in revenues and costs-to-serve across customer accounts of industrial marketing firms in commoditized markets. More recently, Reinhartz and Kumar (2000) found that in non-contractual buyer-seller relationships long-life customers are not more profitable (contradicting a basic tenet of relationship marketing) and Niraj, Gupta and Narasimhan (2001) have documented a significant number of unprofitable customer relationships. Studies of customer profitability that use activity-based management systems have demonstrated that even a few underperforming customer relationships can significantly affect a vendor's overall profits (e.g., Kaplan and Cooper 1998). Such findings notwithstanding, evidence abounds that vendor firms continue to be committed to underperforming customer relationships.

The limited research on relationship dissolution has viewed the process to be unilateral and initiated as a consequence of one party's dissatisfaction with the other, the dwindling benefits derived from the relationship, and the high costs of its continuation (Dwyer, Schurr, and Oh 1987). Among the forces that can strain a relationship are higher transaction costs, elimination of obstacles to interacting with alternative exchange partners, and changing personal or organizational needs that diminish the value of rewards. That

firms tend to persist in relationships that they perceive are not going too well is variously attributed to economic and psychological stress (Bloom, Asher, and White 1978; Hill, Rubin, and Peplau 1976). Dwyer, Schurr, and Oh (1987) have found uncoupling from a relationship with a high degree of interdependence can render transaction-specific investments redundant or leave deep sentimental scars. According to Gundlach, Achrol and Mentzer (1995) *"commitment curtails the exploration of alternatives; committed partners tend to forgo exploring alternative relationships and rewards."* Persisting in an underperforming relationship, therefore, in addition to being a drain on resources, also affects a vendor's ability to search out and allocate resources to more attractive opportunities. Understanding a vendor's engagement process in an underperforming customer relationship not only yields a rationale for its commitment, but is clearly an important step towards improving vendor performance at the individual customer level, and, in turn, overall vendor profitability. Yet, marketing research in customer relationship management has paid little or no attention to these issues (Gassenheimer, Houston and Davis 1998).[1]

Against this backdrop, the main objective of this paper is to develop and empirically test a conceptual model of vendor commitment to underperforming customer relationships. Specifically, our goal is to better understand why vendors continue to be committed to relatively underperforming customer relationships. Recognizing that underperformance can be measured in a variety of ways, we focus on relationships within firms' customer portfolios that exhibit below-average profit performance.[2] Resources invested in such relationships that could potentially be invested in other, more profitable customer relationships, represent an opportunity cost to a vendor firm. Following the integrative tradition in marketing (Kerin 1996), we draw on a review of marketing, sociology, organization theory, and social psychology literatures and multiple, in-depth, field-based case studies to build a conceptual model and development of hypotheses that relate investment, performance, relationship, and organizational factors to vendor commitment to underperforming customer relationships. We empirically tested these hypotheses with data collected from 214 underperforming customer relationships and 168 above-average performance customer relationships. Finally, we explored managers' perception of the effectiveness of commonly used strategies to

[1]The authors offer practical recommendations for handling customers profitably. Recently, for example, firms have begun to discriminate amongst customers based on customer value and potential to impact firm profits in providing customer service (Brady 2000; Zeithaml, Rust, and Lemon 2001).

[2] That underperforming customers are of below-average profitability in a vendor firm's customer portfolio does not necessarily mean that these customer relationships are unprofitable.

turn around underperforming customer relationships using a sample of 47 managers. Cumulatively, our work contributes to an important but under-researched area in customer management.

Gaps in the Extant Literature on Commitment in Buyer-seller Relationships

Besides trust, commitment is the most commonly used construct by which we attempt to understand firm behavior in industrial buyer-seller relationships. Extant research has identified a number of antecedents of vendor commitment in customer relationships (cf., Gundlach, Achrol, and Mentzer 1995; Morgan and Hunt 1994). Studies have also investigated the impact of transaction-specific assets (e.g., Anderson and Weitz 1989, 1992), trust (Ganesan 1994; Morgan and Hunt 1994), dependence (Anderson and Narus 1990), and relational norms (Heide and John 1988) on relationship commitment. Although these studies provide useful insights, there are gaps in our current understanding of the antecedents of commitment, particularly as relates to situations in which increased commitment might not be the most desirable outcome.

A multiplicity of theories can enhance our understanding of the phenomenon of commitment, especially in underperforming relationships. For example, research in sociology has modeled inter-organizational relationship stability (such as is evidenced in buyer-supplier relationships) as a function of power, competition, and institutional forces (Baker, Faulkner and Fisher 1998; Lawler and Yoon 1996). Similarly, research in social psychology has modeled commitment as a function of satisfaction, attractiveness of alternatives, exit costs, and personal and social comparison (Rusbalt and Buunk 1993; Cox, Wexler, Rusbult, and Gaines 1997). Although work in marketing has incorporated some of these constructs, examining them in the context of underperforming relationships might reveal nuances and lend greater explanatory power to our current understanding of commitment.

Viewing commitment to underperforming relationships as "throwing good money after bad,"the sizeable literature on escalating commitment (cf., Staw and Ross 1987, 1993; Brockner and Rubin 1985 for reviews) suggests new variables that might help to explain firms' continued commitment to underperforming customer relationships. Similarly, behavioral decision theory applications to escalating commitment or entrapment (Brockner 1992; Schwenk 1986) suggest cognitive biases and decision traps that drive firms to persist in such relationships. Few marketing studies offer insights derived from such variables.

Although research has examined the influence of transaction-specific investments (TSI) on relationship commitment, studies have only recently begun to focus on relevant contextual factors. Jap and

Ganesan (2000), for example, examine the moderating role of relationship stage on the impact of various TSI forms on relationship commitment. This is a welcome foray, but other contextual factors (e.g., relationship performance-related) also warrant attention.

Excepting a recent study that explored the dark side of long-term relationships (Grayson and Ambler 1999), marketing research has largely viewed commitment under a halo. With articles and theoretical paradigms that emphasize the beneficial effects of buyer-supplier relationships (e.g., Morgan and Hunt 1994; Ganesan 1994; Anderson and Weitz 1989) far outnumbering those that even hint at caution, we lack a balanced perspective to appropriately guide theory and practice (Vaughan 1999).

There is clearly a need for research that (a) explains vendor firms' persistence in underperforming customer relationships in terms of new antecedents of commitment as identified in other research streams, and (b) studies the differential impact, if any, of these antecedents across healthy as well as underperforming customer relationships. We employ an emergent theory approach that builds on both extant and qualitative field research (Eisenhardt 1989) to develop a conceptual model of the antecedents of vendor commitment and hypothesize their directional impact.

Conceptual Model Development Methodology

Drawing on observations from extant research has been the dominant approach to hypothesis building in marketing. But in the wake of Deshpande's (1982) call for triangulation in theory generation, a number of studies have supplemented the traditional methodology with an iterative, discovery-oriented approach (e.g., Parasuraman, Zeithaml and Berry 1985; Kohli and Jaworski 1990; Menon et al. 1999). This theory building approach possesses a greater likelihood of generating well-developed constructs, testable hypotheses and novel theory that closely mirrors reality (Eisenhardt 1989; Cameron and Quinn 1988). "Qualitative data," Jick (1979) maintains, "are useful for understanding the rationale or theory underlying relationships revealed in the quantitative data or may suggest directly theory which can then be strengthened by quantitative support."

Our preliminary research and experience suggesting that a single, simple explanation of firms' commitment to underperforming customer relationships would not suffice, we drew on extant research and from multiple, in-depth, field-based case studies we conducted to develop our model. Each of the latter focuses on customer management issues that are relevant to this study. The cases were chosen on the basis

of theoretical rather than statistical sampling (Glaser and Strauss 1967), that is, they were selected not randomly, but to reflect a broad coverage of organizations. The case studies embody a large number of buyer-seller relationships across a spectrum of products and services from custom to standard, a range of industries from high-tech to traditional, and size asymmetries that favor both seller and buyer. Subject firms included a large electronic parts supplier that sold to large industrial customers, a small specialty engineering products manufacturer that sold to large customers in a variety of industries, a large supplier of telecom equipment that sold to large- and medium-sized customers in the telecommunications business, a small furniture and cabinet manufacturer that sold semi- to fully- customized products to commercial and residential developers and construction contractors, and a large electrical parts distributor that had set up a national accounts program to sell to large industrial customers.

Interviewing managers was the primary method of data collection employed in the case studies. Supplementary secondary data were derived from annual reports, company documents, memos, business press articles, internal consulting reports, and observation of internal staff meetings.

In developing the model presented in Figure 1, we merged the antecedents identified in our field research with variables identified by extant research in buyer-supplier relationships, market orientation, activity based management; and escalation of commitment. Eisenhardt (1989) argues that drawing from both a priori theory and field research yields constructs that are more accurately measured and have a stronger empirical grounding.

Conceptual Model and Hypotheses

The various antecedents of vendor firms' commitment to underperforming customer relationships identified in Figure 1 can be categorized as *relationship-, performance-, organization-, and investments-* related. The relationship marketing literature and our qualitative research provide evidence for including relationship-related variables. Consequently, our model includes vendors' account management and customer related factors. The activity based management literature, prospect theory-based escalation of commitment literature, and our field research support the categorization of performance-related variables. Merging the market orientation and decision traps literatures provides theoretical support for the inclusion of factors that capture the people, process, and systems components of organization-related factors. Finally, the transaction cost economies-based buyer-supplier relationship literature, escalation of commitment literature,

and our field research suggest that the nature and level of relationship investments are important antecedents of commitment.

We also include in our model, as controls, factors (including trust, conflict, comparison levels of alternatives, competitive intensity, environmental uncertainty, asset specificity, and affective commitment) that have been shown to influence the long-term orientation of firms' relationships.

Relationship-related Factors

Customer account reputation. In markets characterized by information asymmetry, customers face an adverse selection problem in distinguishing quality vendors from others (Akerlof 1970). Concomitantly, quality vendors face the challenge of distinguishing their product offerings from lower-quality offerings. The extant literature posits as one possible solution to adverse selection designing signals that reveal private information about vendors' inherent characteristics (Milgrom and Roberts 1986; Misra, Heide and Cort 1998). Such a signal might be the presence of buyers of high repute in a vendor's customer portfolio. A proxy signal of quality, these customers legitimize vendor firms in the eyes of other potential customers (Oliver 1990). In our field research, the electronics parts supplier according to two of its client managers followed such a strategy.

> We have stayed in a couple of customer relationships even though they are not performing well because they are our "showcase" accounts. Having GE as a customer gives us a lot of credibility to the marketplace. We can use them as a reference to get sales from other customers. As you would expect, these customers usually know how important they are to us and extract substantial concessions. We end up paying for the privilege of doing business with these large customers.
>
> There are some relationships that define who we are. We are not going to get out of those relationships even if they are not as profitable as our other customer relationships.

We therefore expect vendor firms to continue in underperforming relationships with highly reputed customer firms that possess "signal/showcase" and referral value in the market.

H1: The greater a customer firm's reputation, the greater a vendor firm's commitment to an underperforming relationship with it.

Continuity of personnel. The continuity of personnel may be related to commitment due to trust, attachment and moral hazard related reasons. First, a salesperson's job is not only to persuade customers to purchase the firm's products, but also to cultivate the customer's trust. Trust does not develop overnight; long-term relationships provide buyers with sufficient data points to assess a salesperson's capability, reliability, and tendency towards opportunism and predict future behavior (Lindskold 1978). Salesperson-

engendered trust strongly influences buyers' loyalty to the vendor (Doney and Cannon 1997). Consequently, in most organizations, a single person plays a key role in customer acquisition and relationship maintenance. Second, such relationships, however, are occasions for inter-personal attachments among boundary personnel. Institutional theory suggests that individual (personal) attachments between customer and vendor personnel become embedded preserving the continuity of the relationship (Abrahamson and Forbrun 1994; Baker, Faulkner, and Fisher 1998). An empirical study has demonstrated that individual attachments reduce the likelihood of switching behavior in auditor-client relationships (Seabright, Levinthal and Fichman 1992). P&G is known to routinely change its buyers' vendor portfolios specifically to forestall the development of vendor relationships that might yield sub-optimal terms (Shapiro et al. 1987). Third, salespeople being the primary interface with customers (Krafft 1999), agency theory predicts that the potential for moral hazard increases to the extent that a salesperson puts his/her best interest ahead of that of the firm (Misra, Heide, and Cort 1998). Shirking and self-interest oriented behavior is manifested as a salesperson continuing a relationship despite poor performance that might be perceived to reflect badly on the salesperson's performance (Harrison and Harrel 1993). The head of sales for the telecom equipment manufacturer had this to say about a relationship driven by an embedded personal attachment.

> We had a customer relationship that was very unprofitable. I kept asking the sales rep to give me his plan of action and he repeatedly asked for more time and resources to turn things around. Things only got worse over time. Yet the sales rep was just not willing to let go of the customer given the long relationship he had with the organization and the people. The customer was in deep financial trouble and just couldn't afford to pay the price premium that our products typically receive in the marketplace. Further, not only was the sales rep doing his best to give them a price break; he was also offering them a lot of service free of charge just to keep their business. When I finally pulled him out of the account the new account manager, who had no emotional baggage to carry, came back within a month and informed me that there was no way things were going to improve in the relationship and that we should get out of the relationship. I think this was the right decision.

We thus expect that:

H2: Continuity in a vendor's account management personnel tends to engender greater vendor commitment to an underperforming relationship.

Relationship age. Experience with a partner builds trust, enhances relationship quality, and promotes commitment (Anderson and Weitz 1989; Ganesan 1994; Kumar, Scheer and Steenkamp 1995). In a vendor relationship it avoids the liability of newness, deepens understanding of customer and the relationship idiosyncrasies and nurtures inter-personal trust among the personnel involved in the relationship. From a customer retention economics perspective, longer duration relationships are expected to lower the cost to

serve customers and dispose them to pay higher prices for the firms' products or services (Reichheld and Teal 1996; Sheth and Parvatiyar 1995). We therefore expect that:

H3: The age of an underperforming customer relationship is positively related to the vendor firm's commitment to the relationship.

Relationship importance. The resources firms need to acquire and maintain to survive are found in their macro environment (Pfeffer and Salancik 1978). Customers being a critical source of the revenues (needed to fund resource acquisition), the greater the revenue a customer represents, the greater the potential for acquiring resources. Competition plays a spoiler role; when resources are captured by targeting and attracting the biggest customers and destabilizing long-term relationships (Keep, Hollander and Dickinson 1998; Baker, Faulkner and Fisher 1998), lost customers, and the revenues for which they accounted, must be replaced. The experience of a national account manager for the electrical parts supplier is illustrative.

> This was our biggest customer. The customer's engineering department was no longer interested in the product because there were little or no technological challenges for them to work on. They had handed over the primary responsibility of managing the relationship to the purchasing group. The customer's buying group was only interested in beating us down on price. But the customer now accounted for over a third of our sales. We knew that it would be very difficult to replace the volume if we lost the customer. Even though we knew that the relationship was not doing well, we were not going to get out of it. We preferred to fool ourselves into believing that we could make things better. But the writing was on the wall.

Consequently, we expect that:

H4: The greater the fraction of a vendor's revenues accounted for by an underperforming customer relationship, the greater a vendor firm's commitment to it.

Performance-related Factors

Ease of measurement: Although the ability to measure performance at the individual customer level is prerequisite to managing customers profitably, contemporary financial reporting systems used by vendor firms typically lack this capability (Niraj, Gupta, and Narasimhan 2001). That a customer relationship's value to a vendor is rarely constant and can change for such reasons as shifts in relational objectives, emergence of external factors, or partner complacency (Gasenheimer, Houston, and Davis 1998) further complicates matters. With an incomplete picture of the difficult situation because of inadequate performance measurement systems, a vendor is not likely to take necessary corrective action (Rangan, Moriarty, and Swartz 1992). Our field investigations at an electrical parts distributor mirror these expectations.

> In one of our larger customer accounts, in addition to the relationships at the headquarters level, we had established local implementation team members within the various branches that included the

> branch manager, account representative, and inside sales representative and the customer's purchasing, electrical storeroom, engineering, and inventory maintenance divisions. These teams were responsible for administering day-to-day operations and monitoring the progress. With so many people involved it was very difficult to keep track of how well we were doing. Data at such a granular level was very hard to come by. Even though it appeared that things were going well based on historical sales and profitability measures, sitting at the corporate headquarters I was not able to pinpoint the current health of the relationship and project its course. Later on I found out that all the action being taken at the branch level was not well received by the customer. Without this knowledge, I stayed in the relationship until it was too late. By the time I pulled back we had stayed too long in the relationship.

We therefore hypothesize that:

H5: The better a vendor's performance measurement system, the lower the vendor's commitment to stay in an underperforming customer relationship.

Performance stability. The perception among managers that the nature of the current situation is temporary is cited by the extant literature as one of the main reasons for escalating commitment to losing courses of action. Project setbacks are often attributed by managers to exogenous factors that are temporary in nature, unusually poor weather or a temporary raw material supply shortage, for example (Staw and Ross 1987). Temporary problems rarely justify quitting a project in mid-stream, the future being expected to be brighter. The willingness to ride out the short-term period of poor performance was echoed in several of our field investigation case sites. Observed, for example, the field service manager for the electrical parts supplier:

> The most important reason we stay in an underperforming relationship is the expectation we have that things will get better in the future and the current state of affairs is a temporary one. In our quarterly sales forecast meetings this is the most common reasoning our salespeople give us to justify continued investments in a relationship that is performing below par. They know that the promise of a better future is the best way to get us to continue providing support for their accounts instead of pulling the plug.

We therefore conclude that:

H6: The greater the expectation of eventual stability in performance, the greater a vendor's commitment to stay in an underperforming customer relationship.

Nature of performance change. Our field investigations revealed the old adage of the boiled frog to be an appropriate metaphor for explaining the relationship between the nature of performance change and commitment to underperforming relationships.[3] The commonly pursued practice of management by exception focuses on things and events that are not behaving "normally" (Schoeffler 1991). Our field

[3] When a frog is dropped into a pot of scalding water it will sense the danger and immediately jump out. However, if a frog is dropped into a pot of tepid water and the water temperature gradually raised the frog succumbs rather than tries to escape.

investigations revealed that managers monitoring relationship performance and deciding where to channel limited resources tended to notice primarily big and drastic changes. Small and gradual changes in relationship performance, especially if spread over a long period of time, seldom received managerial attention. In the absence of touchstone or defining events vendor firms are unlikely to detect deteriorating performance and, hence, are likely to remain committed to a relationship. Observed the head of sales at the specialty engineering products vendor in our field investigation:

> It is a lot easier to terminate a relationship when we can pinpoint specific actions or incidents that led to the current state... For example, when a customer pushes hard on dramatic price reductions, or they close down some plants and there is a large drop in volumes, then it is easy to decide that we stop serving the customer. If, on the other hand, the performance deteriorates very slowly then we might miss the change for a long time and land up staying in the customer relationship.

The client manager for the telecom equipment manufacturer echoed a complementary sentiment:

> There was this case where we thought we were doing a good job serving a customer. In reality there were minor quality and service slip-ups that we didn't notice and that the customer never pointed out. They expressed their dissatisfaction by slowly reducing our share of their total purchases and cutting prices gradually over time. We were under the impression that the reduced volumes were more a reflection of a reduction in the customers' total purchases and the overall economic environment. We continued in the relationship expecting things to turn around with the business cycle. By the time we figured out the true situation, things had gone too far.

We therefore expect that:

H7: The slower the rate of decline in performance in an underperforming customer relationship, the more likely the vendor to remain committed to the relationship.

Organization-related Factors

Visibility of relationship. Self-justification theory posits that individuals pledge to a course of action (even with the potential downside of negative outcomes) to justify prior behavior (Staw and Fox 1977). Persistence in a course of action is heightened still further when it is public and visible (Brockner, Rubin and Lang 1981; Staw and Ross 1987). This was the circumstance related by the CEO of the electronic parts supplier.

> We are having an interesting experience with an underperforming relationship with one of our long-standing customers. This was one of the first customers of the firm and everyone in our firm had grown up on stories of how we did business with them. Even today this relationship still has a lot of visibility within the firm. Everybody wants to know about what is going on in this relationship. The problem is that the relationship has not been doing well in the recent past. Getting out of this relationship has become difficult because no one wants to be responsible for this decision.

The high social anxiety that attends visible, high profile relationships and consequent retrospective rationality and face-saving behavior invoked to justify them lead us to expect that:

H8: The greater the visibility of an underperforming customer relationship, the greater a vendor's commitment to it.

Senior management involvement. As senior managers' involvement in a customer relationship signals its importance to the rest of the organization, mid-level managers are reluctant to be bearers of bad news even when a relationship is performing poorly. Concluded the CEO of the cabinet and furniture manufacturer:

> The whole organization knew that things were getting out of control in the relationship. Yet, because this customer was my responsibility, no one was willing to tell either the customer or me that their demands were unreasonable and that their business was turning out to be highly unprofitable for us. I am to blame here because I had made a big deal about how important it was for everybody to make sure that we kept this customer happy.

The escalation literature, moreover, suggests that managers who "stick to their guns" even when the odds of success are bleak are likely to be viewed as heroes and come in for special praise (Staw and Ross 1980; Evans and Medcof 1986). If commitment to underperforming relationships is viewed as heroic, their termination might require the intervention of senior management. "Whenever we have to fire a customer I have found that I need to be involved in the decision," explained the CEO of the cabinet and furniture manufacturer.

> None of my line managers want to take on the task of terminating a customer relationship. I need to do the dirty work – to look the customer in the eye and tell them that we cannot afford to do business with them anymore. If I don't get involved in a low profitability account, then we will stay in the relationship for a lot longer than necessary.

Given these competing expectations we do not posit a directional hypothesis. Instead, we conclude:

H9: Senior management involvement in an underperforming customer relationship relates directly to vendor commitment to the relationship.

Customer retention orientation. The behavior of customer-retention oriented firms reflects the goals of increasing customer satisfaction and loyalty going awry. When customer-retention orientation becomes institutionalized, customer relationship termination and discriminating across customers can become almost unthinkable propositions (Goodman, Bazerman and Conlon 1980). "We encourage our people to build customer relationships and retain customers," reflected the CEO of the electrical parts supplier.

> Going the extra mile to keep our loyal customers happy is a common occurrence. We make it a point to preach to every new employee that customer satisfaction is the ultimate goal of the firm. If we have happy customers, then they will reward us handsomely over time. We know that this could mean that we have a bunch of unprofitable customers that we should have stopped serving. But that is the cost of doing business. Given our singular focus on customer retention, I would bet that for every one of the unprofitable customer relationships that we continue to stay in, there must be five others that we are doing well. I can live with that.

Our field research findings thus lead us to posit that:

H10: The more a vendor firm's customer- retention orientation the greater the vendor's commitment to an underperforming customer relationship.

Risk taking orientation. Organizations that encourage and even incent employees to take risks are rewarded with creative behaviors (Andrews and Smith 1996), those that discourage risk-taking are penalized with conservative and undifferentiated strategies that tend not to question the conventional wisdom. A risk averse strategy that conforms to conventional wisdom would encourage retention and management of an underperforming customer relationship. An atypical response such as relationship termination is likely only when employees are confident that senior management will not unjustly penalize such actions. The head of sales for the electrical parts supplier echoed this expectation:

> As a firm we encourage our sales managers to be aggressive and take chances. I have a mantra for our sales organization that is "no one will be punished for firing a customer." Losing a customer is not viewed negatively by anyone as long as they can prove that the relationship was going to hurt rather than help us. Because of that even our lower level managers are not scared to be tough negotiators. They will put the firm's interests before those of the customer.

We therefore hypothesize that:

H11: The greater a vendor firm's risk taking orientation, the lower its commitment to underperforming customer relationships.

Investments-related Factors

Co-development. Co-development refers to collaborative efforts of two firms in a relationship that yield customized products/or solutions that could not have been developed by either firm in isolation. Firms adapt to and learn from one another and share knowledge effectively only over time (Milgrom and Roberts 1991; Powell, Kopult, and Smith-Doerr 1996). Co-development initiatives thus commit two parties to remain in a relationship even if it is underperforming. Observed the customer relationship manager for the telecom equipment supplier in our case study,

> Past collaborative efforts with the customer in developing new product or service or customizing solutions to their needs tend to make us stay longer in these relationships even if they are underperforming relationships. It is as if we think that the customer is going to be more interested in making the relationship work and therefore we feel comfortable with the decision to stay. I also think that through the collaborative efforts we get so close to the customer that it prevents us from being objective about the relationship termination decision.

We therefore expect that:

H12: The greater the co-development activities in an underperforming customer relationship, the greater the vendor's commitment to stay in the relationship.

Efficaciousness. Efficacious investments are those made with the expectation that they will turn around poor performance. Belief in the efficacy of investments might be motivated by biases in managerial judgment (Staw and Ross 1989). The psychology literature posits that managers operate under an illusion of control, whereby individual managers expect greater personal success than objective probability warrants (Langer 1975) and that relationship personnel will manage communication such that investments initiated by them are viewed by the firm as efficacious and likely to turn performance around (Schwenk 1986; Staw and Ross 1989). An instance of this is related by a NAM in the electrical parts supplier case study.

> The relationship was in trouble. We made a sincere effort to improve and undertook a number of initiatives to turn the relationship around. For example, we invested in better forecasting systems to help predict changes in demand. We also put in a lot of effort to change the product specifications to better meet the customer's needs. Yet, the relationship (not the customer) continued to flounder. By this time, all the investments we had made over the previous six months became the very reason for us to stay in the relationship. The belief that these investments would turn the relationship around was so high that the account management team felt justified in their decision to not quit.

We therefore state that:

H13: The greater the level of efficacious investment in an underperforming customer relationship, the greater the vendor's commitment to stay in the relationship.

Asset specificity: The transactions cost economics literature characterizes as transaction-specific investments that are idiosyncratic to a relationship and have no value outside of the relationship (Heide and John 1988; Anderson and Weitz 1992). Examples include investments in training a customer's employees, dedicated warehouses, and software modified to meet a customer's needs. Such relationship-specific investments, albeit made with the objective of generating greater returns, make a vendor firm a hostage to the relationship. We therefore expect that:

H14. Higher levels of transaction specific investments in an underperforming relationship lead to greater vendor commitment to the relationship.

Resource commitment. The relationship marketing literature treats resource commitment as a precursor to relationship commitment (Morgan and Hunt 1994). Similarly, interdependence theory suggests that as investments in relationships increase, they become exit barriers that reduce the likelihood of dissolution (Rusbult and Buunk 1993; Cox et. al 1997). Managers feel compelled to continue in a relationship to which high levels of resources have been committed. Their need to recoup investments regardless of their utility

can be viewed as a crude form of mental accounting (Heath 1995). In experimental studies, Arkes and Blumer (1985) find that those who invest money in a project are the most likely to be at the venture's completion. Consistent with these findings, the CEO of the cabinet and furniture manufacturer noted,

> We have found that we tend to stay longer in those underperforming customer relationships where both sides have made significant investments…. the high level of investments acts like a millstone around our necks. Nobody wants to abandon a relationship when they know that a lot has gone into setting it up. Interestingly, when a lot has been invested, the fact that it is difficult to get out becomes a reassurance, in itself, for both sides that things will only get better since it is in everybody's interests to make things work in the relationship.

We therefore expect that:

H15: The greater the resources committed to an underperforming customer relationship, the greater the vendor commitment to stay in the relationship.

Controls

Also included in the development of our model are a number of variables considered endemic to relationship development, maintenance, and sustenance (Morgan and Hunt 1994; Weitz and Jap 1995). Controlling for these variables provides a stronger test of the theory developed in the model.

Competition is a market hazard that has the potential to entice customers away from existing vendors. Greater competition should thus be expected to reduce relationship longevity. Especially then, in mature markets, in which maintaining market share is often a paramount goal, managers are likely to do anything to maintain the relationships and prevent competitors from gaining a foothold in their accounts (Armstrong and Collopy 1996; Keep, Hollander and Dickinson 1998). Environmental turbulence and consequent uncertainty can affect a firm's supply of resources (Pfeffer and Salancik 1978). Consequently, vendor firms attempt to safeguard their relationship resources by engaging in repeat transactions or long-term relationships with their customers (Ganesan 1994; Frazier and Antia 1995). But in uncertain environments firms want to be flexible and not locked into relationships in uncertain environments (Dwyer and Oh 1987). Conflict is viewed by the power and dependence research stream as antecedent to a firm's exiting a relationship (Frazier 1999). The attractiveness of alternatives has been shown to be a strong predictor of switching behavior (Thibaut and Kelley 1959; Anderson and Narus 1984). Firms are more likely to redeploy resources from underperforming customer relationships in the presence of attractive alternatives.

Relationships in their later stages become more susceptible to negative influences (such as lack of objectivity, me-too thinking, and staleness in value creation) that dampen the positive impact of relational

factors (Moorman, Zaltman, and Deshpandé 1992; Grayson and Ambler 1999). Specifically, relationships in the decline stage exhibit diminished inter-personal trust and concerns about protecting individual investments and maximizing individual returns (Jap and Ganesan 2000). Trust is a cornerstone variable in the study of buyer-supplier relationships (Spekman 1988). The extant literature views trust as a major determinant of commitment (Achrol 1991; Moorman, Zaltman, and Deshpandé 1992), theorizing that since commitment entails vulnerability, parties seek only trustworthy partners (Morgan and Hunt 1994). We included affective commitment as a control because the relationship marketing literature deems it to be antecedent to relationship commitment (Gundlach, Achrol, and Mentzer 1995).

Data and Method

Participants in an executive program served as key informants from whom we solicited responses about customer relationships.[4] Respondents were offered a brief, customized benchmark analysis in return for their participation. Responses were sought about a customer relationship that was performing below average in the informant's firm's customer portfolio (i.e., registered in the bottom two quartiles in profitability). This is a relative measure of performance within each firm's customer portfolio and not an indicator of profitability. The selection criteria also required that key informants be knowledgeable about the relationship. Finally, the respondents were ensured confidentiality.

The final sample of 214 customer relationships of average length 9.83 years accounted for, on average, about 13.22% and 7.8% of the vendors' revenues and profits, respectively. For the median vendor in the sample, the four largest customers provided 46%-60% of revenues and market share in the range of 21%-35%. The Herfindahl index of four-firm concentration ratio was in the range of 61%-75% and the market was growing annually at 6% - 10%.

Measures

When available, existing measures were adapted for use in our study. For constructs for which there were no existing scales, development was guided by conceptual definitions in the literature and our field research. The following process was used to develop the new scales. A pool of items was generated for measuring each of the constructs. These items were then pretested in three distinct steps: (1) face-to-face interviews with a small sample of managers, (2) face-to-face interviews with three academic experts, and (3)

[4] Such an approach to collect data appears to be gaining precedence (see Fisher, Maltz, and Jaworski 1997).

a pilot survey of 30 managers. At each stage, participants were asked to point out ambiguities and potential sources of confusion and evaluate the items for face validity. Items that were deemed troublesome and confusing were revised and eliminated and replaced with new items. After the completion of the three steps, the participants indicated little difficulty with the scales or tasks.

Table 1 presents descriptive characteristics of the scales; the Appendix lists the items we used for all the variables, the source of the scales and the scale reliability. Characteristics of the dependent variable and those developed for this study follow. Relationship commitment, the dependent variable, adapted from Morgan and Hunt (1994), reflects conceptualizations in the marketing literature (Noordewier, John, and Nevin 1990; Anderson and Weitz 1989; Kumar, Scheer, and Steenkamp 1995). The seven-item measure incorporates the vendor's perception of both its own and the customer's continuity intentions. An examination of its descriptive properties indicates that social desirability bias is not present, the mean for relationship commitment of 4.86 and range of 1.42 to 7 being similar to the descriptive statistics in previous work (e.g., Morgan and Hunt 1994; Kumar, Scheer, and Steenkamp 1995). Performance-related factors were measured using four-item scales and were designed to capture the nature of performance measurement as conceptualized in the escalation of commitment and reinforcement-expectancy literatures (cf. Staw and Ross 1987; Cyert and March 1963). Among the organizational and relationship investment factors, visibility of the relationship and efficacious investment reflected the conceptualization of the constructs in the escalation of commitment (Staw and Ross 1989) and the cognitive literatures (Weick 1993). A binary response item measured involvement of senior management.

To test for common method bias we followed Posdakoff and Organ (1986) and conducted the Harman's one-factor test. The result of the principal components analysis revealed eight factors with eigen-values greater than 1.0 that accounted for 74% of total variance. Of the several factors identified, the first did not account for the majority of the variance. Further, there being no general factor in the unrotated factor structure, common method variance did not appear to be a problem (Posdakoff and Organ 1986).

Results

Measurement Analysis

Data collection was followed by an assessment of the uni-dimensionality, reliability, and discriminant validity of the measures we used. Given the large number of constructs and measures, we

followed the recommendations in the literature on confirmatory factor analysis that scales be assessed by examining smaller confirmatory factor models (cf. Bentler and Chou 1987). This approach is well established in empirical research in marketing (cf. Cannon and Perreault 1999). Specifically, we conducted measure analyses based on groups of related sets of measures: relationship characteristics and controls; relationship performance assessment; organizational factors; nature of relationship investments and outcomes (affective and continuance commitment).

The fit of the five models was adequate [Relationship characteristics and controls: χ^2= 461.65 with 215 d.f. (p=0.0001), GFI=0.86, TLI=0.89;CFI=0.92, RMSEA=0.07; Relationship performance assessment: χ^2= 73.4 with 41d.f. (p=0.0015), GFI=0.95, TLI=0.94;CFI=0.95, RMSEA=0.058; Organizational factors: χ^2= 178.30 with 87d.f. (p=0.0001), GFI=0.91, TLI=0.91;CFI=0.93, RMSEA=0.07; Nature of relationship investments: χ^2= 259.17 with 146 d.f.(p=0.0001), GFI=0.89,, TLI=0.89, CFI=0.92, RMSEA=0.06; and Outcomes: χ^2= 37.41 with 26d.f. (p=0.029), GFI=0.97, TLI=0.99;CFI=0.99, RMSEA=0.058]. All the item loadings on the respective constructs were statistically significant.

Reliability estimates for fourteen of sixteen reflective constructs were greater than 0.70 and average reliability of 0.79 (see Table1). The exploratory factor analysis indicated the constructs to be uni-dimensional (i.e., a single eigen-value greater than one). To assess discriminant validity we examined whether the confidence intervals ($\pm$ two standard errors) around the correlation estimates between any two factors included 1.0 (Anderson and Gerbing 1988, p.516). Discriminant validity was upheld as in no case did the confidence intervals contain 1.0. We conducted two-factor confirmatory factor analysis of pairs of constructs twice, once constraining the correlation between the latent variables to unity and once freeing the parameter. A chi-square difference test was used to determine whether the chi-square value of the unconstrained model was significantly lower, in which case discriminant validity would be upheld. The critical value ($\Delta\chi^2_{(1)}>3.85$) indicates discriminant validity in all pairwise tests.

Regression Analysis

We used regression analysis to test the hypotheses. The resulting regression model is:

$$\text{Commitment to Stay in Relationship} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + \beta_{11} X_{11} + \beta_{12} X_{12} + \beta_{13} X_{13} + \beta_{14} X_{14} + \beta_{15} X_{15} + \beta_{16} X_{16} + \beta_{17} X_{17} + \beta_{18} X_{18} + \beta_{19} X_{19} + \beta_{20} X_{20} + \varepsilon$$

where:

X_1=Account Reputation	X_2=Continuity of personnel
X_3=Relationship age	X_4=Relationship importance
X_5=Ease of measurement	X_6=Performance stability
X_7=Nature of performance change	X_8=Visibility of relationship
X_9=Senior Management Involvement	X_{10}=Customer retention orientation
X_{11}=Risk taking orientation	X_{12}=Co-development
X_{13}=Efficaciousness of Investment	X_{14}=Asset specificity
X_{15}=Resource commitment	X_{16}=Competitive intensity
X_{17}=Environmental uncertainty	X_{18}=Trust
X_{19}=Conflict	X_{20}=Comparison of alternatives
X_{21}=Relationship stage	X_{23}=Affective commitment

The results are reported in Table 2. An examination of the VIFs revealed no evidence of multicollinearity biasing the results. With support for 11 of the 15 hypotheses (73.3%) and significance of five of the seven controls we rule out chance as a cause of our results. The R^2 of 63% indicates a satisfactory level of explanation of the variance in our dependent variable by the constructs included.

[Table 2 about here]

Among relationship variables, continuity of personnel (β_2=0.08, $p<0.05$) and relationship age (β_3=0.07, $p<0.10$) are significant supporting H2 and H3. Contrary to expectations, H1 and H4 are not supported suggesting that customer reputation and relationship importance are not related to vendor commitment. Consistent with hypotheses H6 and H7, performance stability (β_6 = -0.10, $p<0.05$) and nature of performance change (β_8 = -0.12, $p<0.05$) had negative effects on vendor commitment. Contrary to H5, however, ease of measurement had no effect on commitment.

All of the organization-related hypotheses (H8-H11) were supported, customer retention orientation exhibiting the greatest impact ((β_{11}=0.18, $p<0.05$). Although directionality was not posited for H9, the results suggest that senior management involvement positively influences vendor commitment in underperforming relationships. Three of the investment-related variables were significant supporting H12, H13, and H15. Resource commitment (β_{15}=0.23, $p<0.05$) and efficaciousness of investment (β_{13}=0.17, $p<0.05$) had the greatest impact on vendor commitment. Contrary to H14, and the overwhelming evidence found in the marketing literature, asset specificity does not have a significant impact on vendor commitment in underperforming relationship.[5]

[5] We can rule out multicollinearity as a plausible reason for this result. First the VIFs were well below two. Second, when we systematically dropped the other investment-related variables one by one and asset specificity continued to be non-significant.

Finally, among the controls, competitive intensity, environmental uncertainty, trust, comparison level of alternatives, and affective commitment were positively associated with vendor commitment.

Above-average Performance Customer Relationships

Our objective in this paper is to identify the uniqueness of underperforming customer relationships and understand the differential impact of the various antecedents of commitment across underperforming and healthy customer relationships. To do so, we also collected data from a sample of 168 above-average performance customer relationships using procedures similar to those outlined above. Barring exceptions, the scales were identical; we reworded a few scales to capture the context of above-average performance relationships. For example, item 4 of the expectation of performance stability scale was reworded, as "We believe the current performance level is a temporary phenomenon." Table 3 provides a simple comparison of means across the two samples. Comparing and contrasting the impact of various antecedents gives us an opportunity to seek alternative explanations to the fact that some of the hypotheses related to asset specificity, ease of measurement, account reputation, and relationship importance which have found support in prior research (e.g., Heide and John 1988; Rangan et. al 1992; Misra, Heide and Cort 1992) but were not supported in the underperforming customer relationship sample.

[Table 3 About Here]

Pairwise test of mean differences indicated that in terms of share of both revenues and profits from the focal customer and the ratio of these two factors (vendor profits per sales dollar), firms in the above-average performance relationship sample enjoyed significantly superior performance. Moreover, vendor commitment (and affective commitment) is significantly higher for the above-average performance sample. Among the other variables, resource commitment, relationship visibility, customer orientation culture, continuity of personnel, trust, conflict, and comparison of alternatives are also significantly different across the two samples.

We began with a Chow test to determine whether the two data sets should be pooled. The F-test results were significant, that is, the evidence supported examining the two samples independently. Regression results for the above-average performance variables are reported in Table 4. For relationships in this sample, the model explains 63% of the variance in commitment, and, consistent with TCA literature, asset specificity and account reputation are positively associated with commitment. Relationship importance

and ease of measurement continue to be non-significant. The other significant results are largely unsurprising, resource commitment, customer oriented culture, relationship age, environmental uncertainty, trust, efficacious investment and affective commitment all being associated with commitment.

[Table 4 About Here]

Discussion

Although the relationship marketing research stream has provided numerous insights into regularities that explain vendor commitment in customer relationships, important questions remain about the stability of customer relationships. For example, we understand neither why vendor firms stay in underperforming customer relationships nor how they deal with such situations. This study attempts to answer these two questions by building an integrative framework that synthesizes rigorous field research with a cross-functional review of extant literature. As shown in the hypotheses development section, this use of multiple methods strengthened our substantiation of constructs and hypotheses. The results confirm our expectation that a simple, singular explanation will not suffice, and that the complex issue of vendor commitment to underperforming customer relationships requires a multifactor explanation. Our study adds in a novel way to theory development in relationship marketing by going beyond the “positive halo” of relationships to consider as well the “dark side”.

From a practical viewpoint, it is clearly recognized that underperforming customer relationships are a significant drag on a vendor firm’s profits and that terminating them is not easy (Zeithaml, Rust and Lemon 2001).[6] It is surprising that despite such findings firms retain a significant number of underperforming customers in their relationship portfolios. From a theoretical perspective, this study, being an early attempt to understand such commitment, serves as a point of departure for studying how to tackle underperforming customer relationships.

The empirical results also provide substantial support for the comprehensive model developed in Figure 1. Our results are particularly important because these variables play a significant role even in the presence of a number of controls that have been suggested in the relationship marketing literature.

Although relationship variables are clearly the most studied in marketing, this study furthers current understanding about their roles. For example, our finding that personnel continuity prevents firms from

extricating themselves from underperforming customer relationships parallels the findings that banks have difficulty in terminating "problem" loans (Staw, Barsade, and Koput 1997). This result also supports arguments posed by Macaulay (1963) and others that view the attachment that develops between individuals in boundary-spanning roles as a mechanism that goes beyond reducing transaction costs. Granovetter (1985, pg. 490), who argues that there is a departure from pure economic motives in such situations, suggests that continuing economic relations often become overlaid with social content that carries strong expectations of trust and abstention from opportunism. The non-significance of account reputation refutes the conventional wisdom that the legitimization benefits and referral value of such "strategic accounts" justifies the vendor's commitment.

Although there is evidence for the role of performance-related variables in the managerial dictum that "what gets measured gets managed," these variables have not been studied in a systematic fashion in marketing. We find that it is not lack of effective performance measurement systems, but expectations of the continuity of current performance that leads firms to persist in underperforming relationships. Our results are consistent with the finding that initial belief structures lead to escalation biases in new product decisions (Biyalagorsky, Boulding and Staelin 2000). Moreover, the need for defining events to shake managers into action is consistent with the inertia and "status quo" behaviors literatures.

The downside of institutionalized beliefs of customer retention orientation evidenced here provides contextual relevance for theory of customer orientation. The significance of the other organizational variables indicates their potential importance in future studies.

Beyond the traditional investment-related variables suggested in the relationship marketing and TCA literatures (e.g., asset specificity, co-development, and resource commitment), we find that efficaciousness of investment is an antecedent of vendor commitment to underperforming relationships. The non-significance of asset specificity might be due to the presence of other, more relevant investment variables in the model or to its role being moderated by relationship performance itself. Our study of superior performing customer relationships supports the latter expectation.

Controls-related results were as expected. However, the roles of competition, and affective commitment warrant further discussion. Our finding for the role of competition as an antecedent of

[6] For example, an industrial heating element manufacturer found that 20% of its customers accounted for 225% of its profits and 10% of its customers accounted for 125% of its losses (Kaplan and Cooper 1998).

commitment mirrors the findings in marketing strategy that competitiveness leads to sub-optimal decision-making by managers (Armstrong and Collopy 1996). In effect, such "competitive grandstanding" can be detrimental. Finally, including affective commitment helps partial out omitted variable bias and thereby provides greater result validity.

While understanding the reasons for vendor firms' commitment to underperforming relationships is a critical first step, the important and associated question of "how do managers turn around underperforming relationships?" has not yet been answered. In an exploratory study, using an approach akin to policy-capturing methods (Cooksey 1996), we investigated the effectiveness of various actions that vendors take subsequent to identifying an underperforming customer relationship.

Vendor Firms' Strategies to Handle Underperforming Customer Relationships

To identify actions that firms take to turnaround underperforming relationships, we first reviewed the popular press and then conducted detailed qualitative interviews with more than 30 managers responsible for managing customer relationships across a variety of industries. Our exploratory investigations revealed seven common themes.

First, respondents indicated that they conducted cross-functional reviews of their internal processes to identify problem areas that needed to be fixed. This was deemed to be easy and efficient since it did not involve customers. Second, respondents indicated that they changed the account management team to bring a new perspective to a relationship, the wisdom of this being that performance degradation might be due to the current account management team's inability to steer away from a failing course of action. Third, respondents indicated that they tried to justify a customer's strategic fit with their firm before taking any action. They viewed this information as essential to determining what constituted an appropriate level of effort to expend on improving a relationship's performance. Fourth, respondents suggested a change in compensation as an effective fix. It was claimed that moving from compensation based on volumes to compensation based on profitability more effectively aligned the account management team's goals with those of the firm. Fifth, believing that relationships often foundered because of a lack of alignment between customer expectations and vendor customer management efforts, respondents also suggested the development of appropriate relationship performance management systems followed by a periodic review of a relationship's goals and objectives with the customer. Sixth, periodic discussions of relationship

objectives, they maintained, were required to accommodate changes in customer needs over time. Seventh, associated with these initiatives and related to the reframing of goals and objectives, respondents suggested that communications be overhauled and sharing of information with customers improved to forestall the development of incongruence in goals and objectives across the dyad.

Given that it has the advantage of not requiring the informant to make trade-offs in directly responding about the relative importance of the factors in the model as well lower social desirability bias potential and its consequent recent precedence in buyer-seller research (e.g., Murry and Heide 1998; Wathne, Biong and Heide 2001), we used a conjoint design to evaluate the broader applicability and relative importance of factors identified.

Development of the Conjoint Scenarios

Following a fractional factorial design we developed 12 conjoint scenarios (seven factors with two levels) based on the formula of minimum scenarios (Curry 1997).[7] The seven measures and their associated levels are reported in Table 5.

[Table 5 About Here]

The final sample comprised 47 respondents attending an executive program.[8] The respondents were asked to consider an underperforming customer relationship (defined as a customer relationship in the bottom 25% of a firm's customer portfolio in terms of profitability), which had either one of two levels on each of the seven factors. They then responded (on a seven-point scale anchored on "very low likelihood" to "very high likelihood") to the question: "What is the likelihood of the firm turning the customer relationship around?" To reduce bias the respondents were requested to treat each scenario as independent and not refer back to scenarios already completed.

Analysis and Results

[7] $N_C = N_L - N_A + 1$, where N_L is the total number of attribute levels and N_A the total number of attributes in the study. Based on this formula, the minimum number of scenarios is 8 (14-7 +1). Curry (1997) recommends multiplying this number by 1.5-2, leading to 12 scenarios. The 12 preliminary scenarios were pre-tested with six account managers whose feedback was used in the development of the final scenarios.

[8] From an initial sample of 52 managers, five respondents were dropped after examining their response to three verification questions. The first question assessed their knowledge, on a seven-point scale, of the state of customer relationships in their firms. The second question assessed their involvement in managing customer relationships. The third question assessed their confidence about their responses to the scenarios presented. Managers in the final sample had an average of 13.7 years of experience in managing relationships, another proxy for knowledge and the quality of the key informant (Philips 1981).

We analyzed the data with OLS regression. Table 6 presents the results.[9]

[Table 6 About Here]

The results suggest that the model explains a reasonable amount of the variance (adjusted R^2=0.20) and all factors are statistically significant. The relative importance of the seven factors, however, varies. While there is little extant theoretical work on which to develop *a priori* predictions of the relative importance of the seven factors as perceived by managers, the conjoint methodology enables us to assess the relative importance *ex-post* by calculating importance weights (i.e., dividing each factor's part worth range by the sum of all part worth ranges). The results (reported in Table 6) indicate that managers perceive that the most effective way to turn relationships around, is to begin by reframing joint goals and objectives with the customer, then improve communications and information exchange and reevaluate internal processes using cross-functional teams, and, finally, develop better performance measurement systems and change the basis of compensation (which seem to be equally effective). Surprisingly, managers perceive the ease of evaluating the customer's strategic fit with the firm and changing the account team to be the least important.

Implications for Practice

Taken together, the results of the three studies extend our understanding of the antecedents of commitment in relationships. We find that account reputation, and relationship importance do not affect vendor commitment to underperforming relationships. Comparing the impact of these variables across underperforming and above-average performance customer relationships provides interesting take-aways.

- Customer reputation has a significant impact on vendor commitment to above-average performance relationships; it does not impact vendor commitment to underperforming relationships. This result is counter to the belief that firms tend to persist in underperforming "showcase" accounts.
- It is not how big the sales volume, as much as it is the continuity of personnel that determines a vendor firm's level of commitment to a customer relationship.

Our results also suggest that firms need to not just measure and monitor the performance of customer relationships but look at the nature of performance change as well.

- The belief that a relationship's underperformance is temporary is, as expected, likely to keep vendors in underperforming relationships. Vendors need to validate managers' expectations before deciding to remain committed to such relationships.

[9] Except for one factor, we used an effects-coding approach (Cohen and Cohen 1983) with the first level coded –1 (for difficult) and the second level coded as +1 (for easy). For the continuity of account management personnel factor we coded "continuing with the current account management personnel" as –1 and "bringing in new personnel" as +1.

- Vendor firms need to be careful about their commitment to customer relationships characterized by slow performance degradation.

Our study has a number of implications for organization- and relationship-related factors that affect vendor firms' commitment to underperforming relationships.

- Our finding that greater visibility of a customer relationship impedes a vendor firm's exit from the relationship underscores the importance of understanding the organization-related factors. Vendors need to evaluate high profile customer relationships differently from other relationships.
- The involvement of senior managers also impedes a vendor's exit from an underperforming customer relationship. Senior management might be reluctant to withdraw from an underperforming customer relationship or be brought in to help the vendor recover from an underperforming relationship.
- Customer retention orientation might be appropriate in mutually beneficial customer relationships, but this orientation can haunt vendors in underperforming customer relationships. The head of sales for an electronics part manufacturer offered the following cautionary remark:

  > "I had always insisted that customer satisfaction be our number one priority at all times and that customer retention was the metric we would use to measure our people's performance. I should have been careful. Trying to work hard to satisfy demanding and unprofitable customers and trying to keep them is not worth it. But we had created an environment where no one wanted to fire a customer. We had reached a stage where we were working very hard and expending a lot of effort to stay in a bunch of highly unprofitable relationships."

- Firing customers is more likely when the organizational environment permits risk-taking behavior. Managers evaluated negatively for relationship failure are likely to expend more effort to preserve underperforming relationships in the hope that no one will ever notice their poor performance.

Our results also support and extend previous research in relationship marketing that has examined investments-related factors as antecedents of commitment. We find that to better manage underperforming customer relationships firms need to go beyond current prescriptions. Specifically:

- Vendors are likely to find it difficult to get out of underperforming customer relationships when they are jointly involved with the customer in co-development activities. It might be useful for managers to seek an unbiased view of a customer relationship before making further commitments.
- Managers who have difficulty connecting investments they make with relationship performance are more likely to persist in underperforming relationships. Questioning the efficacy of investments before they are made might reduce the chances of committing one's firm to a losing cause.

The differential impact of several of the control variables in our model provides a richer understanding of relationship management practices.

- The "competitive grandstanding" argument of holding onto a customer account in the presence of competition, it appears, seems to be used only when things are not going well. Alternatively, it might be that this approach leads to underperformance over time.
- A lack of attractive alternatives leads firms to persist in underperforming relationships. Firms might benefit from increasing managers' awareness of the benefits of idling resources as an option.
- The importance of trust in determining commitment across both sub-samples underscores the importance accorded it by research in relationship management. The fact that the other party can be trusted is powerful enough to increase a vendor firms' commitment irrespective of a relationships' performance.

Finally, the results of our exploratory conjoint study provide a number of guidelines on actions that managers' perceive as effective in turning around underperforming customer relationships.

- Reframing an underperforming customer relationship's goals and objectives is the most effective method of turning it around. This is consistent with our field investigations that found variance in goals across the dyad to be one of the main reasons for a stalemate in such relationships.
- Reviewing internal process using cross-functional teams and improving communications and information exchange across the dyad are avenues to improved relationship performance. A combination of introspection and communication can prevent recurrences of performance problems.
- Although customer-level performance measurement systems are important for vendors to work on, fixing the system is not perceived by managers as the place to begin to turnaround an individual underperforming relationship.
- The most common methods employed to turn around underperforming customer relationships, changing the account management team and redesign of performance management systems from volume-based to profitability-based, are not necessarily the best methods.

Limitations and Directions for Future Research

Our results are subject to limitations. First, our analysis is focused on industrial markets. Given growing interest by consumer goods manufacturers in managing individual customers, future research might examine vendor persistence in underperforming relationships in these contexts. Second, we use cross-sectional data. Given that the relationship phenomenon is temporal in nature, future research needs to take a longitudinal approach to our research question. It would also be fruitful for future research to take a dyadic view. Our field survey data is focused specifically on the vendor's perspective. It should also be noted that there is a potential for common method bias in our study. We believe that this effect is minimal and does not affect our directional prescriptions. Future research will also need to validate the new scales developed for this study. Our focus was on studying the main effects of the various factors on relationship commitment. Interaction effects among the variables included in our study also warrant study. For example, benefits of co-development can be overstated in the absence of performance measurement systems to justify commitment. Studying these variables together could help delineate boundaries for co-development in commitment models. Also, from a relationship stage theory perspective (Jap and Ganesan 2000), the effects observed in this study might vary with relationship stage.

Alternatively, our research question might be viewed as a special case of learning. Firm's retention of existing customers even when they are underperforming might be viewed as similar to exploitative (i.e., use and development of things already known) versus explorative (i.e., the pursuit of new knowledge) learning (Levinthal and March 1993). In fact, the likely return from current customers being generally more

certain than returns from new customers, firms might perceive less risk in trying to reinvigorate underperforming current customers than in seeking new customers or idling resources. In other words, current customer competence becomes a "core rigidity," that prevents learning from new customer opportunities. Future research should investigate this issue.

Table 1
Correlations for Underperforming Customer Relationship Sample

Variables	Mean	S.D	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
1. Customer reputation	4.49	1.27	1.00																						
2. Continuity of Personnel	3.67	1.58	0.11	1.00																					
3. Relationship Age	9.89	9.21	0.09	-0.00	1.00																				
4. Relationship Importance	13.49	16.66	*0.24*	0.02	0.01	1.00																			
5. Ease of Measurement	3.73	1.21	*0.15*	0.06	-0.04	0.06	1.00																		
6. Performance Stability	3.89	1.13	*-0.19*	-0.10	0.10	0.04	-0.08	1.00																	
7. Nature of Performance Change	4.67	1.23	0.15	0.01	0.09	*0.20*	0.05	-0.05	1.00																
8. Visibility of Relationship	4.84	1.33	*-0.40*	-0.08	-0.04	-0.09	-0.02	*0.17*	-0.06	1.00															
9. Involvement Of Senior Management	0.84	0.36	*0.20*	-0.09	0.12	0.05	-0.04	-0.14	0.09	*-0.25*	1.00														
10. Customer Orientation	5.23	1.14	*0.30*	0.09	0.09	0.07	0.01	-0.13	-0.09	*-0.26*	0.06	1.00													
11. Risk Taking	3.35	1.12	-0.14	0.11	-0.01	*-0.15*	*-0.32*	-0.02	*-0.16*	-0.10	0.01	*0.21*	1.00												
12. Co-development	3.93	1.29	*0.25*	*0.26*	-0.11	0.08	*0.23*	*-0.13*	0.07	-0.17	0.04	*0.22*	-0.07	1.00											
13. Efficacious investment	4.47	1.14	*0.34*	0.06	0.04	0.04	-0.03	-0.08	-0.01	-0.13	0.04	*0.25*	-0.03	*0.20*	1.00										
14. Asset specificity	4.32	1.14	*0.47*	0.11	0.05	*0.27*	0.08	-0.07	*0.21*	*-0.34*	*0.31*	*0.23*	-0.11	*0.42*	*0.29*	1.00									
15. Resource commitment	5.04	1.06	*0.64*	0.14	-0.01	*0.30*	0.09	-0.17	0.07	*-0.44*	*0.19*	*0.22*	-0.05	*0.35*	*0.35*	*0.59*	1.00								
16. Competitive Intensity	5.54	1.66	*0.33*	-0.02	0.06	0.03	0.05	-0.03	0.01	-0.06	0.04	*0.27*	-0.01	0.06	*0.22*	0.12	*0.21*	1.00							
17. Environmental Turbulence	4.17	1.1	0.07	-0.03	-0.08	*0.23*	-0.00	0.01	0.06	0.03	0.10	-0.02	-0.12	0.02	0.06	0.10	*0.15*	*0.15*	1.00						
18. Trust	4.10	1.32	*0.26*	*0.36*	-0.06	0.06	*-0.14*	-0.14	-0.02	-0.12	0.03	*0.31*	*0.33*	*0.16*	0.13	0.11	*0.22*	*0.13*	-0.04	1.00					
19. Relationship Conflict	4.58	1.36	*-0.16*	*-0.17*	-0.05	0.01	0.08	0.10	*0.25*	-0.06	0.12	*-0.20*	*-0.16*	0.05	0.09	*0.18*	-0.05	*-0.18*	-0.01	*-0.52*	1.00				
20. Comparison Level of Alternatives	4.29	1.28	*0.56*	*0.13*	0.06	*0.26*	-0.03	*-0.16*	-0.00	*-0.22*	*0.14*	*0.30*	0.06	0.11	*0.19*	*0.21*	*0.42*	*0.37*	0.10	*0.49*	-0.33	1.00			
21. Relationship Stage	3.08	0.75	-0.12	-0.01	0.03	0.04	0.11	0.02	*0.21*	0.06	0.11	-0.07	-0.09	-0.10	-0.09	-0.00	-0.06	-0.04	0.09	-0.01	0.07	-0.04	1.00		
22. Affective Commitment	3.86	1.44	*0.36*	*0.28*	0.07	*0.19*	0.05	*-0.19*	-0.11	-0.08	-0.01	*0.43*	*0.15*	*0.14*	*0.14*	0.09	*0.29*	*0.34*	0.02	*0.57*	*-0.48*	*0.51*	-0.10	1.00	
23. Relationship Commitment	4.87	1.00	*0.44*	*0.23*	0.10	*0.16*	0.07	*-0.24*	-0.13	*-0.16*	*0.16*	*0.47*	0.03	*0.30*	*0.39*	*0.27*	*0.47*	*0.42*	0.03	*0.44*	*-0.25*	*0.57*	-0.06	*0.56*	1.00

Note: italicized correlations are significant at $p<0.05$

Table 2
Regression Results for Underperforming Customer Relationships

Independent Variables	*Expected Direction of Relationship*	*Hypothesis #*	*Standardized Regression Coefficients*
Dependent Variable			Commitment to Stay in Relationship
Relationship-related factors			
Customer account reputation	+	H1	-0.08
Continuity of personnel	+	H2	0.08**
Relationship age	+	H3	0.07*
Relationship importance	+	H4	0.03
Performance-related factors			
Ease of measurement	-	H5	0.03
Performance stability	-	H6	-0.10**
Nature of performance change	-	H7	-0.12**
Organization-related factors			
Visibility of relationship	+	H8	0.11**
Senior management involvement	+/-	H9	0.11**
Customer retention orientation	+	H10	0.18**
Risk taking orientation	-	H11	-0.07*
Investments-related factors			
Co-development	+	H12	0.09**
Efficaciousness	+	H13	0.17**
Asset specificity	+	H14	-0.07
Resource commitment	+	H15	0.23**
Controls			
Competitive intensity	+		0.17**
Environmental uncertainty	+/-		-0.07*
Trust	+		0.11**
Conflict	-		0.04
Comparison level of alternatives (C_{ALT})	+		0.24**
Relationship stage	-		0.01
Affective Commitment	+		0.14**
Overall Model			
N			214
F (p-value)			14.74 (0.0001)
R^2 (R^2_{adj})			0.63 (0.59)

** Significant at 0.05 (one-tailed test).
* Significant at 0.10 (one-tailed test).

Table 3
Comparing the Variables of Interest Across the Two Sub-samples

Variables	Mean for the Underperforming Relationship Sub-sample N=214	Mean for the Above-average Performing Relationship Sub-sample N=168
Vendor's commitment to stay in the relationship	**4.858**	**5.357**
Customer share of vendor's total profits (%)	**7.79**	**18.46**
Ratio of customer share of profit/customer share of revenue **	**0.60**	**1.42**
Relationship age (in years)	9.837	11.301
(range in years)	(1 to 71)	(1 to 62)
Account reputation	**4.479**	**5.103**
Continuity of personnel	**3.708**	**4.079**
Relationship importance	**13.22**	**18.46**
Performance stability*	3.893	4.032
Nature of performance change*	**4.676**	**4.418**
Ease of performance measurement	3.720	3.757
Visibility of relationship	**4.850**	**5.106**
Senior management involvement		
Yes	34	29
No	182	139
Customer retention orientation	**5.237**	**5.458**
Risk taking orientation	3.331	3.237
Co-development	3.927	4.047
Efficaciousness	4.565	4.759
Asset specificity	4.317	4.542
Resource commitment	**5.033**	**5.474**
Environmental uncertainty	4.17	4.17
Competitive intensity	**5.518**	**5.909**
Trust	**4.087**	**4.532**
Conflict	**4.593**	**4.22**
Comparison level of alternatives (C_{ALT})***	**4.275**	**5.048**
Affective commitment	**3.84**	**4.48**
Relationship stage		
Exploration	13	11
Build up	19	8
Maturity	135	124
Decline	49	25

** - Values reported are the average of the ratio of customer share of profit/customer share of revenue for each observation.

* - Items were worded differently in the above-average performance sub-sample.

Note: We checked for the difference in means across the two sub-samples. The overall omnibus F-test was significant (α=0.05). The pairwise Tukey's tests are significantly different (α=0.05) for numbers in bold.

Table 4
Regression Results for Above Average Performance Customer Relationships

Independent Variables	*Expected Direction of Relationship*	*Hypothesis #*	*Standardized Regression Coefficients*
Dependent Variable			Commitment to Stay in Relationship
Relationship-related factors			
Customer account reputation	+	H1	0.14**
Continuity of personnel	+	H2	0.04
Relationship age	+	H3	0.15**
Relationship importance	+	H4	0.08
Performance-related factors			
Ease of measurement	-	H5	0.03
Performance stability	-	H6	0.04
Nature of performance change	-	H7	-0.01
Organization-related factors			
Visibility of relationship	+	H8	-0.04
Senior management involvement	+/-	H9	0.06
Customer retention orientation	+	H10	0.19**
Risk taking orientation	-	H11	0.02
Investments-related factors			
Co-development	+	H12	0.06
Efficaciousness	+	H13	0.09*
Asset specificity	+	H14	0.12**
Resource commitment	+	H15	0.25**
Controls			
Competitive intensity	+		0.02
Environmental uncertainty	+/-		-0.08*
Trust	+		0.22**
Conflict	-		0.05
Comparison level of alternatives (C_{ALT})	+		-0.01
Relationship stage	-		-0.06
Affective Commitment	+		0.23**
Overall Model			
N			168
F (p-value)			11.09 (0.0001)
R^2 (R^2_{adj})			0.63 (0.57)

** Significant at 0.05 (one-tailed test).
* Significant at 0.10 (one-tailed test).

Table 5

Description of Attributes Used in the Conjoint Survey

Based on the results of our qualitative interviews, we developed the following seven common factors as the basis for the conjoint scenarios (the levels used in the conjoint analysis are included in parentheses).

1. Internal processes
   - The ease with which the vendor can put together a cross-functional team to evaluate and change internal processes used in the dealing with the customer (Easy/Difficult)

2. Continuity of account personnel
   - The account management personnel who will manage the relationship into the future (Current/New)

3. Strategic fit
   - The ease with which the vendor firm can justify the customer's strategic fit with the vendor's product-market strategy (Easy/Difficult).

4. Compensation systems
   - The ease with which the vendor firm can set up compensation systems for account management personnel that focus on profitability rather than volume (Easy/Difficult)

5. Performance measurement systems
   - The ease with which the vendor firm can set up measurement systems to better capture the performance of both vendor and customer (Easy/Difficult)

6. Communications and information exchange
   - The ease with which the vendor firm can enhance communications and information sharing targeted at developing a deeper understanding of customer needs (Easy/Difficult)

7. Realistic joint goals and objectives
   - The ease with which the vendor firm can work with the customer to reframe and set realistic goals and objectives (Easy/Difficult)

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Table 6
Conjoint Analysis Regression Results

Factors	Unstandardized Coefficient	Standardized Coefficient	t-value	Conjoint Importance Weights
Reframe realistic joint goals and objectives	1.00	0.22	4.93	0.20
Improve communications and information exchange	0.88	0.19	4.00	0.17
Evaluate and change internal processes	0.85	0.18	4.47	0.17
Develop improved performance measurement systems	0.68	0.15	3.76	0.14
Change compensation systems to focus on profitability	0.64	0.14	3.51	0.13
Justify customer's strategic fit	0.58	0.12	2.77	0.11
Continuity of relationship personnel	0.45	0.09	1.96	0.083
R^2adjusted	0.20			
F-value (p-level)	20.84 (0.0001)			

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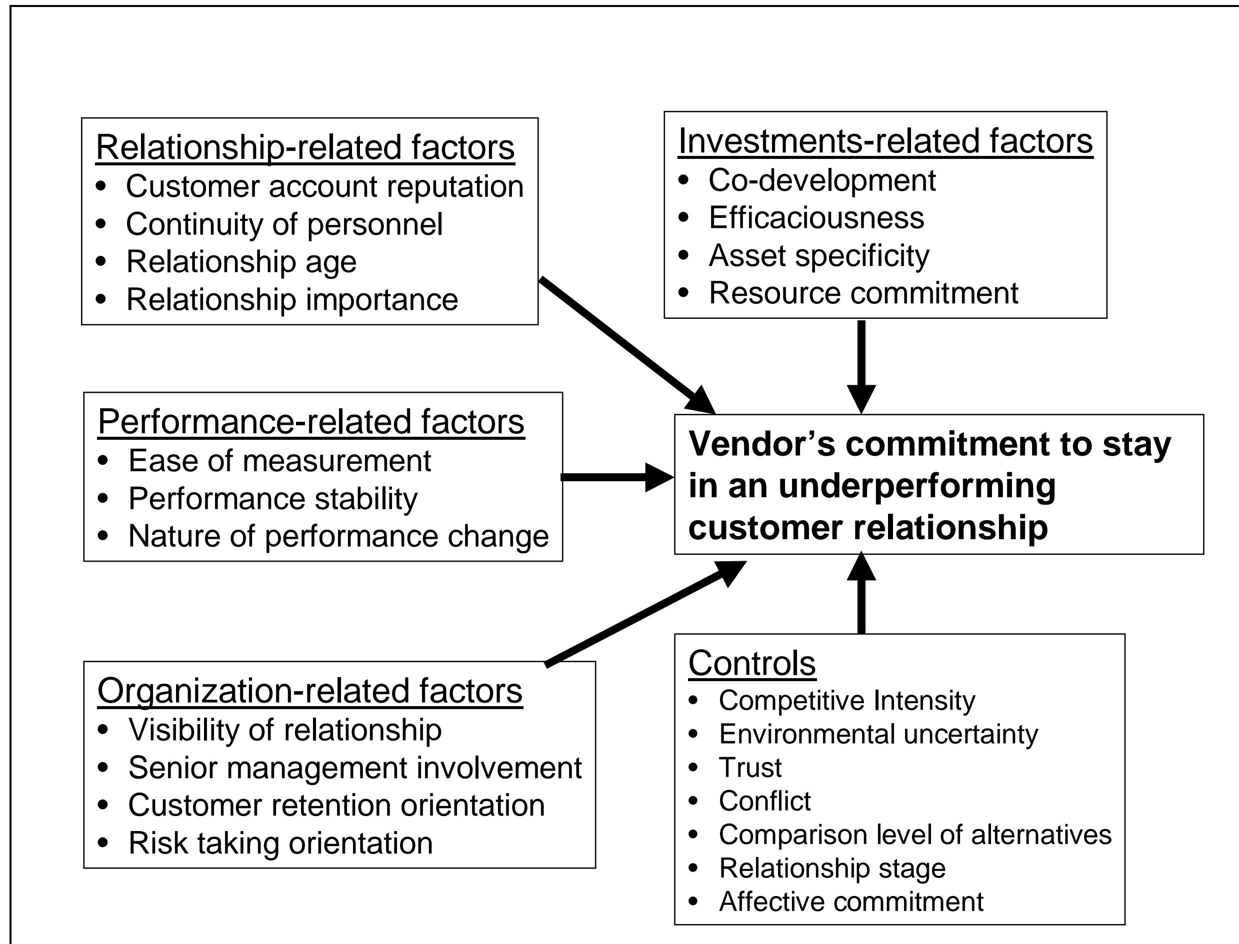
Figure 1: A Conceptual Model of a Vendor's Commitment to Stay in an Underperforming Customer Relationship



Appendix

Measures Used in the Study

Commitment to stay in the relationship (Adapted from Anderson and Weitz 1989; Noordewier, John and Nevin 1990; α=0.92)

- Maintaining a long-term relationship with this customer is important to us.
- We expect to persist in this relationship.
- We are committed to continue in this relationship.
- This relationship will survive for a long time.
- This relationship will be a permanent fixture in our customer portfolio.
- Renewal of any contracts/agreements in this relationship is virtually automatic.
- We will abandon this customer relationship in the near future.*

RELATIONSHIP-RELATED FACTORS

Account reputation (Developed for this study; α=0.85)

- The relationship gives us prestige within the industry.
- The relationship gives us a feeling of accomplishment.
- This is a "showcase" relationship.
- This relationship defines us.
- Overall, this relationship is critical for us.

Continuity of personnel (Developed for this study; α=0.72)

- There has been stability in personnel across the two sides in this relationship.
- The personnel in this relationship have dealt with each other for a long time.
- There has been little turnover in the contact personnel involved in this relationship.

Relationship age (From Kumar, Scheer and Steenkamp 1995)

- For how long has your firm had a relationship with this customer? ____ years

Relationship importance (Bharadwaj, Challagalla and Sheth 1998)

- The sales to this customer (as a percentage of our total sales) is: ___________

PERFORMANCE-RELATED FACTORS

Nature of performance change (Developed for this study; α=0.71)

- It has taken a long time for this relationship to deteriorate.
- The deterioration in this relationship has been slow and extended over time.
- There have been defining moments that have negatively affected this relationship.*
- It is easy to isolate events that have led to the current state of this relationship.*

Performance stability (Developed for this study; α=0.68)

- We do not expect the current performance state of the relationship to last long.
- Given the relationship history, the current performance is a temporary.
- We expect the relationship performance to change in the near future.
- We believe that the current performance shortfall is a temporary.

Ease of measurement (Developed for this study; α=0.82)

- Our current performance metrics do not provide a complete picture of the costs and benefits of this relationship.
- It is difficult to quantify our costs to serve this customer.
- Our systems do not capture our efforts to serve this customer.
- It is difficult for us to isolate the profit in this customer relationship.

ORGANIZATION-RELATED FACTORS

Visibility of relationship (Developed for this study)

- Any actions taken in managing this relationship are visible to others in the firm.
- This relationship is high profile, visible, and transparent within our firm.

Senior management involvement (Developed for this study)

- Is the top management team involved in this customer relationship? (Answer "Yes" or "No")

Customer retention orientation (Developed for this study; α=0.71)

- Focusing on customer retention is a central tenet of our organization.
- Our management expects us to do anything required to retain our customers.
- Customer retention is a key component of our strategic intent.

Risk taking orientation (Adapted from Jaworski and Kohli 1993; α=0.85)

- Advocates of failed customer relationships become scapegoats in our firm.
- Advocates of innovative customer relationships carry the entire burden of possible failure.
- In my firm it is understood that failure is a necessary part of success.*
- Our management does not understand that when you try something new, you sometimes fail.
- In our firm failure is accepted as a likely by-product of taking a lot of initiatives.*
- Finger pointing happens all the time in our firm.
- In our firm a mistake is seen as an opportunity to learn.*
- The executives involved in this relationship are not willing to admit to mistakes.
- The executives managing this relationship are concerned about their job security.

INVESTMENT-RELATED FACTORS

Co-development (Bharadwaj, Challagalla, and Sheth 1998; α=0.84)

This customer…

- is willing to try new products we develop.
- is open to new product ideas.
- is involved in co-development of our product.
- provides us input for new product development.
- is willing to beta test our products.

Efficaciousness (Formative scale developed for this study)

- We view our resource commitments in this relationship as likely to significantly change relationship performance.
- The investments we make in this relationship will affect its performance significantly.
- We have made a number of investments aimed at relationship performance improvements.
- Our commitments in this relationship are likely to enhance relationship performance.

Asset Specificity (Adapted from Anderson and Weitz 1992; Heide and John 1992; α=0.77)

- We have made significant investments in training salespeople, tooling, equipment and so forth dedicated to our relationship with this customer.
- If we lost this customer we would lose a lot our investments in this relationship.
- We have invested substantially in personnel dedicated to this customer.
- We have gone out of our way to link us with this customer's business.
- Our systems (e.g., production, accounting, logistics) have been tailored to serve this customer.
- Gearing up to deal with this customer requires highly specialized investments (e.g., tools, equipment etc.).
- This customer has some unusual needs that required adaptation on our part.

Resource commitment (Menon et al. 1999; α=0.62)

- Compared to our other customer relationships we have invested significantly greater resources in this relationship.
- Our relationship investment with this customer is very important to the achievement of our organizational goals.
- We view our resource commitment in this relationship as an investment.
- We view our resource commitment in this relationship as necessary expenditures for keeping the relationship operational

CONTROLS

Competitive intensity (Developed for this study; α=0.88)

- There are other vendors that are keen to take over our share of this customer's business.
- Competition for this customer's business is intense.
- Other vendors are always seeking to take away our business with this customer.

Environmental uncertainty (Formative scale adapted from Bharadwaj, Challagalla, and Sheth 1998)
How would you describe the market environment of your firm?
- Easy to monitor trends—Difficult to monitor trends
- Stable industry volume—Volatile industry volume
- Sales forecasts are accurate—Sales forecasts are quite inaccurate
- Predictable market environment—Unpredictable market environment
- Customer product preferences are stable—Customer's product preferences change a lot
- Competitive moves are infrequent—Competitive moves occur almost every day

Conflict (Developed for this study; α=0.80)
- To accomplish their objectives sometimes this customer manipulates information.
- To accomplish their objectives sometimes this customer does not keep promise.
- It is common for us to have a difference in opinions with this customer.
- Overall, our relationship with this customer can be viewed as adversarial.

Comparison level of alternatives (From Anderson and Narus 1990; α=0.80)
How attractive is <u>this customer</u> compared to others in terms of *(anchored on Much more …Much less)*
- Generating sales?
- Generating profit?
- Cooperating with your firm?
- Making payments?
- Providing endorsements (i.e., word-of-mouth)?

Relationship Stage (From Jap and Ganesan 2000)
Relationships typically evolve through a number of phases over time. Which of the following best describes your firm's current relationship with the customer (check only one)?
- Exploration: Both firms are discovering and testing the goal compatibility, integrity and performance of the other as well as potential obligations, benefits, and burdens involved with working together on a long-term basis.
- Build up: Both firms are receiving increasing benefits from the relationship and a level of trust and satisfaction has been developed such that they are more willing to become committed to the relationship on a long-term basis.
- Maturity: Both firms have an ongoing, long-term relationship in which both are receiving acceptable levels of satisfaction and benefits.
- Decline: One or both members have begun to experience dissatisfaction and are contemplating relationship termination, considering alternative customers or vendors, and beginning to communicate intent to end the relationship.
- Deterioration: The firms have begun to negotiate terms for ending the relationship and/or are currently in the process of dissolving the relationship.

Trust (Adapted from Ganesan 1994; α=0.84)
- Our promises to each other are reliable.
- We are very honest in dealing with each other.
- We trust each other.
- We would go out of our way to help each other out.
- We consider each other's interests when problems arise.
- We feel that we can trust this customer's organization.

Affective commitment (Adapted from Kumar, Scheer and Steenkamp 1995; α=0.81)
- Even if we could we would not drop this customer because we like being associated with them.
- We want to serve this customer because we genuinely enjoy our relationship with them.
- Our positive feelings towards the customer are a major reason we continue to work with them.

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*These items were reverse-coded prior to analyses:
Unless otherwise stated all scales were measured on a 7 point scale where 7=strongly agree and 1=strongly disagree.