Transaction Cost Economics: An Analysis of Commitment in Asymmetrical Insurer-Broker Dyads

An Exploratory Case Study of ING Canada and its Distribution Counterparties

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Declaration

I certify that this thesis is my own work and that it respects the ethical conventions of research and the due acknowledgement of the ideas and writings of others. The thesis is written in my own words except for direct quotations that are acknowledged in the references.

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Research Abstract

Since the early 1980's there has been a heightened academic interest in the field of commitment, particularly as it relates to business relationships. Knowledge of commitment continues to advance and has begun splintering and applied into specific and narrow fields. The particular field of interest in this study surrounds commitment levels in business relationships within property and casualty insurance distribution networks.

The intent of understanding and enhancing commitment levels is to allow stakeholders to explore new ways to improve profitability. This can be achieved by deepening the level of understanding and knowledge of relationship partners with a view to anticipating and fulfilling their needs better than the competition. However, commitment is intangible and involves many factors including human emotion. This increases the difficulty in comprehending the whole phenomenon of commitment.

To assist in furthering the knowledge in this area, transaction cost theory is examined and applied to insurance company and broker relationships. In seeking a greater understanding of the underlying drivers of commitment, this thesis investigates the theoretical contribution of transaction cost economics theory in assessing commitment levels. The purpose is to utilize the elements of transaction costs as a means to extend the awareness of how commitment is constructed, and to search for ways to improve and strengthen these relationships.

The primary research method consists of three major case studies within the Canadian property and casualty insurance distribution sector. The first case study explores the perspectives of insurance brokers in Ontario. The second study reveals the perceptions of relationship managers employed with ING Canada, the country's largest property and casualty insurance company. Lastly, the research incorporates a series of interviews with ING Canada senior executives to capture their perspectives and validate the research findings from the first two case studies. These investigations into the Canadian insurance industry have provided several outputs, chief among them is the development of a conceptual model referred to as the *"Commitment Wheel."* This model has the advantages of seating affective and calculative commitment at the centre of a moving environment of commitment enablers.

KEYWORDS: Commitment, Transaction Costs, Property and Casualty Insurance, Exploratory Case Study

1 Introduction

When contemplating the notion of commitment, people's definitions and visions are varied. Commitment does not appear to be a finite point on a widely-accepted scale. In fact it is an evolving and dynamic range on a moving continuum. It is influenced by many factors including human emotion. Its intangibility makes it difficult to define and measure. On the surface it seems simple enough, but this simplicity masks the complexity of its underlying issues in most modern-day commercial relationships.

The Canadian financial services sector is in a period of unprecedented change and industry members have developed a heightened need to align themselves with potent and committed allies. A keen awareness and understanding of these allies is paramount, thus precipitating the need to examine and characterize the varying forms of business arrangements. This need is clear and is exemplified within the property and casualty insurance distribution sector, specifically within the insurer-broker channel.

As the literature suggests (Phillips and Pugh 2000) the topic of study should be a subject of personal interest to the researcher which it is in this case by virtue of life-long industry involvement, study, and employment. Initially, the research goal was to identify and understand what academia could contribute to understanding and improving the knowledge of commitment, and conversely how industry could inform academia.

The author's professional employment-experience assisted immensely in identifying the preliminary research questions. These were subsequently refined by the literature review and key informant interviews, and evolved into the research question which will be discussed in the following section. During the interviews, the author's industry experience significantly assisted in gaining access to busy executives, managers, and brokerage owners while providing credibility to interviewees regarding the research agenda.

The foregoing acknowledges that the author brings a practitioner's perspective to this research project. However, strict attention was paid to ground the dissertation in academic and not practitioner literature and research practices.

1.1 Introducing the Research Question

1.1.1 Brief Statement of the Research Topic

The early 1980's witnessed an increasing academic interest in the area of commitment theory. Knowledge continued to be advanced through the 1990's and again into the new millennium. Diverse examinations of commitment were conducted including relationships of principals and agents, suppliers and customers, business-to-business arrangements, etc. The purpose of advancing this knowledge is to gain a better understanding of the various aspects of commitment, its constructs and integral components.

The volume of increasing interest in commitment theory has moved in tandem with further research into the area of transaction cost economics. It is rather common to discover inter-organizational research within various fields that contain elements of transaction cost economics (Leiblein and Miller 2003). Acceptance as a scholarly endeavour was secured in 1991 when the eminent academic Ronald Coase received the Nobel Prize for his ground-breaking research into this field. Moreover, Oliver Williamson also recently received the prestigious Nobel Prize in 2009 for his work in this area. Transaction cost theory has parallels with commitment theory, particularly with their exposures of the various bonds and linkages between organizations. Thus the intent of this study is direct application of the factors and concepts of both theories to further the academic understanding of commitment.

The creation and development of theoretical frameworks incorporating theories and models from the literature can assist in focusing and binding the research (Huberman and Miles 2002). In the context of exploratory case studies, conceptual or theoretical frameworks may be less important (Hussey and Hussey 1997) or less clear in structure, however they can aid in arranging data collection while enabling exploration of a wide range of topics (Barnes 2001). This dissertation will investigate the utility of theoretical contributions from transaction cost theory in an effort to further understand the field of commitment. To accomplish this, an exploratory case study has been conducted. In addition, this particular investigation into the Canadian insurance industry has provided several outputs, chief among them is the development of a conceptual model referred to as the *"Commitment Wheel."* This model has the advantages of seating affective and calculative commitment at the centre of a moving environment of commitment enablers.

1.1.2 The Research Question

The overall research objective is to increase the body of knowledge of commitment through exploratory case study research. As indicated, the primary research question will explore the utility of transaction cost economics theory in an effort to increase understanding of commitment and is lead by the following question:

> ***Does Transaction Cost Economics (TCE) explain the varying degrees of calculative commitment levels in relationships between insurers and brokers in the Canadian property and casualty insurance sector?***

The research design specifically selected three important stakeholder groups as the primary data source. These included insurance company executives and relationship managers from ING Canada along with property and casualty insurance brokerage owners and senior managers. It is recognized and acknowledged that other perspectives may be equally valid. For example, regulators, suppliers, and customers can and likely do have divergent opinions or perspectives on commitment. However, the limitations of a PhD dissertation precluded interviewing all stakeholders. Furthermore, it is argued that the opinions of the selected groups are essential in advancing the knowledge further in this field of study. These selected groups provide different perspectives of their joint relationships which has been afforded them due to their different vantage points. This will add depth and richness to the quality of the data being gathered for the study.

1.2 Why this Topic is Worthy of Study

Further research in the area of commitment is necessary in order to understand and identify the underlying issues that can either enhance or destroy relationships between organizations. The notion of closeness in this context has been the subject of considerable interest in a number of diverse fields (Daft 2001). Committed relationships have the ability to add value in both upstream and downstream value-adding chains, and thus it has the capability to enhance distribution channels as well

(Heide 1994). More research is necessary in the principal and agent distribution channel due to the variety of forms that can exist.

As the literature review will demonstrate, there were several high-quality academic studies conducted which examined principal-agent distribution and/or sales arrangements in the commitment area (Kulkarni and Ramamoorthy 2005; Daft 2001). But there is not an abundance of research in this field whereby the distributor is an organization itself as opposed to a single individual, and where this organization operates within a highly-regulated industry. In addition, this thesis also examines the topic from several points of view, including an internal stratified approach from the principal and also from the owner's point of view at the distributor level. As indicated, this stratified approach will illustrate the differences in perspectives of the same relationship from different vantage points, thus adding a wealth of new insights into the construction of commitment and how the parties view the strength of the relationship.

1.3 Introduction to the Key Informants

A qualitative, exploratory case study approach was chosen as the optimum method for examining the underlying issues in the research topic area. Open-ended questioning of key informants would be undertaken in order to solicit perspectives and opinions of recognized experts in the relevant stakeholder groups. As mentioned, these groups include insurance company executives and relationship managers from ING Canada along with property and casualty insurance brokerage owners and senior managers

ING Canada is the largest property and casualty insurance company in Canada, and is a member of the Amsterdam-based ING Group family. ING Canada recently became a publicly-traded company, launching an Initial Public Offering (IPO) of its shares in December 2004. As a market leader, the company strives to be innovative and on the cutting-edge. In 2006, ING Canada housed approximately 6,700 employees in about 50 offices across Canada and maintained a national network of 2,700 independent broker relationships. Although not as relevant to this study, ING Canada also owns Belair Direct, a direct-to-consumer property and casualty insurer.

As a publicly-traded company, ING Canada is under the direction of a formal, corporate Board of Directors. Chief Executive Officer (C.E.O.) Claude Dussault reports to this Board and there are several Executive Vice Presidents and Senior Vice-Presidents reporting to him. Eight of these individuals, including the C.E.O. have contributed to this study by virtue of their participation in the case study interviews.

Within the branch operations are key relationship individuals (managers and regional vice presidents), eleven of which have contributed to this study. These key informants regularly interact internally with other functional areas of the organization and also externally with the independent brokerage owners, managers and staff members. They play an important role in maintaining effective lines of communication between ING Canada and the broker community.

Within the brokerage community the level of owner and senior manager were selected as most appropriate for key informants. These individuals are the decision-makers for their firms. Moreover, they are the main point of contact at their company and they manage the relationships with the insurance companies. In the Canadian insurance brokerage community, many of these individuals are second and third generation (family) owners and their decisions have a direct impact on their profitability and long-term survival.

1.4 Background

ING Canada is the first publicly-traded property and casualty (P&C) insurance company to operate in Canada. Until early in 2004, ING Canada was wholly-owned by ING Groep based in the Netherlands. Although they retained a large ownership stake in ING Canada, ING Groep launched one of Canada's most successful Initial Public Offerings (IPOs) in 2004, thus raising substantial capital and positioned the company to pursue its acquisition strategy.

The current company consists of an amalgam of several former industry players, each acquired and now operating under the ING Canada banner. Of note, some of the more recognizable names include: Halifax Insurance, Western Union, Group Commerce, Wellington Insurance, Zurich Insurance, Guardian Insurance, Allianz Insurance, Nordic Insurance, among others. This is part of an ongoing consolidation within the Canadian insurance marketplace and other significant players are displaying a hungry appetite for merger and acquisition opportunities. It is important to understand this phenomenon at the outset, as it helps to define the Canadian insurance marketplace and has an influence and impact upon the shaping of the beliefs of market participants.

ING Canada advocates a concentration strategy whereby it encourages its brokerage partners to narrow their product shelf and reduce the number of insurance companies they represent. Preference is given to brokers complying with this notion, and in particular to those that allocate a greater percentage of their premium revenue in favour of ING. The intent is not necessarily to abdicate the broker's independent status, but more as a means of becoming more efficient and knowledgeable about the companies they do represent. This is a philosophical debate that continues because of its many implications and complexity. This aspect of the current state of the marketplace is also important to be aware because of how it will shape and form opinions on the part of the respondents.

The focus of this case study was the brokerage community (and ING Canada's involvement) in the Province of Ontario for several reasons. Ontario is the economic, social, and technological hub of Canada, containing the nation's capital city (Ottawa), the country's largest city (Toronto), plus the largest mix of both urban and rural brokerage operations in Canada. ING Canada maintains contractual relationships with the majority of Ontario's insurance brokers (roughly 1200 out of 2000).

As the market is relatively stable, and is driven by the number of automobile and homeowners (plus commercial) requirements, market-share growth is vital to the success of the company. Beyond organic growth and efficiency opportunities, acquisitions form a key ingredient of ING Canada's success formula. Consolidation is also occurring in the brokerage community as brokers seek efficiencies and improved growth rates. Differentiation is often unclear between brokers as many of them represent similar insurers within the same marketplace. Thus mergers and acquisitions serve as the quickest route to growth and efficiency and also provide an alternative succession plan for owners.

Rationalization is taking place on the part of both brokers and insurers for other reasons as well, beyond growth and succession planning. The independent broker channel is under a constant threat from direct insurance writers, i.e. those that bypass the brokers and deal direct with clients. Although this is a separate philosophical debate as to the value that brokers bring to clients, technology has been a catalyst in the proliferation of direct-writers. Telephony improvements, lower long distance telephone costs and call centre advancements have each contributed to the constant threat to the broker community. But ultimately it is the consumer that determines the value of the service and advice brought forth by brokers, and although the broker channel is evolving it is thriving.

1.5 Organization of the Thesis

This chapter sets the context and describes the rationale and purpose for the research study. The remainder of the thesis is organized as follows: ***Chapter Two*** undertakes a scan of the environment in which the participants operate within; ***Chapter Three*** assembles and discusses relevant and competing theories; ***Chapter Four*** reviews and assesses commitment literature from academic sources; ***Chapter Five*** reviews and assesses transaction cost economics literature from academic sources; ***Chapter Six*** assembles the emergent sub-topics and provides a link to the following study: ***Chapter Seven*** provides an overview of the methodology and methods used in conducting this research; ***Chapter Eight*** compiles and presents the analysis and findings from the three aforementioned case studies; ***Chapter Nine*** discusses the results of these studies, examining the contribution from transaction cost economics theory, as well as considering other emergent findings; ***Chapter Ten*** concludes this thesis by responding to the primary research question and presenting the overall research conclusions. In addition, it discusses research limitations and suggests future potential research. The following ***Table 1*** summarizes the thesis chapters.

Table 1: Thesis Outline

Chapter		Purpose	Approach
1	Introduction	Set the stage, introduce research topic and questions.	Topic introduction and initial research definitions.
2	Environmental Scan	Examine the current inner-workings of the industry.	Present topical aspects of the insurance industry in Canada.
3	Theoretical Perspectives	Assemble relevant theoretical perspectives for review.	Compare and contrast relevant theoretical considerations.
4 & 5	Literature Review	Literature review of academic literature (Chapter 2 includes commitment literature and chapter 3 includes transaction cost literature).	Review of relevant academic literature.
6	Advancing the Body of Knowledge	Assemble the emergent sub-topics in the commitment & transaction cost theories. Link these items to the research methods and purposes.	Compile the key topics developed during the literature review.
7	Methodology	Presentation and discussion of Research Methodology and Methods	Research gap, methodological - exploratory case study method, contribution of key informant interviews, field procedures, interview questionnaire, etc.
8	Case Studies	Present the three case studies.	Presentation of the findings & responses from the 3 case studies.
9	Discussion	Determination of findings, presentation of research questions and research objectives and introduction of conceptual model.	Analysis and triangulation of findings, cross-case comparisons, etc.
10	Conclusion	Conclusions and implications of the research.	Responding to the research question, implications of research, limitations, and final conclusions.
11	Bibliography		
12	Appendix		

1.6 Summary

In summary, the proposed research will explore, through the application of sound research methodologies, organizational and executive perceptions on the construct of commitment. This research will apply transaction cost economics theory to this topic and consider whether the theory enhances the overall comprehension and suggests practical applications, addressing the Academic-Practitioner gap (Swamidass 1991).

The development of the academic literature will be explored with a view to understanding how it arrived at its current state along with any gaps that are evident. The current literature will form the foundation for this study and will be advanced further with the analysis of the data garnered during the process. The contemporary issues confronting the Canadian insurance industry provides an intellectually thought-provoking environment for this research due to the rapid consolidation and evolution that it is undergoing. Commitment levels in this industry are under unprecedented strain and pressure because of these changes thus matters involving transaction costs are increasingly under scrutiny.

From the perspective of executives, senior managers, and owners themselves, this study will explore and analyze the various perspectives and responses to changes in commitment levels. It will examine the influences and impacts of the factors of transaction costs upon each other and upon commitment itself. These investigations into the Canadian insurance industry will provide several outputs, chief among them will be the development and introduction of a conceptual model referred to as the *"Commitment Wheel."* This model will have the advantage of seating affective and calculative commitment at the centre of a moving environment of commitment enablers.

2 Environmental Scan

In order to correctly situate the ING Canada distribution system in the proper context, this section will describe and examine the roles and duties performed by the various relevant industry stakeholders. Whereas some groups have a direct impact on business relationships, such as the insurance companies and the brokers themselves, others have a vicarious influence (e.g. regulators and associations) yet provide the backdrop and landscape for the distribution systems to exist. Each of these groups will be analyzed, along with an inspection of how the industry is evolving.

2.1 Industry Overview

Since the start of the new millennium, the Canadian property and casualty (P&C) insurance industry has consistently generated in excess of $20 billion in net premiums annually. As a percentage of Canadian GDP, the industry's recently consistent contribution has remained within the range of 4 to 4.5%, similar to the United States and most Western countries (SwissRe 2009). The most recent figure available from Statistics Canada (January 2009) suggests the range of $27 billion in 2002. Automobile insurance remains to be the largest class of insurance in Canada in the P&C area, regularly contributing over 50% of those net premiums. Between the insurers and the related industries such as brokers, actuaries, etc. roughly 100,000 people are employed within this industry. In addition, the industry holds $66 billion in assets, thus making it a significant contributor to the economy in Canada. Seven of the ten largest insurers in Canada are foreign-owned and overall foreign insurers represent 64% of net premiums earned (Statistics Canada 2009).

The property and casualty insurance industry in Canada is in a state of transition based upon shifting power and control over distribution and relationships. Matters of regulation and legacy cultures continue to provide resistance and roadblocks to meaningful changes that have the potential to move the industry in a positive direction. Some of these roadblocks and resistance stems from distribution partners (i.e. brokers) that are small and undercapitalized, thus are incapable of updating their ICT inter-connections. This has the result of retarding growth and progress. Moreover, an increasing trend in regulatory requirements is diverting time, effort and capital away from other initiatives and projects that could otherwise enhance productivity. A minority of players on all sides have been pivotal in endeavoring to make, at a minimum, incremental improvements in processes, technologies and regulatory matters. Unfortunately, this does little to address the necessary and substantive changes in matters of business strategy whereby competitive threats are beginning to manifest. The threats include those from banks, branding and competitive pricing and direct writers.

Recognizing this resistance to change, certain groups are emerging with new approaches and consumer-friendly alternatives that are beginning to take root. In particular are the Canadian banks and multi-national corporations, both of which can bring economies of scale and specific expertise that can provide efficiencies and economic leverage uncommon in smaller Canadian P&C companies. In addition, they bring more stringent underwriting protocols, heightened risk management capabilities along with advantages in expense management and savings. The previous decade has witnessed the following changes in the competitive arena:

- Insurers are getting involved with direct writers in various ways, i.e. strategic alliances, mergers and acquisitions, contractual arrangements, etc. For example, ING Canada purchased and partially distributes through Belair Direct and Grey Power Insurance; Aviva distributes through President's Choice Financial.

- Some insurers are developing a multi-channel approach to distribution, including ING Canada, Aviva, Royal & SunAlliance.
- Larger insurers are purchasing brokerage operations at prices and multiples that are higher than conventional. Subsequently the brokerage is consolidated into the insurer's call-centre operation.
- Direct writers are moving beyond urban centers and targeting clients in out-lying regions, offering premium rates around 15 to 30 percent below intermediary channel rates. This is achieved in part through their in-house branding and marketing expertise.
- In an effort to establish and increase control in the broker channel, insurance companies are providing interest-free and low-interest loans to brokers that are keen to expand their operations via acquisitions and mergers. In most cases, conditions accompany these loans and often will include a requirement to direct a minimum of 25% of the brokerage book of business to that particular insurer along with a right of first refusal on renewal contracts.
- Since the Canadian Federal Bank Act precludes insurance companies from distributing individual insurance contracts through their branch network, banks have been taking direct action because of what they deem to be unfair restraint of trade. For example, the Royal Bank of Canada commenced opening insurance branches adjacent to their bank branches, albeit with separate entrances and facilities yet taking advantage of branding and consumer awareness. This is recognized as a harbinger of the banking industry's intentions and objectives.

While the industry witnesses a reduction in the number of independent brokerage operations, it is expected that insurance companies that supply this network will also shrink. In spite of these changes, however, the industry is performing well and capital is available which will help facilitate the consolidation and brokerage acquisitions. Eighty-one percent of insurance carriers with greater than $500 million dollars in annual premium are actively seeking to acquire a competitor or a distributor (Carlson 2008). But this appetite for acquisitions has caused a rise in price multiples, particularly in the case of larger brokerages. For example, in February of 2007, the brokerage network *HUB International* was acquired by a private equity firm for 3.5 times commission which is roughly double of the conventional multiple (Carlson 2008). Although the pace has been slowing into 2009, this acquisition trend (including the use of private equity) is expected to continue into the foreseeable future. The size of the price multiples will likely also receive some downward pressure but should remain strong.

In the wake of these changes, brokerages on average are getting larger and stronger, leveraging economies of scale and many will surpass the $100 million level in the next few years (French 2007). Adding to the number of available brokerages for acquisition, four percent of Canadian broker owners have suggested they would like to retire in the next five years (Aarsteinsen 2008). This represents $2.5 billion in annual premium (IBAC 2008). In addition, other potential players have expressed interest into gaining membership in the industry. Toyota, for example, has indicated that it intends to distribute automobile insurance within the next year and it will be underwritten by a carrier it controls in Japan. It will be administered through a local partner in Canada. To comprehend the impact of this decision, Toyota annually sells 200,000 cars in Canada and this number is expected to rise to 250,000 by the year 2010 (Carlson 2008).

However, given the current economic situation and the state of the auto sector this number will likely be reduced. In any event, Toyota is a significant force within Canada's economy.

2.2 Direct Writers

Recognizing that size and control bear a strong relationship, both brokers and insurers acknowledge the benefits of consolidation. This is causing a noticeable change to the insurance industry landscape. In addition to this, direct companies (i.e. those that deal with the customers directly and not through an intermediary) have been well-received by consumers and a proliferation of them is evident which continues to modify the marketplace. Direct writers typically have lower operating and transaction costs and have the ability to readily adapt to the vagaries of the market (Aarsteinsen 2008). Their structure provides them with control over both distribution and manufacturing in a fully integrated fashion. However, opponents of this system have indicated that direct writers need to improve their claims management capabilities (RIBO 2008). Their belief is that without the involvement and intervention of an intermediary on their behalf, consumers do not receive fair treatment and payouts during the claims process and thus may be taken advantage of. Further discussion and elaboration of these two distribution systems will be presented in the following sections.

2.3 Contrasting Direct Versus Intermediary Systems

In the recent environment, broker companies controlled 62 percent (approximately $13 billion) of the marketplace while the direct writers maintain 31 percent (approximately $6 billion) (Canadian Insurance Statistical Issue 2006). This compares to five years earlier in which broker companies enjoyed in excess of 75 percent of the marketplace, thus they are in a downward trajectory and have lost 13 percent. Moreover, broker companies only control approximately half of the personal lines market (French 2007).

Table 2

BUSINESS RESULTS: SIX YEAR HISTORY			
DIRECT WRITERS		**TRADITIONAL INDUSTRY**	
		Broker Companies	**Brokers**
In 2000	• Control 25% of the business • Average loss ratio 85%	• Control 75%* of the P&C market • Traditional markets are moving into multiple distribution channels	• Wrote 78% of the business • Competition is neighboring brokers
In 2006	• Control 32% of the business • Expense ratios average 20% - 23% • Average loss ratio is 65% • More competitors: Greypower, RBC, President's Choice, TD Meloche Monnex, groups & programs, etc. • Toyota and others are on their way	• Control 62% of the market • Expense ratios average 28%-33% • Average loss ratio 58% • Traditional partners are purchasing brokerages at multiples not affordable by brokers and moving the business to call centers • Fewer carriers	• Write 62% of the business but only 50% of personal lines • 90% of brokers are losing client count every year • Lost business is going to the new directs • Almost 40% of brokers plan to retire in the next 5 years and most have no perpetuation plan • Fewer brokers
*Percentages do not add up to 100 (reinsurers, mortgage insurers, etc.) *All statistics are as at December 2006, *CI Statistical Issue*			

Adapted from *Canadian Insurance*, December 2007

The aggregate and cumulative result of these trends is that direct writers, mostly owned by multi-nationals and banks, are increasingly gaining control and market-share. This is accomplished through distribution systems, largely at the expense of independent brokers. In 2008 it is estimated that ING Insurance hovers around 15 percent market-share (IBAC 2008).

The competitive playing field for the direct versus broker channels is not equitable in terms of expense ratios. This is due in large part to economies of scale whereby direct writers have the resources to invest in technology and other efficiency tools whereas traditional carriers and typical independent brokerages cannot. Direct writers generally function in a range of expense ratios surrounding 20 percent to 23 percent (RIBO 2008). On the other hand, traditional domestic insurance carriers supporting independent brokerages function in the area of 28 percent to 33 percent. This affords the direct writers a significant advantage in operations and sustainability. In order for the intermediary channel to survive and thrive, they must accept that improvements are needed with structural issues, duplication and redundancies. This study will be exploring this matter in-depth in subsequent sections, particularly as it relates to transaction costs.

There are many areas of duplication in the intermediary channel that have been considered and discussed by industry participants with a view to remedying the situation. For example, underwriting expertise and resources exist at both the carrier and broker level, thus causing an unnecessary cost to the channel (Carlson 2008). This can be restructured to position the underwriting decision-making responsibility at the broker level and recast the carrier's responsibility to that of an audit function. The elimination of this responsibility (and associated salaries) would effectively reduce channel and transaction costs and improve efficiency. There are many other such opportunities that exist in this channel which require creativity and trust to implement.

2.4 A View to the Horizon

The pressure posed by this evolving landscape has been a cause for concern for the participants in the intermediary channel. Commitment between the parties in the chain is being tested in an unprecedented fashion while the evolution progresses (Carlson 2008). In summary, three significant facts are clear:

1. Domestic property and casualty insurance carriers have a costly business structure that is uncompetitive due in large part to the direct writers' ability to be more effective and cost-efficient.
2. Independent brokerage firms are being purchased by non-domestic insurance carriers at higher pricing multiple levels that are unaffordable by other brokers. Thus, distribution control is moving up the supply chain.
3. Independent brokers and domestic carriers are losing market share.

As indicated, the uncertainty of the marketplace has caused participants to examine their transaction costs, commitment levels and those of their counterparts. Although these terms will be discussed in detail in the following chapters, it is important to understand the definitions of commitment and transaction costs at this stage. Transaction cost economics (TCE) has been described as a significant theoretical approach in the analysis of inter-organizational governance, including the safeguarding of specific investments (Jap and Anderson 2003). Morgan and Hunt (1994) define commitment as a relationship in which an exchange partner believes that an ongoing affiliation with another is so important as to warrant maximum efforts at maintaining it. With these definitions in mind, traditional brokerages and domestic carriers will be forced to consider new business models and structures in order to thrive in the evolving environment and commitment between these parties will continue to be tested.

2.5 Examining the Roles of Independent Brokers

Historically, the term "insurance broker" would conjure images of a truly independent firm with linkages to most (if not all) insurance carriers. More recently, due to pressures for cost effectiveness and efficiency, Canadian brokers began reducing their product shelves and provided access to fewer carriers. This change has been bilateral, i.e. product concentration has been driven by brokers and insurers alike, albeit for different reasons. Brokers chose to specialize with a limited number of carriers in order to reduce their transaction costs in the areas of training, technology, product knowledge, volume and frequency, and as a sign of commitment to those remaining carriers. Insurance companies, on the other hand, chose to restrict access to their products to brokers that committed and/or demonstrated an inclination to sell their product with meaningful levels of success and quality. The movement in this direction has caused a measure of uncertainty within this channel.

To assist in the comprehension of brokerage operations, this study will examine recent data compiled for the industry in this subject area. In 2007, an industry study was conducted by the Canadian accounting firm of Berris Mangan with the intent of shedding light into the composition of brokerage firm profitability (Carlson 2008). A random sampling of 206 brokerages was selected from across Canada and they were requested to respond to a questionnaire. Of those that were invited, 164 did provide responses. The first priority was to gain insight into the makeup of their product shelf then to further understand the contributions toward profitability made by each line of business.

Initially, the Berris Mangan study tabulated the data received and compared by profitability level. The dividing line chosen was profits above and below 18.5% followed by an examination of brokerage firms based upon size (see **Tables 3** and **4**). An average amount provided by the respondents in each of the categories was used to demonstrate typical operations. Additional findings from the questionnaires are evident and will be discussed in this section.

Table 3

AVERAGE RESULTS COMPARISON BY PROFITABILITY LEVEL				
Total Sample Size	**75**		**89**	
	Profits <18.5% Average of Sample		**Profits >18.5% Average of Sample**	
	$	**%**	**$**	**%**
Income				
Public Auto	152,564	31.5%	202,552	29.6%
Private Auto	20,841	4.3%	21.743	3.2%
Travel	1,762	0.4%	1,897	0.3%
Personal Lines	144,288	29.8%	212,734	31.1%
Commercial Lines	124,813	25.8%	166,161	24.3%
Contingent Profit	27,892	5.8%	45,369	6.6%
Other	12,332	2.5%	34,190	5.0%
Total Income	**484,491**	**100.0%**	**684,647**	**100.0%**
Total Personnel	313,639	64.7%	317,585	46.4%
Total Administration	67,265	13.9%	78,984	11.5%
Total Premise	47,062	9.7%	39,169	5.7%
Total Data Processing	10,108	2.1%	9,017	1.3%
Total Marketing	16,749	3.5%	20,893	3.1%
Total Expenses	**454,822**	**93.9%**	**465,649**	**68.0%**
Total Operating Income	**29,669**	**6.1%**	**218,998**	**32.0%**

Adapted from *Canadian Insurance*, April 2008

As noted in the above table, income derived from each of the product lines in both groups is reasonably close and within a close range. Yet a more noticeable difference appears in the expense area, with diverse percentages in Total Personnel and Total Premise. Clearly, cost containment is an issue for those that are less profitable.

Table 4

AVERAGE RESULTS COMPARISON BY BRANCH SIZE						
Total Sample Size	**94**		**51**		**19**	
	$0-500k Average of Sample		**$500k-1M Average of Sample**		**>$1M Average of Sample**	
	$	**%**	**$**	**%**	**$**	**%**
Income						
Public Auto	103,586	36.5%	254,203	36.4%	356,210	19.3%
Private Auto	8,362	2.9%	31,732	4.5%	57,570	3.1%
Travel	1,066	0.4%	2,912	0.4%	2,749	0.1%
Personal Lines	102,382	36.0%	208,267	29.9%	500,493	27.2%
Commercial	46,551	16.4%	130,758	18.7%	689,729	37.4%
Lines	13,912	4.9%	40,355	5.8%	145,468	7.9%
Contingent Profit	8,196	2.9%	29,203	4.2%	89,900	4.9%
Other						
Total Income	**284,056**	**100.0%**	**697,430**	**100.0%**	**1,842.120**	**100.0%**
Total Personnel	157,241	55.4%	339,861	48.7%	986,095	53.5%
Total Admin	42,427	14.9%	94,065	13.5%	238,290	12.9%
Total Premise	31,114	11.0%	51,999	7.5%	112,586	6.1%
Total I.T.	8,067	2.8%	13,772	2.0%	26,077	1.4%
Total Marketing	7,597	2.7%	18,051	2.6%	62,164	3.4%
Total Expenses	**246,446**	**86.8%**	**517,747**	**74.2%**	**1,425,212**	**77.4%**
Net Operating Income	**37,609.91**	**13.2%**	**179,683**	**25.8%**	**416,908**	**22.6%**

Adapted from *Canadian Insurance*, April 2008

When considered in light of their size, larger operations have an opportunity to leverage economies of scale, thus giving them an advantage over their smaller competitors. With savings in most areas, the greatest savings for mid to large size operations stems from Total Premise expenses. Savings in other areas, although not as significant, do collectively contribute to the mid to large brokerage operation economies of scale. Contingent Profits, i.e. those that are awarded to brokers for delivering a profitable book of business to an insurance carrier, play a significant role in impacting profitability. The concept of contingent profits is discussed in another section, but their relevance is noteworthy at this time.

2.6 Additional Findings of the Broker Study

Within the Berris Mangan study, additional qualitative responses were garnered. Interestingly, sales mix appeared to be quite similar in smaller brokerages. Location and local competition significantly affected volumes of automobile and personal lines sales, whereas commercial lines production tended to drive growth in larger brokerages. Conversely, smaller operations indicated a greater degree of success through improvement of systems and focusing upon personal lines marketing.

Although small brokerage operations have the ability to be nimble and react quickly without the constraints of bureaucracy, they tend to be impeded by a diminishing cash flow and shrinking market-share. Smaller brokerages do not have the resources necessary to develop and retain commercial accounts, a highly lucrative area. The small brokerages' sales growth is also not keeping pace with cost increases and contingent profit levels are declining in their sector due to their inability to deliver adequate volume or underwriting results to their insurance carriers. Plainly stated, whereas the intermediary channel is feeling the pressure from the direct channel, the smaller brokerage operations have and will continue to experience the most significant impact.

2.7 Recent Regulatory Intervention

Since 2004, United States regulators as well as state governments have paid close attention to activities within their insurance systems. Investigations, many of which resulted in legal actions against insurers, brokerages and individuals have ensued. Much of this activity gained attention in the media due to the active involvement of Eliot Spitzer, the New York Attorney General responsible for this area in that jurisdiction. In the various states and the federal government itself examined allegations of fraud, plus concerns over coercive and dishonest practices in the sale of insurance products. The rigging of bids, particularly in the area of commercial insurance was a significant cause for concern as well as the payment of contingent commissions and certain other sales incentives (Cooper 2007).

Due to media attention that spilled over the border into Canada, Canadian federal and provincial regulators elected to inspect the Canadian insurance distribution system to determine if similar practices existed in Canada (Harris 2004). Moreover, it became an opportunity to enhance public confidence in the marketplace. To accomplish this task, the Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organizations (CISRO), which are responsible for regulatory matters and licensing, established the Industry Practices Review Committee (IPRC) assigned to examine the financial relationships between insurers and intermediaries (e.g. contingent commissions, ownership and financial linkages, and other sales incentives). These were thought to have the potential to create conflicts of interest. Other industry-related organizations developed similar committees and investigations with similar mandates such as the Registered Insurance Brokers of Ontario (RIBO).

2.7.1 CCIR-CISRO Study Findings

Among the most relevant findings of the CCIR-CISRO study, the following facts were confirmed. Specifically, the majority of insurance companies in Canada utilize brokers to sell and distribute their policies. Within this framework, most of the Canadian insurers use a standardized form of contractual agreement with their brokers through which they are engaged (see Appendix “E”). Moreover, greater than two-thirds of insurance companies make available contingent commissions to their brokers (based upon pre-determined criteria). However, non-monetary sales incentives such as golf tournaments, learning retreats, and workshops are not as prevalent. Fortunately, it was also discovered that the majority of Canadian insurers have policies and procedures in place aimed at mitigating the potential for conflicts of interest. Finally, more than half of the insurers maintain loans, ownership and/or other similar financial arrangements with their sales intermediaries.

The aforementioned study found no evidence of systemic bid-rigging or other complaints that plagued their American counterparts (Harris 2004). The study did acknowledge however that there is room for improvement in areas of disclosure to clients regarding financial arrangements between insurers and brokers, as well as clarifying the definition of “independent” as it applies to brokers that are contracted with only a few (or one) insurer. The regulators are seeking input from all stakeholders in terms of these areas for improvement. The study also concluded that contingent commissions, in the Canadian context, was an acceptable business practice because it was paid through the determination of a broker’s overall book of business with a particular insurer as opposed to being paid on a single transaction (RIBO 2008). A key element of the formula in determining the payment amount also depending upon the quality of the book of business, i.e. claims rate, etc. and not simply the volume of sales. This is a departure from the American style which was inclined more towards sales production or on a transaction basis.

2.8 Typical Agency/Broker Agreement

As indicated, Appendix “E” contains a typical agency agreement that ING Canada utilizes for its brokers. The insurance companies that are specified in this agreement, including Wellington and Halifax are those which ING Canada owns and operates in the Province of Ontario. The bulk of the conditions, duties and obligations have been standardized across insurance companies and during the standardization process broker committees and the Insurance Brokers Association of Ontario were consulted for input. Most of these standard clauses are included in the first section of the contract.

This particular agreement includes a requirement for concentration of business which if fulfilled allows the broker to share in the profitability of the portfolio. ING Canada utilizes the program name of *Exclusive Alliance* (EA) as a method of identifying those brokers that are eligible and have chosen to participate in this arrangement. The terms and conditions applying to concentration levels are discussed in the second section of the contract.

The term ‘concentration level’ refers to the percentage of premium volume that is directed in favor of the principal insurance company. These amounts tend to vary and as such so too does some of the benefits bestowed upon the broker by the insurer. As noted earlier, the profit-sharing arrangement, often referred to as contingent commission (CPC), is not based upon singular pieces of business but on the portfolio’s quality, claims history and growth rate.

Eligibility for this profit-sharing is defined and negotiated on the first page in the final section of the contract. Considerations for eligibility include variables such as volume of business, future projections and various commitments made on the part of the broker within a comprehensive package of other factors. These include a right of first refusal upon the sale of the brokerage, broker loans, equity participation on the part of the insurer, etc.

Page two of the *Exclusive Alliance* agreement defines the calculation of the profit-sharing arrangement. This is typically an award of 50% of the portfolio's profit which is further defined for clarity in the following section on page two. Moreover, the contract includes a special benefit entitled 'Nine Month Option' which allows the broker to make a one-time decision annually permitting the broker to receive an early profit-sharing payment, albeit with a pro-rata reduction. The determination as to whether it is wise or not vests with the broker and some may accept it in order to improve their current cash flow or if they sense their brokerage may be subject to a spike in their claims rate, perhaps due to inclement weather. Other conditions (such as termination, deductions, etc.) are subsequently specified.

The agreement makes it clear as to why the payment of contingent commissions (CPC) is different in the Canadian market versus the American market. As such, the concerns expressed by the Spitzer inquiry in the USA are not as relevant or as problematic in the insurance distribution system in Canada.

2.9 ING Canada's Operations

ING Canada is the largest property and casualty insurance company in Canada offering a broad lineup of property, automobile, and liability insurance on both consumer and commercial levels. (The following statistics were released on the ING Canada website in January 2009 at www.ingcanada.com) Boasting an approximate 11% market share, it currently provides service domestically to more than four million individuals and small-medium sized businesses. In several provinces across Canada, the company is either the largest (Alberta, Quebec, Nova Scotia) or second largest (Ontario) insurance company. ING Canada has elected to serve customers in the manner in which they choose, i.e. through an intermediary (broker) or directly with the company. The intermediary channel distributes insurance under two distinct brands (ING Insurance for standard requirements or via Grey Power for individuals that are over age fifty). Belair Direct distributes insurance on a direct-to-consumer basis via the company's own agents in its call-centres.

The personal insurance market in Canada is quite fragmented, i.e. the five leading property and casualty insurers represent less than 40% of annualized premiums in Canada (IBAC 2008). In the automobile sector, ING Canada is 30% bigger than its second place rival and 58% bigger than third place. In the property sector the difference is more pronounced, specifically ING Canada is roughly 45% bigger than the second largest insurer and 80% bigger than the third. Whereas the organization maintains the number one position in both segments of personal insurance, its approximate market share is only 15% in property and 14% in automobile coverage, thus there is still adequate room for potential growth.

In the past decade, ING Canada has presented a superior claims ratio gap of 600 points below that of its competitors (industry average) in automobile coverage. Due to unanticipated seasonal storm activities, the company underperformed the industry averages in terms of personal property. Steps are underway to create sustainable improvements in this area with the goal being to retake a leadership position in the property arena as well.

In the area of commercial insurance, ING Canada is positioned as one of the largest industry participants. Approximately 90% of the company’s commercial premiums stems from the small-to-medium size corporate marketplace. Over the past decade, the company has outperformed the industry average claims ratio by more than 500 basis points annually and the trend continues in a positive direction.

2.9.1 Recent Corporate Performance

Since the majority of the data in this study was gathered and analyzed during the period of 2006 and 2007, it is important to also understand the financial context within which ING Canada found itself. ING Canada’s underwriting income was $47.5 million in the fourth quarter of 2007. This is $14.8 million lower than the same period in 2006. Setting aside the impact of a $20.7 million market yield adjustment to claims liabilities, underwriting income grew on a year-over-year basis. Strong operating performance resulted in higher commercial non-auto and personal property figures versus the 2006’s fourth quarter. In addition, ING Canada’s return on invested assets exceeded Canadian P&C industry averages by 170 basis points over the preceding five years. Given its scale, operations and performance, ING Canada is a strong choice as inclusion in a case study on commitment and transaction costs.

2.10 Commitment and Transaction Cost Economics

Earlier in this chapter, several of the structural changes in the Canadian insurance industry were discussed, along with the resultant impact upon the intermediary channel. In particular, two key measures provide revealing insights into the threat that confront insurance brokers. Firstly, the intermediary channel's loss of marketshare to the direct channel over a period of six years, i.e. from 78% down to 62% (Canadian Insurance 2006) foretells of a challenging future. In addition, the lack of economies of scale on the part of brokers versus that of direct writers is evidenced by a reduced expense ratio ranging between 8% and 10% on the part of the direct writer. Among other variables, the impact of these two key statistics will result in reduced profitability, pricing disadvantages and competitive vulnerability for insurance brokers.

Due to the aforementioned dynamics of the Canadian property and casualty insurance distribution arena, certain questions become apparent and require further study. For example, due to the performance pressures, regulatory constraints, consolidation and concentration, what is it that enhances or diminishes commitment between brokers and insurers? With a lower transaction cost environment existing in the direct-to-consumer distribution channel, how is the continuance of relationships justified in the intermediary channel? The following chapters will examine these questions with a view to extending the results into similar arenas.

3 Theoretical Perspectives

There are several theories in scholarly literature that endeavor to explain causes and effects of performance and relationships involving firms. In an effort to understand commitment levels in and between firms, the most notable theories that have been selected for consideration and examination for the reasons noted below include the following:

- Commitment theory itself
- Competitive advantage
- Information and communication technology (ICT)
- Resource based view (RBV)
- Transaction cost economics (TCE)

This chapter will discuss the implications of these theories along with their explanatory power and criticisms of each other. In addition, advancements in other areas will be discussed in this and subsequent chapters including call centers, customer relationship management and vertical integration. Ultimately, this section will conclude with a discussion surrounding the use of TCE to further understand commitment. The following two chapters will provide an in-depth examination of commitment and TCE and will develop propositions for subsequent study within this thesis.

3.1 Commitment Theory

Commitment theory continues to be advanced academically and is being applied within various disciplines including marketing, law, and human resources (Kim and Mahoney 2006; Kulkarni and Ramamoorthy 2005; Van de Vrande et al 2006).

Among the earliest definitions with a focus upon distribution systems, Anderson and Weitz (1992) suggest that commitment is essentially a willingness to create and refine a stable relationship, including a desire to endure short-term sacrifices in order to maintain this relationship while having confidence in its sustainability. Morgan and Hunt (1994) define commitment as a relationship in which an exchange partner believes that an ongoing affiliation with another is so important as to warrant maximum efforts at maintaining it. Scholars continue to examine matters of trust as it pertains to commitment in relationships (Welty and Becerra-Fernandez 2001), particularly within supply chains. Recent research (Kwon and Suh 2004, 2005) has considered the influence of various factors that can cause variability in commitment with trust being the key factor under examination in this context.

Specific industries have been the focal point of contemporary research activity. Developments within the technological arena have heightened academia's interest in how it can strengthen or diminish commitment levels (Kim and Mahoney 2006). Technology can be a double-edged sword as it has the ability to improve connectivity between people and firms, yet it comes with the risk of bringing people together electronically but not socially (Van de Vrande et al 2006). As these advances in information and communication technology (ICT) persist, so too will the research continue.

Inter-firm structural arrangements have also attracted considerable research attention. For example, Bengtsson et al (2006) compared and classified the effectiveness of different distribution arrangements, including hierarchical. They determined that the optimum arrangement was situational and dependent upon a complex set of variables, including proximity and sophistication of partners, type of industry, etc. Blumberg (2001) approached the topic by examining embedded firms and the effectiveness of contracts that are designed with the intent of promoting and stimulating cooperation between parties. Srinivasan and Brush (2006) studied supplier performance within vertical alliances and examined the effects of self-enforcing agreements and enforceable contracts. Similarities exist in this regard between these relationships and typical employment relationships (Kulkarni and Ramamoorthy 2005), as flexibility is important in building commitment.

Commitment theory is being extended into many narrow and specific areas, the knowledge of which can be applied into other fields. For example, Skarmeas et al (2002) explored various drivers of commitment and their impact on performance levels in cross-cultural buyer-seller relationships. In addition, Ng (2007) examined commitment levels between parties in a service channel and the optimum methods of constructing an agreement between a cruise line and a tour operator. The risks and rewards of focused or concentrated commitment to particular suppliers gained the attention of Swink and Zsidisin (2006) whereby the study considered the concept of locking-in to particular relationships, often at the exclusion of other potential firms and opportunities.

The theory of commitment involves attitudes and preferences, choices and decisions. The human element is a key component of commitment in relationships. As firms are made up of people and since commitment is largely a human emotion, a firm's social capital plays an important role in organizational commitment (Watson and Papamarcos 2002). The human side of this concept will also be explored in the upcoming section relating to transaction costs. Moreover, the other aforementioned theories will be discussed in order to explore which among them makes the strongest contribution to commitment. Although there are elements of overlap, certain theories provide greater contributions to commitment theory than others.

3.2 Competitive Advantage

Conceptually, competitive advantage is broadly defined in terms of flexibility, cost, quality and delivery (Kathuria 2000). It is based on either being able to reduce costs below the industry average or upon differentiating services or products (Porter 1985). Sum et al (2004) discuss competitive advantage in terms of cost advantage, service variety advantage and service quality advantage. This can be achieved by a firm choosing to re-design and re-engineer its internal business processes and activities, deliver superior service and product quality with the goal of improving business and financial performance (Ravichandran and Lertwongsatien 2005).

The ways of achieving competitive advantage are complex and varied. In this regard, other theories provide support and guidance. For example, information and communication technology (ICT) theory suggests that state of the art technology can assist a firm in distinguishing itself as being leading-edge as opposed to merely average (Bowersox et al 2002). Moreover, it can strengthen collaboration internally and with external supply chain partners (Sanders and Premus 2005) while simultaneously reducing transaction costs.

Because competitive advantage is obtained through the proper mix and exploitation of resources in conjunction with effective external and internal transactions, this theory is supported by the primary conditions of transaction cost economics (Childers and Offstein 2007). The view is also supported in the resource based view literature (Lai et al 2008), but does not appear to go far enough to support or explain commitment theory in itself.

3.3 Information and Communication Technology (ICT)

The information and communication technology (ICT) sector contributed $60.6 billion towards the Canadian gross domestic product by 2006 (Khan and Raahemi 2008). The insurance distribution system remains a recipient of the advancements in the ICT area. As indicated in the previous chapter, recent trends have shown a marked increase in consumer preferences in favor of insurance purchases through ICT-mediated distribution arrangements, such as call centers and via the internet. The intermediary channel has benefited from advancements in ICT however these have not been sufficient to reduce transaction costs that can be translated into lower premiums for consumers versus the savings found within the direct channel.

Recent studies have attempted to examine the benefits of ICT implementation in B2B contexts. Much of this research has focused upon EDI systems (Mukhopadhyay and Kekre 2002; Naude et al 2000). Research has suggested that EDI implementation has the potential to provide a variety of economic benefits (Sanders 2005) including:

- Reduced inventory carrying costs;
- Improvements in cycle time;
- Mitigated obsolescence and transportation costs due to timeliness of information;

- Strategic and operational benefits.

Whereas a considerable amount of research exists which indicates the value of ICT and in particular EDI on value creation, scholars are looking further into the subject to ascertain the conditions under which this value is delivered (Jean 2007). Some contradictory evidence suggests that investments in this regard may not fully provide the intended benefits and that more empirical evidence is necessary (Zhu et al 2006). This ambiguity in the literature pertaining to the value of ICT in inter-organizational arrangements persists, thus requiring additional work in this research stream. Understanding how ICT can enhance a firm's competitiveness is of particular importance to smaller players in an asymmetric business relationship (Jean 2007). This is relevant for Canadian insurance brokerage operations and their corporate counterparts.

Resource based view (RBV) and transaction cost economics (TCE) theories have each made contributions to ICT-mediated firm relationships and performance (Wu et al 2006). But each of these theories on its own does not fully explain the complexities of ICT (Kim et al 2005). But in a circular fashion, ICT theory contributes (although not fully) to TCE and RBV theories as well as provides some compelling arguments surrounding commitment (Keysuk andHsieh 2006).

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3.4 Resource Based View (RBV)

The resource based view (RBV) has been gaining in utility and notoriety in the past decade. Before getting to this point, the theory was rooted in the early works of Coase (1937) and later with Penrose (1959) and Williamson (1975), among others. The term (Resource Based View) was first coined by Wernerfelt (1984) and was subsequently developed into a framework by Barney (1991). Considerable research is emerging in this area while other theories such as supply chain management borrow from RBV (Straub et al 2002) to shed additional light into their respective topics. By definition, RBV explains how a firm's assets (both tangible and intangible) and capabilities controlled by that firm are engaged to improve the firm's efficiency and effectiveness (Liu and Chen 2008). Generally, RBV has stressed that a company's success cannot be explained by market factors alone, rather that deployment and development of scarce resource capabilities in that firm must also happen (Wernerfelt 1984). Moreover, Carnali (2003) suggests that in organizations that have a higher degree of connectivity between processes and resources and also between capabilities and resources, there exists a greater probability of success.

Innovation is commonly discussed in RBV literature. This can be defined as the process of discovery and development on the path to new products, technologies, organizations, production processes, and systematic and institutional arrangements (Van Kleef and Roome 2007). A firm's internal flexibility and its preparedness to adjust to unanticipated environmental changes are often visible capabilities within successful companies (Daft 2001). Recently, some scholars have focused their attention within the service sector and studied service innovation in new service development and delivery channels. In so doing, they have made progress in gauging performance levels leading to factors of success and failure in innovations within the financial services sector (Jong & Vermeulen 2003). This is of particular relevance and importance for understanding the distribution of insurance within this study.

Amid the changes in the corporate landscape, including a growing popularity of alliances and vertically integrated firms, a significant amount of research continues to be presented with varying theoretical approaches (Wang 2007). Whereas the earlier research was mainly derived from transaction cost economics, recent literature has also considered the application of RBV (Contractor and Ra 2002). RBV and TCE do not have to be viewed as mutually exclusive but more of being complementary (Tsang 2000). By comparison, the resource based view focuses upon the actual value or benefits of a transaction as opposed to the costs. RBV suggests that a company should attempt to maximize transaction value by the development and exploitation of its capabilities, resources and processes (Nelson and Winter 1982). They will entertain this in order to gain competitive advantage through access to non-imitable, valuable and complementary resources of their alliance partners (Jolly 2005).

RBV has credibility due to its rationale for the formation of alliances, yet it is argued that it is not as potent as transaction cost economics in explaining the reasons for choosing between equity and non-equity alliances (Reddy et al 2002) due to its lack of ability in discerning between these two forms of cooperative strategies. RBV focuses upon benefits whereas TCE focuses on costs, thus making these theories both competing and complementary (Wang 2007). Also, due to its internal focus on benefits, RBV falls short of assisting in the explanation of inter-firm commitment-related matters.

3.5 *Transaction Cost Economics (TCE)*

Transaction cost economics (TCE) has been the recipient of a rapidly growing and eclectic collection of researchers and scholars for no less than the past three decades. Its origins are recognized by the early works of Ronald Coase (1937) and he was later awarded the Nobel Prize in 1991 for his ground-breaking work in this field. More recently, Oliver Williamson was awarded the Nobel Prize in October 2009 for his ongoing research into this area. With continued support from eminent academics in addition to Oliver Williamson (1975) such as Paul Joskow (1987), the theory continues to gain awareness and value. Other disciplines have been active in expanding the knowledge of transaction cost economics including; Jap and Anderson (2003) in marketing; Kulkarni and Ramamoorthy (2005) in contract discussions; Leiblein and Miller (2003) in business strategy; Moe (1991) in political science; Smith and Schnucker (1994) in corporate finance; Barney and Hesterly (1996) in organizational theory; and Granovetter (1985) in the field of sociology.

TCE transactions typically have three considerations; these include '*frequency*', '*uncertainty'* (both environmental and behavioural), and '*asset specificity'* (Williamson 1985). Of these three considerations, the one that is often referred to as being the most significant is asset specificity, commonly described as idiosyncratic investments. This is defined as the scale to which robust transaction-specific investments are incurred (Joskow 1988).

Transaction cost economics (TCE) has been described as a significant theoretical approach in the analysis of inter-organizational governance, including the safeguarding of specific investments (Jap and Anderson 2003). Several studies have discussed the relationships between governance mechanisms and transaction attributes (Subramani and Venkatraman 2003) and a number of mechanisms have been identified. Among them are bilateral governance, asset safeguarding, incentives, and strategic alliances (Stump and Heide 1996).

A total focus on costs and cost minimization alone cannot define the value of inter-organizational governance. Because of this, TCE tends to be used in conjunction with other approaches such as RBV in order to jointly provide explanations in a more robust fashion (Wang and Wei 2007). But in order to position these two particular theories and the contributions they make, it is important to understand where TCE diverges from RBV. TCE concentrates on the efficiency of the management and control of opportunistic behavior in the context of economizing on transaction costs. Alternatively, RBV focuses upon the effectiveness of collaboration for the purposes of creating value from resources and capabilities (Wang and Wei 2007). This distinction is important because the notion of TCE being a complementary approach also applies to other theories as well, including commitment.

Transaction costs economics supplies a framework which can be utilized to gauge the efficacy of alternatives for economic organization and can demonstrate which governance structure has the lowest cost under a specified set of conditions (Wang 2007). Within this framework, inter-firm relationships and alliances can be categorized into non-equity versus equity forms, the former of which could include contractual arrangements such as licensing and the latter could include equity joint-ventures or the creation of a corporation separate from the parent. Ultimately, the decision to utilize equity versus non-equity arrangements in TCE theory is basically an examination of market (merchant distributors) versus hierarchy (sales subsidiary) or hierarchy versus a hybrid (blending of the two) governance mode (depending upon the actual form of non-equity arrangement) (Wang 2007). Williamson (1985) determined that firms will internalize those assets requiring safeguarding and if there is an opportunity to economize while they will tend to outsource in cases where the alternative is true regarding economizing and if it can be done with relative ease. This and the entire realm of transaction cost economics will be discussed in greater detail in the TCE Literature Review chapter.

3.6 Why Use TCE to Explain Commitment in Insurer-Broker Relationships

Whereas the current literature on the topic sub-divides commitment into two distinct forms as being either affective or calculative, so too will this study examine the phenomenon of these sub-sets from the perspectives of both insurers and brokers. To clarify and distinguish the two forms, the affective form is evident in cases where an individual wishes to forge a linkage with another because of common values or some likeness or affinity. Intangible matters such as trust and friendship would be classified as variables constructing affective commitment. The issue of identifying with the other party is regarded as an emotional attachment to the relationship. Conversely, calculative commitment results from the deliberate evaluation and assessment of the value and the need for the relationship. More tangible and measurable by nature, this process of deliberation typically involves a weighing of the pros and cons, investments, costs, inputs and outputs (Morgan and Hunt 1994). Calculative commitment takes into account transaction costs involved in the dyad (Williamson 1985) and considers whether alternatives should be sought. This is particularly relevant to matters involving idiosyncratic investments.

This thesis will explore the insurer-broker relationship in terms of both affective and calculative commitment however it will narrow the focus in order to incorporate various aspects of transaction costs economics in order to aid in explaining calculative commitment specifically. Although the following two chapters will provide an in-depth discussion surrounding developments in the theories of TCE and commitment, this section will discuss the reasons and methods for drawing upon TCE to further understand calculative commitment.

As indicated in the previous chapter, a shift is apparent in Canada with the distribution of property and casualty insurance products. This shift surrounds the proliferation of direct-to-consumer insurance sales wherein insurers are bypassing the use of intermediaries (brokers) and transacting directly with clients. However this is not anticipated to be a complete shift since a significant portion of the Canadian population would still prefer to deal with an intermediary that they perceive as an advocate working on their behalf. Moreover, the direct writers seek to reduce transaction costs with their utilization of ICT-mediated sales methods through call centers. One of the ways and means of achieving this has been with the distribution of less complex product offerings which can easily be handled with lower-paid and less-trained call centre staff.

Currently and for the foreseeable future, direct writers have restricted themselves to personal automobile and house-hold insurance due to its simplicity and standardization. For the most part, regulators have mandated standard wording and coverage within these insurance policies, thus comparisons across competitive products becomes a simple matter of price and service. Moreover, this standardization has allowed them to staff their call centers with entry-level, newly-licensed agents with minimal training and experience. Commercial insurance has remained the domain of insurance brokers due to the product complexity and the necessity for greater expertise. Therefore, because of the continuous encroachment by direct writers into the personal insurance arena along with a pre-existing competitive environment in the intermediary channel, insurers and brokers alike are seeking answers as to how to measure the commitment of their counter-parties. By being aligned with a solid partner, their opportunities to retain their position with commercial insurance products while simultaneously mitigating losses in market share in personal insurance can be enhanced. Thorough analysis of transaction costs in this channel will aid in exposing potential opportunities for fortifying this distribution network.

The preceding discussion surrounding theories of RBV, ICT, and competitive advantage demonstrate that although they each can make a contribution in understanding commitment, none of these theories is as robust as TCE in explaining the calculative form of commitment. This is evidenced by several of the closely-related aspects of TCE and commitment which expand on the understanding of the components of these theories. Specifically, there are four key aspects of TCE, commonly referred to as frequency, behavioral and environmental uncertainty, and idiosyncratic investments. Whereas behavioral and environmental uncertainty provide a measure of contribution and explanation regarding the affective form of commitment due to their emotional natures, matters of frequency and idiosyncratic investments are closely linked to the calculative form of commitment.

Within the sphere of calculative commitment, decisions are made on the feasibility of relationships on a basis of efficiency and costs. Matters of vertical integration, resource allocation, outsourcing, etc. are determined with the aid of transaction cost analysis. These matters are of critical importance to insurance companies and brokers due to the nature of their relationships, i.e. determinations on where to invest within the channel, to whom should they partner, etc. To further understand this concept, this thesis will undertake an in-depth examination of the development of the academic literatures of both commitment and transaction cost economics. The outgrowth of this literature review will be a series of propositions that are addressed in the subsequent discussion chapter which will demonstrate the explanatory potency of calculative commitment on the part of TCE. An expansion of this discussion and in-depth literature reviews on the theories of commitment and transaction cost economics follows in the next two chapters.

4 Literature Review - Commitment

4.1 Introduction

As this thesis is explanatory in nature, this chapter will examine the relevant history and literature surrounding the area of commitment. The key aspects under consideration involve those that bear some relationship with financial services distribution which incorporate a principal (insurance company) and agent (insurance broker) arrangement and in particular those whereby each of the dyad members is a firm as opposed to being an individual. Although there does exist both older and newer literature, only the most relevant will be discussed in this section.

The literature search has uncovered several key themes that are important to this study. Each of these topics will be addressed in detail in an effort to categorize and further understand commitment, and will aid in organizing this section. These themes include:

1) Insurance distribution and the Canadian marketplace
2) Affective and calculative forms of commitment
3) Structural and financial bonds
4) Processes and procedures and its affect on performance
5) Key aspects of relationships
6) Satisfaction and quality
7) Conflict history and a reputation for fairness
8) Opportunism, trust, and dependence
9) Stakeholder perceptions

4.2 Commitment Defined

It would be appropriate at this stage to assemble the most recognized conceptual definitions of commitment in order to build the foundation for this study. Following the early works of Coase (1937) and Williamson (1975), a focused study in the area of distribution conducted by Anderson and Weitz (1992) suggested that commitment is essentially a willingness to create and refine a stable relationship, including a desire to endure short-term sacrifices in order to maintain this relationship while having confidence in its sustainability. Morgan and Hunt (1994) define commitment as a relationship in which an exchange partner believes that an ongoing affiliation with another is so important as to warrant maximum efforts at maintaining it. In a similar fashion, Wang and Wei (2007) indicate that it is an enduring intent to develop and maintain a stable long-term association. Each of these studies endeavoured to measure various aspects of relationships in order to gauge the strength and potential for its endurability.

Each of the aforementioned studies demonstrates an academic consensus of precisely what commitment represents. Subsequent research (explored throughout this literature review) continues and expands on the preliminary works, as well as considers the topic in specific environments. Whether it involves matters ranging from value creation in inter-organizational governance (Wang and Wei 2007), the effects of self-enforcing agreements (Srinivasan and Brush 2006), or the impact of organizational change (Liu and Chen 2008), interest continues in this highly active research area.

4.3 Background

Research into the area of commitment has accelerated since the 1980s while academics and practitioners alike seek to better understand this phenomenon. Regardless of whether the inter-relationship under examination is *principal-to-principal* (Wang 2007), *principal-to-employee* (Ng 2007), *principal-to-agent* (Subramani and Venkatraman 2003) or some other variant, the issues are similar if not identical. In the context of this study, an example of a *principal* would include insurance companies, whereas *employees* would include their staff members. *Agents* would include insurance brokers (distributors) that are contractually bound and engaged with insurance companies in the distribution of the insurer's product. Ultimately, the research is undertaken in pursuit of understanding commitment and searching for techniques and models to enhance its sustainability.

Burgess and Turner (2000) have determined that commitment can be a catalyst for change. Commitment can motivate individuals to sacrifice other priorities in favour of pursuing a seemingly impossible goal. Conversely, a lack of commitment will serve as a significant constraint upon the relationships and the achievement of objectives. Internally, organizations are recognizing this, and remain vigilant and cognizant of their culture. But defining such a phenomenon can be subjective. However most studies tend to include conceptual, research-based terms such as loyalty, attachment and/or bonding (Kulkarni and Ramamoorthy 2005; Mullins 1996) when attempting to measure commitment levels and its attributes. These dimensions are used as tools in order to assess how commitment is constructed in different circumstances and its potency.

The concept of closeness within business relationships has been the subject of considerable interest in several diverse fields (Daft 2001; Powell 1992). The information technology and automotive industries, for example, have sought solutions to bring components suppliers closer together with manufacturers and assemblers of end-products in an effort to drive efficiencies (Sanders 2005; Bensaou and Venkatraman 1995). Whereas committed relationships add value in an upstream value-added chain, so too will it add value in downstream distribution channels (Sanders 2005; Heide 1994). There is a wealth of knowledge that can be borrowed from research into relationships between distributors and producers of industrial items (Anderson and Narus 1990; Anderson and Weitz 1992) and subsequently applied to intangible goods such as financial services (La Londe 2002; Keysuk and Hsieh 2006; Liu and Chen 2008). In particular, common in both channels is a need to understand and measure the makeup of commitment levels in both the affective and calculative form in order to gauge the durability of the relationship.

Ultimately, the objective in understanding commitment is to be enabled to identify the requisite elements that can either build or destroy relationships between organizations. Terminology used to label the relevant types of business arrangements are varied, and some of the more common names visible in the literature include: *'committed relationships;' 'hybrid governance;' 'relational governance;' 'vertical quasi-integration;' 'strategic alliance;'* and *'partnership'* (Jap and Anderson 2003; Heide 1994). Commitment in these contexts refers to the desire to maintain a relationship indefinitely, in conjunction with a willingness to make sacrifices in favour of the relationship versus itself alone in order to assure a stable and sustainable future together (Keysuk and Hsieh 2006; Anderson and Weitz 1992).

Commitment theory has continued to develop and advance unabated, particularly in terms of inter-organizational relationships (Wang and Wei 2007; Frazier and Kim 1997). In fact, the shift has moved from simplistic, discrete exchanges to relationships replete with intrinsic value (Anderson and Narus 1990; Webster 1992). In this context, commitment describes the lengths to which an organization will go to bind itself to an intimate and sustainable co-existence with another company. The firms have common goals that are integral to the ongoing relationship and they jointly strive to fulfill customer needs while hopefully improving their own performance levels (Morgan and Hunt 1994). Because of these differing and various perspectives on the definition of commitment, the following is proposed for this study:

> ***Proposition 1:*** *An individual's personal definition of commitment and the importance they place upon it will influence their degrees of calculative and/or affective commitment.*

While the foregoing sections have provided a general background on the theory, definitions, genesis and evolution of research on commitment and inter-organizational relationships, the following section will build on this foundation and narrow the discussion and focus upon financial services distribution. Specifically, the examination will uncover literature relative to insurance distribution in the intermediary channel and in particular within Canada.

4.4 Insurance Distribution & the Canadian Market

4.4.1 Relationships & Commitment in Insurance Channels

The behaviour exhibited by distributors (agents) participating in insurance distribution will trigger strong signals to the manufacturers (insurers), and vice versa. In most cases, this results from the perception of one party as to the content of the information that the other side has regarding the customer or the level of risk posed by them. This perception is supported by the roles played by each party, specifically that the agent typically maintains the relationship with the client, and may hold (or with-hold) pertinent information suitable for assessing the risk. On the other hand, at the time of application the insurer becomes entitled and obliged to obtain relevant information about the client in order to underwrite the risk. The agent may be internally conflicted with mixed motivations, i.e. present the client in the best light possible in order to ensure successful acceptance of the case in order to maximize commissions, versus being open and honest with the insurer in order to maintain a solid relationship (Subramani and Venkatraman 2003). The insurer, on the other hand, recognizes this, and acknowledges that agent commissions constitute a significant proportion of the manufacturing and distribution costs, and also that due to the agents' role, they are in a better position to ascertain true risks presented by clients as well as aiding in judgement of the legitimacy of claims (Wang and Wei 2007; Cummins and Weisbart 1977).

Both insurers and agents alike have to balance at least two relationships, as well as their self-interest. For example, insurers have to demonstrate their commitment to their agents, their joint customers, plus the company's stakeholders (shareholders, other policyholders, etc.). The agents are sandwiched between the insurer and the customer relationships and are compelled to show their commitment to each, as well as their own internal motivation to be profitable. These two balancing acts become apparent at the point of purchase of an insurance policy. Notably, the hallmark of a successful agent is the continuously positive results obtained during the negotiation process whereby an insurer becomes convinced to underwrite a risk, albeit within a price range that is agreeable to the customer (the adverse selection challenge). The parties are simultaneously confronted with the task of clarifying the customer's claims history without challenging their veracity in order to retain the client (the moral hazard challenge). Having an appreciation and understanding of the dilemmas facing the counterpart will aid in sustaining commitment in the relationship, particularly if one side bends to make allowances in support of the other party (Kulkarni and Ramamoorthy 2005). But this flexibility must be tempered with notions that unsatisfied customers will defect, and yet poor risks are insidious and can collectively manifest into a high loss ratio for the insurer (claims/premiums). This is negative for all stakeholders (Joskow 1973; Grossman and Hart 1986) including the insurer (profitability), the shareholders (return on investment), the distributors (hardening of the market), and potentially the industry overall (the dynamics of the marketplace).

It is a commonly held belief that independent distributors of insurance, particularly those selling several types and brands, will demonstrate little if any commitment to a particular manufacturer and may feel the temptation to engage in opportunism (both challenges of moral hazard and adverse selection). They feel justified in their actions due to the belief that insurers bear the ultimate responsibility to validate information garnered during the underwriting and claims processes (Aarsteinsen 2008; Dimond 1988). In these cases, the agent is clearly misunderstanding their individual role in the distribution channel since by their very involvement in the chain they are supposed to demonstrate the fact that they contain better local knowledge of the market than would an insurer, as well they should have a closer, more intimate relationship with the customer than would an insurer (Jap and Anderson 2003). It would be cost prohibitive for an insurer to attempt to replicate the agent's position in the channel (Arrow 1985), thus the agent should be open and frank with the insurer in this role.

To proactively mitigate episodes of opportunism on the part of the agent it becomes incumbent upon the insurer to take the lead in establishing and assuring the maintenance of a two-way committed relationship between the agent and themselves. Encouraging healthy communication and shared goals may be effective in contributing to their sustainability and profitability. Currently, this belief is apparent in the insurance industry and is evidenced by the use of "select" or "preferred" agent systems (Mulcahy 1988; Dimond 1988). Systems of this type provide benefits and efficiencies to both sides of the dyads. Insurers can take comfort in the knowledge that their preferred agents have a stake in the insurer's success, and will act in accordance with policies that will enhance the principal's position (Welty and Becerra-Fernandez 2001). Agents, on the other hand, may become the recipient of preferential service and benefits such as training, lead referral, pricing, underwriting dispensation, etc. It is presumed that this level of treatment will be extended to customers of the preferred agent at times of post-purchase service and claims, thus becoming a competitive advantage for the agent (Kwon and Suh 2004, 2005).

4.4.2 Canadian Agency System of Distributing Insurance

The Canadian system of distributing insurance tends to mirror that of their American counterparts but have attracted far less academic attention. In the independent distribution channels, agents represent several insurers and are granted certain rights with respect to policy expirations and client relationships. On the other hand, insurers have engaged agents to distribute products due to the agent's specific knowledge of local markets and also their relationships with clients due in large part to their proximity. Insurers have increasingly endeavoured to build commitment with agents in order to bind them more closely, particularly in the eyes of the client such that they cannot distinguish between agent and principal. The intent is to have the distribution channel resemble one single seamless system or firm (Wang and Wei 2007). But this notion has come under scrutiny and is being challenged by other distribution models such as captive agents, customer-direct (call-centers), etc. In the case of captive agents, internal salespeople are truly employees working exclusively for the insurance company. They hold themselves out to the public with business cards and stationery which demonstrates that they are employees of the insurance company. There is no confusion on the part of the customer as to whom they are dealing with, unlike in the case of brokers whereby the salesperson represents multiple insurers. Customer-direct call-centers are similar to captive agencies with the exception of dealing over the telephone as opposed to face-to-face. In terms of commitment, does the pursuit of a closer relationship actually generate positive economic benefits for either side or is it purely psychological? If it does create benefits, how can commitment become strengthened in a relationship?

Indirectly, by virtue of being modelled on the American agency system, the Canadian agency system of insurance distribution has been the target of academic criticism in the literature for over thirty years (Aarsteinsen 2008; Carlson 2008; Cummins and Weiss 1991; Blair and Herndon 1994; Barrese and Nelson 1992; Heide and John 1988). Some have concluded that independent agents are the recipient of higher commissions, with the result being that insurance companies utilizing independent agents are forced to incur higher expense ratios (Leiblein and Miller 2003; Regan 1997; Joskow 1973;

Cummins and VanDerhei 1979). Some have deduced from these empirical studies that independent agents are less efficient than captive agents, or that the independent agent structure is not viable. The question arises as to why the independent distributor system still exists, particularly given the strength of the evidence surrounding expense-ratios. Some of the more recent additions to academic literature suggest that the coexistence of both independent agents and direct writers is dictated by the circumstances surrounding their individual strengths and weaknesses (Keysuk and Hsieh 2006). For example, higher costs incurred in the independent channel are offset by superior service and presence in local markets. Although different reasons are presented in the various literatures for the pros and cons of each distribution channel, they concur that specified superiority is possible in each type.

The subject of service level comparisons between agents and direct writers has been the topic of considerable debate. Earlier literature suggests that the notion of agents providing better service to either existing policyholders or prospects is in no way conclusive (Cummins and Weisbart 1977; Doerpinghaus 1991; Barrese et al. 1995). More recent research suggests that it is difficult to make clear comparisons between the two channels in terms of their service levels (Contractor and Ra 2002). However, through examination undertaken from a different perspective, Berger et al. (1995) posit that independent agents have the ability to provide better service to both existing and potential policyholders because of their unique local knowledge, ability to carve niches for themselves, and their specialized skills. In those niches the independent agents can command higher premiums and develop more sales production than would otherwise have been possible without their involvement. Therefore, it is suggested that although the independent agent channel may contain a higher cost structure, it is no less profitable than the direct writers. They are simply structured differently and policy size, premium amounts and costs are different.

Further research has supported the preceding argument and suggests that independent agents are in a strategic position that affords them the opportunity to engage their unique skills and add value to the distribution channel (Wang 2007; Regan 1997). Regan and Tennyson (1996) have indicated that agents have the motivation and ability to assess the nature of the risk to be underwritten. Combining this ability to conduct a proper risk assessment along with the desire to place the case with an appropriate insurer will certainly add value to the distribution chain by pre-qualifying policies for insurers and enhancing the service level to customers through advice and rapid placement. This becomes quite evident at times when markets are uncertain and also when the risks, requirements and products are rather complex. When all revenues and costs are incorporated (including opportunity and transaction costs), Regan (1997) and Regan and Tennyson (1996) support the notion that commitment is enhanced between the agent and the insurer, and that the independent agent will thrive and perhaps even dominate the market. But it is not to suggest that agents will replace other distribution methods but are likely to co-exist with the other market participants (Zhu et al 2006; Berger et al. 1995), each of which will be providing service where it is most appropriate.

4.5 Insurance Agents (Brokers) and Performance Outcomes

Through the coordinated efforts of both sides in a dyad it is presumed that each will receive benefits that were likely not possible without the establishment of this closer relationship. The insurance company receives a more intensive presence in a market that may have been under-represented otherwise (Wu et at 2006). Moreover, cost containment may manifest through agent willingness to link up to the insurer via electronic data interchange, the result of which will reduce paperwork, errors, and demonstrate agent commitment (Zaheer and Venkatraman 1994). If the insurer is fortunate in demonstrating its own high level of commitment to the agent, a by-product may result in which the agent reduces the number of alternative insurers in its portfolio and will concentrate more volume in favour of the committed insurer (Anderson et al. 1987). In addition, agents may become inclined to present superior risks to their preferred insurer in order to strengthen the relationship with the company. To compensate the agent for this preferred business placement the insurer typically will allocate a portion of their profit on the agent's portfolio (occasionally referred to as "contingent profit bonus"). The percentage of the profit-share is normally determined by a scale which provides payouts based upon different levels of volume concentration (Aarsteinsen 2008; CCIR-CISRO 2005; IBAC 2008; RIBO 2008).

If the agent strategically commences to concentrate its premium volume towards one supplier, a shift in the relationship's balance will occur with some additional power drifting toward the insurer. Depending upon the level of trust between partners, this could have both positive and negative consequences for the agent. As outlined previously, operational efficiencies will become apparent due to familiarity with an insurer and its product line-up, plus technological linkages become warranted, more of the insurer's resources will be allocated towards a concentrated partner, etc. But inherent in the power shift there is asymmetry, and sensitivities become heightened thus placing the insurer's actions under a microscope. Also, if market conditions tighten it may become difficult if not impossible to place risks with an insurer because the agent has reduced its portfolio of alternatives, and probably has demonstrated very little loyalty to its remaining marginal suppliers.

It is debated in the literature as to whom the agent is more committed to, i.e. the insurer or the policyholder? Independent agents add value to prospects and policyholders by offering one-stop shopping as well as providing objective advice to clients by virtue of the agent's independence (Blair and Herndon 1994). This suggests that the agent is primarily committed to the buyer (Mayers and Smith 1981; Kim et al. 1996). But due to the short-term nature of the transaction, is that a demonstration of commitment or simply risk assessment and part of the agent's role? Posey and Yava (1995) submit that this may simply be a matter of reducing the client's search costs when cases are more complex, thus demonstrating the fulfillment of the agent's role in handling complex risks and the placement of insurance solutions (Leiblein and Miller 2003). Thus the truly committed and enduring business relationship primarily exists between the insurer and the independent agent.

The focus of a typical independent agent is to develop new business, but a key ingredient of those sales is repeat business (persistency) (Grossman and Hart 1986). If a substantial portion (if not all) of an insurer's premium income is driven by the actions of agents, insurers can justify higher commission payouts (Marvel 1982). Alternatively, if sales are driven by the insurer's own marketing efforts, including advertising and direct sales, the insurer would be inclined to utilize an exclusive dealing arrangement and not relinquish the ability to control renewals to agents. But for new market entrants, agents provide an important function to insurers by providing expertise and presence in new regions (Contractor and Ra 2002; Blair and Herndon 1994). Ultimately, both agents and direct writers can co-exist in the same market as they would have different requirements depending upon their own product lines, cost structures, proximity to the marketplace, etc. (Wu et al 2006; Posey and Yava 1995).

Now that the backdrop of the Canadian insurance marketplace has been established, this chapter will continue with an examination of key aspects and forms of commitment theory. Where appropriate these concepts will be discussed in the context of the Canadian insurance marketplace.

4.6 Affective and Calculative Commitment

In the current literature, commitment has been sub-divided into two distinct categories. One view suggests that commitment is an affective state of mind which an individual or partner has regarding a counterpart. This is referred to as “affective commitment” and it is evident whereby an individual desires to forge a linkage with another because of shared values, a likeness or commonality, or they identify closely with them (Morgan and Hunt 1994). In this sense, affective commitment is regarded as an emotional attachment to the relationship. Alternatively, the other category of commitment tends to be more behavioural than the affective form. This second category is classified as “calculative commitment” and results from deliberate evaluation on a cognitive level of the need for the relationship. It takes into account whether or not there is value in maintaining the relationship with the counterpart. This is conducted through the assessment of the pros and cons, costs, investments, inputs and outputs (Morgan and Hunt 1994). Calculative commitment considers transaction costs related to the dyad (Williamson 1985) and aids in the decision process as to whether alternatives should be sought or if the dyad should be maintained or perhaps even enhanced (Srinivasan and

Brush 2006). Ultimately, calculative commitment is strongest when external costs outweigh internal costs (Zhu et al 2006). More discussion and examination regarding calculative commitment will be explored within the chapter describing the literature on transaction costs.

The affective form of commitment lends itself to deepening and strengthening the relationship thus encouraging reciprocity and mutual benefits to accrue to the partners (Kumar et al. 1994). Affective commitment appears to promote willingness on the part of channel members to allocate resources to the relationship. It also positively influences both the desire and intention to remain within the partnership and manifests itself vis-à-vis enhanced performance levels. Conversely, affective commitment appears to mitigate opportunistic behaviour and tends to set aside the need to develop alternatives for the current relationship (Jap and Anderson 2003). Calculative commitment, on the other hand, supports the development of alternatives and opportunism. It becomes apparent that calculative commitment has a negative influence and ultimate impact on relationships (Wetzels et al. 1998).

Further early research helped extend and develop the components that are most relevant in dyads in distribution channels, i.e. an affective component (Kumar et al. 1995), a continuance component (Anderson and Weitz 1992; Gunlach et al. 1995; Morgan and Hunt 1994; Scheer and Stern 1992), and a behavioural component (Anderson and Weitz 1992; Gundlach et al. 1995). Affective commitment, as indicated earlier, refers to a sense of belonging and an attachment that one side feels towards the relationship (Kwon and Suh 2004, 2005). Highly affective commitment would result from strong feelings of a harmonious and effective relationship (Anderson and Narus 1990; Dwyer et al.

1987). On the other hand, continuance commitment is a description of the desire of a partner to remain in the relationship and becomes a measure of its stability (Anderson and Weitz 1992). Lastly, behavioural commitment describes the actions of one party towards the other, particularly their helpfulness in times of need and their level of caring (Frazier and Kim 1997).

As the study has described both forms (affective and calculative) of commitment and how these are constructed, it will now move on to add more depth to the discussion by examining the different ways and means of how dyad members can become bonded together. It will also consider the strength of the various bonds and also puts forth the following proposition for further study:

> ***Proposition 2:*** *Since calculative commitment results from deliberate evaluation on a cognitive level of the need for the relationship, it can be explained and measured through the use of transaction cost economics.*

4.7 Structural and Financial Bonds

4.7.1 The Value of Pledges

The exchange of pledges to create and enhance commitment has attracted considerable attention in the past two decades (Anderson and Weitz 1992). These pledges are often utilized within distribution channels containing independent (yet inter-dependent) suppliers of products or services and their distributors. But they are not always effectively coordinated (Stern and El-Ansary 1990). Whereas better control and coordination is possible through the vertical integration within a corporation's internal structure (Anderson and Weitz 1986), this will invariably be ineffective from a cost perspective due to high governance burdens. Moreover, that structure is likely to prove inflexible because the supplier's core competency is not typically distribution but is in the creation and supply of the product or service itself (Sanders 2005). Thus we are witnessing a proliferation of contractually bound yet otherwise unrelated organizations becoming somewhat vertically integrated for competitive, cost, and flexibility purposes (Naude et al 2000; Powell 1987).

It is largely due to the mutual commitment of both parties in the relationship that profitability is enhanced. The suppliers/manufacturers can enjoy improved access to existing and new markets alike through their distributors. Conversely, distributors can improve performance through greater access to new products and training. Through this relationship, they each have the opportunity to succeed and attain greater results than by operating independently (Stern and El-Ansary 1990). But stability in the relationship is essential, allowing for minor disputes to be resolved through the acceptance of a long-term view of the arrangement (Becker 1960 and Kelly 1983). Also, the parties must be open to a level of sacrifice, particularly in the area of control and short-term adjustments (Dwyer et al. 1987). Presumably the relationship will be of a tenure which has lasted suitably long enough for benefits to be manifested for both parties. As suggested by Anderson and Weitz (1992, p.19):

> *"Commitment to a relationship entails a desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship."*

4.7.2 Clauses, Terms, and Conditions of Contracts

Imposing a written contract upon a relationship would be classified as a form of a pledge (Wang 2002). A voluntary constraint of activities such as limiting or granting an exclusive territory or agreeing to exclusive dealing with a manufacturer would be examples of pledges exchanged through contractual terms (Williamson 1983, 1985). The contractual clauses may contemplate minimum quotas for performance and preferential pricing as part of a pledge exchange. A distributor might limit its training and alternative product knowledge as a trade-off for inducements and benefits in territorial protection (Sum et al 2004). As such, these clauses and terms of the agreement become self-enforcing as neither the manufacturer nor the distributor would desire the agreement to cease due to the negative implications that could occur for each of them (Kathuria 2000; Klein and Leffler 1981; Telser 1980). Thus, the written terms in the agreement can commit the parties to their joint relationship by encouraging (or forcing) performance on each part and also through perception of the other party's strengthened involvement (Sanders and Premus 2005).

On the negative side, violations of contractual terms require penalties in order to preserve their authenticity. The severity of the enforcement response should be in relation to the violation and also consider the frequency of historical violations (Antia and Frazier 2001). In order to effectively manage channel relationships it becomes apparent that explicit contracts are important and instrumental (Frazier 1983). Academicians have examined the issue of contractual agreements (Blumberg 2001; Srinivasan and Brush 2006) and discovered that regardless of the spirit and intent of the documents they still observe occurrences of violations (Hennart 1993; Williamson 2000; Kulkarni and Ramamoorthy 2005). Despite the fact that written, explicit contracts are integral to an effective inter-organizational governance structure, circumstances can evolve and objectives may change for either (or both) channel members (Jap and Anderson 2003). Although the intent of a contract is to foster cooperation and agreement, it can frequently become the central focus of disagreement and dispute (Rousseau and Parks 1993).

There is limited literature published on the benefits of potent enforcement practices of explicit contracts. Yet the ultimate value that accrues to channel members is derived from their coordinated efforts and the observance and enforcement practices (Stern et al. 1996). Research has indicated that enforcement of agreements tends to be most apparent when the following three conditions are evident, i.e. the commitment of the principal to the channel is high, agents are offered higher margins or commissions, and lastly that the importance of agent services is high (Dutta et al. 1994). Subsequently, more weight was allocated to these findings through the addition of the empirical research of Bergen et al. (1998). To expand upon these discoveries, this study proposes the following:

> ***Proposition 3:*** *The use of contracts has the potential to deliver clarity and certainty in a relationship thus increasing calculative commitment (supported by transaction cost theory).*

Prior research on the implications of contracts and the enforcement of terms does have relevance to the topic of commitment in inter-channel relationships. However, it has greater relevance to the issue of transaction cost economics and transaction specific investments and will be covered in greater detail within that context.

4.7.3 Asset Specificity and/or Idiosyncratic Investments

An important concept in the understanding of commitment involves asset specificity or the utility of idiosyncratic investments. Although this topic will be examined in depth in the following chapter, it is important to provide a definition at this stage. Thus, idiosyncratic investments are certain inputs (money, other assets, time, etc.) that are allocated and dedicated for a unique and specific purpose, and for which it is difficult or impossible to re-deploy elsewhere (Subramani and Venkatraman 2003). Typical examples of idiosyncratic investments in channel-type relationships may include training, i.e. specific to a unique purpose. Others may involve the dedicating of staff to servicing the counter-party's products or services, incorporating a common computer processing system, building or retro-fitting special physical plant and equipment in order to handle the requirements of the relationship, etc. (Anderson and Weitz 1992). To illustrate the concept further, consider a distributor of insurance products that fully trains its staff on all aspects of this field, including product knowledge for each insurance manufacturer. The level of idiosyncratic investments would apply to the specific training required to learn about the unique elements of the particular offerings of one insurance manufacturer. Although each manufacturer relationship brings with it a level of required idiosyncratic investment, the distributor must gauge and balance the extent to which they intend to invest further with each one.

When one party in a dyad moves to demonstrate good faith to the other party by making a pledge, it is effectively weakening its own position for the greater benefit of the relationship (Leiblein and Miller 2003). The result may be that they have reduced or eliminated the use of alternative sources of channel functions in favour of the counter-party. Although this concept will be discussed in greater detail when investigating transaction cost economics, it is worthy of note in this context also. Arguments have been presented in which a relationship can be strengthened by first weakening it through the use of pledges and idiosyncratic investments (Schelling 1960).

In place of the term 'pledges', Williamson (1985) refers to this binding exchange of promises as 'credible commitments'. Williamson (1985) also describes the nature of the relationship as becoming stabilized due to the realignment of the parties' self-interest. The investments made into the relationship by a channel member will heighten the desire to maintain the relationship. It may become difficult to switch partners if there does exist a shared identification in the marketplace of the use of the other's brand, particularly if the party was leveraging the other's brand while investing heavily in it through training and marketing (Zhu et al 2006). The risk to the idiosyncratic investments may lie in the potential of the counter-party engaging in opportunistic behaviour through the knowledge that the first party would be forced into making considerable re-training investments with another supplier if this relationship was to end. If they exploit this knowledge to their own benefit, they are acting opportunistically. Ultimately, mutual idiosyncratic investments have the ability to modify a competitive (*'win-lose'*) relationship into a cooperative (*'win-win'* or *'lose-lose'*) arrangement (Anderson and Weitz 1992).

4.7.4 Allocation of Resources

Within distribution channels, members seek to secure advantages over competing members and competitors through the use of influencing techniques and other methods to gain attention (Anderson et al. 1987). Manufacturers and other suppliers attempt to encourage distributors to expend more effort and attention on their products and services. Conversely, distributors endeavour to persuade suppliers to allocate more time and attention towards them. Influencing the allocation of the channel members' resources becomes an ongoing goal of the parties (Ravichandran and Lertwongsatien 2005).

The allocation of resources within a channel can be impacted by many variables. Among others, these include the effectiveness of their communication, the party's perception of the balance of power within the relationship, and the general state of the relationship (Swink and Zsidisin 2006). This leads to this study's proposition:

> ***Proposition 4:*** *The way in which resources are allocated within a relationship will provide an indication as to a party's level of calculative commitment.*

This section has examined the financial and structural bonds that are deployed in order to commit parties to a relationship. The following section will consider this further in action, specifically in the design of processes and through performance measures.

4.8 Processes and Procedures and its Affect on Performance

Within distribution channels, it is generally assumed that if the necessary steps associated with processes and procedures are fulfilled satisfactorily and trend toward improvement, this should invariably result in enhanced performance (Stern and El-Ansary 1993; Mohr and Nevin 1990). Quite often this is examined in the context of the pursuit of higher satisfaction levels while simultaneously mitigating conflict. The objective of targeting these two ideals is to better the perception of the parties, with a somewhat intended by-product manifesting itself as a reduction in relationship tension.

Defining a better or improved perception level may mean different things to different parties, i.e. increased profits and/or profitability, greater revenue, more market share, etc. (Lewin and Minton 1986). However, there is very little research that has been undertaken in which it has been demonstrated that a correlation or causal linkage can be drawn definitively between results obtained with the performance levels during the intermediate steps and the end results (Ng 2007; Gaski 1984; Hunt et al. 1985). Although in the realm of franchising, some work has been done indicating that an increase in satisfaction and a decrease in conflict can lead to a greater collaborative result (Carman and Klein 1986). But as Dant and Schul (1992) stress, franchise relationships are typically symmetric, low-power relationships versus the common asymmetric dyads which are visible in non-franchise situations whereby power struggles can be amplified (Subramani and Venkatraman 2003). Thus, comparisons may be misleading.

Brown and Day (1981) have argued that conflict in these relationships engenders a separation and polarization between the two sides, the result of which is less constructive communication and collaboration, thus bringing suspicion into the mix. The nature, volume, intensity and frequency of the confrontations will also have a bearing on it. The impact of negative conflict invariably results in suffering of their joint performance and goal attainment (Frazier 1983; Tjosvold 1985). But not all conflict is negative, and a certain type and amount is healthy. It can play a role in keeping the relationship refreshed and not stagnating, as well as identifying elements that need correction (Hunt et al. 1985). In this context, healthy conflict can bolster the ongoing functionality of the dyad, thus improving its sustainability (Anderson and

Narus 1990). If the nature of the relationship is inherently adversarial, albeit healthy and sustainable, conflicts may play an integral role in the clarification of salient points and working together to seek resolutions to issues that may not have been envisioned at the start of the collaboration (Pinkley 1990). To reiterate, unconstructive conflict typically results in damage and costs to both sides (Skarmeas et al 2002; Reve and Stern 1989; Tjosvold 1985).

A debate persists as to whether conflict arises as a result of performance levels versus the performance levels being a reflection of conflict (Ravichandran and Lertwongsatien 2005). Conventional wisdom has tended to accept that the results achieved at intermediate steps in processes contribute to performance success overall (Michie and Sibley 1985; Hunt et al. 1985; Stern and El-Ansary 1993; Anderson and Narus 1990; Kumar et al. 1992). Once the success level is ascertained it serves as an indication of the potential for later conflict (Scheer and Stern 1992). Since relationships are dynamic, this feedback and feed-forward mechanism is continuous, thus making it unclear in determining which comes first. Therefore, it becomes necessary to examine the key aspects of relationships in order to aid in understanding this matter further.

4.9 Key Aspects of Relationships

4.9.1 The Value of Effective Communication

Mohr and Nevin (1990) suggest that communication is essential in the pursuit of the common objectives of manufacturer/distributor channel members. These dyads can attain a heightened level of understanding and coordination through regular and frequent dialogue. This will also aid in the development and promotion of the mutual levels of comfort in their ongoing association and should mitigate unsuitable conflict

(Anderson and Weitz 1989; Anderson and Narus 1990; Dwyer et al. 1987). Presumably, healthy dialogue and communication will encourage the parties to commit to the relationship, and they will have a greater opportunity to achieve their common goals (Sum et al 2004). It is therefore proposed that:

> ***Proposition 5:*** *The effectiveness of the communication between parties has an impact upon commitment levels.*

4.9.2 Commitment in Relationship Marketing

The concept of commitment invariably appears in relationship marketing literature, among other areas, as it has become a central foundation (Scanzoni 1979). Ongoing research continues to demonstrate that retaining clients and distributors through value-added and enhanced service and perquisites actually costs less than acquiring new ones (Kim et al 2005; Anderson and Fornell 1994; Reichheld and Sasser 1990). Moreover, loyalty on the part of customers and distributors tends to generate more revenues in the long run. Wetzels et al. (1998) have posited that commitment is the most desirable stage in the development of an ongoing relationship of a dyad. This is a component of Scanzoni's (1979) categorization of five general phases of relationships between partners. The five-phase process starts with '*awareness*,' followed by '*exploration*,' then '*expansion*,' '*commitment*,' and finally '*dissolution*.' If the parties in the dyad are not committed to the relationship, it will move quickly to the fifth phase, i.e. dissolution. Commitment in this context is created on the foundation of two key strengths. Firstly, each of the channel members is compelled and must fulfill the provision of significant input into the dyad. Second, they must each maintain a belief that the dyad will continue quite effectively into the future and it is their intention to see this happen (Fehr 1988). They should recognize that this becomes closely linked to their success and they must strive to nurture these relationships (Morgan and Hunt 1994).

Upon establishing an understanding of these key apects of relationships, is necessary to recognize the effectiveness of the relationship. An important measure of this is the value placed upon satisfaction levels and quality. These will be discussed in the following section.

4.10 Satisfaction and Quality

The measurement of satisfaction levels and service quality has been a topic of research and considerable scrutiny for the past approximately twenty years. These levels have an important role to play in commitment and should not be overlooked. Oliver (1996) has suggested that satisfaction refers to a customer's evaluation and subsequent judgement regarding a pleasurable quantity of consumption-related utility. Along the same lines, the perception of a quality of service has been identified as a comparison between the anticipated or expected service versus the actual service performance (Ravichandran and Lertwongsatien 2005). There does appear to be a correlation, if not an outright causal linkage between service quality and satisfaction levels (Liu and Chen 2008). A common belief is that satisfaction is influenced by quality as evidenced by Iacobucci et al. (1996) stating "quality is the logical predecessor to satisfaction." Moreover, *"service quality is an antecedent of consumer satisfaction"* (Cronin and Taylor 1992, p.56).

Quality can be separated into two distinct groupings (Gronroos 1990). The first category is technical quality which can be defined and measured by the result of the service, specifically what the customer receives from the service. The second category is functional quality which involves the methods, styles of delivery and/or processes by which a service is delivered. In contrast to technical quality (‘*the what*’), functional quality can be considered to be ‘*the how*’.

However, examining academic research in seeking a relationship between quality, satisfaction and commitment would be challenging since little, if any empirical evidence exists. But there has been considerable work done in linking these concepts, albeit using loyalty as a proxy for commitment (Assael 1987). In this context, Assael (1987) expresses loyalty as commitment in favour of a particular brand. Using loyalty as a proxy for commitment, it is reasoned that positive relationships do exist between quality, satisfaction, and loyalty (Wetzels et al. 1998). Moreover, this extends specifically into technical and functional quality, satisfaction, and affective and calculative commitment (Swink and Zsidisin 2006).

Without doubt, an effective working relationship in the context of satisfaction and quality is important, particularly in terms of production output. Moreover, an effective and sustainable working relationship is based upon the resolution of conflicts and the history of conflicts and fairness by either party. This leads to the discussion in the next segment.

4.11 Conflict History and a Reputation for Fairness

If a channel member has a reputation or history of relationships containing conflicts, particularly within the dyad itself, this may indicate a low level of commitment on their part. This might signal that the party does not believe the relationship has merit or has long-term potential (Anderson and Weitz 1992). Given this history and display of conflict, it is unlikely that they would be willing to make individual sacrifices for the benefit of the relationship (Kim et al 2005). The study of conflict itself is widespread because of the possibility of negative impact upon distribution channel members (Gaski 1984). This is in spite of the fact that conflict has the potential to force parties to challenge the status quo and seek alternatives. But it must be confronted and approached in the proper spirit. This can extend itself into distribution channel conflict, whereby the manufacturer distributes in both a direct fashion as well as through intermediaries. Although the manufacturer may feel that they can service customers better than intermediaries in a particular territory, this can provoke distributors and cause a negative backlash (Stern and El-Ansary 1990). The distributors may perceive this action to be an indication of the manufacturer's lack of commitment to the relationship, thus reducing their belief that sustainability is possible.

Parties in the dyad can provide an indication of their commitment to the relationship by both their historical and current dealings in other relationships (Jap and Anderson 2003). Do they have a reputation of self-sacrifice and sharing in other similar arrangements? Have they operated in an opportunistic fashion elsewhere? The answer to these questions can send a clear signal to the other party in existing relationships, and provide clues as to their expected conduct and how they might improve or destroy the value of the dyad (Kwon and Suh 2004, 2005; Macauley 1963; Telser 1980). Therefore it is proposed:

> ***Proposition 6:*** *The level and history of conflict in the relationship, along with a party's reputation for fairness will have an impact upon commitment levels.*

4.11.1 The Impact of Conflict and Asymmetry

It is generally recognized that conflict is natural and normal within relationships, yet the outcome can be positive or negative depending upon how it is perceived by either side. A key determinant of the content of the perceived conflict involves the history of the parties (Subramani and Venkatraman 2003). This history should provide insights into the relationship that can be effective in explaining the current situation and potentially making predictions about future dealings provided the behaviour of each side is consistent (Deutsche 1974; Pinkley and Northcraft 1994). Therefore, how each historical level and nature of conflict was regarded can assist in explaining the evolution of the relationship (Zajac and Olsen 1993). If past interactions involved excessive disputes with negative connotations, the relationship becomes vulnerable (Carnall 2003). Current disputes will likely trigger flashbacks to former disagreements and may cast a shadow on future events.

In the event that personal relationships are interwoven within the distribution channel, conflict can be exacerbated by a high rate of employee turnover by one side or the other, particularly if the connections were of a positive nature (Bamberger and Meshoulam 2000). Positive employee relationships between organizations have the ability to mitigate stress and pressure on the dyad, and can aid in creating an atmosphere that is conducive to reaching mutual objectives (Granovetter 1985). On the other hand, employee influence in the relationship can have its drawbacks as well. Specifically, disputes occasionally stem from a single employee’s mistakes or outright incompetence. This is more noticeable in service industries since the performance of the service can be highly visible (Zeithaml et al. 1990; Schneider and Bowen 1995). Therefore, if a party feels confident in the ability of the counterpart's staff, the conflict level should be reduced.

The pursuit of common goals is important in distribution channel dyads. If the parties recognize that they are moving in different directions in terms of their goals, their commitment may become reduced along with their motivation to continue (Tjosvold 1985). Alternatively, if their goals and objectives are aligned, the parties' perception of conflict should be reduced. In addition, it should be anticipated that a party that is highly motivated and committed to the relationship would likely perceive less conflict (Sanders and Premus 2005). This is due in part to their choice of dyadic partners, as organizations tend to involve themselves with others that they believe share their desire to be involved in sustainable relationships (Anderson and Weitz 1992). To this end, firms with this belief are more inclined to make a deliberate investment in a committed relationship and will demonstrate their desire to seek a reduction in conflict levels (Sanders and Premus 2005; Williamson 2000).

Organizations with a long-term view versus those that are short-sighted tend to concern themselves with bigger issues and do not become fixated on minor disagreements or disturbances (Kathuria 2000). They display greater flexibility and tolerance with their counterpart and this translates into enhanced commitment (Heide and Miner 1992). As well, how each party tends to approach difficulties within the relationship can be a measure of how conflict will impact their ongoing relationship. Immediate conflict can be minimized if a party chooses to ignore it, and this may be satisfactory in the near term as the issue under dispute may not be worthy of escalation. But this approach may not be healthy to the ongoing relationship overall, as a certain degree of conflict is functional and normal. If dealt with in a mature and open manner, the disagreement can signal honesty and act as a catalyst for developing new ideas and solutions (Welty and Becerra-Fernandez 2001).

Intuitively, a party would be motivated to link with a counterpart in a dyadic relationship with the intent of improving their individual and joint circumstances (financial, cost, operational, etc.). This benefit should increase as the performance and outcome of the relationship increases (Wang 2007). Furthermore, as benefits accrue, concomitant investments in the relationship should be visible along with increased commitment. But the combination of the two parties, each leveraging the unique strengths of the other side should deliver an enhanced level of performance (Mukhopadhyay and Kekre 2002). This is particularly evident when either party (or both) maintains a leadership position within their market. Specifically, in the case of a distribution channel, the principal would maintain a powerful product shelf while the agent would be recognized for its strength and local market presence. The symbiosis created by the interaction of the two parties leads to advantages over dyads that do not contain these correspondingly valuable capabilities. Ultimately, when these advantages manifest themselves through the attainment of increased profits and efficiencies, parties become even more committed to the relationship and will strive to make it sustainable (Anderson and Weitz 1992). But this approach requires the fortitude and long-term vision of channel members that have the ability to cooperate and harmoniously pursue objectives for the mutual advantage of the dyad (Heide and Miner 1992).

As conflict may often involve a response to another party's lack of fair play, it is important to recognize the common sources of unfairness. The following sections will examine in detail these common sources. These include opportunism, issues of trust, and dependence.

4.12 Opportunism

The direction may have psychological benefits as well in terms of perceived commitment of the other channel member. Specifically, a party may feel advantaged by their belief that the other party is more committed to the arrangement than they are. On the other hand, if the party feels that they are over-committed in relation to the counterpart, they may sense that they are vulnerable and open to opportunism if trust is an issue (Stump and Heide 1996). In either case of perceived or actual over/under-commitment, either party may be inclined to take advantage of the other, and demand a greater share of the outputs in exchange of reduced inputs (Kim and Mahoney 2006; Cook and Emerson 1978). Opportunistic behaviour and unfair practices will develop as an outgrowth of unequal commitment (Heide and John 1990; Anderson and Weitz 1989). The relationship is destined to result in becoming dysfunctional (Van de Vrande et al 2006). It is therefore proposed that:

> ***Proposition 7:*** *The presence of opportunism will have a negative impact upon commitment levels.*

4.13 Trust

Considerable research has been undertaken on the topic of trust in relationships (Gambetta 1988). In this context, trust plays an integral role in the viability and sustainability of the relationship if the levels of commitment are in fact (or perceived by either party) to be disproportionate or in an environment in which it is common to encounter extensive information asymmetry (Diacon and Ennew 1996). To correctly frame the issue, ultimately the concern and the risk is whether an overcommitted party is willing to trust their under-committed counterpart not to take undue advantage of them during the course of their relationship (Sanders 2005). It is realistic to assume that the under-committed party could potentially leverage its position in an opportunistic fashion in thinking that the counterpart will be willing to withstand and tolerate contractual breaches and reduced performance on the part of the under-committed side (Sanders and Premus 2005). This assumption arises from the belief that the overcommitted party would be more tolerant of this behaviour in an effort to maintain the relationship (Williamson 1985). This is also explored in the realm of transaction cost economics.

However, not all scholars agree with the preceding notion (Granovetter 1985; Bradach and Eccles 1989), and counter with the belief that trust can be spawned simply as a result of a good business relationship, thus reducing the risk of opportunism. In the end, it may depend upon the character of the channel members themselves, as trust is a tenuous ideal which takes time to construct and maintain, and can be broken quite easily and rapidly (Skarmeas et al 2002; Heide and John 1992; Young and Wilkenson 1988).

Trust is an intangible item, and can be expressed as a belief that a party's needs will be met by another party (Anderson and Weitz 1989). This requires a level of certainty that the counterparty is reliable and has integrity (Morgan and Hunt 1994). Borrowing from the social psychologists, the necessary ingredients for trust to thrive is a belief in the counterpart's honesty and also in their benevolence (Kulkarni and Ramamoorthy 2005). The ability to demonstrate honour and keeping promises is a measure of honesty.

Having an appreciation for the other partner's well-being and not undertaking negative actions against them would be a method to assess a party's benevolence (Geyskens and Steenkamp 1995). When commitment is separated into two distinct forms, i.e. affective and calculative (discussed later), it becomes apparent that trust (replete with benevolence and honesty) has a positive impact on affective commitment (Anderson and Narus 1990; Anderson and Weitz 1989; Morgan and Hunt 1994; Geyskens and Steenkamp 1995). Conversely, trust can produce a negative impact upon calculative commitment (Geyskens and Steenkamp 1995). Clearly, if dyad members trust one another they become more emotionally connected. The result of this attachment is less measuring of the pros and cons of staying in the relationship and more acceptance of the partner. In the end, both benevolence and honesty have a positive relationship with affective commitment, and a negative relationship with calculative commitment (Bengtsson et al 2006). As such, it is therefore proposed:

> ***Proposition 8:*** *Trust has a negative relationship with calculative commitment and a positive relationship with affective commitment.*

4.14 Dependence

In instances whereby a level of asymmetry exists between two partners in a relationship, it is understood that a level of dependence exists from one side to the other. An organization's dependence upon their dyad partner has been historically recognized and defined in distribution channels as their need to maintain the relationship with that partner in order to achieve its objectives (Kumar et al. 1995). The need varies directly with the level of asymmetry, that is, the more significant the dependence is between the two parties, then the more that one of the parties needs the other in order to benefit from their joint involvement (Subramani and Venkatraman 2003).

Dependence between channel members in partnerships tends to apply a negative influence upon affective commitment (Anderson and Weitz 1989; Kumar et al. 1995) and conversely has a positive influence upon calculative commitment (Ganasan 1994; Geyskens and Steenkamp 1995). This is likely due to a response triggered from the realization that a party is more dependent upon the other side, thus they become less emotionally connected to the relationship and more concerned with the weighing of costs versus benefits (Wang 2007). In addition, a party's motivation to prolong the relationship may be lessened in terms of their affective commitment due to their own dependence and their fear of being exploited (Anderson and Weitz 1989). Alternative replacement relationships will potentially be sought; particularly those that will pursue and can achieve the same objectives while providing parity, even-handedness and more positive terms. On the other hand, while dependence levels expand, the dependent side will perceive its position to weaken and become susceptible to opportunism and exploitation (Childers and Offstein 2007). Although the dependent party may continue the relationship because of exorbitant switching costs (or a lack of alternatives) they will likely devote energy to continuously balancing the benefits of maintaining the relationship (Zhu et al 2006). Thus, increased dependence tends to lead to more calculative and less affective commitment (Wetzels et al. 1998). In this study it is proposed that:

> ***Proposition 9:*** *Dependence has a positive relationship with calculative commitment and a negative relationship with affective commitment.*

Issues of dependence, as well as opportunism and trust can lead to conflict and perhaps a deterioration in a relationship. But it is necessary to accept and understand that these issues may not be real in a particular situation, and may simply be the perception of one party about the status of a relationship. This should not be dismissed, and is considered in depth in the next section.

4.15 Stakeholder Perceptions

4.15.1 The Importance of Perceptions

The way in which one channel member perceives the other member's level of commitment to the relationship may or may not be accurate. There is an assumption and perhaps an expectation that channel members reveal their motivations, feelings, etc. to each other over time. A strong relationship is characterized by a mutually reinforcing essence surrounding it (Sanders and Premus 2005). This is aligned with developing a culture of reciprocity between the groups (Goulder 1960) contrasted with the cooperation necessary when conflicting motives may exist (Axelrod 1984; Eisenberger et al. 1986). This is not unlike the dynamics which can be witnessed within the theories of bargaining (Bacharach and Lawler 1981; Pruitt 1981).

4.15.2 Perceptions of Asymmetry (one-sided Commitment)

Within a distribution channel, members will attempt to gauge the counter-party's level of commitment to their joint relationship. As it is difficult to measure, largely due to its' intangibility and subjectivity, the result is based upon their perception only (Ross et al. 1997). Studies have been presented that examined contributing factors to satisfaction levels within those relationships, as well as that which manifests conflict. Power-shifts and struggles within the dyad have attracted attention (Reve and Stern 1989), particularly the use of coercive power which is usually exerted by the principal (Gaski and Nevin 1985). Coercive power tends to promote conflict and reduce satisfaction levels (Gaski 1984). Ultimately, it is argued and accepted that performance outcomes are improved by either party when one side perceives the other party's commitment level to be higher than its own (Ross et al. 1997).

The psychological proximity and distance between the principal and agent has been scrutinized in recent research (Oliver 1990; Powell 1992; Kollock 1994) as it has been considered to be a factor in perceived commitment. Commitment is acknowledged to be enhanced when one party feels a sense of closeness to the other party. Anderson and Weitz (1992, p.19) comment on commitment levels by stating that it:

> *"goes beyond a simple, positive evaluation of the other party based on a consideration of the current costs and benefits associated with the relationship. It implies the adoption of a long-term orientation toward the relationship; a willingness to make short-term sacrifices to realize long-term benefits."*

The implication here is that it must be understood that the relationship is two-sided, specifically that one party must also give to the relationship, and in so doing it would not be unreasonable to feel an entitlement to receiving a concomitant benefit from the other party. This description becomes central to the notion of how commitment is constructed.

There becomes a heightened level of sensitivity surrounding inter-party commitment when one party feels that they have historically or are currently contributing more to the relationship (or sacrificing more for the good of the relationship) than the counter-party (Kim et al 2005). It is understandable that one side may consistently gauge the strength of the other party's commitment to the relationship. If a prolonged lack of contribution persists, the result will be a relationship that is not sustainable, not unlike other human relationships.

4.15.3 Stakeholder Perception

Depending upon the make-up of the organizations involved within the dyad, along with the specific roles of the individuals as they relate to the inter-relationship, there are observable parallels to other human (person to person) relationships (Rousseau 1985). These parallels are most significant in situations whereby only a small number of key individuals within each organization are at the forefront of the relationship and where these people have considerable input (Seabright et al. 1992). The organization tends to take on the character of these key people. Most notably, this is evidenced in small companies in which the key person is the organization, and also in service-type firms, such as insurance and finance companies whereby the product is intangible and is personified by those people (Shostack 1987). Franchise arrangements experience this as well, since the franchisees tend to bring their own feelings, attitudes and experiences to bear on the business in concert with the local district franchisor's representative's feelings (Keysuk and Hsieh 2006).

When specifically examining insurance company/distributor (agent) dyadic relationships, the notion of the involvement of only a small number of people is clearly present. Although they are usually large corporations, insurance companies tend to rely upon a smaller number of territory representatives to manage relationships with distributors (Sanders 2005). Conversely, insurance distributors, typically comprising agencies, tend to have a small ownership/management team which liaises with insurers and service providers. The product is complex and intangible (Crosby and Stephens

1987) and the ability to transact with this product and translate it to consumers is vital, thus the requirement to utilize experienced and trained agents (Ziethaml et al. 1990). Within this context, the specified relationship individuals become key representatives for the inter-organizational endeavours, and their own feelings become the feelings of the corporation (Jong and Vermeullen 2003).

4.15.4 Perceived Asymmetry of Commitment

If commitment is perceived to be one-sided and lacking the attention from the counter-part, the perceiver tends to become dissatisfied with the relationship and may become inclined to allow performance levels tend to suffer (Subramani and Venkatraman 2003). If the perceiver feels the counterpart is not functioning within a prescribed or target range, the relationship becomes vulnerable (Swann 1984). However, when operating within the target range, each side takes comfort in their ability to predict the other's behaviour and can strive to match resources and performance levels. If there is a perception of a misalignment or dissimilar goals between organizations, conflict can be manifested between the two parties (Eliashberg and Michie 1984).

Generally, asymmetry in this context has detrimental implications. But it is important to ascertain on which side the asymmetry resides. Dwyer and Walker (1981) determined that weaker parties who recognize the fact that they are in a lesser position tend to have an expectation of reduced benefits from the relationship. Conversely, the stronger parties armed with this same knowledge, expect and tend to enjoy the reverse (Wang and Wei 2007). It is their view that the direction of the asymmetry (or balance of power) is more important than the fact that it actually exists. This notion will be explored further in this study and thus it is proposed:

Proposition 10: *The direction and perception of asymmetry in a relationship has an impact on commitment levels.*

4.15.5 Sources of Perceived Asymmetry

Whether asymmetry in the relationship exists or not each party's perception becomes their individual reality. Under normal circumstances it is probable that some element of reality exists with their perception of an imbalance although measuring this would be difficult. One party's interpretation of commitment levels may deviate from another. This is due to the subjective nature of the components that build perception and are used to gauge commitment of other party. One of the key elements is the psychological distance between the two sides and this is affected by conflict levels, tolerance, insight, etc. (Kenny and Albright 1987; Kruglanski 1989). True measurements of the variables constituting asymmetry and commitment levels are difficult to gauge, therefore there is a tendency to rely upon each party's assumption (Kulkarni and Ramamoorthy 2005).

The importance and relevance of the trait being judged by a party (the perceiver) has an impact on the assumed commitment level (Swann 1984; Lord 1985). This is true for either a principal or an agent. Essentially, if greater levels of importance and relevance are placed upon a variable under consideration, then presumably there should be a greater degree of accuracy (Funder 1987). This is also true if the property is more observable and evident, subject to the closeness of the relationship. Psychologically close dyads have an improved capability of obtaining and valuing items and property than they would if the distance were to increase (Jap and Anderson 2003). As well, they have a propensity to conduct these observations and measurements when the issue is important and relevant to them (Anderson and Weitz 1992).

Unfortunately, the assessment of the counter-part's commitment level is not a perfect science and tends to contain some predictable errors. For example, the perceiver can be misled when the party they are observing is not behaving in a manner consistent with their circumstances. This is applicable to occasions in which the perceiving party has considerable history with the counter-part thus providing ample occurrences in which to provide a basis of accurate comparison (Swann 1984). Moreover, if the target party under observation intentionally misleads the perceiver, an incorrect assessment is likely.

It would be an interesting exercise to determine the motivations for knowingly demonstrating a false commitment level to a counter-part, and the list of reasons would be long and varied. A situation where this might occur could involve a principal with low commitment demonstrating high commitment to an agent in the hopes that the agent would increase and maintain strong commitment (Anderson and Weitz 1992). Alternatively, the principal might demonstrate a low level of commitment with the intent of displaying indifference to the relationship, as they do not wish to appear overly-exposed and susceptible to demands.

In any event, these demonstrations of commitment levels, regardless of whether they are true or false, provide indications of a party's intentions. Perceptions, on the other hand, can be inaccurate readings of reality and formed through the immediate requirements of the perceiver (Kenny and Albright 1987). An integral component of the perceiver's belief surrounds the amount of reliance (or ultimate dependence) they have on the other party. The notion of dependence levels, a sociological phenomenon (Emerson 1962), is ubiquitous in academic literature, particularly management and marketing disciplines, and is useful in examining inter-organizational relations (Frazier 1983). Specifically, within distribution channels, the concept of dependence plays an important function in discussions surrounding power sources and also in the area of strategies to build influence that is utilized within a relationship (Frazier and Rody 1991; Frazier et al. 1989).

Relationship dependency is variable, and is impacted by several actions. Key among them includes the amount of value the other party provides and also the level of difficulty that would be involved in securing a replacement for them (Emerson 1962). The relationship is required more by a dependent party, i.e. the more dependent they are, the more they will need the relationship (Kathuria 2000). This dependency at varying levels can cause a disturbance in a distribution channel, and one party may become vulnerable and exploited by the other party (Carman and Klein 1986), or at least threatened to be exploited (Blois 1972; Heide and John 1988). If the dependent party is capable of not focusing upon the dependency, they may develop a greater ability to cope with the potentially negative consequences that could manifest (Fiske and Taylor 1984). But if the party perceives that they are more committed to the relationship than the counter-party, they may narrow this view if they feel they also have a high level of dependency upon that counterpart.

Another important item involves the quality and quantity of communication within the dyad (Mohr and Nevin 1990). Regardless of its form, communication requires investments of varying types, including time, money and people. Arguably, there does not exist a shortage of alternatives whereby these investments could be re-allocated, thus communication becomes a committed cost (Sum et al 2004). As such, it could lead a party to analyse the investment in terms of opportunity costs and alternatives. In addition, as organizations tend to involve themselves in several relationships simultaneously, they must make determinations as to which relationships they will allocate more investment and attention to, including by way of communication (Kulkarni and Ramamoorthy 2005). The inclination to wish for a return on their investment is natural, and an obviously clear method would involve the hope that the counterpart recognizes the value of the communication investment and increase their own commitment level to the dyad (Anderson and Weitz 1992). Moreover, communication in this context has the potential to enhance trust levels (Anderson and Narus 1990), thus improving the essence and feelings within the distribution channel and adding a level of reassurance to the perceiver that the commitment levels are balanced by both parties. Therefore, if the parties engage in bilateral, healthy dialogue and constructive communication, uneven commitment levels can become balanced.

4.16 Summary

The theory of commitment involves attitudes and preferences, choices and decisions. The human element is a key component of commitment in relationships. As firms are made up of people and since commitment is largely a human emotion, a firm's social capital plays an important role in organizational commitment (Watson and Papamarcos 2002). The human side of this concept will also be explored in the following section relating to transaction costs.

This chapter has examined and categorized the relevant academic literature regarding commitment in order to inform the reader of its key aspects. It has also provided important details on the specific Canadian marketplace and the insurance distribution channel that is central to this study. This dove-tails into the following chapter which will provide a similar foundation for the topic of transaction cost economics.

5 Literature Review - Transaction Cost Economics

5.1 Introduction

Recalling that this thesis is explanatory in nature, this section will delve into the realm of transaction cost economics with a view to applying the precepts to the construct of commitment within financial services distribution and specifically in insurer-broker dyads. Not unlike the commitment literature, considerable work was advanced in this area during the 1980's and 1990's, and it continues to be advanced in the new millennium. The most relevant of these works will be examined in this chapter, along with a review of the recent advancements in this area in order to apply the tool of transaction costs economics to aid in measuring commitment.

Some important themes emerged during the course of this literature review, and these will be used to assist in organizing the topics in this section. These items include:

1) Issues confronting and confounding organizations
2) Major influences on transaction cost economics
3) Purposes and applications for analysing transaction costs
4) Considerations for alternative governance structures (e.g. outsourcing)
5) The influence of transaction costs on networks

5.2 Background

Inter-organizational research cannot be undertaken without considering the impact and influences of transaction costs upon firms. Transaction cost economics has been the recipient of a rapidly growing and eclectic collection of researchers and scholars for no less than the past three decades. Its acceptance as being worthy and valid as a scholarly discipline is exemplified by the 1991 Nobel Prize honour bestowed upon Ronald Coase for his ground-breaking work in this field. Later supported by eminent academics such as Oliver Williamson (winner of the Nobel Prize in October 2009) and Paul Joskow, the topic continues to gain notoriety. Other disciplines have been active in expanding the knowledge of transaction cost economics including; Jap and Anderson (2003) in marketing; Kulkarni and Ramamoorthy (2005) in contract discussions; Leiblein and Miller (2003) in business strategy; Moe (1991) in political science; Smith and Schnucker (1994) in corporate finance; Barney and Hesterly (1996) in organizational theory; and Granovetter (1985) in the field of sociology. The consensus among the various groups is that the basic tenets of transaction cost theory are relevant for their different subject areas and do serve as a tool for the measurement of commitment, yet there is still value and ample room for development into the nuances of how it can be applied within the specific areas. In particular, relationship and contract decisions can be guided by this theory (Kulkarni and Ramamoorthy 2005), along with choices of distribution systems (Jap and Anderson 2003; Leiblein and Miller 2003). These are all of significant interest to the gauging of commitment. However there is still a need to further develop the understanding and extend the knowledge of its application into international trade plus comparisons across different distribution channels and also across different products and services. If made, these refinements will add potency to transaction cost economics theory.

Transaction cost economic transactions typically have three considerations; these include '*frequency*', '*uncertainty*' (both environmental and behavioural), and '*asset specificity*' (Williamson 1985). Of these three considerations, the one that is often referred to as being the most significant is asset specificity, commonly described as idiosyncratic investments in the commitment literature also. This is defined as the scale to which robust transaction-specific investments are incurred and is a measure of calculative commitment (Klaes 2000; Joskow 1988). Asset specificity contemplates circumstances whereby channel participants such as an insurer and an agent are required to make specific investments in order to create the potential for ongoing exchanges (Childers and Offstein 2007). The underlying implication is that switching costs will become prohibitive for either party thus resulting in a weakening of commitment and substantial losses. If an arrangement was terminated, one of the parties would encounter challenges and costs if they attempted to engage the specific asset for an alternative purpose. Much of the predictive nature and content of transaction cost economics is derived from asset specificity (Zhu et al 2006; Williamson 1985). Earlier, Williamson (1975) also employed human elements relating to affective commitment such as opportunism and bounded rationality in his model. These will be discussed later in greater detail.

Traditional neoclassical economics has been slowly replaced by the *"New Institutional Economics*" theory, as least where it specifically involves transaction cost analysis. The concept of the firm has been overlooked by neoclassical economics, largely dismissing it as simply a production function (Barney and Hesterly 1996). On the other hand, transaction cost economics perceives the firm to exist as a governance structure. In his seminal work, Coase (1937) indicated that both markets and firms operate with separate and distinct governance structures, each of which having different transaction costs. Coase suggested that when particular conditions exist, the cost of completing an exchange within the market may be higher than conducting the exchange within a firm. In this situation, the transaction costs would be classified as those which are incurred in the actual running of the network. These costs might include, but would not be limited to such examples as the creation and implementation of contracts and the subsequent observation of how commited the parties are to the adherence to them (Madhok 2002).

Williamson (1975, 1985, 1996, 2000) has been supplementing and refining much of Coase’s earlier work by specifying particular exchanges that would be more effectively conducted within firms versus markets. In addition, he has added to Coase’s early model by submitting that transaction costs should be considered with both the direct costs of relationship management along with the opportunity costs of incorrect governance selections. Furthermore, Williamson added to the literature by combining the aspects of human behaviour in terms of opportunism and bounded rationality along with two important components of transactions, particularly uncertainty and asset specificity. Each of these are key considerations when examining commitment levels.

With the foregoing background and foundation in place, the thesis will now turn to the an examination of the application of transaction costs. The following section will explore the issues facing contemporary organizations relative to inter-organizational relations and how transaction costs can influence commitment. These issues have provided the impetus for research into transaction costs and are largely associated with *safeguarding* (to guard against opportunistic behaviour), *adaptation* (to adjust to external factors), and *performance evaluation* (measuring their partner’s performance in terms of their agreements).

5.3 Issues Confronting and Confounding Organizations

5.3.1 Issues Associated with Safeguarding

Safeguarding challenges may emerge for an organization when it utilizes specific assets and recognizes that its cohort may opportunistically take advantage of these investments (Subramani and Venkatraman 2003). Therefore, the events leading up to the safeguarding challenges are asset specificity and opportunistic behaviour. These influence both the affective and calculative forms of commitment. Safeguarding appears to be the most prevalent issue examined in the research that involves governance problems. That research contributes considerable support for the suggested impact of specific assets yet somewhat inconclusive support for the influence and existence of opportunistic partners.

An example of opportunism can be observed in a study by Dutta and John (1995) which suggests that a supplier that dominates and controls a market in a monopoly position has a greater propensity to raise prices than a supplier that is forced to share the market. Ultimately, that study concurs with Williamson's (1985) suggestion that small-numbers negotiating can lead to opportunism. Further agreement is also presented by Wang (2007) and Anderson (1988) by determining that a direct sales unit exhibits less opportunistic conduct than that of manufacturers' representatives.

An opposing view is presented by John (1984, p.287) in which this result is suggested;

> *"It appears that opportunism can be viewed usefully as an endogenous variable that is evoked by certain antecedents within a long-run relationship. In other words, individuals may not always behave opportunistically even if conditions permit such behaviour. Refusals to honour agreements and misrepresentations*

> *of intentions cannot be taken for granted. Rather, they are induced by certain other factors."*

Palay (1984) advanced this conclusion by suggesting that idiosyncratic investments in rail freight relationships invariably assist in the creation and evolution of trust between exchange partners. In addition, Wang and Wei (2007) and Parke (1993) concluded that opportunistic conduct between partners in strategic alliances is frequently eased when there has been a record of previous ongoing cooperation.

Varying viewpoints have been put forward regarding the impact of opportunism upon relationships. Notwithstanding the different perspectives, it does seem that if opportunism is present, then performance is impacted negatively. Parke (1993) suggests that strategic alliance partnerships are hindered by opportunism, and so too does it also weaken commitment in relationships between suppliers and buyers (Claro et al 2006).

One of the overarching tenets of transaction cost economics suggests that due to opportunistic behaviour amongst partners, high degrees of asset specificity will inflate the costs of safeguarding, monitoring and enforcing contracts and agreements. Asset specificity can have a noticeably positive impact upon transaction costs and commitment both before and after the exchanges (Mukhopadhyay and Kekre 2002; Pilling et al. 1994). In the context of integration, specific assets dedicated to intra-firm exchanges result in reduced transaction costs as opposed to specific assets reserved for external suppliers (Zhu et al 2006; Walker and Poppo 1991). Both the earlier and current studies suggest that firms will integrate vertically if a need exists to safeguard specific assets (Williamson 1985, 2000). This is particularly evident in make-or-buy decisions requiring increased levels of specific assets, thus requiring internal production versus outsourcing (Wang 2007; Masten et al. 1989, 1991). There is also a strong, positive correlation between increased levels of investment in specific assets and the likelihood of a firm electing to integrate its shipping and warehousing requirements (Alvarez and Barney 2001; Maltz 1993, 1994).

Vertical integration has appeared on several occasions as a means of safeguarding assets in the context of foreign market entry (Subramani and Venkatraman 2003; Erramilli and Rao 1993; Klein et al. 1990; Klein and Roth 1990). In addition, the same notion to integrate vertically is upheld in the context of personal sales in circumstances requiring high levels of asset specificity (Wang and Wei 2007; Anderson 1985, 1988; John and Weitz 1988). Leiblein and Miller (2003) also demonstrate a direct connection between vertical integration and higher levels of investments in specific assets and commitment to a particular channel. Due to the foregoing it is proposed that:

> ***Proposition 11:*** *Firms will integrate vertically if a need exists to safeguard specific assets. This is particularly evident in make-or-buy decisions requiring increased levels of specific assets, thus requiring internal production versus outsourcing.*

5.3.2 Issues Associated with Adaptation

Issues surrounding adaptation can arise for an organization when their decision makers are constrained by bounded rationality and are challenged when amending contracts in order to attempt to adjust to external factors. The theory of transaction costs suggests that an abundance of environmental uncertainty will increase the costs of amending the contracts (Pilling et al. 1994). Klein and Roth (1993) support this further by indicating that companies that are confronted with reduced levels of environmental uncertainty have an increased satisfaction and affective commitment level with their partners versus those facing higher levels of environmental uncertainty. Firms may choose to reduce transaction costs through the use of vertical integration as a mechanism to deal with an uncertain environment (Wang and Wei 2007).

A very small number of studies assessing environmental uncertainty provide proof of a correlation between environmental uncertainty and either a hybrid governance mode or vertical integration. Levy (1985); John and Weitz (1988), and Masten (1984) each provided manufacturing examples of vertical integration in uncertain environments, but this sample is quite limited. Others have suggested that environmental uncertainty has no influence on a decision to vertically integrate (Anderson and Schmittlein 1984; Maltz 1994). It was subsequently suggested that environmental uncertainty may also require the impacts of either competition (Walker and Weber 1987) or asset specificity (Anderson 1985) in order to initiate a shift toward vertical integration (Jap and Anderson 2003). The inconclusiveness of these studies may be the result of the blending of affective and calculative commitment whereby the the former is based in emotion and the later is logic-based.

Studies began to focus upon the possibility that environmental uncertainty was multi-dimensional, with each dimension potentially creating a different effect. The earliest research was delivered by Walker and Weber (1984) whereby they submitted that automotive manufacturers are influenced by volume uncertainty. Because of this, the manufacturer may gravitate toward making parts instead of buying them, whereas technological uncertainty had no influence on the decision to outsource (Sanders 2005).

Alternatively, Heide and John (1990) indicate that technological unpredictability reduces the likelihood of a sustainable relationship; however volume unpredictability bears no influence on the dyadic relationship's opportunity for survival. Their reasoning stems from the fact that firms become concerned about becoming locked into potentially obsolete technology (Wu et al 2006). Along the same lines, Balakrishnan and Wernerfelt (1986) indicate that technological obsolescence can impose a negative influence on a manufacturer's decision to integrate vertically. In addition, suppliers may be less inclined to invest in assets that are buyer-specific because of technological uncertainty (McNally and Griffin 2004) and may exhibit reduced levels of commitment.

Organizations tend to avoid vertical integration when they perceive they may be confronted with uncertain or evolving times (Contractor and Ra 2002). Beyond concerns surrounding technological obsolescence, they also display apprehension and tend to relinquish control in favour of the market when environmental change appears rapid. Klein (1989) contrasts environmental complexity versus environmental dynamism. Complex environments encourage firms to vertically integrate, whereas dynamic and changing environments appear to encourage firms to exert less control and avoid hierarchical structures (McNally and Griffin 2004). This is particularly evident with exporters and with their relationships in foreign markets. Similarly, Klein et al. (1990) determined that the existence of several sources of environmental uncertainty will heighten the probability of using agents or distributors when operating within a foreign market. Other evidence of mitigated investment and calculative commitment caused by environmental uncertainty can be found in research presented by Oerlemans and Meeus (2001).

5.3.3 Issues Associated with Performance Evaluation

Firms may face challenges with performance evaluation if their decision makers are constrained by bounded rationality and have problems measuring the relationship partner's compliance with their obligations contained with the agreements. Therefore, bounded rationality and behavioural uncertainty are important contributors to problems associated with both forms of commitment and performance evaluation. Behavioural uncertainty in particular has received some attention in the commitment and transaction cost economics literature (Tsang 2000). Specifically, a heightened quantity of behavioural uncertainty will correspondingly increase the costs of evaluating the performance of the relationship partners (Jean 2007). Williamson (1985, 2000) suggests that firms will attempt to mitigate their performance evaluation costs through a shift towards vertical integration.

There is some evidence of a positive relationship between behavioural uncertainty and a firm's decision to utilize an in-house sales unit versus agents (Anderson 1985; Anderson and Schmittlein 1984; Weiss and Anderson 1992). In addition, behavioural uncertainty appears to have the greatest impact of all the key aspects of the commitment and transaction cost analysis framework, specifically environmental uncertainty, frequency, asset specificity, and behavioural uncertainty (Anderson 1985; Anderson and Schmittlein 1984). Furthermore, additional support was given for a correlation between vertical integration and behavioural uncertainty (Zhang and Rajagopalan 2002)..

As well as inspiring and developing greater amounts of vertical integration, organizations will endeavour to mitigate costs associated with performance evaluation due to behavioural uncertainty by implementing hybrid governance mechanisms (Chen and Chen 2003). An example of this is evident in a study by Heide and John (1990) and later in a similar study by Arino and Reuer (2004) whereby behavioural uncertainty confronted by manufacturers bears a positive relationship to the amount they search for a supplier's qualifications and abilities through such actions as examining the supplier's manufacturing and/or engineering capabilities. As per the foregoing discussion, this study proposes the following:

> ***Proposition 12:*** *A heightened quantity of behavioural uncertainty will correspondingly increase the costs of evaluating the performance of the relationship partners. Firms will attempt to mitigate their performance evaluation costs through a shift towards vertical integration.*

Having examined these issues in the context of transaction costs, attention is now turned to an exploration of the major influences in this area. Largely, these influences are driven by *governance structures of firms, asset specificity, frequency and uncertainty (behavioural and environmental).* Each will be examined in detail in the following section.

5.4 Major Influences on Transaction Costs

5.4.1 Influence of Governance Structures

Scholars tend to categorize governance structures into three forms, namely hierarchy, market, and also a variety of intermediate or hybrid types. Considerable research has been forthcoming that contrasts hierarchies against markets. For instance, Walker and Weber (1984, 1987) compared purchases of components by an arm's length supplier against the option of producing these same components in-house. This is a typical study of market versus hierarchy governance structures. Additional research of a similar nature during that time period includes studies by Masten (1984); Masten et al. (1991); Monteverde and Teece (1982); Walker and Poppo (1991). Similarly, this topic of research was extended to include manufacturer's representatives versus a direct sales force as a basis of comparison for market versus hierarchy structures and as a method of examining commitment levels between parties (Leiblein and Miller 2003).

A unique approach was presented by several researchers whereby a continuous measure or gradient scale was employed to gauge the level of vertical integration existing within a firm's structure, thus indicating whether a market or a hierarchy structure was evident. Balakrishnan and Wernerfelt (1986) describe governance structure as the amount of vertical integration expressed as a percentage ranging from 0% to 100%. Others presented their findings of market to hierarchy comparisons in a similar fashion (Leiblein and Miller 2003; McNally and Griffin 2004). Useful though this approach may prove, it was acknowledged by Balakrishnan and Wernerfelt (1986) that comparisons across industries may not be conclusive due to differences in measurements and standards in such items as profitability, sales ratios, etc.

Governance structures of the intermediate or hybrid category tend to manifest in various constructs. Evidence of this can be observed in studies such as Klein et al. (1990) in which joint ventures are created in order to move into a foreign market. In this example, the hybrid governance mode exists at an intermediate point between a foreign sales subsidiary (hierarchy) and merchant distributors (market). Other studies produced comparable examples (Erramilli and Rao 1993; Osborn and Baughn 1990). In addition, other examples described circumstances involving hybrid governance structures that evolve from the processes involved. Particularly, Palay (1984) examined the degrees of relational contracting as an intermediate governance structure monitoring the level of commitment in relationships involving shippers and rail carriers. This was presented by measuring five components of their agreements, specifically; the existence of long term and structural plans, methods of enforcement, adaptation to changes and evolving situations, and the types of adjustments that are made or contemplated. Finally, bilateral governance was presented as a type of commitment mechanism involved in a hybrid governance structure (Claro et al 2006). In this example, the level of joint involvement on the part of supplier-buyer dyads was measured in terms of their action, stability, and qualification efforts.

Current research has presented evidence of a wider range of governance mechanisms. Specifically, Stump and Heide (1996) have observed the methods that buyers employ in order to safeguard the specific assets they have invested in sellers. In particular, they examine certain control mechanisms available to the buyers including; (a) '*the choice and selection of partners';* (b) '*monitoring techniques'*; (c) '*the design of incentives'*. In a similar fashion, Parke (1993) examined the influences and results of opportunistic behaviour on the level of safeguards contained in agreements in strategic alliances. In addition to these examples, further research surrounding a variety of matters involving safeguarding has continued to surface (Subramani and Venkatraman 2003; Anderson and Weitz 1992; Dutta and John 1995; Heide and John 1988, 1992). Moreover, some evidence suggests too much governance may achieve the opposite of the intended result and negatively impact profitability and level of commitment while providing little in the way of protection (Diacon and O'Sullivan 1995). This dissertation therefore suggests:

> ***Proposition 13:*** *Firms will gravitate towards either a hierarchical, market, or hybrid form of governance structure based upon the choice and selection of their partners, available monitoring techniques, and the design of incentives.*

5.4.2 Influence of Frequency

Williamson (1975) expanded his framework to include '*risk neutrality*' in the behavioural dimension, and also added '*frequency*' within the transactional dimension. There has been some attention to these additions (Chiles and McMackin 1996), but very little of it has been empirical. Williamson (1985) and Leiblein and Miller (2003) examined higher frequency levels, suggesting that it provides an incentive for firms to consider a hierarchical governance structure since it would likely be easier to recover costs in this way for larger transactions of a similar type. Thus, lower frequency would increase commitment to a market or hybrid structure and partners. The limited amount of further research on this specific topic has made it difficult to prove or disprove this contention. Some studies have simply failed to make a connection between hierarchical governance and transactional frequency (Anderson 1985; Anderson and Schmittlein 1984; Maltz 1993, 1994), while others have only examined cases using recurring exchanges (Yiu and Makino 2002) and would not be in a position to contrast against one-time transactions. This dissertation will expand upon the current research and in so doing suggests the following for closer examination:

> ***Proposition 14:*** *Higher frequency levels provide an incentive for firms to consider a hierarchical governance structure since it would likely be easier to recover costs in this way for larger transactions of a similar type and in a similar region. Otherwise a market structure or hybrid form would be more suitable.*

5.4.3 Influence of Asset Specificity

Asset specificity plays a significant role in transaction cost economics and commitment. By definition, it addresses the degree of transferability of assets that are involved and support a particular transaction (Williamson 1985). Assets that are deemed to have a high level of specificity represent sunk costs with negligible value beyond the particular transaction relationship and result in increased dedication and commitment to it (Wang 2007). Asset specificity itself can be further sub-divided into six categories (Williamson 1991); (a) '*temporal specificity*'; (b) '*site specificity*'; (c) '*dedicated assets*'; (d) '*physical asset specificity*'; (e) '*brand name capital*'; (f) '*human asset specificity*'. The majority of the existing research tends to focus upon human asset specificity, particularly the studies surrounding transaction cost analysis and commitment applications (Bamberger and Meshoulam 2000; Lohtia et al. 1994). The popularity is likely due to the increasing interest in human interests, and the fact that this form of investment is generally quite substantial and necessary in business. In addition, the varying nature and availability of data lends itself to scholarly research in this area, particularly because of the sources available to researchers, e.g. secondary data such as financial reports, sales figures, and primary data including surveys, etc.

Frequently, human asset specificity has been gauged on a scale similar to that which was introduced by Anderson (1985, 1988). This ten item company scale "*reflects how necessary it is for salespeople to forge working relationships with the firm in order to be effective and how much salespeople must learn*" (Anderson 1985, p.243). Other studies have successfully contributed various adaptations of this scale, thus extending its use further, including; Meilich (2005); Heide and John (1988, 1990, and 1992); Klein (1989); Klein and Roth (1990); Klein et al. (1990); Maltz (1993, 1994); Stump and

Heide (1996); Weiss and Anderson (1992). This approach has consistently displayed a significant degree of unidimensionality and internal consistency, as well as convergent and discriminant validity (Heide and John 1990; Klein et al. 1990).

Human asset specificity research has presented other studies that utilize multi-item measurements while displaying sound internal consistency (Meilich 2005). This is apparent in the studies by Erramilli and Rao (1993); Sriram et al. (1992). However, there are a small number of studies that utilize single-item measures of either asset specificity in general (Parke 1993) or human specific assets (Bucklin and Sengupta 1993; Walker and Poppo 1991). In particular, one study gauges human asset specificity through a technique utilizing a single item which assesses the amount of time brand new sales representatives would require to familiarize themselves with the company's customers and product line (Subramani 2004).

Whereas the majority of studies undertaken in the realm of human asset specificity typically employ some form of survey instrument as a method of measurement, there are also some examples of research that assess this subject with the use of secondary data. This can be observed through Monteverde and Teece (1982) whereby human asset specificity is measured by examining engineering cost ratings for automotive parts. Several other studies followed utilizing a similar technique and approach (Masten 1984; Masten et al. 1989, 1991). However, this approach can be somewhat problematic and only provides approximations, thus leading to the possibility of construct validity issues. Recognizing the limitations of secondary data, more direct assessments may not be obtainable. In these instances, multiple methods may be more appropriate in order to ensure construct validity. Either way, to examine concept further it is proposed that:

Proposition 15: *Increases in investments in assets that have a high degree of specificity are positively correlated with levels of commitment.*

5.4.4 Influence of Uncertainty

Although decision makers may have the best of intentions and believe they are acting rationally, they may be limited by their abilities to communicate and process information (Simon 1957). Referred to as bounded rationality, this concept becomes challenging during times of uncertainty, particularly when the situation involving an exchange cannot be determined in advance (environmental uncertainty) and performance levels cannot be assessed subsequently (behavioural uncertainty).

Uncertainty within the environment requires the ability to modify agreements and adapt quickly to new and evolving situations. For example, an insurer may choose to issue different contracts to agents at various stages of product and market maturity. As the marketplace evolves, simplified contracts may require re-drafting and re-negotiation. Although this may have served its purpose initially as a low-cost entry technique, ongoing uncertainty may prove it to be more costly than if a more inclusive and comprehensive contract had been drafted and negotiated at the outset, thus removing the necessity to revise each agreement. The costs in either case would be the responsibility of the insurer, but environmental uncertainty should bring on the consideration of the more comprehensive agreement and ultimately an increased level of commitment.

Behavioural uncertainty, on the other hand, pertains to the challenges existing with determining whether or not adherence to the terms and conditions of pre-existing contracts has occurred. Within insurance distribution channels, it is difficult to ascertain whether an agent has complied with the provision of the necessary information to customers in advance of accepting a policy. Although it is a requirement under the regulations of the licensing authorities, not to mention a condition of the contract, verifying and measuring this activity could be prohibitive. If it is not observed and/or measured, there will be an element of uncertainty as to whether or not the activity is completed and this could lead to a weakening of commitment.

If a decision maker chooses to serve their own self-interests unscrupulously or with guile, they are considered to be acting opportunistically. The challenge is in knowing in advance specifically who may be trustworthy or not (Mollering 2002). Williamson (1985) includes behaviours such as cheating and lying, deceit, and contract violation in the context of opportunism. Among the obvious challenges presented by opportunism is the usage of unique, specific assets which have little or no value beyond the relationship and the subsequent way in which the knowledge of this is used opportunistically (Kwon and Suh 2004). For example, if an insurer invests significantly in training of an agent in order to enhance the relationship, the agent could exploit this investment knowing that the insurer would not readily replace the agent because of the size of the investment. The agent's exploitation could involve demands of increased commissions, bonuses and/or other concessions. This may have the effect of temporarily increasing commitment because of the size of the investment, but if opportunism is discovered it could strain and weaken the relationship.

5.4.5 Environmental Uncertainty

In the context of transaction costs, environmental uncertainty describes "*unanticipated changes in circumstances surrounding an exchange*" (Noordewier et al. 1990, p.82).

Among the other influences on transaction costs, environmental uncertainty presents the greatest challenges in terms of measurement and assessment, including that of commitment levels. This may be the result of two competing pre-positions that appear in the research. The existing studies tend to gravitate toward one of two particular perspectives. The most prevalent of these perspectives stresses the unpredictability of the external environment, whereas the other view emphasizes both the complexity and unpredictability of the external environment (Lee et al 2003).

Examples of the more common perspective of environmental uncertainty are apparent in Anderson (1985, 1988). In these cases, a nine item scale is employed which focuses on the components connected to both the instability related to the environmental volatility and to the risks associated with exploring and entering into new ventures. Heide and John (1990) extend this further by breaking unpredictability into two forms, i.e. technological and volume. Stump and Heide (1996) incorporate this technological unpredictability scale into their study. In addition, John and Weitz (1989) and Noordewier et al. (1990) employ similar scales in their research of the unpredictability characteristic of environmental uncertainty.

A counter perspective of environmental uncertainty is presented by Klein (1989) and also by Klein et al. (1990). These viewpoints suggest that environmental uncertainty is two-dimensional and includes both changeability and unpredictability. In addition, it is proposed that the aforementioned two types of uncertainty have opposite impacts upon governance structures and commitment (Lee et al 2003). In particular, they advocate that although unpredictability encourages companies to develop hierarchical structures, changeability creates the opposite result. To illustrate this, Klein (1989) contrasts complexity and dynamism as fundamentals of environmental uncertainty. In this example, uncertainty-complexity is defined as *"the degree to which the respondent perceived the environment as simple or complex"* and uncertainty-dynamism as *"the rate at which changes in the environment occur"* (Klein 1989 p.257).

Researchers may wish to debate as to which perspective is correct or at least more appropriate in a given circumstance. If the important components of the external environment negate reasons to develop a hierarchical governance mode, then perhaps Klein's (1989) multidimensional perspective is more appropriate. Otherwise, the traditional unpredictability perspective may be suitable. Furthermore, the context in which the research is undertaken may dictate the perspective (Leiblein and Miller 2003). For instance, although the traditional unpredictability perspective of environmental uncertainty typically is utilized in domestic situations (Anderson 1985; Heide and John 1990), whereby complexity is likely to be manageable, the circumstances involved in Meyer (2001) research study examining decisions in foreign market entry, thus complexity would probably be more relevant.

Further to the aforementioned multiple item scales and assessments, there are some studies which examined the environmental uncertainty concept through single item measurements (Anderson and Schmittlein 1984; Masten et al. 1991). Specifically, Anderson and Schmittlein (1984 p.391) assess uncertainty as the *"expected deviation between forecast and actual sales."* Masten et al. (1991) utilize a different technique by requesting survey participants categorize components into one of two opposing views of uncertainty based upon their complexity.

There are several transaction cost analysis researchers that have examined environmental uncertainty while utilizing secondary data sources. Of particular note is Wakolbinger and Nagurney (2004) and also of Osborn and Baughn's (1990) observation of technological power as determined by the magnitude of research and development-to-sales ratios. Other studies utilizing secondary data sources to examine environmental uncertainty include Levy's (1985) research into stock market returns as being correlated to unanticipated events and also Gatignon and Anderson's (1988) categorization of country risk as an gauge of unpredictability. Meyer (2001) uses a similar system to provide guidance in order to determine the choice of entry mode into a particular market and assess how committed the party is to following though with the decision..

In order to further study the impact of environmental uncertainty, the following proposition is presented:

> ***Proposition 16:*** *The two types of environmental uncertainty have opposite impacts upon governance structures, i.e. unpredictability encourages companies to develop hierarchical structures whereas changeability creates the opposite result.*

5.4.6 Behavioural Uncertainty

In the transaction cost economics context, behavioural uncertainty refers to the challenges associated with the monitoring and enforcement of contractual adherence and performance of exchange partners (Zhang 2006). This serves as a solid measure of commitment levels. When contrasted against environmental uncertainty and asset specificity, behavioural uncertainty appears to have received far less attention in the research domains (Klaes 2000). However, the studies that do exist appear to contemplate issues of behavioural uncertainty in constructs similar to that of Williamson's (1985) description. Other research has produced studies extending the work of Anderson (1985). Anderson (1985) describes behavioural uncertainty within the context of being associated with the challenges in assessing sales performance. This is completed through the use of a seven item scale which focuses on such elements as the contributions of team sales and also the validity of production reports. Furthermore, Anderson (1988) and Anderson and Schmittlein (1984) produced studies using adaptations of this technique. A few other studies examined behavioural uncertainty using comparable methodologies and tend to consider it simply as a matter of performance evaluation (Stump and Heide 1996; Weiss and Anderson 1992).

Also in line with environmental uncertainty and asset specificity, a small number of studies utilized single item assessments of behavioural uncertainty (Claro et al 2006). In particular, Anderson and Schmittlein (1984) gauge behavioural uncertainty as a single item variable related to the challenges associated with equitably assessing the performance of individual salespeople. In addition, Bucklin and Sengupta (1993) incorporated single item behavioural uncertainty assessments. Unlike environmental uncertainty and asset specificity, there are only a handful of studies using secondary measures for behavioural uncertainty research, although it may be challenging in any event to garner information for this type of purpose (Fussell et al 2006). However, Gatignon and Anderson (1988) successfully managed to examine international experience as a proxy for performance analysis within the context of foreign market entry, but this form of secondary data research of behavioural uncertainty is rare. Meilich (2005) also examined this and concluded that negative effects increase (including that of commitment) when in the context of being locked-in to a dominant supplier.

This study will examine behavioural uncertainty further through examination of the following proposition:

> ***Proposition 17:*** *Actual or perceived behavioural uncertainty on the part of a dyad counterparty presents challenges with the monitoring and enforcement of contractual adherence and performance of exchange partners.*

The thesis has looked at the history and background of transaction costs, along with the most common influences and their impacts upon commitment in business relationships. Before looking specifically at its application to the Canadian insurance market, the next section of the study will explore the common purposes and applications for analyzing transaction costs.

5.5 Historical Purposes and Applications for TCA

5.5.1 Historical Purposes of Transaction Cost Analysis (TCA)

At its most basic level, transaction cost analysis advises that if costs are low (or non-existent) for a firm to adapt an activity within a market, enforce agreements, provide suitable safeguards, and monitor performance, then the situation is favourable for market governance (McNally and Griffin 2004). This has been a recurrent theme in the academic literature and has been demonstrated with empirical applications. Marketing researchers have been particularly active in this area due in large part to their collective interest in exchanges and commitment. Some of this body of knowledge includes research examining decisions surrounding vertical integration (Whinston 2003;

Anderson 1985; John and Weitz 1988), management of distribution channels (Lee et al 2003; Spekle 2001; Anderson and Weitz 1992; Heide and John 1988), strategies involved in industrial purchasing (Noordewier et al. 1990; Stump and Heide 1996), compensation issues and general components of control of sales teams (Spekle 2001; Anderson 1988; John and Weitz 1989), and entry strategies into foreign markets (Meyer 2001; Anderson and Coughlan 1987; Klein et al. 1990). In addition to these, marketing's general approach to research techniques and methodologies has aided in the facilitation and testing of research outputs. The relevance and validity of the research results arises from the quality of the data which is often garnered at a micro-level of the firm, often supplied by the decision makers themselves (Vosselman 2002; Calfee and Rubin 1993; Joskow 1991), thus adding to the overall richness and quality.

Although the focus on transaction costs has been increasing, the knowledge that has been created is not always being fully utilized. This is likely due to a lack of awareness of advancements made to the early work (Coase 1937; Williamson 1975, 1985) on the transactions cost analysis framework. Proof of this may be observed in the opinion of Madhok's (2002) criticism of transaction cost analysis. Later publications and research on the subject provide a critique of Williamson's (1975) work on *"Markets and Hierarchies"* without referencing or acknowledging more recent refinements.

An additional challenge confronting transaction cost analysis stems from the fact that the pre-existing empirical work has not been integrated solidly into other academic works yet there is a tremendous opportunity to apply it to the concepts of affective and calculative commitment. It has provided insights for consideration, such as issues surrounding governance, e.g. protection of idiosyncratic investments (Subramani and

Venkatraman 2003). As well, it has provided tools and mechanisms as a means to handle these issues, e.g. pledges (Arino and Reuer 2004; Anderson and Weitz 1992), bargaining items (Heide and John 1990), enforcement (Stump and Heide 1996), and agreements (Yiu and Makino 2002).

5.5.2 Early Application of Transaction Cost Analysis

The analysis of transaction costs has been discussed and applied in several disciplines, particularly in marketing, law, and economics. Everywhere from the economic issues surrounding marriage (Treas 1993) to international trade matters (Hennart and Anderson 1993), transaction cost analysis has value and likely has been utilized. To quote Williamson (1985), *"Any problem that can be formulated, directly or indirectly, as a contracting problem can be investigated to advantage in transaction cost terms."* The existing marketing research has supplied numerous examples of the breadth of issues involved in exchanges for which transaction cost analysis has been instrumental in providing explanation and theory. This research tends to categorize the contexts under review into one of the following classifications: (a) '*a specific test of the transaction cost analysis assumptions';* (b) '*inter-organizational relationships of a horizontal nature';* (c) '*inter-organizational relationships of a vertical nature*'; and (d) '*vertical integration'*.

5.5.3 Original Specified Tests of Transaction Cost Assumptions

There have been some (not many) studies examining and testing the robustness of the assumptions surrounding transaction cost analysis. For example, John (1984) and Stump and Heide (1996) approached the subject matter from the perspective of opportunism as having an indeterminate quantity that requires explanation or debate.

That former research specifically examined the extent of the opportunism displayed by franchisees engaged in distribution of products of a large oil company. The opportunism was viewed in light of a perceived context of a power structure within a bureaucracy and its negative effects upon commitment. In addition, research work was undertaken by Anderson (1988) which also tested the assumptions of transaction cost analysis. In this study, opportunistic behaviour amongst electronic industry salespeople was observed. The intention of the study was to examine the influence of the potential causes that may have precipitated the opportunistic behaviour.

5.5.4 Early Studies of Horizontal Inter-organizational Relationships

Historically, transaction cost researchers have focused their attention on vertical inter-organizational relationships. But recently there has been a shift toward providing attention to transaction costs in relationships between firms positioned at a similar point in a value chain. Likely the first study of its kind was completed by Gates (1989) in which technological cooperation was analyzed within the semiconductor sector. In particular, he analyzed the degree to which the strategic orientation of a company may influence a decision-maker's views of the transaction costs that arise when firms cooperate and the positive effect it has on commitment. Subsequently, a more prominent study emerged on the matter (Bucklin and Sengupta 1993). This examination considered the involvement of uncertainty, frequency, and asset specificity on power imbalances in co-operative marketing arrangements. Further research around this time included work by Osborn and Baughn (1990) and Parkhe (1993).

5.5.5 Early Studies of Vertical Inter-organizational Relationships

Considerable research has been compiled since the early 1980s which examines the issues of governance and how it can be managed in value chains that are without common ownership (i.e. hybrid governance systems) (McNally and Griffin 2004). The circumstances and issues that precipitated the evolution of these forms of networks are described by Monteverde and Teece (1982). In that study, a manufacturer retains ownership of the production equipment yet the supplier is the producer of the parts in an automotive industry setting. Recognition of the commitment levels of counter-parties is vital in these circumstances. A later study was undertaken by Heide and John (1988) which suggests that representatives of manufacturers protect the assets they invest in their manufacturing principals by creating a corresponding investment in their client relationships, thus adding value to their own position. Further research was conducted on the chemical sector by Stump and Heide (1996) whereby supplier and manufacturer relationships were examined. Various alternative governance systems were investigated in this study and were considered in the contexts of monitoring and enforcement, the design of incentives, and the selection and ongoing commitment of partners.

Quite common amongst the transaction cost analysis research are studies into governance mechanisms and their relationship to the evolution of strong and sustainable inter-organizational bonds and commitment levels (Whinston 2003; NG 2007). This is evident in a study presented by Heide and John (1990) which employed transaction cost analysis to view precisely how suppliers and purchasers will foster close relationships as a method to protect their idiosyncratic investments and to aid in adjusting to uncertainty. An extension of this work is evident in Heide and John’s (1992) examination of the moderating effect of customary behaviours and standards within a relationship. It is suggested that the objective should be avoiding an imbalance between the idiosyncratic assets and vertical control within the inter-organizational relationship (Whinston 2003). Other researchers have also examined the usage and impact of relationship bonds as part of the governance mechanism, including Pilling et al. (1994); Noordewier et al. (1990); Sriram et al. (1992) and Walker and Poppo (1991). Moreover, the use of pledges in constructing commitment within principal and agent dyads was examined by Anderson and Weitz (1992).

In addition to the aforementioned marketing studies on vertical inter-organizational relationships, the disciplines of economics and law have contributed considerable research surrounding the use of contracts and agreements (Spekle 2001; Whinston 2003). These studies assist in providing a framework for understanding the bilateral nature of sustainable exchange relationships. A recognized study examining this phenomenon was presented by Joskow (1987). In this example, the context of electricity utilities and their coal providers was examined with a view to consider the impact of asset specificity on the tenure of agreements. As well, Leffler and Rucker (1991) and Palay (1984) studied agreements and contracts in terms of transaction costs.

5.5.6 Seminal Research into Vertical Integration

The most prevalent (and oldest) studies on transaction cost analysis tend to concentrate on decisions surrounding vertical integration. Common among these are manufacturers' choices to integrate backward/upward in their supply line or forward/downward into the sales and distribution channel. A seminal study was put forth by Monteverde and Teece (1982) in which a make-or-buy decision for assembly parts was analyzed using transaction cost analysis for two U.S. automotive producers. Shortly thereafter, Masten et al. (1989) as well as Walker and Weber (1984, 1987) presented more research on the sourcing of components in the U.S. automobile industry. The use of transaction cost analysis within the context of make-or-buy decisions was later extended into other manufacturing sectors by Balakrishnan and Wernerfelt (1986); Levy (1985); Lieberman (1991); Masten (1984) and Masten et al. (1991). This was once again advanced further by applying transaction cost analysis to observe the circumstances whereby a manufacturer would choose an outside firm versus in-house in order to handle their shipping (Maltz 1993) and warehousing (Maltz 1994) requirements.

More recently, forward vertical integration has become the recipient of considerable interest, as transaction cost analysis studies examine the integration of manufacturers and suppliers into the sales and distribution channel in both international and domestic contexts and to observe the development of commitment between all parties (Yiu and Makino 2002). An example of this focus is the study presented by Whinston (2003) in which transaction cost analysis is employed when manufacturers are considering forward integration into the distribution channel, and by their choice of direct (in-house employees) versus indirect (commissioned agents and brokers) distribution channels. Earlier, several research projects were presented which utilized transaction cost analysis to help comprehend the thought processes that manufacturers were engaged in when choosing between integrated (in-house) sales units or independent (brokers and/or representatives) distributors (Anderson 1985; Anderson and Schmittlein 1984; Weiss and Anderson 1992). These works were subsequently advanced in an examination within a transaction cost analysis context of firms that choose to utilize both an in-house sales force as well as manufacturers' representatives (McNally and Griffin 2004; Dutta et al. 1995).

Forward vertical integration has also been researched within a transaction cost analysis framework in order to observe the processes of foreign market entry by firms. Anderson and Coughlan (1987) use these techniques to analyze the choices made by U.S. semiconductor firms when electing to employ an integrated sales force or to proceed through the independent channel. Likewise, transaction cost analysis was utilized by Gatignon and Anderson (1988) when researching the level of control that multinational firms use when dealing with foreign subsidiaries in the context of their level of integration. Subsequently, a series of studies emerged surrounding the strategies employed by Canadian exporters in terms of vertical control and the pressures on commitment (Klein 1989; Klein et al. 1990; Klein and Roth 1990, 1993). Of particular note, the Klein and Roth (1993) study made a valuable contribution through its use of transaction cost analysis in an attempt to comprehend the items leading to an organization's satisfaction level with its distributors in the international channels and the joint commitment to the relationship. Similarly, studies such as an investigation of joint ventures in communist China (Hu and Chen 1993) and also the entry of service companies into foreign markets (Erramilli and Rao 1993) used these innovative frameworks.

Transaction cost considerations play an important decision-making role in the various forms of governance structures. Moving forward from this discussion the study will now examine the transaction cost influence on alternative governance structures such as outsourcing. This is highly relevant to this research as it explores the topic in the specific context of the intermediary (brokerage) insurance distribution channel.

5.6 Seminal Research in Alternative Governance Structures

5.6.1 Using Transaction Costs in Determining to Outsource

Industry has witnessed a vibrant and steady move towards outsourcing, particularly in the past three decades. In this context, outsourcing is defined as the contracting-out of activities that previously were conducted within the organization itself (McNally and Griffin 2004). The list of activities could include, but not be limited to; payroll, I.T. services, cleaning, etc. Typically, firms would choose to outsource activities that other firms could undertake on a more cost-efficient basis. Generally, but not always, this includes non-core activities of the organization as it permits them to allocate more attention to efficiently focus on their in-house, core functions (Alvarez and Barney 2001).

This is not a new ideal nor is it a large paradigm shift (Leiblein and Miller 2003; Winkleman et al. 1993; Huff 1991). The utilization of outside expertise has been around for quite some time. But more recently, it has become apparent that the extent and nature of activities being outsourced is expanding (Wang 2007). It is also notable that public acceptance for outsourcing is increasing, particularly in light of the evolving corporate and market conditions.

The decision to make or buy has been a beguiling issue for management for some time. Hiemstra and van Tilburg (1993) have endeavoured to bring clarity on the definition of outsourcing. They contend that it involves the sub-contracting of custom-made items, components, sub-assemblies, and even final products and/or services to another firm. If similar components are simply purchased from the marketplace and are not specifically sub-contracted, that would not involve outsourcing in their estimation. But both have an impact on make-or-buy decisions (McNally and Griffin 2004). Ultimately, the decision involves choices such as hiring a firm or employing internal staff to perform a particular task. If the choice is to make a component, the firm will conduct internal transactions with another division of the firm. Conversely, if the choice is to buy a component, the firm will contract with another firm. Too often this is undertaken as a financial decision and may be based upon costs alone in a similar fashion to the calculative form of commitment. But there is also a strategic element to the decision and it impacts several levels including capacity, expansion plans, right-sizing the firm, the current economic environment, etc. (Spekle 2001; Rothery and Robertson 1995).

The growth of outsourcing is brought on by cost reduction concerns and also by changes in management approaches (Spekle 2001; Winkleman et al. 1993). But market forces and other technical considerations may also have considerable influence (Gupta and Gupta 1992). Ultimately, the motivation for outsourcing can be summarized as being influenced by '*costs*', '*capacity*', '*capital*', and '*knowledge*' (Heimstra and van Tilburg 1993). Moreover, there have been strategic shifts toward focusing upon core activities, thus reducing the inefficiencies encountered when confronted with challenges that can occur in ancillary activities (Yiu and Makino 2002). Outsourcing has assisted firms with maximizing the use of capital through the mitigation of investment in certain redundancies in fixed assets. As well, improvements can be witnessed in quality and efficiency due to the involvement of outside functional or technical expertise which may not have been available in-house. Also, reduced problems of an administrative nature may manifest themselves, and there may be a potential for the ongoing development and commitment of strategic business connections (Spekle 2001).

Management that entertains an outsourcing strategy will typically consider non-core functions as a target while retaining core business processes in-house. The core items will likely have considerable impact on that which differentiates the firm in areas of value and quality (Yiu and Makino 2002). Through the outsourcing of non-core functions, the firm can better utilize and leverage its scarce financial resources, spread its risk, and focus on its core strategies and activities. Cooperation, core-business, cost, finance, and quality will drive the outsourcing decisions (Yiu and Makino 2002; Beulen et al. 1994).

The decision to outsource, along with its ongoing development and evolution, typically stems from the pursuit of cost efficiency. In addition, firms may also consider outsourcing in order to gain access to expertise and other resources that may not be available in-house. It may not be cost-effective to maintain these resources on a regular basis and outsourcing becomes a suitable method to obtain the services as-needed. It can also mitigate or transfer some risks to an outside firm, as well as eliminate certain related costs such as training and some human resource costs (Meilich 2005). But technological concerns and strategic issues should also weigh on the decision, and it should not be considered simply within the context of monetary costs (Arino and Reuer 2004; Welch and Ranganath Nayak 1992).

Many firms are now choosing to break down their internal (vertical) structures in favour of a disintegrated model involving inter-company and outsourced relationships (Ewaltz 1991). A key advantage to this structural arrangement is that it allows organizations to withstand challenging financial periods and markets as they are not required to shoulder the burden of the outsourced functions during those periods (Wang and Wei 2007). As well, they can be quite nimble and accelerate rapidly in order to maximize favourable economic times and markets. Competitive success requires a more focused company (Quinn et al. 1990), and this less integration may aid in improving the level of the firm's focus. Companies that have been able to recognize this concept will strive to remove (outsource) functional areas, departments, etc. and only retain that which is necessary to provide customers with the highest value from its core activities and competencies (Leiblein and Miller 2003). The reduction or elimination of activities that appear distant (or unrelated) to the firm's overall strategy will improve shareholder value and customer satisfaction. This is a typical result of the lower costs that the company incurs as well as a reduced requirement for investment capital.

It is imperative that firms also recognize that a mix of the cost approach combined with a focus on core competencies may be highly effective, but they also operate in times of changing markets with varying market forces at play (Meyer 2001). Both external as well as internal environments require consideration during the decision process. Due to the magnitude and structural changes that may have to be addressed, a decision to outsource should be influenced by the ongoing sustainability of the strategy, not to mention the impact of the immediate implementation thereof. Therefore, outsourcing decisions should be considered in the context of the internal and external environments, the structure and strategy with the reconfiguration, and the costs associated with both changing versus not changing.

5.6.2 Making the Decision to Outsource

There are many issues that require consideration in terms of the internal and external environments when outsourcing is under review. The list, although not intended to be exhaustive, would include items of either a qualitative or quantitative nature (Arino and Reuer 2004; Beulen et al. 1994). The former may consider employment stability, confidentiality, overall strategy, operational links, manageability, and supplier dependence (Chen and Chen 2003). In addition, the latter (quantifiable elements) may involve standard accounting items such as revenues, expenses, and investments. Conversely, when the firm’s strategy and structure are considered, it is necessary to undertake a qualitative perspective, as companies should include many of the softer issues that may not be numerically based. These may include a comparison of the current level of integration versus the intended level; or the impact that change may have on the workforce, etc. (Zhang and Reichgelt 2006; Ewaltz 1991).

The cost of changing versus not changing draws the firm into the realm of transaction cost economics. Williamson (1979) recommends that firms need to recognize the importance and difference of production costs and transaction costs (Lacity and Hirschheim 1993). There is considerable debate over the significance of production costs as some believe that outsourcers receive a cost benefit due to economies of scale. But this appears to be prevalent when dealing with standardized products. In-house production may provide a cost advantage in situations whereby much customization is necessary. Thus, the decision to outsource based upon production costs alone can be treacherous, and must be considered in the context of the functions and whether they are standard or custom (Lonsdale 2001).

In terms of costs of coordination, Williamson (1979) suggests that outsourcing may drive higher costs in this area due to the monitoring and enforcement of the supplier. This may become excessive when supplier choice is limited and few alternatives exist, thus the application of commitment and transaction costs principles are warranted to ensure optimum results. Increased vigilance and attention to contract details is warranted in order to mitigate coordination costs and to prevent opportunistic behaviour on the part of suppliers (Jap and Anderson 2003). But this increased scrutiny, contract development, dispute resolution, invoice payment, etc. will add to the coordination costs (Lacity and Hirschheim 1993). However, the development of a properly worded agreement may be the best line of defence in the prevention and/or resolution of disputes and enhancement of commitment. Otherwise, the cost savings that were sought through outsourcing's production efficiencies may vanish.

Due to the difficulty in precisely determining costs, Williamson (1979) recommends considering costs further within three categories; specifically transaction types, uncertainty, and the threat of opportunism. Each of these categories has an affect on the cost structure, and will influence a decision on a continuum either towards or away from the choice to outsource (Lacity and Hirschheim 1993).

When comparing hierarchies to markets in terms of production costs, Williamson (2000) suggests that markets have the advantage due to economies of scale. Conversely, markets can cause firms to be subjected to higher coordination costs as opposed to instances whereby transactions are dealt with internally. This constrains and places pressure on commitment. But Williamson (2000) does expand on this notion by suggesting that depending upon the dimensions of either asset specificity or frequency, some transaction types are more effectively and efficiently handled through the markets and others by way of hierarchies. Frequency, as noted earlier, is simply how often a transaction may happen, that is, whether it is only once in a while or if it is recurrent.

Specifically, frequency refers to the buyer's activity level in the market and how many times they intend to create a transaction.

Asset specificity, on the other hand, can be sub-divided into different forms but overall it generally refers to a particular transaction's amount and level of customization. Asset specificity can be further divided into three categories, i.e. '*human asset specificity'*, *'physical asset specificity'*, and '*site specificity'* (Lacity and Hirschheim 1993). A transaction would be defined as being highly asset specific if it cannot be transferable or adaptable for use by other firms because of the unique nature of one of the aforementioned categories, thus positively affecting commitment to the relationship. Human asset specificity describes the degree of specialized skill and training that is necessary to undertake the transaction (Meilich 2005). Physical asset specificity details the nature and type of equipment that is required for the transaction and how unique or specialised it must be. Site specificity provides a framework for the location requirements of a transaction and how certain these must be due to the high cost of moving either physical or human assets (or both) (Meilich 2005).

Another model for categorizing asset specificity into three distinct groupings was provided by Williamson (1979). They are divided into assets that are either '*idiosyncratic*', '*non-specific'*, or '*mixed*'. An idiosyncratic asset would include those that are used for transactions demanding special knowledge or equipment such as a customized software program. A non-specific asset typically refers to those that are more standardized, perhaps requiring non-specialized training or skills as they likely would not have to be customized for the purchaser. Mixed assets are those that contain elements of both the idiosyncratic and also the non-specific groups, or more precisely some parts of the transaction may require customization and others may require standardization (Meilich 2005). There is a direct and positive relationship between increases in investments in idiosyncratic assets (and to a lesser extent in the case of mixed assets) and to that of levels of commitment.

As there are complex aspects to consider when contemplating a shift toward outsourcing, this study will examine the matter further by researching this proposition:

> ***Proposition 18:*** *It is necessary to balance both the quantifiable (transaction costs, revenues, expenses, etc.) and qualifiable (strategy, stability, etc.) considerations in order to determine whether to outsource or to gauge its effectiveness.*

Advancing the discussion further, this chapter will now consider the influence of transaction costs upon networks, supply chains, and other logistical concerns. The intermediary channel in insurance distribution is typical of a supply chain, albeit in a service environment. It is highly linked by various networks, and maintains an ongoing influence from matters of a transaction cost perspective. The following section will elaborate on this in greater depth.

5.7 The Influence of Transaction Costs on Networks

5.7.1 Supply Chains, Logistics, and Networks

Advancements in transaction cost economics are similar to those found in the area of supply chain management and logistics (Calza and Passaro 1997; Hobbs 1996). The development of a logistics system can be viewed as an ongoing process of integration (Wakolbinger and Nagurney 2004). The evolution has been enhanced by continuous improvements in information technology, thus facilitating external integration of electronic systems of the connected organizations within a supply chain (Nagurney et al 2006). Not unlike the variations that exist within markets and governance structures, these varying computerized systems can be categorized as one of the following: an overall or global system, a closed-community system, or an open-community system. A global system is characterized as having world-wide agreement of general standards and is often referred to as an electronic market (Malone et al. 1987). Participation in this type of system is typically open to any firm. But if the focus is somewhat narrower (perhaps within a specific industry whereby a set of industry standards are created) communication will become standardized between firms. It becomes difficult, if not impossible to communicate electronically with firms outside of this industry network. This arrangement is known as an open-community system. Finally, where the intent is to communicate within a small unique network, a closed-community system will emerge. In these instances, only a small number of participants communicate back and forth using these systems to bolster their relationships (Mollering 2002).

Transaction-specific investments become necessary in both open and closed community systems. The nature of the investment is related to the completion of specific transactions with specific community members (partners) and is generally comprised of hardware and software (Zhang et al 2004). The extent of the investment will have a bearing on commitment levels due to the ease or difficulty in changing partners because of switching costs. Conversely, if the computerized system is global, it is open to all and anyone can participate. Little, if any asset-specific investments are required. When confronted with the existence of community-type systems, consideration will have to be given as to the optimal choice of system involvement and selection. If a particular community system has a longer pay-back period over others, a member may find themselves having to be locked in for an extended time. If a company does not have sufficient financial resources to select from a healthy list of alternatives, they may find themselves forced to lock into a system they may not have chosen otherwise. This may also preclude them from conducting ongoing business with other firms due to their current investment in a particular community system (Zhang and Reichgelt 2006) and have increased commitment forced upon them.

The emergence of closer relationships between firms may result as investments in transaction-specific information technology increases. As firms in particular supply chains demonstrate their commitment with these investments, a tighter coupling between them tends to manifest itself (Subramani 2004). Increases in the number and strength of these relationships are often triggered by investments in EDI (electronic data interchange). The resultant quasi-firms or networked forms of organization, emphasizing lateral forms of communication, become useful for exchanges of specialized knowledge (Johanson and Mattson 1987; Powell 1990). This tendency is clearly more robust when mutual trust and obligation are present and understood. Better service is the result through the use of EDI and the integrating functions of a group of firms in a data partnership (Zhang et al 2004). Ultimately, a move towards a differentiation strategy from a cost strategy may result from the use of new information technology (Porter 1985). Thus, fundamental changes in a particular industry's strategies may emerge. Therefore, it is suggested:

> ***Proposition 19:*** *The nature and level of transaction-specific investments bears a positive relationship with levels of commitment.*

Placing the foregoing EDI discussion within a transaction cost economics perspective, it becomes apparent that in order for those network relationships to thrive, the transaction costs must be lower than that which is present in the traditional market. This is also true when the new information technologies no longer contain their transaction-specific characteristics, particularly whereby the networks become developed and are evidenced by containing less uncertainty and opportunistic behaviour (Zhang et al 2004). Network relationships facilitate the exchanges of knowledge and improve feedback between the members (Winch 1989). In situations whereby multiple members within a network exchange data, opportunities can arise to clarify and make adjustments to production processes, etc. on a continuous basis. This continuity and commitment to the relationship aids in preventing opportunistic behaviour in the near term due to the understanding that it would have long-term negative effects. Network member recognition of this fact results in a reduction in monitoring costs as well as the enforcement of contracts. In addition, adjustment costs are mitigated. Therefore, in networks involving multiple firms engaged in complex and uncertain production processes, commitment between the parties thrives and network transaction costs are less than those compared with traditional market relations (Sanders 2005).

5.7.2 Inter-organizational Networks

Expanding upon Williamson's (1979) categorization of asset specificity, a further breakdown is required to ascertain as to whether particular activities are internal or generated within the market (Williamson 1975, 1985). When transactions occur, certain costs will emerge due to *"friction"* in the economic structure. Williamson (1985) further describes these transaction costs as being either (1) *enforcement costs;* (2) *bargaining costs;* or (3) *information costs*. Enforcement costs are those that are incurred when renegotiating contracts and agreements, resolving conflicts and disagreements, and the general cost of enforcing performance levels (Wang and Wei 2007). Bargaining costs refer to those which arise due to the initial negotiating and development of contracts with an attempt to contemplate situations that may arise during future transactions. Information costs describe those which are relevant to the search of background and information on a potential partner. As always, if the aforementioned transaction costs prove to be low, it recommends that the activity under review be obtained via the market. Conversely, when transaction costs are high, the activity should be undertaken within the firm (Alvarez and Barney 2001; Williamson 1985). Thus, it is proposed:

> ***Proposition 20:*** *If external (market) costs including enforcement, bargaining and information costs are high, firms gravitate toward undertaking activities internally. Alternatively the firms undertake these activities externally when those costs are comparatively lower.*

5.8 Research Challenges and Concerns

Although challenges have confronted scholars in the transaction cost economic research, as well as general measurement related concerns, there does appear to be a strong level of consistency as it pertains to the measurements and conceptual discussions of the various frameworks and TCE's application to the analysis of commitment. In particular, Anderson's (1985, 1988) early studies on the subject matter have aided in the ongoing development of later structural examinations of behavioural uncertainty, environmental uncertainty, and asset specificity. This appears to be a fulfillment of Day and Klein's (1987, p.54) recommendation that measures be created *"that build on previous operationalizations."*

Recently, a further adaptation has emerged within the area of measurements, specifically that a number of studies have materialized in which transaction costs are measured directly as opposed to the traditional approach of assessing the alignment between transaction elements and governance structure (Nooteboom 2000). This has resulted in a new perspective whereby transaction cost reasoning is tested directly, along with its implications. In particular, a twenty item assessment was developed which examines expected transaction costs that are incurred in the development and commitment/durability of a relationship. It then examines ongoing costs associated with monitoring and enforcing performance, as well as handling issues surrounding opportunistic behaviour (Fussell et al 2006; Pilling et al. 1994). Several other studies produced examples of developments in measures of actual or perceived transaction costs, including; Nooteboom (2000); Kwon and Suh (2004); Dyer and Chu (2003); La Londe (2002); Mollering (2002); Vosselman (2002).

5.9 Summary

Transaction cost economics research is a dynamic area and due to the need for further development it will continue into the future. The trend appears to be a furthering of the utilization of transaction cost economics approaches to address the issues with a particular emphasis on the sustainability and durability of inter-firm relationships and the assessment of commitment levels. TCE's application into specific industries is particularly useful for various supply chains and distribution networks.

This chapter has presented the relevant literature of transaction cost economics theory with the purpose of providing the historical foundation for this study. The tools of the key aspects of the transaction cost theory are valuable in providing a framework for the analysis of commitment levels in inter-firm relationships. In particular, these key aspects include asset specificity, frequency, and uncertainty (both behavioural and environmental) and their individual effects upon affective and calculative commitment. In combination with the previous chapter's examination of commitment literature, the theoretical base is now constituted. The following chapter will tie together the theories of commitment and transaction cost economics and provide a linkage to the research that follows.

6 Advancing the Body of Knowledge

The two preceding chapters have provided an examination of the important literature in the fields of commitment and transaction costs. The seminal works were explored in order to consider the genesis of these theories. In addition, the more recent and relevant publications were presented in order to comprehend the evolution of these theories and appreciate their current status. This chapter will synthesize the literature and provide a repository and basis from which the key notions and emergent sub-topics will be linked to this research study. It will also provide a preview as to how the study will be undertaken, including an introduction to a conceptual model and theoretical framework.

Certain sub-topics emerged from the foregoing literature review chapters that are particularly relevant to this study and specifically to the intermediary channel within insurance distribution. Each of these sub-topics will be presented and discussed in greater detail in the following chapters, but for the purpose of clarity each will be exposed in this section.

6.1 Emergent Sub-topics in Commitment

The literature review provides insights into significant findings in the area of commitment. These will be explored and expanded upon in the upcoming chapters detailing the outcome of the case study and the discussion. However, for the sake of clarity, the following themes are those that emerged from the commitment literature: (a) structural and financial bonds; (b) key aspects of relationships; (c) stakeholder perceptions; (d) insurance distribution and the Canadian marketplace; (e) affective and calculative forms of commitment. These themes are commonly examined and will be further discussed in the context of the following sub-topics through the development of the previously established propositions:

Personal definition**:** the individual belief and importance of commitment within relationships.

> ***Proposition 1:*** *An individual's personal definition of commitment and the importance they place upon it will influence their degrees of calculative and/or affective commitment.*

Forms of commitment**:** exploring the two main forms of commitment (i.e. affective and calculative) and understanding that the management of each type is different.

> ***Proposition 2:*** *Since calculative commitment results from deliberate evaluation on a cognitive level of the need for the relationship, it can be explained and measured through the use of transaction cost economics.*

Use of contracts: the relevance, significance and value that are placed upon written agreements and the elements contained within them.

> ***Proposition 3:*** *The use of contracts has the potential to deliver clarity and certainty in a relationship thus increasing calculative commitment (supported by transaction cost theory).*

Resources**:** insights into the results that are derived from how resources are allocated by each of the parties.

> ***Proposition 4:*** *The way in which resources are allocated within a relationship will provide an indication as to a party's level of calculative commitment.*

Communications**:** considering how the effectiveness and level of communication between parties can have an affect on the relationship.

> ***Proposition 5:*** *The effectiveness of the communication between parties has an impact upon commitment levels.*

***Conflict*:** how and how often disputes are managed on either side of a dyad.

> ***Proposition 6:*** *The level and history of conflict in the relationship, along with a party's reputation for fairness will have an impact upon commitment levels.*

***Opportunism*:** the impact of opportunistic behaviour upon relationships.

> ***Proposition 7:*** *The presence of opportunism will have a negative impact upon commitment levels.*

***Trust*:** gauging the influences of trust and how it can alter the strength of commitment.

> ***Proposition 8:*** *Trust has a negative relationship with calculative commitment and a positive relationship with affective commitment.*

***Dependence*:** examining how the dependence on the relationship of one party affects the durability of the overall relationship.

> ***Proposition 9:*** *Dependence has a positive relationship with calculative commitment and a negative relationship with affective commitment.*

***Asymmetry*:** considering how partners of unequal size and capacity perceive each other.

> ***Proposition 10:*** *The direction and perception of asymmetry in a relationship has an impact on commitment levels.*

As mentioned, these will be explored further in the upcoming chapters. In a similar fashion, the emergent sub-topics in transaction cost economics will be examined.

6.2 Emergent Sub-topics in Transaction Costs

The literature review also exposes significant matters involving transaction costs. These will also be examined in the upcoming chapters detailing the outcome of the case study and the discussion. The following themes are those that emerged from the transaction cost literature: (a) issues confronting and confounding firms; (b) major influences on transaction costs; (c) purposes and applications for analysis; (d) outsourcing decisions; (e) influence of transaction costs on networks. These themes are commonly examined and will be further discussed in the context of the following sub-topics through the development of the previously established propositions:

Safeguarding assets**:** considering the effect and value of attempts to mitigate opportunistic behaviour on the part of the counter-party.

> ***Proposition 11:*** *Firms will integrate vertically if a need exists to safeguard specific assets. This is particularly evident in make-or-buy decisions requiring increased levels of specific assets, thus requiring internal production versus outsourcing.*

Performance evaluation**:** examining how partners measure performance levels of relationship partners and subsequently interpret this information.

> ***Proposition 12:*** *A heightened quantity of behavioural uncertainty will correspondingly increase the costs of evaluating the performance of the relationship partners. Firms will attempt to mitigate their performance evaluation costs through a shift towards vertical integration.*

Governance structures**:** examining the value and validity of various forms of governance structures, including the components of contracts and agreements.

> ***Proposition 13:*** *Firms will gravitate towards either a hierarchical, market, or hybrid form of governance structure based upon the choice and selection of their partners, available monitoring techniques, and the design of incentives.*

Frequency of transactions**:** gauging how changes in transaction frequency bear a relationship to changes in commitment levels.

> ***Proposition 14:*** *Higher frequency levels provide an incentive for firms to consider a hierarchical governance structure since it would likely be easier to*

recover costs in this way for larger transactions of a similar type and in a similar region. Otherwise a market structure or hybrid form would be more suitable.

***Asset specificity*:** examining the results of varying the levels of investment in assets, etc. that are unique to a particular business arrangement or relationship.

Proposition 15: *Increases in investments in assets that have a high degree of specificity are positively correlated with levels of commitment.*

***Environmental uncertainty*:** assessing reactions to market conditions during periods of uncertainty.

Proposition 16: *The two types of environmental uncertainty have opposite impacts upon governance structures, i.e. unpredictability encourages companies to develop hierarchical structures whereas changeability creates the opposite result.*

***Behavioural uncertainty*:** considering changes in a partner's conduct and performance and its resultant impact upon commitment levels.

Proposition 17: *Actual or perceived behavioural uncertainty on the part of a dyad counterparty presents challenges with the monitoring and enforcement of contractual adherence and performance of exchange partners.*

***Outsourcing*:** exploring the impact of the choice to outsource elements of the supply chain.

Proposition 18: *It is necessary to balance both the quantifiable (transaction costs, revenues, expenses, etc.) and qualifiable (strategy, stability, etc.) considerations in order to determine whether to outsource or to gauge its effectiveness.*

***Levels of investment*:** comparing the degree to which each party allocates time, funds and other resources into a particular relationship.

> ***Proposition 19:*** *The nature and level of transaction-specific investments bears a positive relationship with levels of commitment.*

***External factors*:** assessing the influences on the firm of various external factors.

> ***Proposition 20:*** *If external (market) costs including enforcement, bargaining and information costs are high, firms gravitate toward undertaking activities internally. Alternatively the firms undertake these activities externally when those costs are comparatively lower.*

The foregoing topics will be utilized in support of applying the principles of transaction costs economics and commitment theories. The levels of commitment of each party will be assessed while recognizing that the durability of relationships can and does evolve over time. In addition, reactions to these changes by the counter-parties will be examined in the case study and discussion that follows.

6.3 Revisiting the Research Question

This study's objective is to increase the body of knowledge of commitment through exploratory case study research. As indicated, the primary research question will explore the utility of transaction cost economics theory as a tool in an effort to increase understanding of commitment and is lead by the following question:

> ***Does Transaction Cost Economics (TCE) explain the varying degrees of calculative commitment levels in relationships between insurers and brokers in the Canadian property and casualty insurance sector?***

The research design purposely selected three important stakeholder groups as the primary data source. These included insurance company executives and relationship managers from ING Canada along with property and casualty insurance brokerage owners and senior managers. It is recognized and acknowledged that other perspectives may be equally valid. For example, regulators, suppliers, and customers can and likely do have divergent opinions or perspectives on commitment. However, the limitations of a PhD dissertation precluded interviewing all stakeholders. Furthermore, it is argued that the opinions of the selected groups are essential in advancing the knowledge further in this field of study.

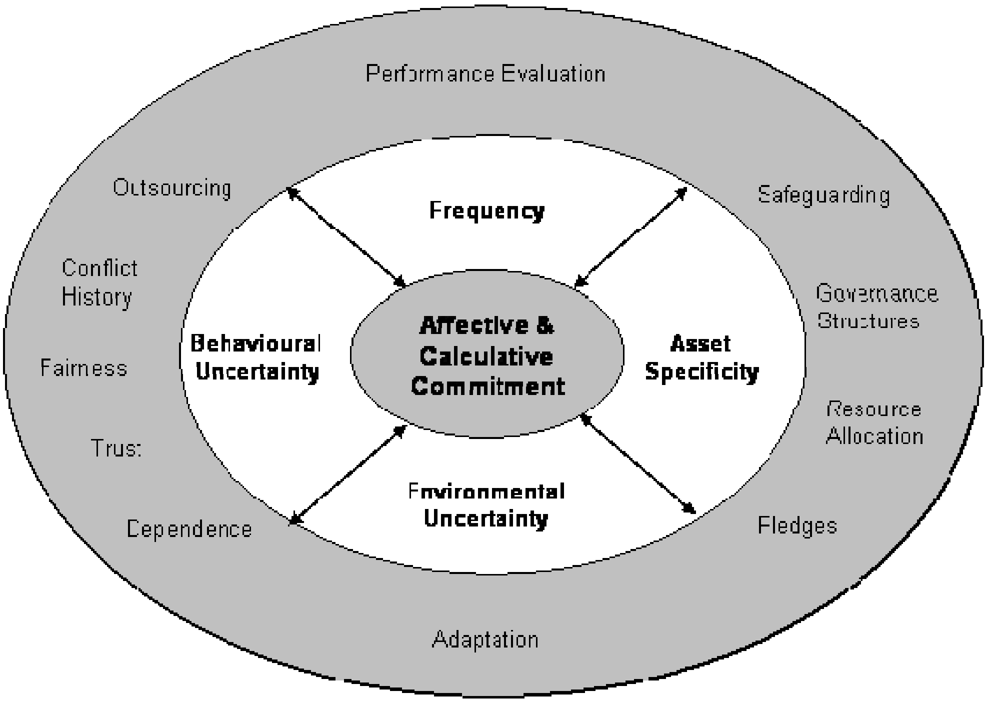
6.4 Introduction of the Conceptual Model and Theoretical Framework

Notwithstanding the countless influences that can impact commitment levels in a typical principal and agent relationship, the majority can be categorized into one (or a blend) of the previously named transaction cost factors. These include asset specificity, frequency, and behavioural and environmental uncertainty. The data in this study confirms that dyad members are committed in an affective and/or calculative way because of these drivers.

Each of the four factors has its impact in different ways on different people and at different times. Moreover, the factors influence each other. In the context of insurance distribution networks, a broker may sense a level of market upheaval (environmental uncertainty) and as a result some insurance companies begin to tighten their underwriting requirements and cancel low-volume broker contracts without notice (behavioural uncertainty). To protect and preserve his/her business, the broker reallocates some additional resources in favour of one particular insurer that is deemed to be willing to work collectively with the broker towards their mutual objectives (asset specificity). Thus the volume of new customers and premium income will increase in favour of that relationship versus other relationships (frequency). In this scenario, the broker has increased his/her commitment to that particular relationship in both an affective and calculative way. That is, the broker determined that a change was warranted because of external influences and felt compelled to re-direct business to a favoured supplier.

Potential scenarios depicting diverse contexts are as plentiful as the imagination can conjure up. In any event, each will contain a proportion of the transaction cost factors and will have some bearing upon one or both of the forms of commitment. To depict and summarize these conceptual scenarios, this study has drawn the key lessons and propositions which link the theories of transaction cost economics and commitment together. In so doing, it has lead to the development of the following model and framework entitled '*The Commitment Wheel.*' This model will assist in guiding the research and aid in addressing the primary research question of this thesis.

<u>Figure 1 – "The Commitment Wheel"</u>



Theoretically and graphically central to this model is commitment in its two forms, i.e. calculative and affective. The proportion of each is dependent upon the factors of transaction costs and the dyad members themselves. The study concludes although the calculative form is typically dominant, the affective form is normally present to varying degrees depending upon a particular context.

Surrounding the central hub of the *'Commitment Wheel'* are the four key factors or "tools" of transaction cost economics, i.e. asset specificity, frequency, and behavioural and environmental uncertainty. Any or all of these factors in combination will impact commitment in either of its forms. Conversely, they can be influenced by each other or by the form of commitment that is present. Without limiting the number of potential scenarios and combinations, one example could include a broker that observes market uncertainty and senses a level of unusual behaviour in one partner. To ensure the future of his/her own operation, the broker invests heavily in another insurer relationship which requires specific training and equipment for brokerage staff.

The placement on the wheel of the specific tools of transaction cost economics, i.e. frequency, asset specificity, and the uncertainty factors (behavioural and environmental) depict their close influences upon the particular forms of commitment. Specifically, it shows the close relationship between calculative commitment and asset specificity and frequency. Conversely, the close relationship between affective commitment and the two uncertainty factors is displayed. Alongside each of these factors in the outer concentric circle is a deliberate placement of each of the related themes and influences that were developed in this study.

Some scenarios are less deliberate yet upon reflection demonstrate commitment. This is evident when transaction frequency creeps up or down in terms of a particular dyad partner. If the staff members of a brokerage find it either easy or difficult to transact with a particular partner, the frequency will naturally adjust. This is also apparent if an insurer does not extend the benefit of the doubt to the brokerage in the event of borderline or dubious cases. The net effect is a reduction in affective commitment because of negative emotions entering the relationship. In addition, neither side is likely to make idiosyncratic investments in the relationship.

Around the outer ring of the *'Commitment Wheel'* are those building block categories of commitment and transaction cost economics that affect the individual factors closely.

Whereas they all may have effect on any factors, they are depicted adjacent to the one with the tightest linkage. For example, trust, dependence and opportunism are closely linked to behavioural uncertainty, while contracts and governance structures are closely linked to asset specificity.

The wheel displays the fact that while the four factors of transaction costs assist in explaining the origins of commitment, each of the factors can also impact other factors. They can stimulate commitment levels singularly or in tandem. Moreover, the two forms of commitment can influence behaviour or behaviours in the four factors of transaction costs. For example, a broker that is has been affectively committed to a particular insurer may be inclined to continuously invest in idiosyncratic investments in favour of that relationship.

6.5 The Way Forward

As previously discussed, the creation and development of theoretical frameworks such as the "Commitment Wheel" which incorporate theories and models from the literature can assist in focusing and binding the research (Huberman and Miles 2002). In the context of exploratory case studies, conceptual or theoretical frameworks may be less important (Hussey and Hussey 1997) or less clear in structure, however they can aid in arranging data collection while enabling exploration of a wide range of topics (Barnes 2001). The *"Commitment Wheel"* blends TCE and Commitment theories together while providing guidance in this study. In so doing, chapters 8 and 9 will investigate and discuss the utility of theoretical contributions from transaction cost theory, specifically frequency, asset specificity and uncertainty (both behavioural and environmental) and employ them as a tool in an effort to further understand the constructs of calculative and affective commitment. To accomplish this, an exploratory case study has been conducted. The methodology and method employed in this study will be exposed and discussed in the following chapter.

7 Methodology

7.1 Introduction

This section will describe and provide details of the methods and methodology forming the basis of this research endeavour. The initial segment of this chapter will consider the philosophical assumptions supporting the research, whereas the second segment will discuss the research methods in use. Finally, this chapter includes a description of the perspective and positioning of the subsequent interpretation and analysis of the research discoveries, and will address issues surrounding reliability, validity, and generalisations.

Management research methodologies have a fundamental basis in either a deductive or inductive philosophy (Easterby-Smith et al. 2002). Each of these philosophies has value. In particular, the inductive approach has an extensive history in management research (Gill and Johnson 1997). Not unlike other research within the social sciences, many are of the view that the span of management research requires more tools than those of a singularly deductive form, and that empirical research is necessary to ground theories with concrete substantiation (Eisenhardt 1989; Swamidass 1991). In addition, Tranfield and Starkey (1998) indicate there is agreement within this field that management research cannot function within a lone epistemological or ontological perspective. It is a fragmented and heterogeneous discipline (Whitley 1984; Tsoukas 1994), relying on theories, information and methods from other social science areas (Tranfield and Starkey 1998).

Easterby-Smith et al. (2002) suggest that the combination of the following three items give rise to a uniqueness or distinctiveness of management research, specifically;

- Multi-disciplinary tactics - the amount and usage of knowledge from other fields which researchers can integrate within current research;
- Concerns surrounding access - as key managers are inclined to be influential and in demand, they may be unwilling to provide access for research unless they perceive a corporate or individual reward or gain; and
- Consequences of a practical nature – managers (particularly senior managers or executives) have a reduced propensity to become engaged in the process unless the intended outcomes provide a potential opportunity for taking some type of real action or for the requirement to heed the practical consequences of the findings.

To provide a context for the research project, the following segment will identify the research questions and the objectives of this undertaking.

7.1.1 Research Question

With the use of exploratory case studies, this research will empirically examine principal and agent perceptions of commitment levels within broker/insurer dyads while using transaction cost considerations of asset specificity, frequency and uncertainty. In particular, the research will endeavour to make the following contribution to knowledge:

> ***Does Transaction Cost Economics (TCE) explain the varying degrees of calculative commitment levels in relationships between insurers and brokers in the Canadian property and casualty insurance sector?***

7.1.2 Research Objectives

In order to consider the foregoing research question, the following research sub-topics were identified from the literature review to guide the research. Specifically, they are:

- To explore the tool of TCE's asset specificity factor in commitment.
- To explore the tool of TCE's uncertainty (behavioural and environmental) factors in commitment.
- To explore the tool of TCE's frequency factor in commitment.
- Are there other factors that impact or influence transaction costs and/or commitment?

As noted, this research examines these questions and issues from the perspective of both insurers and brokers through exploratory case studies.

The existing academic literature contains a knowledge gap which, if identified, would provide a stronger link and could lead to refinements of transaction cost economics and a deeper understanding of the issues underlying commitment levels.

7.2 Methodology Section

Some academics have suggested that due to the failure to completely comprehend and properly consider and articulate the underlying philosophy as well as the ontological and epistemological foundation of research, a weakening of the findings in management research in the late 20th century, both in practice and in reporting has emerged (Alvesson and Deetz 2000). While considering the suitability of each research tradition for a particular project, both the objectives of the research and the researcher's epistemology are important considerations (Smith 1998). To address these concerns while avoiding the impact of these errors, the initial segment of this chapter will address the methodology of this research, positioning it within the '*qualitative*' and '*social constructionism'* philosophies. While doing so, the chapter will briefly describe alternative methodologies and constructs. Ultimately, this will present a justification for the choice of the research methods (discussed in the second section of this chapter), and will also provide the basis for the assessment of the impact of methodological assumptions and perspectives on the research project (Burrell and Morgan 1979).

7.3 Considering Method, Epistemology and Ontology

The following segment will open with a brief description of the underlying assumptions forming the philosophical foundation of modern research. In particular, this will ground the research in philosophies which address the nature of the reality under consideration (*ontology*) and how knowledge of that reality can best be acquired (*epistemology*).

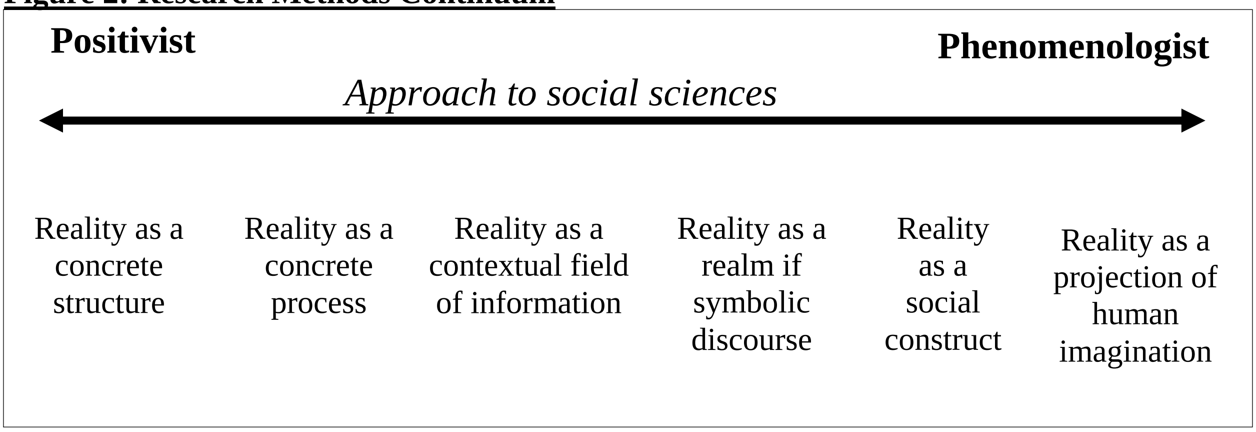
An awareness of the philosophical perspective forming the foundation for the research is essential since the selection is central to research design decisions. It is crucial as it leads directly to the selections of evidence deemed necessary as well as the data gathering and interpretation methods (Gill and Johnson 2002). Ultimately, this will provide an epistemological and ontological basis for addressing research questions (Hussey and Hussey 1997; Easterby-Smith et al. 2002).

7.3.1 Ontology Defined

The dictionary definition of ontology is *"the study of the nature of existence and being in the abstract"* (Webster 1988). Ontology basically involves a set of assumptions of what can be accepted to truly exist (Smith 1998; Schacter 2000). Throughout social science research an important distinction must be determined as to whether the world is ‘*external*’ and ‘*objective*’ or if it is ‘*socially constructed’* (based on the perspectives of mankind) (Hussey and Hussey 1997). These two contrasting views are commonly segmented into either a ‘*positivist*’ or ‘*interpretivist*’ ontology (Hussey and Hussey 1997). A recent addition of another distinct ontological characterization under the title of ‘*nominalism*’ is also occasionally utilized (Easterby-Smith et al. 2002).

There is common acceptance of an overlap between paradigms as illustrated in Figure 2. In this example, one may gravitate along the continuum and while doing so the assumptions and features of one category are slowly relaxed and progressively replaced by those of another (Hussey and Hussey 1997; Lincoln and Guba 2005).

Figure 2: Research Methods Continuum



Source: (Hussey and Hussey 1997, p.51); adapted from (Morgan and Smircich 1980, p.492)

7.3.2 Epistemology Defined

By definition, epistemology is the study of the nature of knowledge and justification, and it provides much of the justification for choice of a particular methodology (Schwandt 2001). An interpretivist (illustrated as a phenomenologist in Figure 2 above) recognizes that knowledge reflects the researcher’s individual objectives, experience, culture and history. This study presumes that because sense-making activities happen within the framework of these life experiences, knowledge is created and expanded through a social construction of the world (Weber 2004). Generally speaking, the epistemology of a qualitative researcher is constructivist and existential (non-determinist) (Stake 1995).

7.3.3 Contrasting Interpretivism and Positivism

Each of the research methods and methodologies contain different weaknesses and strengths. However, each does have value. They can each impart a different form of knowledge regarding the topic under examination. The final choice must be a reflection of existing knowledge about the topic being studied while taking into consideration the current objectives. Recognizing that each researcher will have their own individual preferences, the finest research will match preference against topic in order to use the right tool to obtain the desired results. Alvesson and Deetz argue:

> *"If we are to be consummate researchers, we need to have a deep understanding of the strengths and weaknesses of different research methods and data-analysis techniques. We also need to have a deep understanding of the different sorts of knowledge we obtain using different research methods." (Alvesson and Deetz 2000).*

Conversely, counter-arguments to this theoretical discussion have manifested. For example, Weber considers whether any substantive and practical differences are apparent between interpretivism and positivism, thus suggesting that the differences may be situated more in the choice of research method as opposed to any significant difference at a meta-theoretical level (Weber 2004).

7.3.4 Positivism

Positivism, or the '*scientific method*' as it has also been referred to, dominating natural science research in the Western world, was widely adapted by social scientists over most of the 20th century (Gill and Johnson 1997; White 1999). Positivists suggest the following:

- The world exists externally;
- The world's properties should be examined through objective methods;
- Only observable knowledge is valid;
- Positivists generally search for facts based upon specified correlations and associations among a set of variables (Easterby-Smith et al. 2002).

Positivism emphasises ideals such as reliability, objectivity, and generalization.

Traditionally, it has been generally acknowledged that research with its basis in this paradigm including within the social sciences has been quite successful in expanding the world's knowledge (Weber 2004). In spite of this consensus, by the late 1960's researchers started to criticise the realist assumptions of value-neutral and value-free concepts which underpin the positivist approach in the social sciences. The critics contended that positivistic methods remove contexts from meanings during the process of building quantified measures of phenomena (Lincoln and Guba 2005). Specifically, quantitative measures will often exclude the research subject's meanings and interpretations from research data, and replace them with external meanings (e.g. existing theories, researcher's perspectives, etc.) and interpretations on that data. Gill and Johnson submit that interpretative approaches reject positivism's basic understanding of human action and behaviour, arguing:

> *"…unlike animals or physical objects, human beings are able to attach meaning to events and phenomena that surround them, and from these interpretations and perceptions select courses of meaningful action which they are able to reflect upon and monitor."* (Gill and Johnson 1997, p.133).

Notably, the concerns surrounding the logic of positivism when applied to social science research is nothing new. In the 1940s, Karl Popper along with a number of sociologists including Max Weber, Alfred Schultz, and Carl Becher lobbied for greater use of field-based research by the middle of the 20th century (Denzin and Lincoln 1994). It is now a fairly common belief that this criticism of positivism's quantitative hypothesis-testing style gave rise to an increased use of qualitative methods (Denzin and Lincoln 1994; Alvesson and Deetz 2000).

7.3.5 Social Constructionism and Interpretivism

The goal of an interpretative approach is to understand how people evaluate and make sense of their world, with human action being perceived as having a purpose and being meaningful rather than being determined externally by social structures, drives, the environment or economic stimuli (Gill and Johnson 1997). It is *"….the study of how things appear to people – how people experience the world"* (Gill and Johnson 1997, p.133). Stake suggests that interpretation is a significant component to all research (Stake 1995).

It is frequently suggested that positivism differs from interpretive research by not setting out to seek causal explanations of behaviour. Instead, interpretive research improves and enriches our notion and understanding of action through exploring the meanings, feelings, beliefs, and attitudes of humans in social contexts (White and Hollingsworth 1999). Moreover, interpretive research does not predetermine independent and dependent variables, but concentrates on the broad complexity of human sense-making as situations emerge (Weber 2004).

The development of social constructivism has been attributed to the works of Berger and Luckmann (1966), Watzlawick (1984) and Shotter (1993). Within the interpretive realm, researchers perceive the world to be socially constructed, and the researcher should interact with participants in order to comprehend their social constructions. Through the observations available within the medium of language one can perceive how people make sense of the outside world via the sharing of their experiences with others (Easterby-Smith 2002).

The general purpose of interpretive research is to appreciate and accept a phenomenon by way of the connotations people may allocate to it, to clarify particular elements, to categorize a phenomenon through how it may be perceived by participants in a prescribed set of circumstances. Interpretive researchers begin with the assumption that access to reality (socially constructed or otherwise) is optimally achieved through social constructions including consciousness, language, and shared meanings. It can generate social-scientific reports of social life by expanding upon the meanings and concepts used by the subjects themselves. To simplify this and situate it within a management research context, it could be restated that interpretation is the study of a '*socially constructed'* management development, or tool, or reaction (Radnor 2004). Within the social realm this typically translates into the collection of information with depth. This is achieved with the use of qualitative and inductive methods including discussions, interviews, and participant observation. The output is represented from the perspective of the research subject(s).

In management studies, interpretivism focuses upon the meanings that executives, managers and employees place on the values, rules, and norms that provide guidance to the organisation. In addition, it examines the influence of other cultural phenomena on the members of the organisation which aids in defining their overall reality (White 1999).

Some criticisms of interpretivism have recently emerged, including;

- The tenets of interpretivism (e.g., '*reason*', '*intention*', and '*motive*') submit that capable social subjects are involved in an ongoing and continuous monitoring of their conduct; specifically, the prevalent form of daily social activity is rather routine and effectively lacking motivation;
- Many and varying (perhaps competing) accounts of a focal social subject's actions require exploration in order to provide clarification and validation, likely due to external influences. Simply stated, there is more to reality than that which is expressed in the dialogue of subjects;
- Failure to recognize the role of existing social structures that both produce and condition social interaction, in particular the divisions of interest and power relationships – subjects may be either partially or completely unaware of those structures; and
- It is inherently conservative as it neglects the potential structures of conflict in a society, and consequently the possible sources of social change (Radnor 2004).

7.4 The Researcher's Role under Social Constructionism

The basis and nature of interpretivist study calls for the researchers themselves to in effect become instruments of measurement. The researcher will interpret (measure) the phenomena being observed. This activity of striving for clear comprehension will impact and is impacted by their individual life-worlds. Because of this, interpretive researchers must understand that their research actions have an effect upon the research objects they are examining (Weber 2004). They also need to appreciate that the knowledge they develop will typically be a reflection of their individual objectives, culture, experience, history, etc. They embark on a path to purposively constitute and advance knowledge. Put simply, they attempt to make sense of the world, acknowledging that their sense-making actions take place within the structure of their individual life-worlds and the distinct goals they may have for their work. Ultimately, knowledge is developed through social construction of the world (Weber 2004). Final research output in qualitative case studies are expected to resemble a '*thick description*', an '*experiential understanding*', and/or a '*multiple reality*'. The journey toward seeking complex meaning or explanation cannot be simply designed in or captured retrospectively (Denzin and Lincoln 1994). Apparently, it requires ongoing and continuous attention (Stake 1995).

If the research is of a pure phenomenological variety and is seeking to describe rather than explain, it should commence from a perspective free from hypotheses or preconceptions (Husserl 1970; Lester 1999). This however is not the epistemological positioning of this study. Instead, as more recent humanist and feminist researchers suggest, the ability of embarking without any preconceptions or bias is unrealistic (Lofland 2002). Rather, they stress the importance of clarifying how interpretations and meanings have been attached to findings, not to mention ensuring that the researcher is visible in the framework of the research as an interested and subjective participant as opposed to an impartial and detached observer (Smith 1998). While conducting this research project, particularly within my own professional field, I have taken a reflective stance throughout the study. It is important to remain vigilant due to the relationships that exist between researcher, the research questions, and the nature of the inquiry (Radnor 2002). Moreover, it is necessary to maintain a heightened awareness of the notions of reflection on as well as in action which reverberates clearly with the subject matter in each of the interviews (Stake 1995).

7.5 Critical Management Research Concept

Another significant theory in the current ontological and epistemological literature is '*critical theory*', or more specifically when applied to management studies, '*critical management research*' (Alvesson and Deetz 2000). Critical management research provides a critique of the restrictions and inadequacies of current management research techniques and practices in both conventional qualitative and quantitative methods (Alvesson and Deetz 2000). This theory, generally speaking, has its basis on a couple of assumptions, neither of which are applicable or under examination within this study. Whereas critical theories were considered for this study, they were ultimately discarded in favour of a social constructionist concept as explained earlier.

7.6 Qualitative Research

Into the late part of the 20th century, standard research was pre-occupied with positivistic or neo-positivistic theory, with research techniques concentrating on principles of: '*neutrality*', '*objectivity*', '*methods*', '*scientific procedure*', '*quantification*', '*generalisation*', '*replicability*', and '*development of laws*' (Alvesson 1996; Easterby-Smith et al. 2002). This trend led to a preponderance of quantitative research methods, the upshot of which provided considerably less attention being allocated to describing, counting, and coding events, usually at the risk and expense of understanding *why* particular actions may have occurred (Denzin and Lincoln 2003b).

A methodological evolution manifested towards the latter three decades of the 20th century, and thus qualitative research had emerged as a field or method of inquiry and examination in its own right (Huberman and Miles 2002; Denzin and Lincoln 2003a). Qualitative research crosses multiple disciplines, fields of study and subject matter. It involves a relatively complex, interconnected vocabulary, with its own set of perceptions and assumptions. Its epistemology can be traced to many of the customs associated with positivism, post-positivism, foundationalism, post-structuralism, as well as the many qualitative research perspectives and methods associated with interpretive and cultural research (Denzin and Lincoln 2003b). Denzin and Lincoln (2003) submit this generic definition:

> *"Qualitative research is a situated activity that locates the observer in the world. It consists of a set of interpretive, material practices that make the world visible… involves an interpretive, naturalistic approach to the world. This means that qualitative researchers study things in the natural settings, attempting to make sense of, or to interpret, phenomena in terms of the meaning people bring to them."* (Denzin and Lincoln 2003b, p.5).

Qualitative investigation is an all-encompassing term for the range of philosophical orientations in interpretive research. Although it is suggested that qualitative methods lack the statistical precision of quantitative research, this is offset by its exploration in greater depth of the underlying '*how*' or '*why*' questions (Easterby-Smith et al. 2002, p.3). Studies of a qualitative nature appear in many forms and are characterized by several methods including: '*phenomenological*', '*ethnographic*', '*case studies*', '*hermeneutic*', '*naturalistic*', and '*holistic studies*' (Stake 1995). A significant aspect of qualitative research (unlike quantitative examination with its pre-specified intent) is that it is much more evolutionary. It commences with a preliminary problem statement, design, interview questions, etc. and subsequent interpretations are developed throughout the sequence of the research which may lead to enhancements in the research itself.

Research within disciplines such as management has extensive records of qualitative methodologies. Three examples include: (a) Taylor's qualitative analysis of labour; (b) the Hawthorne experiments regarding motivation; and (c) the surfacing of case study as an integral management research approach (Easterby-Smith et al. 2002; Yin 2003).

To summarize, as Bell (1999) recommends, researchers should contemplate during the design phase the nature and variety of data necessary to support their research questions (Bell 1999). This will help guide the selection of research methods, including choices between the quantitative and qualitative concepts (Payne 1951; Hussey and Hussey 1997). Once chosen, these decisions are awkward to change however they may be supplemented with other methods (Robson 1993).

7.7 Summary of Methodology

Easterby-Smith et al. (2002) have indicated that both the selection of research topic and the choice of method will involve philosophical options concerning that which is important and how best to observe and analyse a topic. This particular research undertaking will be based on a qualitative or interpretivist model. The decision is a based on three fundamental characteristics of the research topic and in particular the study is exploratory and explanatory in nature and seeks to inform the reader about the topic. Ultimately, the desired output is socially (not abstractly or naturally) constructed and therefore requires a qualitative sense to be comprehended. Essentially, it is a study containing the perceptions about a topic from a specific group of individuals. The study involves gauging individual perceptions, attitudes, and motivators which are anticipated to be rather diverse, bearing a close relationship to their different situations, thus signifying the attainment of the richness and depth that qualitative data imparts in understanding this phenomenon.

Finally, this study fosters and extends an ontological posture expressing that reality and human activity are not exclusive (Hussey and Hussey 1997). Epistemologically, from a qualitative and interpretative research standpoint this study will attain the '*thick data*' essential in understanding the viewpoint and inspiration of insurers and brokers in building commitment in their relationships, while empirically examining the influence and impact of transaction cost economics within this field.

The foregoing section has defined the fundamental methodological philosophies and grounding of this research endeavour. The following section will provide an analysis focusing on the choice of research methods.

7.8 Method Section

There is considerable debate that the choice of a suitable and correct methodology depends upon the characteristics of the research being contemplated and the precise research questions being addressed (Robson 1993; Yin 1994; Gill and Johnson 1997). The following section will commence with a brief discussion of the major research alternatives, highlighting their comparative strengths and weaknesses for this study. Arguments in support of the application of the case study methodology as being the most appropriate for this study are put forth, followed by an analysis of the practices used in accomplishing the field research. The section closes with an examination pertaining to the analysis and theory-building approaches undertaken while evaluating the data.

7.8.1 Purpose of the Research – Descriptive, Exploratory, or Hypotheses

Beyond a rigorous literature review, research should originate by ascertaining its overall nature or goal: descriptive, exploratory, or hypothesis testing (Hussey and Hussey 1997). Its relevance may vary from resolving theoretical matters capable of wide generalisation (as indicated earlier, this is difficult to attain in qualitative research), to solving unique problems of a practical nature in one location (Gill and Johnson 1997).

Exploratory research investigates situations for which little may be known, with the objective being to attain preliminary insight within a discipline or topic in order to develop a fundamental framework, model or theory. An exploratory case study commonly resembles a pilot study; in particular the research design and data collection methods ordinarily are not pre-determined (Scholz and Tietje 2002). Case studies were traditionally perceived as the ‘*method of choice’* in exploratory research (Platt 1992b; Yin 2003).

After a primary level comprehension of a topic is acquired, descriptive research is an appropriate method of ascertaining and/or describing characteristics, variables and influences. Within the case study method, a descriptive case study varies from an exploratory study in that it uses a reference theory or a model that leads the data collection and case description (Scholz and Tietje 2002). The goal is to understand the significance of a phenomenon, distribution and frequency (Pinsonneault and Kraemer 1993).

The fine-tuning of original models and frameworks resulting from effective descriptive research establishes the potential for testable hypotheses. From this stage, the work can be sub-divided into either of two categories, i.e. analytical study or predictive research. Analytical study reaches beyond describing variables to analysing the underlying ‘how’ or ‘why’ in a given situation, whereas predictive research attempts to forecast repetitions. Generally speaking, hypothesis-testing in management endeavours to resolve problems immediately at hand. This is an essential feature for gaining managerial access for research.

Though it is tautological, the research should acquire data with a sufficient level of detail to meet the intent of the research (Barnes 2001), whether that is explanatory, descriptive, or testing in nature (Meredith et al. 1989).

Recognizing the existence of a limited amount of academic knowledge for the topic under consideration, it is submitted that this research undertaking is exploratory research. However, the use of a transaction cost model as possible base model or entry point in classifying the research findings suggests that some key elements of descriptive research must also be considered.

7.8.2 Research Methods - Comparisons and Selections

Even highly abstract and theoretical research involves the use of data. Researchers must take into account the type and nature of data necessary to support their research questions during the design phase (Bell 1999). Philosophic research methodologies require fundamental choices between the quantitative and qualitative style and this will drive the choice of research methods (Payne 1951; Hussey and Hussey 1997). Once made, these choices are awkward to change, although other methods may be used to supplement the approach (Robson 1993).

Robson (1993) makes reference to three '*real world*' approaches for the collection of empirical research data: '*experiment*', '*survey*' and '*case study*'. There are advantages and disadvantages to each approach. The ultimate choice of strategy is based on:

1) The type of research question;
2) Control over subject behaviour, and;
3) Timing - contemporary versus historical phenomena (Yin 1994).

The method chosen for this research is the '*case study*'. The following section presents the justification and rationale for this decision. This is followed by an in-depth examination of the case study method.

7.9 The Use of Case Studies in Research

Case studies have an extensive history in management research projects, including Taylor's analysis of workers and the Hawthorne experiments. It has grown in significance as academics recognize that management cannot be divided into discrete, independent functions, but instead must be examined holistically. They can focus on a wide array of topics including: a single event, an individual, a neighbourhood or a group, or even a decision, a programme, or an innovation (Robson 1993; Silverman 2001). A case study is an *"empirical inquiry that investigates a contemporary phenomenon within some real-life context*" (Yin 2003, p.13). It is particularly suited for *"... research areas for which existing theory seems inadequate*." (Eisenhardt 1989, p.548). It is *"… a strategy to be preferred when circumstances and research problems are appropriate…"* (Platt 1992a, p.46). Case studies have been utilized for studies within many disciplines (Mitchell 1983; Robson 1993), most notably within the social sciences (Silverman 2001) and management research (Gill and Johnson 1997; Barnes 2001).

Yin has been broadly recognized as having advanced the case study methodology as a specialized research strategy. It is particularly suitable for descriptive, exploratory, or explanatory studies (Yin 1981; Yin 1984). However, other academic authors have provided significant contributions including Stake (1995), Eisenhardt (1989) and Hamel et al. (1993) (Easterby-Smith et al. 2002). By virtue of their intensive character, case studies tend to focus on a single or a limited number of events, and may include various levels of data collection and analysis (Robson 1993; Yin 1994). They may also include both quantitative and qualitative data (Hussey and Hussey 1997).

Whereas this research project will assume a standpoint similar to Yin's, other researchers have espoused a diverse focus on case studies. In particular, Stake perceives case studies as being more closely aligned to '*action research'* (Stake 1995; Stake 2003), thus it will have less concern with validity and greater concern with the opportunity for the researcher to foster change within the research setting (Easterby-Smith et al. 2002).

Ordinarily, a case study would be the preferred strategy when; (a) '*how*' and '*why*' questions are put forth; (b) when the examiner has limited (if any) control over events, and; (c) when the focus is aimed at a current phenomenon within a real-life context. It is particularly useful in dealing with time-dependent relationships (Strauss 1987). The case study method is *"… a strategy to be preferred when circumstances and research problems are appropriate…"* (Platt 1992a, p.46). Case studies have traditionally been seen as appropriate for exploratory studies (Platt 1992a; Robson 1993; Yin 1994; Gummesson 2000), which is the core function of this research.

Yin (2003) re-asserts the position that cases studies are suitable for descriptive, exploratory, or explanatory (causal) research. Generally, exploratory case studies are carried out when not much is known about the focal topic and with the objective being to obtain initial insights into a field or subject matter while developing a preliminary model or framework (Yin 1981; Platt 1992a; Robson 1993; Yin 2003). They also function to map or illustrate the research limits, territories, or boundaries, and can provide guidelines for the advancement of further research questions and hypotheses. Exploratory case studies have historically been acknowledged as being appropriate for exploratory research (Platt 1992a; Robson 1993; Yin 1994; Gummesson 2000; Yin 2003).

Not unlike all research methods, exploratory case studies require a purpose as well as the principles and criterion by which the exploration will be judged as successful or not. A case study should originate with a sound research design which sets out; *"the logical model of proof that will allow the research to draw inferences concerning causal relations among the variables."* (Nachmias and Nachmias 1992, p.77-78).

Just as in any investigation, a research project must begin with a concrete plan, i.e. the case study design. Yin (1994) outlines five elements to be included in the research design:

1) The research question;
2) The propositions (similar to hypotheses) or purpose for exploratory work;
3) The unit(s) of analysis;
4) A logic model, and;
5) The criteria for interpreting findings.

Researchers should create a conceptual framework prior to embarking on the case study in order to clarify *"the main features (aspects, dimension, factors, and/or variables) of a case study and the presumed relationships"* (Robson 1993, p.148-150). Such research constructs, possibly *a priori*, underpin the accurate advancement of essential measurement tools (Eisenhardt 1989). Robson indicates, *"any failure to carry out the pre-specified design… is often lethal as far as interpretation is concerned."* (Robson 1993, p.150). It is noteworthy that continuous refinements and enhancements to the case study design are still appropriate throughout the course of research, which includes refining the research question itself (Mintzberg 1973; Hussey and Hussey 1997).

For this exploratory research project, whereby current research instruments are limited and theory and concepts are rudimentary, the richness of the qualitative data emerging from the project will enable the research output to explore concepts in the outer world. It will help facilitate capabilities for seeking patterns that are insightful, interesting and offer the possibility of offering predictive, explanatory power or comprehension (Meredith 1998). Similar to all research methods, exploratory case studies require a prior intention and stated criteria by which the exploration will be judged a success. These were included in the case study design.

Following the acquisition of a preliminary understanding of this particular subject area, other case studies (such as the descriptive variety) would have greater opportunity for ascertaining and describing characteristics, variables, and influences of various issues. The goal will subsequently be to comprehend the relevance of a phenomenon, plus its distribution and frequency (Pinsonneault and Kraemer 1993). The result will likely be further research, including explanatory case studies examining causal effects, including the development of '*logic models*' (Tellis 1997; Yin 2003).

The foregoing discussion has provided the rationale for the choice of an exploratory case study as the favoured method in this instance for linking the research methodology with the acquisition of qualitative research data. Moreover, the selection of an exploratory case study is upheld by:

- The apparent absence of academic research exploring these issues from the perspective of a key participant; and
- The richness and depth of the judgment of key individuals in extending a greater knowledge of the underlying issue(s);
- The opportunity for transaction cost economics to assist in exploring commitment levels within various inter-organizational relationships.

7.10 Description of this Case Study

The research methodology will be comprised of three case studies within the property and casualty (P&C) insurance distribution network of ING Canada, specifically in the Province of Ontario. Whereas a larger number of case studies would be desirable, limitations of time and resources precluded expansion of this research into additional brokerages, departments, and geographic regions. This remains an area for future research, as briefly discussed in the "Conclusion" chapter.

The choice of these particular cases emerged from a combination of the Literature Review, a pilot case, discussion with interested parties, and is bounded by practical research issues addressed below. The overall research has been designed to collect the perspectives and insights from several insurance brokerage principals and senior managers, along with their corporate relationship management counterparts at ING Canada, and reviewed by senior executives of the insurer.

7.10.1 The Pilot Case

Upon finalizing the choice to engage in a qualitative study involving interviews, it was determined that it would be appropriate to conduct a pilot study in order to assist in shaping the questions and topics for the three subsequent case studies. The pilot study involved four internal ING Canada relationship managers and five brokerage principals.

The pilot case also confirmed the belief that brokerages and insurers have significantly different perspectives of the elements of commitment. A number of the participants commented on the insurance company's various programs intended to build and sustain commitment levels between the organizations, and compared them to the final delivery and implementation by staff. This was also discussed in "*Services Marketing, Integrating Customer Focus Across the Firm*" (Zeithaml et al 2003). Furthermore, the pilot case findings confirmed the importance of understanding the perspectives of the internal relationship managers. The findings of the pilot study were rolled into and reported in the individual case studies.

7.10.2 The Three Case Studies

The first case, the '*Brokerage Principal Case Study'*, interviews owners and senior managers of P&C brokerages of varying sizes across Ontario, including those situated in both urban and rural locations. The second, the '*Regional Vice President/Branch Manager (Corporate) Case Study'*, incorporates the views of ING Canada management and staff which are directly involved and responsible for the maintenance of the inter-organizational relationships between the insurer and the brokerages. The third case puts forth the perspectives of key members of '*ING Canada's Executive Team'*. Within the research design, acquiring evidence from the first two case studies will allow for cross-case analysis (Yin 2003b). This also assists the executives in providing their post-case perspectives for the third case study.

The ‘*P&C Brokerage Case*’ was chosen as it is considered to be a difficult functional area to measure (Stein 2001). Examining one of the more difficult areas may reveal, in a clearer manner, management issues underlying ‘commitment’. The pilot case confirms this proposition, as indicated by a pilot case interviewee, “*Insurance brokerages, by their very nature, have got to be one of the hardest businesses in which to try to measure commitment*.” (personal communication 2001).

The third case study, i.e. the ‘*Post-Case*’, included eight interviews with highly senior executives of ING Canada, including the CEO, various division Presidents, etc. in order to capture the perspectives at the highest levels of the insurance company which also happens to be the largest property and casualty insurer in Canada. These interviews were intentionally scheduled relatively late in the interview phase, thus permitting the achievement of two goals. Primarily, the aim was to capture the viewpoints of executives at the highest level of the insurance industry. Secondly, to be enabled to include discussion of the preliminary research findings during the interviews, thus providing a key validation for the case study results. Eight interviews were considered adequate to test the research findings, and included representatives from almost all functional areas.

Each case study was chosen based upon its own merit. However, by choosing to undertake these three specific case studies, as well as supporting validity (Yin 2003a), it supports the meeting of the overall research objectives of analysing the perspectives and insights from both sides of the counterparts, i.e. agent versus principal viewpoints, and between different levels of senior company management.

There are some notable advantages and disadvantages in this study of having the author/interviewer also serve as an employee of ING Canada. In terms of advantages, the participants in these case studies are extremely busy people thus making it difficult to gain access to them for interviews. But by being personally known to each of them access was greatly improved and an environment of cooperation and openness was evident. Also, due to their busyness they appeared to appreciate the fact that the interviewer was familiar with industry jargon thus allowing a quicker pace in the discussions. However, among the disadvantages it would not be unreasonable for a reader of this study to question the impact of the relationship between the interviewer and the respondents because of the employment arrangement. A conclusion on the part of the reader could be made that respondents would be less than frank or alternatively may desire to disguise their responses with personal or political messages intended to be taken back to others within the other case studies. This is understandable, but it is unlikely because of the interviewer's knowledge of the respondent's integrity, frankness and professionalism.

Table 5: Case Selection Logic

Property & Casualty Insurance Brokerage Principal Case • Brokerages are difficult to measure and assess due to their very nature, i.e. independent businesses, diverse goals, regions, time horizons, etc.; • Principals are at different stages in the evolution of their businesses, some of contemplating retirement and succession planning, others are pursuing growth strategies, and still others are primarily concerned with retention levels and operational excellence; • Firms may contain either a sole owner or have one or more partners; • ING Canada is the largest manufacturer of property & casualty insurance products in Canada (6,700 employees in 50 offices across Canada in 2006), and it tends to be represented by the majority of brokers in Ontario, Canada; • This case study will permit the examination of one region/province in Canada in depth; • Includes both urban brokers (24) as well as rural/small town brokerage operations (22) in order to analyse for differences; • Typical brokerages generate between \$3 and \$7 million (CAD) in premium income annually, and operate with 8 to 14 staff members. This is mentioned for illustrative purposes only, recognizing that some locations are outside of this range.
Regional Vice President/Branch Manager (Corporate-Relationship) Case Study • Interviewing those (11) ING Canada management staff members charged with the responsibility of maintaining relationships between the insurer and the brokers will provide the views of the broker principal's corporate counterpart on the same set of commitment and transaction cost issues addressed in the P&C Brokerage Case Study; • Senior regional management are responsible for the relationship, including assurance of product acceptance, delivery of training, encouragement of increased volume, etc. They are measured on a style of a balanced scorecard; • The delivery of corporate programs may come with the risk of miscommunication and incorrect and unintended implementation issues. The perspective of the brokerage's corporate counterparts is necessary in ascertaining variances of understanding and accepting different initiatives.
Cross-Case Analysis • After the analysis of the separate case studies, the data will be merged in order to undertake analysis of similarities and differences between the independent brokers and their corporate relationship counterparts; • Explore whether transaction cost-related commitment issues arise; • Seek differences in perspectives, requirements, priorities, etc.
Post-Case – (ING Canada Senior Executives) • A series of eight interviews with ING Canada senior executives, including the CEO and divisional Presidents and Senior Vice Presidents will be used to communicate the earlier findings, gain their feedback and responses, and validate research findings; • The combined datasets permit comparisons of perceptions between senior executives, relationship managers, and brokers.

The timeframe necessary to conduct interviews, approximately 12 months, permitted close to a population rather than sample approach for the corporate & post cases, but simply a representative sample of the population for the brokerage case. This has the benefit of removing questions and issues associated with sample selection related to those population-based cases, and serves to increase the generalisability of the research findings. Naturally, some participants were unable or unwilling to participate. The number of refusals is noted in Table 6, and was surprisingly small and the reasons given generally were vacations and tight schedules.

Table 6: Case Study Interview Statistics

Case Study	No. of Interviews (refusals)	Location	Dates
Brokerage Case	24 + 22 = 46 (4)	Ontario (urban & rural) Brokerage Offices	September 2004 to November 2005
Corporate Case	11 (2)	Various ING Canada branch offices across Ontario	November 2005 to September 2006
Post-Case	8 (1)	ING Canada Head Office (Toronto, Ontario, Canada)	September 2006 to December 2006

After the in-case analysis is complete, the data is re-grouped and analysed for 'independent broker' and 'corporate' perspectives, contrasted against 'executive' level, as well as other groupings to extract the maximum value from the research output. For example, in comparing and contrasting broker/corporate viewpoints, the 'broker' case study is compared separately to the 'executive', as is the 'corporate'.

7.10.3 Field Research

The primary data collection consisted of semi-structured interviews, typically forty-five minutes to one hour in length, capturing that which the participants consider significant, and framing those issues in their terms (Meredith et al. 1989). Interviews can:
"yield rich insights into people's experiences, opinions, aspirations. Interviews, within management research, are essential sources of case study information" (Yin 1994, p.84). When done effectively, interviewees are permitted to speak for themselves,

offering verifiable facts along with their insights, opinions, and other contextual information (Robson 1993). This is particularly suitable for sensitive areas of research (Easterby-Smith et al. 2002).

The independent insurance brokerage distribution system in Canada, in its current state, firmly requires the use of personal interviews, as participants wish to be heard and passionately feel that qualifying and clarifying their responses (beyond a survey) is necessary due to the numerous changes ongoing in the industry. The sense is that a survey at this juncture would not capture the essence of the true state of affairs (pilot case study 2003).

7.10.4 Identification of Potential Interviewees

In order to increase reliability and validity, a census, not a sampling approach was employed. Therefore, each broker principal within a specific category (Integrated Financial Services) and each appropriate ING Canada manager or executive responsible for the relevant relationship management was approached to be interviewed. The names and titles of the individual brokers, managers, and executives were acquired from the ING Canada database, and corroborated with the Registered Insurance Brokers of Ontario, as well as matching against organization charts, personal knowledge, and the ‘snowball’ techniques of asking each interviewee for the names of other appropriate individuals whom the researcher should contact.

Once identified, each participant was sent an email requesting an interview. This also included a brief description and purpose of the research. Copies of these items are included as *Appendix B*. After approximately one week from the point of the initial contact, a telephone discussion followed requesting and confirming their participation.

Appendix A contains the Master Interview List, including a description and titles of interview participants. In addition, the list contains details regarding the small number of participants declining to be interviewed, and the steps taken to address and/or compensate for the loss of that data to this study.

Recent studies of executive workloads (Corneil et al. 2002) document that executives are increasingly busy, with tight deadlines and greater demands. It is held, but cannot be proven, that access was improved through the researcher's credentials as a long serving industry member. Furthermore, familiarity with the industry regulations, language and culture of the Canadian financial services industry enabled the researcher to put forward relevant questions, probe and influence the course of discussion into constructive areas, and challenge participants into revealing and explaining their perceptions more fully.

7.10.5 The Interview Guide

Building upon the findings from the Literature Review and the pilot case, as well as internal ING Canada documents and communiqués, and incorporating techniques on questionnaire design widely imparted in literature (Payne 1951; Fink 1995; Gill and Johnson 1997; Hussey and Hussey 1997; Smith 1998), a semi-structured or open-ended interview template was created in order to capture that which brokers and ING managers consider significant, and to frame those issues in their terms (Meredith et al. 1989). Because of the exploratory character of this study, open-ended questions support

Burgess's recommendation to probe deeply, solicit unreserved responses, and thereby expose formerly hidden details thus opening new lines of enquiry (Burgess 1982).

Within the individual research topics, questions were created to engage the participant in a discussion, while the interview guide provided a structured flow to the discussion through each research topic. Both the open-ended style of the questions and the guide itself provided flexibility for participants to address each topic and question in sequence, while allowing interviews to flow in diverse ways. The relatively small number of questions and topics provided an atmosphere in which the researcher could be highly adaptable. Throughout the course of each interview, all research interests were covered, with no significance or impact noted in the order of the coverage of these research items.

The use of the aforementioned *Interview Guide* was intended to ensure a steady flow of rich and insightful perspectives from the respondents. The guide was not a script but more of a track to provide guidance as to a listing of topical issues to delve into. The open-ended approach to questioning the individuals allowed them to expand on areas they had more to say about and vice versa. They were not asked leading questions in any form nor were they directed to a particular viewpoint. The guide was helpful in ensuring the majority of the topical areas were touched upon regardless of the quality and quantity of their responses. Because of this there is a reduced chance of bias toward responding in a manner that would be perceived as receiving the approval of the interviewer. The respondents were given the opportunity to express themselves freely and they did so.

An important component of the pilot case included the testing of the initial questionnaire on a small sample of similar participants. They provided direct feedback and input on the instrument itself, ultimately leading to minor adjustments and refinements.

The Interview Guide is included in *Appendix C*.

7.10.6 Field Procedures

The primary data collection strategy for this study consisted of 72 semi-structured one-hour interviews, i.e. 50 for the broker case and 22 for the corporate case.

The interviews were conducted between September 2004 and December 2006, primarily at the interviewee's office. The geographic boundary of the study was simply the Province of Ontario/Canada, and participants were involved from cities and towns throughout the province. The extensive distance involved was a contributor to the lengthy timeframe necessary to complete the full complement of interviews. In addition, the participants' frequently busy schedules required protracted lead times in order to successfully book, and often reschedule the interviews.

An offer of confidentially and anonymity is commonly extended to participants in order to achieve a higher level of honesty and accuracy at a reduced risk to participants (Folkman 2000). At the commencement of each interview, participants were extended the offer of a guarantee that no attribution of comments would appear in the study's written report and publications. It is interesting to note that a significant number of participants declined this offer, but this had no impact on the study. In each case, either a tape recorder or a video recorder was used to record the interviews in order to ensure the accuracy of the subsequent transcripts, and to enable the interviewer to focus on the discussion (Fink 1995). A written summary and analysis was completed immediately following each interview in order to capture additional details, interpretations, thoughts, and other related information (Radnor 2002). Participant confidentiality was secured and managed mainly by codifying the identity of interviewees and segregating the interview contents and identities in separate files. Each of these items was stored in secure environments.

Following the recommendations of Yin (2003a), a case study protocol was developed for this study. The intent of the protocol was to outline and document the case study research. Utilizing a case study protocol enhances reliability and is essential for multiple-case research design, as in this study. In addition, this protocol incorporates the research questions, logic and processes employed during the research itself, leading to improved construct validity (Yin 2003a). The documentation also includes the scheme for the collection and analysis of the data garnered during the course of the study, as well as listing each of the administrative components of this study.

As an added feature, a case study database was maintained during the course of the research. The contents of the database included the following elements: raw material (e.g. interview transcripts, field notes, documentation obtained throughout the data collection, and survey items); codified data; coding scheme; memos, communiqués, and various other analytic items. An extract from this database is included as Appendix D.

7.11 Ethics

Historically, both professional and religious organisations have developed ethics guidelines to direct their constituents in their actions and behaviours (e.g. Canadian Medical Association 1995). However, the topic of ethics within the context of social research has become a heightened area of interest (Frankfort-Nachmias 1996; Bell 1999; Bulmer 2001). By its very definition, social research involves *"the study of human society and of individual relations in and to society"* (Webster 1988). Moreover, the field of research ethics can be specifically defined as: *"(in research)…ethics are usually taken as referring to general principles of what one ought to do"* (Robson 1993, p. 30). Social science *"researchers are constantly interacting with a complex and demanding socio-political environment that influences their research decisions…"* (Frankfort-Nachmias 1996, p.76). Thus, it has become incumbent upon ethical researchers to take into account and deal with the research choices which may impact any (or all) of the research participants, other researchers, users of the research, and society itself (Radnor 2002).

Individual research participants have the right to know and provide their consent for their involvement and participation in research activities (Bulmer 2001). Whereas codes of ethics typically state that consent must be informed and be comprehensible for it to be meaningful, but most will also acknowledge that exceptions can be justified under certain conditions (Sieber 1992). For this particular research, informed consent was acquired through the use of an advance letter of introduction describing the project along with a subsequent follow-up telephone call. The nature of the participant's voluntary involvement was evident from the use of this approach and there was never any attempt made to apply pressure or persuade reluctant participants.

Numerous ethical issues can arise surrounding the power relationship existing between researchers and their participants, however Easterby-Smith et al. indicate that many of these issues are often mitigated or absent in management research (Easterby-Smith et al. 2002). In this thesis undertaking, the voluntary nature of participating was not a concern since individuals were free to decline their participation when contacted. Also, for the sake of clarity, the researcher/interviewer is ‘organizationally' one level (or more) below the executive level of the company. Therefore, no implicit organizational pressure to participate or threat/consequences of non-participation could be implied. In terms of the brokerage principal interviews, the researcher has only an indirect working relationship with them, as the interviewer is typically involved in the distribution of other financial products and services other than property and casualty insurance.

Within the Canadian context, one particularly relevant framework for identifying and addressing the ethical issues germane to this research are the principles identified by the ‘*Canadian Tri-Council Policy Statement: Ethical Conduct for Research Involving Humans’* (Social Sciences and Humanities Research Council of Canada 1998). The principles relate chiefly to issues of human dignity, free and informed consent, and confidentiality and privacy. As mentioned, each of these issues was addressed by the research design.

To summarize, ethics involves guidelines of conduct and can have an impact on all research decisions (Bulmer 2001). This study has endeavoured to identify ethical considerations and issues and has undertaken proactive steps to address them.

7.12 Secondary Data

In support of the interviews mentioned earlier, this thesis also employed documentary analysis in order to determine the appropriate application of transaction cost economics in the insurance distribution channel, all with a view to ascertaining the various levels of commitment that can exist. The bulk of this analysis occurred during the literature review stage of the study.

Documentation analysis within a case study setting has been well developed by earlier sociologists including Marx, Durkheim and Weber (Macdonald 2001). Unfortunately, there has not been a strong tradition of documentary analysis within management research (Gummesson 2000; Barnes 2001). Not unlike other methodologies, evaluation of historical and documentary evidence must address these important aspects: credibility, authenticity, representativeness and meaning to generate sound research findings (Scott 1990).

Documentary evidence must first exist in order to undertake documentary analysis, and access to this evidence must be acquired. The documentation for this study was accessed from several sources, including (but not limited to) ING Canada records and files, individual brokerage files, industry associations and self-regulatory organizations (SROs), and governments at both the National and Provincial levels, among other sources and bodies. Some of the relevant industry groups include:

- RIBO (Registered Insurance Brokers of Ontario)
- IBAO (Insurance Brokers Association of Ontario)
- CLHIA (Canadian Life & Health Insurers Association)
- OSC (Ontario Securities Commission)

- FSCO (Financial Securities Commission of Ontario)

Analysis of the evidence and supporting documentation resulting from the literature review, the pilot case, and that which manifested during the research itself was integrated into the global research findings.

7.13 Analysis Strategies

> *"Data analysis consists of examining, categorizing, tabulating, or otherwise recombining the evidence to address the initial propositions of a study."* (Yin 2003a).

It is necessary for researchers to create a conceptual framework in advance of commencing a case study in order to distinguish *"the main features (aspects, dimensions, factors, variables) of a case study and the presumed relationships"* (Robson 1993, p.148-150). A framework such as this will set out *"the logical model of proof that will allow the research to draw inferences concerning causal relations among the variables."* (Nachmias and Nachmias 1992, p.77-78). Eisenhardt has indicated that without a sound research design and focus, it is easy to become overwhelmed by the volume of data (Eisenhardt 1989).

The occurrence of analysis and method are simultaneous during case study research. Within qualitative case studies, researchers are occupied with data interpretation from the outset through to the conclusion of the research process (Radnor 2002), thus they become intimately familiar with their data. Concurrently, they examine the dataset from a distance endeavouring to reveal patterns and explanations. In particular, the data collection and analysis occur as an iterative or cyclical process, whereby researchers move between the literature and field data and back to the literature again. Yin (2003) suggests that by including a general analytic strategy within a case study the researcher can be guided in the decisions regarding what will be analyzed and for what purpose.

Yin (2003b) provides a clear-cut procedural approach for case studies, stressing field protocols, case study questions, and a guide for the final report. Yin submits that such steps signify a key tactic in enhancing the reliability of the research. Likewise, Stake (1995) has presented a series of essential steps for utilizing the case method, including posing research questions, assembling and analysing data, and ultimate interpretation. A distinguishing feature is Stakes' bias in favour of a more naturalistic approach, the significance of the philosophical foundations of case method, and the importance of the portrayal of the contexts.

Trochim (1989) contemplates pattern-matching as being one of the most advantageous strategies for analysis. This form of logic contrasts a predicted pattern with an empirical one. Internal validity is improved when the patterns coincide. If the case study is an explanatory type, the patterns might be related to the independent or dependent variables. If it is a descriptive study, the predicted pattern must be specified in advance of the data collection. Yin (2003b) prescribes the use of rival explanations for pattern-matching when there are independent variables involved. This requires the creation of rival theoretical propositions, but by and large the concern remains the extent to which a pattern matches the predicted one. In comparison, exploratory research typically focuses on pattern-finding as opposed to pattern-matching.

Yin imparts other potentially viable analytic techniques including: time-series analysis and explanation-building. By and large, the analysis should rely upon the theoretical propositions that brought about the case study. In situations whereby theoretical propositions are absent, the researcher should outline a descriptive framework throughout which the case study has been organized.

Likewise, Miles and Huberman have also submitted alternative analytic techniques for analysis of qualitative research data. These include the usage of arrays to present the data, developing displays, charting the frequency of events, ordering the information, among other methods. It is necessary to complete this in such as way that it will not bias the results (Miles and Huberman 1994).

Explanation-building is regarded as a style of pattern-matching whereby the analysis of the case study is accomplished by developing an explanation of the case. Clearly, this is suitable for an explanatory case study, but it is also appropriate for exploratory cases as well, serving as an integral component of a hypothesis-generating process. Explanation-building is an iterative procedure that starts with a theoretical statement, subsequently refines it, revises the proposition, and repeats these steps. The literature advises of the challenges with this technique including the potential for a diminishing focus.

7.13.1 Data Analysis in this Research

Although it is a tautology, groundwork for the data analysis does not start at the moment the researcher initially pulls together all of the interviews and other research data. In practicality, it started at the time the researcher chose a research area and developed the appropriate questions. At that moment, the researcher has chosen components from among a vast, complex, and interconnected universe as being ‘of interest’. Subsequently, after the choice has been finalized, the researcher will develop a filter through which to consider the literature, methodology, and other research facets.

Similarly, this research expands and extends upon an assumption that transaction cost economics theory will have several useful and interesting conclusions in explaining the commitment phenomenon between principals and agents in the Canadian insurance sector. Throughout this research process, specific interview questions (included in *Appendix C*) were developed and refined in order to explore the topic in question.

The specific data analysis strategy employed for this research, as described by Radnor (2002) is discussed in below in Table 7.

Table 7: Radnor's Steps for Qualitative Analysis

Analysis Steps	Description
Topic Ordering	▪ Choosing major topics by way of returning to the original research questions and objectives ▪ Re-evaluating interview questions in order to identify other topics
Constructing the Categories	▪ Construct categories inside of each topic ▪ Categories could be either explicit (indicated by interviewees) or implicit (constructed by the researcher) ▪ Categories can also develop out of reviewing the interview transcripts and/or the pilot case ▪ Category construction could also take into account the a-priori question responses which were included in the interview template
Reading for Content	▪ Coding of content of each interview by category/topic ▪ Could be electronic (as in this research) or manual format ▪ Potentially new categories might appear (or be discarded) during this step
Completing the Coded Sheets	▪ Classify on the reference documents (one for each category/topic) all relevant material in the interview transcripts related to the topic
Generating Coded Transcripts	▪ Merge the applicable statements from individual interview transcripts into a distinct document for each category (data fragments may surface in more than one topic) ▪ The statements/fragments should be self-explanatory and make sense when viewed out of context ▪ As indicated, extracts/fragments can be included in more than one category as they are not mutually exclusive ▪ New categories can materialize throughout this stage by way of examining any residual 'non-categorised' transcript text
Analysis to Interpret the Data	▪ Shift in favour of interpreting the data/categories as opposed to a description of the data ▪ Study and analyse sub-sets of the extracted data in search of different meanings ▪ Write statements that support and summarise the data within the categories and topics, thus leading to an enhanced comprehension of what is occurring ▪ Choose specific and relevant quotes in order to ground the research findings in the data

Source: (Radnor 2002)

At the completion of the descriptive/interpretive stage of the analysis, the researcher is enabled to comprehend (with new insight and clarity) the discoveries under the different categories and topics. Nevertheless, this is the point at which the serious work of interpretation really starts (Radnor 2002). By way of exploration and by searching for patterns and relationships, as well as making connections across categories and topics, the researcher can endeavour to develop abstract conceptualizations of the phenomena being examined.

Whereas the aforementioned stresses a systematic approach or protocol for data analysis, it should be emphasized that a systematic approach in itself does not provide knowledge of the data. A common example illustrating this point is the use of descriptive statistics in quantitative research. The outcome of the analysis is extremely dependent upon the objectivity, experience, and diligence of the researcher in mining the knowledge enclosed within the data. All the same, qualitative procedures will aid in administering a comprehensive exploration of the research data.

7.13.2 Case Study Analysis in this Research

Within this research project, the qualitative data analysis was steered by descriptions of qualitative research approaches and techniques developed over the past forty years (Glaser and Strauss 1967; Miles and Huberman 1994; Silverman 2001; Radnor 2002). The individual cases were initially analyzed separately while focusing on the specifics and complexities of each case (Stake 1995; Eisenhardt 1989). As Yin (2003a) pointed out, each case study consisted of a '*whole*' study, whereby convergent evidence was sought regarding the facts and conclusions. The data analysis followed by analyzing within-case data while searching for cross-case patterns (Eisenhardt 1989). This subsequently permitted the unique details and patterns of each case to manifest, which was examined for within the other cases, thus leading to improved reliability and validity.

There were three tactics employed in searching for cross-case patterns. Initially, the dimensions suggested by theory were identified and intra-group similarities and differences were identified. Secondly, the cases were compared and similarities and differences listed. Finally, to triangulate, the data collected from different sources and of different types were compared. As the patterns were corroborated by evidence and data from other sources, the findings were well-grounded (Eisenhardt 1989).

The methods utilized in this study followed the aforementioned steps suggested by Radnor (2002). As indicated earlier, every interview was taped with a recording device in order to capture the responses of the participants. Upon completing the transcription of each interview, coding methods as demonstrated in *Appendix D* were utilized in order to establish themes and patterns. In order to further establish relationships between responses and propositions, the transcriptions of each response was cut out of the page with scissors and placed upon a board. Connected and related thoughts were linked with thread in order to visually depict relationships within and between items. The responses were then re-analysed and re-ordered until such time as no further discernable patterns manifested. This process aided in establishing and confirming the presence of patterns and also suggested strong support for the propositions.

Table 8: Data Collection Methods

Data Collection Method	Source	Anticipated Contribution and Analytic Approach
Pilot Case Interviews	Exploratory interviews with 6 typical brokerage principals and 6 ING Canada executives and senior managers	- Focus & confirm the research questions and topic - Case study approach & techniques
Document Review and Analysis	Review & analysis of transaction cost economics-based (TCE) and commitment literature, published and unpublished reports, corporate policies and guidelines, and both internal and published documentation	- ING Canada and insurance industry documents & academic literature examined for elements and the evolution of TCE and commitment; information sources; discussion of limitations & supports for TCE - Impact on decision-making processes - Used to supplement & substantiate evidence from other sources (Yin 1994:81)
Interviews	Semi-structured, open-ended interviews with 46 brokerage principals and 11 senior managers of ING Canada (57 participants in total for both cases)	- Two case studies - Principal data collection instrument - Qualitative, interpretative analysis (Radnor 2002)
Secondary Analysis of Surveys	- Financial & non-financial statements of brokerages -Industry-wide employee surveys (1999 through 2005) - Internal documentation, records, performance data, etc. generated at ING Canada (2001-2005)	-Triangulation with other data sources
Post Case	Interviews with eight of the most senior executives of ING Canada	- Final case study - Garner executive perspective - Validate research findings

In summation, when appropriately done qualitative case study research has explanatory and enlightening capacity about the situation under review. It can simultaneously examine various observations revealed within the area of study while enhancing the comprehension of issues within the parameters of the research area (Silverman 2001). The literature provides guidance with several areas in which the researcher should carefully review to make certain the analysis is of the highest quality, including:

1. demonstrate that all relevant evidence has been considered and examined;
2. all rival explanations have been addressed;
3. the analysis addressed the chief aspects of the case study, and;

4. the researcher’s wisdom, knowledge, skill and experience are leveraged to the greatest extent possible in order to enhance the study.

Each of these areas was addressed within this study. The author was, and remains, exclusively accountable for the organizing and analysis of the data, and also for the development of the case studies discussed in this dissertation.

7.14 Reliability, Validity and Generalisability

Whereas all research methodologies are concerned with validity and reliability, successful research data and findings must be ‘*consistent*’, ‘*objective*’, ‘*unbiased*’, and ‘*unambiguous*’ (Mann 1985). A judicious research design, incorporating ethical considerations, should arrive at valid and verifiable conclusions. This would be within the context of a given societal model. Methodology literature typically emphasizes the maximisation of four aspects of the research: ‘*internal validity*’, ‘*external validity*’, ‘*construct validity*’, and ‘*reliability*’ (Yin 1994; Easterby-Smith et al. 2002). Triangulation, as described in the following section, is often used as an integral source of reliability in exploratory studies (Eisenhardt 1989).

In case studies, reliability is not measured on its replicability but instead on whether the process of interpretation is adequately transparent and logical such that others can comprehend. Subsequently, in theory, the same processes conducted on the data should then lead to the same results. Silverman (2001) provides four principles to guard against ‘anecdotalism’, including:

- Refutability – use ‘*Popperian*’ logic to search for examples which might disconfirm current beliefs;

- Constant comparison – follows the principles of grounded theory in seeking new cases and settings which will extend the current theory;
- Comprehensive data treatment – conducting an initial analysis leading to theories and conclusions; and
- Tabulations – heightened rigour in organising data, and suggesting that frequency of observation extracts knowledge from the source data.

Reliability will be augmented through the creation and evolution of a case study protocol (Yin 1994). This should encompass the fundamental documentation necessary to provide the researcher with the much needed focus, can assist in organizing the interviews, and will ascertain that the chain of evidence is meticulously documented. (Stuart et al. 2002). If a sound research design and focus is absent, the volume of data can become overwhelming (Eisenhardt 1989).

Generalizability, commonly referred to as external validity within quantitative research, considers the applicability of research findings to other, similar situations. There currently exists pervasive agreement that generalizability, specifically in the sense of validating or discovering universal laws applicable to all similar conditions, is neither an attainable or even useful objective of qualitative research (Schofield 2002). On the other hand, qualitative researchers lack a shared impression of the application of generalizability within qualitative studies. Despite the fact that certain qualitative researchers have vigorously rejected generalizability as a goal (Denzin 1984) others have advanced differing arguments, advocating that the proper criterion is analytical instead of statistical generalization (Yin 2003a). Guba and Lincoln make a case for '*fittingness*' – whether the particular qualitative research conclusions are useful in understanding other areas, yet Stake (1995) submits that generalizability surrounds '*naturalistic generalization'* – i.e. building tacit and explicit knowledge to enhance understanding of other similar conditions. Other more recent methods include '*meta-ethnography*, *qualitative-comparative'* method (Ragin 1987), and Schofield's '*what is*, *what may be*, *what could be'* model (Schofield 2002).

Table 9 below, summarises how this research addressed the issues of reliability and validity.

Table 9: Case Study Validity and Reliability Strategies

Tests	Case Study Tactic	Research Phase	Action Taken in this Research
Construct Validity	Use of multiple sources of evidence	Data collection	Use of interviews, documentary evidence and physical artefacts
	Establish chain of evidence	Data collection	Interview data both taped and transcribed in real time; multiple evidence sources entered into customised object-oriented database
	Have key informants review draft case study report	Composition	One conference paper and one journal article based on case studies reviewed by key informants before publication
Internal Validity	Do pattern matching	Data analysis	Patterns identified across cases
	Do explanation building	Data analysis	Some causal links identified
	Do time series analysis	Data analysis	Not performed in this research, but under consideration as part of follow-up work
	Do logic models	Data analysis	Not performed- requires time series data
External Validity (Generalize)	Use rival theories within single cases	Research design	Not used because of exploratory nature of research and lack of existing theory
	Use replication logic in multiple-case studies	Research design	Multiple cases investigated using replication logic
Reliability	Use case study protocol	Data collection	Same data collection procedure followed for each case; consistent set of initial questions used in each interview
	Develop case study database	Data collection	Interview transcripts, other notes and links to online and physical artefacts entered into database

Source: (Yin 1998)

Contained in the research design, the third case study functioned to validate the interpreted findings through eight interviews with the most senior executive of ING Canada. This was accomplished by presenting and discussing the research findings individually with them, and the provisional theories which had emerged from the study until that moment with these interviewees. This provided an opportunity to rebut or acknowledge the case study findings, plus it provided a forum for discussion on any issues deemed of significance to each individual, thus increasing confidence in the research findings.

7.15 Triangulation

Within the qualitative research field, including exploratory research (Eisenhardt 1989) and qualitative case studies, a crucial aspect of validation is triangulation (Yin 2003a). Denzin refers to triangulation as: *"the combination of methodologies in the study of the same phenomenon."* (Denzin 1978, p.297). The necessity for triangulation surfaces due to the ethical requirement to confirm the validity of the processes. Stake (1995) indicates that triangulation functions to ensure accuracy and take into account alternative explanations. Triangulation heightens the certainty that observed differences are in fact grounded in the data as opposed to the method, with any limitations of a particular technique compensated by way of the strengths in another (Todd 1979).

Triangulation may happen at several different levels. Denzin (1984) identified four forms of triangulation: '*investigator, data, methodological, and triangulation of theories.'* Easterby-Smith, Thorpe and Lowe (2002) remark on each of these definitions in the following ways:

1. *Data source triangulation* – whereby the researcher determines if the data remains the same in different conditions and contexts;
2. *Investigator triangulation* -- several investigators examine the same phenomena;
3. *Theory triangulation* -- investigators with differing perspectives interpret the same results; and
4. *Methodological triangulation* -- one approach is followed by another, thus increasing confidence in the interpretation (Easterby-Smith et al. 2002, p.146).

Table 10 provides details as to how these concepts were applied within this study.

Documentary analysis is one particular method available for triangulation (Denzin 1978). As Yin indicates, *"the most important use of documents is to corroborate and augment evidence from other sources"* (Yin 1994, p.81). The research design incorporated in this study was developed from an analysis of internal (ING Canada and brokerage) documents, along with those found in the literature review, as well as government and self-regulatory organization information, and other industry reports and documents. These were gathered in advance of and throughout the field research phase. Each of these sources provided strength to the research findings through triangulation.

Table 10: Triangulation (Applied Within this Research Project)

Triangulation	Research Response
Data	Census (not sample) of senior executives within post case Large (representative) sample in other cases Incorporates differing perspectives from across the organisation Multiple data sources
Investigator	Not applicable – one researcher only
Methodological	Analysis of secondary survey analysis Use of Pilot and Post Case strategy Document analysis
Triangulation of Theories	Use of Transaction Cost Economics theory to explain case findings Commitment Theory Principal/Agent Theory

Considering the dynamic nature of the financial services industry in Canada, as well as the political context of government, it is necessary to verify the accuracy of interviewees' statements in discussing their management issues (Hammersley 1998). The research design of this study does include secondary analysis of existing survey data, including the 2003 and 2005 ING Canada Employee Survey and 2004 ING

Canada Broker Survey. These survey findings will be utilized to validate research findings through triangulation.

7.16 Building Theories

"Nothing is as practical as a good theory." (Lewin 1945)

Gilbert has suggested that a theory *"highlights and explains something that one would otherwise not see, or would find puzzling. Often, it is an answer to a 'Why?' question."* (Gilbert 2001, p.17). Acknowledging that the development of a theory is a fundamental objective of research (Eisenhardt 1989; Swamidass 1991; Hussey and Hussey 1997; Meredith 1998), Gill and Johnson note that while:

> *"the terms 'theory' and 'hypothesis' are often used interchangeably, in its narrowest sense a theory is a network of hypotheses advanced so as to conceptualize and explain a particular social or natural phenomenon."*
> (Gill and Johnson 1997, p.26).

Traditionally, theory has been developed by blending observations from relevant literature, common sense and experience. By examination of the literature for existing theory(s), researchers detect facets that are *"ambiguous, deficient or contradictory"* (Handfield and Melnyk 1998, p.313), even when the body of knowledge is inadequately assembled (Stuart et al. 2002). Theory-building is not only challenging, but it also takes time (Eisenhardt 1989).

Phenomenological research is especially compatible with exploratory studies and theory development. As Mintzberg has indicated:

> *"Theory building seems to require rich description, the richness that comes from anecdotes. We uncover all kinds of relationships in our hard data, but it is only through the use of the soft data that we are able to explain them."*(Mintzberg 1979, p.587).

In order to support such an interpretivist perception that theory stems from observations, qualitative data analysis generally begins with descriptive observations that relate the state of the actors, acts, activities, events, goals, objects, space, time, and feeling dimensions. The description will situate the qualitative narrative record of noteworthy events occurring during the study. This record might also contain focused observations on particular elements of interest, thus leading to an explanatory array of concepts (Robson 1993). Others have affirmed that: *"a qualitative understanding of the quantified factors is still required for theory to be accepted…"* (Meredith 1998, p.442).

As is the case for all forms of research, advanced selection of potential constructs from the relevant literature can influence and provide focus for the primary research design in theory-building. Researchers can subsequently integrate into their research instruments measures to consider these constructs. If the constructs later prove valuable during the research, *"the researcher then has a firm empirical grounding for the emergent theory"* (Eisenhardt 1989, p.536).

7.16.1 Theory-Building from Case Studies

> *"Case research has consistently been one of the most powerful research methods in operations management, particularly in the development of new theory."*
>
> (Voss et al. 2002, p.195).

Eisenhardt (1989), while integrating earlier works (Glaser and Strauss 1967; Yin 1984; Miles and Huberman 1994; Yin 1994), debates that the case study method is valid for uncovering new theories, yet warns of the chance that theory generated inductively (while empirically valid) might neglect to attend to larger challenges. Ultimately, it might lack generalisation capacity (Eisenhardt 1989). Despite this, Yin submits that: *"case studies, like experiments, are generalisable to theoretical propositions and not to populations or universes"* (Yin 1994, p.10).

Gill and Johnson have suggested that theory-building from case studies is quite appropriate in the early phases of investigation of a subject area, and also when a new perception is required (Gill and Johnson 1997). Whereas it is utilized in many areas, it is quite commonly used in operations management studies (McCutcheon and Meredith 1993; Handfield and Melnyk 1998).

The advancement of theoretical frameworks, consisting of a collection of models and theories from the relevant literature, assists to *'focus and bound'* the data (Miles and Huberman 1994; Barnes 2001). In exploratory case studies, theoretical frameworks may not be as important (Hussey and Hussey 1997), or may not be as clear in their structure. However, they do offer a structure for data collection while allowing exploration of a wide variety of topics (Barnes 2001).

A genuine aspect of case research, particularly in theory-building, surrounds the researcher's capacity to adjust interview questions, as well as adding cases to the study in order to examine emergent topics or to respond to unforeseen opportunities (Eisenhardt 1989; Beach et al. 2001). An important component is the preservation of that which Yin considers a '*chain of evidence'*, with explicit citation of specific bits of evidence at each stage of the study. These include the collection of data, both within-case and cross-case analysis, the overall findings, and the conclusion (Yin 1981).

The chief objective of this research is two-fold. Initially, it is to explore the applicability of transaction cost economics on commitment levels within principal and agent insurance distribution in the Canadian property and casualty insurance industry. The second objective is to detect alternative models, refinements or sub-models which explain the impact of transaction costs from the perspective of senior insurance industry executives and managers.

7.17 Summary of the Methodology Chapter

As previously indicated, the choice of research methodology should be driven by the research question under examination (Hussey and Hussey 1997), which in turn will drive the choice of methods. This preceding chapter has justified the choice of the methodological standpoint as developed in a qualitative interpretist approach. It has identified the specific methodology assumed in accomplishing this exploratory research.

The methodology used is a qualitative approach and the method is a case study. Handfield and Melynk (1998) suggest that such '*exploratory theory-building'*, or alternatively confirmation of transaction cost economics theory, are appropriate for the case study method (Handfield and Melnyk 1998, p.320-339; Stuart et al. 2002).

This research case study analysis will explore the transaction cost economics theory in order to understand key industry participants' reactions to factors affecting commitment levels. Ultimately, this will serve to validate or disprove this theory, with the potential for refinements in the theory or the identification of new theory(s) which are a closer match for the reported industry participants' behaviour in endeavouring to enhance commitment levels. It is anticipated that sub-theories will identify conditions which support and those which obstruct the continuum of commitment levels in the Canadian insurance intermediary distribution channel.

It is hereby submitted that this study is appropriately grounded in methodologies and methods, and it is suitably positioned to make a contribution to knowledge within this field. Recognizing that it is beyond the requirements of a PhD dissertation, it is further suggested that this study has an opportunity to make a practical contribution to the insurance sector's management. Within management research, the latter is crucial in obtaining access to senior managers and executives as they may otherwise choose not to participate (Easterby-Smith et al. 2002).

8 Case Study – Interviews

This chapter will present the findings uncovered during interviews with the three stakeholder groups, i.e. broker principals and senior managers, ING relationship managers, and ING Canada senior managers. Linkages to key elements of *"The Commitment Wheel"* are evident and are used to categorize aspects of the theories while they are applied to the interview process.

The presentation of the interviews is structured in such a way as to provide an immediate comparison of the perspectives of the three groups. Each topical area will provide a selection of representative responses for each group where relevant rather than presenting three separate case studies. The intent is to demonstrate and pinpoint areas where the viewpoints of the groups are similar and also where the perspectives differ.

The case studies analyzed sixty-five interviews ranging in length from forty-five to seventy-five minutes. These were broken down as follows: 46 interviews with brokers and/or brokerage management, eleven interviews with ING Canada relationship managers, and eight ING Canada executives. Separate transcription, coding, and analysis were conducted independently between the three separate groups, although the same interview guide was utilized in order to remain focussed upon the key subject areas.

The findings of the interviews will further explore the propositions that were developed during the literature review. To recall these propositions and themes they are re-presented below:

8.1 Application of the Principles of Transaction Costs & Commitment

1. Measurement of commitment levels by the counterparty
2. Fluidity of commitment levels within the industry
3. Asymmetry resentment
4. Behavioural reactions to changes in commitment levels

For ease of readability, all direct quotes from the case study interviews will be in *italics.* While direct quotes are attributed to a particular interview, unless specifically noted to the contrary quotes have been selected as being representative of underlying themes, opinions and/or comments emanating from multiple interviews. In addition, to preserve the anonymity of the participants while maintaining an appropriate classification system, each respondent has been assigned a unique identification number. This code follows each of the selected responses. The system is as follows:

BPU-1 to BPU-24 = Urban brokerage participants (owners and senior managers)

BPR-25 to BPR-46 = Rural brokerage participants (owners and senior managers)

RM-1 to RM-11 = ING Canada relationship managers (RVPs and RBMs)

EX-1 to EX-8 = ING Canada executives

8.2 Commitment

8.2.1 Personal Definition of Respondents & Importance

Proposition 1: *An individual's personal definition of commitment and the importance they place upon it will influence their degrees of calculative and/or affective commitment.*

Each of the respondents stressed the importance of commitment to these relationships, both the commitment of the counter-party and that of themselves. Although they recognized the fact that individual circumstances may change, they discussed that commitment to the relationship was essential for the mutual success of each party and that the concept should not be taken lightly.

- *I enter into these arrangements for the long term. I hope that the other side is thinking the same way (BPU22);*
- *What's the use giving until it hurts, and there is nothing coming back the other way? It's a two-way street (BPR40);*
- *We're in it for the long term. We expect the brokers know this and that they are too (RM5);*
- *As a publicly-traded insurance company, we guard our reputation and public image. We cannot even let rumours emerge that we are not committed to this business, or to a particular distribution channel, or to a specific relationship. We take this matter of commitment seriously and defend vigorously if it is called into question. We also expect this of our partners. If commitment wanes or dissipates, we investigate (EX2).*

8.2.2 Affective and Calculative Commitment

> ***Proposition 2:*** *Since calculative commitment results from deliberate evaluation on a cognitive level of the need for the relationship, it can be explained and measured through the use of transaction cost economics.*

One current belief suggests that commitment is an affective state of mind which an individual or partner has regarding a counterpart. This is referred to as "affective commitment" and it is evident whereby an individual desires to forge a linkage with another because of shared values, a likeness or commonality, or they identify closely with them (Morgan and Hunt 1994). In this sense, affective commitment is regarded as an emotional attachment to the relationship. Alternatively, the other category of commitment tends to be more behavioural than the affective form. This second category is classified as “calculative commitment” and results from deliberate evaluation on a cognitive level of the need for the relationship. It takes into account whether or not there is value in maintaining the relationship with the counterpart. This is conducted through the assessment of the pros and cons, costs, investments, inputs and outputs (Morgan and Hunt 1994).

- *It’s a balancing act. I feel close to some insurance companies and the people that work there, but I don’t feel good about investing further in that particular contract because I don’t like their products, or pricing, or whatever. Something holds me back. On the other hand, there are some companies that look great on paper. You know, they have the right products at the right prices, good systems, and everything. But I can’t stand them on a personal level. Something holds me back again. I think the companies need both. Good people skills in order to make our relationship feel right and they need good products and systems in place. I like to see both (BPU-16);*
- *Sometimes I lean more towards my gut feel. I link more towards the people I trust and like dealing with. The company can have all the right stuff, but I trust my instincts (BPR-34);*
- *Business is business. I have enough friends and I am not looking for new ones. I want an insurance company to be there with the right mix of stuff like technology and pricing, and do what they say they are going to do. I don’t have*

to socialize with them. They just have to do their part for me to be a success, because I'll do my part (BPR-41);

- *Each broker and their staff are unique. We have to be prepared to deal with them in the way that makes them comfortable and shows that we are open for their business. Some want to feel they are close to us, person-to-person, and others are strictly dollars and cents and want the latest and greatest operating solutions out there. We have to be prepared to step up and meet these individual needs. But first we have to understand what those individual needs are (RM-10);*
- *A large part of our commitment to the brokers is demonstrated in assisting them in being successful and providing them an opportunity to demonstrate their commitment to us. This is conducted in several ways, either through their words or actions. By communicating regularly with us, meeting with us, and providing us with input affords us the chance to get closer with them and gain an understanding of who they are. These forums can be costly, but their value is immeasurable and hopefully demonstrates that we are keen to listen and learn. The brokers' actions are observable if they take these opportunities and dialogue with us in a non-adversarial way. As well, if we see concrete actions unfold such as more premium directed our way, or an improvement in the risks they send us, or if they invest in our systems, programs, technology, or whichever that will enhance their business for our mutual benefit (EX-1).*

8.2.3 Contractual Terms and Pledges

Proposition 3: *The use of contracts has the potential to deliver clarity and certainty in a relationship thus increasing calculative commitment (supported by transaction cost theory).*

Because of the importance placed on the relationship, both insurers and brokers alike agree on the value of well-crafted written agreements. These are not intended to be an immediate display of distrust at the outset of their relationship, but to bring a sense of clarity to the understanding of each party's responsibilities and obligations. As well, it can serve as a reference document in the future during changes of management and ownership of either party. General comments regarding contracts include:

- *They're a necessary evil (BPR-45);*
- *The hope is that we never have to refer to them, but if we do it's probably because we are already in a dispute, so hopefully the contract will spell out the remedy and not lead to more problems (RM-9);*
- *It's simply good business! (EX-3)*

Incidents of contractual breaches and violations still occur for varying reasons and should be anticipated (Williamson 1996) and a written document may not always prevent the occurrences. However, they can prescribe a remedy or contemplate punitive measures that have been pre-determined. Moreover, agreements can be regularly adjusted to reflect changes in market conditions and the economy in order to address compensation levels and rewards for performance and production.

- *Most of the contracts that I have been involved with are almost identical. I assume the insurance companies either work together on them, or they borrow clauses and conditions from their competitors' contracts. Other than* *compensation arrangements, I don't see any great advantages in one contract over another (BPU-2);*

- *I suspect that no one ever reads these things unless a dispute happens. Most guys I know just flip to the Appendix where the money is discussed (RM-7);*
- *These agreements are treasured assets to an insurer. Kind of a "good fences make good neighbours" thing (EX-6).*

An exchange of pledges typically occurs in the negotiation of these agreements. Beyond the standard clauses identifying duties and obligations, the written pledges usually address issues surrounding the quality and quantity of production, territorial understandings, commission and bonus levels, and exchanges of investments in the relationship (Anderson and Weitz 1992).

- *I know with certainty how much revenue we'll get if my brokerage performs at different levels (BPR-28);*
- *Sometimes brokers will fail to hit their premium income levels, or their loss rate starts to get out of whack. When that happens, I simply point to the agreement if they are not happy with their comp. They can't have it both ways. They've got to keep up their end of the deal (RM-01);*
- *It's hard to forecast or determine where you are without some form of commitment to premium and loss projections. For the most part, I would say that I am confident and pleased with our broker community's dedication to the seriousness of this (EX-4).*

The following quote is indicative of the general feelings of the majority (if not all) of the participants in the study with respect to contracts and pledges.

- *The person that doesn't appreciate the value of these agreements is probably the guy who wouldn't have lived up to his commitments anyway. If they were written or verbal, it wouldn't matter. A door-lock only keeps an honest person out (BPU-23).*

8.2.4 Resource Allocation Behaviour within the Channel

Proposition 4: *The way in which resources are allocated within a relationship will provide an indication as to a party's level of calculative commitment.*

Within the distribution channel, the insurers and brokers continuously monitor the allocation of each other's resources in favour of their relationship. Although it is not necessarily a contractual requirement to allocate additional staff, funds, or time to the relationship, each of the parties indicate a willingness to earmark more of their resources toward a particular relationship provided it benefits them overall and it is recognized by the other party.

The individual reasons given for choice of resource allocation vary, although themes do emerge. The macro reasons include: the state of the economy; market pricing; recent and longer term reputation of the other party; amount of available resources; etc. Responses regarding individual reasons for specific resource allocation include:

- *I am willing to dedicate staff and/or money to a particular product line as long as it has positive effects. It could be ROI, one-stop-shop for my clients, solving a service problem, and so on (BPR-28);*

- *If I see the insurance company putting their money where their mouth is, I am willing to do the same (BPR-31);*
- *My intent is always to allocate a higher percentage of staff, marketing dollars, time, whatever to the markets that treat us right, meet us half-way on things, and the ones I respect (BPU-17);*
- *If it goes right, we will devote at least the size of the insurance company's share of our premium. In other words, if ING holds 55% of our book of business, we try to allocate at least that much of our resources towards ING (BPU-20);*
- *When we see the insurance companies coming up with new technology, product innovations and so on, we know they are making an investment in the channel. When they speak to me personally and say they are willing to share the cost of advertising or whatever, I'm really satisfied that I have a partner in their product and I'm willing to allocate a little more in their direction (BPU-22);*
- *When a broker demonstrates that they're thinking strategically, have a plan in place for where they're going, this is someone we can work with. If we work together, we can earmark some time and money for them and make some great things happen (RM-2);*
- *If I see a broker trying, and they are investing in our mutual relationship, even if they are failing, it means a lot. They'll get my full support and I'll do what I can to help them or guide them. Whatever's reasonable and in my power (RM-3);*
- *It means more than the financial or performance result. Dedicating more towards us means they value and trust us (RM-5);*
- *As the expression goes, "their success is our success." It would be folly to not invest wisely in our valued relationships (EX-2);*

- *We have developed a segmentation program that categorizes brokers based upon a number of factors. They can choose to deal with us in a number of ways. For each of the different ways we dedicate our resources differently, but appropriately (EX-4);*
- *We like to reach out to the broker community and ask them how they would like us to allocate our resources in the most effective ways that can benefit both of us. For the most part, the brokers take this seriously and have been quite forthcoming and candid (EX-6).*

8.2.5 Communications

Proposition 5: *The effectiveness of the communication between parties has an impact upon commitment levels.*

In order to achieve the common objectives of both insurer and broker, healthy two-way communication is essential (Mohr and Nevin 1990). All parties made this abundantly clear during the interviews, and also recognized their own obligations to fulfill this.

- *Strangely enough, we tend to communicate more with the companies we like (BPU-19);*
- *With the different insurers, it seems like an upward or downward spiral. The ones we talk to more, the more business we do with them, and vice versa. It is like a trend. If the pattern is increasing, so is the volume (BPU-5);*
- *Much as I like having a chat, it's the quality of the communication that's important. We have to be regularly talking about something of substance for it to be valuable to me, unless I am being treated to a dinner or a hockey game (BPR-41);*

- *I recognize that our brokers are busy people. We all try to walk the balance between reaching out to them and informing them of things, but at the same time not wasting their time (RM-4);*
- *Communicating seems to be where relationships are made, healed, or fall apart. It is important to be in touch simply to tell the broker that we are open to listen to them, hear their problems, and acknowledge their ideas. Simply keep the lines open (RM-5);*
- *It remains vital that we effectively communicate in as many ways as possible. Good ideas are of no value if they remain secret. Challenges cannot always be solved in isolation. Whether it is in person, one-on-one or in a group, by phone, email, whatever is most effective, communication is essential (EX-8).*

8.2.6 Conflict History and Reputation for Fairness

Proposition 6: *The level and history of conflict in the relationship, along with a party's reputation for fairness will have an impact upon commitment levels.*

Each of the stakeholders considers the dispute history of the other party in their own way. They each place their own level of importance on how the other tends to manage disagreements, and may consider this as being symbolic of commitment levels. They may also consider the other party's dispute or dispute history with other parties, such as other insurers, brokers, or customers.

- *I deal fairly. I want to be dealt with fairly (BPU-4);*
- *We should always settle our agreements like adults, not school kids (BPU-19);*
- *I hate hearing about disputes concerning other brokers, because it makes me think that maybe my disagreements are being discussed publicly (BPR-31);*

- *If an insurance company chooses to ignore my issues, I start to wonder how they deal with our mutual customers. This then becomes a reflection on our brokerage (BPR-33);*
- *We try to listen. We try to be equitable with all brokers. Sometimes decisions may be precedent setting, or the result may give a broker an unfair competitive advantage over other brokers, and we try to be reasonable and fair with each of them. To avoid this, sometimes a dispute is not settled to the broker's satisfaction. This does not mean we are not committed to that broker, but the decision may have far-reaching implications and sometimes that is misunderstood (RM-3);*
- *Some people feel that the way to get what they want is to yell and scream louder than everyone else. It's not productive and can be viewed negatively (RM-7);*
- *If we have to keep going over and over the contracts line-by-line in order to figure out who's right and who's wrong, we are going to waste a lot of time. Some folks waste everyone's time, including their own, in hostile fights that could have been resolved with good communication. They are only hurting themselves because others will look at them differently in the future (RM-8);*
- *Whereas contractual terms, clauses, agreements, and contracts in general are drafted with the intent of anticipating areas of disagreement or misinterpretation, invariably disputes will arise. It is a testament to the character of the people involved in the dispute if they can reconcile their differences amicably, even if they are not content with the final outcome. If they can recognize and understand the perspective of the other side, they are clearly better off in the long run (EX-1).*

8.2.7 Opportunism

Proposition 7: *The presence of opportunism will have a negative impact upon commitment levels.*

In extreme cases, fears of asymmetrical resource allocation may turn towards opportunism. In these cases, concerns arise that unfair practices and treatment may emerge from the dominant party against the lesser one (Heide and John 1990). Each of the parties remains vigilant of this fact and tends to monitor the actions of the counter-parties on an ongoing basis. This aids their relationship in avoiding becoming dysfunctional.

Among the methods suggested, the parties observe resource allocation behaviour of the counter-party. Some indications of this include: investments in training and technology, co-operative marketing efforts, effective communication levels, etc. When these are improved and/or increased by the counter-party in favour of the party, fears of opportunism tends to dissipate. But when the opposite occurs, suspicion and dysfunction can manifest.

- *No one likes being made a fool of. I am not going to be short-changed. I don't short-change other people I do business with, and I will not accept it against me. I've been fortunate in the last bunch of years that I've been dealing with straight-shooters. It may be good luck, or it may be that I am getting better at picking those that I choose to do business with (BPU-23);*
- *We've put a lot of time and money into some relationships, all the while assuming the relationship we were investing in was going to get some attention from the other company. Not always so. We get excuses like 'budget cutbacks',*

or 'now is not a good time' among others. There has to be some advanced understanding on both parts or you can be taken advantage of (BPR-34);

- *Just like any relationship, both sides must contribute and been seen to be contributing. Some brokers can't afford to invest heavily in the relationship in terms of dollars, but we can measure their investment in other ways, like the amount of business they send our way, how much time they spend training their staff on our stuff, and so on (RM-2);*
- *The consequences of poor relationship management can be immeasurable. One episode of opportunistic behaviour can leave an indelible mark and deep wounds that may never fully heal. As well, damage to one's reputation can be long-lasting. With this in mind, as well as it is simply correct, we strive to treat everyone fairly while observing the behaviour of those we deal with (EX-6).*

8.2.8 Trust

Proposition 8: *Trust has a negative relationship with calculative commitment and a positive relationship with affective commitment.*

Being intangible, trust is an extremely difficult concept to measure. Relationships such as the insurer and broker arrangement must have a basis in trust, particularly as there are issues brought to bear upon them such as distance, empowerment, and communication. Having an appreciation for the other partner's well-being and not undertaking negative actions against them would be a method to assess a party's benevolence (Geyskens and Steenkamp 1995).

During the interviews, all parties expressed that trust is the cornerstone upon which solid relationships are constructed. Most spoke passionately on the subject, and many indicated that trust is something that is not noticed unless it is absent. Alternatively, trust within a relationship is reviewed while contemplating a further significant investment with the other party. But for ongoing relationships to survive, trust is both implicit and necessary.

- *I don't work with anyone I can't trust. Just blow it once and we're history (BPU-17);*
- *It's a two-way street. I put my trust in them and I expect them to put their trust in me. If they ever felt that I couldn't be trusted, for any reason, I'd want to know why. But that's part of the communication game. I'd certainly tell them if I felt that something they did broke our trust, and give them a chance to explain. It's too important. We can't be looking over our shoulders all the time. We've got business to do. We need trust (BPU-18);*
- *We're talking about hundreds of thousands, even millions of dollars of premium, commissions, and so on changing hands between us. Trust is the key (BPU-23);*
- *It's all about knowing the other guy. We, the brokers, are always here, but the person we deal with at the insurance company gets moved around and we find ourselves dealing with someone new. Then they have to get to know us, and we've got to figure them out. It's constant dance with new partners (BPR-38);*
- *Sometimes we trust the guy at the insurance company, but we don't trust the insurance company and sometimes it's the other way around. We don't have a particular trust problem with ING or the ING person, but we could be assigned a new guy and that could always change. Then we've got start all over. At least we're happy that the company is OK (BPR-42);*

- *Trust is an essential component of our relationships. Most brokers are pretty good people, and we don't anticipate any problems. We strive to be trustworthy, and our expectations of them are the same (RM-9);*
- *Good communication will build trust. We've got to keep dialoguing. Each of us has to share our thoughts about what we like and dislike about the things that are going on around us and affecting us (RM-11);*
- *There is no substitute for trust. Relationships will deteriorate or become dysfunctional without healthy trust. It's built over time through the actions and the follow-through by individuals. Failure to keep one's promises, or over-promising and under-delivering can be toxic and causes relationships to break down. In addition, the far-reaching effects include an indelible black mark on one's reputation. This can have tragic consequences (EX-4).*

8.2.9 Dependence

Proposition 9: *Dependence has a positive relationship with calculative commitment and a negative relationship with affective commitment.*

A level of dependence will emerge in instances where there is a measure of asymmetry between two partners in a relationship. One firm's dependence upon their dyad partner has been historically recognized and defined in distribution channels as their need to maintain the relationship with that partner in order to achieve their objectives (Kumar et al 1995). The need varies directly with the level of asymmetry, that is, the more significant the dependence is between the two parties, then the more that one of the parties needs the other in order to benefit from their joint involvement. Naturally, a risk can develop involving opportunism and exploitation by the stronger party. The respondents addressed this issue during their interviews.

- *I'm the little guy and the insurance company is huge. We need them because they have the product and without them we have nothing to sell. But I take comfort in the fact that there are other insurance companies out there, and I'm the guy that holds the relationship with the clients. The insurance company needs me too. But I also remember that they need other guys like me. So guys like me stick together and have different associations and councils that we form and belong to. When we stick together, we become the big guys against the little insurance company. It's a constant power struggle. Because the insurance companies have associations and groups they belong to as well. It's like the tide. Goes in and out. Keeps changing (BPU-13);*
- *Just because I'm a small broker in small town Ontario doesn't mean I'm going to get pushed around. But to be fair, no one has tried to push me around. But it's implied that I'm small and the insurer is big. They know that I need them, and they know that I know that they need me. It's alright (BPR-37);*
- *It's a relationship that should work for both of us. We each bring our unique talents and bits and pieces to the relationship. There is an amount of dependence upon each other, but it's healthy. It works as it should in almost all cases. There's a few occasional upsets, but generally no one takes advantage of the other (RM-9);*
- *The term 'dependence' can conjure up negative images but it doesn't have to. Over-dependence can be a symptom of weakness, and in the wrong set of circumstances can lead to consequences that are unsatisfactory. It is incumbent upon an insurance company like ING to assist brokers that are in declining circumstances because otherwise more dire results could occur such as exploitation or neglect of our mutual customers, and so on. Our goal is not to*

treat brokers like opponents, but to treat them as partners. Each of us brings something special and unique to the table in pursuit of a common objective. It would do neither of us any good to weaken or disparage our partner. In fact, the opposite is necessary (EX-4).

8.2.10 Perceived Asymmetry of Commitment

Proposition 10: *The direction and perception of asymmetry in a relationship has an impact on commitment levels.*

It is recognized as a challenge in gauging the level of commitment of the other party (Ross, Anderson, and Weitz 1997). Misperceptions and miscalculations can lead to disagreements, as well as a perception of asymmetry in favour of one's self. The consequences of the one-sidedness can include a with-holding or reallocation of resources, poor communication, ill feelings, or in the worst case a breakdown of the relationship.

All parties recognized this issue, and in some cases appeared quite animated in their responses due to their passion. Each side wished to know what the other was thinking as they viewed the relationship as a partnership. Their statements reflected their desire for a two-way closeness, with each side contributing to the dyad in a fair and equitable fashion. They use their own perceptions of these contributions as a tool for assessing the other party's level of commitment.

- *I like to make sure our operation gives in equal proportions to the insurance companies we deal with. If I give, I expect them to give back in a timely fashion (BPU-2);*
- *Even if I don't say anything, I'm watching them (BPU-21);*

- *This can be a deal-maker or deal-breaker (BPR-31);*
- *If I can, I try to find out what they're doing for my competition as well (BPR-45);*
- *We do our best to make sure that we support, financially and otherwise, our brokers that are in the habit of supporting us (RM-1);*
- *Sometimes to our detriment we give more to our brokers than they proportionally give back to our relationship. But we want to demonstrate leadership, and it's hoped that they recognize it. They don't always. Sometimes it's appreciated (RM-11);*
- *A good relationship is based on reciprocity. It must be timely, proportionate, and measured (EX-5).*

8.3 Transaction Cost Issues

8.3.1 Safeguarding Assets

> ***Proposition 11:*** *Firms will integrate vertically if a need exists to safeguard specific assets. This is particularly evident in make-or-buy decisions requiring increased levels of specific assets, thus requiring internal production versus outsourcing.*

Considerable trust and a sense of partnership is an absolute requirement to the sustainable success of the broker-insurer relationship. In most commercial environments there is a strong, positive correlation between increased levels of investment in specific assets and the likelihood of a firm electing to integrate its operations (Maltz 1993, 1994). But the nature of the broker-insurer relationship calls for idiosyncratic investments on both sides and without the fear of opportunism. The goal should also be a desire on both sides to remain in the independent distribution channel and not be concerned with the other party encroaching upon their jurisdiction, thus necessitating a safeguarding of assets.

- *We're not concentrated, and I like it that way. We keep a professional distance from each of the insurers we deal with and don't share everything. This may cost us a bit more for the freedom because we pay more for our systems and training, don't get the support that others might get, and so on. But we are our own masters and dictate our own terms (BPU-1);*
- *When we made the conscious move several years ago to get closer to a short-list of markets like ING, our costs dropped dramatically. Although we have to share our secrets with our main partner, they also step up with funds to ease the burden a bit. They spend great gobs of cash on things like R & D on I.T. systems, new ways of doing business, training, marketing, etc. To answer your question, I find it less necessary to safeguard our assets from our true partner. I've no fear of them taking advantage of us (BPR-41);*
- *The brokers should understand that in the same way we offer things up to them that we have invested heavily in, they too should be open and not fear us taking advantage of them. In fact, it should be quite the opposite. Before they invest in something, perhaps we can offer some advice and expertise for them to ensure they are investing wisely (RM-8);*
- *In this business reputation is everything. We do not take advantage of our brokers. But I can't speak for other relationships that the broker may be involved in. But in this industry, generally speaking we by and large have reputable players. I don't think it's in anyone's best interest to endeavour to*

gain an edge over a partner by taking advantage of them opportunistically in terms of knowledge of their investments (EX-3).

8.3.2 Performance Evaluation

Proposition 12: *A heightened quantity of behavioural uncertainty will correspondingly increase the costs of evaluating the performance of the relationship partners. Firms will attempt to mitigate their performance evaluation costs through a shift towards vertical integration.*

Matters surrounding behavioural uncertainty tend to have a significant impact on the need for performance evaluation techniques, particularly in the independent (broker) channel (Weiss and Anderson 1992). In fact, it impacts the entire transaction cost analysis framework including frequency, asset specificity, and environmental uncertainty as well. A technique often incorporated to mitigate issues of performance evaluation is to enhance governance mechanisms (e.g. contractual terms, reward and penalty systems, etc.).

Due to the decentralized nature of the independent brokerage channel and the need for trust and empowerment, issues revolving around performance evaluation tend to arise. Many of these issues surface because of a lack of clear objectives or a subsequent impairment in communications. In any event, uncertainty leads to a heightened level of performance evaluation of relationship partners along with the related costs.

- *Every year the insurance companies ask us for an estimate of how much premium we are going to send their way. We give them our best estimate, but then they change their prices or how they do things or whatever, and they get* *upset because we didn't give them what we said we would. Then they want to change the terms of how we do business together going forward. They've got to learn to see things from our end (BPU-22);*

- *They have expectations of us, fair enough. But we have expectations of them too. We need their rep to be there when we need him. If we want to run a campaign then timing is an issue. We'll try to give advance notice, but more often than not they have their own programs their trying to sell to us (BPU-24);*
- *A true partner would not only measure our success, and the success of our partnership, but also offer their assistance if they see us starting to slip. Our major markets, like ING and Aviva seem to operate this way. But some of the smaller ones just squawk when they don't get their share and seem to point the finger of blame. I don't think that's very productive for the relationship (BPR-27);*
- *Good business is run on good information. We use performance evaluation techniques to assist us and our broker partners in looking for trends, symptoms of problems, and so on. The reports are tools to help and guide us, and not primarily used to whip people (RM-10);*
- *The reports that we rely on are generally the same for all brokerages across the board. We use the reports not only to monitor their performance, but also to give input and feedback to our own business. These are not meant to be punitive, but more of an informational and analytic nature. Naturally, if a particular brokerage is being rehabilitated, we need a quicker frequency of reports and likely of a more detailed nature, but again this is to assist them versus penalize them (EX-3).*

8.3.3 Governance Structures

Proposition 13: *Firms will gravitate towards either a hierarchical, market, or hybrid form of governance structure based upon the choice and selection of their partners, available monitoring techniques, and the design of incentives.*

As a related topic to outsourcing decisions and its impact on each party's sense of commitment level, respondents were asked to provide their thoughts about governance structures. In particular they were asked about how and if minor shifts in contractual obligations, terms, conditions, and responsibilities affected their perceptions about potentially hidden motivations of the counter-party.

The industry provides examples of brokers becoming highly-concentrated with a single insurer, risking a loss of independence and ostensibly becoming a vertically integrated agent instead of a broker. Moreover, insurers are taking equity ownership positions as well as providing significant collateralized loans in favour of brokerages. The blurring of roles in a non-transparent fashion has raised concerns in regulatory circles, as well as within the brokerage community as a whole from those choosing to not participate in these shifts. As in other industries, much of the governance structural shifts are prompted by an inner need to safeguard assets (Stump and Heide 1996). The result has been the emergence of a widening range of governance mechanisms.

- *I've seen brokers becoming so concentrated with one company that I don't know how they have the nerve to call themselves brokers. To me, they're employees of the insurance company (BPU-11);*

- *There are benefits to concentrating. We leverage the ING branding, they treat us more like partners, we cost share and revenue share more, and we can focus our attention on the thing that matters – making money (BPR-37);*
- *There are trade-offs to concentration. We get a better share of the profits but we're obliged to participate in the things they tell us to participate in (BPR-38);*
- *I wonder if the brokerages that are owned or partly owned by an insurer ever disclose this fact to their clients. People may question the broker's independence (BPR-44);*
- *Although there are a few exceptions, in my experience brokers will concentrate and move closer to us because they want to. They see the benefits that it brings. Done correctly with the right people there are benefits to all parties, including the customer who receives great advice and service from a more highly trained individual (RM-10);*
- *Fiddling with governance structures can be tricky. If undertaken with the correct market intelligence, a willingness to embrace change and the benefits that can accrue, and the flexibility to adjust when necessary, anyone can succeed within one of these hybrid models (EX-2).*

8.3.4 Frequency of Transactions

Proposition 14: *Higher frequency levels provide an incentive for firms to consider a hierarchical governance structure since it would likely be easier to recover costs in this way for larger transactions of a similar type and in a similar region. Otherwise a market structure or hybrid form would be more suitable.*

Although there is considerable debate in the academic literature about the conclusiveness of transaction frequency upon commitment levels, the respondents addressed the matter in terms of the insurance distribution context. It appeared to have some relevance for them, but not necessarily in terms of individual transactions, but as a percentage of either customers or premium income or both that is directed towards particular insurance companies from brokers.

There has been a move in the industry over the past decade referred to as a concentration strategy. This is a deliberate strategy for brokerages to reduce the number of insurance companies they represent down to three or four firms, depending upon the circumstances. The idea is to specialize with a smaller number of companies with varying appetites for risk in order to cover a fairly broad spectrum while not trying to cover the entire market. It is an efficiency strategy, and the belief is that any losses in sales or client needs that cannot be met and served by the reduced line-up will be more than offset by improved efficiency, reduced costs, and more sales due to enhanced knowledge of the remaining insurance companies that are represented. The true test of the value of the frequency of transactions upon commitment levels must be considered in the context of the evolving industry. A broker may appear to be directing more business to a particular insurer, but that may be by default because industry consolidation has left them with no choice and it is not due to deliberate concentration.

The frequency of transactions may also be indicative of the length of time the relationship has endured. Both recent frequency and enduring frequency were included in the responses of the interview participants as they described this influence on commitment.

- *We have been doing business with ING for many years. As long as they don't make a mess of things I'll stay with them. We're comfortable with things as they are (BPU-11);*
- *ING has been consistent with us over the years. They deserve some loyalty from us (BPU-18);*
- *ING seems to be changing into a new company. They'll earn my loyalty if they don't go backwards, but the way I see it if they change everything, they're not the same company so I don't owe them anything (BPU-20);*
- *Our brokerage has been sending more and more business towards ING because they have been making it easier and easier to do business with them. My other markets are crying for business, but we've got to do what's good for us. I hope ING recognizes this (BPR-41);*
- *We have to assess each brokerage's performance individually. We have to look beyond the volume numbers, and determine what the underlying causes are for all situations such as volume increases, decreases, or even if things stay don't change. A broker may send us more business because they were cancelled by another insurance company and they have no choice. Why were they cancelled? Was it bad business? Also it may sound like a bad news story if they send us less, but when we examine it further we may find that they are cherry picking and sending us only good quality business because they have take on another company to pick up some of the bad. But all things being equal, people do vote with their dollars and they will probably send more our way because they are generally more committed to us at that point (RM-5);*

- *Assessing transaction frequencies and shifting volumes is both an art and a science. At a theoretical level it is an endorsement that someone wishes to do business with you, but you must drill below the surface to ascertain why (EX-2).*

8.3.5 Asset Specificity

Proposition 15: *Increases in investments in assets that have a high degree of specificity are positively correlated with levels of commitment.*

By definition, Williamson (1985) posits that asset specificity addresses the degree of transferability of assets that are involved and support a particular transaction. In the context of this research, it is extended to include those assets that support a specific relationship or series of ongoing transactions. These assets referred to in the interviews addressed those that represent sunk costs with negligible value beyond the relationship. As Williamson (1991) suggests, respondents tended to discuss asset specificity in terms of their own context. These contexts are characterized as specificity of a nature that is:

1. temporal;
2. site specific;
3. human asset specific;
4. dedicated assets;
5. physical assets;
6. brand name capital.

Interview participants were asked to provide their views within the context of any or all of the aforementioned categories of asset specificity. Similar views were evident, but the respondents varied in terms of which category they deemed most relevant from their perspective.

- *I've learned the hard way to be careful with committing my cash or my staff too heavily in favour of a particular product line, company, or whatever. Now I do* *a lot more due diligence up front before throwing money at a project. That's not to say I don't look at specializing in a particular line or anything. I do, but I'm more careful that I'm not wasting on a flavour of the month thing (BPU-15);*

- *When we dedicate our service people or our producers to a particular insurer, I mean getting them extra training or attending courses and like that, we've got to be sure that that insurance company is going to be around for the long haul, and that we're going to be in it with them for a good while. Otherwise it's a waste of time and money, neither of which we have a lot of. We still do it though. To me, when the insurance company comes up with what I see as a good idea or product or system or something, and they invite us in, it's a sign of good faith from them that they want to work together with us and other brokers (BPU-17);*
- *Me and my partners are always on the look-out for opportunities to make our business better, more efficient, more profitable. If an insurance company has a great I.T. system and it makes us better to get hooked up to it, we'll consider it. Even if it means pulling some staff out of the line-up for a while to learn the system, or the product, or even if we have to pay some cash to be a part of it. If it makes sense, we'll do it. Of course there's a risk to it if our relationship falls apart. But you got to be careful (BPU-22);*
- *It works two ways. If we get into some kind of arrangement with a company on say a system or product commitment or something, we kind of think hard about breaking up with that company. Makes us think twice about some things. It makes us more rational sometimes (BPR-41);*
- *I remember the days when we tried to be all things to all people. I was with a different company then and it was in my early days. The challenge was that when we came out with something new, it was offered to all brokers. Special*

brokers didn't feel special. There wasn't the segmentation that we do today. Good stuff was wasted on brokers that didn't want to be that close to us. Now I see the difference. We do more cost sharing. We'll invest in new technologies and product development and the brokers step up to be first in line to be a part of it. Well, in truth, it is those special brokers with which we have strong relationships that do the stepping up. This is as it should be (RM-1);

- *We hope it is a definitive sign to the brokers when we make unique investments in their business, making them more effective, because as it is said that their success is our success. We invest in training programs for them, marketing initiatives, and lots of other things. I think they value it more if they have to pay even a portion of it. It makes them think twice about discontinuing down the path with us in the future. It makes them more committed to us (RM-2);*
- *Without doubt, many of these unique investments present a locking-in challenge, because they are sunk costs. But with challenges come opportunities. These investments should be trumpeted as evidence of commitment to the broker community, and in particular to the brokers with which we share these opportunities. As well, it provides us with clear evidence when we see investments from the brokers as to who is committing to us, and also evidence of that which is important to them. People tend to vote with their dollars (EX-3).*

8.3.6 The Influence of Environmental Uncertainty

Proposition 16: *The two types of environmental uncertainty have opposite impacts upon governance structures, i.e. unpredictability encourages companies to develop hierarchical structures whereas changeability creates the opposite result.*

The current state of the insurance landscape in Canada can be characterized as displaying considerable environmental uncertainty. Consolidations continue at a steady pace with insurance companies either merging to gain scale or larger companies are acquiring smaller firms for various reasons. Brokerage firms are undertaking similar changes, with fewer yet larger brokerages being the result. This has an impact upon industry participants as the players are changing or evolving.

The changing environment can hamper the ability of each party to plan and predict for the future. For example, if a broker was to maintain a stable of insurance companies that it represents within the range of five insurers, and subsequently two of those companies are merged, the result is a change in the broker’s modus operandi. Decisions have to be made as to whether to replace that company with a new insurer, or maintain a reduced stable of insurers that it represents. If a replacement is made, new product training is necessary, along with considerable internal operating changes. Or existing clients will have to be converted to the new or to another insurer. Occasionally, the decision is made that clients will be converted to the new insurer, but the new insurer may not have an appetite for the same type of risks that the former company did, thus unless the broker has an alternative some clients may be lost as a result.

From the insurance company’s perspective, broker consolidation can result in reduced premium income if a brokerage decision is made to remove certain insurers from the combined stable of companies that both merged operations had formerly represented. This may also represent a shift in power in favour of the brokerage as premium income becomes concentrated in the hands of fewer brokers.

- *I used to represent six companies. Now I represent two. I never made a change in my company choices. These changes were thrown at me because of industry consolidation (BPU-1);*
- *We are starting to feel less like an independent broker and more like an agent. I was almost down to one company that I represented. Good thing I saw it coming and added a different one a few years ago (BPU-16);*
- *I try to get close to companies like ING that look like they are in it for the long term. I don't want to get shut out of the market (BPU-22);*
- *The uncertainty out there is making us cozy up to the big guys. The smaller ones probably won't be around for long so we've got to be in the good books of the big ones (BPR-25);*
- *Many of the brokers are approaching retirement age and their retirement income will come from the sale of their brokerages. This creates a lot of uncertainty for us since many of the operations are selling out to their competitors while they try to gain efficiencies. We win some and we lose some, but either way things change (RM-9);*
- *There is a rapid rate of change in the industry, and still much more to come. As an insurance leader, people look to us for advice and guidance, yet we too are affected by the changes. Our premium income could be impacted negatively if we do not navigate through these waters appropriately. But on the other hand, we have to remain cognizant of the sensitivities of the brokerage community as they are impacted by the consolidation of the manufacturers (EX-4).*

8.3.7 The Influence of Behavioural Uncertainty

Proposition 17: *Actual or perceived behavioural uncertainty on the part of a dyad counterparty presents challenges with the monitoring and enforcement of contractual adherence and performance of exchange partners.*

By its very nature, insurance distribution in the intermediary channel requires decentralization and distance between the principal and agent. This presents challenges for effective communication, and places pressure on relationships. When communications deteriorate between the parties, uncertainty about the counter-party's behaviour and intentions tend to manifest. It becomes difficult, if not impossible to predict whether the other party will fulfill their obligations to joint efforts and deliver on their responsibilities (Bucklin and Sengupta 1993). Insurers are concerned that they are adequately prepared for production levels in terms of resources, and brokers need to ensure that the insurance company is prepared to handle the amount of business that is directed towards them. Respondents tended to discuss behavioural uncertainty from their own perspectives only.

- *Sometimes the insurance companies change priorities and want us to participate in their different programs, product changes, and so on. Often times there's not enough explanation as to why, or we hear about it more from the broker community rather than from the source. It can be hard to figure out which direction they want to focus on (BPU-3);*
- *We're busy. They're busy. It makes it hard for us to tell them which way we're going or for them to tell us where they're going. It leaves us both guessing and leads to hard feelings. We've got to talk more or we are going to always be suspicious and not trust each other (BPR-37);*

- *Some brokers are fiercely independent and wear this independence as a badge of honour. Because of this they don't want to share their business plans with us, and it makes it hard for us to gauge production levels and do our own planning. Although that's really a minority of brokers, it's interesting to note that usually these are the same folks that say we're under-staffed when things get busy. I guess they think we're mind-readers (RM-2);*
- *Effective communication is essential to our mutual success. We each have to get better at keeping the other informed of our intentions, our plans and strategies, and our directions. We have to operate as one, and the goal must be to reduce or eliminate uncertainty in order to move forward (EX-6).*

8.3.8 Logistics and Outsourcing Decisions

Proposition 18: *It is necessary to balance both the quantifiable (transaction costs, revenues, expenses, etc.) and qualifiable (strategy, stability, etc.) considerations in order to determine whether to outsource or to gauge its effectiveness.*

Insurance distribution systems are similar to other supply chain management networks particularly when considered in the context of the principal/agent (broker) system. The advancements in those supply chains have direct application to the insurance arena (Calza and Passaro 1997; Hobbs 1996). Connections are made via electronic data exchanges which tend to create communities, albeit at a cost. Due to the rapid changes in the information technology field, respondents found that they had ample experiences to draw upon during their interviews. Moreover, they tended to display a heightened level of passion and sensitivity when the topic of outsourcing and differing distribution channels was presented for discussion. As ING operates in both the direct channel via Belair Direct and the intermediary channel via ING Insurance, channel conflict arises as some brokers feel that they are in competition with their principal (ING). Brokers with robust segmentation programs on the other hand tend to understand that customers that gravitate towards a direct writer tend to be more mobile and transient, and are not typically the type of customer segment that the brokerage community would wish to seek.

- *On the one hand ING wants us to hook up to their systems, spend time and money on their stuff, which is all well and good. But on the other hand they are taking our customers away with Belair, advertising on the radio, dealing direct with the public. That's our job. It makes a lot of us suspicious, but I don't think ING will change (BPU-19);*
- *ING is making it easier and simpler to do business with them with their I.T. systems, websites, in-house training programs, and whatever else. Outsourcing their distribution to the broker community brings the best talent to the right place. They do what they do best, like underwriting and claims, and we manage the customer relationships. It doesn't bother me one bit about Belair. I don't want customers that don't want to develop a relationship with a local professional. If the customer doesn't recognize the value we bring, we don't need him (BPU-22);*
- *Gone are the days of pencil and paper. We're in the age of electronic data flying back and forth in an instant. I have to be comfortable that I'm in a rock-solid relationship with an insurer that recognizes this too, because I'm betting my book on them. Neither of us can fall behind the times logistically. And I have to be lean and mean and nimble too. They're outsourcing some of their distribution to me and I've got to deliver (BPR-26);*

- *Investing in one company's systems takes a lot of thought. First, you've got to be sure you are in it for the long haul with that company, because if everything falls apart that money is wasted. As well you've got to think about how many companies you can do this with. Money is scarce. I've invested heavily in ING because they're my main market. With each of the lesser markets I've got I tend to invest less. I hope this doesn't backfire on me, you know, getting too many eggs into one basket because these days we tend to represent fewer companies, and tend to favour some more than others (BPR-41);*
- *The whole issue of Belair pops up every now and then, but that's OK. It's important for us to deal with brokers' concerns head-on. Most of them are fine with it, and understand that ING is committed to dealing with customers in the channel of the customer's choice. It is the customer that in the end makes the purchase decision. The brokers should have nothing to fear because we are highly committed to their channel as well. We will continue to outsource that part of the distribution chain to them due to the value they bring (RM-6);*
- *I've noticed a willingness on the part of brokers to be accepting of new technologies and techniques that we bring to them. It doesn't come cheap for them, but it does show how committed they are to both their business and to us when they pony-up the cash (RM-10);*
- *Concerns over the Belair Direct issue is often merely a symptom of a weakness in our communication link with a broker. Once identified, we must get to the root of the problem, and uncover precisely what the underlying issues are. Belair is not going away and it will not evaporate. Consumers choosing Belair will choose a Belair-like company. But a significant portion of the marketplace enjoys relationships with their broker, and recognizes and appreciates the value*

that the broker provides. Neither will this channel disappear. We will continue to outsource distribution through the broker channel and to display our commitment to them we will continue to invest in research and development to improve our collective efficiencies (EX-1).

8.3.9 Levels of Investment

Proposition 19: *The nature and level of transaction-specific investments bears a positive relationship with levels of commitment.*

ING Canada's decision to participate in the principal/broker insurance distribution channel is not unlike any manufacturer's decision to outsource a component of its operations. Unless benefits accrue to all levels of the distribution chain, the principal may be better off reclaiming those outsourced aspects and manage the distribution internally.

In ING Canada's case, value has long been evident for a particular market segment as it pertains to the intermediary channel. The vast majority of consumers within the Canadian insurance marketplace gravitate towards insurance brokers versus direct writers of insurance, as they perceive brokers will provide advice and serve as their advocate in the event of problems or claims. With this recognized and understood by the insurers and brokers, each tends to invest in those relationships in different ways and at different levels. The reasons expressed by the respondents are varied, but themes are evident.

Some respondents mentioned the matter of proximity, and how close the two parties physically existed to one another. Some indicated that those who were closer at hand thus facilitating an increased amount of face-to-face visits tended to be the recipient of an increased measure of investment in both time and money.

- *We have a local office of an insurance company just down the street. We meet regularly with them because they're nearby and we get to hear about some of the new initiatives they've got going. Probably because we can spend more time with them that we get involved in more of their stuff than some of the others. That particular company may not be the best of the bunch, but it's easier for us to do business with them and that helps everyone, even our customers (BPR-42);*
- *There are some company reps that I never see. I guess they figure that either we're too far away, or we're not important enough for them to visit. Maybe it's a bit of both (BPR-46);*
- *For my own part, I would like to treat all my brokers equally, give them equal time and so on. But it's hard to compete with a guy who is in their face much more than me because his office is in their town. The relationships and the related investments improve because of the closer connections (RM-10);*
- *Although distance can act as an impediment to relationships, it shouldn't eliminate them altogether. We must examine different ways to overcome distances, and to allocate our resources in time and money to those relationships based upon their own merit (EX-8).*

8.3.10 Adaptation to External Factors

Proposition 20: *If external (market) costs including enforcement, bargaining and information costs are high, firms gravitate toward undertaking activities internally. Alternatively the firms undertake these activities externally when those costs are comparatively lower.*

The interview participants were requested to expand on the notion of an ever-evolving industry, and address this topic in terms of either a threat (or opportunity) of the principal (the insurer) choosing to reduce its transaction costs by vertically integrating rather than utilizing brokers in the distribution channel (Rindfleisch and Heide 1997). They responded in the context of both environmental uncertainty and also simply as a control and cost reduction matter. Clearly the ultimate choice in doing so vests with the insurer, but there are implications for both parties over time if the decision is taken to vertically integrate.

In addition, the respondents were also asked to consider other changes within the external environment that necessitated changes both for them and for their partners and other business relationships. Such matters included the current consolidation of each the insurance companies and brokerages, as well as technological advancements.

- *Sometimes I wonder where this industry is headed. I see a push towards concentration, insurers investing in or taking ownership positions in brokerages, full ownership of brokerages, insurance companies owning blocks of brokerages like Equisure or Canada Brokerlink, and a shrinking number of brokerages in the market. I start to wonder about the consumers' alternatives, and how many are truly independent (BPU-2);*
- *It would be the kiss of death for an insurance company to switch channels and move into the direct world. If they did, they wouldn't be welcomed back later by the broker community (BPR-28);*
- *I don't see a problem with everything that's going on out there. We've got to embrace change if it makes things better. There are some dinosaurs out there that can't see that the market is dictating the changes. We don't need as many*

brokerages around because consumers are finding better ways to access them, like the phone, fax and internet. Years ago people dealt more face to face. Not any more. Insurance companies are consolidating because they're looking for economies of scale. In the end how many companies do we need, especially when they are almost doing the same thing? (BPR-41);

- *The forward-looking brokers appear to be onside with the changes that are happening. They also count on us and we count on them to share things that we see out there, like new methods and new technologies that will make us all more effective. This is a dynamic industry, and we all have to learn to adapt to the changes. However, we don't need change for the sake of change. We've got to challenge new ideas and implement the good ones if they benefit everyone (RM-5);*
- *No one knows what tomorrow will bring, but change is a good measure of all of the players. How we react and adapt to the external environment says something about each of us. Consolidation will eventually cease when it finds its appropriate level. Technological change will do the same. We strive to be a leader in the evolution, and our greatest allies, well, they don't follow us blindly, but they do have the fortitude to accept and adjust to the world around us (EX-8).*

8.4 Chapter Summary

This chapter has presented the findings of the three case study interviews. In each case, representative quotes were provided in order to illustrate the various perceptions of each of the groups and the participants. Guided by *"The Commitment Wheel"*, the following chapter will provide an analysis of these findings and address the research proposition.

9 Discussion

Recalling that the primary research proposition of this thesis is:

> ***Does Transaction Cost Economics (TCE) explain the varying degrees of calculative commitment levels in relationships between insurers and brokers in the Canadian property and casualty insurance sector?***

the research propositions developed earlier will be examined against the backdrop of the *"Commitment Wheel"* while using the "tool" of transaction cost economics to demonstrate its linkage and impact upon calculative commitment. The key elements of the TCE tool include asset specificity, uncertainty and frequency. To demonstrate the linkage, the following research objectives or sub-research questions identified from the literature review will guide the research:

- To explore the tool of TCE's asset specificity factor in commitment.
- To explore the tool of TCE's uncertainty factor in commitment.
- To explore the tool of TCE's frequency factor in commitment.
- Are there other factors that impact or influence transaction costs and/or commitment?

As noted, this research examined these questions and issues from the perspective of both insurers and brokers through exploratory case studies.

The existing literature contains a knowledge gap which, if identified, would provide a stronger link, and could lead to refinements of transaction cost economics and a deeper understanding of the issues underlying commitment levels. This chapter will begin by exploring the contribution to understanding offered through exploration of the literature's sub-topics and development of the propositions. This will be complemented by an examination of emergent findings from the research. The chapter's structure is:

- Commitment – Constructs and Beliefs (Blending TCE Theory)
- Commitment – Enablers and Disablers
- Commitment – Affective and Calculative
- The "Tools" of Transaction Costs Which Impact Commitment
    a. Asset Specificity (Idiosyncratic Investments) & Transaction Frequency
    b. Uncertainty (Behavioural and Environmental)
- Summarizing Transaction Cost Economics' Contribution to Commitment
- Additional analysis of research interviews
- Summary

This chapter continues to use *italics* to indicate quotes and except where stated otherwise this material draws upon similar conclusions reached independently in the case studies.

9.1 Commitment – Constructs and Beliefs (Blending TCE Theory)

Recalling from Burgess and Turner (2000) that commitment can be a catalyst for change, it is also evident that a lack of commitment can impair a relationship's ability to thrive. However, measuring this phenomenon is highly subjective. Transaction cost economics provides a structured approach and framework as a tool in assessing the dynamics of relationships in terms of commitment. Guided by the *"Commitment Wheel"*, the evidence in this study suggests that transaction cost theory does assist in understanding commitment in insurer-broker dyads. Thus this section of the discussion will examine this study's data while focusing upon the foundations and beliefs that determine commitment levels. In addition, it will be complemented by an examination of the relevant elements of transaction cost theory that aid in characterizing and explaining the notion of commitment.

Participants on both sides and at all levels of the dyads agreed with the inherent value of strong commitment to the relationships whether on their own part or that of the counter-party. Although that may appear to be a self-evident truth, most respondents relayed examples of broken relationships where the principal cause of the breakdown was either a perceived or real lack of commitment. As per ***Proposition 1***, the responses suggested that individuals are influenced by their personal definition of commitment and also how they perceive their counterparty appears to embrace it.

The TCE tool of "uncertainty" is helpful in assessing counterparty commitment when examining contracts. The *"Commitment Wheel"* depicts a close relationship between uncertainty and matters of fairness, dependence, etc. Uncertainty can be mitigated when the parties acknowledge in writing their mutual obligations. The discussion surrounding agreements, contracts, and exchanges of pledges provided insights into the recognized value of the documents as being important but not the crux of the relationship. The parties tended to view these as frameworks for the working relationships on a go-forward basis. Most did not perceive the contracts as either an enabler or disabler towards their future journey together. They did respect the documents as a highly-effective and balanced acknowledgement of what is expected of each side during the term of the agreement, but little more than that. The majority felt that exchanging pledges simply served as a mechanism to resolve disputes in advance, particularly as it related to sales volumes and compensation levels. None suggested a sense of being increasingly bound or perceived the counter-party to be more bound because of the temporal nature of agreements. However, each participant did indicate the necessity of contracts as a reference document and also due to the fact that parties within firms tend to change and these can serve as a notice to future players as to that which was previously agreed. As suggested in ***Proposition 3***, calculative commitment results from deliberate evaluation on a cognitive level of the need for the relationship, and agreements provide value by bringing clarity to the relationship as it relates to duties, obligations and responsibilities.

Communication between the parties varies indirectly with transaction cost theory's element of behavioural uncertainty. Although respondents discussed the relevance of communication in relationships with varying degrees of importance, they each were inclined to suggest that it was the effectiveness and frequency of communication that would make it more enhancing. This does point to the fact of how busy people actually are, and the delicate balance of wanting to be in-touch, yet not having their time wasted. Each valued the ability to have an open enough relationship with their counter-party such that they can immediately contact them by the most suitable means available when a matter is urgent. Moreover, they valued an appropriate flow of two-way information that would serve to enhance their abilities to obtain their mutual objectives. As was posited in ***Proposition 5***, this was the repeated theme and it was continuously indicated that these would improve commitment levels on both sides. Otherwise, the communication was perceived as simply being clutter and noise and may result in the opposite to the intended effect.

Also within the realm of TCE's classification of behavioural uncertainty and in response to the topic of reputation for fairness and the management of conflicts, the participants were requested to provide answers in terms of both how they wished to be perceived and how they viewed their counter-party. Overall, there was consensus on the importance of preserving their own reputations and upon the assessment of others by their reputation, thus leading to reduced levels of uncertainty on all sides. There was consistency in the interviews regarding the need to resolve disputes amicably and as rapidly as possible, all the while maintaining confidentiality. There were several indications of the doubt that can result because of the actions of the counter-party even when their dealings with another party lands in the public domain. Each respondent valued their reputation for fairness as one of their most sensitive possessions, and prescribed early intervention if this is unfairly compromised in their view. They concurred with ***Proposition 6*** that the aforementioned topic has a direct influence on levels of commitment by each side and that a mature approach to disputes and issues is in order, thus leading to a reduction in uncertainty in the relationship.

Due to the dynamics of the insurance distribution channel, the allocation of both financial (e.g. investments) and non-financial (e.g. time, effort, etc.) resources tend to move with fluidity across the different aspects of the business. Commitment is tested in the calculative form when resources are allocated, and in particular those that are described in the transaction cost framework as idiosyncratic investments. This includes resources within the operations of both the principals and the agents. Respondents were attuned to this, and indicated that the impact of resource allocation and the corresponding levels of investment is important for several reasons. Naturally, each felt that they apportioned their limited resources where it would yield the most effective result. In the majority of cases this would involve the partner to whom they are most committed and deemed worthy of investing in. But beyond this at a more subtle level, they suggested that there is a measure of symbolism with respect to their resource allocation. In a sense it is a gesture of goodwill that they wish to be acknowledged by the other party. Moreover, this symbolic gesture works the other way. Specifically they feel secure in the knowledge that their partner is investing in their mutual relationship too. Thus, their responses support ***Proposition 4*** suggesting that the manner in which resources are allocated provide an indication as to a party's level of calculative commitment.

The topic of outsourcing tended to be somewhat emotional for some brokers, particularly as it was intentionally placed in the context of ING Insurance (intermediary channel) versus ING Canada's direct-to-customer division referred to as Belair Direct. Some brokers suggested that ING Canada was in a sense competing with the broker community by reaching out directly and transacting with consumers. Although most did understand the fact that if ING Canada did not own this segment of the market, another direct-writer certainly would. In applying the TCE framework to the subject, a measure of uncertainty is evident for the brokers. The *"Commitment Wheel"* suggests a linkage between outsourcing and uncertainty. Behavioural uncertainty is apparent on the part of the principal because of the increasing attention it gives to the direct channel. This is also resulting in environmental uncertainty due to the changing landscape of the distribution system. Ultimately, brokers are questioning the commitment of the principals to the existing system. Some overtones in the discussions remarked on the notion that the expertise and local knowledge rests within the brokerage community, and this aspect of service delivery should be outsourced to them in the best interest of the clients. Their concern revolves around the possibility of ING Canada (or any principal for that matter) restructuring the channel and delivery and eliminating the need for a broker in the chain. There appears a real impact and concern on commitment levels because of the duality of ING Canada's role in this regard. Whereas ING Canada's relationship managers and executives responded with a keen awareness of this topic, they felt that this was an issue that would not be going away and required sensitivity and vigilance. ***Proposition 18*** suggests that the evaluation of transaction costs is an integral ingredient in the decision process as to whether to outsource or not, and the final decision will impact commitment levels of relationship partners. But this particular broker segment is generally rather close to ING and does not operate at a distance as some players may, and the latter segment would likely demonstrate a reduced commitment level because of Belair Direct.

Related to the outsourcing issue is the matter of governance structures. The *"Commitment Wheel"* depicts issues involving governance structures lying adjacent to the TCE 'tool' of asset specifity. This is strongly linked to the calculative form of commitment. ING Canada has been an active player in the development of creative governance structures in order to capture market opportunities. The Canadian marketplace has been witness to a consolidation on the part of both insurance companies and brokers for a variety of reasons. This has been driven in part because of the customer's ability to purchase insurance by telephone, fax, over the internet, etc. thus reducing the need for face-to-face encounters and the need to have a broker on every street corner. In addition, the endless pursuit of cost efficiencies and economies of scale are relevant for both brokers and insurers alike and this has added fuel to the consolidation fire. When examined through the lens of transaction cost theory, this supports ***Proposition 13*** which states that firms on both sides will gravitate towards a hierarchical, market, or hybrid form of governance structure based upon the choice and selection of their partners, available monitoring techniques, and the design of incentives (i.e. aspects of calculative commitment). Increasing regulatory and compliance requirements and reporting have also added greater burdens on both parties and caused them to seek relief in the form of mergers and acquisitions.

Although the reasons for the changing market landscape are many and varied, the implications have a direct bearing on commitment levels. Brokers have expressed concern because of the possibility of losing an insurer relationship because of that company being purchased by another insurer to which the broker does not have a contract or had a previously poor experience. The broker may not meet the criteria of the new company. This makes the broker rather vulnerable and uncertain about their future. Brokers have also engaged in the process of concentration whereby they reduce the number of insurance companies they represent in order to gain efficiencies, reduce their transaction costs, and gain favour with the remaining insurers they have selected.

The insurance company respondents have also expressed their concern for this evolution. On the one hand, they did express a need to be empathetic to the brokers' position while on the other hand they discussed their own needs in this regard in order to gain a competitive advantage. Major players like ING Canada have been examining ways to gain a stronger foothold in the downstream distribution chain. To this end they have been purchasing brokerage operations, both in whole and in part, and participating in lending activity to brokers to help them facilitate the acquisition of other brokerages. Their belief is that because of their size they can achieve economies of scale in the distribution stream and further reduce transaction costs in the intermediary channel.

The respondents suggested that some industry participants look upon all of these changes with suspicion, particularly those that are highly resistant to change. The belief in those cases is that insurers and brokers should remain guarded and at a distance from one another. They believe that there should be little, if any sharing of information and the brokers should protect themselves by representing a large number of companies. The respondents in the study, by-and-large disagree with these sentiments as they feel that the changes mentioned are positive and demonstrate stronger commitment between those that each elect to partner with.

For those interviewees that have moved further along the concentration path thus tightening their mutual relationship, there are suggestions that a greater sense of openness and sharing has emerged. Supporting ***Proposition 8***, they each indicated that there is a greater sense of and need for trust as there is a greater reliance on the counter-party to fulfill their obligations and responsibilities to the relationship. In addition, there is a heightened level of the TCE framework's idiosyncratic investments that are made that pertain to the unique relationship. Less safeguarding of assets is deemed necessary, and a stronger partnership can evolve. Notwithstanding this, there does remain a natural set of risks that come with this arrangement. Pursuant to ***Proposition 11***, the opposite is also true of the aforementioned circumstances when a concentration as a strategy is deliberately rejected, most notably that there is generally more safeguarding of assets and less openness in their communication. As suggested by the TCE tool of uncertainty, commitment is tenuous in these cases.

During the interviews, participants were requested to consider the impact of forces that exist outside of their firms yet within the industry that may have either an influence or impact upon their future. Whereas the broker group tended in large part to gravitate towards addressing the matter in terms of the insurance company and its ability to vertically integrate operations while eliminating the need for brokers in the distribution channel. The ING Canada relationship managers responded in a similar fashion, suggesting the evolution was part of a natural progression but did not paint a doom and gloom picture. Their feeling was that brokers too must adapt to the external forces that surround them (as many are doing) in this uncertain environment and that there does not have to be a complete elimination of the broker channel. The customer will ultimately determine the value that the broker delivers and the marketplace must be prepared to meet those demands.

It appears from the responses that the more progressive broker principals and the relationship managers of ING Canada agreed that changes are inevitable, but how the change is adapted to and managed is what will drive success for an organization. Adaptation to each of the external factors is also judged by competitors, partners, and customers alike. The changes can be viewed as either positive or negative depending upon one’s perspective, but the way in which these are managed can influence commitment levels, as each party is observing the choices made by the counter-party. Decisions made regarding future directions may send signals to important contacts and key relationships thus having an affect on their perceptions about the other’s intentions and both their affective and calculative commitment to the counterparty.

The matter of performance evaluation was recognized by respondents as being an important gauge of commitment for several reasons. Naturally, measuring the counter-party’s performance against predetermined targets is essential to the management of any business. This facilitates planning, budgeting, and resource allocation, etc. It also aids in troubleshooting problems and preventing serious issues before they arise. It can allow for early intervention even in periods where performance targets are being exceeded and extra resources are necessary to meet the demand. Performance evaluation techniques do not need to have a negative connotation as this can lead to an increase in uncertainty, thus as per ***Proposition 12*** this can result in a rise in transaction costs through a sense for a heightened need for evaluating the counterparty.

As previously noted the decentralized nature of this distribution channel gives rise to the need for empowerment and trust. But performance evaluation is required to ensure compliance with the responsibilities and obligations set forth in agreements and pledges. Issues may arise in the evaluation of performance, but participants concur that this is often the result of poor communication or the lack of clear objectives.

Respondents indicated a greater sense of commitment on both parts when matters of performance evaluation are taken seriously and in a constructive light. They suggested that there needs to be a willingness to work together in order to achieve joint success. There is a requirement for them to communicate openly, frankly and with candour. If performance has been suffering, the evaluation is not the time for blame or retreat. They agree that this becomes the opportunity to consider root causes and then seek options for remedial action. The TCE framework tool suggests an increase in transaction frequency and performance is a strong indication of commitment to the dyad partner. Ultimately, this appears to have a significant influence on commitment levels on both sides because of the perception of the counter-party’s actions.

9.2 Commitment – Enablers and Disablers

Whereas the foregoing section of the discussion utilized the *"Commitment Wheel"* to apply the foundations of commitment and transaction cost theory to the Canadian insurer-broker relationship, this section will now expand the topic further by applying this study's data in examining specific aspects of commitment that are highly relevant to this research. These particular enablers and disablers of commitment include: (a) the perception of asymmetry within the relationship; (b) opportunism; (c) trust and; (d) dependence. Although each will be examined individually, there will be some overlap due to their inter-relationships.

The matter of asymmetry in this channel is important because of the dynamics of the constant shifting of power. It is necessary to recognize that a company such as ING Canada is huge when compared to a typical insurance brokerage operation. A large insurance company would typically have considerable self-contained expertise in all facets of business operations, including marketing, legal, accounting, etc. By comparison, a brokerage operation would normally contain limited resources and expertise would be limited to matters surrounding insurance. Naturally, there are benefits and drawbacks to the issue of size of operations. Larger operations tend to have greater resources and power, yet smaller firms can be more nimble and quicker to react. Decision-making and other processes are less bureaucratic in smaller firms.

However, the difference in size and magnitude of the two types of organization appears to lead to misperceptions about both the intentions and level of commitment of the dyad partner. In addition, ***Proposition 10*** indicates that the concept of asymmetry can be viewed simply as a mindset, as the size is rather situational and this can have an affect on commitment levels. For example, each requires the other in order to thrive and each can switch or replace the other if the relationship deteriorates. So when size is considered, a broker can operate while representing one insurance company but an insurance company cannot survive with only one broker in its distribution chain. In the case of ING Canada over two thousand brokers are involved in the Province of Ontario alone. Most brokers maintain membership in an industry association entitled the Insurance Brokers Association, a group which safeguards the interests of its members. In addition, brokers also form councils that ensure their interests are considered and this has can result in reducing their uncertainty about the channel.

Due to the contexts mentioned above, the asymmetry and the power therein will shift from side to side. Respondents suggested that the relationship is a game of give-and-take, and they subconsciously observe the input of the counter-party to the relationship as a measure of commitment. This not only includes resource allocation, but they also gauge how they feel they are treated when the power shifts. As mentioned, misperceptions and miscalculations can lead to disagreements, ill feelings and poor communication, often resulting in a move from dysfunction to total breakdown.

Closely linked to each of the key enablers and disablers of commitment is the issue of opportunism. This too is explained by the use of the transaction cost tool of uncertainty. Respondents understood that opportunistic behaviour can affect the psychological aspects of their relationships and ultimately upon both real and perceived levels of affective commitment. It was suggested that if one side perceives that they are in an inferior position to the other, the counter-party could act opportunistically against them and take advantage unfairly. And the reverse is also true. The choices made by each side becomes a demonstration as to how committed each is to the relationship.

In many cases, participants indicated that opportunistic behaviour has developed as a result of the asymmetry that exists and how it is managed. If one party has a reputation for dealing unfairly the result is often that their counter-party is the recipient of opportunistic behaviour. Depending upon the nature of the ongoing relationship, vigilance may be necessary in order to monitor the activities and behaviour of the counter-party.

In the context of insurer-broker relationships, opportunism could result in different ways. For example, the TCE tool of frequency suggests brokers acting opportunistically might purposely direct potential insurance policies toward a different insurer, thus altering premium flow in favour of another relationship. Even threatening to do so can weaken the relationship as partners can become suspicious of the motivations of the other side. On the other hand, insurance companies acting opportunistically might with-hold services and support to a particular brokerage, or they may alter commission structures and adjust co-operative marketing resources and efforts in an attempt to disenfranchise the broker.

Regardless of how it is undertaken, opportunistic behaviour is viewed by both sides of the relationship (as evidenced by the respondents) as despicable conduct. It raises suspicions and forces energy to be expended in a wasteful way. Thus, as posited via ***Proposition 7***, this jeopardizes the health of relationships and the result can be a reduction in commitment levels.

The notion of trust serves as both an enabler and disabler of relationships in the property and casualty insurance distribution networks. Respondents were clear that trust is an essential ingredient in the health of a good working relationship and without it deterioration is likely. Being intangible, trust is hard to gauge but it must be present. Often a breakdown in trust is more noticeable than when trust is present, thus the *"Commitment Wheel"* depicts trust and other emotional matters adjacent to behavioural uncertainty due to their relatedness.

The concept of trust appears tightly linked with other aspects of commitment and transaction cost theory. For example, breakdowns in trust may emerge from a communications dysfunction, a contractual dispute, perceived opportunism, unfair resource allocation, etc. The outcome could affect one's reputation for fairness, conflict history and lead to a reduction in the levels of investment in the relationship. Ultimately, as suggested in ***Proposition 8***, commitment levels suffer the risk of injury.

Respondents were eager and passionate to discuss the topic of trust. Whereas they did express confidence in the mutual trust levels they enjoyed within the ING Canada distribution chain, they each recited both good and bad examples from other relationships they either experienced or heard about. In any event, each suggested that the nature of insurance distribution, i.e. de-centralized and requiring different skill sets requires absolute trust in the other party. Without trust, considerable additional investment and resource allocation would have to be dedicated towards monitoring the counter-party. This was felt to be a waste of capital and energy.

Also closely linked to matters of commitment and transaction cost theory is the area of dependence. It also can serve as an enabler to build commitment and alternatively that which can destroy it. An amount of dependence will manifest is situations where there is asymmetry between two sides in a dyad. One firm's dependence on the counter-party is determined because of their need to achieve their objectives. Naturally, this need varies proportionately with how asymmetrical the relationship is.

Dependence can lead to weakness and danger depending upon the fairness and actions of the dominant party. Risks can include opportunistic and exploitative behaviour by the stronger of the parties. Commitment can be observed by the actions of each side when dependence appears to emerge. Conduct may adjust as power shifts in favour of the dominant partner. Respondents expressed their views in this regard because of the perceived asymmetry in the relationships, and both sides were cognizant of the issue.

Dependence could emerge on the part of the insurer if a particular market is under-penetrated by them. As noted in transaction cost theory, the tool of frequency suggests that both the insurer and the key broker within that community will sense the heightened need for that broker to re-allocate more premium in favour of that insurer. Perhaps a more appropriate method to remedy this would be to appoint additional brokers within that community in order to not weaken the insurer's position. Alternatively, if a small brokerage operation becomes highly concentrated with one insurance company, yet the premium income allocated towards this insurer is small when benchmarked against rival brokers. This particular broker becomes vulnerable as they need the insurer to maintain a contract with them in order to stay in business. It may have been more appropriate for them to hedge their bets and entertain representing a second insurer. This would have to be weighed against the reduction in volume to the existing insurer. As indicated in ***Proposition 9***, dependence bears a positive relationship with calculative commitment.

In the end, the behaviour of each party when this type of dependence occurs will send a signal as to how committed they are to the success and sustainability of the relationship. The negative amending of contractual terms and/or exploitation during these instances will give notice that the dominant party is simply taking advantage of the dominant party and is not truly committed to their mutual longer-term success.

9.3 Commitment – Affective and Calculative

Whereas the current literature on the topic sub-divides commitment into two distinct forms as being either affective or calculative, so too does this study examine the phenomenon of these sub-sets from the perspectives of both insurers and brokers. To revisit the definitions, the affective form is evident in cases where an individual wishes to forge a linkage with another because of common values or some likeness or affinity. The matter of identifying with the other party is regarded as an emotional attachment to the relationship. Conversely, calculative commitment results from the deliberate evaluation and assessment of the value and the need for the relationship. The process of deliberation typically involves a weighing of the pros and cons, investments, costs, inputs and outputs (Morgan and Hunt 1994). Calculative commitment takes into account transaction costs involved in the dyad (Williamson 1985) and considers whether alternatives should be sought. This is particularly relevant to matters involving the transaction cost tool of idiosyncratic investments.

Respondents unanimously agreed that in this distribution format both forms of commitment are necessary and evident. Participants were probed as to their own beliefs about a dominant form, i.e. either affective or calculative. The overwhelming response was that this is a moving target and is somewhat contextual. The dynamics of the industry keep altering the circumstances that each party may find itself in and as the situation changes, so too does the players and the playing field.

Compensation structures within property and casualty insurance distribution are, for the most part rather standardized. As can be seen within the sample broker contract in the Appendix, higher volumes of production can earn a broker an increased percentage payout on their business, either retroactively or incrementally. This is not unique and is a common and natural incentive in sales distribution networks. But calculative commitment is present and emerges from other reward mechanisms that are made available. Among these other rewards and benefits are idiosyncratic investments in training programs, subsidized marketing efforts and partnership arrangements. Brokerage respondents named these items when contemplating calculative commitment. Company respondents leaned more in favour of geographic coverage, time expenditures, etc. when considered from their perspective. The overall tone of the discussions in all three case studies supports ***Proposition 2***, specifically that when considering the two forms of commitment, calculative commitment results from deliberate evaluation on a cognitive level of the need for the relationship. It can be explained and measured through the use of the “tools” of transaction cost economics (as will be explored further in the following section).

When observing commitment from the perspective of the affective category, respondents appeared more reflective. Most could not ascribe a reason why they felt comfortable in dealing and partnering with a particular person or firm, but indicated that having a good feeling was important to them. Matters of trust arose, along with a sense of good-will and strong two-way communications. Good products, excellence in distribution, and suitable compensation aside, respondents indicated that a demonstrated willingness on everyone's part is necessary to ensure the success of the dyad. For either side to be committed to the relationship, they had to feel comfortable that they could enjoy working with the other party, and vice-versa.

9.4 The "Tools" of Transaction Costs Which Impact Commitment

As was mentioned earlier, there are specific aspects or tools of transaction cost economics which have explanatory power for commitment. Specifically, asset specificity and frequency reach deep into the topic of calculative commitment while components of environmental and behavioural uncertainty also lend something to the discussion. Although much of the uncertainty category is biased in favour of affective commitment, it does provide reasons for motivations for changes in governance structures. Each of these tools of transaction cost economics will now be explored further.

9.4.1 The TCE "Tools" of Asset Specificity and Frequency

Factors involving both asset specificity and the frequency of transactions have a heightened relevance in terms of establishing commitment levels between insurance companies and brokers. It is apparent in this study that there is strong inter-relatedness between the two factors. Put simply, a greater number of transactions with a principal will tend to follow an increased investment in specified assets and conversely a greater level of investment in specified assets will be made to facilitate an increase in transactions. Respondents on both sides and at all levels of the dyads expressed this concept in one way or another.

The sub-sets of asset specificity described in the literature review have implications in this unique channel. These include temporal specificity, site specificity, dedicated assets, physical asset specificity, brand name capital, and human asset specificity. Although most of the academic literature tends to focus upon human asset specificity, each area was addressed during the participants' interviews and will be discussed and analyzed in this chapter.

The notion of temporal specificity was explained in the context of the changing dynamics of the industry. It appears that commitment to a relationship may be the intention of a party, but if a significant shift occurs in the industry or within the relationship, the level of commitment becomes tested. The terms and conditions have changed. Parties will consider the history of the relationship and how the counter-party's behaviour had been as they are now venturing forth into a new set of circumstances. This may have to be done on faith. If experienced satisfactorily, commitment levels return to their former place. Failing that, the aspects of the relationship require reconsideration.

The same is true for site specificity, dedicated assets, and physical asset specificity. Whether it is assets or locations, parties on both sides agreed that they tend to commit based upon a pre-determined set of circumstances. When these circumstances change, a re-examination is appropriate. But as above the cost of dedicating certain assets to a particular relationship may be a costly investment and requires commitment and faith on the part of both parties. Conversely, serious consideration must be applied as to the cost of switching out of the relationship if the assets are of little or no value elsewhere. In the case of this research, respondents discussed their investments in joint technology and other systems which then have no value in other relationships. They agreed that this forces parties to not be flippant when considering exiting the relationship. They find themselves working harder to make the situation workable due to both the financial and non-financial costs of switching. Thus, as per ***Proposition 15*** and ***19***, increases in investments in assets that have a high degree of specificity are positively correlated with levels of investment.

Although not unique to this channel, human asset specificity requires investments on the part of both the insurer and the broker in terms of training, product knowledge, and systems expertise. Generally this form of dedication will cause a temporary impairment on productivity due to the necessity for time taken for training, a gradual ramp-up in pursuit of full competence, etc. Whereas human asset specificity is less tangible because cash payments are not typically exchanged, respondents noted it is a significant consideration when both committing to a relationship and also in contemplating a switch.

Brand name capital is also not unique to this channel, but there are particular aspects to the relationships between ING Canada and a certain class of brokers in their distribution chain, each of which are included in this study. For most brokerage operations, the goodwill associated with their trade name is an important and valuable asset, just as it is with insurance companies. But for this particular class of brokers, ING Canada extends it own name to them for purposes of marketing leverage by way of dual branding. This closeness is intended to send an implicit message to consumers that each party is giving its endorsement to the other party, hence the co-branding. Although it is in the early stages of this program for ING Canada, the intended benefits have started to emerge. However, in instances where deterioration in the relationship occurred, the dual branding has made public the implied terms of the arrangement, and this can cause concern amongst consumers and staff, not to mention the misinformation that can follow. Participants in the study indicated that this potential outcome makes it incumbent upon parties venturing into this form of arrangement to ensure they are about to engage with the best partner.

Transaction frequency as a measure of commitment in this context can be both objective and subjective. Clearly it is quantifiable since the number of transactions can be measured in many different ways, including the number of customers, dollar volumes of insurance premium, renewal rates, etc. Presumably a satisfied broker would direct a steady amount of new business toward a particular insurer, and this would likely increase proportionately to the broker's level of satisfaction.

However, in the current environment of consolidation and concentration, it is difficult to ascertain the root cause of an increase or decrease in premium allocation per broker. Although it could be due to satisfaction or dissatisfaction levels, it may also be caused by a reduction in insurance companies the broker represents, thus causing a redirection of the cancelled insurer's block of premium in favour of the remaining insurers. This in itself may indicate commitment to the remaining insurers, but the reasons for concentration are not always given. For example, the choice may not have been the broker's to surrender a particular contract with a company. It may have been decided by that particular insurer due to business reasons or dissatisfaction with the broker. Ultimately, as the respondents suggested, frequency of transactions is an indication of commitment, but further analysis is required to ascertain this on a case-by-case basis. These scenarios validate ***Proposition 14*** which states that higher frequency levels provide an incentive for firms to consider a hierarchical governance structure since it would likely be easier to recover costs in this way for larger transactions of a similar type and in a similar region. Otherwise a market structure or hybrid form would be more suitable.

9.4.2 The TCE "Tool" of Uncertainty (Behavioural & Environmental)

Participants in the study suggested that both environmental and behavioural uncertainty is a significant contributing factor to changes in commitment levels. A level of certainty is required in order to forecast and plan for the future of an operation. Thus typical business managers endeavour to avoid the possibility of interruptions to this level of certainty. In uncertain times dyad members seek to restore order and normalcy to their operation, regardless of whether they are principals (insurers) or agents (brokers).

Much of the current literature, based upon early works by Klein (1989) examines environmental uncertainty from two particular perspectives, i.e. the complexity and the unpredictability of the external environment. In this study, the complexity of the external environment was assumed and acknowledged, and participants tended to address the issue in terms of its unpredictability. Much of this unpredictability stems from the dynamism of the industry, including consolidation of players, concentration strategies, and regulatory demands and changes. The participants' responses regarding environmental uncertainty and other external factors validate both ***Propositions 16*** and ***20*** since they both impact choices of governance structure. Specifically, unpredictability encourages companies to develop hierarchical structures and also when enforcement costs are high firms tend to gravitate towards undertaking activities internally.

Respondents on both sides and at all levels of the dyad discussed the importance of dealing with a credible partner that has a history for fairness and a demonstrated conduct of commitment. Insurance companies concern themselves that they may be eliminated from a broker's list of companies that it represents because of a move towards concentration. In addition, the consolidation of brokerage operations puts insurers at risk of a diminished premium allocation from a shrinking number of players. On the other hand, insurance companies are continuing to merge and acquire competitors, leaving a smaller number of market opportunities for brokers to choose from. Moreover, brokers find themselves at the mercy of insurers involved in internal rationalization in which they are analyzing the production volumes from various brokers and cancelling the contracts of those brokerage operations that are either too small or unprofitable to deal with. These aspects on both sides of the dyad are forcing members to demonstrate commitment to their partners, and to determine precisely how committed their partners are.

Behavioural uncertainty has not received the same level of attention in the academic literature, yet respondents in this study did recognize its relevance vis-à-vis commitment. Much of the concern suggested by the respondents surrounded rapid and unannounced changes by the counter-party which may have an affect upon the relationship. Little was discussed about irrational or erratic behaviour, but more of a concern about changes that demonstrate a weakness in communication levels. Neither side appeared to have a high tolerance level for surprise announcements regarding changes that affect their mutual interests. It was indicated that although it may be necessary to occasionally suffer these occurrences, a frequent number would suggest a lack of consideration and commitment by the party doing this. Although, others within the channel may be affected in the same way by this behaviour, and it may not have been intended to harm a particular counter-party individually, it does draw into question that firm's commitment to the industry as a whole. Respondents suggested that this is equally as important as changes to the one-on-one relationship and suggests that ***Proposition 17*** is accurate due to the challenges that arise with a partner's change in behaviour.

9.4.3 Summarizing the TCE Tools' Contribution to Commitment

Summarizing the preceding section, it is evident from the interviewees that transaction cost theory aids in explaining the varying levels of commitment and in particular calculative commitment that can exist between the principals and agents in a typical insurer-broker dyad. Whereas elements from both transaction cost theory and commitment theory do construct and characterize the different aspects of the relationship at its various stages of existence, ultimately the chief gauges of commitment stem from key components (or tools) of transaction cost economics. These include asset specificity, frequency, and behavioural and environmental uncertainty.

The building blocks of commitment theory suggest that an assessment of a relationship will lead to a determination as to whether a dyad member is committed in an affective or calculative way, or a combination of the two. The interviewees suggested that they were inclined toward a belief in their context of a blend of affective and calculative commitment. Specifically, they measure the value of the relationship by comparing it against other potential partnerships in both financial and non-financial ways. Due to the highly standardized and regulated nature of this industry, many aspects such as commission rates, company size, volume levels, etc. are quite similar or can be assessed rather quickly. These aspects do not change significantly from period to period. They are largely the elements that are examined in judging the level of calculative commitment. Conversely, the respondents felt that affective commitment has relevance in understanding their relationships. Each side discussed the importance of needing a sense of closeness and trust with their dyad partners, and the more they sensed this, the more committed they were.

In interpreting the data from the interviews, it was also clear that the four key tools of transaction cost theory, i.e. asset specificity, frequency, behavioural and environmental uncertainty are each integral to understanding how calculative commitment is constructed. In most cases, a change or an action is required to provide a direction to a change in commitment. For example, asset specificity requires a deliberate investment or re-allocation of resources purposely in favour of a particular relationship. In this context, frequency is apparent by measuring the number of customers and premium volumes. The two forms of uncertainty typically require changes in actions or environments that have an affect upon the relationship. When confronted with uncertain times and behaviours, dyad members tend to gravitate towards that which they are more familiar and comfortable with. Although each side of the relationship may be affected by changes and actions differently, it is clear from the data that these aspects of transaction cost theory are integral in assessing commitment levels within insurer-broker relationships. In particular, the tools of TCE's of asset specificity and frequency bear a significant impact upon the calculative form of commitment.

9.5 Additional Analysis of Interview Data

In endeavouring to maximize the complete utility of this research data, further analysis was undertaken. In conducting this aspect of the study, each of the interviews were repeatedly combined and re-grouped into new categories including: large versus small operations (regarding broker operations up to nine individuals versus ten and more individuals), gender-based, age-based, and length of service. This is in addition to the natural groupings that occur such as rural versus urban brokers, ING Canada relationship managers, and executives.

Particularly relevant in interpreting and comprehending the following findings, it should be noted that each of the groups of Canadian insurance executives, relationship managers, and insurance brokers are fairly homogenous groups within themselves. This can be traced to a number of causes including:

- Most chose a career path in their given field and moved up within the ranks.

- The individuals have had to participate in similar education streams that are necessary within each area to develop their careers.
- Relatively few people are hired from outside of the insurance sector. Thus, most have been exposed to an extensive socialization process during the development of their individual careers.

The additional analysis did not lead to any new or additional findings, although it might be argued that the absence of notable differences is itself an interesting finding. The underlying method considerations for this aspect of the research were discussed earlier in the Methodology chapter and the analysis methods were identical to those used within the case studies.

9.6 An Examination of the Standard Groupings

It could be argued that differences between broker and corporate responses could be expected to occur. To some extent this is inherent in the differing nature of their responsibilities and functions. Moreover, the structure of the relationship has an impact upon views and attitudes, especially considering that several dynamics can be at play simultaneously, e.g. principal and agent, partner, customer and supplier, etc. This logic is supported in the literature (Ross, Anderson, and Weitz 1997).

The research did uncover the differences in perspectives among the different groupings. The differences are subtle and rather nuanced, yet still demonstrate a pursuit of common goals. Interestingly, the relationship managers appeared to bear similarities to each of the other groups (brokers and executives), which is likely due to their deliberate placement as the primary contact for the relationship. The nature of their responses demonstrates an awareness and understanding for both sides of the dyad.

Collectively, the brokers appeared to recognize the importance of the roles played by all parties to the relationship, yet their responses appeared more limited and narrow towards their self-interests. This is understandable given the fact that they have made considerable investments in their own businesses unlike the other respondents who are essentially employees of the insurance company.

By and large, the executive responses appeared conceptual and theoretical. Recognizing the intent and objectives of the relationships, these responses appeared to be fairly high-level and somewhat utopian, yet understanding that those aspirations could be achieved with an adequate measure of intent.

The foregoing does not suggest, nor cannot it assert that these findings reflect true differences between the groups. However, the argument can equally be made that these findings reflect different perspectives between the groups related to positioning.

9.7 Analysis of Brokerages

An examination of broker responses reinforces the notion that this is a fairly homogenous group with similar modes of operations and goals. When separated into sub-groupings of those with up to nine persons involved in the operation and those with greater than nine, no discernable patterns or themes emerged relative to their beliefs or approaches to their relationships with their insurance companies. Size may be a factor in issues such as human resources, but as far as commitment or transaction cost issues it did not appear to present any significant differences.

The proximity to the principal did not present any emergent themes either, nor did urban versus rural brokerage operations. Operations are present in almost every community in the country, and this study presented a blend of brokerages spread all over the Province of Ontario. These are located in large cities and small towns and villages. Some are within driving distance of ING Canada's head office in Toronto, while others can be a two hour flight from Toronto. The finding that no significant differences were noted across these sub-groupings may be due to the fact that there have been numerous improvements in communications and information flow (e.g. computers, internet, etc.) and telecommunications. Moreover, transportation systems have improved as well. Thus, recognizing that distance typically presents challenges to relationships, the responses may have been different many years ago, but not today.

9.8 Analysis of Gender, Age, and Length of Service

No differences attributable to gender were found. Both females and males expressed a fairly consistent distribution of opinions and responses to the interview questions. This was considered to be normal, given the aforementioned homogeneous nature of each of the groups. Within each group, there appeared to be an equal diversity of opinions regarding the components of transaction costs and commitment, ranging from enthusiastic to cynical. No gender-bias was apparent in the analysis.

The respondents' level of employment in each of these groupings requires fairly extensive training and career paths. It is not typically a transient-filled business and successful owners, managers and executives generally have been promoted through the ranks of the business. Notwithstanding this dedication and experience, there are different ages and tenures of the respondents. The median age of respondents was forty-seven, and the median experience level in years was eighteen. Within the context of these research interviews, no additional findings could be attributed to either length of service, age, nor gender.

9.9 Summary of the Discussion and Analysis

At the conclusion of each interview, participants were asked to share any other thoughts or insights that they deemed important to the topic. Interestingly, almost all respondents suggested that commitment in either form requires the will on both sides of the relationship to make it work. They suggested that their relationships can withstand a measure of pressure, but not a sustained level of abuse. Effective communication and maturity appear to be two essential ingredients of a healthy relationship.

The *'Commitment Wheel'* was introduced and activated as a theoretical model describing the influence and impact of transaction cost issues on commitment levels in insurer-broker dyads.

Overall, the research analysis and findings have confirmed interviewees' perspectives that transaction cost economic issues do in fact explain levels of and changes in commitment levels. In each of the case studies, participants confirmed that this concept was relevant and had merit, and had the potential to predict subsequent actions and reactions by dyad parties during times when factors of the '*Commitment Wheel'* were affected.

This chapter has discussed the research findings against the research propositions, including several emergent findings. The following chapter (Conclusions) will continue this discussion and also respond to the original research question.

10 Conclusions

10.1 Findings of the Research Proposition

Returning to the primary research proposition:

> **Does Transaction Cost Economics (TCE) explain the varying degrees of calculative commitment levels in relationships between insurers and brokers in the Canadian property and casualty insurance sector?**

with the following research objectives or sub-research questions identified from the literature review guiding the research:

- To explore the tool of TCE's asset specificity factor in commitment.
- To explore the tool of TCE's uncertainty factor in commitment.
- To explore the tool of TCE's frequency factor in commitment.
- Are there other factors that impact or influence transaction costs and/or commitment?

As noted, this research examined these questions and issues from the perspective of both insurers and brokers through exploratory case studies.

This chapter will initially consider the contribution to knowledge that this thesis has made in further understanding changes in commitment levels as examined through the lens of transaction cost economics theory. This will be followed by the presentation of additional findings which emerged during the research analysis. The chapter is organized as follows:

- Contribution to Knowledge – Commitment and Transaction Cost Economics
    - Insurance company and broker perspectives
- Contribution to Knowledge – Emergent Findings
    - Affective and Calculative Commitment
- Theoretical Implications of the Research Findings
- Practitioner Implications of the Research Findings
- Limitations of the Research
- Future Research
- Concluding Remarks

10.2 Contribution to Knowledge – Commitment and TCE

As examined in the Discussion chapter, the thesis has found that the key elements and factors of transaction cost theory contribute to an increased understanding of the dynamics of commitment in principal and agent dyads. These findings could be considered sufficient, in and of themselves, to achieving a full comprehension of the issues. However, the development and inclusion of the *'Commitment Wheel'* has increased the explanatory powers and understanding of the perspectives and the bounded rationality of each of the three groups in the case studies.

As noted in the summary of the Discussion chapter, the study concluded that the components of transaction cost theory: frequency, asset specificity, plus behavioural and environmental uncertainty each have explanatory powers in the comprehension of commitment theory. However, they do not always have an equal weighting in their contribution and can vary in differing situations. In a given circumstance, one factor may be the catalyst for an increase or decrease in commitment, and the other factors may play a supporting or minor role. For example, market (environmental) uncertainty may precipitate a broker's decision to move psychologically (affectively committed) closer to a particular insurer and make idiosyncratic investments in that relationship (calculatively committed). This will drive increased frequency, etc. Alternatively, a situation could arise in which a broker already made unique asset investments in favour of a particular relationship and as a result has developed a heightened motivation to make that relationship work, even when difficulties manifest.

10.2.1 Insurance Company and Broker Perspectives

The findings in the study clearly demonstrate the different perspectives of the three groups. Although they tended to agree in their responses of the research topics, it was evident that the three groups looked at business issues through different lenses. Brokerage owners were inclined to consider issues from a typical business owner's point of view. This is only natural as they continuously risk their own capital and tend to take a long-term view in business decisions. They have a greater impact on their own success or failure with their business decisions than does a typical insurance company manager on the success of the insurer.

Conversely, ING relationship managers tended to consider issues from a principal (versus agent) viewpoint and tended to speak in real terms at a micro level. Their viewpoint reflected the context of the nearer-term. This is likely due to several influences including the following: annual objectives, frequent role or position changes, changing focuses and priorities at the insurance company, among others.

The ING executives responded in an idealistic fashion and at a macro level. They were inclined to speak of what the intent is in a given situation and if it was a perfect world as it pertains to each of the circumstances. Their high-level responses are likely the result of their detachment from the day-to-day dealings within the actual relationships, yet it displays their knowledge of the strategic intent of this form of business relationships.

10.2.2 Contribution to Knowledge – Emergent Findings

In addition to research findings linked to transaction cost economics and commitment theories, some key findings have emerged from the analysis of the research data. This section revisits the findings in the area of affective and calculative commitment. Although each of those two forms of commitment are influenced by one or a combination of more than one factor of transaction costs, and the calculative form is dominant in these dyads, it is surprising that the majority if not all of the relationships in this study have a strong affective commitment component as well, particularly on the part of the broker (agent).

The literature reminds us that the calculative form of commitment involves an assessment of the value of the relationship. This requires an examination of investments, costs, inputs and outputs (Morgan and Hunt 1994) whereas the affective form seeks to uncover affinity, common values, etc. as a reason for forging a business alliance. This is more of an emotional attachment.

The study concluded that based upon the unanimous response from the participants, transaction cost economics aids in confirming that although the calculative form is dominant, both forms of commitment are evident in their relationships. Whereas it is suggested that it may be difficult to ascertain the degree to which the calculative form is dominant in each individual case, it appeared that affective commitment remains a necessary constituent in each case. This is somewhat surprising when considered in light of the fact that the insurance industry is a financial service and is highly quantitative in nature and so too is calculative commitment. It would seem plausible that industry members would naturally gravitate toward calculative commitment as the dominant form for the foundation of a business relationship. Although affective commitment is almost always present in varying degrees, key aspects of the transaction cost economics framework, particularly asset specificity (systems, training, etc.) confirm the presence and dominance of calculative commitment.

10.2.3 Theoretical Implications of the Research Findings

The thesis's primary theoretical contribution surrounds the differing utility and applicability of transaction cost economic theory factors. Empirical evidence from the three case studies suggests that the four factors not only assist in explaining commitment levels and forms of commitment, but also provides a basis for a fuller understanding of how the factors impact and/or influence each other in the context of insurer-broker dyads.

In addition, and as supported by the methodological literature on exploratory case study research (Flowler 2002; Yin 2003b), theoretical implications within exploratory research can also serve to identify areas where existing theory is weak or absent.

While transaction cost economics theories generally maintain a close relationship with commitment theories, highly-focused examinations of this type are under-researched.

The unique characteristics of this particular study revolve around the nature of the participants and specifically the asymmetry that exists and the power-shifting that does occur between the principal and agent (insurer and broker/broker industry). In addition, unlike typical agents, these brokerage operations are not single-person entities but are corporately-organized legal entities with varying sizes of staff members and licensed professionals. Moreover, the industry operates within a tightly-regulated framework, thus adding nuances, constraints, and complexities not found within other studies.

Secondly, as the literature review noted, the bulk of the research within this topic area has generally been conducted in a survey approach. This study adds a new dimension to the field by utilizing an interview approach, thus enabling respondents to expand upon their thoughts where they deemed appropriate in an open and honest fashion. The richness of the data that has been collected has expanded the knowledge in this area considerably.

Finally, and perhaps most importantly, this research has attempted to make a theoretical contribution to the subject of commitment. As noted earlier, the research findings suggest that transaction cost factors do play a role in influencing or directly impacting either or both of the two forms (affective and calculative) of commitment. While the topic has received fairly broad general coverage, it can be argued that refinements to both theories are warranted.

In summary, this research has made several theoretical contributions, and as exploratory research has identified several theoretical areas where empirical evidence has suggested current theories are weak or absent.

10.2.4 Practitioner Implications of the Research Findings

This section will briefly assess these research findings from a practitioner perspective, thus considering the contribution of the research at the functional or operational level. It seeks to respond to the Academic/Practitioner gap (Swamidass 1991).

- Since dyad members expressed the relevance and importance of the affective form of commitment, conduct and fair treatment is essential. Reputation has attained a heightened value as a corporate asset.
- Consistency in conduct and behaviour is an important ingredient in successfully committed relationships. Reductions in uncertainty will provide comfort to other dyad members.
- Partners are seeking trusted relationship counter-parties and fair treatment.
- Frequency of transactions should result from good communications and fair treatment.
- Increased frequency often leads to increases in idiosyncratic investments in order to reduce costs on a per transaction basis and improve economies of scale.
- Partners will be willing to invest more heavily with partners with which they enjoy the relationship. This increases switching costs which in turn increases commitment to an existing relationship.

10.3 Limitations of the Research

This section summarizes certain limitations of these research findings.

Primarily, this examination was an exploratory case study, reflecting the fact that this body of knowledge was not well-developed. As with any exploratory research, the study's proposition generated new questions and hypotheses – which can only be addressed through further research (Yin 2003a). Acknowledging the explicit focus on linking transaction cost economics theory and commitment theory, and noting the open-ended fourth sub-topic which actively sought out other contributing factors, the possibility remains that the thesis failed to identify all relevant or critical factors in integrating transaction costs and commitment within the Canadian property and casualty insurance distribution environment.

In addition, this research has examined the influences, impacts, limitations, and constraints of transaction cost economics from the principal and agent (insurer and broker) perspectives. As previously indicated, other stakeholder groups, customers, regulators, etc. would hold different and potentially conflicting viewpoints. Of particular note, for this study the researcher specifically decided not to incorporate the perspectives of others in the value chain. This was based on the considerable differences between the respective roles and different motivations and lenses through which these relationships would be viewed.

There are limitations inherent in the research methods. While there were no discernable grounds for believing any of the following to be true, and although such possibilities were actively considered during the course of the study, the possibility remains that:

- Research findings were primarily based on interviews with sixty-five industry members, including eight insurance executives, eleven relationship managers, and forty-six insurance brokerage owners and senior managers. These participants may not be reflective of their individual class and strata as a whole.
- Interviews were conducted during a period of time of change in the industry including a measure of market uncertainty, consolidation, concentration, and rationalization.
- A sub-group of respondents may have been intentionally blocking or actively resisting the force of change. As such, some participants may not have been completely honest or forthcoming.

Because the dissertation uses a case study approach, the generalization of findings is theoretical rather than statistical (Yin 2003b). As with any research of one geographical area and one unique industry, generalizations to the rest of the commercial world should be made with extreme caution. For example, industries that do not require inter-personal relationships with partners would be less inclined to consider the influence of the affective form of commitment and would deem it to be irrelevant.

10.4 Future Research

This dissertation, as an exploratory case study, has generated an expanded foundation of knowledge and opens up several avenues for future research on both the Transaction Cost Economics and Commitment theories. A few suggestions follow.

10.4.1 Transaction Costs

It would be interesting and informative to conduct a longitudinal study of a group of brokerages and measure changes in volumes and frequencies of transactions per insurance company. This would simultaneously measure changes in investments in specified assets in favour of each insurer, while continuously monitoring the environment and individual behaviours for uncertainty in behaviour. This could be conducted with an action research approach, thus adding or removing a stimulus and gauging the result.

At the macro level, a similar study could be undertaken whereby the industry is examined in the aggregate. Investments in technology, specific assets, changes in volume by company, etc. would be investigated to determine how the market behaves relative to the transaction cost factors.

10.4.2 Commitment

Further research is warranted in the area of affective commitment as it pertains to dyad members in this industry. Both a survey and an interview approach would uncover underlying issues in the affective form of commitment while looking exclusively at matters of trust, opportunism, fairness, etc. This would provide considerable theoretical as well as practitioner value.

An understanding of other related parties in the chain is of value as well. For example, within a brokerage operation do the staff members share the level of commitment as do the owners and managers with respect to a particular insurance company? Conversely, do the insurance company employees share the views of their internal executives and relationship managers as it relates to particular brokerages? Or are they all working at cross-purposes?

10.5 Concluding Remarks

Among other matters, this thesis concluded that the insurance industry is a product of the human condition. Interpersonal relationships are as important as the products or services themselves. It is a rapidly changing industry, and a thorough understanding of human and market behaviour is necessary. Ultimately, and chief among this study's findings is clear evidence that the tools of transaction cost economics, in particular the factors of frequency and asset specificity assist in explaining varying levels of the calculative form of commitment.

In closing, it is hoped that this dissertation will be of value in assisting others in their understanding of how commitment is formed and in recognizing the importance of considering its relationship to the four transaction cost factors.

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12 Appendices

Appendix A – Master Interviewee/Respondent Listing
Appendix B – Interview Request Documents
Appendix C – Interview Guide
Appendix D – Sample Extract of Interview Transcript Coding and Analysis
Appendix E - Sample Broker Agreement

12.1 Appendix 'A' - Master Listing of Interviewees/Respondents

Brokerage Principal List

Assigned Code	Position or Title	Gender
BPU-1	Owner	Male
BPU-2	Partner	Male
BPU-3	Senior Partner	Male
BPU-4	Senior Manager	Male
BPU-5	Owner	Female
BPU-6	Senior Manager	Male
BPU-7	Senior Partner	Male
BPU-8	Partner	Female
BPU-9	Senior Manager	Male
BPU-10	Owner	Male
BPU-11	Senior Manager	Male
BPU-12	Owner	Female
BPU-13	Partner	Male
BPU-14	Partner	Female
BPU-15	Owner	Male
BPU-16	Senior Partner	Male
BPU-17	Senior Manager	Male
BPU-18	Partner	Male
BPU-19	Partner	Male
BPU-20	Partner	Male
BPU-21	Senior Manager	Female
BPU-22	Partner	Male
BPU-23	Senior Manager	Male
BPU-24	Partner	Female
BPR-25	Owner	Female
BPR-26	Partner	Male
BPR-27	Partner	Female
BPR-28	Senior Partner	Female
BPR-29	Partner	Male
BPR-30	Senior Partner	Male
BPR-31	Partner	Male
BPR-32	Owner	Female
BPR-33	Owner	Female
BPR-34	Partner	Male
BPR-35	Partner	Female
BPR-36	Partner	Male
BPR-37	Senior Manager	Male
BPR-38	Senior Partner	Female
BPR-39	Partner	Male

Assigned Code	Position or Title	Gender
BPR-40	Senior Partner	Female
BPR-41	Owner	Male
BPR-42	Partner	Male
BPR-43	Senior Manager	Female
BPR-44	Partner	Male
BPR-45	Partner	Male
BPR-46	Owner	Male
46 Interviews	10 Owners: 20 Partners; 9 Senior Managers; 7 Senior Partners	31 Males & 15 Females

BPU-1 to BPU-24 = Urban brokerage participants
BPR-25 to BPR-46 = Rural brokerage participants

ING Canada Relationship Manager List

Assigned Code	Position or Title	Gender
RM-1	Regional Branch Manager	Male
RM-2	Regional Vice President	Male
RM-3	Regional Branch Manager	Male
RM-4	Business Development Manager	Female
RM-5	Regional Vice President	Male
RM-6	Regional Branch Manager	Male
RM-7	Regional Branch Manager	Male
RM-8	Business Development Manager	Male
RM-9	Regional Branch Manager	Female
RM-10	Business Development Manager	Male
RM-11	Regional Vice President	Female
11 Interviews	5 Regional Branch Managers; 3 Regional Vice Presidents; 3 Business Development Managers.	8 Males & 3 Females

RM-1 to RM-11 = ING Canada Relationship Managers

ING Canada Executive & Senior Management List

Assigned Code	Position or Title	Gender
EX-1	Executive	Male
EX-2	Executive	Male
EX-3	Senior Management	Male
EX-4	Senior Management	Female
EX-5	Executive	Male
EX-6	Senior Management	Female
EX-7	Executive	Female
EX-8	Executive	Male
8 Interviews	5 Executives; 3 Senior Management	5 Males & 3 Females

EX-1 to EX-8 = ING Canada Executives & Senior Management

12.2 Appendix 'B' - Interview Request Documents

The following is a sample of a standard letter which was sent via email after an initial telephone contact with a potential interviewee. If necessary, five to seven days later, the researcher would follow-up with the individual to ascertain whether they would agree to be interviewed and to schedule an appointment.

The cover letter –

Further to our recent telephone discussion, this email is being sent to seek your participation in an interview to gather views and perceptions on commitment levels within insurance industry distribution channels, particularly in property and casualty insurance. The research is examining the relationships that exist between brokers and the insurance companies they represent. Attached, is a one-page description of this research.

Rest assured that the interviews are anonymous and that attribution of your comments is not a component of this research design. The interview will typically last about 45 minutes, and I am happy to advise that participants have found these interviews to be interesting and stimulating. They also mentioned that they have enjoyed the opportunity to reflect upon the direction of the insurance industry in this regard.

As you know, in addition to being a PhD student at the University of Bradford, I am also an employee of ING Canada in the Wealth Management area working out of the Toronto office.

I would deeply appreciate your consent in agreeing to be interviewed, and value your input in this study.

Thank you very much for considering this request. I look forward to speaking with you again soon.

Paul Griffin
(416) 440-7088 extension # 43113

paul.griffin@ingcanada.com

(See attached: Description of the Study and Interview Request Letter)

The attached Description of the Study and Interview Request Letter

(Date)

Re: Study topic: *Commitment levels within insurer-broker relationships*

Dear Sir/Madam:

As you know, I am a Director in the Wealth Management area of ING Canada located at the Head Office in Toronto. In addition, I am a part-time Ph.D. student at the University of Bradford School of Management, UK.

By way of this letter I am seeking your participation in a forty-five minute interview to capture your experiences relating to the changing nature of commitment levels within insurance distribution channels (the research area of my dissertation). This study seeks to examine how industry members are reacting to these changes, as well as gather any further insights they may have.

I am seeking to interview brokers, company executives and relationship managers. I would deeply appreciate it if you would agree to contribute your perspective, knowledge, experience and understanding to my study. By garnering a diverse array of opinions this study can make a meaningful contribution toward a better understanding of this issue.

There has been an expression of interest in this study by the various stakeholders in the insurance distribution channel. At the conclusion of the research, I will be preparing an executive summary of the study and would be pleased to provide a copy to you.

Your involvement is important in helping us understand this topic. As well, I believe that this study will contribute insights and knowledge that will benefit and aid in bettering the industry. If you agree, I would be happy to meet with you at a location and time that you find suitable.

Thank you and I look forward to speaking with you soon.

Paul Griffin
Director, Operations & Compliance
ING Canada
(416) 440-7088 extension # 43113
paul.griffin@ingcanada.com

12.3 Appendix 'C' – Interview Guide (Topics and Questions)

Within the insurance industry and through the extension of the knowledge of transaction costs and commitment, the thesis will examine the development of relationships between principals and agents. Case study research in the financial services industry will lead to the development of a conceptual framework assessing the potential contribution of transaction cost economics in addressing commitment levels in relationships.

The original research proposal for the thesis contemplated the following:

"The broker typically maintains more than one insurance market within its repertoire in order to service the needs of various market segments. But why choose one insurance manufacturer over another? What characteristics tend to draw a broker to an insurer, and vice versa? What binds them in a sustainable relationship? How do both parties tend to make it work? When and why does it occasionally fail? These questions, among many more, will be addressed within the research."

Specifically, pursuant to the proposal, the following topics were to be addressed:

1) What are the unique elements and aspects of an insurer-broker relationship that lead to improvements or degeneration of commitment?

    - What are the general expectations of the parties in a traditional relationship?

    - How will changing some elements of key deliverables by either party be received?

    - Can a relationship thrive if expectations are unfulfilled, or if they are selectively not delivered?

    Building upon the foregoing elements of commitment, the research will develop a hypothesis of the potential value of examining the impact of transaction costs on the level of commitment, and on the relationship overall.

2) What conditions and practices support the examination of transaction costs?

    - Understanding the potential value of transaction cost economics in terms of examining the environment, organization and structure, human behaviour, and asset-specific investments.

    - Contribution to effective governance.

    - Include an analysis of opportunity cost issues.

Finally, adding to the human element, the research will then explore:

3) How do managers and staff of both parties perceive the value, usefulness and quality of the relationship?

    - Examine the knowledge, perceptions, experiences, and beliefs of integral members of both the insurer and the brokerage.

    - Analyze how they perceive the value of enhancements or reductions in the counterparty's deliverables.

<u>SECTION 0 – INTRODUCTION (5-7 minutes)</u>

- Obtain permission to tape, record, or videotape
- Purpose of the interview
- Outline the scope – responses not limited to their current context, i.e. include any other experiences
- Describe the four parts of the interview

    1) Introduction (5 to 7 minutes)
    2) Commitment between principals and agents (10 to 15 minutes)
    3) Transaction cost issues (10 to 15 minutes)
    4) Application of the aforementioned items and other considerations (10 to 15 minutes)

"Getting Acquainted" Topics:

- How long have you been in the business?
- How many employees work here (either at the brokerage, department, or branch)?
- How long has the brokerage been operating (if applicable)?
- How many (insurance companies or brokerages) are you contracted/deal with? Does this suit you?
- Do you enjoy the business?
- Is there a particular aspect of this brokerage/insurer/industry that is unique?

<u>SECTION 1 – COMMITMENT (10 to 15 minutes)</u>

Section objective: The initial phase of the research will develop a solid understanding of commitment as it pertains to relationships between insurance principals and agents.

>> I would like to begin by discussing how committed brokers and insurers might be to their relationships.

1. How would you define 'commitment' as it pertains to the insurer/broker relationship?

2. How much importance do you place upon signs of commitment from the other party?
3. Please discuss commitment as it pertains to the following (explanations and definitions provided as necessary):

Contractual terms, pledges
Communications
Conflict history & reputation for fairness
Resource allocation behaviour within the channel
Perceived asymmetry of commitment
Opportunism
Trust
Dependence
Affective and calculative commitment

SECTION 2 – TRANSACTION COST ISSUES (10 to 15 minutes)

Section objective: Focusing on transaction costs, the research will explore the impact of transaction costs upon commitment levels, and assist in the development of the hypothesis and model creation.

>> Next, I would like to discuss the role of a subject entitled "transaction cost economics." Generally speaking, we will examine how you determine the best ways of allocating your investments in your relationships, both financially and non-financially.

1. Do you invest (financially and non-financially) equally across each of your insurance principals?
2. Is there a disproportionate investment allocation in favour of a particular principal, i.e. largest, smallest, most or least desirous, etc.?
3. Please discuss transaction costs in the context of the following (explanations and definitions provided as necessary)……….

Asset specificity ('idiosyncratic'; 'non-specific'; or 'mixed' investments)
Behavioural uncertainty
Environmental uncertainty
Frequency of transactions
Logistics
Outsource decisions
Governance structures
Safeguarding assets
Adaptation to external factors
Performance evaluation (internally and by the counter-party)

<u>SECTION 3 – APPLICATION OF THE FOREGOING TOPICS (10 to 15 minutes)</u>

Section Objective: Establishing the value and importance that each party places upon the elements of transaction costs, and the influences upon commitment levels.

>> Finally, I would like to end the interview by asking you to elaborate on some of the specific aspects of your relationship with the insurer/broker.

1. How do you measure or gauge the commitment level of your broker/insurer?
2. To what degree do you find commitment levels changing in the industry?
3. Do you resent when you feel you are investing more into the relationship than the other party?
4. Do you find your own behaviour changing in terms of commitment when circumstances evolve?

12.4 Appendix 'D' - Sample Interview Transcript Excerpt

A sample/excerpt of the interpretivist method used in analysing this study's interviews. The researcher is identified as 'PG' and the selected respondent is 'BPU-22'.

Speaker	Line #	Transcript	Topic & Code
PG	209 210 211 212	*Moments ago we spoke about your personal definition of commitment as it relates to your agreements with the various insurance companies you represent. Could you make a statement about your personal philosophy?*	Personal definition
BPU-22	213 214	*I enter into these arrangements for the long term. I hope that the other side is thinking the same way.*	1 & 1-3.1 (0/1-1)
PG	215 216 217	*How do you feel about any changes to investment levels they make when they invest in your relationship? Do you tend to reciprocate? Do you feel inclined to?*	Resource allocation
BPU-22	218 219 220 221 222 223 224 225	*When we see the insurance companies coming up with new technology, product innovations and so on, we know they are making an investment in the channel. When they speak to me personally and say they are willing to share the cost of advertising or whatever, I'm really satisfied that I have a partner in their product and I'm willing to allocate a little more in their direction.*	1-3.4 (0/1-1)
PG	226 227 228	*OK. Thanks. Now, based on the definition I gave you earlier about idiosyncratic investments, do you feel like it's a leap of faith to invest heavily in one partner?*	Asset Specificity
BPU-22	229 230 231 232 233 234 235 236 237 238	*Me and my partners are always on the look-out for opportunities to make our business better, more efficient, more profitable. If an insurance company has a great I.T. system and it makes us better to get hooked up to it, we'll consider it. Even if it means pulling some staff out of the line-up for a while to learn the system, or the product, or even if we have to pay some cash to be a part of it. If it makes sense, we'll do it. Of course there's a risk to it if our relationship falls apart. But you got to be careful.*	2-3.1 (0/1-1)
PG	239 240 241	*Do you feel especially good about any particular insurers right now, given the uncertainty of the marketplace? Do you want to cosy up to them?*	Environ-mental uncertainty
BPU-22	242 243 244	*I try to get close to companies like ING that look like they are in it for the long term. I don't want to get shut out of the market.*	2-3.3 (0/1-1)
PG	245 246 247 248	*Given the ease with which customers can deal directly with insurers, do you believe that by outsourcing its distribution to brokers that insurers will continue operating in this channel and if so, why?*	Logistics and outsourcing decisions

BPU-22	*ING is making it easier and simpler to do business with them with their I.T. systems, websites, in-house training programs, and whatever else. Outsourcing their distribution to the broker community brings the best talent to the right place. They do what they do best, like underwriting and claims, and we manage the customer relationships. It doesn't bother me one bit about Belair. I don't want customers that don't want to develop a relationship with a local professional. If the customer doesn't recognize the value we bring, we don't need him.*	2-3.5 & 2-3.6 (0/1-1)
PG	*Alright. Since you're an independent business, do you feel that insurers have the right to monitor your performance? Do you resent it, or do you feel that maybe it brings you closer together in your relationship?*	Performance evaluation
BPU-22	*Every year the insurance companies ask us for an estimate of how much premium we are going to send their way. We give them our best estimate, but then they change their prices or how they do things or whatever, and they get upset because we didn't give them what we said we would. Then they want to change the terms of how we do business together going forward. They've got to learn to see things from our end.*	2-3.10 (0/1-1)

12.5 Appendix 'E' - Sample Broker Contract

BETWEEN:

THE HALIFAX INSURANCE COMPANY
(the "Company")

- and -

NAME OF BROKER: ______________________________
(the "Broker")

ADDRESS: ______________________________

____

____

BROKER'S CODE: ______________________________

EFFECTIVE DATE OF AGREEMENT: ______________________________

In consideration of the mutual covenants hereinafter contained, the Company and the Broker agree as follows:

1. BINDING AND PLACEMENT AUTHORITY

1.1 Subject to the terms and conditions of this Agreement, applicable law, and the Company's underwriting rules and Rate Manuals in effect from time to time, the Broker is authorized:

(i) to bind the Company on risks in accordance with the relevant provisions of the Company's Rate Manuals and execute insurance contracts for the lines of insurance the Company and Broker are legally permitted to write, and in so doing, the Broker will follow the Company's (i) pricing schedule (ii) underwriting rules, (iii) any other underwriting instructions and limitations, and (iv) Rate Manuals, any of which may be amended from time to time by the Company upon notice to the Broker,

(ii) to collect, receive and give receipt for premiums received by the Broker on behalf of the Company. The Broker will remit all premiums collected by it on behalf of the Company within the time periods set out in this Agreement, and

(iii) to request that the Company cancel or not renew policies where such action is authorized and permitted by law.

1.2 The Broker will notify the Company in a timely manner in accordance with the Rate Manuals after binding any risks.

1.3 If the Broker and the Company are licensed to transact business in a province or territory which is outside of the principal province(s) in which the Broker operates on the Effective Date, then the Broker will obtain the prior written consent of the Company before binding any risk in such province or territory.

1.4 Notwithstanding Section 7, Termination, the Company may, at its sole discretion and for any reason whatsoever, including, without limitation, a failure by the Broker to comply with the Company's underwriting rules or any provision of this Agreement, on written notice to the Broker, withdraw all or any portion of the authority granted to the Broker pursuant to Subsection 1.1 for such period of time as may be determined by the Company. The Company may, on written notice to the Broker, reinstate such authority on terms satisfactory to the Company, including, without limitation, requiring that the Broker enter into a Rehabilitation Agreement on the terms provided in Section 6.

1.5 In the event that the Broker purchases another brokerage or the customer list of another broker, or opens another office, or manages on behalf of a third party another insurance brokerage (collectively the "acquired business"), the Broker must seek the Company's written approval prior to binding risks and executing insurance contracts on behalf of the Company in respect of the acquired business.

1.6 This Agreement does not grant any exclusive rights to the Broker.

1.7 In performing this Agreement, the Broker will comply with, and will ensure that its directors, officers, employees, agents and independent contractors will comply with applicable law. The Broker will not solicit or service any business without being duly licensed to do so.

2. OWNERSHIP OF BROKER CUSTOMER LISTS (EXPIRATIONS)

2.1 Subject to Subsections 2.2 and 2.3, the use and control of expirations, including those on direct-billed business, the records thereof, and the Brokers work product, are owned by the Broker. The Company will not use its records of those expirations in any marketing method for the sale, service or renewal of any form of insurance coverage or other product which will abridge the Broker's rights of ownership, use and control, without prior authorization from the Broker, nor will the Company refer or communicate this expiration information to any other broker, company, or other interested party, without prior authorization from the Broker.

2.2 In the event that the Broker fails to remit premiums to the Company within the time period set out in this Agreement or, if the Broker has not properly accounted for and paid all premiums to the Company for which the Broker is liable, then the use and control of such expirations, up to the amount of indebtedness, including all right, title and interest thereto, all records thereto and the right to sell such expirations will be vested in and owned by the Company.

2.3 In the exercise of its right to collect any indebtedness due from the Broker through the use and control and sale of expirations, the Company will use reasonable business judgment in selling such expirations and will be accountable to the Broker for any sums received which, net of Company's related expenses, exceed the amount of indebtedness. The Broker will remain liable for the excess of any indebtedness over any sums received by the Company. The Company may, in its sole discretion, forbear from exercising any rights arising from indebtedness due from the Broker, if the Broker furnishes collateral security acceptable to the Company in the amount of such indebtedness, to be held by the Company until the indebtedness is satisfied. The Broker covenants and agrees to give the Company all assistance within its power to produce the result most favourable to all concerned including clients of the Broker.

2.4 Nothing in this Section will effect the Company's obligation, if any, to renew policies containing renewal guarantees or which must be renewed pursuant to applicable law. The Broker will be entitled to receive commissions on such policies at the prevailing rate of commission then in effect, subject to applicable law, unless the insured has instructed the Company in writing that some other agent or broker is to replace the Broker as broker of record, and provided that the Company may set-off against any such commissions any amounts owing by the Broker to the Company.

2.5 Subject to this Section, the Company will not use or permit the use of the records of the Broker's business with the Company to solicit individual policyholders for sale of other lines of insurance or other products or services, unless so authorized in writing by the Broker. If authorization is granted, the Broker will be entitled to the applicable commission or fee, subject to any applicable law, on sales resulting from the use of the Broker's records.

3. PREMIUM COLLECTION

Direct-Billed Policies-Billed Policies-Billed Policies

3.1 On direct-billed business placed by the Broker with the Company:

(i) the Broker will collect and remit to the Company the initial premium, where applicable, together with the completed application/declaration within the time period set forth in the Company's underwriting rules and other instructions communicated from time to time,

(ii) the Broker will not be responsible to the Company for dishonoured cheques written by applicants or policyholders when accepted in good faith by the Broker,

(iii) the Company will assume responsibility for billing and collecting all premium when existing business of the Broker is transferred to a direct-billed program of the Company,

(iv) commission will be paid to the Broker within fifteen (15) days after the end of the month in which the premiums are received and recorded by the Company. Any business billed directly to policyholders by the Company and for which the Broker receives the premium payment will be promptly paid gross to the Company, properly identified as to the applicable policy and without deduction for commission,

(v) the Company will clearly and prominently identify the Broker by name when transmitting policies, endorsements, premium notices, and other communications to policyholders.

The Company will promptly provide the Broker with notification of all communications with a policyholder, and

(vi) in the event of termination of this Agreement, provided the Broker is not then in breach of this Agreement, the Company will, at the Broker's request, furnish a list of the Broker's clients to the Broker.

3.2 **Broker Billing**

(i) The Broker is authorized to collect premium on business not billed to policyholders directly by the Company, and will remit net balances to the Company in accordance with the current Commission Schedule. It is agreed that all premiums collected by the Broker on behalf of the Company are the property of the Company, and are held by the Broker as a fiduciary and in trust for the Company, that the Broker has no right, title or interest in premiums collected and that the Broker will make no deductions for expenditures from these premiums before remitting to the Company, except for commissions, as mutually agreed upon, which are to be deducted from such remittance and retained by the Broker.

(ii) Premiums that have been determined by audits, retrospective adjustments, and interim reports will be fully earned. The Broker will use best efforts to collect such premiums, but will be relieved of responsibility for collection of such premiums provided the Company is notified in writing in accordance with the Rate Manuals that the premiums could not be collected. If the Broker fails to so notify the Company, the Broker will be responsible for payment of such premiums to the Company. No commission will be allowed on premiums collected directly by the Company under this provision.

(iii) Failure of the Company, for any reason, to bill the Broker for any item will not relieve the Broker of responsibility to pay the amount due.

(iv) The Broker and the Company will comply with the following accounting procedures on business, other than on direct-billed business:

(a) itemized statements of money due will be prepared monthly by the Company, or, when mutually agreed, by the Broker, and sent to the Broker or Company, whichever is applicable, not later than the twentieth (20) day of the following month,

(b) the balance shown on the statement due to the Company, or due to the Broker, will be payable not later than sixty (60) days after the end of the account month for which the statement is prepared,

(c) the Broker is authorized to advance premiums on behalf of policyholders in which event the Broker accepts full responsibility for the collection of such premiums, and

(d) the Company will have access at all reasonable times to the Broker's books and records for the purpose of determining any fact relating to money due the Company when the Broker is in premium payment default.

The Company may modify these accounting procedures effective immediately upon notice to the Broker.

4. COMMISSIONS

4.1 Commissions and chargebacks will be governed by Commission Schedules incorporated into this Agreement as follows:

(i) as full compensation for services, the Company will pay commissions to the Broker in accordance with the rates and conditions set forth in the Commission Schedule in effect at the relevant time.

(ii) the Commission Schedule may be revised either by mutual agreement of the Broker and the Company at any time, or by the Company upon ninety (90) days written notice of the proposed revisions and effective dates to the Broker, provided that the commission rate on a class or line of business will remain in effect without change for a period of at least twelve (12) months, without regard to the Effective Date of this Agreement, and provided that commission rates will be changed immediately if required by law.

4.2 Where applicable, the Broker will refund to the Company commission paid to the Broker, at the same rate paid by the Company to the Broker.

5. BROKERAGE SALE OR TRANSFER OF BUSINESS

5.1 The Broker will give ninety (90) days prior written notice to the Company of any sale or transfer of all or any portion of the Broker's business, or of any change of control, merger or consolidation, or of any sale or transfer of more than ten percent (10%) of the shares of any class in the capital of the Broker, or of any amalgamation of the Broker with another corporation. Upon receipt of this notice, the Company may, in its sole discretion:

(i) elect to do nothing, in which case this Agreement continues in effect and, if applicable, the Broker will be responsible to make all necessary arrangements with the purchaser or transferee with respect to division of commissions and any other arrangements, and will so notify the Company, or

(ii) execute a new broker agreement with the purchaser of the business or the purchaser of the shares of the business, and/or,

(iii) elect to terminate this Agreement immediately upon notice to the Broker.

5.2 The Company's rights pursuant to Subsection 5.1 are in addition to, and not in substitution for, the Company's rights pursuant to any other agreement to which the Broker and the Company are parties including, without limitation, any shareholders' agreement to which the Broker, the Company and the other shareholders of the Broker are parties ("Shareholders' Agreement"). In the event of a conflict between provisions of this Agreement, as amended from time to time, and the Shareholders' Agreement, as amended from time to time, the provisions of the Shareholders' Agreement will prevail.

6. REHABILITATION AGREEMENT

6.1 If the Company, in its sole discretion, determines that the loss ratio or any other aspect of the Broker's business placed with the Company is not acceptable to the Company, the Company will offer to enter into a Rehabilitation Agreement with the Broker. The proposed Rehabilitation Agreement will be in written form, have a minimum term of one (1) year, will specify the aspects of the Broker's business which are unacceptable to the Company, and will propose a course of action to be taken by the Broker and the Company to correct the unacceptable aspects of the Broker's business.

6.2 The parties acknowledge and agree that, if the Company has offered a Rehabilitation Agreement to the Broker, the Company is entitled, notwithstanding this Section 6, to terminate this Agreement with the Broker pursuant to the provisions of Subsection 7.2(ii) of this Agreement, if:

(i) the Company and the Broker cannot reach agreement on the Rehabilitation Agreement within sixty (60) days of receipt by the Broker of the Company's proposed Rehabilitation Agreement, or

(ii) the Broker fails to carry out or continue to carry out any action or procedure, or attain any objective required by the Rehabilitation Agreement entered into between the Company and the Broker.

6.3 If, while a Rehabilitation Agreement is in place, any other aspects of the Broker's business which are not dealt with under such Rehabilitation Agreement become unacceptable to the Company, the Company may, in its sole discretion, offer to amend the Rehabilitation Agreement, and Subsection 6.2 will apply to such offer.

7. TERMINATION OF AGREEMENT

7.1 Either party may terminate this Agreement by giving ninety (90) days written notice to the other party.

7.2 The Company may terminate this Agreement immediately on written notice to the Broker if:

(i) the Broker has not made payment to the Company of any amount due to the Company within the time and in the manner required in Section 3,

(ii) the Broker has failed to comply with any term or condition of this Agreement,

(iii) the Broker is bankrupt, fails to meet current obligations as they fall due, or makes a proposal in bankruptcy,

(iv) the Broker's license is canceled, suspended or not renewed,

(v) the Broker, or if the Broker is a partnership or a corporation, any partner, shareholder, director or officer is charged with any crime or offence involving the misuse, misappropriation or conversion of funds, or moral turpitude,

(vi) the Broker has knowingly misrepresented the description or circumstances of a risk or claim,

(vii) the Broker has, in the opinion of the Company, ceased to carry on business,

(viii) the Broker has, without prior notice to the Company, sold or transferred any or all of its business or more than ten percent (10%) of the shares of any class of capital, undergone a change of control, amalgamation, merger or consolidation of the Broker's business, in which event the Company may elect to treat this Agreement as terminated effective the date of the event notwithstanding any other provision of this Agreement, or

(ix) the Broker engages in any conduct or practice which, in the sole discretion of the Company, reflects or is anticipated to reflect unfavourably upon, or may be detrimental to the Company.

7.3 In the event this Agreement is terminated pursuant to Section 7.1, the Broker may elect, by giving written notice to the Company within thirty (30) days of either giving or receiving notice of termination, to assume responsibility to complete the collection of, payment to and accounting to the Company for all premiums, commissions, and other amounts owing to the Company in respect of policies written through the Broker and due on the date of termination or arising thereafter.

7.4 In the event of termination of this Agreement by either party, policies written through the Broker and in force on the effective date of termination will be allowed by the Company to remain in force until their expiry dates, unless canceled by the policyholder or canceled by the Company for non-payment of premium or by reason of the risk no longer complying with the Company's established underwriting rules and instructions, and the commission agreement provided herein will continue to apply until all policies expire or are terminated. The terms of this assumption will be in accordance with the Insurance Bureau of Canada Agreement, to which the Company is a signatory. The Company will prepare and deliver to the Broker a list of the risks to be assumed.

7.5 With respect only to the servicing of policies remaining in force after the termination of this Agreement, the Broker will continue to be the duly authorized representative of the Company, subject to all of the provisions of this Agreement, except that the Broker will not, without prior approval of the Company, bind any new risks or increase or extend the Company's liability thereunder, or alter the terms of any policy.

7.6 Termination of this Agreement will result in the immediate revocation of the Broker’s appointment as broker for the Company and the immediate revocation of all binding authority, the right to collect premiums and receive commissions thereon except as may be otherwise provided herein and except for commissions earned, accrued and unpaid at the effective date of termination. All other rights and obligations of the parties hereto will survive the termination of this Agreement.

8. RETURN OF MATERIALS

8.1 All applications, policies, documents, manuals, equipment or other materials supplied to the Broker by the Company will remain the property of the Company and will be returned to the Company on termination of this Agreement upon request.

9. ADVERTISING

9.1 The Broker will not publish or distribute any advertisements, circulars or other materials referring to the Company or containing the Company's name, trademarks or trade names, without first securing written approval from the Company.

10. CLAIMS

10.1 The Broker will promptly notify the Company of any incidents, events or occurrences, which may result in a claim or loss. When requested by the Company, the Broker agrees to cooperate fully with the Company to facilitate the investigations, adjustment and settlement of any claim, including, when required by the Company, acting as the Company's agent in the settlement of claims.

10.2 The Broker has no authority to and will admit no liability on the part of the Company in any manner except in accordance with specific claim settlement authority extended to the Broker in writing.

11. GOVERNING LAW

11.1 The laws of the province or territory of the Broker’s principal place of business governs this Agreement.

12. CONFIDENTIALITY

12.1 The Broker will and will cause all of its directors, officers, employees and representatives, during the term of this Agreement and for two (2) years after its termination, to protect, not to use except for the purposes of this Agreement, and keep confidential all information concerning the Company's business and its practices and products.

12.2 The Broker will and will cause all of its directors, officers, employees and representatives to protect, not to use except for the purposes of this Agreement, and keep confidential all information concerning any claim or potential claim during the term of this Agreement and until such time thereafter as any claim or potential claim is resolved to the satisfaction of the Company.

12.3 All Company Rate Manuals, marketing materials, forms and other information supplied to the Broker by the Company, including the underwriting rules, are proprietary and will not be disclosed to any third party without the Company's prior written consent.

12.4 The Company will, during the term of this Agreement and for two (2) years after its termination, protects and keep confidential all information concerning the Broker's business and its practices.

13. NOTICES

13.1 Any notice or other communication required to be given under this Agreement must be in writing given by facsimile, personal delivery, ordinary mail or by prepaid certified or registered mail to the current address of record of the respective party.

14. ASSIGNABILITY

14.1 The Broker may not assign this Agreement nor any of its right, title or interest in this Agreement, including any rights to receive any monies or proceeds, which include insurance accounts receivable, without the prior written consent of the Company. The Company may assign its rights and obligations hereunder in accordance with any applicable legislation.

15. SEVERABILITY

15.1 Each of the provisions contained in this Agreement is distinct and severable and a declaration of invalidity or unenforceability of any provision by a court of competent jurisdiction will not affect the validity or enforceability of any other provision of this Agreement.

16. AMENDMENT

16.1 Subject to the Company's right to change, without limitation, Commission Schedules, underwriting rules, Rate Manuals, administrative procedures, as provided herein, this Agreement may be amended in writing at any time upon mutual agreement of the Broker and the Company. This Agreement will be modified effective immediately if required by law.

17. ARBITRATION

17.1 If any matters of difference, or any dispute will arise between the parties as to the construction or effect of this Agreement, or any matter arising therefrom, or from the relationship between the parties, then every such dispute or difference will be referred to the arbitration of three persons, one to be appointed by each of the parties hereto and a third to be appointed by the first named arbitrators in writing before they enter upon the business of the reference. The cost of the arbitration will be shared equally by the parties.

The decision of a majority of the arbitrators will be final and binding upon the parties hereto. It will be a condition precedent that unless and until matters in dispute have been submitted to arbitration, no action at law with respect to the matters in dispute will be brought by either party against the other.

17.2 This arbitration clause will not be applicable to the provisions of Section 6, Rehabilitation Agreement nor to Section 7, Termination of Agreement.

18. HOLD HARMLESS

18.1 The Company will indemnify and hold the Broker harmless against all civil liability, including legal fees and costs of investigation and defense incidental thereto, arising as a direct result of:

(i) company error or omission in the preparation, processing, handling or billing of direct-billed business or any other business placed by the Broker with the Company, except to the extent that the Broker has caused or contributed to such error or omission,

(ii) failure of any insured to receive notice of cancellation, non-renewal, or any other notice affecting coverage of direct-billed business, where such notices are sent directly to the insured by the Company,

(iii) any action or inaction of the Broker based upon the Broker's use of forms supplied by the Company or following instructions or procedures established by the Company, except to the extent that the Broker has caused or contributed to any such action or inaction,

(iv) damages sustained by any person or entity as a result of information furnished by the Broker to the Company unless the Broker furnished false information with malice or willful intent to injure or with negligent disregard for the truth or accuracy thereof, and

(v) any Company act or omission in investigating, settling or paying claims.

18.2 The Broker will maintain, at all times while this Agreement is in force, errors and omissions insurance with extended coverage for loss resulting from fraudulent acts to cover claims against the Broker and its directors, officers, employees and representatives in an amount equal to the greater of one million dollars ($1,000,000) or such amount as may be required by applicable law. The policy will provide that the Company must be given thirty (30) days prior written notice by the insurer of termination, cancellation or non-renewal.

18.3 The Broker agrees that all personnel, licensed producers and other employees (collectively 'personnel') will be instructed concerning the terms and conditions of this Agreement. All such personnel are and will be employees of the Broker and under no circumstances employees or agents of the Company. The Broker is fully and solely responsible for the acts and omissions of such personnel, and is solely responsible for their supervision, direction, compensation and compliance with this Agreement and applicable laws.

18.4 The Broker will indemnify and hold the Company and the Company's directors, officers, employees, agents and independent contractors harmless against losses, liabilities or costs arising out of or in connection with a breach of this Agreement by the Broker, or any claim for negligence against the Broker related to the performance or failure to perform duties under this Agreement.

18.5 The Broker will promptly notify the Company when the Broker receives notice of any claim or the commencement of any action relating to this Agreement, and the Company will be entitled, but not obligated, to participate in such action, or to assume the defense of any such action at its expense. If the Company assumes the defense of any such action, it will not be liable to the Broker for any legal or other expenses subsequently incurred by the Broker in connection with such action without the Company's advance written approval of such expenses.

19. WAIVER

19.1 Unless otherwise expressly provided, the extent of any waiver granted for breach of this Agreement will be restricted to the specific breach concerned and will not extend to any further occurrence of such breach.

20. RECORD RETENTION AND AUDIT

20.1 The Broker will retain all documentation; forms and records relevant to this Agreement and will, upon demand submit to the Company or make available for audit purposes all such documentation, forms and records. The Broker will retain these for a period of seven years.

20.2 Upon providing three (3) business days notice to the Broker, the Company has the right to inspect, examine, audit and verify, at the Broker's office or elsewhere, any matter related to this Agreement and to take copies thereof. The cost of any audit reasonably incurred arising from an event of termination specified in Section 7.2 will be the responsibility of the Broker, reimbursable to the Company upon demand.

21. TERM OF AGREEMENT

21.1 This Agreement replaces and supersedes all previous agreements, whether written or oral, between the Company and the Broker and will remain in full force and effect until suspended or terminated as provided herein.

IN WITNESS WHEREOF the parties have executed this Agreement to commence on the Effective Date.

THE HALIFAX INSURANCE COMPANY	**BROKER**
Signature: ______________________________	Signature: ___________________________
Name: _________________________________	Name: ______________________________
Title: __________________________________	Title: _______________________________
Date: __________________________________	Date: _______________________________

Part 2 (Contingent Profit Commission Agreement)

THE HALIFAX INSURANCE COMPANY
(the "Company")

- and -

NAME OF BROKER: ______________________________
(the "Broker")

The Purpose of the Profit Sharing Agreement (the "Agreement") is to foster the development of profitable portfolios of business by sharing those profits generated by such business through the mutual efforts of the Company and the Broker.

Eligibility Requirement

The Broker agrees to maintain a minimum continuing concentration of ____%, of the Broker's total eligible personal lines gross written premium, with the Company. For purposes of calculating the Broker's concentration percentage, eligible business includes all personal lines business that the Company normally writes. Eligible business does not include personal lines business placed with specialty markets. If the Company determines that the minimum continuing concentration level has not been met, the Company may, in its sole discretion, compensate the Broker in accordance with the Company's Lead Carrier Broker Profit Sharing Agreement or in accordance with the Company's standard Broker Profit Sharing Agreement currently in force. Eligibility is also conditional upon the Broker's continuing relationship with the Company pursuant to the Company's standard Broker Agreement.

Lines of Business

The calculation of the Broker's Profit Share includes all personal lines and commercial lines business written through the Company, except accident and sickness insurance, except as mutually agreed by written amendment to this Agreement.

Definitions

Losses means the gross incurred losses, allocated loss adjustment expenses, IBNR, unallocated loss adjustment expenses and stop loss calculation for all business placed by the Broker with the Company for the latest two calendar years. Each Loss is subject to a maximum of $200,000 for any one accident or occurrence and $200,000 for the aggregate of all property losses caused by a single natural disaster.

Commissions Earned means the commissions earned in the period, on all business placed by the Broker with the Company, exclusive of profit sharing payments, for the latest two calendar years.

Administration Expenses means the total of all underwriting expenses and premium taxes incurred by the Company on all business placed by the Broker with the Company, but does not include expenses relating to commission payments, as determined by the Company.

Exclusive Alliance Credit means the amount of Company expense savings attributable to technological and productivity efficiencies.

Profit (Loss) means Gross Earned Premium minus Losses and Commissions Earned and Administrative Expenses plus Exclusive Alliance credit.

Calculation of Profit Share

The amount of the Broker's Profit Share will be determined on a yearly basis as 50% of the profit generated, as set out in Schedule 1 of this Agreement. The calculation of a Profit Share is based upon the average of the latest two (2) calendar years only. There are no carry-forwards or carry-backs of profit or loss to any other accounting period.

Growth Bonus Factor

The Growth Bonus Factor is based on the difference between the prior year's gross written premium and the current year's gross written premium. The Profit Share is multiplied by the Growth Bonus Factor percentage in order to calculate the Growth Bonus amount.

Percentage of Growth	Growth Bonus Factor
10% to 19.9%	15%
20% to 29.9%	20%
30% and over	25%

Nine Month Option

The Broker may elect by giving written notice to the Company prior to November 1 of any year of the Agreement, to guarantee the minimum amount of the Profit Share as calculated from this Agreement. In this event, the Profit Share for the year will be the greater of the Profit Share calculated on September 30th or December 31st, minus an amount equal to fifteen percent (15%) of the Profit Share at September 30th.

This election is only available to the Broker in any year if there is Profit Share payable to the Broker as of September 30th of that year.

Deductions

The Company may apply any Profit Share otherwise payable under this Agreement to any outstanding balances and/or other monies which are due from the Broker and which have not been paid to the Company at the time any Profit Share is payable.

In addition, for any month in the current Profit Share year in which there was an outstanding balance and/or other money overdue from the Broker to the Company (a delinquent month), the Company may reduce the Profit Share payment by a maximum of ten percent (10%) for each delinquent month occurrence.

Other Conditions

The Broker's premium, losses and expenses written through Wellington Insurance Company personal lines facilities will be included in the Profit Share calculation and Schedule 1 will apply as if the business has been written through the Company.

For a Broker contracted with the Company for less than one year, the calculation of a Profit Share is based upon the Broker's experience for that year.

The Company's records will be used for all calculations of Profit Share.

From the Effective Date onward, this Agreement supersedes and replaces all previous agreements, whether written or oral, with respect to the sharing of profits between the Company and the Broker and will continue in force until terminated. This Agreement may be terminated or modified by the Company in its sole discretion for subsequent years by giving written notice to the Broker prior to October 1st of the current year.

Upon termination of the Broker Agreement between the Company and the Broker for any reason, this Agreement will cease as of January 1st of the calendar year in which the termination becomes effective.

The final determination of any questions or disputes relating to calculations, conditions, or terms of this Agreement will be made by the President of the Company.

IN WITNESS WHEREOF the parties have executed this Agreement to commence on the Effective Date.

The Halifax Insurance Company	BROKER NAME
Signature: ______________________________	Signature: ______________________________
Name: ______________________________	Name: ______________________________
Title: ______________________________	Title: ______________________________
Date: ______________________________	Date: ______________________________

The Halifax Insurance Company

Schedule 1

Broker Profit Sharing Agreement (Exclusive Alliance Program)

Broker Name: ______________________________

Broker Numbers: ______________________________

For the period ending: ______________________________

	This Year	Last Year	2 Year Average
Gross Written Premium	$XXX	$XXX	$XXX
Gross Earned Premium	$XXX	$XXX	$XXX
Losses *(incl. IBNR & ULAE & ALAE & Stop Loss)*	$XXX	$XXX	$XXX
Commissions Earned	$XXX	$XXX	$XXX
Administration Expenses	$XXX	$XXX	$XXX
Exclusive Alliance Credit	$(XXX)	$(XXX)	$(XXX)
Expenses	$XXX	$XXX	$XXX
Profit (Loss)	$XXX	$XXX	$XXX
Profit Share Factor			50%
Profit Share before Growth Bonus		$XXX	
Percentage of Growth			
Growth Bonus Factor			XX%
Growth Bonus			$XXX
Profit Share Payable			$XXX