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Manufacturer-Reseller E-business Arrangements: The Impact of Inequity on Relationship performance and Moderating Role of Dependence

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Introduction

When Renault wanted to share information with its network of more than 14000 dealers in Europe they turned to Oracle's Siebel brand of Partner Relationship Management (PRM) software. Using this web-based software Renault was able to streamline its communications with dealerships, improve dealer sales lead-conversion rates by 30 percent for new cars and by 25 percent for used cars, and become more responsive to customer requests via web-site by following through with emails to dealers in the customer's area. In addition, Renault was able to provide the dealerships with automated self-service 24/7 technical support for dealers, and standardize business processes across its dealer network (Oracle 2006). As this example illustrates, manufacturer-reseller relationships are undergoing a dramatic transformation as manufacturers attempt to capitalize on the proliferation of web-based business software, commonly referred to as e-business tools (Wu et al. 2003). The proliferation of similar web-based software packages has been surveyed in previous research (Bello et al. 2002; Mirani et al. 2001). These studies suggest that information exchange between channel members may be becoming more sophisticated than e-mail and less expensive than traditional Electronic Data Interchange (EDI) systems. While the PRM benefits to manufacturers are well understood, there is little understanding on how PRM arrangements and related tools impact the manufacturer-reseller relationship and down-stream partner performance.

Extant marketing research examines various antecedents of e-business adoption by a firm. For example, Srinivasan et al. (2002) study technological opportunism, institutional pressures and ownership of complementary assets and Wu et al. (2003) examine firm characteristics, customer power and normative pressures. However, how e-business adoption could change the relationship dynamics has not been studied in the channel context. As e-business tools are becoming a de-facto *interorganizational* information sharing, communication and payment system it is very important to examine the impact on the relationship itself. O'Callaghan et al. (1992, p. 45), in the context of EDI systems, note: "Interorganizational systems employing information technology may be the most important technological breakthrough in channels of distribution since air transport." Given the superiority of e-business tools to traditional EDI in terms of cost, flexibility and openness, the dearth of empirical research on e-business in the channels context is surprising.

This research attempts to contribute to existing marketing literature in three ways. First, it contributes to the emerging literature on e-business technology (Srinivasan et al. 2002; Wu et al. 2003) by examining the impact of e-business technology on the buyer-seller relationship. Second, the study investigates the role of perceived inequity of e-business arrangements from a reseller's perspective. Perceived inequity in channel relationships is thought to negatively affect relationship quality (Kumar, Scheer and Steenkamp 1995) by leading to hostility, distrust and lower relationship continuity (Scheer, Kumar and Steenkamp 2003). However, the impact of perceived inequity on performance has not been previously studied, especially in the context of e-business links in the distribution channel. Third, we explore the moderating role of reseller dependence of the perceived inequity- performance linkage. To achieve these objectives, the study develops and tests a theoretical model by drawing from marketing channel and equity theory as well as insights gained from 28 in-depth interviews with managers at reseller firms.

E-business Arrangements in Distribution Channels

As described in the introduction section, e-business arrangements enjoyed by Renault are becoming quite common in modern distribution channels. One of the interesting aspects of e-business tools in the channel context is that it is a shared resource (Boyd and Spekman 2004), because it is owned by a manufacturer but is also used by the downstream channel members. Consequently, this shared resource may provide benefits for both parties in the dyad, some similar to each other and others very different based on differing strategic goals of the parties. Our depth interviews with resellers' managers revealed a very consistent perception that web-based tools provide efficiencies to the reseller unavailable before. At the

same time, many resellers aired concerns about increased visibility of the channel to the manufacturer, as e-business tools enable manufacturers to glean more information about end-user markets.

Equity Theory

Equity theory deals with the norm of distributive justice in dyadic relationships and reflects the desire of members of a dyad to have a fair distribution of benefits in a dyadic relationship (Adams 1963; Huppertz et al. 1978). In marketing, equity theory has been applied by Huppertz et al. (1978) in the context of retail exchange situation to examine price inequity perceptions and consumers’ intentions to resolve perceptions of inequity. Channels research suggests the impact of equity perceptions on satisfaction/dissatisfaction with a relationship (Frazier 1983), relationship quality (Kumar, Scheer and Steenkamp 1995), and relationship continuity (Scheer, Kumar and Steenkamp 2003). Following prior research, we distinguish between overall perceived inequity with a relationship and issue specific perceived inequity about certain arrangements and programs in a relationship (Kumar, Scheer, and Steenkamp 1995). We are focused on the reseller perceptions of issue specific inequity with e-business arrangements with a manufacturer.

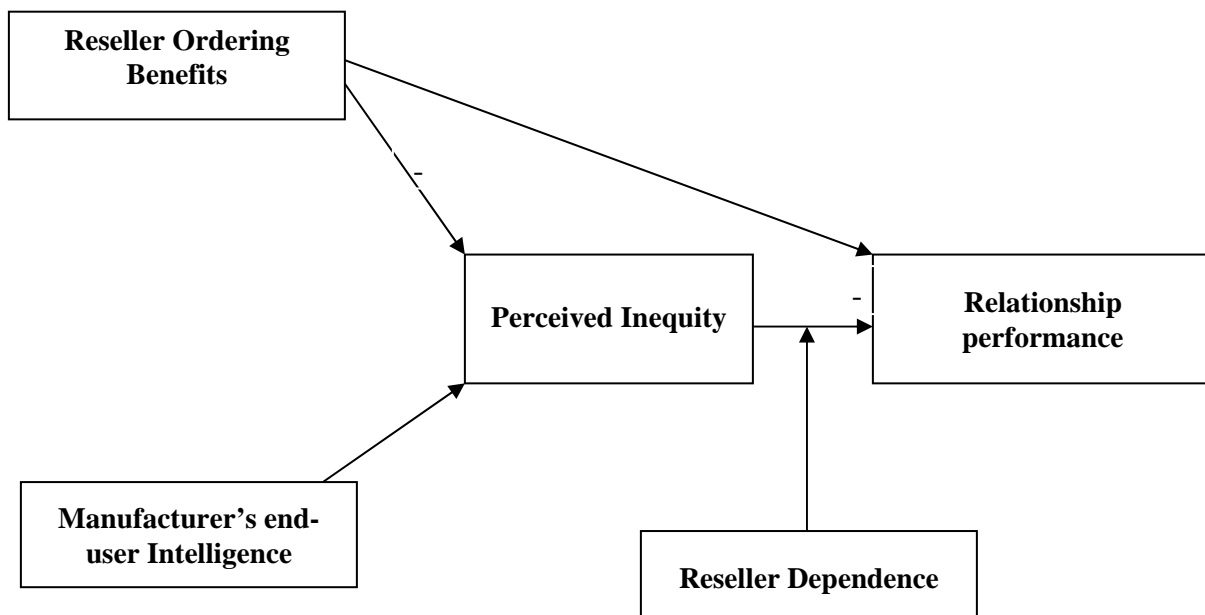
In the context of e-business arrangements in the channel, perceptions of inequity play an important role as this modification in business processes usually forces channel members to reevaluate existing relationship. Both parties have inputs into this arrangement and both parties expect to reap certain benefits that would be equitably distributed. We therefore define perceived inequity as reseller perceptions that benefits from e-business arrangements between manufacturer and reseller are not shared fairly, i.e. appropriated by the manufacturer. This measure is developed specifically for this research to fit the context of the e-business arrangements. It is intended to capture the reseller judgments and reservations about the e-business arrangements that were revealed in the in-depth interviews with reseller firms.

Next section incorporates equity theory and the findings from in-depth interviews into a theoretical model that may provide insights into e-business arrangements from the reseller perspective.

Theoretical Model and Hypotheses

The model is developed (Figure 1) by combining insights from our depth interviews and examination of channels and equity research. The model reflects our thesis that e-business arrangements

Figure 1. Perceived Inequity in E-business Arrangements



could be perceived by the reseller as double-edged. On one hand, the reseller enjoys more efficient ordering process, on the other the reseller perceives that it is giving up some strategic information to the manufacturer in the process. This tension is reflected in reseller's perceptions about inequity in the e-business arrangements and may negatively impact its relationship performance. Importantly, reseller dependence on manufacturer moderates these performance consequences.

Ordering Benefits. Many business processes could become more efficient with the use of e-business tools. For example, digital document storage and management is much more efficient than paper document storage and management. In our depth interviews, managers pointed out similar efficiencies in the most common interorganizational process they are involved in with a manufacturer: the ordering process. Ordering benefits are defined as the increased efficiency of ordering and ordering related activities. These include direct expenditure of time in filling out and faxing or telephoning an order to the manufacturer as well as the cost of actually transmitting the order to the manufacturer (Reunis et al. 2006; Hunter et al. 2004). With the advent of online ordering, online submission is cost-free and completing an order online is a familiar and easy process, especially with features such as saving a typical order and ability to resubmit an old, filled-out order as a new one with minor changes.

The reseller benefits from e-business adoption are inextricably linked with the relationship that the reseller has with a particular manufacturer. As the reseller achieves operational efficiencies via use of the e-business tools, it naturally leads to positive attitudes towards the manufacturer who provided these tools. So the reseller may feel that it is getting equitable treatment for agreeing to use, and spending time to learn, the web-based tools provided by the manufacturer. At the same time, the reseller operational efficiencies will probably be directly reflected on reseller's bottom line, as the personnel is able to do things faster and cheaper, order accuracy improves etc. Thus:

H1. Reseller ordering benefits are negatively related to perceived inequity.

H2. Reseller ordering benefits are positively related to performance.

End-user intelligence construct was deduced from our depth interviews with reseller managers and defined as manufacturers' increased abilities to collect strategic information about end-user markets. It is similar to external strategic information (ESI) concept as it is related to strategic information about reseller's customers that is developed processed and retained by reseller organization that has implications for their strategy decisions (Frazier et al. 2009). Although this type of information could be obtained from other sources (Jaworski and Kohli 1993) the interviewed managers were concerned about manufacturers' ability to collect, store and manipulate more buying behavior information about not only their customers, but also their customers' customers. The fear of disintermediation and manufacturers' increased ability to 'cherry-pick' and take over end-user accounts with high potential seemed to be a major source of paranoia for resellers. The improved visibility into the end-user markets may benefit the manufacturer disproportionately, from the reseller perspective, and engender perceptions of inequity in the distribution of benefits from the e-business arrangement. Thus:

H3. End-user intelligence is positively related to perceived inequity.

Equity theory postulates that whenever a perceived inequity exists, i.e. there is an imbalance between contributions and benefits (Frazier 1983), the focal party will try to act to remedy the situation and bring it to equilibrium (Adams 1963). The party may withdraw its contributions into the relationship or try to extract more rewards from it. The latter is unlikely in the context of e-business arrangements, since manufacturers mostly control the design the implementation the e-business platform for all of their resellers. Previous research on perceived inequity in the channel relationships suggests that the relationship quality suffers as a result of high perceived inequity (Kumar, Scheer, Steenkamp 1995) and could lead to distrust and even hostility (Scheer, Kumar and Steenkamp 2003). Additionally, if a reseller perceives that the benefits of transitioning to web-based tools are inequitably shared by a given manufacturer, the reseller is more likely to withdraw usage of the tools, thereby reducing efficiency

benefits from automated processes such as ordering benefits discussed above. Therefore, the following hypothesis is proposed:

H4. Perceived inequity is negatively related to performance.

Moderating Role of Reseller Dependence

Dependence is an important part of any relationship and has occupied a central role in channels research (Hewett and Bearden 2001). Reseller dependence is defined as perceptions of the reseller about difficulty of replacing the manufacturer as a supplier of product lines as well as income and profit generated from those product lines, if the relationship is broken (Gundlach and Cadotte 1994). Although a reseller may perceive high inequity in sharing the benefits from e-business arrangements, they may not be able to withdraw from the e-relationship, because they are so highly dependent on a particular manufacturer for their business and bottom line. Therefore, the following hypothesis is advanced:

H5. Reseller dependence moderates the link between perceived inequity and performance.

Methodology

Data Collection

Pilot Study and Field Interviews. As noted earlier, the empirical test is focused on the perspective of a reseller at the e-business adoption process. First, the software companies and products that are focused on providing e-business tools to a channel were examined. Several software firms were visited, the functionality of their packages were studied, and demonstrations of their products were observed. This was an important step, as these companies (e.g. Siebel Systems) conduct research in manufacturer-reseller interactions in order to produce appropriate tools. Next, a pilot study was conducted with 25 purchasing and marketing managers of value added resellers (VAR) in the computer and network equipment industry. There was sufficient diffusion of e-business tools in manufacturer-reseller interactions as well as variance among the resellers in using them to warrant an extended study. A series of 28 field interviews were then conducted with VAR's marketing and purchasing managers responsible for direct dealings with the manufacturers. The interviewees provided insights and feedback on the questionnaire items as well as reflected on how e-business tools may be changing their interactions with manufacturers. Field work provided support for using key informants as persons interviewed had a working knowledge about using e-business tools in their interactions with the manufacturers.

Measures. The scales (see Table 1) for end user intelligence and ordering benefits constructs were developed for this study broadly following guidelines by Churchill (1979). The results of our software package examination, pilot study and field interviews were used as inputs for developing the scales. Based on the review of various e-business software packages 24 items were developed reflecting various functionalities of the e-business software packages. Pretest questionnaire was posted on a password protected web-site. A pretest was then conducted using a fresh sample of reseller representatives (N=29). After collecting the results of the pretest, the researchers followed up with the respondents with clarification questions that were used to purify the scales and reduce the number of items to a manageable pool. Based on the results of the pre-test, the number of items was reduced to 8 items for each scale to be included in the final questionnaire. During the factor analysis the scales were further reduced to 3 items for each scale, other items were eliminated due to insufficient common factor loadings. Four item scale to measure relationship performance was adapted from Kumar et al (1994) to reflect reseller perspective. This measure is specific to the reseller-manufacturer relationship. Three item scale of inequity was adapted to interorganizational setting from Oliver and Swan (1989). Reseller dependence four item scale was adopted from Gundlach and Cadotte (1994). The final questionnaire instrument was also posted on a password protected web site.

Table 1. Measurement Items

End user intelligence (msb) ($\rho=.88$, $VE=.72$)	Mean	SD	Loading
<i>With E-business tools the manufacturer...</i> (anchored by “Not at all” and “Very Much”)			
Collects information on specific end-user order flow	3.94	1.95	0.87
Collects information about end-user locations	3.87	2.06	0.86
Observes end-user shipping preferences	3.67	2.04	0.80
Reseller Ordering Benefits (rsb) ($\rho=.97$, $VE=.92$)			
<i>With e-business tools we...</i> (anchored by “Not at all” and “Very Much”)			
Reduce time of order submission to this manufacturer	4.55	2.02	0.96
Reduce our costs of order submission	4.33	1.99	0.95
Make our ordering process more efficient	4.55	2.01	0.96
Inequity ($\rho=.84$, $VE=.63$)			
The manufacturer gains the most from the transition to online operations	3.36	1.47	0.81
The benefits of the online operations unfairly favor the manufacturer	3.69	1.64	0.82
The manufacturer does not share the benefits of online operations equitably	3.62	1.61	0.75
Relationship performance ($\rho =.93$, $VE=.76$) (anchored by “Not at all” and “Very Well”)			
<i>How well do you accomplish your economic goals reselling this manufacturer’s products?</i>			
Sales goals.	4.86	1.26	0.91
Profit goals	4.60	1.41	0.82
Growth goals	4.52	1.31	0.91
Market share goals	4.28	1.31	0.84
Reseller Dependence ($\rho =.95$ $VE=.83$)			
It would be difficult for us to replace this manufacturer	4.73	1.82	0.80
If our relationship ended, we would have difficulty replacing the income we generate from this manufacturer’s product line	4.33	1.87	0.94
We are very dependent on this manufacturer	4.11	1.85	0.92
It would be difficult for our firm to replace the sales and profits generated by selling this manufacturer’s product line	4.11	1.82	0.97
* All 7-point scales anchored by “Strongly Disagree” and “Strongly Agree” unless otherwise noted			

Final Sample. The sampling frame was 2 lists purchased from publishers of trade journals and other business information. Computer and computer network components resellers were selected for this study because this industry is more likely to employ and understand e-business tools than other industries and it has a large impact on the economy. For the main study, a list of 4342 names of executives from computer integrator and VAR companies (SIC 7373) was used. After the removal of duplicates, firms that had gone out of business, merged companies, misclassified companies etc., the usable list was reduced to approximately 1700. Executives were contacted by phone and qualified to ensure that their company was in computer and network components resell business and were using e-business tools with the manufacturers of these products. The respondent’s e-mail address was obtained and each was sent a link to the web survey with the appropriate instructions and a respondent password.

A total of 614 prospects qualified for the study and agreed to receive an email containing a link to the survey. 224 responses were received constituting a response rate of a little over 36%. Overall, the final sample of resellers had a fairly long relationship with the manufacturers (mean of 9.2 years). The

share of the focal manufacturer in the reseller’s business averaged 36% of sales. The share of the overall manufacturer-reseller interaction accounted for by the Web is almost 36% of all interactions, indicating the importance of Internet tools in manufacturer-reseller relationships.

Using a method by Armstrong and Overton (1977) we assessed the impact of non-response bias. We considered first 25 percent of respondents as early and last 25 percent as late respondents. The means of six constructs of the study were compared between the two groups and no statistically significant differences were found, suggesting that nonresponse bias is not significantly affecting the results of the study.

Data Analysis and Results

The data analysis follows a standard procedure in structural equation modeling recommended by Anderson and Gerbing (1988). First, using Amos 5.1 software a confirmatory factor analysis with the 17 measures was conducted to statistically assess the discriminant and convergent validity of 5 constructs in question. Means, standard deviations and correlations among constructs are provided in Table 2.

Table 2. Means, Standard Deviations, and Correlations

	Mean	Standard Deviation	1	2	3	4
1. End user Intelligence	3.81	1.81				
2. Ordering benefits	4.47	1.95	.49**			
3. Perceived Inequity	3.56	1.37	.22**	-.07		
4. Relationship Performance	4.67	1.21	.11	.23**	-.27**	
5. Reseller Dependence	4.32	1.72	.28**	.15*	.04	.25**

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

N=224

The parameters are estimated using the maximum likelihood estimation technique. The results demonstrate that the measurement model provides a reasonable fit for the data. Positive diagnostics of the model include Chi-square of 213.91 with 109 df, a comparative fit index (CFI) of .97, and the root mean square error of approximation (RMSEA) is .066. The measures demonstrate adequate reliability (Hair et al. 2006) since composite scale reliabilities (ρ) range from .84 to .97 and variance extracted (VE) ranged from .63 to .92 (See Table 1). Face validity was examined by 2 professors and 1 doctoral student who judged the consistency between theoretical definitions of constructs and their respective measurement items. Convergent validity is evidenced by the large significant loadings (t-values > 2) of all the 17 items on their latent constructs; discriminant validity was indicated since the confidence interval (+/- two standard errors) around the correlation estimate between any two latent constructs includes 1.0 (Anderson and Gerbing, 1988, p. 416).

After checking the appropriate metrics and performing additional analysis per Hair et al. (2006), it is concluded that multicollinearity is not a concern in the data. The standard errors are fairly small (not inflated), estimates did not change radically when some variables are excluded, and simple correlations are not greater than .7. Additionally, none of the eigenvalues approach zero and Variance Inflation Factors (VIFs) are within appropriate range.

After verifying that confirmatory factor analysis model diagnostics are acceptable, the analysis proceeds to the second step: structural models specification and testing. The results of the first test are described in Table 3. This model is designed to test H1-H4. The chi-square for this model is 1.56 with 1 degree of freedom, CFI is .99, and RMSEA is .05. All the structural paths in the model are significant and in the expected direction. For instance, the path from end user intelligence to perceived inequity is

significant and positive, whereas the path from ordering benefits to perceived inequity is significant and negative. This provides support for our notion that end user intelligence gathering by the manufacturer would increase the perceived inequity by the reseller, while the benefit derived from more efficient ordering process would mitigate such negative perceptions. The path from perceived inequity to relationship performance is significant and negative and the path from ordering benefits to relationship performance is significant and positive. This provides support for predictions that perceived inequity may lead to withdrawal from the relationship and consequent negative effect on relationship performance, which is somewhat balanced by the direct effect of more efficient ordering system directly to the bottom line of the reseller. These results provide support for H1 through H4.

Table 3. Structural Model Statistics and Unstandardized Path Coefficients

Paths	Coefficient
End user intelligence → Perceived Inequity	.28***
Ordering benefits → Perceived Inequity	-.18***
Perceived Inequity → Relationship Performance	-.23***
Ordering benefits → Relationship Performance	.13**

** p<.01. ***p<.001

Testing for Moderation

The hypothesis 5 was tested using a 3-step hierarchical regression following a general procedure for testing for moderation suggested by Baron and Kenny (1986). The first step of the regression is where inequity is the independent variable and relationship performance is the dependent variable. The second step of the regression added reseller dependence as an additional independent variable. In the third step of the regression, a cross-product term of inequity and reseller dependence was used to capture the moderating effect of reseller dependence on the inequity-relationship performance link. The cross-product term was calculated by multiplying perceived inequity and reseller dependence. Hypothesis 5 testing results can be found in Table 4. Results support hypothesis 5, whereby it was predicted that reseller dependence moderates the relationship between perceived inequity and relationship performance, as the cross-product term was significant in the third step of the hierarchical regression (B=.06, p=.05). The direction of the interaction is depicted in Figure 2.

Table 4. Regression Results of Study Variables on Relationship Performance^a (n=224)

Predictors	Step 1	Step 2	Step 3
Perceived Inequity	-.24***	-.25***	-.53***
Reseller Dependence		.20***	-.02
Perceived Inequity X Reseller Dependence			.06*
R^2	.07	.16	.17
Adjusted R^2	.07	.15	.16

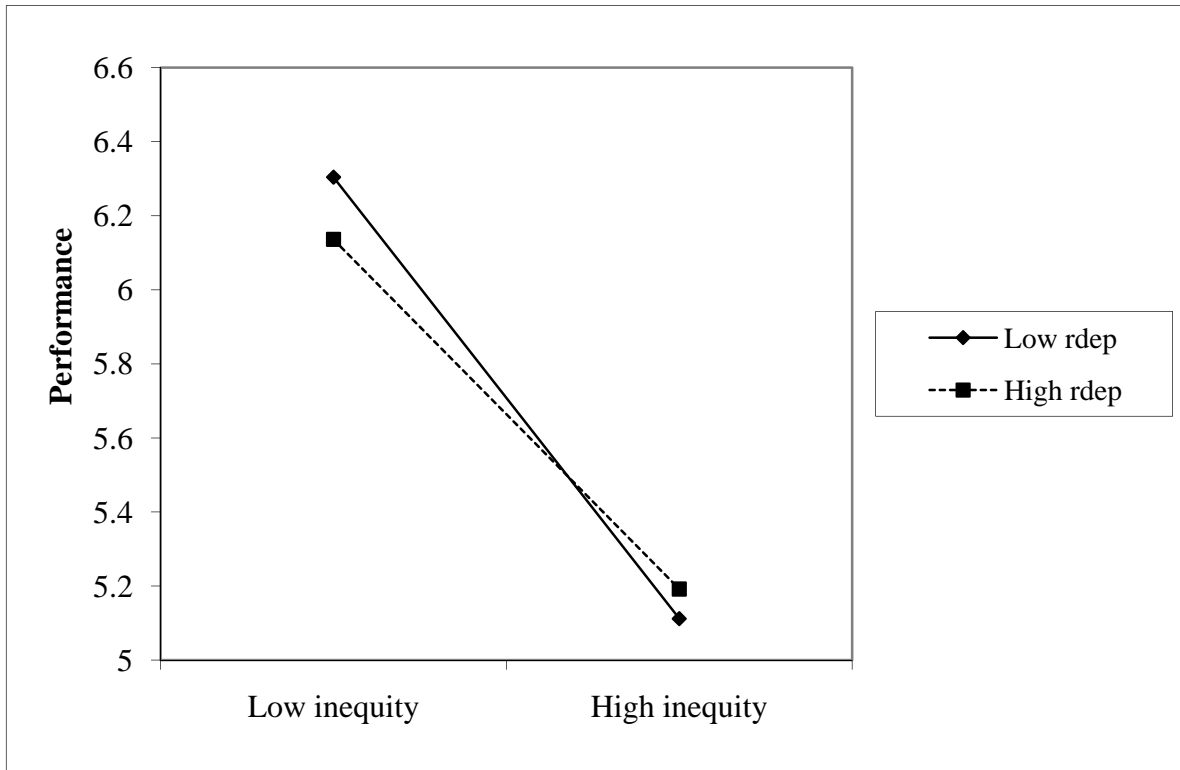
^a Values shown are unstandardized coefficients.

* p ≤ .05

** p ≤ .01

*** p ≤ .001

Figure 2. Slopes of Relationship performance regressed on Perceived Inequity at High and Low Levels of Reseller Dependence



Discussion

The main purpose of the present study was to contribute to the emerging literature on e-business technology (Srinivasan et al. 2002; Wu et al. 2003) by examining the impact of e-business technology on the buyer-seller relationship. Equity perceptions seem to be important in implementing novel channel arrangements, such as e-business tools, as suggested in previous channel research (Frazier, Spekman and O’Neal 1988). In general, the findings support the thesis that e-business arrangements could be a double edged sword for resellers. On one hand, resellers may benefit from more efficient electronic interactions; on the other hand they may give up strategic information to the manufacturer, such as strategic information about end-user accounts. Manufacturer’s end-user intelligence gathering may increase manufacturer’s information bases of power as well as enable them to attack and eventually take over the largest and fast growing end-user accounts. This leads to increased perceptions of inequity by reseller, because manufacturer is reaping more benefits from the transition to the e-business operations. Such perceived inequity may poison the relationship and to restore the equity balance, resellers may withdraw from the relationship and the performance suffers the consequences of such withdrawal.

Importantly, not all resellers are able to afford to restore the equity equilibrium. Our results suggest that higher reseller dependence on the manufacturer in terms of product line, revenue and profits has a moderating effect. In other words, resellers that are highly dependent of the focal manufacturer will probably continue the relationship despite the perceived inequity of distribution of benefits from e-business arrangements.

This last finding provides support for the general notion that new, technology enabled business processes and procedures do not function in isolation from ‘old’ organizational variables (Jap and Haruvy 2008). It also underscores the importance power-dependence dynamics even in the face of ‘technology revolutions’. Future research should examine other relationship variables, such as trust and commitment,

various governance processes (Heide 1994) as other moderating factors that would limit or enhance relationship performance.

The study develops and validates the scales to measure the end user intelligence gathering by manufacturer and ordering benefits that could be used in future research. Our depth interviews revealed that these interorganizational processes are streamlined with the advent of e-business tools, and, in our view, may represent both positive and negative sides of e-business arrangements for resellers. Future research could expand the list by adding other interorganizational processes, such as logistics and even negotiation and execution tasks (Boyd and Spekman 2004), as well as various promotional processes, including co-op advertising, planning joint trade show booths, etc. All these interorganizational processes are well within the scope of modern e-business technologies.

Future research could also include the equity sensitivity construct (Huseman et al 1987) as not every reseller firm may be equally sensitive to inequity related to benefits garnered from e-business technology. This construct could be another moderator of the inequity-performance link, as less sensitive resellers may exhibit higher performance than more sensitive firms.

Managerial Implications

As manufacturers continue to migrate their resellers to online interfaces they should consider potential negative effects from such migration. The results of our study suggest that one of such effects could be increased perceptions of inequity by resellers and possible deterioration in the relationship performance. Although relationship performance in this study was measured from the reseller's perspective, it also implies that the reseller is selling less of the manufacturer's products. What can be done to mitigate such unfortunate outcome? First of all, manufacturers should recognize this as a problem that initially exists on the reseller side. This is probably the first necessary condition for any corrective action to have a chance in succeeding. Often, manufacturers may be focused on immediate short-term gains and overlook long-term consequences of e-business arrangements. The results of this study underscore that perceived inequity in sharing benefits of e-business technology may potentially be a significant obstacle to further expansion of the e-relationship. Once the problem is recognized, manufacturers could be more sensitive to the concerns of the resellers and through open communication acknowledge and address those concerns. As a practical matter, manufacturers could limit the use of certain functionalities of e-business solutions that are of concern to resellers. For example, they could suggest not saving end-user specific information in their databases so that resellers feel more at ease.

The finding on the moderating role of reseller dependence may suggest the opposite strategy. A manufacturer may choose to just improve its power position with the reseller as much as possible and have much more leeway with a highly dependent reseller in how to use and implement e-business tools. However, such strategy could be short-sighted as power-dependence positions could be very dynamic in the long-term. This may be especially the case in fast changing industries such as high-technology or biotech. Additionally, the 'accumulated' perceived inequity on the reseller side may hinder other channel initiatives by the manufacturer in the future.

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