

How Does Knowledge-based Interaction Affect Relationship Strategy Formation?

An Empirical Study of Financial Services in China

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Abstract

Many researchers have indicated various advantages of implementing relationship strategy in building and maintaining long-term relationship. This paper aims to propose that adaptation and cooperation are the major relationship strategies and to investigate their antecedents related to knowledge-based interaction. Knowledge-based interaction has divided into four different dimensions- openness, information sharing, uncertainty and interaction intensity as the antecedents of relationship strategy formation. Openness and information sharing have positive impact on adaptation while uncertainty has negative impact on adaptation; whereas openness and interaction intensity are positively related to cooperation in this study. Therefore, each dimension of knowledge-based interaction has different impact on adaptation and cooperation. As a result, in considering different kind of relationship strategy formation, different knowledge-based interaction may be used in order to achieve effective relationship strategies

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Introduction

Relationship marketing (RM) has been widely discussed by both academics and marketing practitioners as one of its key purposes is to retain customers (Ahmad and Buttle, 2001; Buttle, 1996; Egan, 2001). Many authors have agreed that keeping existing customers is more worthy than winning new ones (Rosenberg and Czepiel, 1984; Vandermerwe, 1996). Although the significance of RM has been emphasized, how to implement the relationship strategy effectively has not been broadly discussed. Ricard and Perrien (1999) highlighted the importance of understanding and implementing the relationship strategy by stating that “wanting to be relationship-orientated without putting in place the organizational mechanisms of its fulfillment is inadequate” (p.208). However, limited empirical researches have been done on the formation of relationship strategy. This paper aims to propose that adaptation and cooperation are the major relationship strategies and investigate their antecedents related to knowledge-based interaction.

In this article, firstly, we examine literature that outlines the advantages and disadvantages of a relationship strategy and then the importance of knowledge-based interaction as the antecedents of relationship strategy formation. Next, this paper illustrates the conceptual framework incorporating adaptation and cooperation as the marketing strategies for maintaining long-term relationship. Thirdly, the research methodology is stated and followed by the conclusion.

Literature Review

Advantages and Disadvantages of Relationship Strategy

Many researchers have indicated various advantages of implementing relationship strategy in building and maintaining long-term relationship. By building long-term relationships, several benefits can be obtained including controlling costs, increased profitability and stable growth (Kalwani and Narakesari, 1995). There are different economic benefits of relationship marketing to firms. Kotler and Armstrong (1999) highlighted higher sales and greater returns can be obtained from maintaining long-term relationship. Noordewier *et al.* (1990) agreed the relationship elements (such as long-term orientation) may increase the performance outcomes in buyer–supplier relationships. Reichheld and Sasser (1990) also reported the profitability depends on the length of relationship. The closer relationships are able to lead to stable market shares and enhanced

financial performance (Keltner, 1995). Gwinner *et al.* (1998) indicated that parties might receive psychological, social and economic benefits during maintaining long-term relationship.

The benefits of implementing relationship marketing have been emphasized but there are some researchers also identify the existing drawbacks of practicing long-term relationship. Jackson (1985) and Gummesson (1997) argued that customer relationships are valuable to do it or not as it may not always be profitable. Wilkinson and Young (1998) also discussed the possible ‘burden of relationships’. Other researchers justify the significance of relationship strategy under certain conditions by stating the possibility of relationship neglect, inefficiency of relationships and institutionalization of the relationship (Anderson and Narus, 1991; Barnes, 1997; Ha°kansson and Ivan Senhota,1995; Jackson, 1985).

Although the relationship strategy has its downsides, the benefits of relationship strategy can outweigh its negative effects if the right relationship strategy is implemented probably. In this study, adaptation and cooperation are identified as the major relationship strategies and will be discussed in the model and hypothesis section.

Knowledge-Based Interaction

Davenport and Prusak (1998) pointed out “knowledge is neither data nor information, though it is related to both, and the differences between these terms are often a matter of degree (p.1)”. They conclude that knowledge derives from information as information derives from data; and data as a prerequisite for information whereas information as a prerequisite for knowledge. Information is defined as the organization of data in a meaningful and useful context and thus providing with meaning to help marketers to understand some aspects of their environment relevant to a situation in which an end user must act (Glazer, 1991; O’Brien, 1996; Schramm, 1973). Therefore, knowledge-based interaction refers to information sharing related to information quality and information quantity with the impact of the Internet in this study.

Information quality refers to the degree of information content, form, and time characteristics that give it value to specific and users (O’Brien, 1996). Although some scholars have mentioned that information quality may be impacted by the interface medium like television, magazines, and the web (Ducoffe, 1996), the information content plays the major role in identifying information quality. Information quality is a multidimensional construct that is

determined by four dimensions of relevancy, timeliness, clarity and accuracy (Maltz *et al.* 2001). In order to achieve the effective relationship strategy formation, sharing the relevant information openly is expected.

Information quantity refers to the information flow frequency. With the increasing use of advanced technology and the Internet, information flow has been speeded up. The Internet has been regarded as a new channel to share information with the customers. Comparing to the traditional channels, such as written letters, the Internet allows greater degree of information flow between parties. Although receivers may suffer information overload that refers to the obtained information exceeds the required information (Losee 1989), information technology is still regarded as the enabler for the phenomenal growth in the distribution of information (Glazer 1991). Therefore, frequent information sharing with the aid of advanced technology application plays an important role in accomplishing the relationship strategy formation.

Model and Hypotheses

In this section, adaptation and cooperation are classified as the major relationship strategies in this study and then their antecedents are discussed. The conceptual model is illustrated in Figure 1.

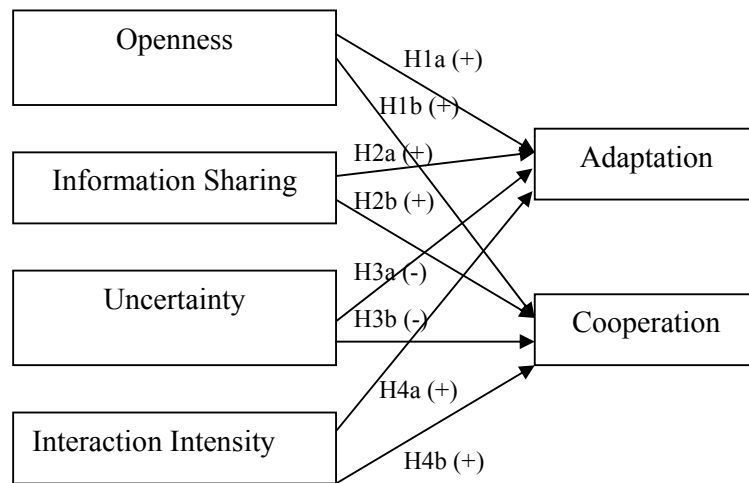


Figure 1: Conceptual Framework of Adaptation and Cooperation as Dependent Variables

Relationship strategy formation

Adaptation

According to Ford *et al.* (1998), "adaptations are the way in which a company shows that it can be trusted to respond to a counterpart's requirements". More generally, it is a willingness to make the adaptations to product design and specification, manufacturing processes, logistics, stockholding, and administration (Håkansson, 1982). In other words, both parties might modify their product, production processes or services and administrative procedures to suit the needs of others. For example, customizing products to the needs of a buyer is one of the basic examples of a seller's adaptation to customers' requirements.

Many of the adaptations will be done either formally in the contract between parties or informally upon the request of the customers (Zineldin and Jonsson, 2000). Adaptation includes investment of tangible and intangible resources by both parties. Zineldin and Jonsson (2000) stated that "the investment ranges from the use of human resources to develop contacts with the counterpart, to investment in order-processing procedures to simplify and reduce the cost of interaction (p.251)". As a result, adaptation may lead to develop new products or services in order to enhance the closeness of any relationships.

In business-to-business markets, buyers and sellers may adapt themselves to achieve a match between their respective needs and competencies. In order to sustain a long-term mutually beneficial relationship both selling and buying parties have to adapt themselves to the needs of each other. Adaptation is identified as one of the relationship strategies as it is one important factor in the collaborative relationship building (Axelsson and Easton, 1992). Therefore, this study proposes adaptation as one of the major relationship strategies in maintaining long-term relationship.

Cooperation

Cooperation is defined as "situations in which parties work together to achieve mutual goals" (Anderson and Narus, 1990). Cooperation is identified as a necessary component in channel relationships (Brown, 1981; Frazier and Rody, 1991). The importance of understanding how to maintain a long-term satisfying relationship by developing cooperation is emphasized (Childers

and Ruekert, 1982; Zineldin *et al.*, 1997). However, there is only a limited number of empirical studies to address the issue of cooperation (Skinner *et al.*, 1992).

Cooperative activities represent a primary means for each firm to maintain, or improve its outcomes. Therefore, cooperation can be viewed as a part of the intention to develop relationship trust and hence commitment as the indicator of relationship maintenance and commitment process. Therefore, this study proposes cooperation as another major relationship strategies in maintaining long-term relationship.

Antecedents of Relationship Strategy

Knowledge-based interaction has divided into four different dimensions as the antecedents in relationship strategy formation. Based on the literature, these four different dimensions are identified as openness, information sharing, uncertainty and interaction intensity in this study.

Openness

According to Alge *et al.* (2003), openness is “the degree to which members are willing to trust each other, are receptive to each other’s ideas, and are motivated to exchange information and ideas (p.3)”. Openness is considered as a component of communication effectiveness (Alge *et al.*, 2003) as it helps in solving complex and ill-structured problems. Reluctance on the part of the party to disclose critical personal and/ or business-related information may likely lead to customers’ satisfaction (Crosby *et al.*, 1990). When the party openly shares information, another party may gain more insights about the needs of others and thus facilitates their adaptation. For example, open flow of information by supplier may help the customers anticipate the supplier’s future plans. This information exchange may enable these two parties to work together regarding new product development and more effective manufacturing schedules. Open communication provides the basis for cooperation and can form the basis for identifying and solving mutual problems. Therefore, openness has positive impact on adaptation and cooperation.

Hypothesis 1a: There is a positive relationship between openness and adaptation.

Hypothesis 1b: There is a positive relationship between openness and cooperation.

Information Sharing

Cannon and Perreault Jr. (1999) defined information sharing as “expectations of open sharing of information that may be useful to both parties (p.441)”. More sharing of important and more

relevant information can improve product quality (Emshwiller, 1991) and facilitate new product development (Magnet 1994). It is due to the information sharing in the early stages of product design that might help to develop greater adaptation to their products/services in order to suit others' requirements. Williamson (1985) suggested that when information is not shared between parties, market failure is more likely; Clopton (1984) found that more information sharing may lead to achieve mutual goals. In addition, Macneil (1980) argued that free exchange of confidential information is a characteristic of more close relational exchanges that might be identified as adaptation and cooperation. Therefore, information sharing has positive impact on adaptation and cooperation.

Hypothesis 2a: There is a positive relationship between information sharing and adaptation.

Hypothesis 2b: There is a positive relationship between information sharing and cooperation.

Uncertainty

Hallen *et al.* (1991) found that adaptations were associated with power balance, certainly if a party has more advanced technological competence, another party with the less advanced technological competence has to cede and adapt itself to another party with more advanced technological competence. The weaker party, in this form of adaptation, will further reduce its ability to switch and develop alternative relationships. If the weaker party cannot cope with the advanced technology pace of the stronger party, the technological uncertainty may occur. Uncertainty refers to the ambiguity of the people towards the expansion of advanced technology. Then the technological uncertainty might become the barrier of their mutual adaptation and cooperation between parties due to the inability to exchange information effectively and efficiently. Therefore, it is difficult for both parties to adapt and cooperate with each other. In short, uncertainty affects adaptation and cooperation negatively.

Hypothesis 3a: There is a negative relationship between uncertainty and adaptation.

Hypothesis 3b: There is a negative relationship between uncertainty and cooperation.

Interaction Intensity

Interaction intensity refers to the frequency of using different communication modes to exchange information. Daft and Lengel (1984) proposed that modes of communication differ in their richness and thus their capability for conveying information. Richer modes (e.g., face-to-face) allow for more customized communication, immediate feedback, and the ability to gather

additional data through observation. Daft and Lengel (1984) noted that written and electronic communications are less richer contact. Parties are willing to use different communication modes to exchange information in order to facilitate their adaptation and cooperation. When issues are complex, non-standardized and unpredictable, richer modes of communication (i.e., face-to-face) are preferred. We therefore expect that interaction intensity will be positively associated with adaptation and cooperation.

Hypothesis 4a: There is a positive relationship between interaction intensity and adaptation.

Hypothesis 4b: There is a positive relationship between interaction intensity and cooperation.

Methodology

Research Design

The sample of the research is China's financial services and banking industry. As China is regarded as the "adaptive system" (Boisot and Child, 1999), adaptation plays an important role in maintaining long-term relationships in China. Furthermore, a financial service provider is viewed as a "relationship manager" who is responsible to drive the quality of the overall relationship as a business banker plays a position to be close to the customer and acts as the point of contacts with his/her customers (Crosby *et al.*, 1990; Colgate and Lang, 2003). As a result, the relationship between businesses and their banks in China is worthwhile for investigation because developing relationships with customers is one of the best way for banks to cope with the competitive environment (Holmlund and Soren, 1996; Perrien *et al.*, 1993).

In order to increase the response rate, interviewers had been employed. They would visit their interviewees selected randomly from the source of Almanac of China's Finance and Banking (2000). The key criterion was that the interviewees were the senior managers. Each of the interviewers had received a letter explaining the purpose of the survey and instructions for assisting interviewees to complete the questionnaires and to assure the confidentiality of the responses. Among the returns, 5 questionnaires were eliminated from the analysis owing to incomplete responses or not to meet our criteria and the remaining 150 questionnaires were used for analysis.

Scales

Scales consisting of multiple items were developed to measure each construct. Developing new scales or modifying other authors' scales are used to develop the scales in this study owing to the existing scales based on the literature were not complete or not applicable to our study. All constructs were measured through multiple item scales and a seven-point Likert-type response format, described by "Strongly Disagree" (=1) and "Strongly Agree" (=7). The measurements of each construct are listed as follow.

Openness: Smith and Barclay (1997) defined openness is the "formal and informal sharing of timely information between partners and is concerned with the mutual disclosure of plans, programs, expectations, goals, motives, and evaluation criteria (p.6)". Therefore, three items adopted from Smith and Barclay (1997) were used in measuring communication openness in this study.

Information sharing: Cannon and Perreault Jr. (1999) defined information sharing as "expectations of open sharing information that may be useful to both parties (p.441)". Four items related to the expectation of sharing business strategy, research results, technical information and cost details were used in measuring information sharing.

Uncertainty: The variety on-line communication methods may confuse customers, who are not familiar with the advanced technology usage. Four items related to the on-line communication methods were developed in this study for measuring technology usage.

Interaction intensity: Interaction intensity is the frequency of both parties in communicating together either for personal or business purposes (Crosby *et al.*, 1990). Three items related to the face-to-face communication, telephone communication and written communication were used (Cannon and Homburg, 2001).

Adaptation: Adaptation refers to willingness to do modification in product or services to suit another party. Three items developed by Doney and Cannon (1997) were used in measuring adaptation in this study.

Cooperation: Cooperation is defined as “situations in which parties work together to achieve mutual goals” (Anderson and Narus, 1990). Three items adopted from Zineldin and Jonsson (2000) were used in measuring cooperation in this study.

Several statistical techniques including factor analysis, a reliability test, and regression were used in this study.

Results and Discussion

Factor analysis

Two Principal Component Factor Analysis tests were run independently in order to uncover the underlying dimensions of independent (openness, information sharing, uncertainty and interaction intensity) and dependent variables (adaptation and cooperation). The reverse coded statements were corrected prior to the analysis. For the independent and dependent variables, the Kaiser-Meyer-Olkin (KMO) test results (0.655 and 0.608 respectively) showed that the degree of common variance among the variables is mediocre. The factors were rotated by varimax method. The four independent factors (openness, information sharing, uncertainty and interaction intensity) and the dependent variables (adaptation and cooperation) were obtained from two regression analysis and accounted for 67.399% and 62.100% of the variance respectively. Therefore, the reliabilities of these factors are then assessed by Cronbach’s alpha coefficient, which is used to assess the degree of internal consistency within a particular scale. All the alpha values of both independent variables and dependent variables are considered to be acceptable as they are higher than 0.70 (Churchill, 1991). The results of factor analysis and the Cronbach’s alpha of the independent and dependent variables are shown in Table 1 and Table 2 respectively.

Table 1. Results of Factor Analysis of Independent Variables

Independent Items	Factor Loading
Openness ($\alpha=0.9007$)	
We provide each other with timely information, e.g. customer information.	0.845
We talk candidly with each other.	0.905
We tell each other things we wouldn’t want others to know, e.g. contract	0.918

items.	
Information sharing ($\alpha=0.7716$)	
We are willing to share the cost details related to the financial products with each other.	0.578
We are willing to share the technical information with each other.	0.777
We are willing to share the business strategy with each other.	0.836
We are willing to share the research results with each other.	0.846
Uncertainty ($\alpha=0.7472$)	
We are not sure how to use advanced technology to communicate (-).	0.574
We are not sure how to develop the website (-).	0.724
We are not sure how to use Internet phone (-).	0.798
We are not sure how to use video conferencing to discuss our business (-).	0.868
Interaction intensity ($\alpha=0.7756$)	
We frequently interact with each other via written methods, e.g., e-mail.	0.726
We frequently interact with each other via face-to-face.	0.763
We frequently interact with each other via telephone.	0.838

Table 2. Results of Factor Analysis of Dependent Variables

Dependent Items	Factor Loading
Adaptation ($\alpha=0.7623$)	
We are willing to invest in tools/ equipment to better adjust to our processes.	0.729
We are willing to adjust our procedures for each other.	0.788
We are willing to customize our products for each other.	0.859
Cooperation ($\alpha=0.7549$)	
We will support other's marketing activities by increasing investment.	0.686
Our future profits are dependent on maintaining a good working	0.869

relationship with each other.	
Our future goals, e.g. increase market share, are best reached by working with each other rather than against each other.	0.882

Regression

This section presents the results of the tests of the Hypotheses 1 through 4 concerning the antecedents of adaptation and cooperation. Two separate regressions were conducted with two different dependent variables, ADAPTATION and COOPERATION.

Regression with ADAPTATION as dependent variable

Table 3 shows a resulting regression model with adaptation as the dependent variable, and the independent variables entered in stepwise procedure. R^2 is relatively high with 49.5%, and the associated F statistic indicates that it is significant at the $p < 0.01$ level. Hypothesis 1a, 2a and 3a receive strong support from the regression coefficients with the exception of Hypothesis 4a. Therefore, only openness and information sharing have found positive impact on adaptation while uncertainty has negative impact on adaptation in this study.

Information sharing and openness are the important variables in the model. It is not very surprising that more openly information sharing can lead to mutual understanding and then easy for adaptation. Uncertainty is a barrier for the adaptation due to the different pace of advanced technological development. It is unexpected that interaction intensity has found insignificantly related to adaptation. It may be due to face-to-face meeting considered as a kind of usual business meeting in China and thus it has less significant impact on influencing adaptation.

Table 3. Result of Regression Analysis of Adaptation as the Dependent Variable

Independent Variables	B	t statistics	Sig.
<i>Dependent variable: Adaptation; $R^2 = 0.495$; $F = 15.819$</i>			
Openness	0.235	3.270	0.001
Information sharing	0.401	5.583	0.000
Uncertainty	-0.170	-2.366	0.019
Interaction intensity	--	--	--

Regression with COOPERATION as dependent variable

Table 4 shows the results of a regression with the same independent variables as in Table 3, but with cooperation as dependent variable. R^2 is relatively low with 29.0%, and the associated F statistic indicates that it is significant at the $p < 0.05$ level. Hypothesis 1b and 4b receive strong support from the regression coefficients while Hypothesis 2b and 3b receive no support from the regression coefficients. Therefore, openness and interaction intensity are positively related to cooperation in this study.

As predictable, openness is significant in this regression model, as well. Interaction intensity relates to the frequency of interaction between parties. Both parties are willing to increase their contacts in order to show the willingness for cooperation, and then each party will gain face that is very important in China. As a result, interaction intensity leads to cooperation in China. Comparing to the usage of technology, traditional face-to-face interaction is still prevalent in China and the technology application is in the growing stage; hence, the uncertainty has been found to have no impact on cooperation. Sharing general information between parties in China can be regarded as the common practices between parties. As a result, information sharing may not affect adaptation to some extents.

Table 4. Result of Regression Analysis of Cooperation as the Dependent Variable

Independent Variables	B	t statistics	Sig.
<i>Dependent variable: Cooperation; $R^2 = 0.290$; $F = 6.729$</i>			
Openness	0.229	2.901	0.004
Information sharing	--	--	--
Uncertainty	--	--	--
Interaction intensity	0.177	2.245	0.026

Conclusion

This study proposes the importance adaptation and cooperation as the important factors in relationship strategy formation. This study highlights how to affect the relationship strategy by using knowledge-based interaction. Knowledge-based interaction is not only related to information sharing and interaction intensity but also involves the dimensions of openness and uncertainty. Each dimension of knowledge-based interaction has different impact on adaptation and cooperation. Therefore, in considering different kind of relationship strategy formation, different

knowledge-based interaction might be used in order to achieve the effective relationship strategy formation.

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