More than friendship is required : an empirical test of cooperative firm strategies

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SECTION 7. PEOPLE IN THE HIERARCHICAL FIT

More than friendship is required: an empirical test of cooperative firm strategies

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Abstract

Purpose – The purpose of this paper is to examine a proposed six-construct theoretical model of factors influencing successful cooperative relationships and strategy development.

Design/methodology/approach – A theoretical model of strategy development and cooperative relationships was tested. Qualitative research among key experts identified 15 successful regional tourism networks. Two successful cooperative networks were selected based on annual revenues. A sample of 254 small and medium-sized members were surveyed from the two networks in Northern Minnesota, USA.

Findings – Strong support was obtained for the proposed model. Hypothesized relationships were tested and the findings were consistent with previous research. Long-term orientation has a positive effect on friendship, loyalty, trust and commitment. Friendship is related to loyalty and commitment, and loyalty is related to trust. Ultimately, trust and commitment engender successful cooperation. The model can be used as a guide to strategy development at different levels in an organization.

Research limitations/implications – Large firms select between higher and lower order functional strategies. Small and medium-sized firms sometimes address commitment and cooperative strategies through shared goals and decisions in order pursue higher order strategies. This paper research supports a greater emphasis on establishing relationships using loyalty, trust and commitment to develop successful higher order strategies. However, relationships based on friendship also can be an important consideration in strategy development.

Practical implications – Strategic implications for developing relationships that can be used as a planning component of hierarchical strategies.

Originality/value – The paper maintains that loyalty is more important than friendship in developing successful strategies based on cooperation.

Keywords Corporate strategy, Strategic alliances, Trust, Channel relationships, United States of America

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Introduction

When they have a choice companies pursue a strategy of locating in regions where the likelihood of success is high (Park and Russo, 1996; Baum and Haveman, 1997). But a large number of small and medium-sized companies are located in remote geographical regions where success is more difficult. These companies must choose strategies that enable them to compete more effectively. Cooperation has been proposed as one strategy likely to improve companies' competitiveness.

Being located in a remote geographical area makes it more difficult to compete. Relatively small local markets minimize the number of businesses with similar product strategies (e.g., two bakeries with the same pastry products). But when businesses are too dissimilar this hampers their ability to develop a strong shared strategy (too much difference eliminates the possibility of cluster proximity) and eliminates the possibility of long-term product development. This is frequently because lack of determination is widespread and negative attitudes discourage new ideas. Moreover, decisions often are based on underdeveloped resources with inadequate competencies, such as higher transportation costs or a smaller customer base, creating challenges to improving products or services and how they should be marketed. Operating under these challenges presents many problems for businesses, whether developing corporate, business or functional strategies. But, changing just one of the characteristics could stimulate the development of a more positive vision and innovative ideas, thus leading to a more successful hierarchy of strategies.

Formation of cooperative networks has been posed as one solution. Indeed, networks have been used as a strategy but often the networks have been unsuccessful. What can lead to success in networks between firms? One possibility is suggested by social exchange theory. This theory is applicable at different hierarchical levels, such as between individual firms, both large and small, as well as between networks of different firms' (Zaheer *et al.*, 1998; Bignoux, 2006). In this paper we propose and test a model of cooperation based on social exchange theory that could be used by firms to enhance their competitive position, and thereby more effectively coordinate corporate, business and functional strategies.

Theoretical framework

Social exchange theory suggests that when there is a long-term orientation (LTO), loyalty, trust and commitment can be the result of personal relationships, and that these relationships will engender cooperation and discourage opportunism (Blau, 1964, Zaheer *et al.*, 1998). Personal relationships are thus a consequence of individuals cooperating within an organization, or between groups or firms. Some researchers have challenged this theory (Levinthal and March, 1993; Edquist, 1997) by assuming a more rational selection of goals, locations, decision making, organization, market and administrative routines as major determinants of success (Rumelt *et al.*, 1991). Similarly, studies based on agency theory (Zajac, 1990), transaction cost economics (Williamson, 1981), resource differentiation (Teece *et al.*, 1997) and diversification of industry (Porter, 1980) assume accurate and unbiased selection which results in high performing firms. The embeddedness literature (Granovetter, 1985; Uzzi, 1997) merges these two fields by assuming that personal relationships such as friendship, loyalty, trust and commitment will diminish opportunism and encourage cooperation, limiting choices but positively effecting both personal and firm performance. The embeddedness view has therefore become a bridge between traditional sociological approaches (Blau, 1964) and the role of indirect relationships (e.g. friendship and other social activities) in establishing cooperation. Relationships between firms are thus a rational selection entered into when they are beneficial for the firm and terminated when benefits are not evident.

Blau (1964) claims non-formal relationships, such as friendships, have a strong effect on the formal terms of contracts that regularize cooperation. He concludes an increased presence of inter-firm relationships results in consensus regarding assumptions about forming relationships. This consensus considers how individual relationships are formed as well as whether they have direct or indirect effects in establishing cooperation.

Relationships have been explored empirically in strategic management (Gulati, 1995) as well as in other fields such as marketing (Morgan and Hunt, 1994) and sociology (Rodriguez and Wilson, 2002). The studies have shown that cooperative relationships can emerge in situations involving competitor interactions (Ingram and Roberts, 2000), international exchanges (Mavondo and Rodrigo, 2001), business-to-business contacts (Morgan and Hunt, 1994; Gulati, 1995; Doz, 1996; Holm-Blankenburg *et al.*, 1996, Zaheer *et al.*, 1998; Mavondo and Rodrigo, 2001; Varamäki, 2001; Rodriguez and Wilson, 2002), buyer-seller dyads (Dwyer *et al.*, 1987; Garbarino and Johnson, 1999; Ylimaz and Hunt, 2001; Ekelund, 2002), online banking (Mukherjee and Nath, 2003), and supplier-to-supplier contacts (Nicholson *et al.*, 2001). These findings enable us to better understand the emergence and functioning of relationships leading to successful cooperation.

Social exchange theory illustrates how bonds between groups are initially formed and function over time. The theory suggests that friends, families and other groups are not considered organizations, but treated as valuable input in reaching goals (Rodriguez and Wilson, 2002). Moreover, value systems are never perfectly implemented because of the difficulty in determining an individual's values. Finally, bonds become an important part of an organization only after members begin sharing goals.

Literature on success assumes individuals are goal oriented (Edquist, 1997) and more so than others plan their time, tasks and relationships based on anticipated gains. Establishing relationships is a cost that can be calculated in money since it consumes time, effort and resources from other parts of the business. Relationships therefore may depend more on expected gains than on the type of bond. In business-to-business commitments these gains could be a shared understanding that operates daily or obligations that lead to future benefits. These obligations could lead to commitments in which replacing the partner is too expensive. In achieving cooperation, time is a relevant consideration since developing relationships requires a long period of time and may increase expenses in the relationship investment. The time requirement motivates individuals to consider other alternatives or situations likely to result in a positive experience (Gulati, 1995).

Cooperation is a skill that some individuals develop naturally. Others, however, find it difficult to understand the benefits of working together and may therefore not pursue cooperative relationships. In some situations cooperation appears very technical and personal relations are like inputs designed to gain a certain outputs. Moreover, cooperation can be conditioned by culture and some cultures are more inclined to establish long-term relationships (Nohria and Eccles, 1992). Ylimaz and Hunt (2001) used transaction costs and game theory to explain cooperation based on providing greater benefits than costs. In fact, cooperation diminishes the need to assess risks such as economic pitfalls (Axelrod, 1984) and personal issues (Blau, 1964).

Different perspectives necessitate different approaches to cope with associated risk. Blau (1964) believes cooperation is based on personal relations while Gulati (1995) argues that firms balance available choices in terms of their importance and that choices emerge from previous experiences. Hence, resources are required to maintain the current relationship or to develop another competing relationship.

This paper examines strategy development and cooperation between businesses. Strategies are chosen based on a LTO that pursues relationships through loyalty and friendship, enhanced by trust and commitment. Cooperation assumes relationships are strengthened by shared goals, decisions, understanding, flexibility in overcoming difficulties, and communicating to reduce difficulties. Mavondo and Rodrigo (2001) reinforce this view and include other propositions. First, individuals do not pursue cooperative relationships if there is no current or future value. Second, social skills are necessary to establish cooperation. Finally, as cooperation increases common goals are accepted and implemented. Thus, goals no longer predict the relationship itself, but how the relationship is likely to influence cooperation and ultimately strategy development across all levels of the firm.

The model in Figure 1 is an extension of Gulati (1995) and Morgan and Hunt (1994). It poses that in strategy development firms prefer an LTO to build personal relationships (friendships) and develop loyalty. Friendships and loyalty lead to trust and personal commitment, and ultimately have a positive effect on cooperation and the success of strategies. The constructs and their proposed relationships are discussed in the following paragraphs.

LTO

In developing strategies, successful cooperation hinges on a LTO based on positive experiences involving cooperation (Wetzels *et al.*, 1998; Gulati, 1995; Gulati and Gargiulo, 1999) and the belief that cooperation will lead to positive results (Axelrod, 1984). These realities reflect the fact that firms are not likely to pursue strategies based on relationships that offer few benefits. Thus expectations are based on positive experiences and anticipated future value.

Managers pursue long-term strategies even if no immediate benefits are promised because they believe it is important for the performance of their organization. This

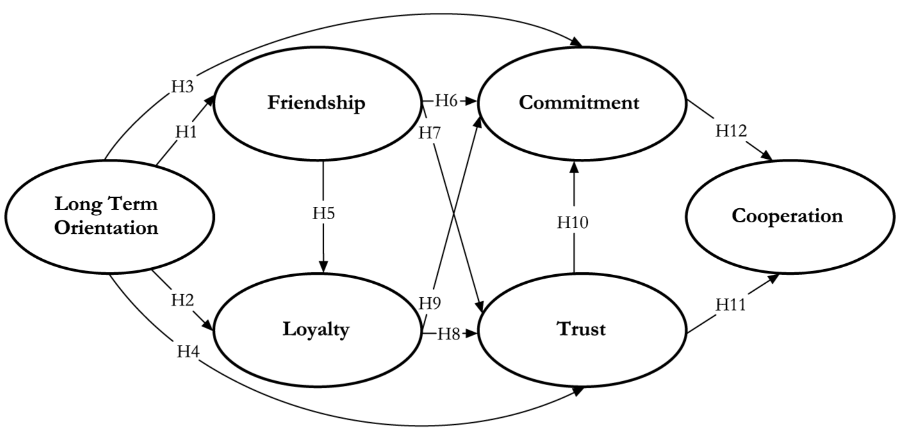

Figure 1.
Strategy model constructs and hypotheses

perspective assumes managerial approaches are based on more than just daily contact and require time and effort to develop (Gundlach *et al.*, 1995; Wetzels *et al.*, 1998; Gounaris, 2005).

However, an LTO can have negative outcomes. For example, opportunities may be lost because of obligations to remain loyal. Furthermore loyalties can hamper creativity and encourage routine patterns because thinking outside the box challenges the fundamentals the relationship is based on. Contextual circumstances can discourage an LTO and lower trust (Gounaris, 2005) and the need to control all decisions makes the situation more difficult. The absence of an LTO becomes crucial in situations where firms pursue complicated tasks requiring more time. Even if there is an LTO management of the situation may be poor. Relationships involving high personal and collectivistic investments also demand maintenance. One consequence of long-term friendships is they produce more dependencies because one must consider the impact of loyalty. For example, pursuing actions without considering others' feelings typically terminates relationships (Ingram and Roberts, 2000) or discourages future sharing of common benefits.

Empirical evidence supports a relationship between LTO and commitment (Gulati, 1995). Moreover the frequency of interaction depends on the length of the relationship (Nicholson *et al.*, 2001) and repeated success leads to trust (Gulati, 1995). This explains the high cost to replace relationships developed over a long period of time.

Based on these findings, we propose the following four hypotheses:

H1. LTO is related to friendship.

H2. LTO is related to loyalty.

H3. LTO is related to commitment.

H4. LTO is related to trust.

Friendships

Personal relationships based on friendships are consequences of individuals, within or between firms, working together and sharing their leisure time. Friendships can stimulate good communication, increase loyalty, trust and commitment but discourage opportunism (Zaheer *et al.*, 1998). That is why relationships often are considered as important as the product or services a company sells. When customers choose products or services the qualities might be similar, but the organizational reputations different. Organizational reputation extends to operational levels where coordinating tasks through invisible friendships can be decisive in winning customers (Ingram and Roberts, 2000). As an example, when a customer first becomes aware of an invisible friendship network they might say "So this is how it works." Thus, relationships can be as important as product or service qualities.

Friendships, however, involve more than being aware of the other friends' feelings and the significance they have for the future development of the relationship (Mavondo and Rodrigo, 2001). Friendships, therefore, must be considered from a broader perspective. Being a friend does not necessarily include knowledge of what constitutes the friendship, because we may simply like each other. A consequence of developing friendships is that persons socialize outside work and therefore also have access to information and how decisions are made (Mavondo and Rodrigo, 2001). This access directly affects the ability to talk openly as friends and to consider the partner's feelings before making an important decision.

Friendships recognize that when partners change friends are lost. Thus, a negative side is that friendships as in any relationship involve conflicts and disappointments. The negative side also includes situations where someone feels pressure when one person exerts control over another because of their stronger position. Clearly this influences relationship development and results in conflicts and disappointments. However, friendship also leads to positive situations such as better ideas and improved discussions. This bundled construct of friendship is important in examining cooperation as a strategy.

Cooperation between friends is effective in completing demanding tasks such as radical product change (Johannisson, 1990) and in coordination of sales activities (Ingram and Roberts, 2000). In fact, the lack of friendships results in poor access to resources and information (Maslyn and Uhl-Bien, 2001). If cooperation and information sharing is important to continuing the relationship, then loyalty, trust and commitment must be considered.

We propose the following hypotheses:

H5. Friendship is related to loyalty.

H6. Friendship is related to commitment.

H7. Friendship is related to trust.

Loyalty

Personal relationships are the outcome of individuals cooperating on goals and decisions in which friendships stimulate interpersonal communicative skills. Although friends are enthusiastic about other individuals' ambitions, loyalty protects relationships. Loyalty is more task-related in the sense that the situation or action in itself becomes more important. Therefore, loyalty in personal relationships increases trust and commitment (Uzzi, 1997) and discourages opportunism (Zaheer *et al.*, 1998). Companies develop strategies to create loyal customers and more successful companies have loyal employees. Replacing employees or customers may not be negative in the long run but can be risky and costly in a short run. Loyalties are always difficult, and being loyal is based on enjoying the relationship and the context in which it takes place (Gounaris, 2005). In practice, loyalty protects and gives security to current relationships. However, loyalties may also discourage change. Loyal individuals are faithful during winds of change and continuously attempt to improve their shared contexts through cooperation. Thus, cooperation enables individuals to "save face", avoid conflicts, and find mutually beneficial solutions.

Loyalty is therefore critical in the process of cooperation, especially in achieving trust and commitment. Loyalty means that during cooperation individuals avoid embarrassing situations or spontaneously confronting friends or partners, and try to minimize difficulties and find agreeable solutions to conflicts. Thus, solving conflicts and finding solutions is central to a loyalty. Tjosvold and Sun (2002) reported that loyalty deepens personal friendships based on trust and strengthens cooperative goals, thus avoiding dysfunctional conflicts. Similarly, Morgan and Hunt (1994) found that shared values are important in developing communication, trust and commitment, so that conflicts that do arise are resolved in a functional manner.

In light of these findings, we propose the following hypotheses:

H8. Loyalty is related to trust.

H9. Loyalty is related to commitment.

Trust

If commitment leads to giving up resources and operations, or sharing more decisions, then the risk must be controlled by assessing whether the other individuals in the relationship are trustworthy. Trust is based on inherently risky experiences involved in relationships (Mayer *et al.*, 1995) and operates to exclude risky situations that threaten or otherwise jeopardize competitive advantages. At a personal level trust enhances social control and facilitates reciprocity and empathy (Axelrod, 1984). Trust is therefore considered an experience of mutual honesty and confidence that includes few negative surprises and is established on the basis of similar values. The assumption of few negative surprises with trust results in a feeling of fairness when decisions are made on new goals and opportunities.

Positive experiences from working together in previous projects and frequent interactions engender trust (Powell, 1990; Gulati, 1995, Garbarino and Johnson, 1999). Thus, trust is based on loyalty and cooperation and takes a long time to develop with friendship as a precursor (Mavondo and Rodrigo, 2001). Trust is a key mediator to cooperation and directly effects both commitment and cooperation (Morgan and Hunt, 1994; Wetzels *et al.*, 1998; Garbarino and Johnson, 1999; Ylimaz and Hunt, 2001; Wong and Sohal, 2002). Other studies corroborate the importance of trust in achieving successful cooperation (Axelrod, 1984; Rousseau *et al.*, 1998; Wildeman, 1998; Varamäki, 2001).

Trust is a governing mechanism used to facilitate cooperation. It is achieved based on reliability, honesty, fairness, responsibility, helpfulness and confidence (Morgan and Hunt, 1994). Trust establishes a state of belief that the more mutual trust exists the less likely the relationship will result in undesirable actions, hence reducing risk. Trust is therefore a matter of experience, which often takes a long time to develop and when damaged is difficult to repair.

In light of these findings, we propose the following hypotheses:

H10. Trust is related to commitment.

H11. Trust is related to cooperation.

Commitment

Commitment is based on how loyal a person or persons are to a social unit (Gundlach *et al.*, 1995). Commitment means individuals intend to continue their relationships (Gundlach *et al.*, 1995). Future intentions are therefore central to this concept along with social or professional values. Commitment includes future intentions to exchange information and transactions on a professional level, as well as more shared decision making. Successful long-term relationships contain highly committed parties. Therefore, a major reason for failed cooperation is lack of commitment (Wildeman, 1998).

In light of these findings, we propose the following hypothesis:

H12. Commitment is related to cooperation.

Methodology

Unit of analysis

The unit of analysis must be considered in studies of relationships between firms in order to avoid organizational level conclusions being based on personal perspectives (Oliver and Ebers, 1998; Mavondo and Rodrigo, 2001). However, relationships between firms typically involve both the personal and organizational levels. Figure 2 shows how personal relationships are likely to effect business-to-business reputations as well as interpersonal and inter-organizational relationships (Zaheer *et al.*, 1998). The boundaries of the unit illustrate how firms often develop strategies. Relationship strategies are assumed to affect not just a single unit, but also the whole firm. Thus, simple tasks such as voicemail or e-mail often can influence overall business performance. Furthermore, personal relationships can directly affect firm performance. This study focused on relationships between individuals in firms that belong to a network and the consequences these relationships may have on company performance.

Questionnaire

The questionnaire included six multi-item constructs adapted from Mavondo and Rodrigo (2001), Morgan and Hunt (1994) and Ingram and Roberts (2000). The six constructs were: LTO, friendship, loyalty, commitment, trust and cooperation. The constructs were measured using a five-point Likert scale with the endpoints labeled 1 = unimportant and 5 = very important. The initial instrument was developed and pretested with knowledgeable experts. It was then further pretested on a sample representative of those who would ultimately complete the survey. Based on the pretests individual items were revised or deleted from the questionnaire. The final questionnaire consisted of 31 items representing the six constructs plus demographic questions. Respondents were asked to complete the questionnaire and return it in the pre-addressed, stamped envelope. Construct reliabilities based on Cronbach alpha exceeded the required standard of 0.7.

Sample

Questionnaires were given to 254 businesses in the northern part of the USA. The businesses represented a broad cross section of different types, including banks, restaurants, real estate companies, retailers, hotels, transportation, and related services. All were knowledgeable about cooperative networks based on several years of experience of either participating in or working with such organizations. A total of 99 completed questionnaires were returned, representing a 39 percent response rate.

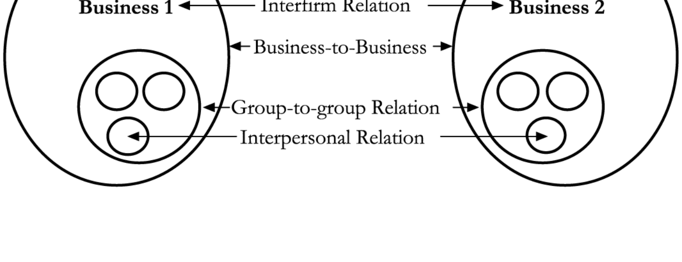

Figure 2. Relationships and organizational success

Results

An initial examination of the results was developed by calculating the means of the six constructs. The means were based on the summated scores of the individual items for each of the constructs. Table I presents the means for each of the constructs. The means illustrate that respondents perceive trust, cooperation, loyalty and long-term orientation as being the most important to the success of their businesses. This suggests that respondents believe pursuing cooperation through loyalty and trust is relatively more important than through friendships. To confirm this relationship, we examined the actual relationships between the constructs.

To test the relationships, including the proposed hypotheses, the data was further analyzed using structural equations modeling. The overall model demonstrated acceptable fit ($\chi^2 = 8.568$, df $= 3$, $p = 0.0036$, $\chi^2/\text{df} = 2.856$, NFI $= 0.965$, IFI $= 0.977$ and CFI $= 0.975$). Other than the Chi-square value, all of the goodness of fit measures met or exceeded recommended cutoff values. Individual items exhibited significant and substantial loadings on their intended construct indicating good convergent validity. Structural equations modeling enabled an examination of all relationships simultaneously instead of separately, as would have been true with path analysis.

Figure 3 shows the model and hypotheses. The hypotheses were examined by focusing on the size and significance levels of the path coefficients. The first four hypotheses relate to long-term orientation and its affect on four constructs – friendship, loyalty, commitment and trust. Results indicate that long-term orientation

Table I.
Constructs and means

Construct	Means
Long-term orientation	3.58
Friendship	2.94
Loyalty	3.65
Commitment	3.13
Trust	4.28
Cooperation	3.82

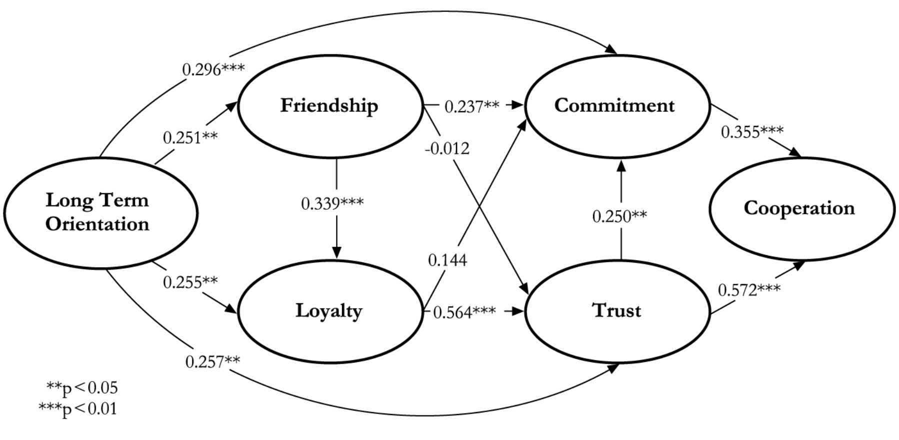

Figure 3.
Strategy model relationships and findings

is positively and significantly related to both friendship (*H1*, $r = 0.251$; $p < 0.05$) and loyalty (*H2*, $r = 0.255$; $p < 0.05$). Similarly, LTO is a positive significant predictor of both commitment (*H3*, $r = 0.296$; $p < 0.01$) and trust (*H4*, $r = 0.257$; $p < 0.01$). Thus, the first four hypotheses are accepted.

The next three hypotheses relate to friendship. *H5* and *H6* are statistically significant showing that friendship is positively related to loyalty (*H5*, $r = 0.339$; $p < 0.01$) and to commitment (*H6*, $r = 0.237$; $p < 0.05$). In contrast, there is not a statistically significant relationship between friendship and trust (*H7*). Thus, are accepted, and *H7* is rejected.

H8 and *H9* relate to loyalty. *H8* is statistically significant showing that loyalty is positively related to trust (*H8*, $r = 0.564$; $p < 0.01$). However, loyalty is not significantly related to commitment (*H9*). *H8* is therefore accepted and *H9* rejected.

The remaining three hypotheses examine trust and commitment. Trust is significantly and positively related to commitment (*H10*, $r = 0.250$; $p < 0.05$) as well as cooperation (*H11*, $r = 0.572$; $p < 0.01$). Moreover, there is a significant positive relationship between commitment and cooperation (*H12*, $r = 0.355$; $p < 0.01$). Therefore, *H10*, *H11* and *H12* are accepted.

Discussion

This paper proposed and tested a model of cooperative strategies among small and medium-sized companies. The model hypothesized that successful strategies based on cooperation (i.e. sharing strategic goals and decisions) begin with an LTO. The importance of a LTO was hypothesized based on previous studies. The studies conclude that both earlier experiences and future cooperative decisions are important to successful cooperation. Axelrod (1984) studied cooperation from an individual perspective based on the assumption that repeated cooperative actions, motivated by self-interest, must include improved outcomes for all. But the lack of shared goals in shared decision making will hamper the overall cooperative strategy. Gulati (1995) studied LTO based on shared experiences and demonstrated how earlier experiences enhance trust and eventually result in more future cooperation. This study found that LTO engenders cooperation via friendship, loyalty, trust and commitment.

Cooperative relationships involving friendship, loyalty and trust were examined by Ingram and Roberts (2000). They found that such relationships enhanced competitiveness by enabling firms to better serve their customers. Our results are similar in that they indicate friendships motivate individuals to consider the feelings of others before making decisions, thus leading to both loyalty and commitment. This suggests friendships play an important role in forming loyalty and commitment.

Ingram and Roberts (2000) also found that friendships facilitate trust and that relationships can be effective even if there are gaps in the network. However, they cautioned that friendships may also cause free-riding issues, which in turn affect trust. For example, friendships provide access to partners but if information is not shared this lowers trust resulting in reduced future benefits. Similarly, inappropriate use of information such as giving information to individuals outside the network will cause partners to question the benefits of the network. Our results indicate no relationship between friendship and trust. But there is a significant relationship between friendship and loyalty as well as friendship and commitment. This suggests friendships should focus on building loyalty and commitment more so than trust.

Previous research shows loyalty is related to cooperation when the relationship has perceived benefits (Holm-Blankenburg *et al.*, 1996). The current study found that loyalty is related to trust and ultimately to cooperation. Trust also is related to commitment, which involves social and professional values in addition to trust, and our study confirmed this. Our findings are consistent with Mavondo and Rodrigo (2001) and Nicholson *et al.* (2001), who found similar links between loyalty, trust and commitment. When loyalty leads to trust and commitment, partners are more likely to cooperate because it reduces risk.

Previous research has also shown that trust is related to commitment and cooperation and that commitment encourages cooperation (Morgan and Hunt, 1994; Mavondo and Rodrigo, 2001; Ekelund, 2002; Mukherjee and Nath, 2003). This study's findings are similar providing further evidence of the importance of relationships between loyalty, trust, commitment and ultimately cooperation.

Conclusions

Large firms select between higher and lower order functional strategies. Small and medium-sized firms sometimes address functional cooperative strategies through shared goals and decisions in order pursue higher order strategies. In an effort to be successful, small and medium-sized firms in remote areas developing shared competitive strategies should consider cooperative relationships as part of both business and functional strategies. This paper relies on social exchange theory advocating personal relationships based on trust (Blau, 1964; Rodriguez and Wilson, 2002). The findings support an embeddedness perspective suggesting rational decision making combined with personal relationships involving social aspects such as friendship, loyalty, commitment and trust can lead to successful strategies based on cooperation (Granovetter, 1985; Uzzi, 1997). The overall model demonstrates that given an LTO, strategy development should consider the role of loyalty, trust and cooperation in selecting partners.

Implications

This paper has demonstrated the importance of personal relationships and the role they can play in the success of strategies at all levels in the organization. Successful cooperation requires a long-term perspective as well as establishing friendships and building loyalty, trust and commitment. Furthermore, personal relationships can be as important as the transactional value provided. The emerging global economy stresses efficiency and effectiveness in technical and service qualities. But in strategy development cooperation among firms through better relationships is also important. Service-oriented industries have recognized the impact good relationships can have on reputation, including providing credibility for their services and products (Gounaris, 2005). However, product-oriented industries can also benefit through better planning and cooperation on R&D projects, new product development, market strategies, international exchanges, and local community development.

Limitations

The current study is based on a cross-sectional study. The proposed relationships are represented as sequential but "return loops" are also possible. For example, trust may lead to commitment, but commitment can enhance trust. Future studies of the proposed relationships, both in terms of magnitude and direction, could benefit from a longitudinal study.

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