ENVIRONMENTAL CHANGE AND THE DISSOLUTION OF RELATIONSHIPS

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This study considers how adverse changes in the business environment de-stabilize business relationships and pre-dispose their dissolution. Employing Macneil's Theory of Relational Exchange in conjunction with Agency Theory, it examines relational de-stabilization as a condition that results from the withdrawal or deterioration of relational norms. Findings from a survey of industrial suppliers indicate that the emphasis or lack of emphasis that organizational decision-makers place on reciprocal normative actions differs relative to their interpretation of environmental threat. This is argued to result from one organization's altered perceptions of a partnering firm's ability to perform within a new environmental context.

INTRODUCTION

A business environment contains the external resources upon which organizations depend. A successful organization is simply one that more efficiently negotiates the environment to consistently exploit desired resources, using social exchange as the venue to accomplish this task; that is, an organization is able to access environmental resources and establish competitive advantages through the process of interactive exchange, whether by means of many single transactions with multiple other organizations or repeated transactions over time with one or few organizations. These are central tenets of a marketing system and the basis for developing market strategy (Levine and White 1961; Bagozzi 1975; Pfeffer and Salancik 1978; Aldrich 1979; Pfeffer 1981). The difficulty in applying this framework lies in the changing and unpredictable nature of the environment itself. Environmental resources are in a constant state of flux (Achrol and Stern 1988), obligating organizations to continually adapt organizational strategy in order to remain effective.

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Adaptation obligates an organization to redefine prior exchange patterns and expectations that have been established with other organizations (Achrol 1991; Hallen, Johanson, Seyed-Mohamed 1991). There are a limited number of ways that this can be accomplished. First, the organization itself may assume the task of securing and converting resources that was formerly accomplished through another organization (hard integration). Secondly, the nature of an exchange relationship that was previously established with a partnering firm can be altered to be more congruent with the new environment. This falls within the domain of inter-organizational management. Finally, a new and more efficacious relationship with an alternative exchange partner may be identified and used to replace one that has become less effective under a new environmental condition.

It is the latter alternative that will be the focus of this discussion. How does an organization come to the decision that an existing relationship has been rendered ineffective due to changes in the environment and at what point does the organization elect to terminate the relationship? This study considers this question as it pertains to both long and short-term relationships by examining the nature of inter-organizational norms and the role they play in either stabilizing relationships or predisposing their dissolution.

THEORETICAL DEVELOPMENT OF RELATIONSHIP DISSOLUTION

Long-Term vs. Short-Term Relationships

Over the past two decades, marketing literature has given much attention to differentiating long and short-term or "post-hoc" relationships. Long-term relationships are reputed to hold advantages such as better coordination and less redundancy in performance of channel functions, more efficient management of inventories, more predictability and stability of markets, cost reductions, and dispersion of entrepreneurial risk among others (Keep, Hollander and Dickinson 1998; Sheth and Parvatiyar 1992, 1995; Cannon and Homburg 2001). Advantages such as these are assumed to make these organizations more robust in the face of external disruption and therefore, more environmentally viable.

Short-term or "post hoc" relationships maintain only "transactional" ties. They have little or no basis for anticipating future interaction, are more strategically "reactive," and are consequently more vulnerable to being disrupted by changes in the environment. This indicates that the resiliency of long and short-term relationships is fundamentally different. This difference must be taken into consideration when examining the means by which either one is terminated.

Relational Performance And Equity

Organizations replace one relationship with another under the context of environmental adjustment, based on the conclusion that the present relationship is failing and will continue to fail in providing an efficient access to a newly altered distribution of environmentally held resources. This action is necessarily based on some assessment of relational performance. The difficulty in comparing the means by which organizations evaluate relationships and make subsequent decisions to discontinue the relationship is that long and short-term relationships measure performance in dissimilar ways; that is, the benefits sought and gained within an exchange between two organizations that have entered a longer-term partnership are measured differently than the benefits achieved within a single transaction between firms that have formed only transactional ties.

Organizations that have formed only temporary ties with one another must realize the benefit of an exchange scenario within a single or few transactions because future exchange is not anticipated, the "profit" gained from any single transaction cannot be postponed. Therefore, the desirability (undesirability) of a short-term relationship and the decision to maintain (terminate) continued interaction must be based on more immediate performance measurements that are tangible and discrete. Alternatively, the benefits that accrue to organizations that have committed to partnering over longer periods cannot be easily measured within any single transaction or transaction series. Any single transactional event may result in more benefit, less benefit or even a loss to either organization. However, because continued interaction is anticipated, each organization may choose to maintain the relationship, assuming that it will benefit from an "average profit" that will accumulate over an extended period. Consequently, participants in long-term relationships tend to place less emphasis on transactional "benefits" in the short term. This is a fundamental difference between long and short-term relationships that significantly influences how judgements to terminate or continue in a relationship are made.

In order to deal with this discrepancy between long and short-term relationships and how relationships are evaluated, the construct of "exchange equity," as provided within the general framework of social exchange (Frazier 1983), will be used as a general representation of relational performance for both types of relationships. "Equity," as a concept, represents the "fairness" or "equality" of a relationship and the exchange scenarios upon which it is based. A traditional definition of equity (Adams 1965) represents it as a comparison between the ratio of inputs (costs) incurred by the parties to an exchange, relative to the outcomes (benefits) received (Figure 1).

Figure 1

Equity = f(Inputs (*self*)/Outcomes (*self*) vs Inputs (*other*)/Outcomes (*other*))

Equity judgements represent a standard of performance that influences an organization's decision to continue in a relationship or abandon it. An exchange scenario that is judged to be fair or equitable will serve to legitimize a relationship and increase the likelihood that it will continue. Alternatively, a perception that an exchange scenario is inequitable reduces the relationship's legitimacy, predisposing instability and abandonment. Simply said, the process of dissolution is initiated by judgements of inequity.

The advantage of using equity as a performance standard is that it is equally applicable to either a single transaction or an exchange scenario that covers a more extended period. This feature makes it especially useful to the present discussion in differentiating between long-term and short-term performance evaluations.

Two forms of equity evaluations are developed in the present discussion. "Transactional equity" will refer to the fairness or equity that is realized within one or several transactions. The second form of equity will be referred to as "relational equity" or equity judgements concerning the fairness or equity that is ascribed to a relationship as a whole. It is the latter form of equity that is argued to play the primary role in an organization's decision to continue or abandon a partnership with another organization. Specifically, it is assumed that failed judgements of relational equity precede and activate relational deterioration. The process by which this occurs can be described using Macneil's theoretical framework of social exchange and the procedural mechanisms of relational norms.

Macneil's Framework of Relational Exchange & Normative Behavior

Macneil's framework of social exchange (1980) explicates long and short-term marketing relationships by differentiating the behavioral processes that characterize each. Macneil describes long-term relationships as those engaged in "relational exchange," a scenario that encompasses trust, communication and commitment. Short-term relationships are represented as a form of "transactional exchange," which operates under a different set of procedural and structural protocol.

"Contract norms" are a central feature of this framework. These norms function as formal and informal rules that serve to guide exchange activity between partners, lending stability and predictability to an exchange scenario. Collectively, contract norms establish an arena in which exchange events are able to occur (Heide and John 1992; Cannon, Achrol, and Gundlach 2000).

Flexibility is one example of a contract norm. All organizations must maintain a degree of flexibility within a given domain of exchange. This is because organizations are confronted with new and unanticipated contingencies that must be accommodated as they struggle to remain environmentally viable. Organizations involved in short term relationships may achieve flexibility by retaining multiple potential exchange partners with which they may interact. This provides them an array of transactional alternatives to choose from in their response to changing environmental requirements. For example, a new packaging regulation imposed by the EPA may prompt a manufacturer to simply switch to a different provider of packaging materials that complies with the new regulation. On the other hand, long term relationships are engaged in relational exchange. These organizations are more likely to maintain flexibility by establishing an expectation that a single partnering firm will yield to the transactional demands imposed by new and unanticipated situations. In the same example, this would imply that a manufacturer would retain its existing provider of packaging materials, expecting them to alter their production methods so as to meet the new EPA requirement.

Consistency is a second example of a contract norm that is necessary for organizations to formulate and execute planning. Short-term relationships, in part, have this need met by the formal rules and structures of commerce that are established by the authority of a local political system. For example, a simple purchase agreement provides some degree of predictability/consistency in the future demand of a seller organization, and therefore, a basis for planning. Conventional legal sanctions make such an agreement enforceable.

However, in the case of long term relationships, it is an organization's consistency in a more general behavioral pattern over an extended period that establishes consistency. As two organizations come to engage in relational exchange, the frequency, importance and complexity of their interaction increases. This results in higher levels of inter-dependency and greater vulnerability if either organization fails to perform. Simply, the future planning of one organization is based on its expectations that a partnering organization's future performance will remain consistent. Although legal sanctions may be available to the injured party if the partnering organization fails to meet these expectations, this is generally considered an insufficient remedy. Higher levels of dependency between the organizations will result in extenuating complications if one organization or the other fails to perform. In this case, organizations come to rely on inter-organizational trust and communication rather than remedies provided by judiciary systems.

Flexibility and *consistency* are examples of organizational needs that are delivered to long-term relationships through prescribed and uniquely developed normative behaviors. Although normative obligations also exist for short-term relationships, they are generally prescribed by society and are enforced through legal means. On the other hand, normative behaviors may be obligated by no more than the expectation of the partnering firm in a longer-term relationship. This is the central feature of relational exchange and long-term partnerships. The behavioral response of one partnering organization becomes critical to the other's ability to meet its various and changing needs. These behavioral commitments constitute an informal social contract between the organizations and define the substance of the relationship itself.

Responding to Environmental Change

Consistency and *flexibility* are especially important in lending resiliency to relationships that are struggling to adapt to new environmental conditions. Metaphorically, they serve as "shock absorbers" that mitigate irregularities in the environment and establish a range of tolerance for variations in inter-organizational performance. For example, a supplier's performance may be hindered as a result of an environmental disruption. However, *consistency* obligates that organization to work toward restoring prior levels of performance. In turn, the buyer organization is obligated to remain flexible in its expectations while its supplier struggles to develop a new means of dealing with the environmental change. These reciprocal actions will preserve the relationship by legitimizing the transactional losses that may be temporarily imposed on both organizations by adverse changes in the environment.

This process is vital in the development and maintenance of longer-term relationships. Day to day variations in transactional performance inevitably occur (i.e, transactional inequity). Normative tolerance enables partnering organizations to dismiss the inequity of transactional losses and focus instead on the "relational equity" that they anticipate will emerge over time in the form of an "average profit."

Using this model, the difference between a long and short-term relationship can be simply described as relationships that differ in their respective ranges of normative tolerance. Short-term relationships, which have poorly developed relational norms, also have little or no tolerance for transactional failures. The equity (or inequity) of a single transaction is virtually synonymous with the overall relational equity that represents the worth of the relationship as a whole. On the other hand, within a long-term relationship, an organization is more likely to dismiss transactional losses as being unrepresentative or uncharacteristic of the relationship itself and therefore as inappropriate measures of performance.

In the event that transactional violations are attributed to an environmental change, the existing level of the relationship's normative tolerance will not only serve to stabilize the relationships but may actually be expanded to accommodate more serious infractions of transactional equity. This would be most likely when organizations perceive the environment as being temporarily disruptive. Under this scenario, it is likely that both parties to a relationship would place greater emphasis on being consistent and flexible, providing the relationship with a greater capacity to identify transactional failures as being "reasonable" or "acceptable," thereby stabilizing the relationship during turbulent periods.

> **Proposition 1:** As environmental conditions become moderately threatening, organizations will place more emphasis on normative obligations.

However, transactional tolerance is not unlimited; norms serve only to establish a range of acceptable variation, enabling organizations to legitimize instances of transactional inequity that fall within those limits. Transactional outcomes that fall outside of the range of normative tolerance warrant more scrutiny. These violations are of greater interest in understanding the process of relational dissolution in that they may precipitate the redefining of a particular partnership and provoke new courses of action (e.g., dissolution).

Under this scenario, repeated occurrences of transactional inequity may still be attributed to the environment. However, the frequency and seriousness of the infractions may prompt an organization to re-evaluate the environmental change as being more substantive and/or permanent than previously thought. This condition may suggest to an organization that the array of environmental resources upon which they depend is being permanently and problematically altered. This represents a "new" environment – one that a partnering organization may or may not be capable of negotiating. It calls for a different response than a simple continued expansion of normative tolerance. As it calls into question a partnering organization's ability to negotiate the change, it elicits concern that a shift or failure in the overall relational equity may be eminent. It is proposed here that this would prompt either organization to retract, rather than to expand, the emphasis being placed on normative tolerance in an effort to maintain expectations of relational equity.

> **Proposition 2:** As environmental conditions become more severe, organizations will place less emphasis on normative obligations.

This may be the defining characteristic of a relationship that is under relational stress and one that was described as being "brittle" as long ago as 1964 by Ekeh. Ekeh used this word to refer to more enduring relationships that become suddenly transactional in their orientation. This term suggests that, as normative tolerance is retracted, the worth of the relationship becomes more closely aligned with singular transactional events, making continued deviation in transactional equity more vivid. Further, it calls into question variations that may have previously been dismissed as "normal" or "reasonable" during a period that is especially difficult. This is a condition that predisposes relationships to dissolution. A relationship's final dissolution will occur with the complete collapse of the relational norms that first establish it.

Agency Theory and Decision Processes

The propositions developed above do not specifically consider the means by which organizations make decisions that affect their relationships with others. Individual decision-makers, as opposed to "organizations," represent the managerial mechanisms that initiate, guide, and eventually terminate relationships. Therefore, it is important to identify and differentiate between different types of decision-makers and how they are involved in the decision process. Agency theory is a useful framework with which to consider these issues.

An agency relationship is said to be present whenever "...one party (the principal) depends upon another party (the agent) to undertake some action on the principal's behalf" (Bergen, Dutta, Walker 1992). This framework has been used to examine relationships between employers and employees, between upper and lower-level management, as well as inter-organizational relationships. Our interest here is in the agency relationship that exists between a sales employee or sales manager and the owner or general manager of an organization, with regard to how inter-organizational decisions are made.

Agency theory is primarily concerned with how efficiently a principal (e.g., an owner or general manager) and an agent's (e.g., a sales force member or manager) relationship achieves a principal's interests. A common approach of agency frameworks is to set out the conditions for a "contract" or agreement, which compels or motivates an agent to effectively serve the principal's objectives in addition to their own self-interest. When these conditions are achieved, an "efficient contract" which embodies the rules and protocol governing the obligations of both parties is established. These contracts typically fall into one of two categories. The first focuses on process and regulates the actions an agent undertakes to represent the principal's interest. The second is based on outcome. It typically rewards an agent according to the extent that specified goals are achieved. For example, the first form of contract might stipulate that a salesperson make a specified number of sales calls over a given period of time. The second would simply compensate the salesperson by commission. Of course, combinations of both types of contracts are also possible.

An agency framework also assumes that the principal possesses incomplete and uncertain information relative to the performance of an agent's action. The agent, on the other hand, is given to have better and more complete information concerning his or her own domain of activity. This makes it difficult for a principal to fully evaluate the efficacy of an agent's independent decision-making with regard to representing the principal's best interest. In the case of a salesperson/owner relationship, this would imply that a salesperson has superior and more complete information concerning customer relationships and the decisions that affect them. It follows that an "outcome" based contract would give more discretion to the sales agent to act on this information with regard to implementing sales policy as well as autonomy in making exceptions to sales policies on the customer's behalf.

This is an important distinction in understanding how relationships develop in that the implementation of many relational norms is based on making exceptions to transactional protocol. For instance, the norm of flexibility may require that an organization forgo receiving a payment from a partnering organization as that organization is given time to recover from a particularly difficult period. Likewise, observing the norm of consistency may require an organization to fully or partially absorb a cost increase rather than to immediately pass the full cost on to its customer, thereby giving the customer time to adjust to a new cost structure. An agent acting under an outcome-based contract is likely to have greater autonomy in arranging such "exceptions," thereby playing a pivotal role in activating relational norms. Alternatively, a process-based contract is more likely to be based on conventional policies and emphasize traditional procedures. It is reasonable to assume that an agent working under the latter scenario would be more limited in implementing normative intervention under strained conditions, such as those imposed by a difficult environment.

It was argued above that relational norms are likely to be withdrawn under more severe environments, a condition in which the viability of an organization is threatened and one in which that threat is attributed to a substantive and permanent change in the environment. Clearly, this is a condition that is sufficiently disquieting so as to prompt a re-examination of inter-organizational strategy. This same condition must also be assumed to be sufficient to alter the efficiency of a given contract between an agent and his or her principal. Although an outcome-based contract would seem to more directly achieve a principal's interest under "normal" conditions, a process-based contract may be preferred under more uncertain and difficult periods because it would minimally insure that protective procedures and policies are being followed. Previous research has demonstrated that environmental uncertainty may alter the nature of principal/agent contracts, possibly by way of putting more emphasis on process-based contracts (Bergen, Dutta, Walker 1992).

If the types of contract under which sales agents operate were altered in the midst of an environmental change, the identity of the relevant decision-maker would also change; that is, the autonomy of a sales agent, which is provided by an outcome-based contract, would be retracted as process-based contracts receive more emphasis under worsening environmental conditions. This would shift decision-making authority from lower level decision-makers (e.g., sales force members) to owners or upper management, causing normative exceptions to become more restricted through formalized sales policies.

HYPOTHESES DEVELOPMENT AND METHODOLOGY

Hypotheses

This discussion informs two sets of hypotheses that concern normative response to environmental change. First, in the event that an environmental threat is perceived to be increasing but only to moderate levels, it has been proposed that an organization will place greater emphasis on normative tolerance. This presupposes that a relationship expands normative tolerance to meet relational expectations and accommodate transactional failures that are perceived to be temporary and are attributed to an external cause. Further, these normative decisions would be implemented through actions taken by organizational "agents" (i.e., sales force members, sales managers) who are assumed to be the relevant decision makers concerning inter-organizational relations through the use of outcome-based agent/principal contracts.

$H1_a$: Mid-level managers and sales force members will place greater emphasis on *flexibility* as the environment is perceived to become increasingly threatening.

$H1_b$: Mid-level managers and sales force members will place greater emphasis on *consistency* as the environment is perceived to become increasingly threatening.

The second type of response to environmental change would become more relevant when environmental changes become more serious and prolonged, resulting in more frequent and serious infractions of transactional expectations. This condition would result in an organization's retraction of normative tolerance through actions taken by organizational "principals" (i.e., upper-level managers or organizational owners). Principals are assumed to become more influential in inter-organizational decision-making during more extreme conditions through the implementation of principal/agent contracts that are procedural in nature.

$H2_a$: Organizational owners and upper-level managers will place less emphasis on *flexibility* as the environment is perceived to become increasingly threatening.

$H2_b$: Organizational owners and upper-level managers will place less emphasis on *consistency* as the environment is perceived to become increasingly threatening.

Methods

Commercial roofing material suppliers and their relationships with commercial roofing contractors served as the target population and focus for this study. A survey was used to ask suppliers to interpret conditions in their local business environment while considering their relationships with customers.

Two surveys were conducted, sampling from the same population. The first served as a pre-test of the instrument in order to validate measurements. This survey randomly sampled 100 building material suppliers and yielded a response of 38 percent. A second survey was used to collect data for testing the hypothesis developed above. The second survey employed a valid sample of 480 organizations and yielded a final response rate of 28 percent (n=136).

Measurements

Flexibility and Consistency

Macneil's (1980) framework of social exchange describes flexibility as a norm that moderates "planning and effectuation of consent" by providing each party to an exchange with a means to address unforeseeable and/or unexpected contingencies. As noted above, this norm mitigates the rigidity of prior commitments by recognizing that one's consent to future obligations is limited by his or her knowledge of future contingencies.

Consistency is a norm that supports the higher order function of encouraging each party to maintain its respective "role integrity," referring to an organization's constancy in meeting inter-organizational obligations over time. It includes the behaviors and actions necessary to fulfill one organization's expectations concerning another's ability and willingness to deliver a unique value.

These conceptual definitions of flexibility and consistency were further developed through exploratory interviews with the target population in order to understand how they were implemented at the "local" level of the industry chosen for study. Other applications of flexibility and consistency in the marketing literature were also considered (Kaufman and Stern 1988; Kaufman and Dant 1992). This information was used to develop six-point Likert Scale items, which were pre-tested and data-reduced to the items given in Table 1.

Environmental Threat

The environmental condition discussed above has been generally referred to as one that is "threatening." It is a condition that holds potential for activating normative changes within a relationship as it is based on a perception that the alignment of environmental resources is being altered in such a way as to have an imminent, long-term and negative impact. At an extreme level, this condition is sufficient to motivate one organization to re-evaluate its partner's environmental competency, with relational dissolution held as a potential response to negative evaluations.

With this description of environmental threat in mind, six-point Likert Scale items were developed to operationalize the construct. These items were pre-tested and reduced to a set of three items, given in Table 2.

Principal/Agent

Respondents were identified as being either "principals" or "agents" according to their response to a questionnaire item that identified their title/role in the organization. Owners or general managers were designated as "principals" and sales managers or members of the organization's sales force were designated as "agents."

Hypotheses Test

Simple linear regression was used to test for a significant difference between principals and agents with regard to the emphasis that each group placed on relational norms when dealing with customer organizations. The respondent's principal-agent identity was used to create a "dummy variable" (1 = principal, 0 = agent) and a model was constructed that tested for a significant interaction between the respondent's principal-agent identity and their perception of environmental threat, relative to the emphasis they placed on normative actions:

Normative Emphasis = Environmental Threat (THREAT) + Principal/Agent (PRINCIPAL) + Environmental Threat x Principal/Agent (THREAT x PRINCIPAL)

Table 1
Factor Analysis & Scale Statistics for Consistency and Flexibility

		factor 1	factor 2
Flexibility	When a customer is confronted with a new situation, I'm willing to work out a new deal, rather than hold them to original terms.	.210	.801
Flexibility	I usually respond when a customer requests changes in a business agreement.	-.016	.814
Flexibility	Sometimes you have to break the "rules," especially with someone who has special needs.	.150	.709
Consistency	It's not fair to customers when you unexpectedly change the way you conduct business.	.817	.193
Consistency	Customers should be able to depend upon my business practices staying the same over relatively long periods of time.	.825	.001
Consistency	You should not change sales policies if it causes injury to customers who have come to rely on you.	.750	.156
Alpha for Flexibility = .68	Alpha for Consistency = .73		

Table 2
Factor Analysis & Alpha for Environmental Threat

	factor loading
I may be forced to drastically change the way I do business as a result of negative changes in the business environment.	.879
Recent trends in the business environment are having an especially negative impact on my business.	.885
I am extremely concerned about changes in the business environment.	.876
Alpha for Environmental Threat = .85	

Results

The results of this test failed to uncover any significant differences between principals and agents with regard to their emphasis on flexibility $F\,(3,130) = .358$, $p=.783$, $R^2=.008$ (Table 3). However, the data supported the proposition that principals and agents differ in their emphasis on consistency, $F\,(3,130) = 5.67$, $p=.001$, $R^2=.117$ (Table 4).

$H1_a$:	not supported	$H2_a$:	not supported
$H1_b$:	supported	$H2_b$:	supported

Table 3
Regression Analysis Predicting Respondent's Emphasis on Normative FLEXIBILITY

	B	â	t-Value	Sig.
OWNER	.025	.014	.142	.887
THREAT	.109	.122	.880	.380
OWNER x THREAT	-.101	-.076	-.586	.559

Table 4
Regression Analysis Predicting Respondent's Emphasis on Normative CONSISTENCY

	B	â	t-Value	Sig.
OWNER	-.046	-.025	-.267	.790
THREAT	.473	.515	3.917	.000
OWNER x THREAT	-.516	-.376	-3.065	.003

Summary

These results demonstrate that sales managers and sales force members continued to increase their emphasis on being consistent as the environment worsened, while owners and general managers were more likely to only maintain or even de-emphasize their commitment to this norm (Figure 2). This provides evidence that principals and agents differ in what they deem to be the "appropriate" level of priority given to being consistent with relational partners who are struggling with varying degrees of environmental threat. Under "safe" conditions, it appears that upper management underscores the importance of developing long-term inter-organizational relationships, while marketing personnel may actually give less priority to this objective. This may be due to a short-term sales orientation on the part of sales agents and their emphasis on the immediate rewards provided by outcome-based agency-principal contracts. However, as environmental conditions worsen, the importance of maintaining customers as a scarce resource may motivate sales personnel to solidify and strengthen relationships by emphasizing consistent behavior. At the same time, upper management could be restricting this same type of normative performance. This presumably occurs as upper managers or owners reexamine the viability of relationships and their ability to contribute to long-term profitability.

The disparity in normative priorities between these two groups may be given expression through different combinations of principal/agent contracts. If, as argued above, the form of contract that is being used to regulate actions of marketing employees is altered as environmental conditions worsen, then the control that sales agents have in defining the nature of customer relationships would likewise change. An "outcome" based contract under normal or moderately threatening conditions would result in sales personnel having more autonomy, with more emphasis on normative interaction. However, if the organization begins to develop more "process" oriented contracts as environmental conditions worsen, then the emphasis being placed on normative actions would be restricted by the less tolerant sales policies established by the organization's principal(s).

This is demonstrated in Figure 2 as the model's interaction between agents and principals with regard to normative emphasis and their perception of environmental threat. If agents are the relevant decision makers under low to moderate levels of perceived threat and principals are assumed to be decision makers under moderate and higher levels of threat, the bottom portion of the curve's intersection would best represent inter-organizational normative policy. In other words, normative emphasis would increase to moderate levels of threat under the autonomy of sales personnel, at which point owners and general managers would retract the moderating effect of normative action.

This suggests that a general relationship exists between an organization's normative tolerance and the perceived severity of an environmental threat, as depicted in Figure 3. It implies that normative emphasis is first increased to stabilize a relationship as environmental conditions worsen and then retracted to provide a means of de-stabilizing the relationship in order to enact the process of relational dissolution.

Discussion

This study asserts that relational dissolution occurs after a relationship has been de-stabilized through the withdrawal of reciprocal normative actions. Further, normative actions are (de)emphasized relative to two types of organizational judgments. The first is transactional equity, which involves the equity reflected within a single transaction or transaction series. The second is relational equity and involves an assessment of how representative a transactional event may be of a relationship's overall worth. Norms provide distance between these two types of judgements, and thereby modify (or fail to modify) the impact of diminished transactional performance on percepetions of relational equity.

The means by which these judgements are enacted within inter-organizational decision making requires consideration of the relevant decision-maker. The strengthening of a relationship, through normative emphasis, is appropriate when transactional violations are attributed to simple irregularities in the environment. "Agents," such as members of an organization's sales force, implement this type of action. These actions serve to legitimize a partner's failure in equity performance, justifying the expansion of normative tolerance. On the other hand, normative retraction requires a different interpretation of transactional violations. In this case, "principals," described as organizational managers or owners, interpret the environmental change as being more threatening with equity failure being attributed to a partnering organization's inability or unwillingness to respond. This is the process by which organizations move toward dissolution.

Dissolution serves a necessary function in the structural change of market systems that are obliged to change in the face of an evolving environment. Regardless of the depth and commitment that characterizes the relationship between two organizations, each partnering organization must continue to engage and negotiate some component of the environment more efficiently/effectively than the other (Alderson and Martin 1967; Morgan and Hunt 1999). As well, the marginal increase in resources gained for both organizations must continue to exceed the cost of securing them through that particular exchange venue.

This is a relational pre-requisite that holds for organizations engaged in long-term relationships as well as those in short-term relationships. Simply, a relationship's value must ultimately be consigned to a partnering organization's ability to convert resources (Weitz and Jap 1995; Reddy and Czepiel 1999; Hunt and Duhan 2002). The recent emphasis that the marketing literature has placed on the benefits of long-term relationships and on the importance of establishing, developing and maintaining them (Morgan and Hunt 1994) may obscure the importance of these principles and potential value of considering dissolution as a strategic alternative. Dissolution is a necessary remedy when one organization in a partnership fails to serve as an environmental intermediate. This is the hallmark of a market system. It is the primary means of competitive survival and the process through which the evolution of market structures occur.

This is especially relevant when a system is undergoing significant changes economically, politically, and socio-culturally, such as the present period in the United States. Over emphasizing the importance of inter-organizational relationships may promote the maintenance of anemic alliances long past the point of any hope for present or future profitability. This can have dire consequences. This

Figure 2

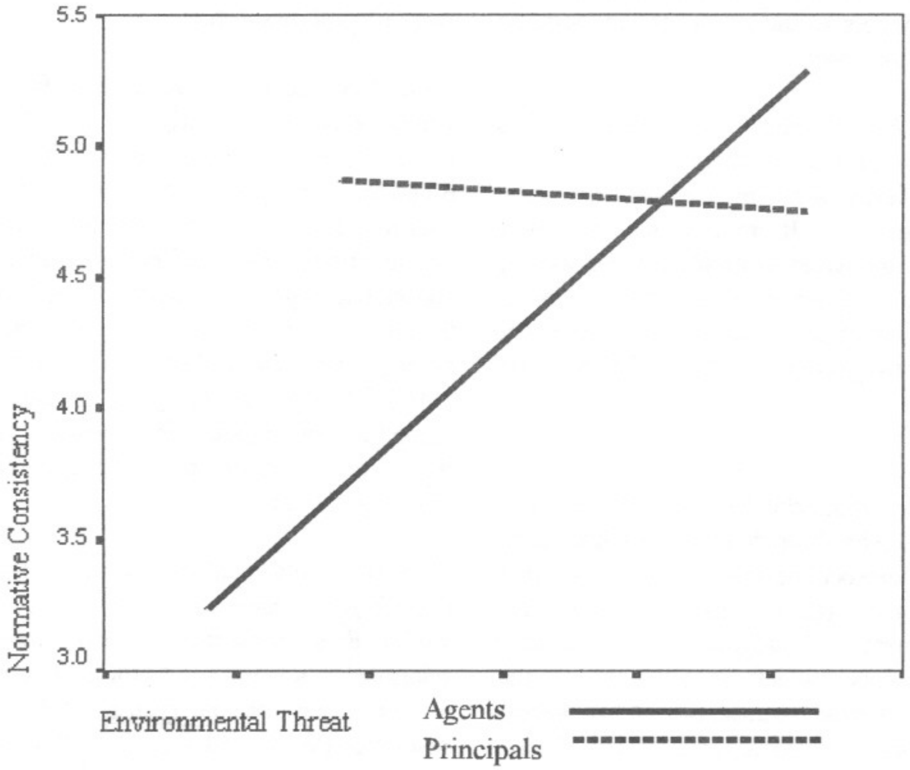
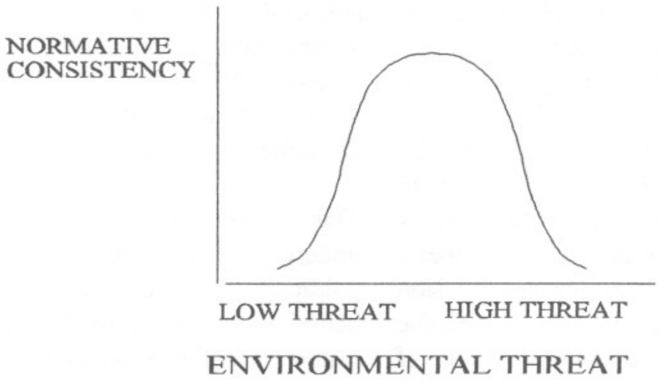


Figure 3



occurred in the 1980s within the agricultural industry after an extended period of economic growth and expanded production. During this period, the Farm and Home Association (FHA) had guaranteed loans made to farmers through local financial institutions. Inter-organizational norms were expanded without limits as local FHA Agents and bankers (i.e., "agents") continued to lend federally insured monies to farmers (i.e., "customers") with whom they had established long-term relationships. However, these farm operations were often only marginally profitable and the loans were recognized to be in high risk of default. During the recession of the early eighties, federal authorities (i.e., "principals") suddenly decided to rigorously enforce loan procedures and policies that had always been in place but had been informally and "unofficially" modified or limited by local agents and loan officers. This represented a radical and immediate contraction of normative tolerance. It not only resulted in the sudden termination of many local relationships but also precipitated the failure of many local banks and the bankruptcy of countless family farms and local agri-businesses. The resulting financial losses, as well as personal trauma, suffered by participants in this industry were significant.

Relationship dissolution is a component of marketing strategy that needs to be given more attention as a research topic in the future. Dwyer, Schurr and Oh (1987) called for this research agenda well over a decade ago. However, it was not a topic that captured the interest of many during the economic expansion of the 1990s. Recent economic and political changes seems to promise that organizations will be faced with rapidly and substantively changing business environments in the coming decade. Dissolution, as a strategic alternative and as a research venue, may become more critically important as this occurs.

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