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Article

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jbm - Journal of Business Market Management

Provided in Cooperation with:

jbm - Journal of Business Market Management

Suggested Citation: Parthasarathy, Madhavan; Forlani, David (2016) : Revisiting the causes of organizational discontinuance: A diffusion theory approach offers new insights, jbm - Journal of Business Market Management, ISSN 1864-0761, Freie Universität Berlin, Marketing-Department, Berlin, Vol. 9, Iss. 2, pp. 650-676,
<https://nbn-resolving.de/urn:nbn:de:0114-jbm-v9i2.1379>

This Version is available at:

<https://hdl.handle.net/10419/162846>

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Revisiting the causes of organizational discontinuance: A diffusion theory approach offers new insights

Madhavan Parthasarathy · David Forlani

Abstract: The purpose of this research was to develop a framework capable of classifying the reasons behind the discontinuance of supplier-distributor relationships. Using a sample of CEO's who manage intra-national and multi-national firms, a study was run to test a typology of discontinuance built around diffusion theory's source of influence construct (e.g., the origin and valence of the information that initiates a discontinuance decision). The three types are called New Day, Strike 3 and Greener Grass. Results support the proposed typology and suggest that managers indeed terminate relationships with partner firms for three aforementioned theoretically-grounded and practitioner-relevant reasons. Managers can use the framework to better understand their past and current relationships, as well as a tool for engineering future relationships. Finding a tendency toward one discontinuance type can help managers identify issues or weaknesses that if addressed, could improve the quality and longevity of such relationships.

Keywords: Organizational discontinuance · Channel relationships · Diffusion theory

Acknowledgements: The authors would like to thank the anonymous reviewers for their helpful comments, and the Japan External Trade Organization, the Jobs Center for Entrepreneurship and the CIBER at the University of Colorado Denver for their financial support of this research.

Published online: 28.11.2016

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Introduction

Over the years academics have empirically examined a number of economic (e.g., transactions costs economics (Williamson 1975) and agency theory (Eisenhardt 1989)) and non-economic (e.g., social embeddedness (Granovetter 1973; 1985) and resource dependency theory (Barney 1991; Hillman, Withers and Collins 2009)) reasons behind the formation, structure and dissolution of inter-firm relationships. Even considering the least studied process, the termination of business-to-business (B2B) relationships, prior research has produced meaningful models and insightful explanations of these events (Hocutt 1998; Yang et al. 2012). However, a unifying perspective able to account for the causes that lead to these terminations has been elusive. Addressing the need for an over-arching framework is the primary aim of this research.

A general theme that underpins the failure of B2B relationships is that at least one manager fails to see sufficient value emanating from that relationship (Tähtinen et al. 2007). Such perceptions are based on information that originates in one of three places: a) the firm that terminates the relationships, b) the terminated partnership, or c) a source external to either “a” or “b.” This trichotomy of sources is consistent with work by Perrien et al. (1995), who when looking at causes for the termination of banking relationships, categorized a host of causes into three primary groups, the customer who terminated the relationship, the partner or bank, and competitors (i.e., external agents). Additionally, each of these loci has been supported by prior research. For instance, Yang et al. (2012) showed that firms may terminate a partnership because of internally-based factors like goal divergence or a lack of trust. Similarly, others have shown that concerns originating within the partnership that are either economic (Payne et al. 2009; Helm et al. 2006) or non-economic (Gedeon et al. 2009; Perrien et al. 1995) in nature can lead to the partnership’s dissolution. Lastly, Pressey and Qiu (2007) discuss how agents external to either firm in the relationship, possibly with a self-serving agenda, can initiate the relationship’s termination.

In addition to the origin of the information that leads to a termination decision, another insight producing variable is that information’s valence. The valence of the information that leads to a termination decision can also be divided into three groups, neutral, negative and positive. Again, prior research has considered these three forms of performance valence as they relate to the terminating firm. For instance, when the decision to terminate an inter-firm relationship is made independent of the outcomes produced by the relationship, the performance valence is neutral. Zaefarin et al. (2016) demonstrated this by showing how a change in marketing strategy can lead to the dissolution of a partnership. Similarly, a termination decision can reflect violated expectations resulting in negatively valenced information that can be associated with either non-financially based (Gedeon et al. 2009) or financially-based outcomes (Payne et al. 2009). Lastly, the information can be positively valenced. For example, an external agent may decry that a different arrangement can deliver even better outcomes than those available from the current relationship (Pressey and Qui 2007). Interestingly, these two variables, the origin and valence of the information that causes termination decisions, represent diffusion theory’s *source of influence construct*, a construct fundamental to explaining adoption and discontinue decisions (Rogers 2010). As applied in this study’s B2B decision context, the source of influence construct is

conceptualized as the *origin and valence of the information that initiates a termination decision*.

Although diffusion theory's predictions have been successfully applied to new products in industrial markets (Dewick et al. 2006; Muzzi and Kautz 2004; Soete 1985), including technological innovations of the kind likely to be adopted by strategic partners in B2B scenarios (Bass and Bass 2001), it has not been applied in an inter-firm dissolution context. Fortunately, there is evidence of its application in the consumer behavior literature. For instance, while investigating consumers' decisions to terminate Internet service providers, Keaveney and Parthasarathy (2001) found differences in the rates of discontinuance associated with appropriately valenced information that originated from difference sources (e.g., interpersonal versus mass media). This finding indicates that diffusion theory's source of influence construct can empirically explain termination decisions.

Expected Contribution

Using diffusion theory's source of influence construct as its theoretical foundation, this study builds, and empirically tests, a framework able to account for the termination of value-chain based (Porter 1985) supplier-distributor relationships for the purpose of better understanding why they end. At a more micro-level, such a framework can provide a theory-based structure for investigations into various antecedent, process and resultant factors associated with the termination of inter-firm relationships. For instance, by looking within one set of dissolution causes it may be possible to better understand what led to the dissolution, how the dissolution evolved and why certain post-dissolution actions were taken. Similarly, at a more macro-level, the framework may afford research opportunities to extend diffusion theory's predictions regarding the likelihood and timing of an innovation's adoption process (Bass 1969; Rogers 2010) to its adopters' discontinuance behaviors. For instance, the organizational discontinuance framework developed in this study may be useful in helping to predict who will be the earlier and later adopters of value-chain based innovations like new technologies or types of intermediaries.

For practitioners, as with other frameworks (e.g., the Boston Consulting Groups growth-share-matrix (Hedley 1977) and typologies (e.g., generic business-unit strategies (Miles and Snow 1978; Porter 1980)), observing a firm through such lenses can build understanding and enhance future decision making. For instance, economically impactful business decisions are often information-driven, where the quality, accuracy and verifiability of this information likely reflect its source and performance valence. When such information leads to decisions requiring disruptive actions (i.e., termination of a relationship), the information's source may influence the action's immediacy, the comfort-level of the manager implementing it, and subsequent decisions regarding alternative arrangements. To aid partners' monitoring of these discontinuance-causing factors, another aim of this research is to identify each set of factors relative frequency of occurrence.

Next, the framework is developed and hypotheses offered that are then tested using a sample of firm managers who had recently terminated a working relationship

with a distributor. After that the results are reported and discussed, followed by the study's implications and thoughts on future research directions.

Theoretical Development

Building the Framework

From the perspective of the value chain (Porter 1985) there exists numerous opportunities for the formation and dissolution of inter-firm relationships. For simplicity, this paper takes the perspective of the firm that terminates an existing supplier-distributor relationship. Also, in an effort to capture the majority of inter-firm transactions, and to avoid the extra complexity of ownership-based relationships, it focuses on non-ownership based relationships (e.g., ongoing market-based exchanges).

Within this context, it may be helpful to summarize the points raised in the Introduction that are directly relevant to the development of the framework presented later in this section. Specifically, the framework is based on the two variables that comprise diffusion theory's source of influence construct (Rogers 2010). The first variable indicates that motivating information can originate in one of three places, a) the terminating firm, b) the terminated relationship, or c) an external agent. The other variable reflects the valence of that information, suggesting that it can be: a) unrelated to the performance generated by the current relationship, b) negatively related to the performance generated by the current relationship, or c) potentially more positive than the performance generated by the current relationship. Following is a more complete review of the source of influence construct as it relates to the decision context studied here.

The Source of Influence Construct

It has been shown that consumers discontinue their use of products for three reasons that coincide with the source of influence construct's origin and performance valence variables. Keaveney and Parthasarathy (2001) labeled these three factors underutilization, dissatisfaction and replacement. *Underutilization* has its origin within the individual and is performance neutral as it indicates that the person simply stops using the product, possibly reflecting a change in needs, desires or tastes. In other words, there was no fault attributable to the product; it just became irrelevant to the user. Alternatively, the consumer may discontinue the use of a product because of *dissatisfaction*, meaning that the product's performance no longer meets his or her current needs, desires or tastes. Here the origin is the person-product interface and the performance valence negative. Finally, they found that some discontinuance occurs for the reason of *replacement*. In this instance the user is still satisfied with the current product, but the discontinuance decision is influenced by an external source touting even better fulfillment of the user's needs, desires and tastes. Here, the origin of the information that initiates the discontinuance decision is positively valenced, but external to the person and current product.

Keaveney and Parthasarathy's (2001) findings are consistent with those of Hocutt (1998) regarding dissatisfaction and replacement. She posits that the dissolution of consumer-firm based relationships is a function of the consumer's commitment to the firm, where the degree of commitment is a function of three primary factors; satisfaction with the current provider, the attractiveness of alternative providers and the cost of making a change. Since Hocutt is postulating dissolution in a "switching" context, underutilization is not applicable as the product's benefits are still salient to the user.

Next, these three theory-based sources of influence, underutilization, dissatisfaction and replacement, are discussed in a context that is relevant to inter-firm termination decisions and then developed into the three discontinuance types studied here.

Termination of Inter-firm Relationships

The process of terminating inter-firm relationships was not a topic that received significant research attention until the 1990's with some early studies investigating the antecedents of such terminations (Heide and Weiss 1995; Ping and Dwyer 1992). However, in light of the often high financial and reputational costs associated with the dissolution of inter-firm relationships, some researchers have looked at ways of minimizing these potentially costly effects (Alajoutsijärvi et al. 2000), while others have investigated when existing inter-firm relationships will come under stress. Some of the constructs studied in this context include power and commitment among partners (Kadiyali et al. 2000), trust issues (Geyskens et al. 1998; Nicholson et al. 2001), satisfaction with the relationship, both economic and noneconomic (Geyskens et al. 1999; Klein and Roth 1993), value provided by the partner (Gummesson 2004) and channel structure (McNaughton and Bell 2001; Robicheaux and Coleman 1994). Still others have gone a step further by dissecting the reasons for failed alliances (Duysters et al. 1999; Vyas et al. 1995) and in the process found a multitude of potentially culpable factors. Indeed, it may be the very range of factors known to impact the sustainability of inter-firm relationships that has made it difficult to create a unifying framework (Giller and Matear 2001).

Applying the previously discussed consumer-based factors in a supplier-distributor context and working across the source of influence construct's origin and valence variables reveals meaningful consistencies. Reflecting the *underutilization* perspective, Yang et al. (2012) demonstrated that goal incongruence and a lack of trust, causes that are both performance-neutral and originate within the terminating firm, were significantly related to a distributor's dissolution intentions. Similarly, Zaefarian et al. (2016) show how reapplying the resources freed by terminating a B2B relationship can fund a change in strategy. Again the source of influence's origin is internal origin and its valence neutral.

Moving to the *dissatisfaction* perspective, which looks at negatively valenced causes that originate within the supplier-distributor relationship, requires consideration of both economic and non-economic causes. For instance, when attempting to better understand why commercial banking customers, who were in good standing with their bank, decided to sever this relationship, Perrien et al. (1995) found that the overwhelming number of causal factors were non-monetary, with the bank's policies accounting for over 50% of the variance. A similar result was found by Gedeon et al.

(2009). Employing a qualitative research method, they examined manufacturer-distributor relationships in the United Kingdom's grocery trade. Their findings showed that poor personal relations fostered by the manufacturer created dissatisfaction among the distributors resulting in the relationship's termination.

Negatively-valenced economic information can also lead to dissatisfaction and the dissolution of inter-firm relationships. For instance, a study by Helm et al. (2006) among firms in Germany engaged in buyer-seller relationships found that while not all unprofitable relationships were terminated, a lack of profitability was the main reason for ending such relationships. Taking a multi-variable approach and focusing on survival versus dissolution, Payne et al. (2009) found that the French firms in their study supported the notion that meeting economic performance objectives directly influenced inter-firm relationship survival.

Finally, the *replacement* perspective, which reflects positively-valenced information that originates outside of the current inter-firm relationship, is illustrated in the work of Pressey and Qiu (2007). They demonstrated that agents external to either firm in a given partnership, possibly with a self-serving agenda, can provide information that motivates one of the members to terminate the current relationship. While their qualitative study took place in China, the allure of a better deal is also a fairly common motive among western businesses. For instance, Ulaga and Eggert (2006a) suggest that vendors must make extraordinary appeals to remain key suppliers because of the many ongoing offers made by competitors who would like to replace or diminish their attractiveness to current customers.

The preceding demonstrates that while there can be many specific reasons for terminating a partnership, all can be classified by the origin and performance valence of the information that triggers the discontinuance decision (i.e., its source of influence). Next, the points raised in the preceding discussion are integrated to form a typology of organizational discontinuance.

A Typology of Organizational Discontinuance

To unify the preceding discussion on the reasons behind inter-firm termination decisions, a framework built around diffusion theory's source of influence construct is proposed. This framework focuses on non-ownership-type relationships and is written from the perspective of the firm that terminates a supplier-distributor relationship. The labels applied were chosen for their colloquial aptness and memorability. The three types are summarized in Table 1.

1) *New Day* (origin: the terminating firm, valence: performance-neutral), reasons for discontinuance correspond to the *underutilization* perspective. Here a firm's managers make a decision that renders the current relationship irrelevant or inappropriate. For instance, management may pivot to a new strategic direction making it financially infeasible for the firm to continue with the relationship (Zaefarian et al. 2016). Causes in the *New Day* type originate within the firm and are performance neutral, meaning that neither negative past performance, nor expectations of better future performance, are what initiate the termination decision. Some previously investigated examples of these causes include: a) dependency

(Alexander and Young 1996; Steinle and Schiele 2008) leading to loss of competencies (Bettis et al. 1992; Doig et al. 2001); b) resource redundancy (Cui 2013); c) perceived social risk (Barthlemy and Geyer 2000); and d) a perceived lack of trust (Lynch 2002; Doney et al. 1997; Yang et al. 2012) including the fear of information exploitation (Hoecht and Trott 2006). Interestingly, trust falls in this category because a lack of trust is triggered by a perception of someone in the terminating firm about some aspect of the partner firm that is independent of the partner's performance. If the termination decision was triggered by a performance concern, the type would be *Strike 3*, as discussed next.

2) *Strike 3* (origin: the current relationship, valence: performance- negative), the current partner has violated the firm's expectations resulting in an actionable degree of dissatisfaction. In this case the negatively-valenced information originates within the current relationship and while often economically motivated (Helm et al. 2006; Payne et al. 2009), as was previously demonstrated the source of the dissatisfaction can also be non-economic in nature (Gedeon et al. 2009; Perrein et al. 1995). The reasonableness of the expectations, or that the violation be an act of commission or omission, are not germane; only that the firm's managers become sufficiently dissatisfied with the current partner and decide to terminate the relationship (Earl 1996; Vyas et al. 1995; Duysters et al. 1999). This decision is caused by something the current partner is (e.g., an actual result), or is not (e.g., a promised initiative), doing and may reflect a recent event, or an ongoing situation (Essig and Amann 2009; Harland 1995). The crux of the dissatisfaction perspective is that the partner is no longer delivering sufficient value to the terminating firm.

3) *Greener Grass* (origin: an external agent, valence: performance-positive), somehow the terminating firm's managers learn of an alternative that they believe will provide more overall value than the current partner resulting in its replacement. Research findings (Eggert and Ulaga 2002; Flint et al. 1997; Pressey and Qui 2007) suggest a direct tie between partner choice and perceived value where the draw of increased value can originate from many places including global wholesalers, local marketing partners, shipping agents, and full-service distributors (Freund and Weinhold 2004). Here the decision trigger is positively-valenced information received from a source external to the terminating firm or its current partner. Some of the previously investigated *Greener Grass* causes include: a) better supply chain software (Grey et al. 2005; Kandampully 2003; Salam et al. 2001); b) technology transfer benefits, reduced R&D costs, access to marketing and technological strengths, or management skills (Chan and Heide 1993; Littler 1993); c) absorbing fluctuations in exchange rates (Min 1994); and d) supplier certification (Simpson et al. 2002). In all of these cases the firm continues to have need of the services its current partner performs and is generally pleased with its current partner's performance. The motivation for the change is the hope of even better performance, the origin of which is an external source.

It is important to note that the typology does not classify all of the information used in such decisions, nor does it suggest that all of the information used to make a termination decision is sourced from a single place. Additionally, the typology does not consider what happens after the relationship has ended. For instance, post-termination a firm's managers could decide to establish a new relationship, expand an existing partner's role to cover the terminated member's responsibilities, abandon the affected market, or integrate the terminated partner's functions in-house. These are interesting issues that can benefit from application of the typology if it is found tenable.

Tab. 1: Typology of Organizational Discontinuance

TYPES	New Day	Strike 3	Greener Grass
<u>INFORMATION:</u> ORIGIN	The Firm	The Current Relationship	Neither the Firm nor Current Relationship (e.g., a Third Party)
PERFORMANCE VALENCE	Neutral —strategic change or other functional firm-based issue (e.g., cost, capability or perceived trust issues) that makes the current channel relationship unnecessary or inappropriate	Negative —dissatisfaction with some aspect of the partner's performance (e.g., outcomes that fail to meet expectations)	Positive —knowledge of a potentially better way of meeting a need (e.g., a higher value method of fulfilling the partner's function)

Hypotheses

Since the paper's primary focus is the relationships delineated in the proposed typology, it is hypothesized first. The preceding discussion contends that inter-firm relationships are discontinued for one of three categories of reasons, each represented by a unique source of influence. The advantage of the source of influence construct is evidenced by its ability to reduce two, three-level variables (e.g., origin: within the terminating firm, the current relationship, and outside the firm or relationship; and valence: neutral, negative and positive), or 9 pairings, to a single, three-level construct. It is not that the other six origin-valence pairings are being ignored; rather, they are either preempted by one of these three or unable to trigger a termination decisions. Therefore, it is predicted:

- H1: The causes that initiate discontinuance decisions in supplier-distributor relationships can be classed into one of the following types:
- a) New Day, performance-neutral information that originate inside the firm;
 - b) Strike 3, performance-negative information that originates in the current relationship;
 - c) Greener Grass, performance-positive information that originates outside both the firm and the current relationship (e.g., a third party).

Frequency of Discontinuance Type

The next set of hypotheses considers the frequency with which each discontinuance type is expected to occur. *Strike 3* should be the most prevalent type because failure to meet expectations is the main reason for the dissolution of any relationship (Oliver 1980). Opportunities to disappoint are manifold as each interaction between the firm and partner has the potential to create expectations that are later violated (Earl 1996). Additionally, when the cause of the dissatisfaction is financial, the termination decision may transition from optional to compulsory. For example, if a distributor fails to deliver on its commitments the firm may experience a reduction in revenue or profit, or suffer setbacks in reaching market-access goals. These types of violated expectations can be powerful antecedents of dissatisfaction and lead to the termination of relationships (Vyas et al. 1995; Duysters et al. 1999). While prior research has shown that there may be resistance to terminate a relationship either because of factors that attenuate the firm's lost value (Tähtinen and Vaaland 2006) or reflect an inability to properly value such relationships (Helm et al. 2006), eliminating a pain point is a strong motivator.

Based on the replacement perspective discussion that managers who are happy with their current partners are likely bombarded with messages promising new sources of value (Ulaga and Eggert 2006a), it might seem that *Greener Grass*, or the hope of extra profits, be as prevalent as *Strike 3*. However, this is not expected simply because *Greener Grass* is seen as more of an optional decision, at least in the short term, as the current partner is meeting its performance expectations. In other words, the firm's manager is being asked to discard an acceptable partner for one that *might* be better. This would suggest either a degree of risk taking foreign to most managers (Forlani et al. 2002) or a strong belief that the new situation indeed has a significant relative advantage over the current one. Since the monetary and non-monetary costs (e.g., time and effort expended training employees, learning new systems, and the potentially negative reputational effects garnered by terminating a partner) are apt to be non-trivial (Tähtinen and Vaaland 2006), many firms are likely to be cautious when discontinuing for *Greener Grass* reasons. Hence, it is predicted that *Strike 3* will be more prevalent than *Greener Grass* as a class of reasons for terminating an inter-firm relationship.

Lastly, *New Day*, which is grounded in internal factors that are performance neutral, likely represents the least prevalent set of causes for terminating a supplier-distributor relationship. This is due to the fact that it assumes events that are more the exception than the rule. For instance, significant changes in strategy or policy typically occur infrequently and only under a narrow set of conditions like the need to dramatically cut costs, or address concerns involving the fear of lost capabilities or customer access (e.g., Blumberg 1998; Levina and Su 2008; Ranganathan and Balaji 2007). Similarly, trust concerns may be mitigated by professional or social interactions that can reduce managers' perceptions that the association will be exploited (Giddens 1990; Palvia 2009). Possibly in economically inclement times, these reasons may become more prevalent as firms engage in short-term cost cutting which may include limiting some strategic activities, eliminating product lines, or perhaps entirely withdrawing from tough markets (Driscoll and Paliwoda 1997). Challenging economic conditions also serve to place additional stress on partnerships where cultural or management styles and strategic goals diverge. Firms may also decide to withdraw from markets that prove to be inconsistent with their core competencies, once again ending the associated inter-

firm relationships. Nevertheless such fundamental issues and changes are uncommon, making *New Day* the least prevalent discontinuance type.

The preceding suggests the following hypotheses:

H2: Each discontinuance type's prevalence is predicted to be as follows:

- a) *Strike 3* will be more prevalent than *Greener Grass*.
- b) *Strike 3* will be more prevalent than *New Day*.
- c) *Greener Grass* will be more prevalent than *New Day*.

Methodology

Data Collection

The data collection instrument used was a survey. The data were collected at an internationally known website dedicated to such activities (www.surveymonkey.com). Before being administered, the instrument was evaluated by academics, and was pre-tested with a small group of business people. Based on these evaluations changes were made to the instrument with the intention of making it easier for respondents to complete while maintaining academic rigor. Respondents accessed the survey via a link embedded in an email they received from the authors. The email, sent on University letterhead and addressed to the firm's CEOs, was crafted in the form of a letter that explained the purpose of the research and urged recipients to click on the link to provide their views on issues important to international commerce. Two reminders were sent, the first two weeks after the initial mailing and the second, one week after that.

The sample consisted of firms located in a large mid-western metropolitan area. The data collection effort was sponsored by the Japan External Trade Organization (JETRO). The sampling frame was a list of 1,595 email addresses of firms' CEOs provided by the sponsor. Almost half of the email addresses proved to be invalid as the researchers received 749 "undeliverable notifications." Of the remaining 846 emails assumed to have reached the addressees, 187 respondents clicked on the link and went to the website, providing a reasonable 22.1% response rate. Not unexpectedly, only a small subset of this sample (64 respondents) claimed to have recently discontinued a partner relationship and given the sampling frame, all of the terminated firms were distributors.

Additional characteristics of the 64 firms that terminated a channel relationship include: 34 of the respondents' firms participate in markets outside of the United States, have been in business for an average of 12.7 years, have annual sales that range from less than \$1 million to \$120 million and provide work for between 1 and 1,400 full-time employees. Of the products offered, 61% are services and 39% goods, most (81%) of which are sold in organizational markets. As a preliminary analysis, we ran a t-test between intra-national and multi-national companies to determine if size of the firm (in terms of both sales and number of employees) varied between the two groups. While multi-national firms did, on average, have higher sales figures than intra-national firms (\$6.68 million for multi-national firms versus \$3.02 million for intra-national firms) the results were not significant ($t=-1.68$, 37 df, $p=0.1$). There were also notable differences

in size as measured by full time employees (88.9 employees on average for multi-national firms versus 22.1 for intra-national firms). However, they were, once again, not significant ($t=-1.2$, 49 df, $p=0.235$). These results suggest that enough variance in size existed in both groups for the results of the means test to be statistically insignificant. What this analysis does show is that the majority of firms were small businesses, which is consistent with the goals of the JETRO organization.

Scale development

The factors identified as reasons for organization discontinuance in the “Theoretical Development” section served as the basis for the items included in the study. All of these causes were reviewed relative to the source of influence construct and compared to existing scales from the discontinuance literature that corresponded with the *Greener Grass* (i.e., replacement) and *Strike 3* (i.e., dissatisfaction) reasons (Parthasarathy and Bhattacharjee 1998). As there were no existing scales related to underutilization-based reasons (*New Day*), the items used were based solely on the factors previously discussed and narrowed to those with a focus on cost, strategic and trust issues. This resulted in three scales consisting of three items apiece. All of the items were pretested among faculty members and a small group of managers to assess their face validity prior to being sent to the sample. The scales themselves are contained in the Appendix, while their statistical properties are discussed in the next section.

Data Analysis And Results

Test of H1 (the typology)

Hypothesis 1 concerns the validity of the proposed typology of inter-firm relationship discontinuance types and is based in diffusion theory’s source of influence construct. Following Varimax rotation, the factor loadings of the three types, as indicated in Table 2, reinforces the notion that the typology presented is indeed reasonable. The items loaded strongly on three factors that perfectly corresponded with the three types being studied. The pattern and strength of the loadings (all greater than 0.68 on the expected factor) lends some degree of construct validity (Bagozzi and Yi 1988) to the notion that the reasons for the discontinuance of organizational partners can effectively be separated into three distinct and concise sets based on a unique pairing of the terminating information’s origin and performance valence. Consistent with diffusion theory’s source of influence construct (Rogers 2010), these results indicate that significant differences in termination decisions can be directly traced to the origin and performance valence of the information that triggers such decisions. Since the results of the factor analysis fully support H1, examination of the prevalence-based hypotheses can proceed.

Tab. 2: Test of the Typology of Organizational Discontinuance
Descriptive Statistics, Instrument Reliabilities, and Factor Loadings

Likert-scaled construct	Number of items	Mean	Std. Dev.	Cronbach alpha	Variance Explained	Factor loadings (Varimax rotation)
<i>Greener Grass</i>	3	5.09	1.35	0.74	24.18%	0.83, 0.82, 0.75
<i>Strike 3</i>	3	5.12	1.16	0.74	24.14%	0.85, 0.84, 0.71
<i>New Day</i>	3	3.77	1.33	0.78	24.15%	0.89, 0.88, 0.69

The loadings of the 9 discontinuance items correspond precisely with the three factors identified by the factor analysis

Test of H2a, H2b and H2c (the prevalence of each type)

This set of hypotheses is concerned with identifying the reasons that most often lead to discontinuance decisions. To test its predictions, first the three previously discussed scales of three-items each were combined to form interval-level indicators of each discontinuance type. These scales were then subjected to within-groups t-test analyses to identify the most prevalent type in each pair. To provide additional insights into the views of managers working at intra-national and multi-national firms, the results in Table 3 are presented for the overall sample (column 3), managers at intra-national firms (column 4) and managers at multi-national firms (column 5).

The findings indicate that while H2b and H2c were supported, H2a was not. The findings for H2a suggest that discontinuance decisions fueled by the assumptions associated with the *Strike 3* and *Greener Grass* types did not differ. Conversely, support for H2b and H2c suggests that either of these discontinuance types, *Strike 3* and *Greener Grass*, is more likely to lead to a termination decision than the valence-neutral, internally-sourced, *New Day* type. Further, the additional analyses reported in Table 3 indicate that the findings are robust across managers who supervise channel relationships for intra-national and multi-national firms. Said differently, for the supplier-distributor based channel relationships examined in this study the *Strike 3* and *Greener Grass* discontinuance types represent equally frequent reasons for terminating this relationship, these reasons are more widespread than those associated with the *New Day* type, and this pattern is consistent for both intra-national and multi-national firms.

Tab. 3: Results Of The Paired T-Tests

H2	Test	Overall Sample N=64			Intra-national Sample N=30			Multi-national Sample N=34		
		Mean Cons-1	Mean Cons-2	T-value	Mean Cons-1	Mean Cons-2	T-value	Mean Cons-1	Mean Cons-2	T-value
a:	Strike 3 (Cons-1) vs. Greener Grass (Cons-2)	5.14	5.09	0.25	5.19	5.39	-1.09	5.10	4.82	1.20
b:	Strike 3 (Cons-1) vs. New Day (Cons-2)	5.14	3.75	6.66***	5.19	4.12	3.40***	5.10	3.42	6.26***
c:	Greener Grass (Cons-1) vs. New Day (Cons-2)	5.09	3.75	6.63***	5.39	4.12	4.56***	4.82	3.42	4.80***

*p<0.1, **p<0.05, *** p<0.01

Post-hoc Analysis

A closer look at the data in Table 3 for the “Intra-national” and “Multi-national” groups suggests that there may in fact be differences between these two groups likelihood of discontinuing channel relationships by type. To examine these observations in more detail a between-groups general linear model was run (see Table 4 for the results). A review of Table 4 reveals that when the discontinuance type is Strike 3 (e.g., dissatisfaction with the current partner) both intra-national and multi-national firms are equally likely to terminate the problematic relationship. However, there may be differences in the likelihood of discontinuing for the other two types. For instance, intra-national firm managers are somewhat more likely to terminate channel relationships due to Greener Grass reasons than multi-national firm managers ($p < 0.1$), and intra-national firm managers are more likely than their counterparts at multi-national firms to discontinue channel relationship due to New Day reasons ($p < 0.05$). These results suggest that multi-national firms' managers channel-based decision are more stable and that they are less likely to be swayed by claims and promises of better outcomes.

Tab. 4: Results Of The Between Groups Test

Frequency of Discontinuance By Type	Intra-national sample (N=30)		Multi-national sample (N=34)		F
	Mean	Std Dev	Mean	Std Dev	
Strike 3	5.19	1.00	5.10	1.31	0.17
Greener Grass	5.39	1.06	4.82	1.53	2.91*
New Day	4.12	1.15	3.42	1.40	4.31**

*p<0.1, **p<0.05, *** p<0.01

Multivariate tests significant at $p < 0.01$ irrespective of whether Pillais, Hotelling, or Wilks test was used.

Discussion And Limitations

This study adapted diffusion theory's source of influence construct (Rogers 2010) to better account for the reasons that initiate the termination of inter-firm relationships. The purposed framework identified commonalities among these causes that could be sorted into three theoretically-grounded and practitioner-relevant types. Two sets of hypotheses were developed regarding the proposed framework and the prevalence of its three types. An empirical investigation was conducted in a sample of managers who had recently terminated a relationship with one of their distributors. The study's results clearly support the typology (see Tables 1 and 2) and two of the three proposed prevalence relationships (see Table 3). Further, the post-hoc analysis demonstrated differences in the prevalence of discontinuance type for intra-national and multi-national firms (see Table 4). Next, each of these findings is briefly discussed.

H1: Typology of Organizational Discontinuance

Based on perfectly aligned factor loading (see Table 2), there is evidence for the existence of the typology as described in the development of H1 and presented as Table 1. This finding suggests that the causes for inter-firm terminations (at least from the perspective of the supplying firm's managers) can be summarized into three types that represent the source and performance-valence of the information that initiates the discontinuance decision. We call these types, *New Day* if the information originated inside the firm and is performance neutral, *Strike 3* if the source of information was the current relationship and negatively valenced, and *Greener Grass* if the information originated with an external source and was positively valenced.

Given its focus on just the factors that initiate or motivate inter-firm discontinuance decisions, the typology developed here differs from existing models that more fully examine the termination process (e.g., Hocutt 1998; Payan 2009; Yang et al. 2012). An advantage of this approach is that future investigation can start within a given type and then assess the dissolution process and its antecedents. For instance, this method could address questions like which *Greener Grass* appeals are more persuasive, and what level of non-economic dissatisfaction is needed to invoke a *Strike 3* termination? Nested investigations like these may uncover consistencies and differences associated with each type, insights that more generic models would fail to reveal. Similarly, additional insights may be gained by beginning with a type and looking at its potential consequences. For instance, once a decision is made, what activities are undertaken, how long do they take to complete and what is the termination's ultimate conclusion? Like that employed by Alajoutsijärvi et al. (2000), such an approach may reveal a model for achieving desirable outcomes based on how the termination decision is structured.

H2a: Strike 3 will be more prevalent than Greener Grass

Contrary to the prediction that *Strike 3* would be a more common reason for firms to terminate an inter-firm relationship than *Greener Grass*, H2a was not supported. It was earlier contended that dissatisfaction with a partner creates a pain point, making the

need to find an alternative both imperative and pressing. In contrast, *Greener Grass* discontinuance, which would involve opting for a potentially superior approach, is less immediate and therefore, does not have to be performed with the same sense of urgency. The results contradict this contention as the insignificance of the t-test suggests that *Strike 3* and *Greener Grass* are equally prevalent reasons for terminating inter-firm relationships.

Perhaps the sampled firms have found suitable, compatible, partners and hence partner performance is less of an issue than believed. Further, with ever-increasing competition in the global marketplace, and the ease of locating new business partners, firms may realize that in order to survive, they must vigilantly seek more efficient partners. Fueled by cutthroat competition (Ulaga and Eggert 2006a), the need to be constantly alert to ways to reduce costs, or perhaps associate with new, more efficient partners may be the only way a firm is able to stay competitive. In turn, *Greener Grass*, or acting on positively valenced, externally generated information in the hope of realizing even better outcomes, may have become a necessity and not an option as previously thought. Alternatively, it may reflect the two previously noted caveats, many factors attenuate the decision to discontinue an existing relationship (Tähtinen and Vaaland 2006), and many firms are simply not adept at placing a value on such relationships (Helm et al. 2006).

H2b and (H2c): Strike 3 and (Greener Grass) will be more prevalent than New Day

The fact that both *Strike 3* and *Greener Grass* are more prevalent than *New Day* was as predicted. Clearly, the reasons that warrant termination of established inter-firm relationships (e.g., withdrawing from a market, concerns over capabilities, operations or trust, and general cost cutting) occur less frequently than those associated with either of the other two discontinuance types.

Post hoc-analysis of intra-national versus multi-national firms relative to H2a, H2b and H2c

The data in Table 4 addresses the question, are intra-national firms more likely to terminate channel relationships due to any one of the types examined? This question may be relevant because there is evidence that foreign, especially Asian, companies are likely to have more of a long-term vision when making strategic channel relationship decisions and these long-term decisions are beneficial to the company (Kalwani and Narayandas 1995). Further, relationships based on trust, commitment, and long-term associations are more the norm globally than among intra-national firms (Kim, 1996). In addition, since intra-national firms are generally managing a less expansive territory that is more accessible, they might be less tolerant of temporary deficits in partner performance. Given a greater degree of relative ease in finding and developing channel partners, intra-national firms may also have a relative lack of experience in managing such relationships which will be harder to maintain when placed under stress (Kale, et al., 2002). In turn, it may be that multi-national firms' managers are more tolerant of

temporary underperformance and therefore, less apt to terminate a relationship due to dissatisfaction (i.e., the *Strike 3* type). However, the results presented in Table 4 do not bear this out as intra-national and multi-national firms' managers were equally likely to terminate a distributor when its performance was deemed unsatisfactory. Perhaps this is because managers at multi-national firms initially set higher standards or have higher expectations from their partners (Dion et al. 1990) such that even temporary underperformance results in actionable levels of dissatisfaction. Whatever the reason, it may be that managers no longer have the luxury of tolerance—hoping that one of its underperforming partners will eventually recover.

Turning to the findings for the *Greener Grass* and *New Day* types, might the differences found between the intra-national and multi-national firms' managers reflect the attenuating factors suggested by Tähtinen and Vaaland (2006), or the deep bond between a multi-national firm and its channel associates (Kim, 1996)? It is likely that the non-monetary costs of such a change in terms of re-establishing its market presence are higher for the multi-national firm than for an intra-national firm. Multi-national firms may have to form extensive linkages or networks because trade with some regions of the world require unique skills and competencies (Hamel 1991), and therefore, these firms have more at stake if any of these relationships are terminated. Further, this breadth of experience likely gives them the capabilities, and their managers a deeper appreciation of peculiar cultural issues, to better resolve difficulties with current partners (Kale, et al., 2002). For instance, Payan et al. (2009) found that business distance, a construct related to cultural distance (p 1201), interacted with trust to negatively impact the survival of inter-firm relationships, suggesting that without an appreciation of a distributor's culture-based challenges, trust alone would not sustain the relationship. Hence, the supplemental between-groups tests indicate that intra-national firms are more likely to dismiss partners due to both *Greener Grass* and *New Day* reasons than multi-national firms.

Limitations

A limitation of this study is that it only captured perceptions of the supplier firms' managers regarding the reasons for discontinuance of a downstream channel partner. At one level this might not make a significant difference as Perrien et al. (1995) was able to use the supplier to establish a series of reasons to account for why commercial customers left its bank. Nevertheless, it would be helpful to obtain downstream partners' perspective on relationship terminations including their managers' reactions to being terminated. Such work would build on that of Alajoutsijarvi et al. (2000) regarding approaches for amicably dissolving inter-firm relationships. Another limitation is that the post-termination behaviors of either party were not considered. For instance, if a distributor is terminated for reasons associated with the *Strike 3* type would its managers' immediately seek a new supplier, or first address the underlying performance-based reasons for the termination? Further, would these responses differ if the distributor were terminated for reasons consistent with one of the other two types? A final limitation is the size of the sampled firms. With a maximum size of \$120 million in revenue and 1,400 employees, it may be that these firms' managers have more flexibility than managers at their larger counterparts. This may also impact their ability

to attract larger distributors, which could account for the failure of H2a and the unexpected prevalence of the *Greener Grass* type.

Implications And Future Research Directions

For Theory

The study's primary aim of creating an overarching framework of the causes for organizational discontinuance seems reasonably well met. The typology generated was built using prior research findings and organizing them to reflect the origin and valence of the information that triggered an inter-firm dissolution decision. That the proposed typology was supported lends credibility to diffusion theory (Rogers 2010) and work on discontinuance in consumer markets (Keaveney and Parthasarathy 2001). More importantly, it supports prior research on the dissolution of organizational relationships by building on its many findings and by providing a unique starting point for developing a deeper understanding of the inter-firm termination decision process.

From a diffusion theory perspective, when an innovation is in its early stage of adoption, the initial reason for discontinuance of the old innovation is *replacement* (i.e., the *Greener Grass* type). This happens because those who switch to an even newer innovation may be more open to learning of and implementing new approaches to better meet their needs. Given the high percentage of discontinuance decisions based in the *Greener Grass* type found here, what does this suggest for existing intermediaries and the rate at which they adopt and deploy productivity enhancing innovations? For instance, after being terminated by a partner firm, do they re-tool to meet future-potential partners' increasing expectations, re-trench if they control critical customer contacts, or dissolve?

Further, might vulnerable firms institute barriers to being terminated? As Tähtinen and Vaaland (2006) suggest, there are a host of factors that can attenuate the termination decision. Can these be used proactively to slow the rate at which productivity or cost-based innovations undermine existing relationships? Would some barriers be more or less effective at impeding difference discontinuance types? For instance, will a barrier that is effective against Strike 3 also impact *New Day*?

Lastly, Hocutt (1998) suggests a number of actions that can help to build commitment and reduce the likelihood of a relationship dissolving. Could actions that capture the partner's responsiveness to productivity or cost-oriented changes also moderate commitment levels? If so, is the perceived effect of commitment different across the discontinuance types presented here? For instance, it seems that commitment-building actions able to thwart a *Greener Grass* type discontinuance decision might have little effect on a *New Day* type discontinuance decision, even if the actions are equally valued. In summary, history has shown that all innovations are eventually replaced and the typology presented here may provide a conceptual foundation for anticipating collective changes in the expectations of partners in B2B relationships.

For Practice

This research raises a number of related issues that concern the co-evolution of existing partnerships, the development of emerging skills, and the disposition of the terminated firms. It was somewhat surprising that one third of the managers sampled reported a recent change in channel partners (i.e., 64 of 187). This seems a high rate of turnover that is primarily attributable to the current partner being unable, or unwilling, to change with the needs of its partner, and raises questions about the flexibility of the intermediary, and its ability to evolve over time.

Differentiating between the various reasons for the termination of inter-firm relationships can have several predictive outcomes. Since adoption of a new partner is a two-way process, suppliers and distributors can infer the innovativeness of a potential or existing partner by the type of termination it followed in the past. For example, *Greener Grass* types may represent proactive firms that are perhaps likely to have value-added products, greater profitability, and a more robust business. They may also prefer partners that use cutting edge systems and process. However, firms in search of a new partner because of *Strike 3* reasons may be more reactive in nature, and thus less likely to be leaders in their industries. Further, since dissatisfaction is also a two-way street it may indicate the presence of maladies within the terminating firm, such as product or production -oriented problems, cultural-distance issues, or margin pressures. Such factors may be considered red flags for those looking to be the company's new partner. Thus, the typology can help firms impute the internal state and health of their partner prior to making a decision to enter into a relationship, or to influence the nature of the relationship or even aspects of the performance review process.

Further, dissatisfaction with a strategic partner's performance is seldom sudden, but rather a slow, progressive deterioration in the relationship. A firm therefore has time to evaluate the likely basis for the souring of the relationship and, if possible, identify and alleviate the cause of the problem, thereby improving the relationship with the existing partner such that the bottom line isn't materially affected. Should the decline be determined to be irreversible, the firm can start looking for an alternate partner as early as possible, before the current relationship starts affecting profitability, market share, and company morale.

Supplier Firm Managers

For supplier firms, perhaps the most notable finding is that *Greener Grass* is as salient a reason for discontinuance as *Strike 3*, suggesting that a satisfactory channel relationship may not be a sufficient reason to pass up a potentially better one should it become an option. Further, if the manager does not take advantage of such an opportunity a competitor's manager likely will. In other words, reflecting both offensive and defensive reasons, the fact that a client company is satisfied with its partner's performance does not mean that it should not terminate that relationship should a potentially better opportunity come along. This suggests that when making channel appointments it would be helpful for managers to seek out partners not only based on the usual selection criteria (e.g., trust, fit, market access and expected performance), but also on the partner's ability to constantly adapt as the competitive landscape changes and its willingness to take advantage of advancing technologies.

Distributor Firm Managers

The study's results surrounding the *Greener Grass* type indicate that firms are likely to be lured by alternatives that seem to offer more value even when the distributor has a sound relationship with a supplier firm. This suggests that in addition to forming and maintaining satisfactory relationships, the distributor must stay on the cutting edge of market trends and competitiveness. Only then will a partner's relationship with a supplier be fairly secure. However, this research also reveals that when expectations are being met, managers at the multi-national firm display a higher degree of patience than their intra-national counterparts when deciding to discontinue a channel relationship. Further, a multi-national partner that demonstrates ongoing efforts to reduce costs, combined with an ardent effort to understand and work with different management styles and corporate cultures, may well be rewarded with greater loyalty.

At another level the findings recommend that distributors' managers too should be proactive by scouring the environment looking for their own *Greener Grass* opportunities. The findings also indicate that long-standing relationships and trust will not atone for performance that fails to meet expectations. Both intra-national and multi-national firms are equally likely to terminate a relationship due to *Strike 3* causes, suggesting that core performance remains a critical aspect of business relationships.

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Appendix

Construct Items:

All the constructs were measured on a 7-point Likert scale ranging from “Strongly Disagree” to “Strongly Agreed”. Some questions, as indicated were reverse coded. All the questions were randomly mixed in with other questions such that questions pertaining to any one construct were not grouped together on the questionnaire.

New Day

___ Our business was cutting back costs leading to the termination of some associations.

___ We could not afford to continue the association.

___ I did not trust the company enough to continue the association.

Greener Grass

___ I found another company that provided a superior product/service

___ I found another company that was more customer oriented.

___ I found another company that was more affordable.

Strike 3

___ I was dissatisfied with the quality of the product/service that I received.

___ I was quite satisfied with the nature of the association (despite its not working out). Reverse coded.

___ I was not fully satisfied with the nature of the business association.

Implications for Business-to-Business Practice

All business-based research contributes to either theory or practice and most, like this paper, contributes to both. While what follows may not be the only application of this study's findings, it reflects the issues the authors were attempting to address when the research process began. Here are three practical issues the authors believe this research can help to address.

1. In general, the typology provides a theoretically-sound lens for examining current, proposed and past inter-firm relationships. Accepting that all relationships end, it may be advisable to proactively either plan for that end or determine how to delay it. Alternatively, under certain circumstances or based on particular strategic objectives like market expansion or contraction some managers may wish to hasten the end to a business-to-business relationship. Either way, wishing to maintain or hoping to terminate, each discontinuance type provides insight into proactive and prophylactic actions that can help supplier and distributor firms' managers achieve their goals.
2. The typology can also encourage a firm's managers to keep track of the manner in which its inter-firm relationships end. If a pattern is discernable, this may suggest an intra-firm issue that needs to be addressed. While one party usually carries more of the blame, trying to appreciate each partner's role in the dissolution can provide insights on how to adjust before taking on future relationships. This may be especially prescriptive for the firm being terminated.
3. Finally, while the typology focuses on the causes for the dissolution of supplier-distributor relationships, taking the termination process one step further, to consider the consequences of a given discontinuance type, may be its greatest managerial contribution. For example, what signal does each termination type communicate to the business community relative to the terminator and the terminated? In other words, some messages have implications that can be more problematic than others. This suggests that if maintaining integrity within a relevant business community is important, then it may be advisable to expend extra effort when enacting, or facing, one or more of the termination types.

For convenience the typology is re-presented below.

Tab. 5: Typology of Organizational Discontinuance

TYPES	New Day	Strike 3	Greener Grass
INFORMATION: ORIGIN	The Firm	The Current Relationship	Neither the Firm nor Current Relationship (e.g., a Third Party)
PERFORMANCE VALENCE	Neutral —strategic change or other functional firm-based issue (e.g., cost, capability or perceived trust issues) that makes the current channel relationship unnecessary or inappropriate	Negative —dissatisfaction with some aspect of the partner's performance (e.g., outcomes that fail to meet expectations)	Positive —knowledge of a potentially better way of meeting a need (e.g., a higher value method of fulfilling the partner's function)

Overall Implications

Following are some overall thoughts followed by those that are more particular to the supplier and distributor firms' managers. This research raises a number of related issues that concern the co-evolution of existing partnerships, the development of emerging skills, and the disposition of the terminated firms. It was somewhat surprising that one third of the managers sampled reported a recent change in channel partners (i.e., 64 of 187). This seems a high rate of turnover that is primarily attributable to the current partner being unable, or unwilling, to change with the needs of its partner, and raises questions about the flexibility of the intermediary, and its ability to evolve over time.

Differentiating between the various reasons for the termination of inter-firm relationships can have several predictive outcomes. Since adoption of a new partner is a two-way process, suppliers and distributors can infer the innovativeness of a potential or existing partner by the type of termination it followed in the past. For example, Greener Grass types may represent proactive firms that are perhaps likely to have value-added products, greater profitability, and a more robust business. They may also prefer partners that use cutting edge systems and process. However, firms in search of a new partner because of Strike 3 reasons may be more reactive in nature, and thus less likely to be leaders in their industries. Further, since dissatisfaction is also a two-way street it may indicate the presence of maladies within the terminating firm, such as product or production -oriented problems, cultural-distance issues, or margin pressures. Such factors may be considered red flags for those looking to be the company's new partner. Thus, the typology can help firms impute the internal state and health of their partner prior to making a decision to enter into a relationship, or to influence the nature of the relationship or even aspects of the performance review process.

Further, dissatisfaction with a strategic partner's performance is seldom sudden, but rather a slow, progressive deterioration in the relationship. A firm therefore has time to evaluate the likely basis for the souring of the relationship and, if possible, identify

and alleviate the cause of the problem, thereby improving the relationship with the existing partner such that the bottom line isn't materially affected. Should the decline be determined to be irreversible, the firm can start looking for an alternate partner as early as possible, before the current relationship starts affecting profitability, market share, and company morale.

Supplier Firm Managers

For supplier firms, perhaps the most notable finding is that *Greener Grass* is as salient a reason for discontinuance as *Strike 3*, suggesting that a satisfactory channel relationship may not be a sufficient reason to pass up a potentially better one should it become an option. Further, if the manager does not take advantage of such an opportunity a competitor's manager likely will. In other words, reflecting both offensive and defensive reasons, the fact that a client company is satisfied with its partner's performance does not mean that it should not terminate that relationship should a potentially better opportunity come along. This suggests that when making channel appointments it would be helpful for managers to seek out partners not only based on the usual selection criteria (e.g., trust, fit, market access and expected performance), but also on the partner's ability to constantly adapt as the competitive landscape changes and its willingness to take advantage of advancing technologies.

Distributor Firm Managers

The study's results surrounding the *Greener Grass* type indicate that firms are likely to be lured by alternatives that seem to offer more value even when the distributor has a sound relationship with a supplier firm. This suggests that in addition to forming and maintaining satisfactory relationships, the distributor must stay on the cutting edge of market trends and competitiveness. Only then will a partner's relationship with a supplier be fairly secure. However, this research also reveals that when expectations are being met, managers at the multi-national firm display a higher degree of patience than their intra-national counterparts when deciding to discontinue a channel relationship. Further, a multi-national partner that demonstrates ongoing efforts to reduce costs, combined with an ardent effort to understand and work with different management styles and corporate cultures, may well be rewarded with greater loyalty.

At another level the findings recommend that distributors' managers too should be proactive by scouring the environment looking for their own *Greener Grass* opportunities. The findings also indicate that long-standing relationships and trust will not atone for performance that fails to meet expectations. Both intra-national and multi-national firms are equally likely to terminate a relationship due to *Strike 3* causes, suggesting that core performance remains a critical aspect of business relationships.