Transforming Partner Relationships through Technological Innovation

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ABSTRACT

New technologies—designed to enhance the efficiency and effectiveness of coordination efforts between channel partners—are emerging. However, despite the performance benefits they offer, channel theory suggests that resellers may be unwilling (for strategic reasons) or unable (due to lack of resources) to commit to these emerging technologies. Building on organizational innovation theory, the authors propose a conceptual model that purports to explain how reseller commitment to such technologies develops and ultimately influences the outcomes resulting from the innovation initiative. Research implications stemming from this effort are provided.

INTRODUCTION

An assortment of web-based tools—designed to enhance the efficiency and effectiveness of coordination efforts between channel partners—has recently emerged (Mirani, Moore, and Weber 2001). These tools, collectively referred to as partner relationship management (PRM) technologies, enable channel dyads to better manage interdependent activities and resources by providing for the continual exchange of relevant information (Weber 2001) and automating numerous tasks related to channel process flows (e.g. sales, service, order management) (Siebel 2002a). Over time, the improved management of interfirm dependencies—resulting from the adoption of PRM technology—generates efficiency (i.e. reduced costs) and effectiveness (e.g. superior end customer service) gains that substantially enhance channel performance (Bello et al. 2002).

Despite the performance benefits it offers, gaining reseller commitment (i.e. support and long-term use) to PRM technology is likely to be a difficult proposition. Downstream channel members (e.g. retailers, wholesalers) create value for their end customers by offering—at a single point of purchase—an assortment of competing brands across a variety of product categories (Coughlan et al. 2001). In order to
effectively do so, they establish exchange relationships with numerous suppliers within each product category, which necessarily precludes the formation of sole supplier arrangements (Weitz and Jap 1995). Consequently, to the extent that PRM technology is perceived to be conducive to the formation of exclusive exchange relationships, resellers may be unwilling to invest in its adoption. Moreover, even if the technology is viewed as desirable, resellers that offer a modest assortment and/or variety of products may be unable to commit to the technology—that is, resellers that deal with numerous suppliers may lack the resources (e.g. time, money) needed to adopt the relationship-specific PRM platform that is deployed by each of its multiple suppliers. Hence, similar to other interorganizational innovation initiatives (e.g. EDI), the relative success of PRM implementation efforts is likely to hinge upon the level of reseller commitment to the new technology.

The objective of this paper is to propose a conceptual model that purports to explain how reseller commitment to PRM technology develops and ultimately influences the outcomes resulting from the innovation initiative. The proposed conceptual model draws on insights from the organizational innovation literature and examines the indirect impact of environmental factors, influence strategies, and exchange characteristics on reseller commitment to PRM technology. The paper is structured as follows. First, a brief theoretical overview is provided. Then, the conceptual model and corresponding research propositions are presented. The paper concludes with a discussion of research implications stemming from this effort.
THEORETICAL FRAMEWORK

Organizational Innovation

“An innovation is an idea, practice, or object that is perceived as new by an individual or other unit of adoption” (Rogers 1995, p. 11). Thus, as has been done in previous studies (e.g. O'Callaghan, Kaufmann, and Konsynski 1992), the adoption and implementation of PRM technology is framed herein as an interorganizational innovation process. According to Rogers (1995), the decision to adopt an innovation is a function of several factors, including users' perceptions of the innovation’s attributes. Two such perceptions that are often examined in the literature are (1) the relative advantage offered by the innovation and (2) the compatibility of the innovation with the organization and its members. The proposed conceptual model examines reseller commitment to PRM technology as a function of these perceptions. However, as is explained in the section that follows, the intraorganizational notions of relative advantage and compatibility are expressed in terms of the interorganizational concepts of efficiency and equity, respectively.

Efficiency and Equity Perceptions as Determinants of Reseller Commitment to PRM Technology

Parties engaged in cooperative relationships are motivated to achieve outcomes that are both efficient and equitable. In fact, research on the development of cooperative relationships suggests that firms evaluate the favorableness of dyadic relationships based on the perceived efficiency (i.e. cost) and equity (i.e. fairness) of the arrangement (Ring and Van de Ven 1994). Although traditional economic perspectives typically emphasize the role of economic efficiency in the development of cooperative
relationships, recent studies suggest that the equity of the arrangement is an equally important criterion (e.g. Jap 2001).

From an innovations perspective, efficiency and equity are analogous to the concepts of relative advantage and compatibility. More specifically, an innovation’s effect on the efficiency of an interorganizational relationship (IOR) refers to the relative advantage that it offers over existing IOR practices. In addition, an innovation’s impact on the equity of an IOR is an indication of its compatibility with the existing relationship. Naturally, only those innovations that maintain or enhance the equity of an IOR are likely to be viewed as compatible. Hence, it seems appropriate to suggest that reseller commitment to PRM technology is, in part, determined by reseller perceptions regarding the technology’s impact on the efficiency and equity of the IOR.

Given the posited role of efficiency and equity perceptions as determinants of reseller commitment to PRM technology, it seems prudent to consider—at this juncture— the likely effect of PRM technology on IOR efficiency and equity. Considering that PRM technology is designed to enhance coordination efforts between channel partners, it is reasonable to expect that its adoption will result in greater operational integration. In fact, Bello and his colleagues (2002) suggest that the impact of PRM technology on channel performance is mediated by the extent to which adoption of the technology results in increased interfirm operational integration. More specifically, Table 1 shows that the adoption of PRM technology is likely to lead to an increase in joint actions, assistances, information exchange, and monitoring— the four hallmarks of operationally integrated channel relationship (Robicheaux and Coleman 1994). The increased operational integration, in turn, has significant efficiency and
equity implications, some of which are highlighted in Table 1. Broadly speaking, the table suggests that the adoption of PRM technology is likely to enhance the efficiency of individual IOR processes, and that it is plausible that the achieved efficiency gains are not equitably shared among the dyadic partners.

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Insert Table 1 About Here
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CONCEPTUAL MODEL

Figure 1 is a graphical representation of the proposed conceptual model. It illustrates how perceptions regarding the technology’s impact on the efficiency and equity of the interorganizational relationship (IOR) influence resellers’ commitment to PRM technology. In addition, the model shows how (1) environmental factors, (2) influence strategies, and (3) characteristics of the exchange relationship shape resellers’ perceptions regarding the technology’s impact. Finally, the model depicts how reseller commitment to PRM technology is indirectly related to channel performance.

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Insert Figure 1 About Here
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Before proceeding, it is important to underscore that the conceptual model is intended to capture only the marginal effects of PRM adoption on the IOR. That is, commitment to PRM technology is modeled as a function of reseller perceptions regarding the incremental effect of PRM on IOR efficiency and equity, given the existing economic structure and sociopolitical dynamics of the IOR. Hence, the achieved level of reseller commitment to PRM technology is only expected to enhance or detract from the conflict and coordination that already characterizes the channel relationship.
Reseller Commitment to PRM Technology

Commitment, in the relationship marketing literature, has been defined as “an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it” (Morgan and Hunt 1994, p.23). Building on this definition, commitment to PRM technology is defined here as a reseller’s belief that the benefits accrued from adopting the interorganizational technology of a particular supplier are sufficient to justify its continued use and support. Stated differently, commitment suggests that the reseller intends to utilize the technology, over the long-term, despite any difficulties that may arise. Long-term use of the technology or the routinization of the innovation is the ultimate objective of any implementation initiative (Rogers 1995).

Efficiency and Equity of the IOR

Efficiency can be defined as the costs associated with engaging in an economic exchange (Ring and Van de Ven 1994). From an implementation of innovations perspective, the improved efficiency resulting from the adoption of new technology refers to the relative advantage of the innovation. That is, a technological tool designed to improve coordination between firms will offer a relative advantage over existing methods if it results in a more efficient economic arrangement. However, it is important to note that, even if PRM technology enhances the efficiency of individual IOR processes, its adoption may result in a more inefficient IOR when a “close” or highly integrated channel relationship with a specific partner is deemed undesirable. Overall, though, if resellers perceive that PRM technology enhances the efficiency of the existing
IOR, they are likely to support, adopt and use the technology once it is deployed. The following proposition summarizes this expectation:

P1—Reseller perceptions regarding the effect of PRM adoption on IOR efficiency are positively related to its level of commitment to PRM technology.

Equity refers to the fairness of an exchange agreement. An equitable arrangement is one in which a party’s benefits from participating in an exchange relationship are proportional to the investments it must make (Jap 2001). In prior studies, the compatibility of an innovation with the adopting organization has been examined from a physical systems and/or cultural perspective (e.g. O'Callaghan et al. 1992). However, this paper approaches the compatibility factor from an equity standpoint. More specifically, a technological innovation is deemed to be compatible if it preserves or enhances the equity or fairness of the existing arrangement. For instance, the adoption of PRM technology requires that resellers make relationship-specific investments in order to adopt and learn how to use the new technology. If a reseller perceives that the adoption of PRM technology will result in a more efficient IOR but that they will not benefit from the increased IOR efficiency, it is highly likely the changes resulting from the innovation initiative will be viewed as inequitable. As a result, the reseller’s level of commitment to the technology will be low. The following proposition formally states the expected relationship between equity and commitment:

P2— Reseller perceptions regarding the effect of PRM adoption on IOR equity are positively related to its level of commitment to PRM technology.
Environmental Factors and the Perceived Impact of PRM Technology

Market Dynamism

Market dynamism or volatility refers to “the extent to which market and demand changes are rapid” (Ganesan 1994, p. 6). Under conditions of high market dynamism, resellers face substantial levels of decision-making uncertainty, which stems from their inability to effectively predict future customer demand (Achrol and Stern 1988). In order to operate profitably in such environments, resellers need to be able to effectively respond to unanticipated market changes. When markets are volatile, close, flexible relationships with their channel counterparts afford resellers the opportunity to effectively and efficiently respond and adapt to changing market conditions. Therefore, considering that PRM technology is designed to enhance coordination between channel partners, resellers operating in a dynamic market are more likely to conclude that the technology will have a positive impact on the efficiency of the exchange relationship. The following proposition formally restates this expectation:

P3—Market dynamism is positively related to reseller perceptions about the effect of PRM technology on IOR efficiency.

Market Diversity

Market diversity is defined as “the degree of similarity/dissimilarity of the elements of the population dealt with” (Achrol and Stern 1988, p. 38). To effectively cater to the needs of a diverse market, resellers need to carry a wide range of brands within and across product categories (Coughlan et al. 2001). Consequently, resellers typically engage in exchange relationships with multiple, competing suppliers. Although this does not prevent resellers from entering into long-term exchange relationships, it
does suggest that exclusive or strategic relationships are unlikely (Weitz and Jap 1995). That is, resellers are less likely to form close relationships with individual suppliers. It is more likely that they will seek to establish loose bonds with multiple partners in order to effectively respond to the different and varied needs of the targeted segments. Hence, under conditions of market diversity, resellers are likely to view high levels of interfirm coordination with a specific supplier as inefficient, given their portfolio of suppliers. Their response to PRM technology being deployed by a given supplier is likely to be negative, as conditions of market diversity intensify. The proposition that follows summarizes this expectation:

P4— Market diversity is inversely related to reseller perceptions about the effect of PRM technology on IOR efficiency.

**Influence Strategies and the Perceived Impact of PRM Technology**

Influence strategies refer to “the structure and content of communications by boundary personnel in a source firm that are intended to change behaviors in a channel partner dubbed the target firm” (Boyle et al. 1992, pg. 462). In general, influence strategies can be categorized as direct or indirect (Frazier 1984). Direct influence strategies aim to alter the target’s behavior by explicitly requesting that a specific action be taken. Common direct influence strategies include rewards, threats, legalistic pleas, and requests. Indirect influence strategies, on the other hand, aim to achieve behavioral change by altering the target’s perceptions. The most common indirect influence strategies are information exchange and recommendations (see Frazier and Summers 1984 for a review). Given their frequency in change initiatives, two influence...
strategies—information exchange and rewards—form part of the proposed conceptual model and are subsequently discussed.

Information-based Influence Strategies

Extensive research in the change management literature (Damanpour 1991) suggests that effective communication is a necessary component of any major innovation initiative. In fact, empirical evidence conclusively indicates that high levels of intraorganizational communication are positively related to the successful implementation of innovations (Boer and Krabbendam 1992; Chen and Small 1994). Hence, information-based influence strategies, which provide for the constructive exchange of ideas, are likely to result in positive reseller perceptions regarding PRM technology’s impact on the IOR. More specifically, the more information that suppliers share with resellers regarding (1) the rationale for adopting the technology and (2) the status of the implementation initiative, the more likely resellers will form favorable impressions of the change effort. The two propositions which follow state the expected relationship between the use of information-based influence strategies and resellers’ perceptions of the technology’s impact.

P5a—The use of information-based influence strategies is positively related to reseller perceptions about the effect of PRM technology on IOR efficiency.

P5b—The use of information-based influence strategies is positively related to reseller perceptions about the effect of PRM technology on IOR equity.

Reward-based Influence Strategies

Some practitioners suggest that in order for resellers to embrace PRM technology, suppliers must provide them with special incentives (i.e. rewards) (e.g.
Parlin 2002). Although the use of rewards may lead to the short-term adoption of technological innovations, academic research indicates that long-term commitment to the technology is likely to be low or nonexistent (cf. Burnes and James 1995). When suppliers provide resellers who adopt PRM technology with added benefits, other partners who were not inclined to adopt the technology will likely do so in order to remain competitive. The use of rewards, in essence, diminishes the voluntariness of the innovation initiative. This is problematic since empirical evidence indicates that users’ perceptions of the innovation are more likely to be positive when adoption is deemed voluntary (Speier and Venkatesh 2002). Moreover, resellers may become suspicious about their partner’s motivation for deploying the technology when rewards are offered. That is, resellers are likely to view the use of rewards as a signal for them to comply with a request that is not compatible with their firms’ best interest. The following proposition summarizes this expectation:

P6—The use of reward-based influence strategies is inversely related to reseller perceptions about the effect of PRM technology on IOR equity.

**Exchange Characteristics and the Perceived Impact of PRM Technology**

**Reseller Involvement in the Change Effort**

User involvement in innovation initiatives is recognized as a highly effective change management practice. Numerous studies have identified a positive relationship between user involvement in innovation efforts and implementation success (Argote and Goodman 1986; Ettlie 1984; Mirvis, Sales, and Hackett 1991). The level of reseller involvement in the adoption and implementation of PRM technology is likely to be a function of the polity structure of the exchange relationship. Reseller participation is
likely to be low under conditions of unilateral governance while it is likely to be high when bilateral decision processes characterize the relationship (cf. Heide 1994). Resellers that participate in the adoption and implementation process are more likely to have accurate perceptions regarding: (1) the resource investments required to adopt and commit to PRM technology, and (2) the benefits they would accrue from electing to do so. The proposition that follows summarizes this expectation:

P7—Reseller involvement in the PRM adoption and implementation effort is positively related to reseller perceptions about the effect of PRM technology on IOR equity.

Reseller Transaction Specific Investments in PRM Technology Adoption

In order for resellers to effectively interact with their channel counterparts via PRM technology, they must possess a working knowledge of the specific solution adopted by each supplier. Given the variety of PRM modules offered in the market, it is likely that the PRM solution deployed by individual suppliers will vary significantly in form and function (Siebel 2002a). Thus, a reseller that deals with multiple suppliers will have to spend a significant amount of time, effort and resources in order to master the idiosyncrasies of the technology deployed by each of its partners. However, for suppliers, their investments in PRM technology represent a general asset that is utilized and has value across multiple channel relationships. Hence, from a purely dyadic perspective, resellers incur the majority of relationship-specific costs associated with adopting PRM technology. All else being equal, as these costs increase, resellers are likely to perceive that the benefits they derive from the technology are less than the
investments they must make in order to adopt it. The following proposition clearly states the expected relationship:

**P8—** Reseller transaction specific investments needed to adopt PRM technology are inversely related to their perceptions about the effect of PRM technology on IOR equity.

**Consequences of Reseller Commitment to PRM Technology**

**Channel Conflict**

“Channel conflict arises when the behavior of a channel member is in opposition to its channel counterpart” (Coughlan et al. 2001, p. 238). Hence, when resellers decide not to support or use PRM technology, an increase in channel conflict is the likely result. The innovations literature suggests that this conflict is likely to be expressed as resistance to the innovation itself. Piderit (2000) indicates that resistance can be viewed as either a behavior, an emotion, or a belief. Behavioral resistance represents the strongest form of opposition to the innovation, and can ultimately result in sabotage (e.g. deliberate misuse of the technology by entering erroneous information). Based on the preceding logic, the following proposition is offered:

**P9—** Reseller commitment to PRM technology is inversely related to channel conflict stemming from the interorganizational innovation initiative.

**Channel Coordination**

As was previously discussed, PRM technology is intended to enhance coordination efforts between channel members. More specifically, the assortment of PRM tools available in the marketplace today are designed to enable channel dyads to better manage interdependent tasks and resources related to the different channel
process flows (e.g. warehousing, billing, credit approval, promotion planning) (Bello et al. 2002). In other words, by making it possible for independent firms to seamlessly integrate their operations, PRM technology substantially enhances channel coordination efforts. Therefore, all else being equal, resellers’ decision to adopt PRM technology is likely to result in the improved management of interfirm dependencies. This expectation is formally restated in the following proposition:

P10—Reseller commitment to PRM technology is positively related to improvements in channel coordination stemming from the interorganizational innovation initiative.

Channel Performance

Improved channel performance represents, both, suppliers’ motivation for deploying PRM technology and resellers’ decision for embracing it. By facilitating the coordination of dependent activities, PRM technology generates a substantial increase in the efficiency and effectiveness of channel operations (Bello et al. 2002). Efficiency gains will be expressed in terms of reduced governance costs while effectiveness gains will be reflected in terms of qualitative outcomes, such as improved customer satisfaction, better service quality, and increased customer retention. However, it is important to remember that the benefits accrued from the adoption of PRM technology will be contingent upon the level of channel conflict engendered by the deployment of the technology. The propositions that follow summarize these expectations:

P11—The level of channel conflict engendered by the interorganizational innovation initiative is inversely related to the channel performance benefits accrued from the adoption of PRM technology.
The improvements in channel coordination resulting from the interorganizational innovation initiative are positively related to the channel performance benefits accrued from the adoption of PRM technology.

DISCUSSION AND IMPLICATIONS

The emergence of PRM technologies provides channel dyads with the opportunity to achieve unprecedented levels of coordination that result in the highly efficient management of interorganizational dependencies. However, as the thesis of this paper suggests, gaining reseller commitment to these technologies is likely to be a difficult proposition. Without reseller commitment, the promise offered by PRM technologies remains just that—promise.

As was previously discussed, many factors are likely to contribute to reseller resistance to PRM technology. However, the issue of assortment and variety seems especially critical. While PRM technology enhances coordination between a single dyadic pair, resellers typically engage in numerous exchange relationships that enable them to provide end customers with an assortment of brands within and across product categories. Does this suggest that the benefits that can be achieved from investments in PRM technology are highly limited or does the possibility exist that these boundary-spanning technologies will transform the nature of interfirm channel relationships? Future research should focus on determining what effect, if any, the emergence of these technologies has on the character or form of channel relationships.

The broad functionality offered by PRM solutions also raises several issues that have potentially interesting research implications. Given that PRM tools are designed to improve the coordination of tasks and resources across the different channel process
flows (e.g. physical flow, payment flow, etc.), it is entirely possible that PRM initiatives generate an increase in, both, channel conflict and coordination. Stated differently, the possibility exists that resellers might decide to selectively adopt and use only certain features offered by the PRM solution, thus simultaneously increasing channel conflict and coordination. For instance, resellers might willingly embrace those features of the technology that enable them to better coordinate interdependencies related to the promotional flow, but might resist using those features of the technology that are associated with the payment flow. Research is needed to determine if the deployment of PRM technology does, in fact, have differential effects on channel conflict and coordination processes. If so, determining which features of the technology are likely to engender conflict and which are likely to enhance coordination can prove invaluable to marketers involved in PRM implementation initiatives.

Moreover, considering that the different PRM solutions available in the market today are highly customizable and vary significantly in form and function, it is possible that reseller commitment to PRM technology (and the ultimate outcome of PRM initiatives) will be highly contingent upon the nature of the technological tool that is actually deployed. For instance, a supplier might elect to deploy a PRM module with limited functionality that focuses exclusively on enhancing coordination efforts related to the physical flow (e.g. warehousing, transportation, etc.). Yet another supplier might elect to deploy a more comprehensive PRM solution that has an impact on the coordination of tasks and resources related to multiple channel process flows. Therefore, it is critical to examine whether resellers’ perceptions about and willingness to commit to PRM technology are influenced by the functionality of the solution that is
being deployed. For example, are resellers more likely to commit to PRM technology if they perceive its adoption will only result in changes to a limited number of IOR processes? Similarly, are resellers’ perceptions about the cost of adopting PRM technology related to the functionality offered by the solution that is being deployed?

Finally, the brief analysis presented in Table 1 suggests that PRM is likely to enhance the efficiency of individual IOR processes and—perhaps more importantly—it raises the possibility that the members of the channel dyad might not share equally in the efficiency gains afforded by the new technology. Empirical work is needed to ascertain if (and under what conditions) both members of the dyad are able to capture an equitable share of the “expanded pie” (cf. Jap 2001; Jap 1999)

Aside from generating a number of testable propositions, the proposed conceptual model also points to other areas that would be worthy of academic research. For instance, if suppliers rely on their zone managers to achieve reseller commitment to PRM technology, are certain managers better able to gain reseller buy-in to the technology and, if so, why? Likewise, do differences in reseller commitment result when different implementation partners (i.e. 3rd party software firms) handle the deployment of the technology across geographic regions? Finally, is it possible that companies within certain industries are better able to benefit from the coordination efficiencies afforded by PRM technology?

While it is not clear how profound an effect PRM technologies will have on channel relationships, their emergence clearly raises many questions that are worthy of academic inquiry. If these technologies are able to deliver on their promise, it is possible that they will forever change the nature of channel relationships. To date,
however, little academic work has focused on understanding this nascent phenomenon. Thus, it is our hope that—if nothing else—this paper will serve to stimulate research in a topic that is rapidly increasing in importance.
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\( a \) Based on: (Onyx Software 2002; Oracle 2002; Siebel 2002a; Siebel 2002b)
FIGURE 1
Conceptual Model of Reseller Commitment to PRM Technology

[Diagram showing the model with various factors and relationships]

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<sup>a</sup>Refers to influence strategies employed by the supplier to achieve reseller utilization of the PRM technology.

<sup>b</sup>Refers to resellers’ perceptions about the marginal effect of PRM technology on the efficiency and equity of the existing interorganizational relationship.
REFERENCES


