

# **THE MEDIATING EFFECTS OF DYADIC RELATIONAL DRIVERS IN A BUSINESS-TO-BUSINESS BUYER NETWORK**

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## **ABSTRACT**

In business-to-business research, loyalty and satisfaction attract considerable attention, but despite the myriad of conceptualisations and approaches, a stable theoretical platform that links these different constructs is still not agreed upon. Yet, securing loyalty via customer satisfaction is often a critical component of many business strategies, because obtaining new customers is perceived as expensive while customer retention is generally associated with long-term profitability. Our explorative study in the context of an emerging market empirically supports the notion that satisfaction leads to loyalty and this relationship ultimately drives attitudinal loyalty. Consistent with recent findings we hypothesize that trust, commitment and information sharing mediates the relationship between satisfaction and attitudinal loyalty. Our study employed a focal firm approach to consider a network of buyers in the South African CAD industry. Data was collected from 526 respondents and the empirical model was tested using variance based Structural Equation Modelling. Our results show that the relationship between relationship satisfaction and attitudinal loyalty is fully mediated by trust and commitment. We also observed a significant positive association between attitudinal loyalty and information sharing, while commitment partially mediates the relationships between information sharing and attitudinal loyalty. The findings provide researchers and practitioners with insights into the effective management of buyer-supplier relationships in an emerging market context. It also fills a critical gap in emerging market literature.

Keywords: Business-to-Business Relationships, Satisfaction, Trust, Commitment, Information Sharing, Loyalty.

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## **INTRODUCTION**

Research in business-to-business (B2B) marketing has benefitted from various modern theories. In particular, the study of business relationships has benefitted from social exchange theory since the late eighties. More recently the insights and perspectives offered by network theory sought to advance the understanding of buyer-supplier relationships in complex networks. This shift (Fill & Fill, 2005; Russell-Bennet, McColl-Kennedy & Coote, 2007) from dyadic to more complex relationships in networks currently enjoys considerable research attention – especially from IMP (the Industrial Marketing and Purchasing Group) researchers. Despite this attention the research appears to vary significantly as a wide variety of variables have been used to study relationships and there is little consensus on what is necessary and sufficient to explain such relationships (Brennen, Canning & McDowell, 2007; Anderson & Mittal 2000).

In addition, the mounting empirical evidence has lead to formulating numerous hypotheses regarding critical relationship processes and the role of relationships for the market actors involved (Håkanson, Harrison & Waluszewski, 2004; Sirdeshmukh, Singh & Sabol, 2002). At the same time Rampersad, Quester & Troshani (2010) noted that despite increases in the complexity and prominence of these networks, empirical studies investigating their performance are still sparse. Hence, although various meta-analytical contributions have been made (Rajamma, Zolfagharian & Pelton, 2011; Geyskens, Steenkamp & Kumar, 1999; Palmatier, Dant, Grewal & Evans, 2006 and Pels, Möller & Saren, 2009), an overall model of what drives successful B2B relationships remains absent and may even be undesirable. Nevertheless, in considering the extant literature on business-to-business relationships, some issues appear to be foundational:

First, the Quality→Satisfaction→Loyalty→Performance paradigm provides a platform and motivation for considering B2B relationships in general and relationship marketing in particular. For example, Anderson, Fornell & Lehmann (1994) and Jones & Sasser (1995) have demonstrated that customer satisfaction is the key to securing customer loyalty and generating superior long-term financial performance, that quality has a positive effect on satisfaction, and that in turn has a positive effect on performance. Anderson & Sullivan (1993) and Hennig-Thurau & Klee (1997) also showed that satisfaction leads to repeat purchases.

Second, as suggested by Morgan & Hunt (1994), commitment and trust are key mediating variables in the study of B2B relationships. Moreover, failing to include commitment and trust as key mediating variables would result in flawed conclusions regarding not only the direct impact of relationship commitment and trust on important outcomes, but also the impact of other antecedents (Cannon & Perreault, 1999). In addition, Olsen (2002) demonstrated that satisfaction as a mediator between quality and repurchase loyalty, was found to be an acceptable representation of the data across four different types of products.

Thirdly, the evidence on mediation effects between constructs of B2B relationships in emerging markets appears limited (Samiee & Walters, 2003; Davis-Sramek, Droge, Mentzer & Myers, 2009; Workman, Homburg & Jensen, 2003). With the possible exception of contributions from the services marketing literature and the financial services sector as

context (Theron & Terblanche, 2010 and Theron, Terblanche & Boshoff, 2008), many of the typical social constructs of B2B relationships have not been subjected to analysis under emerging market conditions.

Based on the above, we find the motivation for the primary objective of our study to confirm the quality Quality→Satisfaction→Loyalty paradigm in a non-financial services emerging market. Secondly, we expand the notion to include a consideration of context relevant mediation effects between predictor and outcome variables. More specifically, we consider the mediation effects of satisfaction, trust, commitment, and information sharing in a structural model to predict intention to stay in a buyer-supplier relationship. We employ a focal firm approach in a large buyer network in the South African Computer Aided Design (CAD) industry. The reference here to a buyer network means clients who purchase CAD software from the focal firm. These firms are all connected to the focal firm as clients of varying sizes and the research focused on the dyadic relationship between the focal firm (seller) and its clients (buyers). Therefore, the paper do not claim to adopt a network perspective *per se*, but the dyads under consideration (arguably) all stem from a particular network of buyers.

Following this introductory section, we offer a review of the literature and construct hypotheses upon which to ground the objectives of the study. Through this operationalization of the constructs, we hypothesize a possible structural model to predict loyalty whilst allowing for mediation effects. We then offer a methodology based on a survey design which leads to an analysis of the results based on the data collected from 526 clients of the focal firm. We conclude with a discussion and some implications for further research.

## LITERATURE REVIEW

Business-to-business relationships have been explored from multiple perspectives, but it appears that the social content of business relationships is central to our understanding of these relationships. For example, Fill & Fill (2005:48) argue that “the social structure of a relationship is about social ties between people across different organisations. These ties spread out into a network of personal contacts, some deep, some indirect.” In addition, Ford (2002) observed that various authors rely largely on the seminal work by Morgan & Hunt (1994) to conclude that the essence of relationship marketing is the supplier's creation of commitment and trust between itself and a customer, with the intent of establishing, developing, and maintaining successful relational exchanges. Palmatier (2008) integrates the constructs of social exchange theory and refer to social ties as the *drivers of customer value*. Clearly these contributions not only emphasise the centrality of social constructs in relationships, but also seek to connect it to the operational efficiency, and hence, the performance of the relationship. The argument, however, is not limited to the social domain, with Forsgren, Holm, & Johanson (2005) suggesting that the relationship becomes an important *asset*: as a platform for future business transactions and knowledge development, and as the generator of knowledge and competence that may be of wider significance for the firm's competitive ability.

The literature also cautions against the limitations of social constructs to explain B2B relationships. Gummesson (1994) referred to a lack of clarity regarding the operational contents of relationship marketing, and Ford et al. (2007) note that little work seems to have been undertaken on establishing what the activities are that lead to the creation and maintenance of a relationship. Moreover Hennig-Thurau & Klee (1997) question the power

of satisfaction to effect customer retention, while Möller & Halinen (2000) argue that some of the novelty and generality claims in relationship marketing propositions are inflated.

Despite the validity of some of these counter arguments, Social Exchange Theory occupies a prominent position in explaining B2B relationships. Brennen et al. (2007) noted that social exchange theory makes a clear contribution to the understanding of exchange relationships as it shows that factors other than pure economic ones apply to relationships. In particular the role that factors such as trust and commitment play in mediating the satisfaction-loyalty linkage. This view is supported by Donaldson & O'Toole (2007) who alluded to the notion that social exchange theory views inter-organisational governance in the context of a social structure where firms are interdependent and rely on reciprocation. Trust and equity are key variables in this implied reciprocity. Furthermore, it is proposed (Donaldson & O'Toole, 2007) that the key drivers of social exchange (trust and commitment) moderate the impact of power and determine the perception of fairness in an exchange relationship.

In the context of emerging markets, researchers (Khanna et al., 2005, Wright et al., 2005, Burgess, 2003) agree that businesses in these markets face unique challenges, and they warrant separate analysis. Gao et al. (2007) suggest that although some conventional constructs of marketing may be robust in the relatively homogenous contexts of developed countries, an adjusted approach may be needed to examine these in developing market contexts. This notion was recently supported by Biggemann & Fam (2011) who noted that the majority of today's knowledge of business marketing, including relationship marketing and the work of the IMP group, is grounded on studies conducted in Western countries. Only in the last few years, have scholars started to question the validity of measures such as trust and commitment to explain business relationships in non-Western contexts.

Firms from emerging economies that have strong networks and well-developed social capital may facilitate cooperation in the development and transfer of knowledge between actors. In considering how relationships and networks affect market exchange in Sub-Saharan Africa, Fafchamps (2001) noted that market exchange arguably plays a larger role than in developed economies, and that the presence of transaction costs naturally leads market participants to enter in long-term trading relationships. The idea of companies working in large networks that create direct and indirect relationships needs further analysis when suppliers from emerging market countries enter the arena. Arguably, emerging markets may provide a new context in which to understand the relative strengths and weaknesses of different perspectives on B2B relationships. This is magnified by the heterogeneity of emerging economies, as there is considerable variation in their economic progress and institutional development (Smirnova, et al. 2011). Therefore, considering the mediators in the quality-satisfaction-loyalty relationship framework in an emerging market context contributes to filling this gap in the literature.

### **Quality, Satisfaction and Loyalty**

In proposing his "Satisfaction-Loyalty Model" Olsen (2002:242) argues that marketing researchers accept a theoretical framework where quality is employed as predictor of customer satisfaction. This is based on the notion that if quality is viewed as an evaluation or appraisal of attribute performance, and satisfaction is conceived to be reflective of the impact of performance on an individual's feelings, then quality can be the predictor of satisfaction. This is claimed to be consistent with expectancy theory often employed in consumer research. Importantly Olsen's (2002) proposition enjoys empirical support. Anderson, Fornell & Lehmann (1994) and Grewal, Monroe & Krishnan (1998) confirmed that product quality

has a positive effect on satisfaction and that in turn has a positive effect on performance. Furthermore Cater & Cater (2010) suggested that in an exchange relationship a product must first exist, so that a relationship can be built around it. Customers do not have the motivation to continue the relationship merely for the relationship itself (or any of its components) unless they receive a product that meets their standards and add value in some way. Also Ulaga & Eggert (2006) cautions that product quality is merely an entry condition and suppliers must meet quality standards to be included in the supply base. In addition, with ample support from the services marketing literature, Cronin & Taylor (1992), Fornell (1992) and Hallowell (1996) demonstrated the positive effect of service quality on customer satisfaction. These observations allowed for the construction of two primary hypotheses in the context of an emerging market buyer network:

- H1: Perceived product quality is positively related to overall satisfaction with the relationship  
H2: Perceived service quality is positive related to overall satisfaction with the relationship

The study of the relationship between satisfaction and loyalty has benefitted from a plethora of research efforts, including meta-analytical designs, since the early 1990s, and even recent contributions abound. While Palmatier et al. (2006) demonstrated the association between relationship quality and objective performance, Palmatier, Dant & Grewal (2007) reported parallel and equally important roles of commitment–trust and relationship specific investments as immediate precursors to and key drivers of exchange performance. More specifically Lages, Lancaster & Lages (2008), Cater & Cater (2009 and 2010) and Palmatier (2008) reported significant positive relationships between satisfaction and attitudinal loyalty (defined as the level of the customer’s psychological attachments and attitudinal advocacy towards the supplier). Cater & Cater (2009) showed that satisfaction is positively affected by delivery performance, supplier know-how and personal interaction. This study by Cater & Cater (2009) also included behavioural loyalty (defined as the customer’s willingness to repurchase the product and to continue a relationship with the supplier, and often avoided because of the complexities associated with its measurement) and reported that it is significantly and positively associated with customer satisfaction.

Oliver (1999) argues that loyalty is a dedication by the buyer to remain in a relationship and keep purchasing a product, which suggests the presence of both behavioural and attitudinal components as suggested by Sheth, Sisodia, and Sharma (2000) and Liang & Wang (2006). According to Alejandro, Souza, Boles, Ribeiro & Monteiro (2011) there are few studies that have linked the elements of relationship quality to both the behavioral and attitudinal elements of loyalty. This appears consistent with Rauyruen & Miller (2007) who suggests that the three main streams of research on loyalty include behavioural loyalty, attitudinal loyalty and composite loyalty. Because of the exploratory nature of our study we focus primarily on attitudinal loyalty. In terms of attitudinal loyalty, Garbarino & Johnson (1999) find that trust can create benefits for the customers by decreasing transaction costs — ultimately fostering customer loyalty to the relationship. However, trust and satisfaction both are related to both behavioural and attitudinal loyalty (Chiou & Droge, 2006). Burton, Sheather & Roberts (2003) find that satisfaction is positively related to repurchase intention and customer loyalty. In a service context, Hennig-Thurau, Gwinner & Gremler (2002) found that satisfaction and commitment are both drivers of loyalty. We expect that there is a positive relationship between relationship satisfaction and attitudinal loyalty and therefore also hypothesise that in the context of an emerging market buyer network:

- H3: Relationship satisfaction is positively related to attitudinal loyalty

In the preceding sections we frequently cited studies that in addition to the quality→satisfaction→loyalty→performance framework included constructs that mediate (notably trust and commitment) the relationships between satisfaction and loyalty. As noted by Ford (2002) many of the studies rely appropriately on landmark contributions by Morgan & Hunt (1994), Garbarino & Johnston (1999), Anderson, Narus & Narayandas (2009), Moorman, Zaltman & Deshpande (1992) Anderson & Weitz (1992) Geyskens, Steenkamp, Sheer & Kumar (1996), Reinartz & Kumar (2000). This trend is also notable in more recent contributions by Alejandro et al. (2011), Rajamma, Zolfagharian & Pelton (2011), Aurier & N'Goala (2010), Cater & Cater (2009, 2010), Palmatier (2008), Lages, Lancaster & Lages (2008), Palmatier et al. (2006, 2007, 2008). Therefore, we first operationalize the mediating constructs, before we offer a complete model for purposes of the empirical investigation. In addition, consistent with Palmatier et al. (2008) we refer to the mediators as relational drivers.

### **Mediating relational drivers**

#### *Trust*

Studies since the early 1990s on inter-organisational relationships have consistently confirmed the importance of trust in business relationships (Seppänen, Blomqvist & Sundqvist, 2007). According to Palmatier et al. (2006) trust is a key construct because it is the cornerstone of the strategic partnership and relationship development process (Moorman, Deshpandé, & Zaltman, 1993; Morgan & Hunt, 1994), and it is widely accepted that trust plays a central role in relationship performance (Dwyer, Schurr & Oh, 1987; Morgan & Hunt, 1994). Sin et al. (2006) conceptualize trust as the component of a business relationship that determines the level to which each party feels that they can rely on the integrity of the promise offered by the other party. Similarly Doney, Cannon, and Mullen (1998:604) define trust as the “willingness to rely on another party and to take action in circumstances where such actions make one vulnerable to the other party”. Morgan and Hunt (1994) postulate that trust exists when one party has confidence in an exchange partner's reliability and integrity. Thus, trust may be viewed as an essential ingredient in the creation, development, and maintenance of long-term relationships between buyers and suppliers (Anderson & Narus, 1990; Ganesan, 1994).

In addition, and consistent with the Morgan & Hunt (1994), Blois (1996) proposes that trust leads to commitment in two ways. First, it is crucial for the development of relationship efficiency. For example, it serves as a substitute for contractual agreements and increases interaction efficiency, thus decreasing transaction costs. This increase of relationship efficiency entails an increased net benefit for the customer (as well as for the supplier), which in turn fosters the cognitive commitment of the customer to the relationship. Second, trust addresses central social needs of the customer, the fulfilment of which leads to an affective commitment to the relationship. Notably, some authors (Medlin, Aurifeille, & Quester, 2002; Seppänen et al., 2007) argue that the research on trust has generally shifted from a level of analysis of individuals to organisations. By contrast Mouzas, Henneberg & Naudé, (2007) showed that trust appears to be more applicable at the level of inter-personal relationships than to inter-organizational relationships. Moreover, Pardo et al. (2006) noted that it is possible that in key accounts value can still be delivered in a long-term “transactional” mode (i.e. a succession of transactional episodes or repeated transactions) and a real relationship based on trust and commitment may not exist. Also Zaheer & Bell (2005) reported that at an inter-firm level, network closure and the consequent trust will allow for greater relation-

specific investments to be made, and reduce costs involved in monitoring exchange partners. These observations lead Rampersad et al., (2010) and McEvily, Perrone & Zaheer (2003) to surmise that despite the attention that trust receives, especially in the field of marketing, it remains under-explored empirically at the network level of analysis. This provides further motivation for the inclusion of trust in the current study as extant studies focusing predominantly on organisational or even individual levels of analysis with a single informant.

Despite the shifts in trust research, even recent exchange relationship studies and inter-organisational studies points to the mediating role of trust. Aurier & N'Goala (2010) not only reported that trust directly influences service usage and cross-buying, and that is critical for service relationship development and company profits, but they also observed that trust and relationship commitment mediate the entire impact of satisfaction which appears as a necessary but not sufficient condition for relationship maintenance and development. Cater & Cater (2010) showed that in general "social" dimensions such as cooperation and trust have a much greater influence on commitment than its "technical" dimensions such as knowledge transfers and adaptation. Specifically it was also shown that trust positively influences affective, normative and calculative commitment. Palmatier (2008) also reported that sellers of industrial products and their clients in North America indicated that the value generated from inter-firm relationships comes partly from the quality of customer ties - including trust. Moreover, Palmatier et al. (2008) confirmed that both trust in the salesperson and the exchange inefficiency mediate the effect of relationship marketing on the firm's financial performance. Considering B2B relationships in the financial sector of South Africa, Theron, Terblanche & Boshoff (2008) reported significant positive relationships between satisfaction and trust, and between trust and loyalty. Hence it is hypothesised that in the context of an emerging market buyer network:

H4: Relationship satisfaction is positively related to trust

H5: Trust is positively related to attitudinal loyalty

### *Commitment*

Commitment has been acknowledged in the relationship marketing literature to be an integral part of any business relationship. Relationship commitment is defined as the "desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship" (Anderson & Weitz, 1992:19). Thus, commitment is essential for the development of long-term relationships (Anderson, Narus, & Narayandas, 2009; Kumar, Scheer, & Steenkamp, 1995), and it is an important indicator of and relationship performance (Roberts, Varki, & Brodie, 2003). Moreover, relationship commitment is a means for differentiating successful relationships from unsuccessful ones (Morgan & Hunt, 1994). Suppliers in a committed relationship gain greater access to market information, which enables them to better select their customers (Anderson & Weitz, 1992), and similarly buyers in a relationship require relevant up to date market and product information, better choice, and order/payment terms (Smith, Sinha, Lancioni & Forman, 1999). Because both parties receive new benefits from each other, each has a stronger motivation to build, maintain and develop the relationship through renewed committed efforts. Thus, strong relationships are built on the foundation of mutual commitment. Moreover, Aurier & N'Goala (2010) reported that relationship commitment enhances retention and exclusivity and together with trust it mediates the impact of satisfaction. Cater & Cater (2010) not only reported that cooperation and trust positively influence affective and normative commitment, but showed that negative calculative

commitment positively influences behavioural loyalty. Similar to their findings on trust, Theron, Terblanche & Boshoff (2008) also reported that satisfaction is significantly positively associated with commitment and in turn commitment is significantly positively associated with loyalty. Therefore, it is theorized that commitment is a key driver of customer value in a B2B relationship and the higher the level of commitment between buyer and seller, the greater the probability for loyalty. Hence we hypothesise that given the context of our study:

H6: Trust is positively related to commitment

H7: Relationship satisfaction is positively related commitment

H8: Commitment is positively related to attitudinal loyalty

### *Information Sharing*

Our inclusion of information sharing as a mediator is primarily fuelled by the results of the qualitative study, but it also enjoys considerable literature support, as is evident from the following discussion. The operationalisation of information sharing is complex because of its proximity to “communication” (Homburg, Müller & Klarmann, 2010; Sin et al. 2005, Grönroos, 1996; Batt & Purchase, 2004) and “knowledge” (Hansen, 1999; Dyer & Singh, 1998; Johnson, Sohi & Grewal, 2004). In addition, it is used in multiple theoretical approaches. Möller & Halinen (1999) suggested that studies that employed social exchange theory to explain exchange relationships have produced corroborative evidence on the importance of information sharing to perceived satisfaction. Also, studies that mostly employ network theory (Walter & Gemünden, 2000) often assume that marketing-oriented boundary spanners need elaborate network knowledge in order to be effective. This knowledge includes essential information regarding the needs, resources, strategies, structures, bonds, and alternatives of an interacting supplier and customer including relevant third parties. Moreover, Information has been demonstrated to have both mediation (Borgatti and Cross, 2003; Dyer and Singh, 1998; Denize and Young, 2007; Anderson and Narus, 1990) and moderation (Homburg et al., 2010; Wagner, Eggert & Lindemann, 2010) effects in exchange relationships. Hence information influences and is influenced by relational factors, including the motivations of the entity participating in the exchange, the norms of exchange that have developed and the more general nature of the relationships (Hallén, Johanson, & Seyed-Mahamed, 1991).

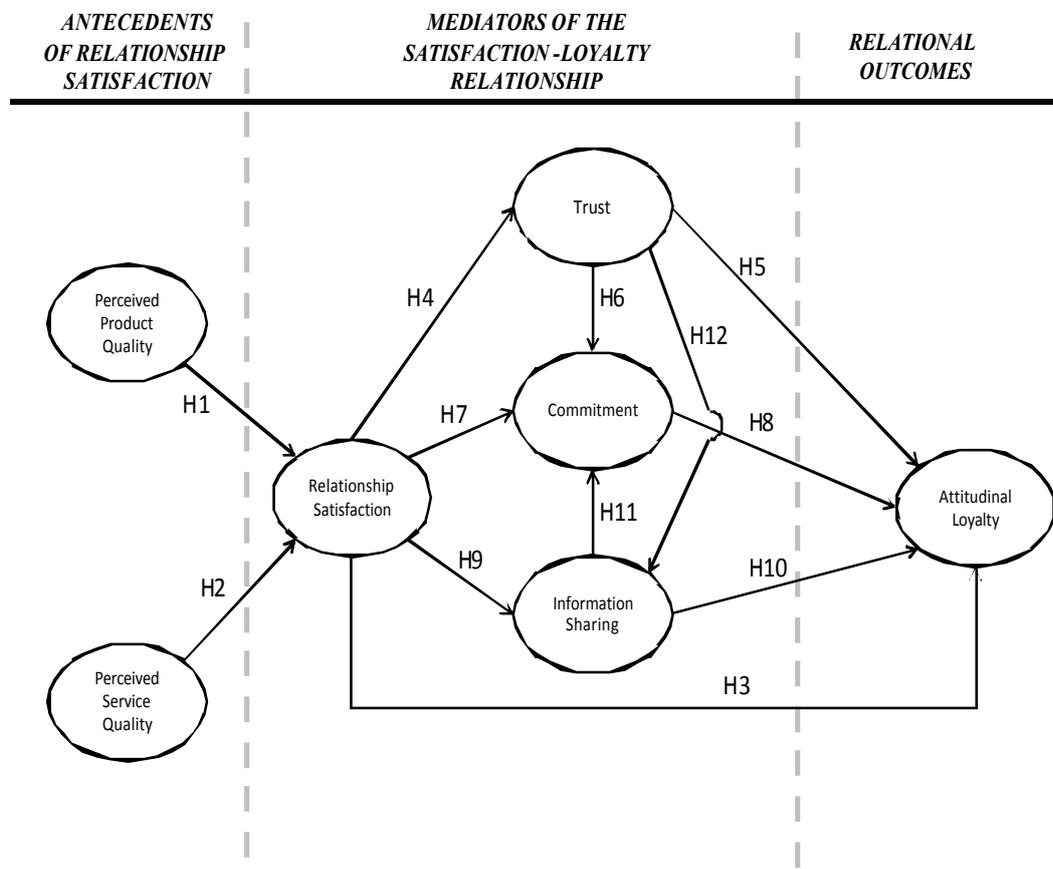
Information exchange and trust are embedded in and emerge from their interaction with each other (Denize and Young, 2007). They create and are created by each other, suggesting that the mutual exchange of information is at the heart of this evolutionary process (Ford et al., 2003). The type of information, the way information is transformed, the medium by which it is exchanged, and the transfer of that information mediates the relationship between trust and relational outcomes (Cohen, 2008; Denize & Young 2007; Jayachandran et al. 2005; Souchon, Cadogan, Procter & Dewsnap, 2004). Rowley (2004), Bonner & Walker (2004) and Yli-Renko & Janakiraman (2008) also observed that embeddedness encourages collaboration and the exchange of rich and complex information. Shared information generates a deeper understanding of customers’ problems and needs. Simply, higher levels of embeddedness are associated with higher levels of information sharing. It is therefore conceivable that it is the embeddedness, and the associated higher levels of information sharing, that may discourage customers from leaving the relationship. Hence, we expect information sharing to mediate the relationship between trust, commitment, cooperation and loyalty and hypothesise that in the context of an emerging market buyer network:

- H9: Relationship satisfaction is positively related to information sharing
- H10: Information sharing is positively related to attitudinal loyalty

Furthermore, Siguaw, Simpson and Baker (1998) reported that information sharing is associated with increased commitment in the relationship, while Child et al., (2005), Denize and Young (2007), and Kanagaretnam, et al., (2010) demonstrate that trust drives information sharing. Hence we also hypothesize that:

- H11: Information sharing is positively related to commitment
- H12: Trust is positively related to information sharing

The hypothesised relationships and the corresponding constructs are presented in a conceptual model in Figure 1. The model depicts product and service quality as antecedents of relationships satisfaction. In turn relationship satisfaction is theorised to mediate the quality to loyalty link, while trust, commitment and information sharing mediate the path between relationship satisfaction and attitudinal loyalty. Consistent with the literature (Morgan & Hunt, 1994) the model (figure 1) also depicts the relationship between trust and commitment. Moreover, as suggested in the hypotheses a similar relationship between trust and information sharing is shown in the model, and in turn information sharing is proposed to be related to commitment. The inclusion of constructs was based on prevailing literature as described in the preceding section as well as interviews conducted during the qualitative phase of the study, as described below.



**Figure 1: Conceptual Model**

## METHOD

### *Data collection*

We employed a focal firm approach to obtain access to a network of buyers in the Computer Aided Design (CAD) industry of South Africa. The focal firm is the largest supplier of CAD software in South Africa and its client base covers South Africa as well as most other countries in the Southern African region. First we conducted interviews with three senior managers in the focal firm, including the Marketing Director, and then conducted a focus group discussion with seven clients of the focal firm. The objective of this qualitative research was to (a) gain a better understanding of the relationships, including the underlying drivers (constructs) of those relationships, and (b) get some insights into how purchasing and repurchasing decisions are typically made in this market. The research revealed that the relationships are mostly collaborative, but with occasional variability in that some relationships appear more interimistic (Lambe, Spekman & Hunt: 2000). Moreover it appears that purchasing decisions are mostly team driven and hence we decided to employ a multi-informant approach for the collection of survey data. Without exception, all the buyer respondents voiced very strong opinions regarding the importance of the product and service of a supplier before any relationship can be established. In addition, all the interviewees made reference to the importance of sharing information in the buyer-seller dyad and for this reason information sharing was included as a mediator. Based on prevailing literature and the insights from the qualitative study we develop a measurement instrument and data was collected via two waves in which the survey was administered to 3112 active clients (clients that had interacted with the firm over the previous 36 months). From this a total of 526 (17.5%) responses, representing 255 firms were suitable for further analysis. Therefore, for some firms we relied on a single respondent.

### *Measurement*

The questionnaire collected demographic information and use multi-item scales to measure each of the seven constructs. All constructs employed 7 point Lickert-type scales with “1 = strongly disagree” and “7 = strongly agree” and negatively stated questions were reversed scored. The measurement instrument consisted of 28 items to measure each of the following latent variables: Perceived Product Quality – 3 items based on Matzler (2004), Chakraborty et al. (2007) and Zeelenberg & Pieters (2004); Perceived Service Quality – 6 items based on Busacacca & Padula (2005) and Matzler (2004); Relationships Satisfaction – 4 items based on Larges et al. (2008); Trust – 3 items based on Morgan & Hunt (1994); Commitment – 3 items based on Palmatier (2008); Loyalty - 3 items based on Palmatier (2008); Information sharing – 3 items based on Denize and Young (2007).

### *Sample*

From an original database of 5000 clients, the focal company assisted in identifying 3112 clients that had exhibited account activity during the previous 36 months. These clients were labelled as active users of the CAD systems and were subsequently included in our sample. From table 1 we can see that the sample is overwhelmingly male (84%), almost 70% are under 45 years of age and (as expected) almost all the respondents are from the engineering domain. Engineering firms and their business partners are the obvious users of CAD systems

and this reflects the main market focus of the focal firm. The respondents were all engineers involved in making CAD purchasing decisions, but none of them have a specific procurement/purchasing related job title.

**Table 1: Key descriptive statistics of the sample**

<b>N</b>		526
<b>Gender</b>	<i>Male</i>	84%
	<i>Female</i>	16%
<b>Average age</b>		40 years
<b>Age distribution</b>	<i>18 - 30 yrs</i>	28%
	<i>31 - 45 yrs</i>	41%
	<i>46 - 55 yrs</i>	21%
	<i>&gt; 55 yrs</i>	10%
<b>Industry</b>	<i>Infrastructure Engineering</i>	170 (32%)
	<i>Multi Industry Applications</i>	124 (26%)
	<i>Civil Engineering</i>	81 (15%)
	<i>Municipal/Local Government</i>	70 (13%)
	<i>Structural Engineering</i>	23 (4%)
	<i>Land Surveying</i>	23 (4%)
	<i>Provincial Government</i>	18 (3%)
	<i>Project Management</i>	17 (3%)
<b>Education</b>	<i>Undergraduate Degree</i>	318 (60%)
	<i>Technical Qualification</i>	126 (24%)
	<i>Post Graduate Degree</i>	82 (16%)

## RESULTS

First we tested for multivariate normality using both descriptive and inferential statistical methods. It was found that each construct exhibits non-normality and hence the sample data exhibits non-normality. Therefore, it was decided to employ partial least squares (Henseler, Ringle and Sinkovics, 2009; Tenenhaus, et al., 2005; Diamantopoulos and Winklhofer, 2001; Chin, 1998; Bollen, 1989) using SmartPLS 2.0 (Ringle, Wende and Will, 2005) to analyse the data. Partial least squares (PLS) was preferred as it is less sensitive to distributional abnormality and allows for smaller samples (Vinci et al. 2010).

### *Measurement model*

All items loaded on to the corresponding latent variable structure and all items exhibit loadings greater than 0.72. With the exception of the information sharing construct all constructs exhibit adequate internal consistency reliability as the Chronbach alpha coefficients exceed the 0.7 (table 2) benchmark.

**Table 2: Reliability indicators for the of the measurement model**

	AVE	Composite Reliability	Cronbach Alpha	R <sup>2</sup>
Commitment	0.76	0.87	0.78	0.76
Information Sharing	0.55	0.76	0.57	0.25
Attitudinal Loyalty	0.59	0.81	0.71	0.65
Perceived Product Quality	0.65	0.85	0.72	-
Relationship Satisfaction	0.50	0.79	0.70	0.53
Perceived Service Quality	0.56	0.88	0.83	-
Trust	0.76	0.89	0.81	0.76

\* AVE = Average Variance Extracted

The Chronbach alpha coefficient for the information sharing ( $\alpha = 0.56$ ) construct did not meet the 0.7 criterion. As this study is of a non-confirmatory nature it was decided to retain this construct in order to facilitate the remaining analysis. The measurement model also exhibited significant convergent validity as the cross-loading matrix exhibits (Table 3) no cross loading that exceed the with-in row and column loadings.

Discriminant validity is considered in two steps. First, the Fornell & Larcker (1981) criterion is used to test whether the square root of a construct's AVE is higher than the correlations between it and any other constructs within the model. Second, the factor loading of an item on its associated construct should be greater than the loading of another non-construct item on that construct.

**Table 3: Cross-loadings of Items**

	Commitment (CI11-3)	Information Sharing (IS1-3)	Attitudinal Loyalty (LO1-3)	Perceived Product Quality (PS1-3)	Relationship Satisfaction (RS1-4)	Perceived Service Quality (SS2-6)	Trust (TR1-3)
CT1	<b>0.84</b>	0.31	0.55	0.57	0.50	0.40	0.60
CT2	<b>0.78</b>	0.29	0.47	0.45	0.56	0.44	0.75
CT3	<b>0.87</b>	0.25	0.63	0.57	0.61	0.49	0.82
IS1	0.07	<b>0.66</b>	0.08	0.08	0.11	0.02	0.06
IS2	0.19	<b>0.82</b>	0.20	0.34	0.24	0.22	0.20
IS3	0.38	<b>0.92</b>	0.32	0.57	0.39	0.32	0.38
LO1	0.35	0.19	<b>0.62</b>	0.44	0.33	0.23	0.32
LO2	0.55	0.22	<b>0.78</b>	0.55	0.45	0.37	0.53
LO3	0.80	0.28	<b>0.87</b>	0.52	0.48	0.38	0.58
PS1	0.58	0.24	0.58	<b>0.90</b>	0.49	0.40	0.56
PS2	0.56	0.24	0.52	<b>0.89</b>	0.48	0.38	0.54
PS3	0.39	0.87	0.32	<b>0.61</b>	0.41	0.34	0.39
RS2	0.39	0.18	0.37	0.30	<b>0.69</b>	0.68	0.39
RS3	0.57	0.26	0.44	0.46	<b>0.80</b>	0.38	0.75
RS4	0.27	0.31	0.21	0.31	<b>0.48</b>	0.42	0.31
SS2	0.40	0.19	0.37	0.31	0.61	<b>0.71</b>	0.40
SS3	0.37	0.19	0.28	0.32	0.43	<b>0.76</b>	0.39
SS4	0.49	0.21	0.40	0.34	0.44	<b>0.81</b>	0.42
SS5	0.39	0.19	0.32	0.35	0.41	<b>0.83</b>	0.40
SS6	0.43	0.22	0.33	0.38	0.45	<b>0.85</b>	0.42
TR1	0.70	0.35	0.56	0.57	0.61	0.46	<b>0.90</b>
TR2	0.80	0.25	0.60	0.57	0.61	0.49	<b>0.82</b>
TR3	0.65	0.27	0.46	0.44	0.59	0.42	<b>0.84</b>

Table 4 shows the result of this analysis. Marginal evidence of multi-collinearity may be observed between attitudinal loyalty and commitment as well as between relationship satisfaction and commitment. The rest of the measurement model exhibit good discriminant validity and meet the Fornell & Larcker (1981) criteria.

**Table 4: Latent variable correlation matrix and descriptive statistics**

	Mean	SD	1	2	3	4	6	7	8
1. Commitment	5.68	0.89	<b>0.88</b>						
2. Information Sharing	3.56	1.05	0.34	<b>0.74</b>					
3. Attitudinal Loyalty	5.45	0.93	0.80	0.31	<b>0.77*</b>				
4. Perceived Product Quality	5.29	0.91	0.64	0.53	0.76	<b>0.81</b>			
6. Relationship Satisfaction	5.19	0.87	0.75	0.38	0.56	0.58	<b>0.71*</b>		
7. Perceived Service Quality	5.77	0.89	0.54	0.31	0.44	0.46	0.66	<b>0.75</b>	
8. Trust	5.82	0.85	0.87	0.35	0.65	0.63	0.87	0.54	<b>0.87</b>

*Square Root of AVE on diagonal. \* Indicates instances of co-linearity.*

### *Structural Model*

We estimated all the hypothesised paths between latent variables to ascertain mediation effects and the predictive power of the model. The results of the first analysis are reported in Table 5.

**Table 5: Results of PLS path analysis**

	Hypothesised Relationship	$\beta$	t-statistic	Result
H1:	Perceived Product Quality → Relationship Satisfaction	0.342	7.985	Significant
H2:	Perceived Service Quality → Relationship Satisfaction	0.505	12.660	Significant
H3:	Relationship Satisfaction → Attitudinal Loyalty	0.016	0.282	Not significant
H4:	Relationship Satisfaction → Trust	0.876	59.223	Significant
H5:	Trust → Attitudinal loyalty	-0.214	1.889	Not significant
H6:	Trust → Commitment	0.904	17.770	Significant
H7:	Relationship Satisfaction → Commitment	-0.056	0.984	Not significant
H8:	Commitment → Attitudinal loyalty	0.925	12.303	Significant
H9:	Relationship Satisfaction → Information Sharing	0.182	2.074	Significant
H10:	Information Sharing → Attitudinal Loyalty	0.055	2.126	Significant
H11:	Information Sharing → Commitment	0.050	2.460	Significant
H12:	Trust → Information Sharing	0.094	1.106	Not significant

*p < 0.05 is considered significant*

From Table 5 it is clear that product and service quality drives relationship satisfaction among buyers in this network – hence, we could not reject H1 and H2. Moreover, these two constructs accounted for 53% of the variance in relationship satisfaction. Interestingly, (and counter to our expectations), the direct relationship between relationship satisfaction and attitudinal loyalty was not supported by the data and therefore we reject H3. This result hinted at the presence of a mediation effect.

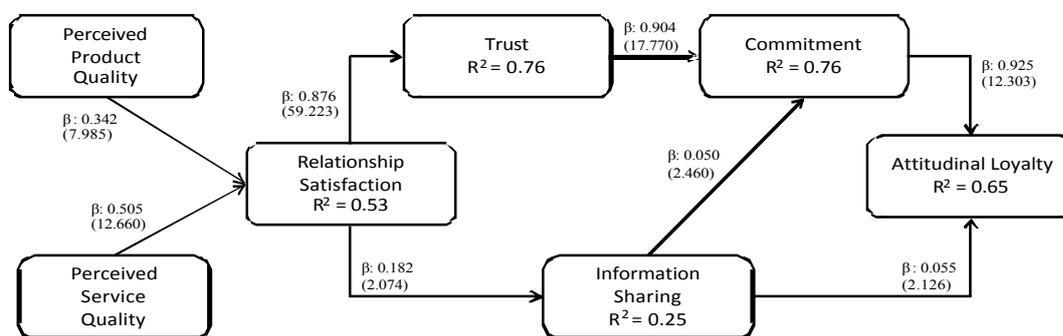
Subsequently, the path between relationship satisfaction and trust were significant and H4 is supported. However, trust did not exhibit a significant direct relationship with attitudinal loyalty and H5 is not supported. The relationship between trust and commitment was found to be significant as well as the relationship between commitment and attitudinal loyalty. This observation results in support for H6 and H8. In addition, H7 is rejected because of an insignificant relationship between relationship satisfaction and commitment.

Also, the data exhibit a significant (Table 5) relationship between relationship satisfaction and information sharing and between information sharing attitudinal loyalty. Therefore H9 and H10 are supported. The net effect of these observations is that our data suggests that the link between relationship satisfaction and attitudinal loyalty is fully mediated by the impact of trust, commitment and information sharing. In this trust fully mediates the relationship between relationship satisfaction and commitment, and commitment fully mediates the relationship between trust and attitudinal loyalty.

Furthermore, H11 is supported as the path between Information sharing and commitment was significant, while H12 is rejected because the data does not support a significant path between trust and information sharing. Therefore our results on information sharing indicate that commitment partially mediates the relationship between information sharing and attitudinal loyalty. In addition to these findings it appears that the model exhibit substantial power as it explained 76%, 65%, and 76% and of the variance in commitment, attitudinal loyalty and trust respectively. Notably, the model is much weaker in explaining the amount of variance ( $R^2 = 0.25$ ) in the information sharing construct.

## DISCUSSION

The Quality→Satisfaction→Loyalty paradigm is a core element of modern marketing reasoning and our research confirms its applicability in an emerging market setting. We have subjected this theoretical platform to further analysis as prevailing literature suggested the relationship between achieving buyer satisfaction and buyer loyalty is subject to mediation effects. From our research and analysis we propose a revised model (Figure 2) to demonstrate the observed relationships.



**Figure 2: Revised Quality-Satisfaction-Loyalty model**

Our results confirmed that the perceived quality of products and services drives relationship satisfaction (Olsen, 2002; Anderson, et al., 1994; Grewal et al., 1998) as it explained more than 50% of the variance in satisfaction. This finding is consistent with the observations made during the qualitative phase of the research and underlines the importance of products/services in industrial markets. One participant in the focus group framed it rather clearly: “...we simply are not interested in a relationship with a supplier of substandard products....the market is just too competitive for that”. However, we caution against the over generalisation of the result as our research is limited to an engineering (and related industries) market. It is conceivable, but rather unlikely, that a different orientation might be found in other industries.

The observed relationship between satisfaction and attitudinal loyalty is fully mediated by trust and commitment. Moreover, our results suggest that relationship satisfaction drives trust, which in turn drives commitment. Then commitment drives attitudinal loyalty. This finding confirms the mediation power of trust and commitment as suggested by many authors (Anderson & Narus, 1990; Kumar, et al., 1995; Morgan & Hunt, 1994; Alejandro et al., 2011; Rajamma et al., 2011; Aurier & N’Goala, 2010; Cater & Cater, 2010; Palmatier et al., 2008). In particular our findings regarding the mediation effect of trust and commitment demonstrated the universality of the phenomena as these effects were observed in an emerging market context. However, our results also show support for information sharing as a mediator in the relationship between satisfaction and and concurs with the findings of

Borgatti & Cross (2003); Dyer & Singh (1998); Denize & Young (2007) and Anderson & Narus (1990). Moreover, we showed that commitment partially mediates the relationship between information sharing and attitudinal loyalty. The mediation effects of information sharing is however rather small ( $\beta=0.055$  for information sharing to attitudinal loyalty, and  $\beta=0.050$  for information sharing to commitment), but significant in our model. Again we caution against its generalisation. However, despite its small effect, the impact of information sharing on attitudinal loyalty is conceivable. As buyers receive more information about products, future developments etc., they become more familiar with the supplier and/or feel more at ease with the abilities of the supplier, and as a result has more reason to remain in the relationship.

### **MANAGERIAL IMPLICATIONS**

Primarily the results of this research, as supported by the plethora of similar findings across the globe, alerts South African managers in particular, and emerging market managers in general, that the relationship between satisfaction and loyalty is mediated by trust and commitment. These mediation effects is well documented in developed markets, but needed confirmation in emerging markets. Therefore managers should take specific action to enhance trust and commitment in the dyadic relationships with clients. Consistent with theory and supported by international research findings managers should avoid assuming that a satisfied buyer would be a loyal buyer. Rather, designing relationship strategies that yield increased trust and commitment from buyers can significantly enhance the overall effectiveness of relationship marketing efforts. Moreover, the research confirms the importance of sharing timeous and accurate information with buyers. By doing this managers can enhance the commitment of buyers and ultimately increase buyer loyalty. Close analysis of what types of information each customer will need and when the information will be needed, and then ensuring that the information is communicated accordingly, should contribute to customer loyalty, which may yield repeat purchases and enhance firm performance.

### **LIMITATIONS AND FUTURE RESEARCH**

The context specificity of the measurement dictated by a focal firm approach limits the generalisability of our results. The high tech environment of CAD systems and the associated engineering applications may well represent a particular conceptualisation of business-to-business relationships. Future studies might employ cross-sectional design methodologies which could improve the generalisability of the results. Because of the heterogeneity commonly found in emerging markets we did not test for common method bias in this study. Often typical causes of common method bias such as consistency and social desirability (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003) is minimal in highly heterogeneous samples. However we acknowledge that our results may well be inflated because of common method bias and suggest that future studies employ the procedure suggested by Lindell & Whitney, (2001) and Liang, Saraf, Hu & Xue (2007) to test for common method bias. Moreover, our results do exhibit some (though very limited) multi co-linearity. Developing more robust measures for satisfaction and loyalty in future studies should resolve this problem. Moreover, a random sample based on a across-sectional design may also yield better multi-variate normality which can facilitate the use of robust covariance based structural equation modelling analysis.

We included mediation constructs that were of particular importance in a South African context and dictated by the prevailing literature. These may be expanded upon. While

Information Sharing was emphasised in particular during the qualitative phase of the research, other constructs such as Cooperation and Adaptation (Cater and Cater, 2010), Relationship Specific Investments (Palmatier et al., 2007), Relational Embeddedness (Rindfleisch & Moorman 2001) may well be relevant, even in an emerging market context. In addition, by considering Behavioural Loyalty (Cater & Cater, 2010) future studies may obtain a more complete picture of the loyalty construct. Finally, from the literature it is clear that many of the constructs employed to explain business-to-business relationship share conceptualisation. Future research may assist in isolating constructs more distinctly with obvious benefits for constructing parsimonious models.

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