INTERFIRM RELATIONSHIPS IN KOREAN ELECTRIC/ELECTRONIC PARTS INDUSTRY

Sejo Oh[*]
F. Robert Dwyer[**]
Sungil Kim[***]
Jin Yong Park[****]

Contents

An increasing number of business are forging longer term relationships such as multi-year supply contracts, JIT arrangement, partnerships, joint ventures and other strategic alliances. If parties to any of these

*Sejo Oh is Professor of Marketing, Yonsei University
**F. Robert Dwyer is Professor of Marketing, University of Cincinnati
***Sungil Kim is Instructor of Marketing, Yonsei University
****Jin Yong Park is Instructor of Marketing, Yonsei University

trading relationships are to reap the perceived promises of competitive advantage, the interfirm system itself must be coordinated effectively and efficiently. Surprisingly, however, little is known about how parties structure and operate these trading relationships. Recently, Dwyer (1993) has suggested a conceptual model of (1) the role of a purchaser's power to structure interfirm decision making and support the development of critical relationship norms, (2) the effects of power on the nature of managerial communications, and (3) interactions of both structure and communications with the performance of the trading relationship, in industrial distribution. This model was tested and generally supported with data from a sample survey of industrial purchasers and vendors in the United States. In this vein, our study is a kind of replication study for evaluating the external validity of the Dwyer's previous work within the context of Korean electric— and electronic—parts industry.

I. Structuring Buyer—Seller Relationships

Firms in trading relationships coordinate their activities in at least two important ways. First, they explicitly or implicitly develop decision making structures. Marketing researchers (cf. Stern and Reve 1980; Dwyer and Oh 1988; Oh and associates 1993, 1994, 1995) have used the organization theory literature (cf. Hall 1977; Stinchcombe 1986) to describe decision structures using three key dimensions:

Formalization   — the use of explicit rules and procedures.
Participation   — the extent to which inputs from multiple parties
                   are used in the decision process.
Centralization   — the concentration of decision making authority.

The second means of coordination interfirm relationships is an important — but more ethereal — complement to the administratie mechanisms described sbove. Especialy in long—term and complex trading, the parties rely on several key social norms to govern the exchange. Social scientists use the term "norms" to denote shared expectations of behavior in a group or organization. Ian Macneil (1980)has distinguished "relational" norms from "discrete" norms of behavior. whereas discrete norms direct competitive and individualistic interactions between relatively autonomous traders, relational norms

prescribe "stewardship behavior, and are designed to enhance the wellbeing of the relationship as a wholw" (Heide and John 1992). Macneil has argued that "relationalism" is maniefstxd in a dozen of more norms. For purposes of this study, three norms are examined:

Mutuality — eqqity in the distribution of surpluses and burdens course of exchang. Benefits and burdens are evaluated over a long period of time, rather than on a transaction—by—transaction basis (cf. Macneil 1980, p.46)

flexibility — refers to the smooth alterations in practices and policies by trading partners in light of unforesseen or changing conditions. continued trading in future, uncertain environments requires adjustment.

Solidarity — the degree to which the preservation of the unique and continuing relationship if internalized by the exchange partners as being important in and of itself (cf.,Kaufmann and Stern 1988)

Although this does not exhaust Macneil's set of relationship norms —— a set that includes interpersonal linkages, harmonizing conflict, planning and others —— these three seem central and related to the domains of the others. Indeed, empirical efforts to date have shown high internorm correlations (cf. Noordewier, John and Nevin 1990; Kaufmann and Dant 1992).

II. The Process of Relating

Communication is an essential process in the coordination of interfirm relationships. Mohr and Nevin(1990, p. 36) call communication "the glue that holds together a channel of distribution." Frazier and Summers (1984) have regarded communication as the means by which power is applied. While communication theorists distinguish several facets of communication (e.g., frequency, direction, mode or channel, and content), the frequency of several types of influence strategies is examined in this research.

Influence strategies are the types of messages used by boundary personnel (e.g., sales rep or purchasing agent) in a "source' firm that are intended to change behaviors in an exchange partner dubbed the "target" (cf. Frazier and Rody 1991). Frazier and his

colleagues have examined channel communications in a variety of settings and their compelling taxonomy has been operationalized in sound multi—item scales (Boyle et al. 1992):

threats   Source inform the target that failure to comply will result in
                   negative sanctions.

Legalistic   Source contends that target compliance is required by
pleas   formal agreement.

promises   Source certifies to extend specified reward contingent on the
                    target's compliance.

requests   Source asks target to act: no mention of subsequent
                    sanctions.

Information   Source supplies information with no specific action requested
Exchange   or otherwise indicated.

recommendations Source stresses that specific target action is needed for the
                    latter to achieve desired outcomes.

III. Power in Buyer—Seller Relationships

The overarching hypothesis in this research is that the relative dependence position of the exchange partners in the relationship will have an impact on (1) the administrative mechanisms for decision making, (2) the level of relational norms in the system, and (3) the influence strategies applied in the system. The origin of member A's power over member B is member B's dependence on A for valued resources which are not easily obtainable from sources other than A (Emerson 1962). Although the balance of power may favor purchaser or vendor, operational and budgetary issues shaped the focus of this study on the power of the buying firm.

Given differences in the criticality of resources exchanged and the availability of those resources from other sources, purchasing firms can hold different bargaining positions in supply relationships. Specifically, a high power party (here, the purchasing firm) can exact concessions in both the terms of trade and the structure of the

relationship. In the subject research, compared to balanced power relationships, the high power party in an asymmetrical power relationship will affect the administrative structure so that it features high centralization and formalization, and low participation. High power parties are motivated by the goals of decision making control and efficiency and have the ability to act on the goals.

Also, a power asymmetry will impair relationship norms. The essence of this expectation follows from the negotiation literature. McAlister, Bazerman and Fader(1986) summarize that in unbalanced power situations, the high power party is apt to focus on power use. (Even guarding against misuse prompts recognition of an advantage). Meanwhile, the weak party operates from a fear of exploitation. Compared to balanced trading relationships, in unbalanced power relationships, parties will report lower levels of the relationship norms of solidarity, mutuality, and flexibility.

The same logical expectation holds for differences in influence strategies. In asymmetrical power systems, the high power party will place high reliance on threats, requests, and legalistic pleas. They have the clout and sanctions to apply these strategies. Add to this the expectation that normative checks on the use of power are relaxed in unbalanced power relationships, and the prospects for more frequent use of theses strategies increase. Negative sanctions are communicated explicitly in threats, more subtly in requests. Legalistic pleas suggest the target has breached or the source is reactivating a dormant sanction.

Information exchange and recommendations, in contrast, should be less frequent in unbalanced relationships than in balanced. Exchange of long—term forecasts, goals, and market information implies a willingness to share knowledge essential to coordination. Such communications depend upon a minimal level——and probably elevate the level—— of relationalism between the firms. Likewise, recommendations for behaviors that are intended to increase the target's success require a measure of trust and can build commitment to the partnership.

IV. Relationship Performance

Finally, the study attempts to gauge performance in each of the buyer—seller relationship. Kumar, Stern and Achrol (1992) have recently offered channels researchers a multifaceted measure of reseller performance from the supplier's perspective. Their ambitious efforts have fittingly used the complex literature on organizational effectiveness (cf. Quinn and Rohbaugh 1983). In line with this literature, but constrained by execution issues in the empirical study, three aspects of performance are studied. The purchaser provides one perspective on the efficiency or ease of coordination in the relationship. Related to the purchaser's interest in efficiency is the vendor's self report of minimal opportunistic behaviors, those motivated by self interest with guile. It is possible that the purchaser's assessment of efficient coordination fails to detect shirking and perfunctory role performance by the vendor. Both components are critical to a high performance relationship. The study also measures the vendor's satisfaction with the relationship. Satisfaction represents and assessment of overall fulfillment in the relationship. Satisfaction can be expected to correlate positively with minimal opportunism because fulfilled parties are not apt to be motivated to seek adjustment, restitution, or equity by shirking (Hirschmann 1970; Rusbult, Zembrodt, and Gunn 1982).

V. Model Summary

Figure 1 is a general summary of the hypotheses developed in the foregoing discussion. Purchaser power is hypothesized to affect specific administrative decision making mechanisms: purchaser centralization, formalization, and low participation. Power also impairs the development of relationalism, as reflected in the three norms: solidarity, mutuality, and flexibility. The interplay of power, decision structures, and relationship norms affects the nature of communications in the relationship. Specifically, in unbalanced power systems, the high power party will use more threats, legalistic pleas, and requests than its counterpart in a balanced power relationship. Information exchange and recommendations are apt to be used more frequently in balanced power systems. Finally, the dimensions of relationship performance are affected differently by the structures and processes of relating. In a more exploratory inquiry, the performance variables may respond differently to the coordination

mechanisms and   structures, depending on the   balance of power in the relationship.

Figure 1 Hypothetical Model of Buyer-Seller Relationship Performance
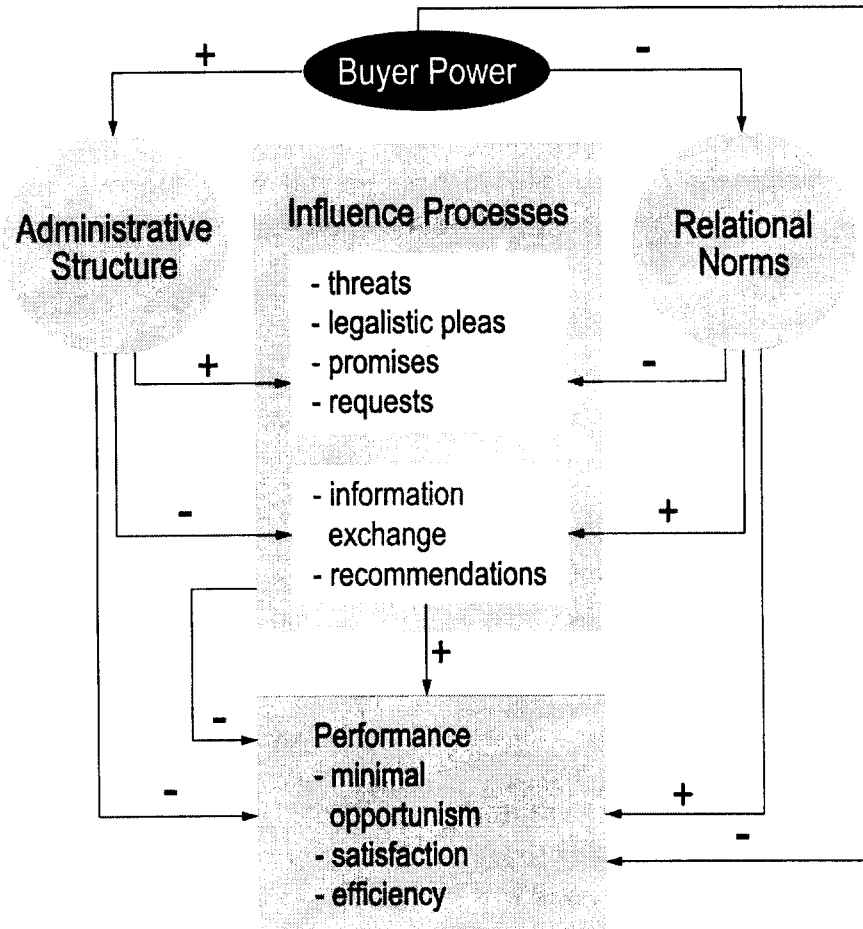
VI. Method

The research setting of our study is the Korean electronic/electric parts and semi-products industry. A sample of purchasing managers was selected from a compiled list of manufacturers in [1990 Membership Directory] issued by Electronic Industry Association of Korea. Purchasing firms registered at the directory, which were located in Seoul and had had more than 100 employees, were phoned to identify the head of purchasing, verify address, and notify of a forthcoming survey. A sample of 75 firms was telephoned successfully and mailed a personalized cover letter, a small gift, offer of results, and a detailed survey seeking information up to four supply relationships.

Purchasers were asked a battery of seven questions designed to assess their involvement in long-term relationships with any of their suppliers. They were told to stop if they disagreed with four or more of the statements, otherwise they were to think of suppliers with whom they had a relationship that:

    1. Was expected to last two or more years,

    2. involved nontrivial purchase volume, and

    3. Involved some joint planning and information sharing.

They were then instructed to identify up to two firms in each of two dependence categories: balanced and skewed.

Follow up reminder cards were sent two weeks after the initial mailing. Purchasers returned a total of 45 surveys (60%). These 45 purchaser survey described and identified a total of 176 supplier relationships. More balanced than skewed relationships were represented in the sample (about 50% vs 50%).

Surveys were sent to vendors following a similar procedure: Telephonic contact verified the identity and address of the vendor representative and surveys were mailed with a personalized cover letter, a small gift, offer to send a results summary, and a stamped return envelope. Among 176, 104 were responded (59%), 65 rejected to participate, 1 was out for its uncertain address, and 6 were out for their foreign nationality.

VII. Measures

Table 1 summarizes the final scale reliabilities for each of the variables in the study. Because purchasers were asked to evaluate four relationships and burdened by the task of address look-ups, their reports were limited to norm. Suppliers in our face-to-face pretests seemed pleased to be invited to participate with their customer in the study. Hence, they were asked to provide the more detailed reports on the relationship: administrative mechanisms, norms, influence, ease of coordination, minimal opportunism and satisfaction. The measurement scales of each variable have been adopted from Dwyer and Oh (1987) and Dwyer (1993).

Table 1 Scale Reliability

Scale	Number of Items		Cronbach's Alpha
	Initial	Final	
Buyer Power	4	4	.84
Formalization	4	4	.78
Participation	4	4	.66
Centralization	5	5	.69
Mutuality	3	3	.60
Flexibility	3	3	.53
Solidarity	3	3	.79
Recommendations	4	4	.80
Information exchange	4	4	.71
Promises	5	5	.84
Requests	4	4	.80
Legalistic Pleas	4	4	.85
Threats	4	4	.80
Efficiency	7	6	.55
Satisfaction	3	3	.82
Minimal Opportunism	5	5	.76

The measures were "purified" using item analysis and confirmatory factor analysis within each set of variables. The purified final items load highest on their assigned factor and that factor correlations are significantly less than 1.0 , which is evidence of discriminant validity. Table 2 provides the correlations of all variables in the study.

Table 2. Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1.BPW	1.000															
2.FOR	.432**	1.000														
3.PAR	.340**	.240	1.000													
4.CEN	.513**	.615**	.179	1.000												
5.MUT	.311**	.166	.381**	.173	1.000											
6.FLX	.250*	.117	.146	.045	.406**	1.000										
7.SOL	.322**	.239*	.196*	.195*	.321**	.267**	1.000									
8.REC	.226*	.350**	.186	.283**	.234*	.152	.234*	1.000								
9.IFX	-.007	.087	.189	-.061	.209*	-.036	.038	.514**	1.000							
10.PRM	.210*	.046	.077	.191	.143	.069	-.016	.179	.175	1.000						
11.REQ	-.048	.126	-.234*	.327**	-.219*	-.210*	-.114	.167	.122	.286**	1.000					
12.LPL	.114	.175	-.115	.206*	-.087	-.102	-.113	.152	.045	.461**	.541**	1.000				
13.THR	.167	.304**	-.113	.283**	-.184	-.134	.057	.184	-.009	.455**	.521**	.591**	1.000			
14.EFF	-.060	.152	.297**	.025	.253**	.203	.172	.151	.107	-.057	-.128	-.087	.023	1.000		
15.MIN	-.210*	-.027	.070	-.238*	.122	.162	-.082	.112	.005	-.225*	-.245*	-.244*	-.296**	.088	1.000	
16.SAT	.438**	.154	.279**	.096	.507**	.345**	.481**	.155	.049	.076	-.392**	-.041	-.077	.156	-.052	1.000

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

1. BPW(Buyer Power)
2. FOR(Formalization)
3. PAR(Participation)
4. CEN(Centralization)
5. MUT(Mutuality)
6. FLX(Flexibility)
7. SOL(Solidarity)
8. REC(Recommendations)
9. IFX(Information Exchange)
10. PRM(Promises)
11. REQ(Requests)
12. LPL(Legalistic Pleas)
13. THR(Threats)
14. EFF(Efficiency)
15. MIN(Miniumal Opportunism)
16. SAT(Satisfaction)

VII. Model Results

The hypothetical model was tested using a series of ordinary least squares regression (OLS) models. These are summarized in Table 3. The left—hand three columns show the effects of power on the three administrative mechanisms. In many intrafirm contexts power has been applied to centralize and formalize decision making while limiting broad participation. That purchaser power in interfering supply relations precipitates increases in all three dimensions provides for a clue as to how high power parties seem to use participation to forge interpersonal ties and build supplier morale. These results of this study are exactly same as those of Dwyer's work (1993). Indeed, the next three columns of Table 3 reveal the interplay of power and decision making structures on relational norms. Although the norms are psychometrically distance, they respond similarly to the independent variables. This pattern as well as the internorm correlations support the representation of a higher—order variable out of the mean of their item means. These results are partially consistent with those of Dwyer's work (1993). Dwyer has found that both of purchaser power and participation in decisions have strong and positive effects on each of all relationship norm variables.

Influence strategies are subtly and differently affected by decision—making, and norm structures in this context. requests reduces from participation, induces from centralization in decision making. This result is quite different from Dwyer's (1993). Dwyer has found the significant effects of decision making structures on influence strategies: (1) participation on the recommendations, information exchange, and promise strategies with the positive direction, (2) formalization on the legalistic pleas and threat strategies with the positive direction, and (3) centralization on the request strategy with the positive direction. These conflicting results give some implications. Korean businessmen may have a tendency to more sensitively use the direct influence strategies like requests and threats. And they may prefer to informal contacts and communications and furthermore the weaker party want to keep silent with patience rather than to take some arguments to the stronger.

Table 3. OLS MODEL PARAMETERS:STRUCTURE AND PROCESSES FOR HIGH-PERFORMANCE RELATIONSHIPS

	Administrative Structure			Relational Norms			Influences Strategies						Relationship Performance		
	FOR	PAR	CEN	MUT	FLX	SOL	REC	IFX	PRM	REQ	LPL	THR	EEF	MIN	SAT
BPW	.432**	.340**	.513**	.311**	.250*	.322**	-.024	-.066	.171	-.138	.122	.119	-.352**	-.214	.239*
FOR							.239	.183	-.143	-.028	.125	.242*	.083	.204	-.066
PAR							.047	.131	-.005	-.197*	-.159	-.154	.293**	.077	-.028
CEN							.097	-.197	.197	.490**	.133	.127	.020	-.303*	.002
MUT							.115	.247*	.111	-.122	-.029	-.198*	.170	.128	.267**
FLX							.041	-.148	.020	-.102	-.079	-.111	.169	.111	.050
SOL							.106	-.012	-.119	-.059	-.149	.058	.071	-.140	.292**
REC													.046	.308*	.000
INF													.027	-.208	.036
PRM													-.128	-.066	-.005
REQ													-.092	.004	-.400**
LPL													-.038	-.086	.201*
THR													.259	-.151	.033
F	23.6**	13.4**	36.8**	11.1**	6.8*	11.9**	2.9**	1.7	1.3	4.9**	1.7	3.5**	2.3*	2.6**	7.7**
R^2	.187	.115	.263	.097	.062	.104	.173	.110	.085	.264	.109	.201	.251	.274	.530
d.f.	1,103	1,103	1,103	1,103	1,103	1,103	7,96	7,96	7,96	7,96	7,96	7,96	13,89	13,89	13,89

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

BPW(Buyer Power) FOR(Formalization) PAR(Participation) CEN(Centralization) MUT(Mutuality) FLX(Flexibility) SOL(Solidarity)
REC(Recommendations) IFX(Information Exchange) PRM(Promises) REQ(Requests) LPL(Legalistic Pleas) THR(Threats) EFF(Efficiency)
MIN(Minial Opportunism) SAT(Satisfaction)

The far right hand columns of Table 3 summarize the models of relationship performance. Minimal opportunism is positively related to the recommendation strategy. Supplier satisfaction derives positively from a dependence position in the relationship, but negatively from the request strategy. Meanwhile, the efficiency or ease of coordination is negatively related to buyer power and positively to participation. At the Dwyer's work, opportunism is affected by various variables, including power(−), centralization(+), recommendations(−), information exchange(+), requests(−), and threats(+). And supplier satisfaction is affected by buyer power(+), relationalism(+), and threats(−).

IX. Conclusions and Discussion

Systematic empirical study of durable buyer—seller relationships is accelerating across the world. This study used supplier informants to examine a limited set of structural properties and interaction processes in industrial supply relations. The hypothetical model was supported to the extent that significant analysis of variance statistics resulted in 12 of 15 OLS regressions.

Purchaser power was expected to enable buyer to forge decision—making mechanisms with their suppliers. Indeed, purchaser power is positively related to formalization, participation and centralization. This last effect surprised Dwyer(1993) in his pilot study to this investigation. It now seems clear that high power buyers are capable of including suppliers in goal setting, problem solving, and information gathering.

Power has subtle effects on relationship norms, but it again seems that high power purchasers are maintaining relational norms by encouraging vendor participation in decision. Mutuality, solidarity and flexibility are positively associated with purchaser power.

Very much like Boyle et al.(1992) and Dwyer(1993), the effects of power, decision making mechanisms, and relationship norms have weak effects on the nature of communications. Regression is significant at recommendations, requests and threats. Requests are negatively associated with participation and positively with centralization. In this context, however, it seems clear that requests are viewed as a coercive influence tactic. Requests correlate at .551 and .542 with legalistic pleas and threats respectively. Thus, participation may bridle the use of requests.

Finally, the performance models yield the best R^2, but only selected variables show significance. Minimal opportunism is explained by centralization and an absence of recommendations. Satisfaction is effected perceived dependence position, mutuality and solidarity. Perceived efficiency is enhanced by participation. Nevertheless, it is impaired by buyer power.

Overall, it appears that buyer can impact a trading relationship in conflicting ways. It can enhance opportunism and impair efficiency, but the overall relationship may be satisfying if abusive requests are avoided, vendor participation is encouraged, and relational norms are

thereby cultivated.

Future research must provide a more complete picture of relationship performance by integrating perspectives of both trading partners. Unlike Dwyer(1993) and other studies, the relational norms in Korean trading systems are practically independent. Perhaps additional norms——e.g., continuity,   shared   planning——   need   to   be   examined   for diagnosing relationships. Cross   cultural relationships demand   special study because norms   may have different meaning to the parties. Longer development periods may also be required. Indeed, it may be desirable to   consider relationship life   cycles   ——changes in communication and governance over the duration   of a trading association. Finally, there is much   to be gained from combining diverse data   collection   strategies——archival   data, participant observation, and content   analysis of intercompany   communications and contractual documents. Indeed, there is much work to be done.

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Abstract

This study of interfirm relationships is tested on a sample of Korean electric and electronic parts industry. The hypotheses present that (1) buyer's power affects administrative structure and relational norms, (2) communications are affected prior three antecedents, and (3) buyer's power, administrative structure, relational norms, and communication affects relational performances. The results indicate that buyer's power plays important roles in administrative structure and relational norms but communications are not explained three constructs. The result also indicates performances are partially affected by antecedents.