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The Effects of Dependence and Conflict on Qualitative and Quantitative Organizational Performances in Partnership

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The Effects of Dependence and Conflict on Qualitative and Quantitative Organizational Performances in Partnership

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This study examines the effects of dependence and conflict on organizational performances in partnership, qualitatively (trust) and quantitatively (sales) under four control variables (period of business, number of goods, competition density, and number of employees). Also, this study presents termination cost and alternative attractiveness as the antecedents of dependence, goal incongruity and unfairness as the antecedents of conflict. As the results of analysis with survey data from 360 distributors in manufacturer-distributor partnership, 7 hypotheses are supported and 2 hypotheses are rejected. The results of structural equation modeling (SEM) verify that termination cost increases dependence, that alternative attractiveness reduces dependence, that goal incongruity and unfairness increase conflict, that dependence reduces conflict, that dependence increases trust, and that conflict reduces trust. However, unexpectedly, dependence reduces sales, and conflict has no impact on sales. The results of this study provide insightful implications theoretically and managerially to scholars and practitioners interested in partnership.

Key words: dependence, conflict, organizational performance, partnership

Under the extreme environmental uncertainty in business, firms must have their own competitive advantages to survive and make profits. Especially, current fast-changing business environment makes firms search for various sources to enhance organizational performances such as human resource management (Becker and Gerhart 1996), leadership (Waldman, Ramirez, House, and Puranam 2001), partnership (Anderson and Narus 1990), influential power (Frazier 1983; Frazier and Rody 1991; Frazier and Summers 1986; Gaski and Nevin 1985), corporate social responsibility activities (McGuire, Sundgren, Schneeweis 1988), ethicality (Kang 2015), innovation (Damanpour 1991), well-crafted contracts (Kashyap, Antia, and Frazier 2012),

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close and strong relationship (Dwyer, Schurr, and Oh 1987; Kang and Jindal 2015; Yang, et al. 2012), and so on. In order to accomplish business success, firms must overcome all changes and challenges coming from the business environment. Especially, by building and developing strong relationships with business partners, firms can cope and overcome many changes and challenges coming from the business environment. We call this approach '*relationship paradigm*' (Dwyer, Schurr, and Oh 1987; Morgan and Hunt 1994; Palmatier, Dant, Grewal, and Evans 2006).

For longer than three decades, *relationship paradigm* has been highly noted in business theories and practices. Just as human beings must to be healthy to live happily and for long time, relationships must be healthy to achieve good performances and last a long time. To enhance organizational performances especially in the environment of multifarious customers' needs and fierce competitions, building and developing collaborative relationships with partners can play important roles. Today, scholars and practitioners understand that maintaining relationships with current partners is more profitable than creating new relationships with new partners (Eyuboglu and Buja 2007), that relational exchanges are more efficient than transactional exchanges, and that well-established relationships can lower total transaction costs (Kang and Jindal 2015; Williamson 1981). With such effectiveness and efficiency, we have witnessed that *relationship paradigm* has played important roles in business strategies and practices (Kang and Jindal 2015; Palmatier, Dant, Grewal, and Evans 2006).

Relationship or partnership has the meaning of 'the collaborative link between two partners in business.' In order to build and maintain a relationship or partnership, both partners (e.g., manufacturer and distributor) in the relationship must do their obvious roles and expected behaviors (Ross and Robertson 2007). But no relationship can be permanent in the world (Tähtinen and Halinen 2002) because a relationship can be dissolved from various reasons (Kang and Oh 2009; Kang, Oh, and Sivadas 2012, 2013; Yang et al. 2012). Unfortunately, so far, there have been few researches on relationship dissolution in spite of its importance (Dwyer, Schurr, and Oh 1987; Kang and Jindal 2015; Morgan and Hunt 1994; Tähtinen and Halinen 2002). Relationship dissolution is defined as 'the state of no exchange between two partners in business.' So far, there have been some researches on relationship dissolution such as focused on network approach (Gadde and Mattsson 1987; Havila and Wilkinson 1997), the field of services marketing (Keaveney 1995; Roos 1999), marketing channel context (Heide and John 1988; Heide and Weiss 1995; Hibbard, Kumar, and Stern 2001; Jap and Ganesan 2000; Kang and Oh 2009; Kang, Oh, and Sivadas 2012, 2013; Morgan and Hunt 1994; Ping 1993, 1994, 1995, 1997, 1999; Yang et al.

2012), advertising industry (Henke 1995; Michell 1988). To date, *relationship paradigm* has paid attention to both the positive and negative aspects of relationships.

Organizational performances (Richard et al. 2009) can be seized by using various variables. This study employs trust and sales to seize qualitative and quantitative organizational performances, respectively. Trust and sales are the most representative concepts that best represent organizational performances. Also, this study focuses on dependence and conflict extracted from studies on *relationship paradigm* to explain organizational performances. Until now, there has been no research using dependence and conflict to explain organizational performances. In *relationship paradigm*, dependence is the greatest factor to maintain and develop relationships, and conflict is the greatest factor to deteriorate and destroy relationships. Thus, we focus on the effects of dependence and conflict on the relationship, and examine how dependence and conflict explain organizational performance. Dependence and conflict provide us with important potential to be further examined. So far, generally speaking, researches on relationship paradigm have mainly focused on satisfaction, trust, and commitment (Morgan and Hunt 1994; Palmatier, Dant, Grewal, and Evans 2006). But, after two decades of investigation on relationship dissolution, dependence and conflict are two key factors to explain relationship quality. According to *relationship paradigm*, dependence provides the strongest motive to maintain relationship and conflict provides the strongest motive to exit relationship.

This study employs termination cost (Kang and Jindal 2015) and alternative attractiveness (Yang et al. 2012) as the antecedents of dependence (Emerson 1962; Heide and John 1988; Kang and Oh 2009; Kumar, Scheer, and Steenkamp 1995; Yang et al. 2012; Zhou, Zhuang, and Yip 2007). Also, this study employs goal incongruity (Kang and Jindal 2015; Yang et al. 2012) and unfairness (Kang and Jindal 2015; Yang et al. 2012) as the antecedents of conflict (Kang and Jindal 2015; Yang et al. 2012).

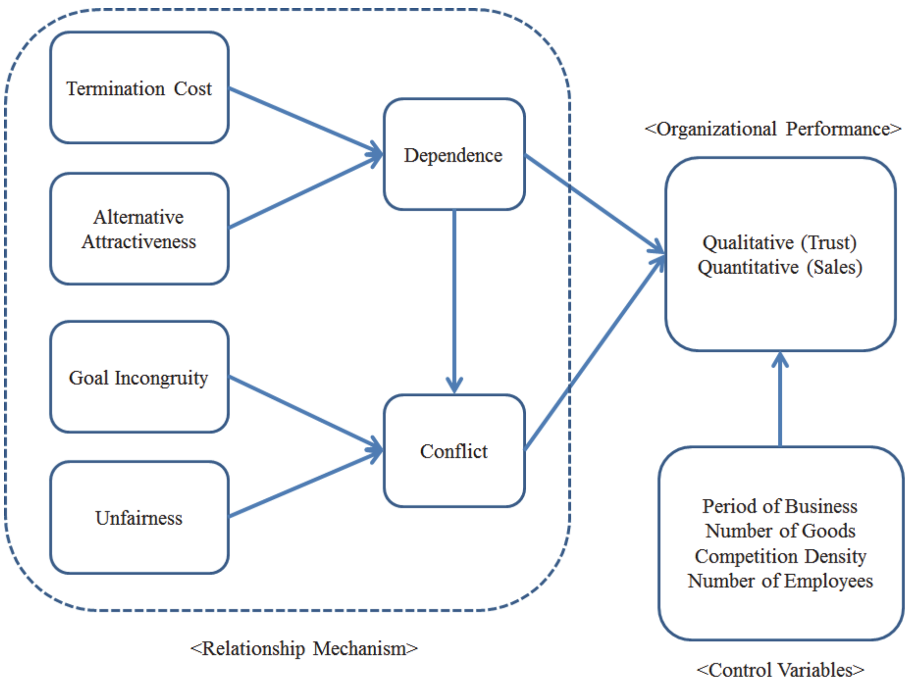
Therefore, to explain organizational performances (Richard et al. 2009), this study employs relationship mechanisms focused on dependence and conflict. Accordingly, to enhance the current knowledge about organizational performances in partnership, there remain some questions to be further investigated. First, do dependence and conflict influence on the qualitative organizational performance, trust? Second, do dependence and conflict influence on the quantitative organizational performance, sales? Third, does dependence influence on conflict? Fourth, are termination cost and alternative attractiveness the antecedents of dependence? Fifth, are goal incongruity and unfairness the antecedents of conflict? This paper has a goal to answer these questions. Next, we develop a conceptual framework and set the hypotheses.

Then, we describe the measurement items and data collection used to test the proposed model in this study and present the results from the structural equation modeling estimation. Finally, we provide theoretical and managerial implications of the results and limitations that can lead to the future researches.

Ⅰ. Theoretical Backgrounds and Hypotheses

Figure 1 shows the framework of this research. On the basis of research on relationship paradigm literature, we focuses on dependence and conflict in order to explain organizational performance because they have been unexplored for the purpose until now. In our research framework, the most important and fundamental issue is whether dependence and conflict influence on organizational performance (i.e., trust and sales) or not. Also, this research framework presents two antecedents of dependence (i.e., termination cost and alternative attractiveness) and two antecedents of conflict (i.e., goal incongruity and unfairness), respectively. And this research framework also consider four control variables (period of business, number of goods, competition density, and number of employees) that may have potential to affect organizational performance.

〈Figure 1〉 Conceptual Framework



1.1 Antecedents of Dependence

This study employs termination cost (Kang and Jindal 2015) and alternative attractiveness (Yang et al. 2012) as the antecedents of dependence (Emerson 1962; Heide and John 1988; Kang and Oh 2009; Kumar, Scheer, and Steenkamp 1995; Yang et al. 2012; Zhou, Zhuang, and Yip 2007). Dependence is defined as the extent which a company relies on its partner (Emerson 1962), meaning that a company perceives the extent which its partner provides valuable resources to the company. The more valuable resources its partner provides, the more dependent a company is on its partner (Heide and John 1988; Kumar, Scheer, and Steenkamp 1995; Zhou, Zhuang, and Yip 2007).

The termination cost of relationship influences on dependence (Morgan and Hunt 1994). According to Jones (1998), the termination cost of relationship can be defined as cost which entails to the termination of a relationship, including continuance cost, contract cost, learning cost, searching cost, set-up cost, and sunken cost (Kang and Jindal 2015). Continuance cost and sunken cost relate to a current partner. And contract cost, learning cost, searching cost, and set-up cost relate to new partner. Continuance cost means cost for maintaining the relationship with a current partner. Contract cost, learning cost, searching cost, and set-up cost are cost necessary for switching when a company is to dissolve the relationship with a current partner. And sunken cost means assets which will lose their values when the relationship is dissolved (Heide and John 1988). Of course, every cost includes economic and non-economic costs at the same time. Non-economic cost is made up of social, emotional, and psychological costs (Kelley 1983). Therefore, termination cost means every loss to lose when the relationship dissolves. According to Kang and Jindal (2015), perceived risk, product importance, risk-taking intention, and transaction specific assets are important factors in considering switching or dissolving the relationship with a current partner. In general, the more profit a company gains from its partner, the more assets the company invests in the relationship with its partner (Heide and John 1988). Therefore, we can define transaction specific assets as the assets invested for building, maintaining, and controlling specific transactions. Transaction specific assets are impossible or at least hard to be transferred from the current relationship to the other relationships (Williamson 1981). So the more transaction specific assets are invested in the relationship, the higher termination cost is. Because termination cost means all losses in dissolving relationship with current partner, a company should consider termination cost when it decides to keep going on its business with current partner or not. It is because if termination cost is high, it will be damaged high when the relationship dissolves. Therefore, the high termination cost is, the more a company is dependent on the relationship with current partner. The high termination cost means high necessity to maintain the relationship with current partner. On the contrary, if termination cost is low, the necessity of dependence is low because the possibility of anticipated loss is comparatively low in dissolving the relationship with current partner. Based on the discussion above, we anticipate that termination cost will influence on dependence positively. Thus, we hypothesize below.

H1: A company's termination cost of relationship with its partner will increase the company's dependence on the partner.

Alternative attractiveness can be defined as the extent how attractive the alternative is compared to current partner (Yang et al. 2012). Alternative attractiveness influences on dependence (Morgan and Hunt 1994). If a current partner provides a company with resources or values which the other partners cannot provide, alternative attractiveness is very low approaching to almost zero, thus, the company should be dependent on the current partner. It is because that the company cannot obtain resources or values necessary to manage its business without the current partner. In this case, we can say that the company has no alternatives of the partner. From this logic, the company wants to maintain its relationship with the partner, showing the company's dependence on the partner (Anderson and Narus 1990). The possibility of obtaining alternatives of current partner is important factor of deciding dependence (Emerson 1962). Even though a company is not satisfactory with its current partner, if there is no suitable alternatives of the partner, the company has no other way not to be dependent on the partner. According to Frazier (1983), alternative attractiveness has close relationship with dependence, meaning necessity for maintaining a specific relationship with current partner. That is to say, if alternative attractiveness is high, then dependence is low. If alternative attractiveness is low, then dependence is high. With this perspective, Ping (1993) insists that alternative attractiveness influences on decision making of partner exchange, namely, relationship dissolution. In case that current partner's performance is less than that of alternative, a company has low intention to maintain the relationship with current partner (Anderson and Narus 1990). Also, a company anticipates that alternative of current partner will generate more profit than that of current partner, then, the possibility of the company's selecting the alternative as new partner will increase (Kumar, Scheer, and Steenkamp 1995). In general, if more attractive alternatives exist, a company has no reason to attach to the relationship with its current partner. In other words, if alternative attractiveness is high, then dependence will decrease. On the contrary, if alternative attractiveness is low, this means that there is no alternative replacing its current partner, thus, dependence will increase. Based on the discussion above, we anticipate that alternative attractiveness will influence on dependence negatively. Thus, we hypothesize below.

H2: Alternative attractiveness of current partner which a company perceives will decrease the company's dependence on its partner.

1.2 Antecedents of Conflict

This study employs goal incongruity (Kang and Jindal 2015; Yang et al. 2012) and unfairness (Kang and Jindal 2015; Yang et al. 2012) as the antecedents of conflict (Kang and Jindal 2015; Yang et al. 2012). Conflict can be defined as the perception that current partner hinders getting one's own goal between two parties (Stern and El-Ansary 1992). To be more precise, conflict is the state of opinion disagreement or tension between two parties, perceiving that its partner hinders obtaining its own goal. In other words, we can define conflict as argument, friction, tension, or opposition resulting from actual or perceived differences or incompatibilities.

Goal incongruity can be defined as fundamental difference or discrepancy in goals between two parties (Song, Xie, and Dyer 2000). The higher two parties' goal incongruity is, the lower their willingness to cooperate is (Dyer and Song 1997; Tjosvold 1991). Also, the higher the level of goal incongruity is, the more time, effort, and resources are needed to reach consensus to resolve conflicts or problems existing between two parties (Song, Xie, and Dyer 2000). If the goals of two parties do not coincide with each other, frequent conflicts lead to communication difficulties and the level of conflict between two parties gradually increase, resulting in a decrease in the desire for relationship unity and even a greater desire for relationship dissolution. According to Halinen and Tähtinen (2002) in their study of relationship dissolution, Changes in a company's policies or management practices increase goal incongruity between two parties, inevitably leading to the termination of current relationships and the formation of other relationships. Therefore, it would be reasonable to assume that two parties having other goals can't sustain their relationship for a long time. This is because, when two parties are different in their point of view, they naturally experience frequent frictions and conflicts, thus they come to confirm their difference and discrepancy in their continuous transactions and interactions. In addition, the expectation of each other and actual performance are different, and in this situation, they experience ambiguity about their roles and distrust of the opponent. For this reason, in the relationship with a partner having different goal, conflict is ultimately amplified. On the contrary, in case that two parties have the same goal, they can share each other's values and can make compromises and concessions in order to achieve the same common purpose and can perform their roles efficiently and effectively. Thus, the lower the level of goal incongruity is, the less conflict is, and the higher the level of goal incongruity is, the greater conflict is. In other words, we can expect that goal incongruity has a positive impact on conflict. Therefore, we set the hypothesis as follows.

H3: Goal incongruity between a company and its partner will increase the company's conflict with its partner.

Unfairness is known as one of the major causes of deteriorating relationships (Halinen and Tähtinen 2002; Kang and Jindal 2015; Tähtinen and Halinen 2002; Yang et al. 2012). Unfairness can be defined as a party's perception of being treated unfairly by the other party (Kang and Jindal 2015; Yang et al. 2012). A few researchers argue that unfairness should be divided into two dimensions, procedural unfairness and distributive unfairness. However, recent studies have used unfairness as a single dimension for the simplicity of the model because two-dimension unfairness only complicates the model and even does not have any additional benefits (Kang and Jindal 2015; Yang et al. 2012). This is because both procedural and distributive unfairness have the same negative impacts on relationships, namely, deteriorating relationships. According to Halinen and Tähtinen (2002), unfairness is the perception of being treated unfairly by the other party and it can make a company angered. A company experiences unfairness as a recognition that it is treated unfairly when it receives less acknowledgment and treatment from its counterpart than its role or contribution to overall performance, or when it feels that the distribution of profits is inadequate compared to its expectation. There is no one in this world who will receive unfair treatment from the other. The same is true of corporations. Existing studies on relationship dissolution show that unfairness, which is recognition of being treated unfairly by the other party, greatly exacerbates the relationship (Kang and Jindal 2015). This is because unfair treatment worsens the relationship because unfair treatment increases the emotional distance to the partner who has treated a company unfairly, thus, making the company feel emotionally angry toward its partner. It is humans to carry out business transactions between two companies, and humans sometimes tend to think emotion more important than economic profit or loss. Because doing business is ultimately humans, and as the transaction cost theory suggests the characteristic of humans, humans have 'the limited rationality', so humans sometimes consider emotional status more important than actual economic benefit or loss. Unfairness raises emotional complaints and anger, eventually increasing conflict. Therefore, the higher the degree of unfairness that a company perceives, the greater the conflict will be with the partner who treats the company unfairly. A company that receives unfair treatment from its partner will be dissatisfied with the partner and will feel that the partner does not want the company to achieve the company's goals, interferes with the company's goals, or threatens to achieve the company's goals. In such a situation, conflict will inevitably be increased by emotional action above all. Conversely, if the degree of unfairness is low, conflict will decrease. In other words, unfairness can be seen to have a positive impact on conflict. Therefore, based on the discussion so far, we would like to set the following hypothesis.

H4: *The greater the degree of unfairness that a company recognizes from its partner is, the greater the conflict with the partner who treat the company unfairly is.*

1.3 Dependence, Conflict, and Organizational Performance

Organizational performance is one of the most important constructs in management research (Richard et al. 2009). According to Richard et al. (2009), Organizational performance is the ultimate dependent variable of interest for researchers concerned with just about any area of management. Market competition for customers, inputs, and capital make organizational performance essential to the survival and success of the modern business. So far, this construct has acquired a central role as the deemed goal of modern industrial activity. Also, organizational performance has qualitative and quantitative properties and it can be measured by various variables such as psychological (subjective) or financial (objective) factors. Therefore, this study employs trust and sales to measure qualitative and quantitative organizational performance, respectively. Trust and sales are the most representative concepts that best represent organizational performance.

Trust is the belief that a partner's words are trustworthy and the partner will keep its promise (Rotter 1967; Schurr and Ozanne 1985). Trust is an important concept in building and developing a relationship and can be defined as a belief that a partner will not unexpectedly do things which can lead to negative consequences but will try to produce positive outcomes (Anderson and Narus 1990; Dwyer, Schurr, and Oh 1987; Moorman, Deshpandé, and Zaltman 1993). Generally, when a company trusts its partner, the company tends to think that the partner is consistent, competent, honest, fair, responsible, helpful, and compassionate (Morgan and Hunt 1994). Trust, therefore, plays a role in helping to make the partners believe that its opponent is honest and committed to common interests (Kumar, Scheer, and Steenkamp 1995) and to make the partners project their relationship in the future (Doney and Cannon 1997). As discussed above, trust is a concept that represents well the quality of an organization. In addition, sales is one of the most important concepts to understand the quantitative performance of an organization. And sales is the beginning and root of all other financial performances. Therefore, this study employs trust and sales as concepts to grasp the qualitative and quantitative performance of an organization, respectively.

Also, this study focuses on dependence and conflict extracted from studies on relationship paradigm to explain organizational performance. In relationship paradigm, dependence is the greatest factor to maintain and develop relationships, and conflict is the greatest factor to exacerbate and destroy relationships. Thus, we focus on the effects of dependence and conflict on the relationship, and examine how dependence and conflict explain organizational performance.

Above all, let us discuss the relationship between dependence and conflict. According to Emerson (1962), Dependence is defined as the extent to which a company recognizes how valuable resources its partner provides to the company (Yang et al. 2012). That is, as more valuable resources are provided by a partner, the company becomes more dependent on the partner (Morgan and Hunt 1994). The more a company relies on a partner, the greater the power of the partner has on the company becomes. There is an old saying that a person who loves more is weaker. In the same logic, the more dependent a company is on its partner, the weaker the company is. As we discussed in Hypothesis 1 and Hypothesis 2, dependence is affected by termination cost and alternative attractiveness, so naturally and inevitably, 'a company is dependent on its partner' means that termination cost is high and alternative attractiveness is low. If a current partner provides unique resources or values that can't be provided by another partner, the company will have to rely on the current partner. This is because there are few other alternatives to terminate the relationship with the partner. Thus, a dependent company shows a tendency to maintain the relationship (Anderson and Narus 1990). Also, disagreements or conflicts of opinions always exist in relational exchanges (Dwyer, Schurr, and Oh 1987). When considering the characteristics of dependence and conflict, it is very likely that dependence will affect conflict negatively. This is because, if the degree of dependence on its partner is high, the company recognizes that the conflicts with the partner are inevitable conflicts that necessarily accompany the implementation of the business. In other words, the possibility of seeing the conflicts as functional increases. If the degree of dependence is high, then it is difficult for a company to secure the benefits of a current partnership from another partner if the relationship with the current partner deteriorates or terminates.

And because of the enormous investment in transaction-specific assets for the relationship with the current partner, the company can't but consider the damage that would be incurred if the conflict with the current partner is increased or the relationship is terminated. For this reason, the greater the degree of dependence on its partner, the less likely it is that the conflict in the relationship with the partner will be less perceived and evaluated in a more positive manner. In addition, even in situations where conflicts may arise, high dependence will act in a direction to endure and persevere rather than expose or explode conflicts. For example, when placed in a situation of experiencing conflict, if the degree of dependence on its partner is low, the company will directly protest or bluntly criticize the partner, but if the degree of dependence is high, the company has motivation to endure, to persevere, and to look far. Therefore, in this study, we set the following hypothesis according to the above discussion.

H5: The higher a company is dependent on its partner, the lower conflict with the partner the company perceives.

Next, let's discuss how dependence affects organizational performance. Dependence is defined as the extent to which a company perceives when a partner provides resources or values that any other partners can't provide (Emerson 1962; Yang et al. 2012). So if a current partner provides resources or values that any other partners can't provide, the company has no choice but to be dependent on the partner. Because, if the company end the relationship, there are few alternatives that can provide the company with the benefits the company can get from the relationship with the partner. Also, as a result of many researches on relationship dissolution, it has been shown that the greater the degree of dependence on its partner is, the less intention to dissolve the relationship with the partner is. The high degree of dependence means that the current partner is important and that the benefits of the current relationship are significant, and consequently that the current relationship is very important. For example, if the level of dependence is sufficiently high, when the relationship is broken with the current partner, it will be very difficult for the company to search, build, and develop new relationship with new partner to replace the current partner. And, if the level of dependence is sufficiently low, when the relationship is broken with the current partner, it will be relatively easy for the company to search, build, and develop new relationship with new partner to replace the current partner. In other words, the degree of dependence on its partner determines how important the current relationship should be to the company, and the importance of the relationship to the company determines how much effort the company should make for the current relationship. Therefore, a dependent company tends to show the signal of dependence and wants to maintain and develop the relationship with its precious partner by investing in transaction-specific assets for the relationship (Anderson and Narus 1990). These invested transaction-specific assets improve the performance of the relationship by acting effectively or efficiently for the relationship and, as a result, the performance of the relationship improves organizational performance qualitatively and quantitatively. A company that is dependent on its partner will make a variety of efforts to develop and maintain the relationship, in addition to investing in transaction-specific assets. As a result, through these various efforts, organizational performance will naturally increase. We mentioned earlier that organizational performance will be measured by trust and sales in this study. Thus, to see more specifically whether dependence increases organizational performance, we need to see whether dependence increases trust and sales. Based on the discussion so far, we anticipate that dependence will have a positive impact on organizational performance qualitatively and quantitatively. Therefore, we set the hypotheses as follows.

H6: The higher a company's dependence on its partner is, the higher the company's trust in the partner is.

H7: The higher a company's dependence on its partner is, the higher the company's sales is.

Discrepancy of opinions or conflict always exists in relational exchanges (Dwyer, Schurr, and Oh 1987). Conflict can be defined as the degree of tension that is perceived between partners who maintain the relationship, which can be caused by a variety of causes such as changes in price, intensification of competition, or changes in circumstance. It may happen in the violation of relationship rules or transaction procedures. If conflict is not adequately resolved or controlled, and the level is higher, the relationship becomes worse and the possibility of dissolution becomes higher (Morgan and Hunt 1994). Because changes in price, intensification of competition, or changes in environment make the participants in the relationship negotiate on conditions favorable to self-interests. In this process, conflict can be amplified and leads to confrontation rather than concession. For this reason, if conflict is not resolved swiftly and adequately, there may be situations in which it is inevitable to terminate the existing relationship and seek new partner. Furthermore, if conflict arises due to partner's violation of the partnership rules or transaction procedures, it is very difficult for them to agree on each other, and if appropriate compensation or apology for the damage is not achieved, the party angry with the damage immediately will seek new partner. As such, the higher the conflict is, the worse the quality of the relationship is (Anderson and Narus 1990; Dwyer, Schurr, and Oh 1987; Kang and Jindal 2015; Morgan and Hunt 1994). In recent years, as the price of products has changed rapidly and sales channels have been diversified, competition is becoming more and more intense. Therefore, conflict between business partners are increasing. If conflict with the current partner increases, a company will endure to a certain extent, but as the degree increases, the company will terminate the current relationship with the partner, will discover the better partner, and will carry out business activity under better conditions. Accordingly, the desire to establish and develop new relationship with better partner will grow. Even though conflict has a functional aspect, the higher the level, the more likely it is not only to interfere with normal business activities, but can also be a major cause of the relationship dissolution. Conversely, if the degree of conflict is low, the intention to terminate the relationship will decrease. Considering this effect of conflict on the relationship, a company in conflict with its partner can't implement its business effectively or efficiently. As a company's conflict with its partner grows, it becomes more and more difficult for the company to communicate with the partner, to experience unnecessary tension and wasting of spirit energy, and to become passive in cooperation with the partner. As a result, the synergy effect necessary for organizational performance can't be obtained. Thus, conflict can be expected to have a negative impact on organizational performance. We mentioned earlier that organizational performance will be measured by trust and sales in this study. Thus, to see more specifically whether conflict decreases organizational performance, we need to see whether conflict decreases trust and sales. Based on the discussion above, we anticipate that conflict will have a negative impact on organizational performance qualitatively and quantitatively. Therefore, we set the hypotheses as follows.

H8: The higher a company's conflict with its partner is, the lower the company's trust in the partner is.

H9: The higher a company's conflict with its partner is, the lower the company's sales is.

1.4 Control Variables

In this study, though we don't set hypotheses in our model in relation to the period of business, the number of goods, competition density, and the number of employees, these variables have a very big possibility to affect organizational performance, the final dependent variable in our model. Therefore, we set these four variables as control variables in our model.

Ⅱ. Methods

2.1 Measures

The appendix provides a complete list of measurement items used in this study. Except for sales and four control variables (period of business, number of goods, competition density, and number of employees) measured in a single item, all of the variables used in this study were measured with five-point Likert type scale multiple items adapted from prior studies. In five-point Likert type scale, 1 means 'strongly disagree', 2 means 'disagree', 3 means 'neutral', 4 means 'agree', and 5 means 'strongly agree'. Prior to conducting survey, to ensure content and face validity of the measurement items, we conducted in-depth interviews with ten practitioners randomly selected from the industry. We revised a few items according to their comments to the questionnaire items for the relevance and clarity of the items.

To measure dependence, we used four items modified and adapted from Jap and Ganesan (2000). To measure termination cost, we used five items modified and adapted from Morgan and Hunt (1994). To measure alternative attractiveness, we used four items modified and adapted from Ping (1993). To measure conflict, we used ten items modified and adapted from Gaski and Nevin (1985). To measure goal incongruity, we used three items modified and adapted from Song, Xie, and Dyer (2000). To measure unfairness, we used three items modified and adapted from Kang and Oh (2009). Finally, to measure trust, we used nine items modified and adapted from Dwyer and Oh (1987).

Period of business was measured by how long each distributor deals with its focal manufacturer. Number of goods was measured by the number of the focal manufacturer's product types which each distributor deals with, competition density was measured by the number of distributor's competitors, number of employees was measured by the number of each distributor's employees, and sales was measured by how much each distributor sells in month.

2.2 Data Collection

Manufacturers and distributors form partnerships. To test the hypotheses in our model, in the context of manufacturer and distributor partnership, we collected survey data from 360 distributors in processed food industry. Recently, in business-to-business environment, all variables in our model including dependence and conflict have been rapidly changing. Different from the discrete relationship of business-to-consumer context, business-to-business relationships basically assume relational exchanges (Heide and John 1988). Accordingly, business-to-business context is the most suitable and appropriate to test the hypotheses suggested in this study. For the purpose of collecting survey data, we selected distributors rather than manufacturers as key informants because in terms of number, distributors are more than manufacturers in the industry, thus, data collection is easier from distributors than from manufacturers. We randomly selected 360 distributors out of the list of processed food industry. We visited 360 distributors and received questionnaire responses through one-on-one interviews. All the 360 distributors completed their questionnaires, and there was no missing values in their responses. Accordingly, we analyzed the final 360 questionnaires to test the hypotheses in our model.

Prior to test the hypotheses, we tested the difference between the responses from early versus late respondents on demographic variables (i.e., period of business, number of goods, competition density, number of employees, and sales). As a result, there was no significant difference, suggesting that nonresponse bias is not a problem in our data (Armstrong and Overton 1977). The final sample consisted of 360 distributors and the basic statistics (means, standard deviations, and correlations) of the constructs used in this research are presented in Table 1 as follows: dependence (M = 2.99, SD = 0.79), trust (M = 2.95, SD = 0.69), termination cost (M = 3.50, 0.66), alternative attractiveness (M = 2.91, SD = 0.67), conflict (M = 2.75, SD = 0.66), goal incongruity (M = 2.69, SD = 0.89), unfairness (M = 2.65, SD = 0.83), period of business (M = 88.35 months, SD = 76.11), number of goods (M = 53.93 items, SD = 22.54), competition density (M =

〈Table 1〉 Means, Standard Deviations, and Correlations for the Constructs

	M	SD	1	2	3	4	5	6	7	8	9	10	11	12
1. Dependence	2.99	.79	1.00											
2. Trust	2.95	.69	.54	1.00										
3. Termination Cost	3.50	.66	.37	.40	1.00									
4. Alternative Attractiveness	2.91	.67	-.41	-.34	-.18	1.00								
5. Conflict	2.75	.66	-.39	-.67	-.24	.51	1.00							
6. Goal Incongruity	2.69	.89	-.31	-.46	-.27	.28	.58	1.00						
7. Unfairness	2.65	.83	-.27	-.55	-.29	.38	.67	.53	1.00					
8. Period of Business	88.35	76.11	.01	-.03	.00	.01	.06	.07	.08	1.00				
9. Number of Goods	53.93	22.54	.05	.08	.06	-.06	-.07	-.07	-.02	.03	1.00			
10. Competition Density	4.45	12.05	-.13	-.07	-.11	.09	.07	.07	.10	-.05	-.02	1.00		
11. Sales	60417.22	5581.80	-.11	-.07	-.12	.14	.05	.09	.05	.14	.01	-.02	1.00	
12. Number of Employees	10.13	6.59	-.08	-.05	.00	.03	.05	-.01	.02	.22	.14	-.07	.14	1.00

Notes: n = 360. Correlations greater than .137 are significant at $p < .01$; Correlations greater than .107 are significant at $p < .05$ (two-tailed).

4.45 competitors, SD = 12.05), sales (M = 60,417.22 US dollars / month, SD = 5581.80), and number of employees (M = 10.13, SD = 6.59).

Ⅲ. Results

3.1 Analysis of Reliability and Validity

In the purification process of measurement items, because of low factor loading, we deleted one item which is the first item of dependence. Next, we ran a confirmatory factor analysis (CFA) with SmartPLS (http://forum.smartpls.com). SmartPLS has the advantage of calculating and providing the values of CR and AVE with the disadvantage of not providing overall fit indexes of the measurement model. We used this program to run a CFA because the overall fit indexes of the measurement model is not a major concern. However, the overall fit indexes of the structural model is very important to interpret the model, thus, we ran Lisrel 8.70 to estimate the structural model.

All the values of composite reliability (CR), average variance extracted (AVE), and factor loadings are presented in Appendix. All the values of CR are higher than .70 (Nunnally 1978), all the factor loadings of indicators on each relevant respective latent construct are statistically significant ($p < .01$), and all the values of AVE are higher than .50 (Anderson and Gerbing 1988; Bagozzi 1980; Fornell and Larcker 1981). These results provide good evidence that all constructs used in this study have acceptable reliability and convergent validity. Also, all the values of squared correlation between two latent constructs were lower than AVE of each construct, which supports discriminant validity (Fornell and Larcker 1981). As mentioned before, we let ten practitioners in the industry examine our measurement items in the questionnaire prior to conducting survey. This process provides face validity and content validity to us. Accordingly, our data has reliability and validity. And, we checked common method bias with *Harman's one-factor test*. According to Podsakoff, Mackenzie, Lee, and Podsakoff (2003), one of the most widely used techniques that has been used by researchers to address the issue of common method variance is what has come to be called Harman's one-factor (or single-factor) test. As a result of one-factor test, one single factor didn't account for the majority of the covariance in this study, which means common method bias is not a major concern. Next, we will discuss the results of testing our hypotheses.

3.2 Testing Hypotheses

In order to verify the nine hypotheses presented in this study, we analyzed the structural equation model using LISREL 8.70. The results are shown in Table 2. First, as shown in Table 2, the overall fit of the structural model shows good overall fit: Chi-square = 100.80 (p = .00, d.f. = 21), Root Mean square Residual (RMR) = .04, Goodness of Fit Index (GFI) = .96, Comparative Fit Index (CFI) = .95, Incremental Fit Index (IFI) = .95, Normed Fit Index (NFI) = .93. These results show that the model of this study is well organized. Therefore, it is meaningful to verify the hypotheses, so the results of the hypotheses are as follows.

As a result of verifying the hypotheses using the structural equation model, seven of the nine hypotheses were supported. Unfortunately, two hypotheses were rejected unexpectedly. Specifically, the results are as follows. Termination cost increased dependence, thus, hypothesis 1

〈Table 2〉 Results of Testing Hypotheses

Hypothesized Path	Hypothesis	Hypothesized Model		
		Estimate	t-Value	Supported
Termination Cost → Dependence	H1	.31**	6.55	Yes
Alternative Attractiveness → Dependence	H2	-.35**	7.60	Yes
Goal Incongruity → Conflict	H3	.27**	6.40	Yes
Unfairness → Conflict	H4	.48**	11.16	Yes
Dependence → Conflict	H5	-.18**	4.78	Yes
Dependence → Trust	H6	.33**	8.57	Yes
Dependence → Sales	H7	-.11*	1.91	No
Conflict → Trust	H8	-.54**	13.88	Yes
Conflict → Sales	H9	.00	.05	No
Control Variables				
Period of Business → Trust		.00	.03	
Number of Goods → Trust		.03	.71	
Competition Density → Trust		.01	.31	
Number of Employees → Trust		.00	.02	
Period of Business → Sales		.12*	2.18	
Number of Goods → Sales		.00	.07	
Competition Density → Sales		-.02	.39	
Number of Employees → Sales		.10*	1.94	
Model Fit Statistics		X^2 = 100.80 (p = .00, d.f. = 21), RMR = .04, GFI = .96, CFI = .95, IFI = .95, NFI = .93		

*p 〈 .05 (one-tailed)
**p 〈 .01 (one-tailed)
Notes: GFI = goodness-of-fit index, CFI = comparative fit index, IFI = incremental fit index, NFI = normed fit index, RMR = root mean square residual. n = 360.

was statistically supported (γ = .31, t = 6.55, $p < .01$). Alternative attractiveness decreased dependence, thus, hypothesis 2 was statistically supported (γ = -.35, t = 7.60, $p < .01$). Goal incongruity increased conflict, thus, hypothesis 3 was statistically supported (γ = .27, t = 6.40, $p < .01$). Unfairness increased conflict, thus, hypothesis 4 was statistically supported (γ = .48, t = 11.16, $p < .01$). Dependence decreased conflict, thus, hypothesis 5 was statistically supported (β = -.18, t = 4.78, $p < .01$). Dependence increased trust, thus, hypothesis 6 was statistically supported (β = .33, t = 8.57, $p < .01$). Unlike the expectation that dependence would have a positive impact on sales, dependence had a negative impact on sales, which was statistically significant (β = -.11, t = 1.91, $p < .05$). Therefore, hypothesis 7 was rejected unfortunately. We will discuss this at the conclusion in details. Conflict decreased trust, thus, hypothesis 8 was statistically supported (β = -.54, t = 13.88, $p < .01$). Finally, conflict had no impact on sales, thus, hypothesis 9 was rejected unfortunately (β = .00, t = .05). We will discuss this in more detail at the conclusion. As mentioned above, seven of the nine hypotheses were supported, and two hypotheses were rejected unfortunately. Overall, this study has largely accomplished the intended research purposes. Even though the two hypotheses were unfortunately rejected, this also gives us a lot of lessons and insights. We will discuss these at the conclusion, too.

Ⅳ. Conclusions

This study focuses on dependence and conflict based on the various existing studies in the relationship paradigm in order to find the fundamental motives that can explain the organization's performance. More specifically, the proposed model of this study sets up termination cost and alternative attractiveness as the antecedents of dependence, goal incongruity and unfairness as the antecedents of conflict, and investigates how dependence and conflict affect organizational performance, qualitatively trust and quantitatively sales, under control variables of period of business, number of goods, competition density, and number of employees.

In order to verify the total nine hypotheses set up in this study, we conducted a survey on the perspective of distributors in partnerships between manufacturers and distributors. From the results of a structural equation modeling using 360 valid questionnaires, 7 hypotheses were supported and 2 hypotheses (H7 and H9) were rejected. As for the supported 7 hypotheses, we don't need to discuss the results further since we discussed them enough at the setting stage of the hypotheses. However, as for the rejected 2 hypotheses, we need to discuss the results further in more detail since the results are different from what we expected at the setting stage of the hypotheses.

Unlike what we expected in H7, dependence was found to reduce sales significantly. We expected dependence to increase sales, but the result was diametrically opposite. This result makes us embarrassed and excited simultaneously. This result makes it possible to define the relationship between dependence and sales that we have not thought until now. Of course, at this point in time, we can't conclude that our explanations of this result are truth. But, very carefully, we try to explain this result with our own logic. First, the possible reason for the result is that as dependence on a partner increases, by focusing on the relationship with the partner, as a result, the other relationships with the other partners become neglected. In other words, concentration blocks the possibility of generating various kinds of partnerships which can lead to more sales. Second, the possible reason for the result is that if a company is dependent on its partner, which means that the company is weak in power (Emerson 1962). Therefore, the company's overall capabilities are inferior and consequently the company's sales will be inevitably low. Third, if a company tends to rely on its partner, the company will not be able to actively engage in the business and will be forced to do business in a passive way to see its partner. This passivity may lead to low sales. These three explanations are possible reasons why we can think of hypothesis 7 rejected. Of course, other possibilities are open.

Next, let us discuss the reasons why hypothesis 9 was rejected. In hypothesis 9, conflict was expected to reduce sales, but unlike our expectation, conflict did not have any effect on sales. This result is very embarrassing but also very interesting. In common sense, if there is conflict in a relationship, the relationship can't be operated efficiently and effectively. Therefore, it is reasonable that the sales, which means the performance of the relationship, decrease. But why was the result of H9 that conflict does not affect sales? What are the points we are missing? When we live in this world, sometimes we come across facts opposite to what we know. We are frustrated at this time, but on the other hand, it is also a good opportunity for us to reach deeper truths. Possible explanations we can make about this result are as follows. Of course, there may be different approaches because these explanations are guessed from our knowledge and the power of reason that we know at this point. First, what we can think of is *threshold theory* (Granovetter 1978), which means that if there is any stimulus, it does not react unless the threshold is exceeded, and only when it exceeds the threshold. And thresholds vary over time in strength. Accordingly, considering based on this theory, conflict is a psychological property, and it does not appear directly on the surface even if conflict exists. That is, conflict does not become visible until it reaches the threshold, and therefore it does not affect anything. Second, what we can think of is the company's patience to continue its business with its partner. As long as a company continues to work with its partner, it can't help but bear with difficulties such as conflict. Therefore, it can be considered that the influence of perseverance offsets the influence of conflict reducing sales. Third, Even in the presence of conflict, there may be other variables that can suppress the negative impact of conflict on sales, such as good memories of the past or hope for the future improvement. As mentioned before, the explanations of the results of hypothesis 7 and hypothesis 9 are only our speculations. We expect other outstanding scholars to explore the truth about these results in the near future.

4.1 Theoretical Contributions and Managerial Implications

The theoretical contributions and managerial implications of this research are as follows. First, this research presents a fundamental accelerator that influences organizational performance in the partnership by using dependence from the relationship paradigm. Although many studies have examined the effects of various variables on organizational performance, no studies have examined how dependence affects organizational performance. This study is the first attempt to improve organizational performance by identifying dependence as a driving force to maintain and develop the partnership. Dependence improves trust, qualitative organizational performance, but decreases sales, quantitative organizational performance. Thus, our attempt to explain organizational performance with dependence seems to have been half the success. According to these results, we can derive a managerial implication that practitioners can improve their qualitative organizational performance by strengthening their dependence on partners. As discussed above, it is not appropriate to provide a managerial implication of dependence for quantitative organizational performance.

Second, this research presents a fundamental brake that influences organizational performance in the partnership by using conflict from the relationship paradigm. Although many studies have examined the effects of various variables on organizational performance, no studies have examined how conflict affects organizational performance. This study is the first attempt to improve organizational performance by identifying conflict as a braking force to maintain and develop the partnership. Conflict decreases trust, qualitative organizational performance, but has no impact of sales, quantitative organizational performance. Thus, our attempt to explain organizational performance with conflict seems to have been half the success. According to these results, we can derive a managerial implication that practitioners can improve their qualitative organizational performance by weakening their conflict with partners. As discussed above, it is not appropriate to provide a managerial implication of conflict for quantitative organizational performance.

Third, this research examines the effect of dependence on conflict in the partnership. This paper is the first study to examine how dependence affects conflict in partnership. Dependence decreases conflict. According to this result, we can derive a managerial implication that practitioners can decrease their conflict by strengthening their dependence on partners.

Fourth, this study presents termination cost and alternative attractiveness as the antecedents of dependence in the partnership. This paper is the first study to examine how termination cost and alternative attractiveness affect dependence in partnership. Termination cost increases dependence and alternative attractiveness decreases dependence. A managerial implication of how to increase dependence that improves qualitative organizational performance is to increase termination cost and reduce alternative attractiveness. To increase termination cost, invest a lot of transaction-specific assets and distribute as much profit as possible to the partner. To reduce alternative attractiveness, a company should be a valuable trading partner itself. In other words, it must be able to deliver higher performance than competitors, or offer unique products that competitors do not have.

Fifth, this study presents goal incongruity and unfairness as the antecedents of conflict in the partnership. This paper is the first study to examine how goal incongruity and unfairness affect conflict in partnership. Goal incongruity and unfairness increase conflict. A managerial implication of how to decrease conflict that decreases qualitative organizational performance is to reduce goal incongruity and unfairness. It is important to meet with your partner frequently and communicate freely, understand your partner, and make a concession to reduce goal incongruity. To reduce unfairness, it is important to respect your partner, try to understand your partner's position, and distribute the performance as much as the contribution of your partner.

4.2 Limitations and Future Research Directions

This study has some limitations, which give us some bright avenues for the future research directions. First, this study failed to prove that dependence increased sales. Dependence rather reduced sales. We have presented three plausible explanations for this result. Therefore, further research is needed on what is true. Second, this study failed to prove that the conflict reduced sales. Conflict did not affect sales. We have presented three plausible explanations for this result. Therefore, further research is needed on what is true. Third, this study regards dependence as important, but there is also a different view that inter-dependence (Zhou, Zhuang and Yip 2007) is more important than dependence. Further research on what perspective is more appropriate will be needed. Finally, In addition to dependence and conflict discussed in this study, there will be various unexplained variables that affect organizational performance, such as power and influence strategies, ethicality, and so on. Therefore, further studies will be needed to find various variables that explain organizational performance well.

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〈Appendix〉 Measurement Items

Dependence (CR = .83 , AVE = .63)
1. We can achieve our goal thanks to the company (D).
2. The company is essential to us in doing our business (.86).
3. We depend on the company (.58).
4. We don't have any good partners to replace the company (.90).

Termination Cost (CR = .84 , AVE = .51)
1. We are afraid of relationship termination with the company (.68).
2. It is difficult for us to terminate relationship with the company (.63).
3. If we terminate relationship with the company, our business will be at risk (.86).
4. If we terminate relationship with the company, we will lose too much (.79).
5. It will cost us too much to terminate relationship with the company (.57).

Alternative Attractiveness (CR = .79 , AVE = .50)
1. The alternatives of the company are more attractive than the company (.52).
2. Dealing with the alternatives of the company is more profitable than dealing with the company (.62).
3. We can easily search good alternatives of the company (.80).
4. We have attractive alternatives of the company (.83).

Conflict (CR = .92 , AVE = .55)
1. We are not satisfied in dealing with the company (.50).
2. We dislike the company (.71).
3. The company reduces our profits (.81).
4. The company makes our business difficult (.82).
5. The company doesn't treat us properly (.77).
6. The company sometimes doesn't allow us to do what we want (.70).
7. The company doesn't help our business (.83).
8. The company doesn't care what we concern (.73).
9. The company's policy makes our business difficult (.85).
10. It is not profitable for us to do our business with the company (.65).

Goal Incongruity (CR = .92 , AVE = .79)
1. Our short-term goal is different from that of the company (.88).
2. Our long-term goal is different from that of the company (.88).
3. Our values are different from those of the company (.91).

Unfairness (CR = .93 , AVE = .81)
1. The company treats us unfairly (.91).
2. The company is sometimes unfair to us (.93).
3. The company sometimes discriminates against us and other distributors (.85).

Trust (CR = .91 , AVE = .53)
1. We always trust the company (.73).
2. We want close relationship with the company (.61).
3. We accept the company's recommendations well (.74).
4. We accept the company's advices well (.63).
5. We work in equal relationship with the company (.77).
6. We will keep close relationship with the company (.76).
7. The company is consistent in doing business (.74).
8. We fully agree with the company's policy (.77).
9. The company is sincere in doing business (.79).

Sales (single item)
Our monthly sales amounts to __________ (US dollars).

Period of Business (single item)
We have been dealing with the company for __________ (months).

Number of Goods (single item)
The number of the company's product types we handle amounts to __________.

Competition Density (single item)
We have __________ competitors.

Number of Employees (single item)
We have __________ employees.

Notes: CR = composite reliability, AVE = average variance extracted. Each item's factor loading is in parenthesis.
D = item deleted because of low factor loading. All factor loadings are significant at $p < .01$.