

SOCIAL EXCHANGE THEORY (SET) AS A FRAMEWORK FOR UNDERSTANDING RETAILER- SUPPLIER RELATIONSHIP QUALITY

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ABSTRACT

This paper proposes the applicability and justifications for using social exchange theory (SET) as the underlying theory for explaining relationship quality in the retail industry. The study opens up new horizons in expanding the readers and future researchers in developing research frameworks with the underlying premises offered by Social Exchange Theory (SET). This paper also contributes to the literature by introducing a new theoretical foundation for measuring the extent of the relationship quality between retailers and their suppliers. This theory can be used by any participant (member) in a retail industry to identify the level of collaboration between the B2B partners and seek further improvement.

Keywords: *Retailers, suppliers and relationship quality*

Introduction

In the retail industry there have been applications of several theories in explaining the relationships between the B2B partners. Smith (2008) used commitment-trust theory, Forbes (1972) applied central place theory while Doherty & Quinn (1999) took course to agency theory in explaining B2B relationships in retail industry. The application of social exchange theory has never been that much highlighted in elaborating retail relationships before.

Social exchange theory evolved from Thorndike's (1932, 1935) work on the development of reinforcement theory and Mill's (1923) marginal utility theory. Modern-day influences have been derived from the work

of sociologists such as Homans (1950, 1961), Blau (1964), and Emerson (1972). For the first time, Homans (1974) explained social exchange theory from the perspective of explaining human social behavior.

The model that emerged to explain social exchange theory is comprised of five central elements:

1. *Behavior is predicated upon the notion of rationality:* The more an individual receives a reward, the less valued it becomes, and the individual seeks alternative rewards through other behaviors or from other sources. This scenario can be described by a situation where a retailer keeps on receiving promotional incentives from his/her supplier, while this incentive gets lesser appreciation from the direct consumers in their retail outlets. Under such circumstance the retailer will start to consider other promotional offers from the alternative suppliers as they might hold higher acceptance from the retail customers.

2. *The relationship is based on reciprocation:* Each individual in the relationship will provide benefits to the other so long as the exchange is equitable to the respective parties. This case can be explained through the product discounts offered by the suppliers. Sometimes suppliers offer products, in lieu of price, as discounts. In this case the exchange between the retailers and their suppliers must be perceived as fair by the retailers as he may not welcome this incentive because of his overwhelming inventory or slow moving stocks.

3. *Social exchange is based on a justice principle:* In every exchange, there should be a norm of fairness governing behavior. That is, the exchange must be viewed as fair when compared in the context of a wider network. In a retail situation, if the supplier offers his products or services at different prices to different retailers then his action can be perceived by the retailers as not fair and un-just.

4. *Individuals will seek to maximize their gains and minimize their costs in the exchange relation:* It is important to understand that the notion of costs does not relate exclusively to financial issues; rather, costs can be incurred through the time and energy invested in a relationship. This phenomenon plays a vital role in maintaining long term relationship between the retailers and their suppliers. As years pass both the retailer and his supplier understand each other's financial benefits.

5. *Individuals participate in a relationship out of a sense of mutual benefit rather than coercion:* The retailers and their suppliers take part in building and maintaining an exchange relationship with a view to attain amicable

commercial benefits. Like, in a retailer-supplier relationship the supplier provides products and services to the retailers for re-selling purposes through retailer's outlets. This exchange has always been voluntary and mutually beneficial over the years.

Propositions of Social Exchange Theory (Set)

Homans (1974), through his exchange theory, believed that individual beings and behavior are relevant to understanding society by explaining the social exchange theory based upon the following propositions:

- 1) The success proposition: for all actions taken by a person, the more often a particular action of a person is rewarded, the more likely the person is to perform that action.
- 2) The stimulus proposition: if in the past the occurrences of a particular stimulus, or a set of stimuli, has been the occasion on which a person's action has been rewarded, then the more similar the present stimuli are to the past ones, the more likely the person is to perform the action, or some similar actions.
- 3) The value proposition: the more valuable to a person is the result of his action, the more likely he is to perform the action.
- 4) The deprivation-satiation proposition: the more often in the recent past a person has received a particular award, the less valuable any further unit of that award becomes for him.
- 5) The aggression- approval proposition: when a person's action receives the reward he expected, or does not receive punishment he expected, he will be pleased.
- 6) The rationality proposition: in choosing between alternative actions, a person will choose that one for which, as perceived by him at that time, the value, of the result, multiplied by the probability of getting the result, is the greater.

Application of SET in explaining retailer-supplier Relationship Quality (RQ)

Introduction: According to social exchange theory (SET), firms maintain or exit exchange relationships depending upon expectations about costs and benefits of the relationship, weighted against the expected benefits of alternative relationships (Thibaut and Kelley 1959). Therefore, when a retail company has multiple options, regarding the selection and continuance with the supplier, it will choose the most beneficial relationship while remaining as long as expectations regarding costs and

benefits regarding the current relationship surpass a certain threshold (Wangenheim 2003). Expectations about future costs and benefits are mainly influenced by prior experiences in the relationship and depend on past experience, so satisfying experiences increase the motivation to remain in the relationship (Thibaut and Kelley 1959; Wangenheim 2003).

Objectives of SET: The main objective of social exchange theory is to describe exchanges between partners and the effects of relationship outcomes (Thibaut & Kelley, 1959). It views exchanges between partners being driven by self-interest which are characterized by cooperation and are intended to lead to mutually beneficial economic and non-economic outcomes (Dwyer et al., 1987; Frazier & Rody, 1991; Perrien & Ricard, 1995). These studies argued that this theory explicitly compares the formation and continuity of a relationship with those of a marriage and places the interaction between people and organizations at the core of the relationship. 'Therefore it can be concluded that social exchange theory primarily focuses upon dedication by inter exchanging partners as a determinant of relationship formation and growth.

Nature of SET: Social exchange theory takes a behavioral approach to exchange logic and the order of relationship through the patterning of interdependencies and the resultant consequences (Thibaut & Kelley, 1959). It is based on the premise that human behavior or social interaction is an exchange of activity, tangible and intangible, particularly of rewards and costs (Homans, 1961). The theory views the exchange of benefits as the underlying basis of human behavior, which also acts as the cornerstone in building relationships between retailers and their suppliers in the retail industry. Thus, the social exchange theory examines the processes establishing and sustaining reciprocity in exchange relations. Therefore the basic assumption of social exchange theory justifies retailer's establishment and continuance of social relations on the basis of their expectations that such relations with their suppliers will be mutually advantageous for both the parties. In inter-organizational relationships between a retailer and its suppliers, it is likely that both outcomes/economic and social factors will be pertinent. Social exchange theory provides a theoretical basis for examining these factors. Social exchange theory has been used to investigate a number of inter-organizational alliances such as contracting, vertical integration, joint ventures and licensing agreements (J. C. Anderson & Narus, 1990; Dwyer et al., 1987).

Strengths of SET: SET is used to explain how antecedents contribute to a business-to-business exchange governance structure characterized as relational exchanges, and then look at the outcomes of relational

exchange variables (Lambe, Wittmann and Speckman 2001). Retailer's who receive outcomes that meet or exceed their expectations and are equal to or superior to outcomes available from alternatives are likely to remain in the relationship (Thibaut and Kelly 1959). Lambe, Wittmann and Speckman's (2001) research found that relationship quality has been used in business-to-business research as an operationalisation of the success of the exchange relationship. Satisfaction serves as a measure of a firm's view of the outcomes of the relationship. While it may not capture a partner's estimation of available alternatives, it does provide insight into a relationship's overall performance. As Thibaut and Kelly (1959) stressed a B2B partner may remain in a less rewarding relationship because the social, emotional, or switching costs associated with moving to the better alternatives are too high. Social exchange theory assumes self-interested actors who transact with other self-interested actors to accomplish individual goals that they cannot achieve alone (Lawler and Thye 1999). The "satisfactory-ness" of the rewards that a retailer or one party gains from an exchange relationship with its suppliers is judged relative to some standards, which may vary from party to party. One may place more emphasis on economic rewards while another is concerned with trust in the trading partner (Lambe, Wittmann and Speckman 2001).

Relationships: The basic foundation of social exchange theory encompasses the multi party relationships stating that two parties must provide each other a valued resource and that both must view the exchange as equitable (Blau, 1964; Lawler & Thye, 1999). Parties then continue relations because the nature of their exchange remains more attractive than other viable alternatives (Blau, 1964). SET also says that inter firm relationship process begins when one party voluntarily provides a favor to another, thus invoking an obligation for the other party to reciprocate. Then, relationships strengthen as parties establish a shared system of norms and beliefs that make the relationship the more desirable option (Nooteboom, 1996). In order to maintain this relationship, however, this theory contends that it is sometimes necessary for one party to make adaptations to the other. Therefore, one party must be willing to modify certain practices or change specific behaviors to match the other party's needs or desires (Johanson et al., 1991). The same scenario can be observed in the retail industry as retailers as well as their suppliers tend to adapt their business practices to suit each other's needs.

Conclusions and future study: Based upon these discussions, among all the theories applied in explaining the B2B relationships in the retail sector, SET can be used as an effective tool in explaining the relationships between the retailers and their suppliers. For the future researchers this premise can play a pivotal role in determining the depth and content

of SET as a behavioral framework for understanding relationships in the retail industry. The authors would like to recommend to future researchers the exploration and validation of the fundamentals of social exchange theory in other relationships in the retail industry.

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