Research Note:
Interorganizational Relationships and Dissolution: A Multi-Level Perspective

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In this research note, I propose that relationship-specific investments reduce the likelihood of relationship dissolution. These types of investments increase switching costs and thereby create barriers to exiting. Additionally, high levels of relationship-specific investments enhance partners’ ability and willingness to resort to voice when defections and conflicts arise, and hence postpone exit. Moreover, partner-specific investments may emerge as a consequence of individual- or organizational level ties. Furthermore, we argue that organizational dimensions, such as centralization, formalization, size and levels of inclusiveness and inter-organizational dimension, such as history moderate the effect of interpersonal and inter-organizational ties upon relationship dissolution.

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Introduction

The purpose of the current research is to investigate factors reducing the dissolution of business relationships in a buyer-seller marketing context. Until recently, research within the inter-organizational field has focused on the formation and maintenance of business relationships. Scant attention has been directed towards the study of the dissolution of inter-organizational relationships, either theoretically or empirically (Ping, 1999, Halinen and Tähtinen, 1999, Prim-Allaz, 2000).

However, building a business-to-business relationship is assumed to be quite complex, time-consuming and therefore costly. Relationship-specific investments, such as development of common business practices, and investments in physical and human capital represent significant switching costs, with regard to search and adaptation costs. Because the termination of business relationships entails considerable costs and renders relationship-specific investments obsolete, it is important to investigate the factors leading to dissolution (Ping, 1999, Halinen and Tähtinen, 1999).

In order to investigate business relationship dissolution, I argue in favor of a multi-level perspective. In studies investigating business relationships and more specifically business relationship dissolution, multi-level issues are commonly neglected. The common practice is the non-specification of levels and the mix of levels (Rousseau, 1985, Macintosh and Lockshin, 1997, Zaheer, McEvily, and Perrone, 1998). Business relationships are, however, a multi-level phenomenon, comprising a number of individuals who have different functions in multiple departments and organizational levels both inside and across organizations. Consequently, factors at different levels of analysis, such as interpersonal, organizational and inter-organizational factors are assumed to
have an effect on the termination of relationships.

Boundary spanners that are organizational members are, for instance, assumed to be affected by company factors such as organizational norms and procedures (Grønhaug, Hennesand and Koveland, 1999, Blois, 1999, Humphrey and Ashforth, 2000). To a large extent, scholars dealing with inter-organizational issues have left behind the rich stream of organization theory, which demonstrates that organizations influence organizational member’s behavior (Berger and Cummings, 1979, Humphrey and Ashforth, 2000). The firm’s context could therefore favor or constrain the development of interpersonal ties in business relationships and as a result, the potential effect of those ties on inter-organizational outcome.

In this study, relationship-specific investments are assumed to attenuate the likelihood of relationship dissolution, since these types of investments increase switching costs and hence produce ‘immobility’ with respect to exiting (Williamson, 1979, Anderson and Weitz, 1989). In addition, high levels of specific investments are expected to increase partners’ ability and willingness to resort to voice when defections and conflicts arise (Hirschman, 1970). In harmony with my multi-level argument, I specify that relationship-specific investments can be made at both the inter-organizational and at the interpersonal level. In order to illustrate my multi-level view, a figure showing relationships at multiple levels in business-to-business exchange is presented below.

This subject is developed further in following sections. First, I discuss relationship-specific investments and their potential effect upon the likelihood of business relationship dissolution. Second, I specify relationship-specific investments at inter-organizational and interpersonal levels. Third, I present organizational and inter-organizational dimensions that are assumed to moderate the effect of relationship-specific investments on dissolution. Finally, I address some methodological implications.

**Relationship-specific Investments and Effects on Dissolution**

Relationship-specific investments are assumed to enhance continuity and thereby reduce the likelihood of business relationship termination (Dwyer, Schurr and Oh, 1987, Anderson and Weitz, 1992). With respect to investments made in a relationship, there is a difference between specific assets that are specialized, and therefore cannot be used outside a given relationship without a loss in value, and assets that are unspecialized (Williamson, 1975, 1979, 1991). Even if the establishment and maintenance of exchange relationships demands both types of investments, only the specialized ones build attachment. Because general investments retain their value in another relationship, they do not bind exchange partners. Idiosyncratic investments, however, lose value upon transfer to another exchange partner. Because of the associated costs related to marketing or acquiring such investments, exchange partners become locked into existing relationships.

Pledging in the form of making idiosyncratic investments in the other party is associated with stronger commitment to the relationship (Anderson and Weitz, 1992). As the experi-
ence with the vendor increases, the dyad has more likely survived several crises in the relationship (Dwyer, Schurr, and Oh, 1987). Such events provide both parties with a greater understanding of each other’s idiosyncrasies, increase trust and hence reduce the likelihood of dissolution. Thus, relationship-specific investments may build trust and social norms, which are important governing mechanisms to maintain exchange activities.

Interpersonal ties, such as trust between boundary spanners can be considered a ‘relationship-specific asset’ since trust facilitates communication and reduces the need to monitor (Curtall and Judge, 1995). Affective bonds between boundary spanners may heighten switching costs and thereby weaken the actor’s liability to switch (Nicholson, Compeau and Sethi, 2000). Different forms of interpersonal attachment, e.g. liking, expertise and trust (Seabright, Levinthal and Fichman, 1992, Doney and Cannon, 1997) are assumed to enhance both perceived and real switching costs and thereby attenuate the likelihood of relationship dissolution. Breaking long-term interpersonal relationships within a business relationship thus involves mental, emotional and monetary costs.

Relationship-specific investments that partners make at both individual and organizational levels increase switching costs and hence produce ‘immobility’ with respect to exiting. Additionally, high levels of relationship-specific investments are assumed to increase the partner’s ability and willingness to resort to voice when defections and conflicts arise.

**Relationship-Specific Investments at Two Levels**

In agreement with my multi-level view, relationship-specific investments can be made at inter-organizational and interpersonal levels. Further, I claim that these can be analytically distinguished, although, I recognize specific investments at both levels are related. In organizations, there is mutual feedback linking macro phenomena and micro phenomena (Giddens, 1979, Rousseau, 1985, Coleman, 1990). For example structures, such as specific inter-organizational norms, may emerge as a consequence of informal commitments made by boundary spanners during the formation of a specific relationship. New individual boundary spanners who enter the inter-firm exchange may internalize the existing and prevailing norms in the business relationship (Zaheer, McEvily and Perrone, 1998).

In accordance with Seabright et al. (1992), I specify attachments or ‘immobility’ factors between exchange partners that are embedded in structural ties between two organizations and in individual relationships developed by boundary spanners.

With respect to the study, I define *structural ties* at the organizational level as partner-specific investments in physical and human assets and business practices. Business practices can include the formalization and standardization of exchange arrangements, such as the establishment of policies and procedures for managing exchange activities. Relationship-specific business practices also include relational norms or ‘implicit understandings’, which frequently function as a supplement or even a substitute for formal legal contracts in business exchange (Anderson and Weitz, 1989). Business practices are thought to exist at the organizational level and constitute a sort of collective memory. Although established and maintained by boundary spanners, these practices are assumed to exist despite boundary spanner turnover. It is the collectivity, rather than specific individuals, that is the repository of these assets (Seabright et al., 1992). As the duration of the business relationship increases, *structural ties* are assumed to increase.

*Interpersonal ties* refer to ties between
boundary spanners. **Interpersonal ties** encompass personal skills, knowledge, and personal relationships. Boundary spanners are thus seen as the repository of such assets. Previous experience with boundary spanners thus refers to the interpersonal history of learning and socialization during involvement in exchange activities. Interpersonal ties, however, are related to the tenure of individuals in boundary spanning roles in the exchange relationship. Consequently, boundary spanners establish and maintain interpersonal relationships as long as they are involved with specific exchange activities. Turnover in boundary spanning positions, thus, has the potential to attenuate business-to-business relationships (Seabright et al., 1992).

In accordance with the above accounts, the following hypotheses are formulated:

**H1:** *The stronger the structural ties are, the less likely it is that relationships will be dissolved.*

**H2:** *The stronger the interpersonal ties are, the less likely it is that relationships will be dissolved.*

In this paper, I argue that structural and interpersonal ties reduce or have a negative effect upon the likelihood of relationship dissolution. Further, I assume that organizational and inter-organizational dimensions moderate the effect of structural and interpersonal ties on the likelihood of relationship dissolution. In harmony with multi-level theory (e.g. Rousseau, 1985, Klein, Dansereau and Hall, 1994), I argue that generalizing about relationships between variables from one setting to another without taking into account the moderating effect of organizational factors there is the risk of contextual fallacy. Cross-level theories specify causal models of the effects phenomena at one level have on those at another (Rousseau, 1985). Typically, a cross-level model describes the impact of organizational factors on individual behavior and attitudes or contextual factors as moderators of individual-level relationships. In this paper, I use a cross-

<table>
<thead>
<tr>
<th><strong>Independent variables</strong></th>
<th><strong>Moderators</strong></th>
<th><strong>Dependent variable</strong></th>
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| Structural ties           | • Centralization  
                            • Formalization 
                            • Levels of inclusiveness 
                            • Size 
|                           | • History with organization  
                            • History with boundary spanner |
| Interpersonal ties        |               | Relationship dissolution |

Figure 2: **Conceptual model**
level model that addresses the moderating effects of organizational and inter-organizational dimensions on the relationship between structural ties and interpersonal ties and dissolution.

A number of moderators are included in the conceptual model: organizational dimensions — formalization, centralization, size, levels of inclusiveness and inter-organizational dimensions — history with organization and history with boundary spanner. The proposed moderators are assumed to possess moderating effects on the relationship between structural ties and dissolution and interpersonal ties and dissolution. The conceptual model is presented in Figure 2, previous page.

Organizational Dimensions and Moderating Effects

Centralization and formalization

By centralization, I refer to the distribution of formal control and power within an organization (Lau, Goh and Phua, 1999). In organizations with a high degree of centralization, concentration of power and control are typically located among a limited number of organizational members that are likely to be at higher levels in the organization. In organizations with a low degree of centralization, the distribution of power and control is more decentralized. In this study, centralization is treated as the degree to which purchasing decisions are controlled and made by a boundary spanner or at higher levels in the organization (Lau, Goh and Phua, 1999). Degree of centralization is assumed to influence a boundary spanners’ degree of autonomy in decision-making. Centralization therefore is presumed to have moderating effects since boundary spanners’ autonomy in buying decisions has great impact upon the potential influence of interpersonal ties and structural ties on relationship outcome.

Moreover, highly centralized organizations would not encourage the establishment of ‘close’ personal relationships, since the central logic behind increasing centralization is to enhance control upon decisions made by organizational members at lower levels in the organization (Staw, Sandelands and Dutton, 1981).

By formalization, I refer to the degree to which written plans, rules, policies, and procedures are clearly stated. In organizations with a high degree of formalization, boundary spanners are assumed to have less discretion when decisions are made. In organizations characterized by a low degree of formalization, boundary spanners are thought to be more autonomous and enjoy more discretion in their decision-making. In this study, formalization is defined as the degree to which purchasing decisions are formally prescribed by rules, policies, and procedures to be followed (Lau, Goh and Phua, 1999).

Further, formalization is assumed to possess moderating effects because the boundary spanners’ level of autonomy in performing buyer tasks influences the potential impact of interpersonal ties and structural ties upon the likelihood of relationship dissolution.

In addition to the more formal constraints or lack of constraints upon organizational members, I also suggest that organizations characterized by a high degree of formalization would encourage a more formal and impersonal interaction style towards supplier representatives. The development of ‘close’ interpersonal relationships would therefore be less likely. In contrast, for organizations characterized by a low degree of formalization, a more informal and personal interaction style towards supplier representatives would be advanced. In this context, the development of ‘close’ interpersonal relationships is more likely (Morand, 1995).

In accord with the above discussion, the following hypotheses are formulated:
H3a: The negative effect of interpersonal ties upon the likelihood of relationship dissolution is expected to be stronger when 1) centralization is low, and 2) formalization is low.

H3b: The negative effect of structural ties upon the likelihood of relationship dissolution is expected to be stronger when 1) centralization is high, and 2) formalization is high.

Levels of inclusiveness

Levels of inclusiveness refer “to the proportion of the activity of a unit dedicated to or involved in those of another unit” (House, Rousseau and Thomas-Hunt, 1995:89). In my study, levels of inclusiveness refer more specifically to the degree to which a boundary spanner is dedicated to or involved in activities performed by other members in the organization. The phenomenon of inclusiveness occurs inside organizational boundaries, e.g. between production and selling related activities. Likewise, it takes place between organizations, such as among network partners, due to task interdependence and resources dependence (House et al., 1995). Inclusiveness between different units (e.g. departments) is thought to be an important moderator of the effects of one on another. The higher the involvement of activities in one department with those of another, the higher the effect one will have on the other.

The phenomenon of inclusiveness is highly relevant to questions concerning the role, function and autonomy of boundary spanners, such as salespersons or purchasing agents. Boundary spanners who are highly dependent and integrated towards other departments in the organization (e.g. the product development department) will have to play a different role than boundary spanners less integrated with activities performed in other departments. An example of relevance to the study would be purchasing agents making buying decisions with respect to products that would not be processed inside their own organization. These boundary spanners would have low levels of inclusiveness towards the production department in their organization. In contrast, a salesperson who sells products developed and produced inside his company would be highly dependent upon activities within the company’s production domain. This boundary spanner has high levels of inclusiveness toward his organization’s production department.

With respect to my study, I argue that levels of inclusiveness possess moderating effects on the relationship between interpersonal and structural ties upon the likelihood of relationship dissolution. For example, in situations where boundary spanners have low levels of inclusiveness, the potential impact of interpersonal ties on dissolution would be higher than when boundary spanners have high levels of inclusiveness. This is because when levels of inclusiveness are low, relationship-specific investments would most likely be bound with the boundary spanner and in the interpersonal relationship, and specific investments at the organizational level would be minor. Further, the role and function of the boundary spanner is assumed to be more autonomous when he or she is integrated to a small degree towards other parts of the organization. In cases where boundary spanners have low levels of inclusiveness, there is also a potential for boundary spanner-customer turnover connection.

In contrast, when boundary spanners have high levels of inclusiveness with the organization they represent, I assume that relationship-specific investments at the organizational level (structural ties), such as product adaptations, would be of great importance. Although the boundary spanner’s ability to coordinate information and activities among departments and across organizations is assumed to be significant, he or she would be more like a coordinator. Specific assets related to the organization (and not the specific boundary spanner) would
be of greater importance. For example, the boundary spanner could not take the customers with him to a new organization because what he or she offers is highly linked to the organization. Accordingly, I hypothesize that:

\[ H4a: \text{The negative effect of interpersonal ties upon the likelihood of relationship dissolution is expected to be stronger when the buyer representative has low levels of inclusiveness with the organization he represents.} \]

\[ H4b: \text{The negative effect of structural ties upon the likelihood of relationship dissolution is expected to be stronger when the buyer representative has high levels of inclusiveness with the organization he represents.} \]

**Size of organization**

By *size of organization*, I refer to an organization’s overall size, indicated by business sales and the number of employees (Doney and Cannon, 1997). According to House et al. (1995) and their account on the relative effect of micro and macro variables, organizational size, age and institutionalization need to be considered. The reason for this is that through social interaction, organizational members create specific social realities, which in turn evolve to specific norms that guide organizational behavior. In turn, these norms will exist independently of the specific individual. When the organization is large, organizational specific norms are expected to have a great impact upon individuals. When the organization is small, individuals would have a greater impact upon the specific norms existing within a firm. Thus, when organizations become large and mature, individual organizational members (micro variables) are assumed to have less impact upon macro level variables. Boundary spanners working in large organizations are thus presumed to act in a non-autonomous way. In contrast, in small organizations, boundary spanners are thought to act in a more autonomous way.

In very small organizations, e.g. comprising 2–3 members, the manager and the boundary spanner could be the same person, or play the same roles interchangeably. In large firms, the boundary personnel responsible for purchase decisions may have to consider and consult both higher-level managers and other departments in the organization before making a purchase decision. These different situations are presumed to affect the potential impact of interpersonal ties and structural ties upon the likelihood of relationship dissolution. Size of organization thus has moderating effects on the relationship between interpersonal ties and structural ties and dissolution.

Furthermore, firms with few employees “…may provide an especially fertile ground for embeddedness that might not exist for larger firms. As firms grow, ties among individuals may become insufficient sources of embeddedness, and other social mechanisms such as interlocks or shared equity may then be needed” (Uzzi 1997:64). Likewise, smaller organizations frequently depend upon close interpersonal relationships with business partners, among other factors because small organizations are less able to compete on a cost basis (Lovett, Harrison and Virick, 1997).

If social obligations are thought to be an important source of competitive advantage for small businesses, I assume interpersonal ties to have a greater impact upon the likelihood of relationship dissolution in small organizations. Large organizations, however, are less dependent upon specific organizational members, since the organization size exhibits a signal (e.g. reputation, competence, market share, etc.) that this firm can be trusted, independently of interpersonal relationships (Doney and Cannon, 1997). I therefore presume interpersonal ties to have less impact upon the likelihood of relationship dissolution in large organizations.
In accord with the above discussion the following hypotheses are formulated:

**H5a:** The negative effect of interpersonal ties upon the likelihood of relationship dissolution is expected to be stronger when organization size is small

**H5b:** The negative effect of structural ties upon the likelihood of relationship dissolution is expected to be stronger when organization size is large

### Interorganizational Dimensions and Moderating Effects

#### History with organization and boundary spanner

A number of studies have demonstrated that history or length of relationship attenuates the likelihood of relationship dissolution (Anderson and Weitz, 1989, Heide and John, 1990, Heide and Miner, 1992). The reason for this is that parties make adjustments and learn about each other procedures and values over time. Business partners may also have survived several crises.

In the first phases of business relationship building, such as in the awareness and exploration phase, interpersonal relationships are seen as most important. This is because trust building, the development of norms and expectations, to a large extent would depend on competence, perceptions and attraction among boundary spanner personnel (Dwyer, Schurr and Oh, 1987). For business relationships that have reached the commitment phase, governance mechanisms, such as common norms and value systems, would then ensure sustained interdependence. An institutionalization of habits, norms and rules of business practices typically arises as business exchange persists. The beliefs and social meaning shared by the members in the organizations involved thus evolves to a specific culture, which is thought to survive and be transferred despite the fact that organizational members leave the organization (Van de Ven, 1976, House, Rousseau and Thomas-Hunt, 1995).

History with the organization is assumed to have moderating effects on the relationship between interpersonal ties and dissolution, and structural ties and dissolution. When business relationships are young, and an institutionalization of norms and business practices has not been established, interpersonal ties are assumed to have a higher effect upon the likelihood of relationship dissolution.

When business relationships have lasted for several years, and structural ties, such as investments of specific assets and procedures have increased, interpersonal ties would play a minor role, because institutionalized business practices would exert pressure on boundary spanner behavior and because structural ‘immobility’ would present a significant barrier towards exit. One might also assume that organizations are reluctant to jeopardize years of business exchange because of tension between two boundary spanners.

Accordingly, I hypothesize that:

**H6a:** The negative effect of interpersonal ties upon the likelihood of relationship dissolution is expected to be stronger when history with the organization is short.

**H6b:** The negative effect of structural ties upon the likelihood of relationship dissolution is expected to be stronger when history with the organization is long.

**H6c:** The negative effect of interpersonal ties upon the likelihood of relationship dissolution is expected to be stronger when history with the boundary spanner is long.

The relationship between structural ties and history with the boundary spanner is more uncertain with respect to moderating effects on dissolution. I assume for instance, that levels of
inclusiveness would play a major role related to this question. I will leave this question as an exploratory issue and not hypothesize *ex ante* data analysis.

**Methodological Implications**

**Research tradition**

With respect to ontological assumptions, I lean to Cook and Campbell (1979). This view does not presuppose a comprehensive explanation of all the causal forces that produce a particular outcome, nor is it intended to establish sufficient and necessary causes. Further, the approach favors a process of falsification, although it recognizes that the observations made in test situations are not theory-free and that the researcher has not conceptualized all the relevant alternative theories. Additionally, it emphasizes attempts to achieve knowledge by pitting causal hypotheses not against other explanatory or descriptive theories but against mundane nuisance factors, which suggest that an observed relationship may not be causal or may involve different constructs than those in which the researcher is interested. The conception of cause thus precludes an essentialist explanation and settles for an investigation of probabilistic causal connections.

**Empirical context**

In the empirical study, I examine exporter-importer relationships within the seafood industry. The focal business relationship includes exporters’ worldwide and French importers. Further, I employ a buyer-perspective, i.e. I focus on buyer’s perceptions with respect to the included variables.

The seafood industry as well as fishmarkets are characterized by high volatility, in quantity, quality and price. The high fluctuations in both quantity and price favor exchange in spot-markets and hence discourage fixed, long-term contracts with respect to price. Nevertheless, long-term relationships are seen as beneficial by the actors involved in order to reduce uncertainty. Important uncertainty factors are variation on availability of fish species, lack of stable supply and extreme perishableness (Nilssen, 1994). Furthermore, the value chain is characterized by high complexity. Additionally, there is a considerable geographic distance between buyers and sellers, which involves a physical distance as well as a cultural distance. As a consequence, it is costly and difficult to monitor the other party, and buyers need to rely on trusting and competent partners with whom to do business. It also takes time to develop and obtain a mutual understanding for professional and cultural issues. Finally, in these business relationships, boundary spanners often play a major role in exchange, since they may possess market and customer specific knowledge, product and industry-specific competence. Further, individuals play a critical role with regard to information exchange and the coordination of the various exchange activities. I therefore argue that the empirical setting is relevant in order to test the hypotheses.

**Methodology**

In this study, I employ a hypothetical-deductive method as research strategy. This approach builds on existing research in order to develop the conceptual model and hypotheses. In order to test the postulated hypotheses I employ a quantitative approach and conducted a cross-sectional study. I did not investigate the dissolution of business relationships as a process, i.e. to study stages firms eventually go through until a relationship is ended, but aimed at capturing a ‘snapshot’ in an ongoing business relationship. Further, I treat the concept of relationship dissolution as a continuous variable. Therefore, the aim of the study is to measure *intentions to dissolve*.

With respect to measure development, I
abide by the position maintained for multiple items and multiple measures (Cook and Campbell, 1979). When available, I draw on existing scales in the literature. When necessary, items are added or modified according to the specific empirical context\textsuperscript{14}. In order to measure relationship dissolution I use several measures: intention to exit, extendedness of relationship, and a prospective element; tolerance of conflict. With respect to structural ties, I specify: product adaptations, human asset specificity and logistic adaptations. Interpersonal ties include: cultural knowledge, cultural adaptations, communication, liking and frequency of interaction. Additionally, a number of control variables, such as availability of alternative partners, overall satisfaction with relationships, switching costs, are included in the survey-instrument.

References
An important body of studies investigating relational markets: Relations which are not necessarily formal relationships, and their implications.

Which are not necessarily formal relationships, and their implications. Inger-Beate Pettersen Beta no. 2 2004

This choice is based on both theoretical and empirical considerations.

I.e. there exists a highly specialized division of labor, with organizations performing specific tasks. If there are no organizational levels or hierarchy in the interactions, organizations may perform trading activities in addition to processing activities.

The phenomenon of boundary spanner-customer turnover connection (discussed by e.g. Lovett, Harrison and Virick, 1997) occurs in business life. In most cases where this phenomenon takes place, boundary spanners have low levels of inclusiveness with the organization they represent (see e.g. Seabright, Levinthal and Fichman, 1992, Rokkan, 1999), and relationship-specific assets are mostly bound in the boundary spanner and the interpersonal relationship.

If there are no organizational levels or hierarchy in the firm.

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This is increasingly a global market.

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