MARKETING SCIENCE INSTITUTE

Relationship Learning with Key Customers

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Many companies emphasize learning in their relationships with key customers in order to enhance their ability to deliver value. By sharing information about needs, preferences, products, systems, and competencies—and by developing systems for interpreting and integrating the information into organizational memory—the parties to a learning relationship can improve their competitive positions.

In this study, authors Selnes and Sallis develop a deeper understanding of learning processes in industrial customer-supplier relationships. In particular, they focus on how an organization can strengthen its learning capabilities in targeted customer relationships.

Through a synthesis of the marketing and organizational literature, as well as interviews with both sides of 13 buyer-seller pairs, they define a construct of relationship learning and propose a conceptual model that includes antecedents and consequences of relationship learning.

Selnes and Sallis develop the following propositions:

❏ *External competition motivates relationship learning.* As markets are opened up via cross-border trade agreements such as WTO, EU, and NAFTA, and through improving communication and transportation technologies, companies are under increasing pressure to develop their learning capabilities. All the countries in the sample were experimenting with different types of learning arrangements, from loosely coupled sales agreements to tightly governed contracts.

❏ *External shock motivates relationship learning.* In the farmed salmon industry, for example, the British "mad cow disease" crisis drastically increased consumer awareness of food sources, and prompted several producers and retailers to implement systems to trace lots of salmon back to specific farms and hatcheries.

❏ *Increasing technological complexity motivates relationship learning.* Some producers in the farmed salmon industry, for example, are relying on technological advances in smoking and filleting to increase product consistency and reduce waste; this is contingent on consistency and quality through the value chain, from fish farms through retailers.

❏ *Transaction complexity and relationship complexity increase the motivation for relationship learning.* As complexity increases, so do the number and seriousness of problems; thus customers and suppliers are motivated to increase learning to solve problems. An example of high transaction complexity is the purchase of a computer system involving mainframes, PCs, printers, and software delivered on short-term notice to be operative in a few days.

❏ Moderating the influence of these forces are two variables: *relationship learning strategy* (which defines learning objectives and the major mechanisms for how the learning process will be approached) and *level of trust between the customer and supplier.*

❏ *Relationship learning has a positive effect on relationship efficiency and relationship effectiveness.* In the field interviews, most respondents highlighted better understanding of customer needs as the most important effect of relationship learning. In the long run, high-learning relationships are likely to foster products and services that provide more value and are superior in solving problems for their users.

Managerial Implications

An organization can strengthen its learning capability in targeted customer relationships. When implementing a relationship learning strategy, managers must first define the objectives and major mechanisms for how the learning process will be approached. Next, they must develop mechanisms that facilitate the learning process through information sharing, joint interpretation, and integration into relationship memory. It is important that these elements are addressed simultaneously. Without a balanced approach, the potential for enhancing relationship learning is limited. As relationship learning relies on mutuality, it is important to ensure the willingness of the other party to cooperate.

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Introduction

The purpose of this article is to define a construct of learning in customer-supplier relationships, hereafter called relationship learning, and to develop a theory for how relationship learning is facilitated and how relationship learning affects the efficiency and effectiveness of the relationship. In a study of long-term buyer-supplier relationships, Kalwani and Narayandas (1995) attribute improved performance primarily to learning in the relationship. Their logic is that relationship learning is the key differentiating factor between companies that have long-term relationships and those that do not. Developing relationship learning may thus be an opportunity for companies trying to increase their value propositions in order to attract new customers and increase loyalty from existing customers. In fact, in cooperation with major customers, leading companies like Federal Express are learning how to develop differentiated value propositions that are customized to individual customers and segments.

A strongly held belief in marketing is that companies benefit from knowing their customers (Day 1994; Powell, Koput, and Smith-Doerr 1996). Indeed, within rapidly changing markets, both customers and suppliers have large incentives to develop their learning capability related to the domain of relationships. By sharing information about needs, preferences, products, systems, and competencies, and through developing systems for interpreting and integrating the information into organizational memory, the parties to a learning relationship are expected to position themselves better relative to the competition.

Work related to market orientation has extended the general organizational learning theory (e.g., Argyris and Schön 1978; Hedberg 1981; Huber 1991; Walsh and Ungson 1991) to address learning about development in markets (Kohli and Jaworski 1990; Deshpandé, Farley, and Webster 1993; Day 1994; Slater and Narver 1995). However, this line of research has not explicitly addressed the learning that takes place within a durable customer-supplier relationship. Also, in the literature on customer-supplier relationships there are only a few examples of relationship learning. One example is found in a study of working partnerships in marketing channels (Anderson and Narus 1990) which identified communication (i.e., sharing of meaningful and timely information) as an important element of coordinating an ongoing relationship. Another example is Pine, Peppers, and Rogers (1995) who identify relationship learning as an important avenue by which companies can differentiate their offerings, and thus achieve competitive advantage. Although relationship learning has been addressed in the marketing literature, we argue that the construct and a theory of its antecedents and consequences need more research.

We argue that relationship learning is unique and substantially different from organizational learning in terms of important antecedents and consequences. While organizational learning theories are helpful in understanding the underlying phenomena, we find them to be too general to explain the more specific learning that takes place in customer-supplier relationships. First, relationship learning is driven

by the combined willingness of both the customer and the supplier to share information and to make sense of it. This information sharing within a customer-supplier relationship cannot be mandated by either organization; rather, it depends on the parties' willingness to cooperate. Either party will be careful not to share sensitive information that may potentially harm their interest. As one marketing executive explained, "Customers don't want to give too many signals that they are dependent on us; they always want to look out for alternatives."

A second issue that makes relationship learning unique is the development of an interrelated memory. Both the customer and the supplier develop idiosyncratic relationship memory that captures the common history of the relationship. A relationship memory is likely to affect both future information processing and behavior. For example, as a supplier develops specific knowledge of a customer's needs they are likely to be able to provide more value. Because they have more detailed knowledge they can, if they utilize their unique knowledge, provide better solutions and more reliable deliveries. Likewise, as people in both organizations develop a memory of personal networks, this facilitates information processing and problem solving that occurs in the relationship.

This paper aims to develop a deeper understanding of learning processes in industrial customer-supplier relationships, and in particular how an organization can strengthen its learning capabilities in targeted customer relationships. We will also address under what conditions relationship learning is likely to be warranted. We do this through synthesizing the marketing and organizational literature with results from qualitative field interviews. We start by developing a definition of a construct of relationship learning, and a set of propositions about variables expected to motivate and moderate relationship learning. We also discuss the consequences of relationship learning. Finally, we discuss managerial implications related to relationship learning.

Methodology

Literature Review

A review of the marketing literature reveals relatively little attention to relationship learning. One exception is Lukas, Hult, and Ferrell (1996) who developed a theoretical model for antecedents and consequences of organizational learning in marketing channels. However, they addressed organizational learning in general and not relationship learning in particular. Others have addressed the construct of relationship learning indirectly, such as research on market orientation (e.g., Kohli and Jaworski 1990; Slater and Narver 1994) and research on information sharing in buyer-seller relationships (e.g., Anderson and Narus 1990; Biong and Selnes 1996). The literature related to organizational learning theories was also reviewed (e.g., Argyris and Schön 1978; Argyris and Schön 1996; Fiol 1985; Hedberg 1981; Huber 1991; Levitt and March 1988; Walsh and Ungson 1991).

Field Interviews

Because the purpose of this article is theory construction, it was important to tap a range of experiences from both the buyer and the seller sides of the relationship as well as across industries and functional areas within companies. A qualitative field study was conducted, consisting of in-depth interviews with informants from both sides in 13 buyer-seller dyads. Some of the suppliers were chemical manufacturers, with buyers from the construction industry and the specialty chemicals industry. Other suppliers were from the farmed salmon industry, with buyers from smokers, canneries, agents, and supermarket chains. The informants were typically from sales, R&D, procurement, and divisional management. A standard format for the interview was developed and employed (see Appendix). The interviews typically lasted about 60 minutes. In conjunction with the literature, the more "interesting" observations from the interviews were used in developing a construct of relationship learning, its antecedents, and its consequences.

A limitation of our methodology is that most informants did not have a conceptual understanding of relationship learning, or for that matter, organizational learning. For example, informants tend to emphasize personal learning rather than learning at the organizational level, such as changes in organizational routines, behaviors, and the like. Therefore, responses are likely to be biased towards personal learning at the expense of relationship learning.

Relationship Learning: The Construct

We consider relationship learning as a unique form of the more general construct of organizational learning; therefore, the literature on organizational learning theory serves as a natural starting point for developing a construct of relationship learning. A review of this literature reveals that there are several definitions of organizational learning; despite this diversity, however, there seems to be a general consensus that organizational learning involves some kind of information processing. For example, Huber (1991) defined organizational learning thus: "An entity learns if, through its processing of information, the range or likelihood of its potential behaviors is changed" (p. 89). Broadly, information processing can be divided into information acquisition, information interpretation, and information integration into memory.

The next step is to integrate these core elements of organizational learning theory into a definition and explication of a construct of relationship learning as information processing. First, we believe that information sharing between the two parties in a customer-supplier relationship is a core element of relationship learning that reflects how relationship-specific information is acquired. Second, we believe that the dialogue within the relationship constitutes a relationship-specific element of sense-making or interpretation. Finally, we believe that organizations develop relationship-specific memories into which acquired relationship-specific knowledge is integrated. These relationship-specific domains of knowledge are expected to be connected to more general memory devices. Logically, relationship learning can affect the organization's general memory and thus may change potential behavior not only within the relationship, but within the organization itself. It also implies that learning in one relationship may have no effect on memory related to another relationship. Thus, in our definition of relationship learning we limit the integration part of information processing to the relationship-domain-specific memory and the effects on potential relationship-domain behavior. Next, we will discuss the nature and content of each of these three components of relationship learning, integrating both the review of relevant literature and observations from the field study.

Information Sharing

The literature on organizational learning has identified two fundamental sources for information acquisition. The first is internal, such as feedback from past behaviors or actions. For example, Argyris and Schön (1978) argue that the primary information in learning involves detection of errors (pp. 2-3). Also, Levitt and March (1988) discuss how inferences from history (or experience) may feed back into the organization (p. 319). The second is external in the form of environmental changes that have, or are likely to have, an impact on the organization. For example, Hedberg (1981, p. 9) and Fiol (1985, p. 811) emphasize environmental changes as the primary kind of information involved in organizational learning.

Research related to buyer-seller relationships has identified information exchange as a central element of working relationships. Anderson and Narus (1990) discuss how two organizations have to exchange information in order to coordinate and plan the working relationship, thereby achieving operational efficiency. Biong and Selnes (1996) relate exchange of operative information to the tasks of the salesperson in ongoing relationships. In addition to the ongoing management of relationships, information sharing may also have an effect on learning in the relationship. One of the respondents in the field interviews commented:

> Mostly we learn through communication. This is exactly the point we are trying to make with our customers. Through communication we get better insight into their organization, their decision culture regarding supply. We want them to communicate with us when they are developing new products or when they are making changes. We are trying to find contact points, regional and world-wide, who will work with us. . . . This is something we are really working with, that is, to gain a mutual understanding with our customers for how we operate.

Interpretation

As with individuals, organizations need to interpret information in order to make sense of it (Daft and Weick 1984; Weick 1989). In fact, some researchers hold interpretation as perhaps the most important dimension of organizational learning. For example, Fiol (1985) links interpretation closely to organizational learning when she defines learning as: "The development of insight, knowledge, and associations between past actions, the effectiveness of those actions, and future actions" (p. 811). As organizations vary in how they make sense of the same information, there are likely to be differences in the mechanisms involved in making sense of it. One obvious difference is that organizations, like individuals, have differences in memory capabilities (Walsh and Ungson 1991). It follows that some of the information acquired may be rejected, not because it is unimportant, but because the organization lacks the ability to make sense of it.

Organizations employ several mechanisms in order to make sense of information, for example, board meetings, management meetings, task force teams, and so on. Organizations may also introduce specific arenas with the sole purpose to learn, for example, information-sharing forums, as suggested by Huber (1996, p. 829). Related to buyer-seller relationships, crossfunctional teams in customer visit programs have been suggested as a mechanism for creating learning arenas (McQuarrie 1993, p. 23). In the field interviews we wanted to know how dialogues were organized in the different buyer-seller relationships. The interviews revealed that most interactions between the two parties were related to solving some sort of operational problem, and thus were addressed in operational kinds of meetings or simply by telephone. There are, however, many examples in which the parties met face-to-face at organized information forums, such as customer visits and trade shows, in order to build an understanding for each other. These information forums were the key to reaching a consensus over the operational kinds of problems.

Memory Integration

A core element of all learning is integration into existing memory. Levitt and March (1988) define learning as changes in routines that guide behavior (p. 319). In extending individual learning into organizational learning, a concept of organizational memory is needed. As noted by Walsh and Ungson (1991), unlike individual memory, organizational memory is not centrally stored, but is distributed across different retention facilities (p. 62). The integration of new information into organizational memory may, therefore, vary depending on what part of the decentralized memory is being updated. Walsh and Ungson (1991) suggest that organizational memory resides within decentralized "storage bins" (p. 63). They also argue that organizational memory is both an individual- and an organizational-level construct. Individuals retain information based on their direct experiences and observations, stored in the individuals' memories as cognition, beliefs, and values. Organizational-level memory is manifested in organizational beliefs, behavioral routines, and physical artifacts, as argued by Moorman and Miner (1997). Organizational beliefs relate to shared frames of references, models, values, norms, and symbols, or what others (e.g., Walsh and Ungson 1991) refer to as organizational culture. Behavioral routines are the encoded formal and informal procedures and scripts for how the organization has learned to do things. Physical artifacts embody the results of prior learning in, for example, such things as documents, computer memories, programming, and structures.

How organizations update their memory of buyer-seller relationships has received surprisingly little attention. In the field interviews we wanted to explore how the organizations had developed relationship-specific memory devices related to both individual- and organizational-level memory. Regarding individual memory devices, the field interviews suggest that the individuals' personal network of contacts across the organizational borders is an important element of relationship-specific memory. It is important to consider both formal and informal contacts in relationships because, as Håkansson and Johanson (1988) found, over two-thirds of all technical development collaboration is done on an informal basis. In the field interviews it surfaced that a large proportion of information sharing, which can be considered a manifestation of collaboration, took place through informal networks. The networks spanned the boundaries of the firms and were based more on personal trust than organizational belonging. A manager of a large R&D department said that when he was confronted with a problem that he could not solve alone, his first reaction was to contact someone in his network whom he thought may be able to help. Another informant said that personnel turnover slows down the learning process because effective information sharing depends on a personal network of contacts. The field interviews revealed several relationship-domain-specific behavioral routines that were adjusted or customized, such as logistic systems and production processes. Finally, most buyers and sellers had developed some sort of archive system (i.e., physical artifacts) to store information about the other party.

A Definition of Relationship Learning

Based on the preceding discussion, we offer the following definition of relationship learning:

> A supplier and a customer learn in a relationship to the degree that information is shared among the two parties, the information is jointly interpreted, and then integrated into relationship-domain-specific memory that will change the range or likelihood of potential relationship-domain-specific behavior.

Drivers of Relationship Learning: Research Propositions

Figure 1 is a conceptual framework for relationship learning. In this section we explicate the drivers of relationship learning (external and internal motivators), the moderating variables (relationship learning strategy and relationship trust), and the consequences (relationship efficiency and relationship effectiveness). We discuss these elements and develop propositions based on the literature review and field interviews.

Figure 1. A Proposed Theory of Relationship Learning
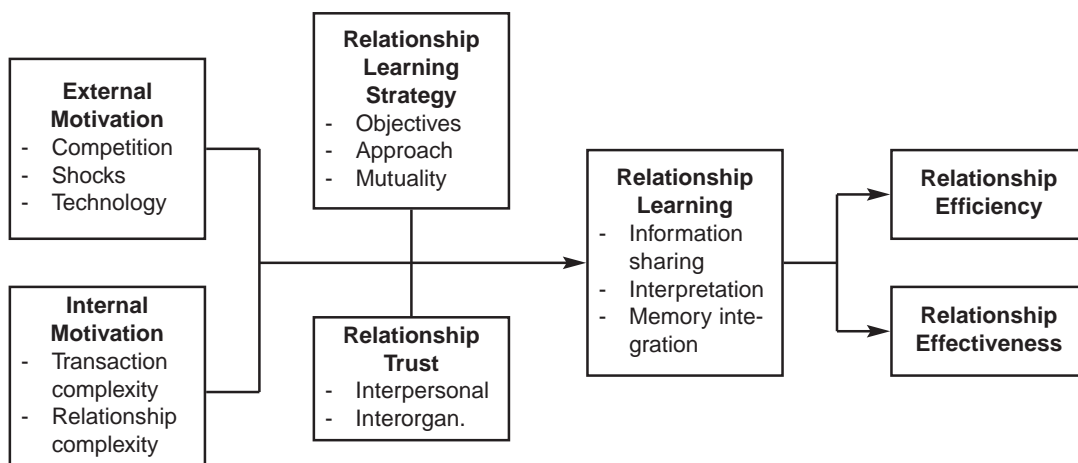
Similar to drivers of organizational learning (e.g., Argyris and Schön 1978), drivers of relationship learning are the internal and external forces that determine the motivation to learn. The major difference is in the unit of analysis in that some elements that would be external to the organization will be internal in the relationship. For example, dissemination of information between organizations happens within the relationship, as with joint R&D projects. The disseminated information becomes embedded (memorized) at different places in the relationship, for example, in individuals. If an individual in one organization does not possess a particular piece of knowledge generated in the relationship, but he or she knows it exists with somebody in the other organization, that individual can access (remember) it across the relationship by contacting the other individual. In this way the learning (and remembering) has elements that are both internal and external to the respective organizations, yet are captured within the context of the relationship.

The motivators of relationship learning can all broadly be thought of as initiators of problem-solving activities. The vast majority of problems, generally character-

ized as operational, precipitate adjustments to routine behaviors. Some problems, generally characterized as strategic, may require fundamental shifts in norms, policies, or objectives. This distinction is similar to what Argyris and Schön (1978, 1996) labeled "single loop learning" and "double loop learning," where the former is directed towards correcting routine behavior and the latter is directed towards more complex modifications of ways of thinking (mental models).

External Motivators

External motivators of relationship learning are those forces in the environment over which the parties to the relationship have little or no control. Companies are motivated to enter learning relationships either to gain some control over the externalities or to buffer the consequences (e.g., Metcalf, Frear, and Krishnan 1990; Ring and Van De Ven 1994). In the field interviews and literature review three core external motivators surfaced: (1) external competition, (2) external shocks, and (3) increasing technological complexity.

In both the literature (e.g., Hamel 1991) and field interviews, increasing competition in the market is cited as one of the major drivers of learning. Globalization of markets through cross-border trade agreements such as the WTO, EU, and NAFTA, and improving communication and transportation technologies are opening up previously protected markets (Levitt 1983; Ohmae 1989). Consequently, companies are under increasing pressure to develop their learning capabilities, not only internally but also in relationships. This is supported by results from the field interviews. In response to the increasingly competitive environment, all of the sampled companies are experimenting with different types of learning arrangements, from loosely coupled sales agreements to tightly governed partnership contracts. As one supplier said, "The competitive situation has brought this about. There is more pressure from the end market and from our customers. We feel there is a greater need for information sharing and learning in order to gain a competitive advantage."

External shocks were a common motivator that surfaced in the field interviews. This is consistent with the literature where, for example, Meyer, Brooks, and Goes (1990) identified "jolts" and "hyperturbulence" in their study of the American health care system. In a special issue of *Organization Science*, Ilinitch, D'Aveni, and Lewin (1996), Volberda (1996), Zohar and Morgan (1996), and others discuss a shift in the organizational paradigm to hypercompetition, meaning an environment "fraught with uncertainty, diverse global players, rapid technological change, widespread price wars, and seemingly endless reorganization" (Ilinitch et al. 1996, p. 211). In the field interviews, shocks were often equated with unexpected fluctuations in demand and supply. In one case, three large customers of one supplier simultaneously started large jobs. The supplier did not have the capacity to satisfy the sudden increase in demand, causing a supply crisis for all three customers. The responsible sales agent had been maintaining an arms-length relationship with the customers, which did not facilitate the transfer of what turned out to be critical information. The poor information flow had a direct negative consequence for the customer's performance, as well as negative consequences for the relationship. Both parties were motivated to form closer ties and increase relationship learning in order to avoid future shocks.

In the farmed salmon industry, there were ramifications from the British beef "mad cow disease" crisis. Consumer awareness of sources of food drastically increased, making it important for retailers to be able to trace the origin of their products. Several producers and retailers implemented systems of traceability, enabling them to follow particular lots of salmon back to specific farms and even to specific hatcheries. This information flow and precision of information, which the salmon producers now use as a competitive tool to differentiate themselves from less organized or integrated producers, can be equated to relationship learning.

Technology is developing at an increasing pace and margins for error in the application of technology are continually decreasing (Huber 1996; Ilinitch, D'Aveni, and Lewin 1996). Consequently, product lifecycles are growing shorter, forcing companies to speed up their product and market development processes (McKee 1992; Day 1994). Even simple products often require advanced technology in their production, transportation, or sale. Where technological development is moderate, as in many commodity markets, the benefits from relationship learning are likely to be low. Where development is rapid, as in telecommunications, the benefits from relationship learning are likely to be high because even small improvements in products, systems, or people will have great value. In the field interviews, every respondent gave accounts of technology-related pressures to increase relationship learning. The commodity chemicals supplier we interviewed said one of the main reasons they are pursuing relationship learning is to stay abreast of technological changes that could alter the market, and thus their market share. The changes could come in the form of new logistic systems or a shift to an entirely new product. In the farmed salmon industry, some producers are relying on technological advances in smoking and filleting to produce more consistent products as well as reduce waste in processing. This is contingent, however, on consistency and quality from the fish farms right down to the retailers, thus necessitating learning relationships throughout the value chain.

As external competition, external shocks, and technological complexity increase, so do the potential gains of learning relationships. Thus we propose:

P_1:   External competition motivates relationship learning.

P_2:   External shocks motivate relationship learning.

P_3:   Increasing technological complexity motivates relationship learning.

Internal Motivators

The motivation to learn in relationships, and the subsequent payoff, is also expected to be affected by the complexity of the context in which the relationship is embedded. Based on the literature review and field study, we argue that there are primarily two dimensions of context complexity that are relevant in understanding relationship learning. We have labeled these transaction complexity and relationship complexity, and we contend that motivation to learn in relationships will increase as the complexity of these two dimensions grows. Transaction complexity relates to the core of the exchange process between the buyer and the seller, whereas relationship complexity relates to how the exchange process is organized.

Transaction complexity varies primarily by the number of products involved in the exchange, the technological level of the products, the type of order delivery system, and the level of routinization in the exchange process. An example of low transaction complexity would be the established relationship between a wholesaler and a manufacturer involving one commodity product, for example, wheat. An example of high transaction complexity would be the purchase of a computer system involving mainframes, PCs, printers, and software delivered on short-term notice with the expectation of being operative within a few days.

Relationship complexity relates to how the exchange process is organized. Relationship complexity varies primarily with the number of contact points between the buyer and the seller, the geographical and cultural distance between operating units, and the complexity of the network of relationships to competing suppliers and buyers. A low complexity relationship would, for example, be one between a local auditor and a local restaurant where neither party has any relationship to other auditors or other restaurants. A high complexity relationship would be between a global supplier of chemicals and a global manufacturer where several functional areas (marketing, sales, R&D, production, procurement, and distribution) are involved from both sides of the relationship, and where both parties have several operating units around the world. One supplier described just such a relationship.

> Our customer has regional and world-wide operations, and so do we. We have sales organizations and 11 production sites. We deliver to some customers from several different production sites. There are staff contacts, joint R&D contacts, and contacts at the CEO level. In other words, it is very complex for both parties to understand all of the information that is exchanged.

As transaction and relationship complexity increase, the number of problems and the seriousness of these problems are likely to grow as well. Further, as the number of serious problems grows we would expect the parties in the relationship to be more motivated to learn and thus reduce the pressure of unsolved problems. Thus we propose:

P_4:   Transaction complexity increases the motivation for relationship learning

P_5:   Relationship complexity increases the motivation for relationship learning.

Moderators of Relationship Learning: Research Propositions

We propose that relationship learning is moderated by relationship learning strategy and relationship trust. For the purposes of this article we use the definition that, "a moderator variable is one which systematically modifies either the form and/or strength of the relationship between a predictor and a criterion variable" (Sharma, Durand, and Gur-Arie 1981, p. 291). In the context of our model, the motivators of relationship learning are analogous with predictor variables, and the relationship learning construct is the criterion variable. While in an explicit sense, the motivator variables do not necessarily predict relationship learning, their presence is highly influential on whether relationship learning takes place or not. The effect of the moderator variables on the motivators and criterion variable is such that in both cases they can modify the form and the strength of the relationship. For example, relationship learning strategy and relationship trust can affect how relationship learning will be approached (form) as well as the outcome (strength).

Relationship Learning Strategy

We argue that managers can have a potentially large influence over the relationship learning capability of organizations. Hamel (1991) found that in inter-partner learning, the party that set an agenda to learn, as opposed to learning by default, was the party that ultimately either dominated the relationship, or exited the relationship when they had internalized the competencies of their partner. Therefore, a relationship learning strategy will define objectives and the major mechanisms for how the learning process will be approached. As one manager said,

> Not only what we want to learn, but how and when we want to learn it. It all has to do with setting priorities. We have to figure out who needs to learn what, and who will be involved from both sides of the relationship. To get to a goal you need to determine what is needed to get there.

An objective to learn in a relationship may not always be warranted. When the external motivators are relatively stable, and the internal motivators are relatively simple, the question is raised whether relationship learning is justified or not. In the farmed salmon industry, the environment, the product, and the companies are relatively stable, therefore, relationship learning has not been a high priority. Companies within this industry that invest heavily in relationship learning are finding it difficult to reap the benefits of their investment. However, even in these stable industries, "mad fish disease" or a similar crisis may emerge and suddenly relationship learning increases in importance. Companies that are poised for relationship learning may be the beneficiaries of the next stage of market development. The dilemma lies in whether the payoff comes in time to justify the learning posture.

Pine, Peppers, and Rogers (1995) argue that top management can develop a strategy that cultivates learning relationships with customers. They maintain that a company, in addition to a learning objective, needs a strategy for collecting and managing customer information. Within the context of our model, this implies a strategy encompassing information sharing between the two parties, mutual interpretation, and integration into relationship memory. It is important to recognize that these elements are not mutually exclusive, but rather, must be approached in tandem. Companies are likely to experience problems with enhancing relationship learning when they emphasize some elements but not others. Without a balanced approach a dysfunctional system is likely to result.

In the field interviews, we observed several different approaches that were facilitating relationship learning. In one relationship, the parties had formalized information sharing in a contractual partnership agreement. This provided regular forums for information sharing and interpretation, as well as bolstering trust, so quality of information was improved as well. In another relationship, a foreign sales agency was converted into an owned foreign sales office. As an agency, the information link was weak and trust was moderate because the agency's goals were not always congruent with the company's goals. As an owned entity, trust and goal congruency had increased, and information flow, and more importantly, quality of information had increased, bringing the former agency closer to the company, and conversely, the company closer to the market.

Finally, an effective relationship learning strategy must be mutual among the two parties. If not, the willingness to share and interpret information will be limited. Although both parties may share the same motivation to learn, they probably differ in their approach to learning. In addition, the parties may have decided upon others as their learning partners. We examined a relationship where one party was pressing for learning, while the other had a lethargic attitude toward communication, cooperation, and learning. The result was that the motivated party was actively seeking a new supply source from a supplier more in line with its learning orientation.

> P_6: Relationship learning strategy moderates the strength and form of the effect of internal and external motivators on relationship learning.

Relationship Trust

Relationship trust has been identified as central in building long-term relationships (e.g., Dwyer et al. 1987; Morgan and Hunt 1994). The primary rationale is that high levels of trust enable parties to collaborate to reduce transaction costs (e.g., Noordeweir, John, and Nevin 1990). Less attention has been devoted to the role of trust in relationship learning. One notable exception is a study of the utilization of market research information in relationships between providers and users of market research (Moorman, Zaltman, and Deshpandé 1992). Their interesting finding is that the most important effect of trust is not directly on utilization of information, but indirectly on quality of interaction and researcher involvement, suggesting that trust facilitates relationship processes.

Doney and Cannon (1997) observed that trust in buyer-seller relationships relates to both the interorganizational and the interpersonal levels. At the interorganizational level, trust operates as a governance mechanism (Bradach and Eccles 1989), reduces conflict, enhances satisfaction (Anderson and Narus 1990), and is closely connected to commitment to the relationship (Morgan and Hunt 1994; Selnes 1998). At the interpersonal level across the two organizations, Doney and Cannon (1997) argue that trust facilitates effectiveness of persuasion and communication processes. Results from the field interviews also suggest that trust operates at both levels, although each level of trust is unique in how it moderates relationship learning. In one relationship, the two parties had developed a partnering contract in order to secure that sensitive information would not be distributed to outsiders, and that all records of sensitive information would be destroyed if the collaboration were terminated. Thus, the contract was an instrument to establish interorganizational trust. When questioned about the difference between interorganizational trust and interpersonal trust, one customer commented,

> I would extrapolate that and say, well, the more you trust the people, the more personal relationships you have with people from your suppliers, the more that you're in a position to learn something from them. Probably they are more open-minded and are willing to give you information, whereas, on a company level it's more an abstract relationship rather than something personal.

Thus, while contracts can establish interorganizational trust, interpersonal trust appears to be equally or more important to relationship learning taking place.

P$_7$:   Relationship trust moderates the strength and form of the effect of internal and external motivators on relationship learning.

Consequences of Relationship Learning: Research Propositions

In discussing consequences of relationship learning it is necessary to distinguish between first-order and second-order effects. The first-order effect relates to the effect relationship learning has on behavior within the focal relationship and subsequent relationship-specific outcomes. The second-order effect concerns the effect of relationship learning on organizational learning and organizational behavior at a higher level of aggregation. Thus, first-order learning in a specific relationship may invoke second-order learning that will change behavior in other relationships or other parts of the organization. However, by the same line of reasoning, we may also have a situation where first-order learning does not invoke any second-order learning. As the purpose of this article is to develop a theory of relationship learning we choose to concentrate on first-order learning.

We believe that the consequences of relationship learning can be divided into increased efficiency and increased effectiveness. Following the definition of Drucker (1974), "Efficiency is concerned with doing things right. Effectiveness is doing the right things" (p. 45). Performance related to efficiency of collaborative relationships is well documented in the literature (e.g., Heide and Stump 1995; Mudambi and McDowell Mudambi 1995; Noordeweir et al. 1990). In a study of long-term manufacturer-supplier relationships, Kalwani and Narayandas (1995, p. 14) found that suppliers became more efficient with inventory levels and cost control, resulting in lower overall costs, part of which was bargained away to the customer as lower prices. The authors attribute the improved performance to learning in the relationship. Their logic is that relationship learning is the key differentiating factor when comparing companies inside and outside of long-term relationships.

In referring to a joint R&D project with a supplier, a customer said service had improved through what was learned. "It's much faster. You know which people to call and you know a lot about the product you have developed together. So, it's much easier to improve performance, to improve the product, and to reduce costs."

P_8:   Relationship learning has a positive effect on relationship efficiency.

Associating effectiveness with relationship learning is also supported in the literature and field interviews. Most of the informants in the field interviews highlighted better understanding of customer needs as perhaps the most important effect of relationship learning. Therefore, in the long run, high-learning relationships are likely to foster products and services that provide more value and are superior in solving problems for their users. As the two organizations engage in mutual learning they are more likely to understand each other's needs and wants (Gruen 1995; Heide and Stump 1995; Kalwani and Narayandas 1995). As one of the suppliers said about relationship learning, "We have restructured the entire operation. We also customize our products for every customer, so in that sense we make changes based on what we learn about what they want."

To gain increased effectiveness, win-win solutions are likely to be fairly straightforward to implement. However, it is far more problematic if increased effectiveness for one party can only be achieved at the cost of the other party. For example, if through a learning relationship, one party sees a way to increase effectiveness (e.g., sell directly to the end user) at the cost of the other party, they may be hesitant to implement the changes because they are constrained by the relationship. They must choose which plan of action (favoring the relationship versus increased effectiveness) will reap the greatest benefits. Another problem may be that relationship learning results in incorrect insights, and thus may actually reduce effectiveness. The relationship partners learn to do the wrong things right, or the right things wrong. In such situations, un-learning may be the only way to increase effectiveness (e.g., Hedberg 1981). However, we believe that, in general, relationship learning will have a positive effect.

P_9:   Relationship learning has a positive effect on relationship effectiveness.

Conclusion

An organization can strengthen their learning capability in targeted customer relationships. When implementing a relationship learning strategy, managers must first define the objectives and major mechanisms for how the learning process will be approached. Next, they must develop mechanisms that facilitate the learning process through information sharing, joint interpretation, and integration into relationship memory. It is important that these elements are addressed simultaneously. Without a balanced approach, the potential for enhancing relationship learning is limited. As relationship learning relies on mutuality, it is important to ensure the willingness of the other party to cooperate.

The literature review and field study indicated that as uncertainty external to the relationship, transaction complexity, and relationship complexity increase, both customers and suppliers are motivated to develop learning capabilities in their relationships. This also implies that relationship learning will have little or no effect on efficiency and effectiveness if the relationship operates in a fairly stable environment, and if the complexity of the relationship and transaction are low.

The purpose of the article was to define a construct of relationship learning and propose a theory of its antecedents and consequences. We believe future research can address several issues related to relationship learning. One is to develop a conceptual framework for designing effective relationship learning strategies. Companies employ different learning strategies, of which some are likely to be more effective than others. In this paper we have commented on a few aspects of such strategies, and we see the need to explore this issue in more detail. A second avenue for future research is to empirically test the proposed drivers and consequences of relationship learning. As discussed above, the method we employed is likely to overestimate personal learning and underestimate learning at an organizational level. Thus, better measurement tools are needed to achieve more valid measures. We believe global companies operating in several locations around the world would be an appropriate context for testing out the theoretical model. These companies are likely to vary in both external motivators (external competition, external shocks, technological change), internal motivators (transaction complexity and relationship complexity), and relationship learning strategies. We expect the strongest effects of relationship learning to occur in relationships faced with a highly competitive and rapidly changing environment, and even more so if the nature of the relationship is complex in terms of organizational and transactional aspects.

Appendix. Interview Questions

After a brief description of the purpose of the research project, each informant was questioned on the following subjects:

1. Can you describe how you learn from your supplier/customer? Can you give examples of what you have learned and what they have learned from you?

2. How is learning memorized in your organization? What factors influence how information (from your supplier/customer) is stored in your organization?

3. What is motivating learning in the relationship? What factors are influencing your motivation to share information with the supplier/customer? What benefits has your company achieved through a learning relationship with this supplier/customer?

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