

Dissolution of a Business Relationship: The Five Phases

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ABSTRACT

The primary goal of this research is to develop a framework of business relationship dissolution. Using an interpretive approach to examining the literature on business-to-business (B2B) relationship dissolution and specific past dissolutions, a five phase model is identified: stresses and dissatisfactions, growing dissatisfactions, deterioration, pre-dissolution and termination. Using the model as a guideline to assess the stage of dissolution at any given time, remedial measures or strategies aimed at abating or stabilizing the deterioration of the relationship can be developed based on the salience of the relational elements at each phase.

Keywords: Dissolution, Relational exchanges, Discrete exchanges, Behavioral processes, Deterioration-in-progress, Termination

BACKGROUND

Business-to-business (B2B) relationships have been gradually replacing competitive marketing in order to realize many business benefits, such as enhancing performance by combining complementary operations, establishing control over the environmental uncertainty and reducing transactional costs (Arndt 1979). Business partnerships, joint ventures, and other collaborations are becoming predominant forms of successful business relationships because of their ability to develop competitive strength and sustaining profitable growth (Berry 2002). A recent example is the success of Apple Inc.'s iPhone products which relies heavily on the supply of semiconductors and computer chips from Samsung (Vance 2011).

The emergence of information technology and vertical integration through supply chain management practices (Jean, Sinkovics and Daekwan 2008) have added impetus to every firm's need to consider relationships as a central tenet of their business strategy. Birkhahn (2002) confirmed that the most important goal of establishing business relationships is increased sales and revenue. Yet establishing a relationship is an ongoing process rather than a one-time event because relationship duration and stage have a significant moderating effect on various inter-organizational relationships (Yen and Barnes 2011). Dwyer, Schurr and Oh (1987) proposed the first conceptual model of relationship development involving five stages: awareness, exploration, expansion, commitment and dissolution (Dwyer, Schurr and Oh 1987). In later research the 'ABCD' model of relationship cycle asserted that business relationship development progresses from acquaintance, buildup, continuation to dissolution (Stern 1997). In both approaches, each phase is a major transition in how parties regard one another on a complex set of social and economic considerations. Although current literature on business relationships has focused substantial interest on relationship development, understanding the process of termination or disengagement of business relationships is still limited. While a recent study shows variation in the levels of commitment between businesses during the business relationship development process (Goldring 2010), an in-depth understanding of the commitment level in the last stage is crucial, yet it remains unclear. Although it may be argued that conflict, dissatisfaction, and disengagement have an implicit presence in all the phases of relationship development, there is a distinctive interactive process in which parties negotiate their unbonding, termed the dissolution phase (Dwyer, Schurr and Oh 1987).

The outcome of dissolution of a B2B relationship is highly correlated with the economic performance of firms in the relationship (Payan et al. 2010). Our purpose is to provide an in-depth view of the dissolution phase, separating the issues leading to deteriorating relationships that are many times confused and clustered together in one specific point in time. We propose that, just like relationship building, relationship dissolution is also a time consuming process rather than just an event. It is an extended process and involves changing attitudes over time, such that it can be defined by specific phases as well (Mittal 2008).

The term 'relationship' implies an ongoing process where transitions over time change its fundamental nature. Dissolution of the relationship is one such transition, where the forces and emotions in the relationship vary as the relationship proceeds from the beginning of the dissolution phase to final termination. At each new phase of

dissolution there is extensive psychological and behavioral energy being expended that results in a variation of economic and social perspectives across the phases. Drawing from research on personal relationships, the initial phases of business relationship dissolution are seen to involve disengagement, marked with predominantly economic interests and individualistic processes. A dyadic process gradually emerges and the process finally evolves into a social/network phase where the partners reconsider relationship resolution. In simple terms, as the dissolution process moves from disengagement toward termination, economic perspectives decline in importance while social perspectives become more dominant. Economic interests, however, recover their dominance over social barriers at the termination phase when both parties attempt to cope with the social consequences and the economic motivations of the final break-up.

THE NATURE OF DISSOLUTION

‘Dissolution’ or ‘termination’ is a permanent dismemberment of an existing relationship distinct from a ‘breakdown’ which is turbulence or disorder in a relationship that may or may not result in dissolution (Duck 1982). Relationship dissolution is not necessarily undesired or a ‘bad thing’ as relationships often stifle individual growth and dissolution may be a creative act promoting freedom and development. And while dissolution may free badly deployed resources, it may also require substantial resources (e.g., legal costs) and loss of company reputation (Alajoutsijarvi, Moller, and Tahtinen 2000).

During the phases of relationship building, auditing business relationships is an effective tool to help strengthen or weaken business relationships (Wendelin 2011). Also, conflicts and conflict resolution are necessary, frequent and hopefully constructive. If conflicts are managed and resolved properly, they often strengthen the relationship (Tjosvold 1984). On the other hand, improperly managed conflicts lead to a weakening of the relationship and even counterproductive business actions (Alajoutsijarvi, Moller, and Tahtinen 2000). If not communicated effectively between business partners, conflict can result in a devastating dissolution result (Vaaland 2006). When levels of conflict are too difficult to deal with, one or both parties may gradually withdraw from the exchange process, often leading to self-destructive and counterproductive relationships (Tahtinen and Havila 2004). Hence, dissolution is a phase when conflict is amplified and conflict resolution is ultimately ineffective.

While ending the business relationship may be inevitable, the dissolution process is just as important as or even more important than initiating the relationship. Successful completion of the dissolution phase can provide many benefits. First, both firms can reallocate talent, time, and effort to activities which can add greater value to the firm rather than exhausting resources to maintain a poor relationship. Second, goodwill can be generated by making the dissolution process as painless as possible. Third, a smooth dissolution can preserve or enhance each firm’s reputation as a fair and reasonable a business partner.

Length of the Dissolution Process

Dissolution is a termination process that can proceed whether or not an explicit decision has been made (Tahtinen and Halinen 2002), and this explicit decision may be made at any phase of the process. However, as discussed in the following sections, the time period required for the dissolution process is a function of relevant factors including (1) the type of relationship at the time of disengagement in both social terms (acquaintance, close friendship) and legal terms (contracts), (2) the intensity of desire to break-up (mutual or one-sided) and (3) the character of the relationship (discrete/relational).

The first factor is the familiarity of the parties in the relationship, which reduces the complexity of the dissolution process due to generation of known responses (Baxter and Philpott 1982). Longer-duration relationships exhibit superior performance over shorter-duration relationships because of increased opportunities for achieving synergies (Pangarkar 2003), but they also develop social elements such as shared values, communication, trust, and commitment that can strengthen and mediate the relationship (Friman et al. 2002). As an example, the international sporting goods firm Nike began a new advertising agency relationship with Crispin Porter & Bogusky only to realize that they did not share the same advertising approach. Nike ended their 13-month partnership and was then able to quickly switch back to its prior agency Wieden & Kennedy, which had handled Nike advertising over the past 25 years (Parpis, McMains and Solman 2008).

As social bonds strengthen over the duration of a relationship, firms become more likely to be 'other' oriented and be concerned about the other party's reputation due to the break-up. The result is an attempt to break-up as delicately as possible without hurting the other party (Giller and Matear 2001). Moreover, these termination strategies are less likely to be indirect (i.e., dissolve without an explicit statement of the goal) because of the perceived obligation of the terminating firm to inform the other party directly about the decision to end their relationship (Baxter and Philpott 1982). Baxter also notes that, when the parties have weaker social bonds they may implement self-oriented termination strategies like avoidance behaviors or increasing relational costs.

Contracts provide another important consideration in the dissolution process. Regardless of the degree of familiarity of the parties in the relationship, contractual elements can facilitate conflict resolution and even the termination process by providing a formalized approach. But while this may be an expedient approach, resolving conflict though such means may be injurious to the relationship and a preferable approach would be to develop amicable terms of dissolution (Macneil 1978).

Another important factor to be considered is whether the desire to dissolve the relationship is mutual or one-sided. Mutual desire to dissolve will likely quicken and shorten the process as compared to when only one party intends to disengage. For example, when investments are becoming higher than the returns for both parties, amicable agreements to terminate are more likely (Halinen and Tahtinen 2002) and such terminations typically involve little or no conflict (Vaaland 2004). When the desire to break-up is mutual and the parties are other-oriented, termination strategies for personal relationships involve direct strategies like a negotiated farewell (Baxter and Philpott 1982). If they are self-oriented, indirect strategies (e.g., fade away) are more likely, yet they may take longer than direct strategies to achieve dissolution. But this is still a faster

process than when either direct or indirect strategies are applied when the desire to dissolve is one-sided as discussed next.

One-sided or unilateral terminations may employ either direct strategies or indirect strategies. A direct strategy, like a 'fait accompli', is a statement that the relationship is to be dissolved with no desire for further discussion. While this may seem like an expedient approach, it may lead to disagreements about the reasons for dissolution and attribution of faults to each other (Alajoutsijarvi, Moller and Tahtinen 2000), from which additional conflicts arise. Hence, the direct strategy may not work as fast as initially expected when the termination desire is unilateral. Indirect strategies typically involve some form of cost escalation, increasing relational costs so that the partner dissolves the relationship over time (Alajoutsijarvi, Moller and Tahtinen 2000).

Finally, the relational/discrete nature of the relationship may impact the length of the dissolution process. Relational marketing activities are directed toward establishing, developing, and maintaining successful relational exchanges (Morgan and Hunt 1994) and discrete exchanges are primarily characterized by satisfaction of immediate economic needs and parties rely on strict adherence to the contract (Macneil 1978). While formal rules are heavily emphasized in discrete exchanges, interestingly, in relational exchanges, parties tend to avoid reference to contracts in unexpected situations (Macaulay 1963). Investment, commitment, interdependence and a need for harmonization are so prevalent in relational exchanges that flexibility and adjustments to the original agreements are often expected. In the absence of formal rules contained in a contract, business partners tend to exhibit generous sharing and make their best effort in creating a successful long-term relationship from the very beginning (Brown, Falk and Fehr 2004).

Hirschman (1975) has proposed a strategy called 'exit', that is, to simply discontinue further transactions to end a relationship. However, continuing business relationships are complicated due to activity links, resource ties, and the strength of the bond built by the parties over time, that a straightforward 'exit' is not seen as a viable option (Alajoutsijarvi, Moller and Tahtinen 2000). While a discrete relationship ends with either clear performance or clear breach (Macneil 1978), relational exchange seeks to achieve goals by avoiding formal rationality (Macaulay 1985) and hence, is a more complicated and a time consuming process.

Role of Economic and Social Elements

Defining a relationship in social terms is based on the degree to which social norms are established. When the relational norms of solidarity, flexibility, and information exchange are embedded in a relationship, interaction among the firms will be more cooperative (Dwyer, Schurr and Oh 1987). Willingness to share relevant information, joint planning, understanding costs and benefits for both parties, mutual response, appreciation of each other's problems, effective two-way communication, personal contact, and a true sense of partnering all contribute towards a successful relationship. Partners must understand one another's goals, relevant strengths and weaknesses (Berry 2002). While a failure to address these norms is likely to initiate dissolution, social bonding between business partners is often an effective mechanism in preventing them from seeking recourse through time-consuming, expensive litigation (Hill 2009).

Economic elements are the foundation of the relationship and can be broadly classified into 'explicit' economic elements, which are the contractual elements, and 'perceived' economic elements, which are other norms that implicitly indicate an

economic drive for the parties. As an *explicit* economic element, contracts play an important role by detailing the terms and framework for transactions and clearly defining roles, authorities, and responsibilities over a given period of time. Contracts are important in managing business relationships (Frazier 1983) and enforcing contracts when there are violations of contractual obligations (Anita and Frazier 2001) determines to a large extent the effectiveness of coordination efforts among businesses. Explicit contracts, however, play a limited role in interfirm relationships and do not necessarily act as a guide for dissolution. When exchanges are discrete, contracts specify termination on completion of discrete transactions or dictate explicit mechanisms for termination, but relational exchanges are usually open-ended with no finite or foreseeable termination points (Macneil 1978). The most widely known *perceived* economic element of a relationship is *opportunism* where parties either actively violate formal contractual terms (active opportunism) or passively avoid formal or informal agreements (passive opportunism), to engage in self-serving behavior (Wathne and Heide 2000). Saliency of the social and the economic relational elements during the dissolution process is discussed later in the paper.

Termination Outcome

The termination outcome is determined by the termination strategy used by the parties, with other-oriented strategies achieving more favorable outcomes (Griller and Matear 2001). Relationship termination does not have to be the outcome of conflict, or be detrimental to either party (Vaaland 2004), and sometimes business relationships are not worth restoring (Tahtinen and Havila 2004). On the other hand, there are numerous examples of business relationships that are worth saving (Turnbull, Ford and Cunningham 1996) or even restoring (Tahtinen and Vaaland 2006).

The most obvious outcome of a relationship termination is economic loss (Halinen and Tahtinen 2002), most directly involving sunk costs incurred in terms of time, effort, and expenses (Tahtinen and Vaaland 2006). Economic loss may also involve dissolution process costs in terms of costly legal battles and costs of negotiations (Tahtinen and Vaaland 2006) and should even consider the costs to establish a new relationship in terms of developing new ties with the new partner who may not possess specific knowledge and experience that the present partner had acquired during the relationship (Tahtinen and Vaaland 2006).

Relationship termination may also have severe social costs. Social costs include the loss of relational benefits, such as relational investments like knowledge and technological bonds (Nielson 1996), social and personal bonds (Roos and Strandvik 1996) and even the emotional attachments as a team member (Tahitnen 2002). However, a properly handled relationship break-up may reduce emotional stress among those involved in the relationship as well as lower the break-up costs (Alajoutsijarvi, Moller and Tahtinen 2000).

Generally both parties use termination strategies (Giller and Matear 2001), thus effectively extending the relationship termination perspective to the dyad, perhaps even the broader network, and not just a single party. This broader perspective is crucial since a single relationship termination may cause instability of an entire network, even to the extent to which the entire network requires restructuring (Tahitnen 2002). There may also be social pressure due to negative word of mouth which leads to an unfavorable

reputation. This may make it difficult to develop new relationships and moreover, if the relationship is important to the network, there can be pressure from network actors that may even extend to threats and economical sanctions against the parties (Tahtinen and Vaaland 2006).

VIEWING DISSOLUTION AS A FIVE-PHASE PROCESS

While dissolution is sometimes inevitable and perhaps even desirable, ineffectiveness in managing dissolution can cause considerable damage to the reputations of the firms, particularly to the initiator in a unilateral dissolution, in today's ubiquitously connected market (Alajoutsijarvi, Moller and Tahtinen 2000). This highlights the need for additional research into the process and the consequences of relationship dissolution (Tahtinen and Havila 2004).

We discuss five broad phases of the dissolution period of a business relationship. Each phase represents a transition of attitude and behavior of one party towards another. As the process continues from one phase to another the parties psychologically drift further apart although they do not physically withdraw themselves from the bond until the last phase. Table 1 provides a consolidated framework of the five phases of dissolution.

Phase 1: Stresses and Dissatisfaction

Some form of stress is usually the "beginning of the end." Stress factors most often emerge to cause partners to engage in behavior that prevents or impedes the other member from achieving his/her goals. In this phase, either one or both of the parties face different types of stresses due to subtle disturbances or disorders in the relationship. Inconsistencies may induce dissatisfactions in achieving economic goals, which may initiate conflicts in the relationship. Partners in this phase should be wise enough to anticipate potential problems and openly communicate with each other in order to seek solutions to the conflicts. Confrontation is important and a less desirable alternative is avoidance and delay (Stimac 1982). Timely anticipations and agreement to solutions prevent financial or social problems from becoming severe. This phase may be best explained by the stress model (Fournier 1998) containing three major types of stress – environmental stresses, partner-oriented stresses, and dyadic/relational stresses. Although the original context was relationship between consumers and their brands, the same model may be applied to relationship between two businesses. Environmental stresses involve factors such as technological change, change in role of government, socio-economic change, and so on. Partner-oriented stresses are evoked in situations where both party's needs, values and goals are no longer in alignment. Finally, dyadic or relational stresses may be selfishness and thoughtlessness of a partner, which are frequently cited reasons for dissolving personal relationships. A partner's individual qualities, poor conduct of the relationship and inability to realize relationship potential all imply passive opportunism and contribute to the relationship's demise. Partners' lack of early detection of these problems and grievances as well as failure to see them becoming more impactful are the reasons for entering the next phase, which is a transition towards an aggravated relationship.

Table 1: Diagnosing the Five Phases of Dissolution

Phases	Behavioral Processes	Observed Behavior
1. Stresses and Dissatisfaction	Stresses emerge that forcefully destroy relations: <ul style="list-style-type: none"> • Environmental stresses, • Partner-oriented stresses • Dyadic, relational stresses (Stress Model, Fournier 1998) 	Disturbance, disorder, and inconsistency due to dissatisfaction in achievement of economic goals.
2. Growing Dissociation	<ul style="list-style-type: none"> • Delay and avoidance, lack of confrontation • Lack of early detection and speedy resolution of grievances. • Partners are not active in maintaining the relationship. (Entropy Model, Fournier 1998) 	Behavior signals decreased accessibility; partners seek evidence of increased dissatisfaction with the relationship and increased difficulty of maintaining it.
3. Deterioration	<ul style="list-style-type: none"> • Partners become more expressive <ol style="list-style-type: none"> 1) Cross-complaining, mutual criticism and negative reciprocity increases as partners justify their own point of view 2) Partners may seem to be better listeners in understanding each other's point of view but are not willing to compromise and are increasingly inflexible. • Willingness to leave the relationship or to form a relationship with another partner. • Six tactics of reducing liking between the two parties. (Baxter and Philpott, 1982) 	Perpetuates rather than resolves conflict Hastens realization that the relation is in jeopardy (Levinger 1983)
4. Pre-dissolution Stage	<ul style="list-style-type: none"> • Attention on management of consequences of dissolution • Social management problem – letting the social network know, provide justification, accounts for dissolution have to be socially valid at this stage • Weigh remaining benefits and costs 	<ul style="list-style-type: none"> • Re-evaluation, oscillation between withdrawal and intense reconciliation. • Seriously deteriorated relationship held together by barriers around it. • Psychological, emotional and physical stress. • Social cost of termination heightens.
5. Termination	<ul style="list-style-type: none"> • End is inevitable • Publicly account for break • Coping with status loss/change • Coping with third-party dilemma – customers, suppliers, others in the network 	<ul style="list-style-type: none"> • Economic interests once again dominate social barriers.

Phase 2: Growing Disassociation

The second phase involves a lack of confrontation on the stresses, with the most common outcome being a failure to communicate. There may be two reasons for lack of confrontation. First, either party is unable to see the growing intensity of tension in the relationship and considers the status of the relationship as a temporary phase. Hence, they ignore confrontation and simply procrastinate in dealing with matters with no intention to break-up. Secondly, one of both parties begins to foresee a relationship stress, but is then subconsciously motivated to disengage from the relationship rather than confront the issue. This is a more repressive coping style where they seek evidence of increased dissatisfaction with the relationship and increased difficulty of maintaining it. This attitude signals decreased accessibility. It is entirely possible for one party to believe that the interaction has become unsatisfying while the other feels that it is as good as ever. Typically in this phase partners begin to lose interest in each other and avoid confrontation. Fournier's (1998) model addresses the elements of this phase, where relationship deterioration and dissolutions results from the failure to consciously and actively maintain the relationship. Lack of speedy resolution of grievances is the main cause of any further decline of the relationship. Inequitable interactions and a failure to communicate with one another at a satisfactory level may themselves bring a partnership to a collapse (Hatfield and Traupmann 1981). This phase is thus characterized by a subtle and gradual 'fade away'

Phase 3: Deterioration

The third phase is characterized by a major decline in the intimacy of the relationship without actual physical withdrawal. Unlike the previous phase, this phase involves communication where partners are more expressive and there is an honest intention to redefine and focus on amending behavior. This may either slow down the disengagement or vigorously repair the relationship. However, repair is possible only if conflict resolution is attained without major compromise from either party. Two different forms of communication about inter-organizational difficulties may be perceived to contribute to the deterioration of the relationship at this point of time (Levinger 1983). The first type includes cross-complaining, mutual criticism, and negative reciprocity. In this type of confrontation, partners are more interested in justifying their own point of view and they are not flexible. This attitude perpetuates the conflicts rather than resolving them. The second type of communication is a more open one. Parties are better listeners and are able to understand each other's point of view. However, if the conflict requires compromise on each other's part that they are not willing to offer, such communications only hastens the realization that the relationship is in jeopardy. This phase is significant because it is the first time that both parties seriously consider a permanent disengagement or failure to resolve. If this desire is mutual it cuts short the remaining phases and shortens further physical and psychological turmoil. But if the desire is one-sided then the process may still be lengthy, uncertain and often messy.

This phase of the dissolution process many times also involves explicit use of one or more tactics for reducing the amicability between the two parties (Baxter and Philpott 1982). The six tactics involve 1) negation- sending cues that the other party is disliked, 2) difference: demonstration that one party does not have things in common with the

other, 3) self-presentation: presentation of one's negative attributes, 4) cost-rendering: the cessation of favor rendering and increased imposition of costs to the other party, 5) disinterest: complete lack of effort to acquire additional information about the other party and 6) exclusion: conscious effort to avoid involving the other party in further activities. All these actions convey intention to break away from one another.

Phase 4: Pre-dissolution Phase

This is the critical phase when the relationship is considered seriously deteriorated and yet, there is considerable uncertainty about the eventual termination of the relationship. Any number of factors can come into play. One possible factor is the presence of specific barriers which may include both affective (emotions and psychological stresses) and social elements. The social elements may involve the relational norms as well as the social network and its consequences. As the parties begin to focus their attention on managing the consequences of the dissolution, the social management problem of negotiating disengagement appears. They face the problem of letting the social network know of the dissolution and providing justification. They engage in a reevaluation of events, initiate decisions between staying and leaving, and identify individual ways of coping with the past and the future. Parties are also likely to weigh the remaining benefits versus costs. The result is that partners have confronted and accepted the issues that have separated them, but still oscillate between continuing toward dissolution and intense reconciliation (Altman and Taylor 1973). Only when other alternatives outside the relationship appear to outweigh the advantages of maintaining the relationship will the parties take the last step of ending the relationship. By the end of the fourth phase the partners have accepted the break-up, its consequences, and have decided to cope with them.

Phase 5: Termination

The end is now inevitable. Partners resolve to dissolve the relationship legally and address the issue of publicly accounting for the break-up. Both parties cope with 'post-mortem' attributional activity (Harvey et al. 1982), where they come to terms with the dissolution. They must deal with the social network comprised of immediate customers and immediate suppliers as well as suppliers to immediate suppliers, customers to immediate customers, and regulatory agents. Generally there remains considerable ambiguity and ambivalence about the future of the businesses, leaving the partners with a sense of loss.

SOME ANECDOTES

Business relationship dissolution is the culmination of a deteriorating business relationship (Caruso and Harpest 2006). The timelines of relationship termination may vary from case to case depending on the frequency and quality of communication between the two parties. Analyzing several termination incidents of business relationships helps understand nature of the friction and disengagement as well as the actual process.

The first example involves a merger between Hershey Medical Center and Geisinger Health System announced on January 1997. But by December 1997 financial performance had already started to decline, cultural differences were becoming apparent and the first signs of stress began to appear. Irreconcilable differences led to dissolution of the merger in July 2000. On the other hand, many relationships may be long-lasting, yet they ultimately face dissolution. Anheuser-Busch's Budweiser fired its advertising agency DMB&B after almost 80 years; Amoco put its \$40 million account in review after 40 years with DMB&B and Kmart placed its \$175 million account in review after 26 years with Ross Roy Group (Goldman 1994). While Gateway and Affiliated Computer Services agreed to terminate their contract after a seven-year relationship due to change of business strategy of Gateway, PT Telkom and AriaWest International agreed to terminate their contract to end the long-running conflict between the two which otherwise should have expired after another 10 years. In both cases, the end was consensual and considered amicable from both business and financial perspective (Dhume 2002). On the other hand, Telkom was ready to pay compensation to AriaWest for the early termination of the partnership.

Other examples illustrate that consensual terminations may or may not involve economic compensation and may even undergo a possible restructuring of relationship terms. The key is to have well defined exit terms in the event of a termination decision. *"Things change. And you can't possibly think of everything when you start a joint venture,"* says Mickey Foret, CFO of Minneapolis based Northwest Airlines, which restructured its own long term partnership with KLM Royal Dutch Airline. His guiding principle in relationships: Know thy partner — which provides insight into your own company's vulnerability. Awareness of that vulnerability helps in agreeing upon more intelligent exit terms (Harris 2004). Lack of an explicit contract or failure to find a mutual understanding among parties leads to very unpleasant situations. An example of a lack of a mutual understanding was a dispute between Toys "R" Us and Amazon. Toys "R" Us filed a lawsuit, alleging that Amazon violated exclusivity provisions of their contract by allowing individuals and other retailers to list toys, games, and baby products for sale on Amazon. Amazon denied that it breached its agreement with Toys "R" Us, saying the language of their contract allows for exceptions that permit Amazon and other merchants to sell products that compete with offerings from Toys "R" Us. Amazon sought unspecified damages from Toys "R" Us or, alternatively, a declaration from the court authorizing Amazon to terminate its contract and recover from Toys "R" Us the expected value of payments and lost shipping revenue, estimated by Amazon to be in excess of \$750 million (Wingfield 2004).

Another anecdote worthy of attention is the high-profile dispute ending in settlement by Liberty Media and InterActiveCorp (IAC). Liberty Media owned a controlling stake and voting power of the shares over its business partner IAC (Arango 2008). The relationship began in 1992 but an imbalanced relationship created years of stressful conditions involving spreading rumors about financial conditions and management impotence (Foley 2008). In 2007 the dispute erupted and the parties went through lengthy trial hearings and allegations. In May 2008, they settled their differences with considerable restructuring. Liberty allowed IAC to break into five separate companies and the two parties agreed that Liberty would have board representation at each company but would not increase its stakes in any of them (Fabrikant 2008). While Diller (CEO IAC) announced that *"Now it's really over and that's great for both of us,"* Malone (CEO Liberty) stated that *"Liberty supports the proposed restructuring of IAC and looks*

forward to the ongoing success of each of the new entities and IAC.” (Avery 2008). Both IAC and Liberty stock rose after the settlement.

Drawn from such examples as the above, specific phases can be identified based on the three factors: time, communication, and behaviors that reflect both economic and social elements.

SALIENCE OF THE ECONOMIC AND SOCIAL ELEMENTS ACROSS THE DISSOLUTION PHASES

Discussion of the phases reveals an interesting pattern in the variations in economic and social elements across the entire dissolution process. While economists initially treated the individual as the ‘economic man’ who makes decisions based only on prices, income, and financial resources (Ferber 1973), subsequent noneconomic considerations have been found to enter ‘economic’ decisions and at times the social environment has the dominant impact on individual decisions. Hence, as we move toward the middle and later stages of the dissolution process we find social elements becoming more prominent than the economic elements. Actually reaching a termination decision, however, occurs when the economic factors prevail over the social factors.

The Economic Elements

To a large extent businesses are profit-oriented and transact with those who can best help them to achieve business goals. As a result, every organization has an economic expectation of enhancing efficiency, sales, and profitability from a relationship. Hence, the initiation of a relationship is an economic motivation. Contracts serve as a framework for incorporating the formal agreements. The durability of a business relationship depends on the productivity of the parties involved and their desire to nurture the relationship on a continuous basis, ensuring that each party’s interests, capabilities, roles, and performance are aligned (Berry 2002). Conflicts arise due to different risk preferences and conflicting goals, which then leads to varying preferences for alternative courses of action and even opportunism. The misalignment of goals signals discontinuity of the relationship. Since every party in a relationship seeks an economically viable foundation for building and sustaining the relationship, a lack of economic viability represents a serious issue to overcome.

The Social Elements

Institutional theory suggests that organizations must justify their actions and behave in accordance with existing social norms and institutional expectations (DiMaggio and Walter 1983). Adhering to social norms include carrying out activities in a manner that is not only expected in a relational bond but also deemed suitable to institutional constituents including the government, consumer bodies, trade associations, and the public (Grewal, James and Mehta 2001). Relationship dissolution has to be managed and dealt with in this social context as well. The social context includes other external relations of the firm that may be directly or indirectly affected by the dissolution. Parties who would have otherwise intended to dissolve the relationship may stay in the

relationship in anticipation of unfavorable reactions from other members in the social network.

The Pattern of the Economic and Social Elements

The first phase of dissolution is likely to be highly associated with economic motives. The partners intend to discontinue the relationship when they fail to realize further joint economic benefits from the collaboration. It is the economic dissatisfactions that initially drive the desire of parties to disengage and at this phase it is the dissatisfaction of economic expectations that the partners are highly concerned about. The social context is not a priority at this phase. During this first phase the economic perspectives are highly important while the social perspective is low in importance.

In the second phase of growing dissatisfaction, the economic interest is still evident but reduces in intensity while the social context begins to attain priority. Partners are willing to accept 'trading-off' the gains from working more closely with existing partners against the potential gains from developing new relations (Hakansson and Ford 2002). Parties continue with the relationship hoping that some of the lost social norms will be restored and things may take a better turn. They seek evidence of increased difficulty to justify any further disengagement. At this phase they do not readily accept the fact that the relationship is not meeting each other's expectations and if there is a breach of trust they like to consider it as an abnormal behavior initially and hence, discount it. During this phase, the impact of social elements of the relationship can increase and the impact of the economic elements can decrease simultaneously.

In the third phase, parties are more expressive and they confront each other. Although they are unwilling to compromise, they are able to understand each other's point of view. The reactions of parties at this phase depend greatly on the duration of their relationship and their status with each other at that particular point in time. If they had been partners for a long time and share more than just acquaintanceship, they may still arrive at a satisfactory resolution at this phase. Parties may consider past successes of their joint efforts and resolve conflicts without making major compromises. At this phase the decisions have a greater affective or social orientation rather than an economic orientation. Although economic motivations do not lose importance in any of these phases, social forces gradually increase in relative importance as the dissolution process moves forward.

At the pre-dissolution phase the impact of the social elements is very high, while the economic forces are much less salient. At this phase both parties realize the complete lack of social norms in the relationship, become extremely aware of the social contexts and social consequences of the dissolution and are confronted with a high social cost. At this phase, the exit option alerts management of its failings and at that point in time reconsideration appears to be socially desirable. They reconsider the relationship and evaluate the social cost of termination. If they are unable to justify the break-up socially they may be still held together because of the social barriers, else economic elements begin to grow in salience.

Table 2: Identifying the Salient Relational Elements of Their Variation across the Dissolution Phases

	Social Relational Elements	Economic Relational Elements
Phase 1	Role Integrity: Efforts to maintain expected behavioral patterns of exchange participants need emphasis.	Passive Opportunism: Parties at this phase are inclined toward either engaging in or refraining from certain actions and withhold certain efforts to honor a formal or informal agreement. Contracts: Contracts specify the formal obligations that must be honored by the parties in the course of their relationship. Monitoring and contract enforcement must be emphasized when formal agreements are not honored. Explicit contracts are important for management of the business relationship at this phase of the dissolution.
Phase 2	Communication: Frequency and richness of interaction between parties must be restored. Information Exchange: Willingness of the firms to provide information proactively that is useful to the other need to be enhanced. Role Integrity should be maintained.	Incompleteness of Contracts: Contracts in relational bonding are more of a “framework” rather than a complete governance device since they fail to incorporate the informal agreements of a relationship. Incentives to align interests and reducing information asymmetry may provide resolution to grievances.
Phase 3	Flexibility: Willingness of the firms to make alterations as circumstances change need to be enhanced. Solidarity: Willingness of firms to strive for joint solutions and benefits need to be enhanced. Conflict Resolution: Attempts to resolve disputes so as to preserve the relationship must be made. Role Integrity should be maintained.	Lack of Mutuality: Parties fail to perceive financial improvement from further exchange. Active Opportunism: Parties begin to take advantage of opportunities and engage in self-serving behavior by breach of contract that involves an active effort. Incentives to reduce payoffs from opportunism and more socialization to promote goal convergence help to preserve the relationship.
Phase 4	This phase is characterized by lack of all the above elements despite attempts to reevaluate the benefits and costs.	Opportunism (passive and active) gradually increases in intensity showing an upward trend of the “economic elements” curve. Socialization should be further emphasized. If governance strategies fail to mitigate opportunism at this phase, the termination phase will follow closely.
Phase 5	Accountability: Justify dissolution to the social network.	Contracts are important once again if terms of termination are specified or else parties come to a mutual agreement of a permanent break-up since the only feasible way to profit and development is freedom.

However, at the last phase we see a change in pattern of the two forces. At this final stage it is the economic interest that motivates the actual termination. Similar to personal relationships, where married couples settle the economic benefits of their divorce, a business relationship also sums up the benefits of the break-up. The economic interest returns to its higher level of importance and encourages the members of the relation to go ahead with the termination and take care of the social problems. Both parties face the social management problem –letting the social network know, providing justification, and accounting for dissolution that must be socially valid. Although after-effects of a break-

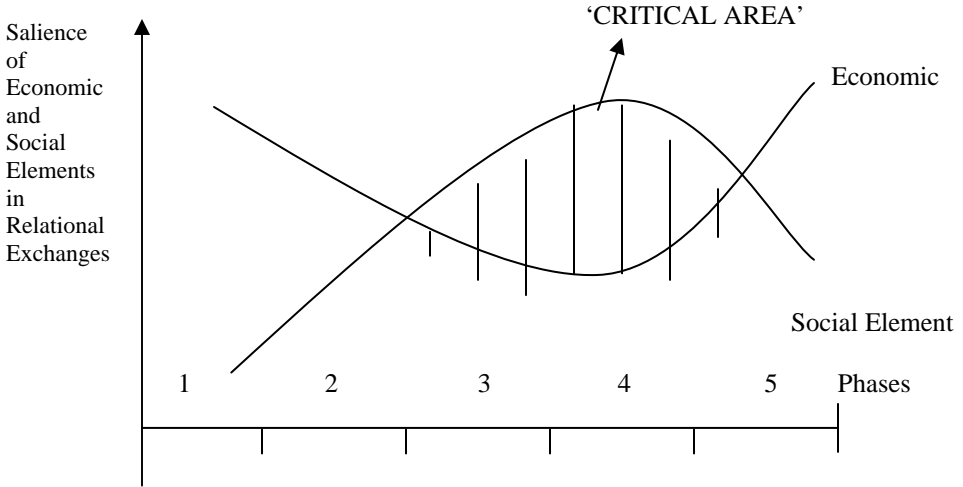
up are always present, the economic interest is the major motivation behind the actions of the parties in the last phase.

CONTRIBUTIONS

The primary contribution relates to the identification the five phases of dissolution and the variation in the impact of the relational elements (social and economic) across the phases. Table 2 provides a list of these relational elements broadly grouped into social and economic elements that may be considered to have a considerable impact on the status of the dissolution at the different phases. This is a guideline for managers in identifying the salient relational elements underlying the appropriate remedial strategies at each phase. The costs and liabilities of dissolution are reduced significantly if the dissolution is prevented from moving toward termination at any of these phases.

The pattern of social elements portrays not only an increase in the number of salient social elements but also an increase in the magnitude of the impact of these elements across the phases, as evidenced by the finding that trust is a salient social element in the positive outcome of the dissolution phase (Payan et al. 2010). The salience of the social elements rises to its highest in the mid to late phases and then declines when the economic elements grow in salience as the dissolution approaches termination. On the other hand, the economic elements are the primary force both at the initial phase of dissolution as well as at the termination phase. In the initial phase, contracts and passive opportunism are both salient economic elements. Parties are inclined toward withholding certain efforts or passively failing to honor a contractual agreement or an informal relational agreement due to dissatisfaction of economic goals. Monitoring at this phase is more internal, based on self-control. As the social elements increase in salience, the

Figure 1: The Pattern of Economic and Social Elements in Relational Exchanges



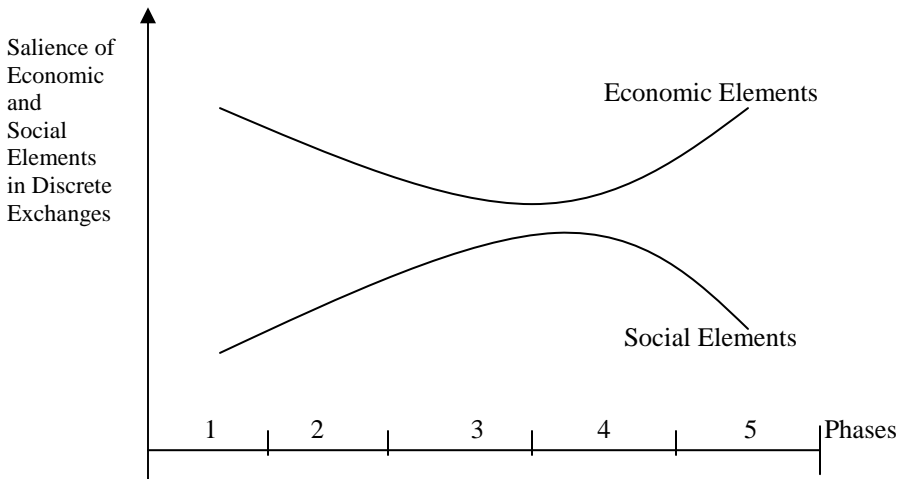
contract proves to be incomplete due to its failure to include these elements. Therefore, the social elements become more salient giving rise to the “critical area” (Figure 1). As the governance strategies fail to restore the social norms in these phases, the economic relational elements gradually grow in importance and parties begin to engage in both

passive and active opportunism to achieve its economic objectives. Contracts are once again important to identify the terms and conditions of termination. Some buyers and sellers employ social elements (e.g. interpersonal ties) to ameliorate economic pressures before reaching the dissolution stage (Ryan and Blois 2010).

The phase where the social forces exceed the economic forces and is termed as the 'critical area', however, is only exclusive only to relational exchanges. Discrete exchanges are defined as discrete transactions that start sharply, are short lived, and end sharply, either by clear performance or by clear breach (Macneil 1981). While in both relational as well as discrete exchanges, parties enter an exchange expecting a consequent improvement in their pre-exchange position, it is more apparent for the latter because it is more immediate than the relational one (Blois and Ivens 2006).

Prompted by Arndt's (1979) contrasts of discrete versus relational exchanges, we also propose the pattern of the two perspectives across the five phases of dissolution in the context of discrete exchanges between partners (Figure 2). In the latter case, the basic nature of variation in the impacts is expected to remain the same i.e. the impact of economic elements reveal a 'u' shape curve while the impact of social elements would have an 'inverted u' shaped curve. However, the 'critical area' is likely to be missing in this situation. This implies that the economic forces may reduce in intensity during the mid-phases of dissolution and there may be a simultaneous increase in the intensity of social forces as well, yet the importance of economic elements will always remain considerably higher than the social elements throughout the entire process (Figure 2). The discrete exchange will involve a dissolution process that is less extended, less affective, and more economic based. The social forces still has its initial upward trend and a consecutive downward fall across the five phases but remains of little importance to the parties as compared to the economic forces.

Figure 2: The Pattern of Economic and Social Elements in Discrete Exchanges



CONCLUSION

Disengagement and dissolution are not simple events but complex processes. The goal of this article is to develop a five-phase sequence of relationship dissolution spanning from stress to termination. Based on academic research and some examples of past business relationship dissolutions, a structure of the deterioration process is developed. We then examine in more detail the behavioral and psychological elements that may shape the dissolution process into the distinct phases of (1) stresses and dissatisfactions, (2) growing dissatisfactions, (3) deterioration, (4) pre-dissolution and (5) termination. A number of conceptual issues associated with dissolution are then addressed based on the variation of two primary forces of business: economic and social. Table 1 provides a consolidated diagnosis of the five dissolution phases. Managerial implications of the diagnosis of the different phases of dissolution lie in the remedial measures or strategies that are developed based on the salience of the relational elements at each phase. In addition, Figure 1 and Figure 2 show the pattern of the economic vis-à-vis social elements in relational and discrete exchanges. Future research should empirically verify the process of dissolution and examine the pattern of economic and social forces across the phases of dissolution by operationalizing the relational constructs shown in Table 2.

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