Resolving issues of agency amongst value chain partners through relational turbulence concept: A review of antecedents, benefits, risks, and boundary conditions

The concept of 'relational turbulence theory' asserts that a communication viewpoint on personal relationships that emphasizes how relationship transitions polarise emotions and cognitive assessments, disrupting partner dialogue. Even though 'relational turbulence theory' has lately acquired popularity in the value chain literature for managing agency difficulties between partners, there is enormous disagreement on its antecedents, advantages, risks and boundary conditions in managing such partnerships. A thorough literature review consisting of fifty-two publications published in peer-reviewed journals between 2011 and 2021 was conducted to fill this gap. The study identified two types of antecedents that can lead to resolving issues of agency between value chain partners as structural and relational antecedents. It indicates that relational turbulence theory 'can result in a variety of benefits, including primary-level activities and support value activities. However, such advantages differ based on the boundary conditions presented in the 'relational turbulence model' about partners in the value chain. The review also points out that, while the 'relational turbulence model' can provide benefits, it can also pose threats in resolving issues of agency amongst value chain partners implying a double-edged sword outcome.

RESEARCHES & INNOVATIONS

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Background of the research

The phrase 'Sharing Economy' was coined in 2008 to describe collaborative consumption characterised by actions such as sharing, exchanging and renting resources without owning them. Scholarly literature on business-to-consumer service settings has extensively covered the classic concept of value co-creation, while in B2B, conversely, it is underutilised. One aspect which was identified as under-explored in this area is the lack of proper studies which investigated proper management of the agency problems between the partners in the value chain. Therefore, poor management of the agency problems between the partners in the value chain is often occurred because of the dark side of sharing economy.

Future research related to the antecedents of relational turbulence in managing the agency problems between partners in the value chain

The antecedents of relational turbulence in managing agency problems between partners in the value chain have received little attention in the existing research compared to its results. One factor that was identified as underexplored in this subject was the lack of good research that addressed the proper management of agency problems between the actors in the value chain. Furthermore, as previously mentioned, the existing literature concentrated on intra-firm factors such as entrepreneurship values, business, and personal trust, inter-firm collaboration, family firms, employee resilience, firms learning orientation and memory, performance, innovativeness and customer relationship values. Because the current focus only evolves over emotional and intellectual experience, age gaps, the relational value from the customer, performance in the relationship, organizational agility and empty-nest transition, there is a lack of focus on relationship-level antecedents. The relational turbulence model can be used to identify the common issues that commercial enterprises experience as a result of their continuing collaborations. Despite this, the factors influencing the quality of relationships between actors are alleged to have a significant effect on the formation of operational turbulence in management. However, the intra-firm level issues have gained more traction, to date, than the relationship level issues, according to our review. It is, therefore, pertinent to examine, the impact of the important relational aspects in managing the value chain between the partners on the development of relational turbulence.

Future research related to the benefits of relational turbulence in managing the agency problems between partners in the value chain

There is a growing research body that explores the interaction effect among these dimensions to establish how these dimensions impact agency problems between partners within the value chain. Researchers recognised and distinguished internal and external benefits as a consequence of managing agency problems within the value chain. Based on the aforementioned study, it is clear that the emphasis is on internal advantages rather than outward benefits. According to the literature reviewed, relational turbulence dimensions have a positive impact on market turbulence, higher competitive intensity, innovation ability, market performance, environmental factors, technology features, value innovation ability, deliberate learning mechanisms and supply chain performance. Similarly, the reviewed literature found that relational turbulence dimensions hurt market turbulence, higher competitive intensity, innovation ability, market performance, environmental factors, technology features, value innovation ability, deliberate learning mechanisms, and supply chain performance.

Furthermore, this disparity implies that a large percentage of studies in the current research has failed to account for external advantages. This is related to the difficulty of quantifying issues and measuring external variables. Future research should strive to apply more extensive investigations comprising factors under external benefits to explain the relative impact of each dimension in relational turbulence in controlling agency difficulties between the partners in the value chain. Future academics will be able to identify the interconnections between these variables by building new conceptual frameworks. This can aid the development of available literature by identifying whether a certain component of relational turbulence has a greater impact on a particular aspect of the outcome variable.

Future research related to the risks of relational turbulence in managing the agency problems between partners in the value chain

According to the study, the effects of relational turbulence between partners in the value chain can be, both, positively and negatively valenced, depending on the situation. Current research on the benefits of relational turbulence is rapidly developing; however, the current research on its negative effects is far less developed.An increasing body of research highlighting the negative effects of relational turbulence has emphasized its risks, underlining a double-edged sword effect. This study identified 11 critical and informative aspects of relational turbulence hazards, including the nature of the risks, as well as underlying conditions and reasons for their occurrence.

Future research related to the boundary conditions of relational turbulence in managing the agency problems between partners in the value chain

While the current review identified six major boundary conditions from the existing research, establishing limited moderating variables. As a result, future studies should contribute towards uncovering more moderators of relational turbulence antecedents to gain a better understanding of how relational turbulence theoretical constructs can be used in managing the agency problems between the partners in the value chain that develops and evolves in the value chain literature. For example, the term 'boundary conditions' refers to the constraints that affect the management of value chain activities in agencies. The quality of interdependence, organizations working in turbulence, firm innovativeness, value chain innovation ability and future orientation owing to the adoption of global value chain activities, influence the outcomes in resolving agency difficulties between value chain partners.

In practice, the influence of interdependence is determined by the supply chain structure: decreasing interdependence between components increases quality when suppliers provide the components, whereas decreasing interdependence when the business manufactures the full subassembly degrades quality. Further, formal control and social control influence the decision-making quality. Therefore, future researchers should shed light on this aspect with special reference to primary activities of the value chain including inbound logistics, human resource management, and logistics as it is the main components of any organization. Furthermore, future studies should use a longitudinal research design to examine how an alliance's market orientation evolves. Although current boundaryvariables such as government and institutional features in the value chain and the role of market turbulence suggests that managerial perceptions are compatible with objective indicators, future studies should include objective financial metrics. More information about this study can be found in below source;

Behl, A., Jayawardena, N., Pereira, V., Tarba, S., & Bamel, U. (2022). The role played by relational turbulence in managing agency problems among value chain partners in the sharing economy: A review of the antecedents, benefits, risks, and boundary conditions. Industrial Marketing Management, 107, 39-51.

Further 'Industrial Marketing Management' is a top-tier journal with an A-star ranking in the Australian Business Dean's Council. To date, very few Sri Lankans have published in this journal including Dr. Nirma Sadamali Jayawardena.

The Twin Deficit Hypothesis, Is it Behind the Current Economic Crisis?

This paper examines the long-run and short-run relationships between the current account deficit, budget deficit, saving and investment gap and trade openness in Sri Lanka using the Autoregressive Distributive Lagged (ARDL) approach. Time series properties of the variables, in the presence of endogenous structural break, have been analyzed by using Additive Outlier (AO) and Innovational Outlier (IO) models.

Twin Deficit Hypothesis

The twin deficits hypothesis states that the movements of a country's fiscal deficit and current-account deficit tend to be in the same direction. The twin deficits create a cycle in which the deficits widen more, the currency becomes weaker, and the commodities produced in the country become less valuable in global export as well. Theoretical and empirical evidence proves that prolonged fiscal expansions contribute to current account imbalances and hence, there exists a positive-long-run relationship between budget deficits and current account deficits. This relationship is referred to as the 'twin deficit hypothesis'. Significant fiscal expansions and external imbalances, which caused macroeconomic instability in a large number of advanced countries and emerging countries, have motivated examining the issue of twin deficits.

Looking at the reasons behind this, the Mundell-Fleming model suggests that as budget deficits widen, interest rates are pushed upward, and vice versa. Increased interest rates make the nation attractive to international investors, resulting in more capital inflows. This flow results in an appreciation of the national currency, which in turn leads to an increase in the current account deficits. Alternatively, the appreciation of the domestic currency will make imports cheaper and export costlier. The exports thus fall in value, which again increases the current-account deficit.

Based on the Mundell-Fleming framework, the Keynesian proposition argues that the budget deficit does have a significant impact on the current account deficit. If the budget is in deficit, then the government has to borrow money from the private sector or from other countries. This leads to the crowd-out of some private borrowing. The total national savings which is the sum of private savings plus the government fiscal balance will decrease. With a lower level of national savings, the interest rates should increase leading to an appreciation in the exchange rate and triggering foreign inflows. The appreciation of domestic currency will make exports less attractive and imports more attractive, subsequently worsening the trade balance, which is the major component in the current account deficit

Is Sri Lanka suffering from a double economic deficit?

Sri Lanka is a classic twin deficit economy. The prevalence of twin deficits implies fundamental economic imbalances. Twin deficits signal that a country's national expenditure exceeds its national income, and that its production of tradable goods and services is inadequate. Such economies can be beset by high levels of debt, a heavy reliance on foreign capital inflows, a steady depreciation of its currency, and high-interest rates. Sri Lanka has suffered balance of payments (BOP) crises at regular intervals, with the exception of a 9-year period from 1992 to 2000. It has had 15 arrangements with the International Monetary Fund (IMF) in 52 years during 1965-2016 an indication of the frequency of crisis. Sri Lanka's economy demonstrates a high degree of macroeconomic volatility, evidenced by its frequent BOP crises. Despite their related conditionalities on structural reforms, past fiscal and external sector consolidation and reforms have failed to take root as demonstrated by regular bailout programs with the IMF.

Prof. Aruna Shanthaarchchi

The twin deficits problem is a major source of economic vulnerability in the region with most South Asian economies reporting fiscal and external imbalances. Fiscal consolidation remains a policy priority for most of the countries in South Asia, including Sri Lanka, and domestic revenue mobilization is a key factor in the consolidation process. Like many other emerging countries, for a long period of time, the Sri Lankan economy has been experiencing persistently high budget deficits and current account deficits. In this study, we attempt to explore the twin deficit hypothesis interacting with key financial variables using both annual and quarterly data for Sri Lanka and employing the multivariate empirical methodology. We find evidence for long-run relationships between twin deficits in Sri Lanka. At the same time, we detect unidirectional causation between twin deficits, which enables the draw of several policy implications.

Causes and challenges

Like many other developing countries, for a long period of time, Sri Lanka has experienced persistently high budget deficits as well as current account deficits. This issue has received some attention from the International Monetary Fund and the World Bank.

Twin deficits are argued to be symptomatic of a consumption-driven economy associated with high debt levels. This is because excessive demand (denoted by the gap in national savings and investment) boosts imports and fuels inflation. In addition, deficits are argued to drive interest rates up, squeezing out productive private investment to make the economy even less competitive internationally. Moreover, competitiveness is hurt further by inflation. However, the above arguments need to be qualified. For instance, if the current account deficit is a result of private sector imports of investment goods, the sustainability of foreign debt levels may be more promising on the assumption that such investments may generate the necessary returns.

On the other hand, if a current account deficit is driven primarily by consumer imports, debt sustainability issues are more worrying. Persistent fiscal and current account deficits are argued to heighten debt levels and increase reliance on foreign debt purchases. These developments leave the economy more vulnerable to exogenous shocks. The typical policy prescriptions put forward under such circumstances are to curtail public spending and maintain exchange rate flexibility. Sri Lanka is a classic twin deficits economy and has seen persistent twin deficits since 1970, the sole exception being a surplus on the current account in 1977. The two deficits moved together, and show a strong correlation till 2000. But the correlation has been weaker since then. Sri Lanka's national savings have consistently fallen short of national investment. However, the gap has narrowed considerably over time, from a peak of 19.8% in 1980 when Sri Lanka undertook a massive public investment program. Post-2010, remittance dollars have helped propel national savings, and tourism revival has helped boost foreign exchange earnings.

Findings

The purpose of this study is to examine twin deficits, particularly in the context of emerging country settings. As such, in this study, the main objectives were to summarise theoretical arguments of twin deficits, review the existing literature and examine the twin deficit phenomenon based on empirical evidence using data for the Sri Lankan economy. Saleh et al. (2005) studied the twin deficit hypothesis in Sri Lanka and found that budget deficits contributed overwhelmingly to current account imbalances.We find this model grossly miss specified since other relevant variables (like saving-investment balance) were excluded from the analysis. Our paper differs from the previous studies on twin deficits phenomena by the inclusion of trade openness in the analysis.

Trade openness is an all-inclusive surrogate that captures various trade and financial reforms Secondly, we tested the time series properties of the variables in the presence of structural break since traditional unit root tests (ADF and PP) suffer from power deficiency. Thirdly, a flexible, robust econometric framework called the ARDL modelling was applied to estimate long and short-term relationships among variables.

Our empirical results support the Keynesian view that there is a strong, positive link between the current account deficit, saving-investment balance, and budget deficit in Sri Lanka during the period of 1970-2020. We found that a one percent increase in the saving and investment gap will lead to a 0.82 increase in the current account deficit, while a one percent increase in the budget deficit will increase the current account deficit by 0.35 percent. If we consider the effect of trade openness on the current account, a one percent increase in trade openness leads to a 0.056 percent increase in the current account deficit, the result is statistically significant.

The structural break dummy variable was found to have a positive effect but was also statistically insignificant. The findings suggest that reducing the budget deficit and/or reducing the saving and investment gap in Sri Lanka may well assist in improving the current account deficit. Policies must be put in place for increasing exports and benefit from trade liberalization policies in the area of specialization to increase external competitiveness.All this evidence has ultimately confirmed that the root of the current economic crisis is a long-term dual-deficit economy in the country.

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