NC STATE UNIVERSITY

JTATM

JOURNAL OF TEXTILE AND APPAREL, TECHNOLOGY AND MANAGEMENT

Volume 5, Issue 3, Fall 2006

An Examination of the Economic and Social Benefits From US Textile Industry Strategic Partnerships

Lorynn Divita Ph.D.
Assistant Professor, Department of Family and Consumer Sciences
Baylor University, One Bear Place, #97346
Waco, TX 76798 Lorynn_Divita@Baylor.edu

David Ludwig Ph.D, Professor, Dept. of Pediatrics (GPI)
H.S. 1640, MCG Annex, Medical College of Georgia
Augusta, GA 30912-6170 DLUDWIG@MCG.EDU

Nancy Cassill Ph.D., Professor
Department of Textile and Apparel, Technology and Management
Box 8301, College of Textiles, 2401 Research Drive
Raleigh, NC 27695-8301 nlcassil@unity.ncsu.edu

ABSTRACT

A strategic partnership is an alliance between companies in which combined corporate strengths are intended to improve outcomes for all members. As a means of maintaining corporate competitiveness in the global economy, some members of the textile industry have established strategic partnerships with other members of the textile and apparel supply chain. The purpose of this study was to investigate business practices of strategic partnerships in the US textile industry with an emphasis on the economic and social value received by partners. Results of a quantitative questionnaire that was completed by 93 respondents in key decision-making positions at US textile manufacturers are discussed, indicating that benefits to partners are derived from strategic partnerships. Finally, a case study of Glen Raven Mills, a global leader in performance fabrics that has multiple strategic partnerships in place, is included. In the case study, key insights about the role partnerships have played in the company's success are excerpted from an interview with company CEO Allen Gant, Jr.

Keywords: strategic partnerships, corporate competitiveness, US textile industry, Glen Raven Mills

Introduction

The United States' textile industry has faced numerous global challenges including consolidations, corporate bankruptcies and employee downsizing. Layoffs have steadily continued: By May 2006, textile mill payrolls had fallen to 201,600; textile product mill employment was down to 171,600 and apparel factory jobs were down to 251,000 (Clark, 2006). Trade agreements such as the North American Free Trade Agreement (NAFTA), the Central American Free Trade Agreement (CAFTA) and the removal of import quotas under the Multi-Fiber Agreement (MFA) have resulted in an increase in clothing imports from countries such as China who benefit from the comparative advantage of offering lower wages to their industry employees than in the US and in Europe. Prior to the lifting of quotas in 2005, China had approximately 25% of the U.S. textile and apparel import market, and some estimates predicted that figure would climb as high as 70% unless safeguard measures were taken by the U.S. government (Hogsett, 2005). In response, trade associations representing textile, apparel and fiber manufacturers filed safeguard petitions that sought to limit the quantity of Chinese imports that enter the United States (White, 2005). While a trade deal that restricted 34 kinds of imports from China went into effect at the beginning of 2006, the goods covered by the deal represented only 13% of the United States' apparel and textile imports by volume (Ellis & Clark, 2006).

As a means of maintaining corporate competitiveness in the global economy, some members of the textile industry have established strategic partnerships with other members of the textile and apparel supply chain. A strategic partnership is an alliance between two or more firms in which resources, capabilities, and core competencies are combined to pursue mutual benefits (Hitt, Ireland, & Hoskisson, 1997). The main goal of a strategic partnership is for both members to become more focused, flexible, and market driven (Corey, 1999). Strategic partners can be suppliers, customers, complementors, competitors or companies outside the industry. Such arrangements have resulted in increased commonality of partners as both competitors and complementors to each other. Over 50 percent of organizations surveyed in one multi-industry study indicated they partnered with their competitors (Parise & Henderson, 2001).

Strategic partnerships are viewed by some channel members as economically preferable to consolidations because they provide the benefits of added industry expertise and resources to members without the financial and legal complexities involved with corporate mergers or acquisition (Gassenheimer & Houston, 1998). The structure of a partnership may vary in its degree of partner collaboration and added value, from traditional "arm's length" transactions requiring low collaboration and providing low added value to partners at one extreme, to internal growth relationships requiring high collaboration and providing high added value at the other extreme. The majority of strategic partnerships are located in the middle of the spectrum, between regular selling and licensing arrangements on the lower end and the fusion of two companies at the higher end. Such partnerships require a moderate degree of collaboration between partners and provide moderate added value (Maynard,1996).

Interest in strategic partnerships is increasing (Marshall & Heffes, 2004) and strategic partnerships are already being used in mature textile and apparel producing locales such as Japan, Italy, France (Yuasa, 2001; Aniello, 2001; Vervaeke & Lefebvre, 2002) and South Carolina, where a coalition of 45 apparel firms located in the state have formed a cluster with member goals of identifying strengths and opportunities of members, collaborating jointly to implement marketing and supply chain technologies and focusing on marketing on the end consumer. Members have focused on production of items available at specialty stores or delivered directly to consumers' homes, and the participants feel the program has been quite successful in improving their corporate competitiveness (Stone, 2005). Despite these successes, there has been a distinct lack of empirical research on the benefits received through textile industry members' participation in a strategic partnership.

Purpose of the Study

This study examined strategic partnerships in place among US textile manufacturers and their partners. Specific research objectives were:

1) to determine which specific business practices are components of strategic partnerships in the US textile industry,

2) to investigate and create a descriptive profile of the economic and social benefits received by textile companies through participation in strategic partnerships, and

3) to provide an illustrative case study with a successful US textile manufacturer that demonstrates the benefits that occur from strategic partnerships.

Conceptual Model

There are several elements which impact the success of a strategic partnership. The Relationship Retention Model (Figure 1) proposed by Gassenheimer and Houston (1998) illustrates the forces which simultaneously influence the partners' evaluation of the partnership. *Economic value* is the extent to which a strategic partnership minimizes transaction costs between two partners by fulfilling basic economic needs at a minimum of cost to each other. *Social value* is the extent to which the strategic partnership brings members non-economically-derived satisfaction with the exchange situation. *Fairness* is each party's evaluation of economic and social value in terms of benefits and costs to themselves and to their partner. *Relational distance* is expressed as a position on a continuum of relational characteristics based on the economic and social intent of the exchange, with pure economic interests on the left extreme, and pure social interests on the right extreme. Distance is expressed in how different are the priorities that each partner places on either economic or social value. A favorable evaluation of each of these outcomes can lead to either *satisfaction*, where the partnership continues, or *exit*, where the partners abandon the partnership in search of more favorable alternatives.

For the purposes of this study, the focus is solely on what benefits to members the economic and social value elements include. This is a necessary first step because the other components of the model, fairness and relational distance, are both evaluations of the economic and social value elements.

Review of Literature

Economic Value

Based on principles used in Transactional Cost Analysis (TCA) (Williamson, 1991), economic value is the extent to which a strategic partnership minimizes transaction costs between two partners by fulfilling basic economic needs at a minimum of cost to each. The economic value of a strategic partnership to a member is determined by calculating expected financial returns and gains to themselves relative to other options. These calculations include comparing transaction speed and efficiency, the cost of exiting the current partnership, and the cost of protecting specific asset investments against potentially opportunistic partners (Gassenheimer & Houston, 1998).

In a case study reviewing the information costs (e.g., monitoring competitors, forecasting demand) of a British apparel company doing business in international markets, Popp (2000) found that when the company eliminated middlemen and dealt directly with suppliers, there were greater feelings of trust, and the feeling that direct relationships would form the basis of long-term relationships. Despite a distrust of middlemen, in some instances uses of intermediaries were required because of language barriers, and such uses of intermediaries were associated with high information costs.

Social Value

Based on the principles of social exchange theory (Bagozzi, 1974; Hallen and Johanson, 1991), social value is the extent to which members receive non-economically derived satisfaction from their strategic partnership based on comparative evaluation of their alternative options for accomplishing the goals of the relationship. In a purely social exchange situation, members of a partnership base their decision whether or not to maintain their relationship based on their satisfaction with the cooperative nature of the partnership, the compatibility of goals and a comparison of the expected social value from alternative partnerships (Gassenheimer & Houston, 1998).

A study of shippers (Moore & Cunningham, 1999) found that relationship type (alliances versus transactional exchanges) and effectiveness have been found to influence social exchange behavior. Shippers that were engaged in effective logistics relationships perceived higher levels of trust, equity and commitment present in their partnerships, and lower levels of conflict and opportunism than did shippers in less effective relationships, and shippers involved in alliances were more committed to maintaining their relationships than were shippers in purely transactional relationships.

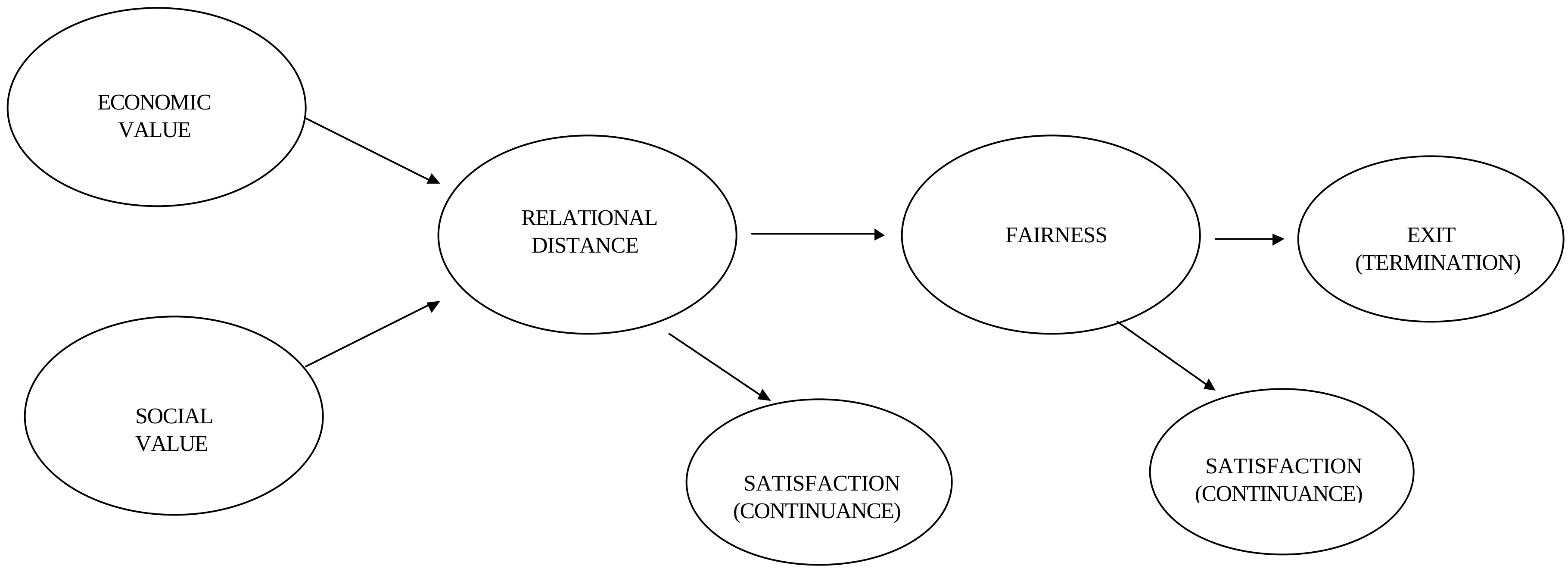
Softgoods Supply Chain Organizational Relationships

Organizational relationships between members of the textile complex have been observed by academic researchers previously: A survey of Missouri apparel manufacturers found that larger, more active apparel manufacturers reported having less difficulty in their relationships with apparel retailers than did smaller, less active manufacturers (Dickerson and Dalecki, 1991), in a study investigating relationship power held by apparel retailers and manufacturers, results indicated that there was an imbalance of power held between the two, with apparel retailers perceived as having the power advantage over manufacturers in decision making areas by both retailers and manufacturers alike (ZuHone and Morganosky, 1995).

Many of the potential benefits received by partners are similar to those of quick response (QR) programs, including increased market share, shortened lead times and lowered production costs. The perception of receiving benefits associated with adoption of a QR program has been found to be strongly related with the decision to implement such a program (Ko, Kincade and Brown, 2000). Sullivan and Kang (1998) examined quick response QR adoption habits in the apparel manufacturing industry and found that firm size was significantly related to QR adoption, that large firms were more likely to use QR than small firms, and small firms may have competitive disadvantages compared to large firms that have both adopted QR techniques and benefit from economies of scale in production.

Strategic partnerships are the building block of the supply chain management (SCM) process, which is defined by Lee and Kincade (2003) as "…efforts to reduce inefficiencies and solve the problems throughout the supply chain, from raw materials to final customers…". In their study of SCM activities in the apparel industry, Lee and Kincade (2003) found that partnership-like relationships, including information sharing with suppliers/retailers; technology sharing with suppliers/retailers and forecasting with suppliers/retailers, were present in a cluster with the highest levels of SCM activity implementation. High levels of SCM activity implementation was found to be closely related with basic goods production, higher delivery performance of the fabric supplier, and relatively big retailers.

Figure 1. Conceptual Model: The Strategic Partnership Relationship Retention Model



Adapted from: Gassenheimer, J. B. and Houston, F. S. (1998). The role of economic value, social value and perceptions of fairness in interorganizational relationship retention decisions, *Journal of the Academy of Marketing Science, 26*(4), 322-338.

Based on in-depth interviews with seven textile and apparel industry executives, Divita and Cassill (2002) found several benefits for firms that engaged in strategic partnerships, including the increased speed of goods or service entry which resulted in cost savings, as well as non economic benefits such as trust between partners. The researchers found that the essential elements necessary for the formation of strategic partnerships within the textile complex include 1) the potential for partners' mutual benefit; 2) common interest in products and markets; 3) similar business ethics upon which a foundation for trust is established; and 4) an environment for sharing resources and benefits.

Methods

Sample

The population of this study consisted of manufacturers of textiles made for apparel end-use that had domestic headquarters, more than twenty-five (25) employees and were listed in either the *Davison's Textile Blue Book* or the *Official North American Textile Red Book*. Every company in the two directories that met the study criteria was contacted. After eliminating companies that were ineligible and defunct and unwilling to participate, the sample consisted of 510 companies. Of these, a total of 93 surveys were completed by respondents and returned for a total response rate of 18.2%. The response rate obtained was considered statistically sufficient for analysis. Among the usable returned surveys, 36 respondents, or 38.7% had strategic partnerships in place, while the remainder expressed interest in developing a strategic partnership as a part of their business strategy. While it may appear that the nonresponse rate was very high, it would be somewhat misleading to judge the nonresponse rate in this study against how many surveys were distributed, because there was no way of knowing which companies had strategic partnerships (the actual population of interest), so therefore vast over sampling outside the eligible companies had to occur. It is probable that many of the nonrespondents were companies that that did not have strategic partnerships. If a company that received this survey did not engage in strategic partnerships, the response was probably ignored. Therefore it can be defended that it is as representative as any sample in the current literature of those firms with strategic partnerships currently in place. This response rate is similar to other examples of apparel industry research, which is known for its low return rates. For example, Lee and Kincade (2003) had a response rate of 9.49% for their study of US apparel manufacturers' supply chin management activities, which explained about 4.8% of the population, but still provided valuable insight.

Because this research was a double-blind study, it was not possible to determine respondent companies from returned questionnaires, however response cards that were sent out separately from the questionnaires requesting additional information on strategic partnerships indicated that many of the responses were from several of the largest textile manufacturers in the United States (ranking within the 10 largest manufacturers by sector).

Instrument

A questionnaire was designed to investigate the elements which comprise economic value and social value in existing strategic partnerships. A quantitative questionnaire was developed based on key concepts from a literature review and the results of a qualitative pilot study which supported that economic value and social value, relational distance and fairness issues as described by the literature were present in respondents' strategic partnerships. A discussion of how each variable was formatted follows.

Economic Benefits. The transactional cost analysis (TCA) literature (Adler and Scherer, 1999; Klein and Frazier, 1990; Rindfleisch and Heide, 1997) lists several economic benefits that should occur in relationships with high economic value, including increased market share, shortened turnaround time, increased profit, reduced inventory level, reduced work-in-progress, decreased product costs, improved product quality, reduced administrative costs, reduced purchasing costs, and reduced uncertainty of number of orders received. Responses indicating to what degree each economic benefit was received by the respondent as a result of their strategic partnerships were formatted as seven-point Likert scales, with one indicating "no benefit" and seven indicating "high benefit".

Social Benefits. Social exchange literature (Anderson and Narus, 1990; Ganesan, 1994; Morgan and Hunt, 1994; Smeltzer 1997) lists several non-economically derived benefits that should occur in relationships with high social value, including feelings of trust, feelings of commitment, sharing of work-related advice/support, empathy/concern for the other's well being, interest in partners' family or personal life, sharing of humor, looking out for partners' best interest, interacting with someone you like, feelings of belonging or acceptance, and improved open communications. Responses indicating to what degree each social benefit was received by the respondent as a result of their strategic partnerships were formatted as seven-point Likert scales, with one indicating "no benefit" and seven indicating "high benefit".

Strategic Partnership Practices Information. In addition to the economic and social value questions, the study asked some background information about the main strategic partnership in which respondents were engaged. The first three questions asked with whom the respondent firm had their main strategic partnerships (suppliers, competitors or customers), the number of strategic partnerships the respondent firm currently had, the length of time the partnership had been in existence. The fourth question provided a battery of partnership characteristics and asked which ones were a part of the respondent's strategic partnership.

The questionnaire was pretested with various members of the textile complex who did not receive the final survey. The distribution of the questionnaires was formatted according to the Dillman (2000) method. Respondents were contacted by the researcher up to three times by mail in an attempt to maximize response rates. Respondents had the option of completing the survey using one of two formats: 1) by filling out and returning the written questionnaire that was mailed to them, or 2) via the internet at the web address www.strategictextilepartners.com, which allowed respondents to fill out an on-line survey that was identical to the written questionnaire in both format and language. After a respondent completed the survey, the full text of each survey question together with the respondent's answers were e-mailed to the researcher without any identifying information.

Data Analysis

Due to the pilot nature of the study, frequencies were recorded by the researchers to learn descriptive information about strategic partnerships and to determine a profile of the types of partnership practices that are in use among US textile industry partnerships. Because of the use of a seven-point Likert scale for reporting the degree to which each economic and social benefit was received by strategic partnership members, the mean score from all respondents was reported for each benefit, with 7 as the highest possible score and 1 as the lowest possible score).

Results

Descriptive Information

Study results show an interesting profile of strategic partnerships in the US textile industry on a variety of points. The type of firm with that was the respondent companies' main strategic partner was almost equally divided: of 35 responses, eleven companies partnered with a supplier, ten companies partnered with a competitor and fourteen companies reported partnering with a customer. The average number of strategic partnerships each company had was 2.46, with the lowest reported number of partnerships was one and the highest number was twelve. The average length of time the main partnership had been in existence was nine years, with the youngest partnership 3 months old, and the oldest partnership being 55 years. The two most common components of respondents' strategic partnerships were exclusivity of products or prices, sharing of technology and sharing of private information, which were each practiced by the companies of 27 respondents. There was a large gap (26 responses) between the most common components and the least common component, shared office space. Table 1 lists all of the components of respondents' strategic partnerships in order of response frequency.

Table 1. Components of Strategic Partnerships

Rank	Partnership Component	Frequency
1 (tie)	Exclusivity in Products and Prices	27
1 (tie)	Shared Technology Between Partners	27
2	Shared Private Company Information	26
3	Sharing of People in Cross-Company Teams	17
4	Shared Financial Risk	16
5	Shared Capital for Research and Development	11
6	Shared Capital for Advertising Expenses	4
7	Shared Office Space in Both Partners' Offices	1

Economic and Social Benefits

Respondents reported receiving economic and social benefits as a result of their involvement in a strategic partnership, but to varying degrees. The two strongest economic benefits on average that respondents reported receiving as a result of their strategic partnership were improved market share (4.92) and improved product quality (4.75). Interestingly, respondents reported receiving higher levels of social benefits from the strategic partnerships than economic benefits for seven out of the eight social benefit criteria. The strongest social benefits respondents indicated they experienced in their strategic partnerships on average were sharing of work related advice (5.67) and partnership commitment (5.56). Tables 2 and 3 report the mean scores for each of the economic and social benefits received by strategic partners in rank order.

Table 2. Economic Benefits Received From Strategic Partnership Participation

Rank	Economic Benefit Received	Mean Score
1	Improved Market Share	4.92
2	Improved Product Quality	4.75
3	Increased Profit	4.28
4	Improved Turnaround Time	4.25
5	Reduced Inventory Level	4.08
6	Reduced Product Costs	4.03
7 (tie)	Reduced Purchasing Costs	3.92
7 (tie)	Reduced Work-in-progress Time	3.92
8	Reduced Administrative Costs	3.36

Table 3. Social Benefits Received From Strategic Partnership Participation

Rank	Social Benefit Received	Mean Score
1	Sharing of Work-related Advice/Support	5.67
2	Partnership Commitment	5.56
3 (tie)	Concern for Partners' Personal Well-being	5.42
3 (tie)	Partnership Trust	5.42
4 (tie)	Feelings of Organizational Belonging/Acceptance	5.39
4 (tie)	Improved Communication	5.39
5	Interacting With Someone Partner Likes	5.36
6	Concern for Partners' Best Interest	5.11
7	Sharing of Humor or General Conversation	5.03
8	Interest in Partners' Family or Personal Life	4.19

Case Study: Glen Raven Mills

Glen Raven Mills is one of the most successful privately-owned textile companies in the United States. Through its innovativeness, the company has managed to thrive in an intensely competitive global market and be an inspiration to other U.S. textile manufacturers, winning the 2005 *Textile World* Innovation Award (Borneman, 2005). Once known primarily as the company that invented panty hose in 1953, today Glen Raven Mills is the premier provider of protective fabrics for both outdoor and apparel uses, with such well-known brands as Sunbrella® and GlenGuard®. Glen Raven recognizes the importance that strategic partnerships have played in their success over the past 125 years.

The company was founded by John Q. Gant as a partnership known as Altamahaw Mills (Borneman, 2005). Two of the company's main partnerships have endured for decades: one company has been a partner for over 100 years, and another for over 75 years. The successful relationships at the Glen Raven Mills aren't just at the manufacturing level; the company has had the same bank for 80 years and the same factor for 75 years (Allen E. Gant, personal communication, January 5, 2006). The significance of these long-term partnerships were apparent to current Glen Raven Mills CEO Allen E. Gant, Jr. when he said, "When you bank with somebody for as long as we have, you really learn each other and you have great respect for each other and you allow each other much more flexibility than you ever would otherwise" (personal communication, January 5, 2006).

Glen Raven Mills has experienced economic benefits from its strategic partnerships. In a personal interview, Allen E. Gant, Jr. said, "Certainly there are opportunities, such as intellectual property, market access, those kinds of things in which you are able to gain a position in the marketplace much quicker if you do it through a partnership than if you try to go in and do it by yourself". Mr. Gant's sentiments echoed the results of this study when he stated, “Market access needs to be the primary reason for a partnership” (personal communication, January 5, 2006).

As a result of shared research and development with its strategic partners, the company has created some of its most successful products. For example, a partnership with a leading automobile manufacturer resulted in the creation of a new interior headliner fabric for automobiles that is colorfast, recyclable, and compatible with today's high-tech car and truck interiors. Because of a partnership with some national retail and restaurant chains, the Sunbrella® Graphics System, (SGS), the industry's first warranty-backed system for faster, more efficient application of graphics to Sunbrella® fabric was developed. Another successful product that was conceived as a result of a partnership with a protective apparel manufacturer was GlenGuard®, a comfortable, lightweight fabric that is durable and meets the NFPA70E Class 2 standard for flame resistant material (“Case Studies”, 2006).

Glen Raven also recognizes the importance of the social benefits derived from strategic partnerships such as trust and concern for each partners’ best interest. According to Allen E. Gant, Jr., “Our perspective is, the less we can be partners, then we really can’t do business together, and the reason is, is if we can’t trust each other to take advantage of the marketplace in such a way that it would be good for both parties”. He acknowledged that the social aspect of business does impact a partnership when he stated, “You treat customers and suppliers differently if you think of them in terms of being a partner in your business. That’s the way we handle our business” (personal communication, January 5, 2006). Clearly, in addition to many other business practices that Glen Raven Mills is doing well, it also knows how to be a great strategic partner.

Conclusions

A descriptive profile of strategic partnerships and the economic and social value textile manufacturing companies receive as a result of engaging in such partnerships was studied first with a qualitative pilot and ultimately with a quantitative questionnaire that could be answered either in writing or via the internet. A descriptive profile of the specific activities that were a part of respondents’ partnerships was created, and the most popular types of economic and social benefits received by strategic partnership participants were ranked.

Results indicated that respondents engaged in each of the main components of a strategic partnership, however to widely varying degrees. This same variability was evident in the degree to which each type of the economic and social benefit were experienced were experienced by respondents – each benefit was received, however some more strongly than others. It was interesting to note that the mean score for the majority of the social benefits were higher than any of the economic benefits. One potential reason for this may be that economic benefits are a requirement for any business transaction, even arm’s-length transactions, so the economic benefits of a partner may not be as extreme as the social ones. However, the high levels of social benefits reported underscore the importance of doing business with individuals and entities that are liked and trusted. A correlation between economic and social benefits may exist, however further research on this topic is necessary. The Glen Raven Mills case study served to illustrate both types of benefits received from strategic partnerships in an applied setting.

This study lays the groundwork for a future body of research in the area of strategic partnerships. Future studies may include dyadic research in which both members of a partnership are surveyed separately then compared, or in the form of a longitudinal study that repeatedly surveyed respondents over a longer course of time and mapped how their perceptions of the partnership changed with time. The scope of the survey may be broadened to the global level by including international partnerships in the sample, including additional influences such as language barriers and cultural differences that could affect the core concepts of social value and economic value.

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