

Anna Marie Dyhr Ulrich



**A DYADIC PROCESS MODEL FOR  
THE DEVELOPMENT OF  
LONG-TERM BUSINESS RELATIONSHIPS**

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## SUMMARY

The aim of this study is *to create a larger operational knowledge about how international business relationships develop*. In order to achieve this aim, a conceptual model is built and subsequently subjected to iterative testing against empirical observations.

The following outline depicts how the study achieves this aim:

1. *Gaining an increased knowledge by identifying and operationalizing critical factors for the development of long-term international business relationships on different development levels in the business relationship. These factors are identified from both a buyer's and a seller's point of view.*
2. *Describing and analysing the development processes of four business relationships using an event-based method.*

The result of these steps will be the development of a dyadic process model that integrates the critical factors for the development processes of four international business relationships from the perspective of the both buyer and the seller. The focus of this thesis will be on the dyadic business relationship where the interaction process plays a central role and where it generally will be considered as interaction between two or more individuals who are linked to one another's business context.

The chosen theoretical starting point for this thesis is in the IMP-driven industrial network and interaction approach; specifically, in the Interaction Model developed primarily by Håkansson in 1982. The industrial network and interaction approach can be seen as some sort of offshoot of the four theories: "the marketing channel theory," "the resource dependence theory," "the social exchange theory and social network," as well as "the transactions cost theory." There is no doubt that the previous researchers within this industrial network approach have looked for inspiration in these theories. With this research process, the author intends to contribute to the development of knowledge within the industrial network and interaction approach.

An event-based method has been chosen for this study. It is therefore important that a theoretical framework is chosen that focuses on creating an understanding of which conditions and factors influence the interaction between a minimum of two partners. At the same time, it is decisive that the

chosen theoretical starting point is one where focus can be on the dyad without ignoring the entire network, because the author believes that the events/incidents which influence the dyadic business relationship will not only be found in the direct relationship but also in the more indirect network surrounding the focal relation. This type of analysis will be possible within the industrial network and interaction approach.

Based on a preliminary case, an *a priori* conceptual model will be developed. The *a priori* model can be regarded as a sort of development of the Interaction Model posed by Håkansson (1982). The *a priori* model consists of four development steps: an initiation step, an implementation step, a mature step, and a termination step. In the *a priori* model, the factors considered influential for the buyer-seller relationship are described in four factor groups: 1. environmental, 2. individual, 3.

organisational, and 4. interpersonal, and interorganisational factors. It is the intention that the integrated process model will contain some specific critical factors found in these four factor groups. Both buyer and seller are included in the *a priori* model in order to identify critical factors for the development of the buyer-seller relationship from the point of view of both buyer and seller. The logical rationale is that both parties are active participants in the business relationship even though they perform different marketing functions. Because of the differing marketing functions, differences are expected in the critical factors chosen by each partner for the development process.

Over time many models describing the relationship development process have been posed. In this thesis the primary focus will be on the models developed by Andersen (2001); Ford (1980); Dwyer, Schurr, and Oh (1987); and Wilson (1995). The overall picture of the existing models and frameworks can be characterized as unstructured, which indicated that this area of research still has not had sufficient attention. Further, it can be stated that the authors neither refer sufficiently to previous models nor further develop existing knowledge within this research area. These inadequacies are evident in particular among European and American researchers. At present, no uniformity can be found regarding the conceptual language used to describe the development of the business relationship in the industrial market. None of the four mentioned models tries to distinguish between buyer and seller perspectives in the choice of factors estimated to be important for the development process of the business relationship and the author regards this area to be very inadequately enlightened. The author therefore intends to develop a process model that looks at the factors from the point of view of both the buyer and the seller. In the same way, there are only a few models which examine the development process of the business relationship from a processual perspective.

One aim of this study is to identify critical factors for the relationship development process. In this thesis, critical factors are defined as those which are both:

- 1) crucial for the successful development of the business relationship and
- 2) possess a critical degree of difficulty in their accomplishment.

The thesis will include a detailed literature review of critical factors for the development of long-term business relationships. The review will commence with the industrial network and interaction theory. If there are areas where the network and interaction approach is considered unsatisfactory, contributions from other related theories within relation marketing theory will be considered. The critical factors will be presented in the four groups: 1. individual-related factors, 2. organisation-related factors, 3. environmental factors, and 4. interpersonal and interorganisational factors, cf. the *a priori* framework model in Chapter One.

The theoretical work under this domain forms the basis for the factors which will be analysed empirically. The list of critical factors that will be analysed in four cases is not complete and could undoubtedly be extended. The factors chosen by the author represent of a number of factors that are supported theoretically as well as empirically.

In methodological terms, this research can be characterized as an explorative, longitudinal, evolutionary, dyadic, multi-case process study.

The investigation follows the theory-building/theory-testing approach in which the conceptual *a priori* model is tested through a programme of multiple case studies iteratively linking data to theory in an inductive process moving towards the generation of an empirically valid theory that is subjected to testing and refinement through replication logic (Eisenhardt, 1989; Parkhe, 1993). The comparison for each empirical case with existing theory is perceived as an important method of creating new theory.

The investigation will be carried out using a case-study method. A case study is the preferred strategy especially when "how" or "why" questions are being posed, when the researcher has little control over the events (as opposed to the experiment) and when focus is on a contemporary phenomenon in its real life context (Yin, 1989). Case studies that aim at theory building are especially relevant in a new research area where little is known about the phenomenon or in an area where current perspectives seem inadequate because they have little empirical substantiation (Eisenhardt, 1989). As mentioned above this study is regarded as following a multiple case strategy where the large reliability of the results is gained through the repetition of the same procedure with another sub-case. The strength of

the multiple case study is the precision, validity, and stability of the result. The multiple case study is based on the replication logic alleged by Yin (1989). For this thesis, an embedded case consisting of three sub-cases and an additional case as a sort of test-case was chosen. The embedded case is the DANDY-JOYCO relationship consisting of three relationships:

- 1) a distribution relationship
- 2) an entry relationship
- 3) an outsourcing relationship

In the thesis, the three sub-cases will be treated as three individual cases. Furthermore, it has been decided to carry out the same investigation on a previous DANDY relationship, the Hollywood relationship.

The study can be characterized as longitudinal research because it investigates the development of business relationships over time and involves data from several periods of time. The longitudinal research design makes it possible to identify and document the procedural and dynamic characteristics of the phenomenon.

The evolutionary process model describes relationship development without deterministic phases. The buyer-seller relationship will be considered as an evolutionary phenomenon without any deterministic establishment of any phases in the development process. It attempts to capture the content of relationships in dynamic concepts that are defined in relation to temporal modes. In this study a representative multiple case study design and the process perspective is adapted.

The primary underlying reason the critical incident technique has been chosen to describe the relationship development processes is because there must be a sort of connection between the factors chosen by the respondents and the experienced course of events. The development process of a business relationship can be described in terms of incidents or events that occur within a relationship and in the context. In focusing on events, the content and process of relationship development become linked with the context of a relationship and its dynamics (Halinen, 1997). This linkage is necessary for understanding the development of buyer-seller relationships.

The four empirical cases all follow the same structure. First, the critical factors from both project managers in the two organisations are shown. Second, the relationship development process is visualized as a course of events. Finally, the critical factors are analysed and discussed. The analyses and comparisons of the four cases will try to create new ideas and theoretical modifications based

on the chosen research strategy. Old concepts will be rejected and new, more right concepts will be substituted. The integrated process model will in this way be developed by separately discussing in detail the conceptual and processual elements in the *a priori* framework model.

The integrated process model can thus be said to basically consist of six aspects:

1. Conditions for entering into and maintaining the existence of the business relationship
2. Three steps for the development process of the relationship
3. Critical factors for the individual development steps
4. The interaction process
5. Growth and decreasing cycles
6. The relation agent

In this study it could be stated that there was a very large uniformity in the critical factors chosen by buyer and seller respectively. The differences in the factors chosen by buyer and seller could not, however, be explained by the role of the individual in the relationship, but rather by the course of events that the relationship had undergone.

Furthermore, it can be concluded that the critical event method was a valuable tool in the description of development processes. Whereas other investigative designs provide less detail, the critical event method provides in-depth knowledge about the analysed business relationships by considering the specific event in a course of development.

It turned out that the factors emphasized as critical by the industrial network and interaction literature were only very descriptive and difficult to operationalise, i.e., there was very little practical relevant information/knowledge contained in them. Chaining together the respondents' discussions of the critical factors and events they chose for the individual course of events resulted in a conceptualization and operationalization of the otherwise abstract critical factors.

It appeared after the discussion and the analysis of the chosen critical factors that several of these were reformulated by the author in order to make them more precise and easily marketable in everyday life. This reformulation meant that it became difficult to group the chosen factors in the four factor groups initially assumed in the model.

An aspect not contained in the *a priori* model was the relation agent. In the analysis of the empirical cases, it can however be concluded that the project manager plays a very vital role for the development of the relationship. This role is also apparent in the described courses of events. Several times during the course of development, the project managers had to make sure that the relationship came back on

the right track after disagreements between the interacting players. It should thus be emphasized that the relation agent is an important element for the development and maintenance of a relationship.

The results of the study are, however, preliminary in nature. A number of constructs are identified, many of which coincide with constructs proposed by existing literature. Although these are further elaborated, future research is needed in order to determine the extent to which these constructs are generalizable to other industries or other relationships.

## Chapter 1 Prologue

This thesis endeavours to create a larger operational knowledge about how long-term international business relations develop.

The thesis consists of three parts. The first part of the study introduces the theoretical foundation and addresses problems of theoretical and methodological character. Furthermore, it clarifies the theoretical angle on the dimension to be analysed. The second part is dedicated to a discussion of a field study comprising four business relationships. The relationship development processes are illustrated through courses of events and case analysis. The third and last part is where theory and “real life” are united in the attempt to develop a dyadic operational process framework. In this domain, the thesis will be discussed by confronting the theory-based *a priori* framework, which will be illustrated in this chapter, with the knowledge gained in the empirical cases.

This chapter presents the motivation for undertaking this study.

### 1.1 Preliminary case: The trailer spring business relationship<sup>1</sup>

In 1994, the small (approx. 100 employees) fibreglass production company, KL Fiberglas A/S (KL) in Bredsted, got a request from an English research and development company to participate as a partner in the development of a fibreglass trailer spring to replace the common steel spring. Different changes in the market made it interesting to work with a fibreglass spring as opposed to a steel spring. The business relationship was partly financed by the partners in the business relationship and partly supported by development funds from the EU. The English development company was primarily to be focused on the development of the spring, whereas KL was to be in charge of the production.

KL decided rather quickly to participate in the business relationship. “Before you choose to participate in a long-term business relationship, it is important the company believes in the idea behind the business relationship. It is vital when the business relationship is commenced because otherwise you will not have the right commitment and effective communication will not occur,” emphasized sales director, Sten Pedersen. Furthermore, Sten Pedersen said that it is rare that a company will spend resources on something it does not believe in, and that if no resources are used, the business

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<sup>1</sup> In consideration of the participants’ wish for anonymity, all names are fictive.



relationship will never become a success. “If you do not believe in the idea, you might have a tendency to make the work inferior and the results will be accordingly inferior.” (Sten Pedersen, 7 February 2002). And, as formulated by Ole Kirk, area sales manager at KL, “If you are not ready to enter into the business relationship and take part in the discussions about a structured business relationship from the outset, the attitude towards the business relationship will be inferior.” (24 January 2002) Sten Pedersen also made it clear that it takes time to start up and implement a new business relationship and that it often leads to larger investments than anticipated due to the fact that it often takes more time than anticipated to get the business relationship going.

When a business relationship is started, a lot of time is spent on understanding the other partners’ intentions in participating in the business relationship, which was especially the case in this business relationship. “In the beginning of the fibreglass spring business relationship, I was very conscious about the communication between the partners and how I and the other persons acted towards each other.” (Sten Pedersen, 7 February 2002)

Already during the first meeting KL sensed among the other partners that there was doubt as well as disagreement as to who was in charge of what and as to the expectations and the outcome of the business relationship. (Ole Kirk, 24 January 2002) This meant that sales director Sten Pedersen quickly tried to take the lead in relation to making decisions as to the division of responsibility in the business relationship. As he said, “I think it is important that you from the beginning show who you are and what you are willing to do in relation to the business relationship. It is essential that you try to dominate parts of the business relationship in the beginning. However it must never seem suppressing to the other partners. It is a question of balance so that you dominate without the others really finding out.” (7 February 2002)

The business relationship went through three phases: a clarifying and start-up phase, an implementation phase, and a production phase. According to Ole Kirk (24 January 2002) the business relationship stayed in the first phase far too long, which was caused primarily by two things: First of all, the decisions had a tendency to progress slowly, in particular in the first three years. This was often caused by the fact that the persons participating in the different meetings did not possess the right decision-making authority. Therefore, the decision-making process often took several months. (Ole Kirk, 24 January 2002)

Secondly, there was a large difference in the opinion of consumption of time in connection with the individual assignments in the business relationship. At times, KL felt that it was very difficult to

get the assignments from the drawing table to production—and looking back, this was probably caused by the fact that “As a company, we participated in the project with the aim to develop something from which we quickly could earn money. However, our partners in the business relationship were much more focused on getting good research results. From the beginning, we had very different expectations as to the result of the business relationship—or maybe as to what a satisfactory goal would be—and the mistake was that these expectations were never clarified.” (Sten Pedersen, 7 February 2002).

An additional difference between the two companies was their different communication styles. KL was used to quickly building up a very informal way of communicating with their cooperators, which typically developed by doing things together that were not directly work related. KL had always seen this as very useful for the development of a good business relationship, but this was both unfamiliar and unwanted by the English development company. At times, Ole Kirk felt that the persons from the developing company could become somehow indignant if the communication became too informal. (24 January 2002).

Approximately three years after the start of the business relationship, the two companies were testing the spring. In some areas, the tests went well and in some areas, the tests went less well. Therefore the developing company started to adjust their estimations of the length of the spring. The project leader from the developing company produced some new estimates that stated that the spring needed to be three centimetres shorter. KL made a series of 100 pieces, each spring costing approx. 1,000 DKK. The springs were tested and they failed. The spring broke all the time, which led to new estimates as to the length of the spring, and finally another person involved in the business relationship came to the conclusion that the spring had to be three centimetres longer and not three centimetres shorter. The whole situation led to huge internal disagreements between the involved English employees. Sten Pedersen went to England twice to mediate between the disagreeing employees but did not succeed until he threatened to withdraw from the business relationship and continue the work without the English partner. The spring was then produced in the long version. “A normal business relationship is not carried out in this way but sometimes you have to do something drastic.” (Sten Pedersen, 7 February 2002).

In 1997, according to Ole Kirk (24 January 2002), the business relationship was in its last phase and the people from KL figured that the spring would soon be ready for production. However, it turned out that this was not the intention of the developing company, because they did not feel that it had been tested enough. This led to some major discussions, primarily between the sales director of KL and the

project leader from the developing company. And as the discussions and the business relationship developed, the relationship between the KL and especially the project leader just became worse and worse. It was when the external financing of the project was running out that the problems culminated and the relationship to the project manager was really bad.

According to Sten Pedersen, several reasons for the bad relationship could be found: First of all, the chemistry between the involved employees from KL and the project manager was never right. Second, there was no clear division of responsibilities and no trust in the business relationship. This meant a sort of power struggle between the cooperating partners. "In some areas, you would see your partner as your competitor, and we could find ourselves discussing how to get this person (the project leader from the developing company) sidetracked," said sales director Ole Kirk. (24 January 2002) Third, the two organisational cultures did not fit. This meant that the motives driving the business relationship were completely different, and these motives were competitive, not complementary. The developing company had a clear motive to research, which is very time consuming, whereas KL wanted to get the spring into production as soon as possible in order to get return on their investment. Fourth, the developing company had large problems keeping the deadlines, which had no positive influence on KL's trust in its English partner.

At the end of the business relationship, the relationship with the project leader was so bad that he was denied access to KL's factory simply because they had no trust in him. The reason for this was a breach of confidence by the project leader when he broke an agreement signed by the partners forbidding third parties access to information on the spring. And as the sales director from KL put it: "Such a breach of confidence in a close business relationship is almost impossible to repair! The Alpha and Omega of long-term business relationships is that both parties behave to maintain trust and to ensure that your partner does not try to make a shortcut on the basis of the other project partner. If you trust each other, things will run easily because you do not have to control your opponent's moves." (Sten Pedersen, 7 February 2002). Consequently, a true openness between the partners was never there because of the lacking confidence in the English project leader. This resulted in a non-optimal business relationship. (Sten Pedersen, 7 February 2002).

From the point where KL thought that the spring was ready for production until it became a reality, four more years passed! The project went on for nine years and should, according to KL, have lasted no more than five years. According to Sten Pedersen, the primary reasons for the delay was lack of control with the project and discrepancy in the expectations as to the goal of the project. (7 July 2002). As underlined by Ole Kirk, the intentions for the business relationship were good to begin with.

“The criteria which I sense are essential for the success of business relationship were present. First of all, I think of the benefit of the project to both parties. However, the problem was that we had completely different perceptions of when the project was successful. This resulted in distrust among the partners. A preliminary phase where the business relationship is structured and where responsibilities are divided is simply necessary. We never did that and I think that is one of the reasons why the project was dragged out.”(24 January 2002).

The primary reason why KL did not withdraw from the business relationship with the English developing company was that before the business relationship developed negatively, KL had invested heavily in the development of the spring. Furthermore, KL was convinced that the idea behind the development of the fibreglass spring was unique and that the spring could for this reason provide KL with a competitive advantage.

After the business relationship with the English developing company, KL has become much better in estimating a potential business partner before entering into a relationship. This is because an unsuccessful business relationship is very costly, according to Ole Kirk (24 January 2002).

After nine years of business relationship with the developing company, KL is now<sup>2</sup> ready to commence the first large serial production of the spring. In order to get the trailer spring to the end consumer, KL entered into business relationship with the English trailer producer, Arvin. “This time we had a fruitful business relationship from the beginning as both partners had the same expectations about the goal of the business relationship. Furthermore, as compared to the developing company, we are very alike, e.g., we like a more informal way. And we were both very open towards each other from the beginning, which was very reassuring,” said Sten Pedersen (7 February 2002). During the business relationship with Arvin, KL worked hard to get a good social relationship between the involved parties. “If after an intensive meeting you have an informal dinner together, it will definitely strengthen the trust, and ease the communication between, the relationship partners.” (Ole Kirk, 24 January 2002).

Over time, several of the employees from KL who took part in the business relationship with Arvin almost became close personal friends with some of the employees from Arvin. Sten Pedersen thinks that this is very important for the development of business relationship. “To know more about each other personally and finding out that we have more in common than the spring is very fruitful for the business relationship.” (Sten Pedersen, 7 February 2002) Sten Pedersen also expressed that the value

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<sup>2</sup> In 2002.

of this personal relationship was clearly expressed when problems needed to be discussed. "It is much easier to solve tasks together when we know each other and know that when we say something they know what we mean" (Sten Pedersen, 7 February 2002). The entire business relationship with Arvin was started because Sten Pedersen had a good relationship with the then technical manager at Arvin. One of the important factors for a good relationship is, according to Sten Pedersen, the chemistry between the two persons starting the business relationship. "It was probably one of those things that made the business relationship with the developing company go wrong. The chemistry between several of the involved persons simply did not fit." (Ole Kirk, 24 January 2002).

KL and Arvin's business relationship is still very fruitful.

## **1.2 Reflection in relation to the preliminary case**

Overall, the preliminary case describes how a specific business relationship between two very different companies developed over a certain period of time. The way in which the respondents described the business relationship clearly indicates that they had an implied attitude to the understanding of a business relationship. First, they regarded it as dynamic and as developing over time. Second, the area sales manager, Ole Kirk, and the sales director, Sten Pedersen, both believed independently that the business relationship could be described by a minimum of three phases: a clarification and start-up phase, an implementation phase, and a production/operating phase. If this description of the business relationship is considered, it is obvious that KL considered the business relationship as a long-term business relationship.

KL personnel do not consider the outlined trailer spring business relationship to have functioned well. Some of the reasons for this were highlighted by the sales director and the area sales manager as the following: different expectations to the aim of the business relationship, partial lack of accepted division of roles, lack of trust, bad chemistry among the involved parties, different organisational cultures, as well as insufficient communication. In this connection, some might claim that some of these above-mentioned factors will be crucial for the development of a business relationship.

It was also obvious from the trailer spring case that different factors were critical at different times during the business relationship. For example, the sales director, Sten Pedersen, emphasized that the individuals and their behaviour were very important in the beginning of the business relationship. By analysing the behaviour of the involved parties, he tried to create a picture of their involvement and

commitment. Likewise, the case indicates that the trust factor is crucial for the successful development of the business relationship and that this factor is crucial during the entire business relationship.

The case also makes a discussion possible about whether the same factors are equally critical for both parties in the business relationship. Part of the case indicates that the same factors are not of critical importance for both parties, e.g., a fast decision-making process was of great importance to KL and did not seem to be important to the developing company. Likewise, the unequal importance of the factor “personal relations and communication” is indicated. Contrary to the English developing company, KL believed that informal but objective communication based on good personal relations between the involved parties was very useful for a successful development of the business relationship.

Something in the case also implies that a business relationship cannot be seen as a planned and controlled process. During the business relationship, events of internal and external character arise which become important to the development of the business relationship. Two examples from the preliminary case can be underlined: First of all, changes in the company’s specific market can be described as the primary reason for the commencement of the business relationship. Secondly, the incident where the trailer spring bursts during some of the tests can be emphasized. When the researchers start to recalculate the length of the spring, the unfortunate happens, because in contrast to a colleague from a different development unit, the project manager estimates the wrong length of the spring. This error leads to huge discussions between the two researchers and KL whereby the focus on the business relationship vanishes and the relationship is worsened considerably.

These incidents can be described as having happened in both the external and internal contexts of the business relationship and, as a whole, as having an influence on the development of this specific business relationship. Consequently, there are indications that events happening in, as well as explicit in, the business relationship are important for the development of the business relationship.

This preliminary case has been placed at the beginning of this thesis because it illustrates and identifies the problems that are the focus of this thesis.

**Basically, the trailer spring case has posed four questions:**

- 1. What factors are critical for the development of the business relationship?*
- 2. Are these critical factors the same for both buyer and seller?*

3. *Is the importance of these factors different at different stages of the business relationship?*
4. *How can incidents/events arising in the internal and external contexts of the business relationship be important to the development of that business relationship?*

### 1.3 Research agenda

The four questions from the preliminary case have set the framework for this thesis:

***To create a larger operational knowledge about how  
international long-term business relations develop***

***Part 1:***

*Primarily, this increased knowledge is gained by identifying and operationalising critical factors for the development of long-term international business relationships on different development levels in the business relationship. These factors are identified from both a buyer's and a seller's point of view.*

***Part 2:***

*Secondly, by describing and analysing the development processes of four business relationships using an event-based method.*

***Part 3:***

*This results from the development of a dyadic process framework that integrates the critical factors in the development processes of four international business relationships from the*

Because the existing models and theory of international business development are of a more overall descriptive character, this thesis seeks to contribute with a somewhat more operational knowledge. Consequently, this thesis will specifically address what happens when and why in a business relationship, whereas the existing models are very unspecific in relation to these features.

This thesis will focus on the development of long-term international business relationships, which will be defined as follows: “*an enduring collaborative linkage between two or more legally independent firms situated in different countries.*” (Kumar and Andersen, 2000, Parke, 1991). The specific business relationships upon which this thesis is based will be selected on the basis of this definition.

### 1.3.1 First part of the thesis

As it can be seen from the preliminary case, the development of the business relationship is an essential problem area for both parties in the business relationship in their attempts to profit from the relationship and to reach their goals through exchanges. The need to develop and sustain such long-term business relationships is estimated to be very important to most companies. The need to address this important area leads to the first part of the tripartite research question:

***Which factors are critical when and to whom in the development of long-term international business relationships?***

The first part of the research question deals with creating knowledge about the factors that are critical for the development of long-term relations. In this context, development of a business relationship can be compared to the implementation of a project. One of the arguments that support this position is the perception of the relevance of human and organisational aspects to the implementation of projects. These aspects were seen as especially relevant after studies showed that the positive development of a project does not only depend on the application of certain project tools and control systems (e.g., Might, 1984). Therefore a specification and concretisation of the term “critical factors” is based on the project control literature.

In relation to project management, the term “critical factors” signals some things or tasks which are difficult to implement but essential for the development of a successful project or relationship. There are two components to this term:

- 1) The importance of the factor in relation to the result, and
- 2) the factor is described as a project element with a critical degree of difficulty that means that it is difficult to implement the element (Kølsen De Wiit, 2000).

Within the project management literature, it is estimated that general valid critical factors do not exist. It is estimated that general patterns will not be uncovered because they are dependent on the context. To a certain extent, this also applies to the present context. It is not the intention in this thesis to point out some general valid critical factors, but rather through the description of the development of some specific business relationship to produce some factors that can be estimated to be critical to the development of business relationships. However, the author must admit that it might be that some more common or universal factors will appear like trust and commitment. They might be regarded as critical across trades and types of business relationship.



The second part of the research question is concentrated around the following question:

***When in the development process of the business relationship the specific factors can be seen as critical and when they can be seen as non-critical?***

This thesis looks upon a business relationship as a dynamic process. The investigation of “the development of the business relationship” is seen as a difficult investigation area because the time dimension is added explicit to the research design (Holmlund, 2004). The inclusion of the dynamic in nature perspective typically complicates the investigation and raises problems that until today have received little attention within the area of marketing research.

A business relationship develops and changes over time, and the author holds that a business relationship can at no stage be seen as fully developed. The author believes that the factors identified as critical for the development of the business relationship can be of different importance in different stages of the business relationship’s development. The thesis tries to clarify when in the process the individual factors are most critical for the development of the business relationship, and the author will argue that some of the factors are active in certain development steps and latent in other steps.

The third part of the posed research question emphasizes the dyadic perspective of the business relationship:

***Which factors are seen as critical to the seller and which factors are seen as critical to the buyer throughout the development of the business relationship?***

Therefore the critical factors will be underlined from the perspectives of both the buyer and the seller. The logical reasoning for this is that both parties are active in the business relationship even though their marketing activities differ. Due to the different marketing activities of the two parties, differences in their perception of critical factors for the development of the business relationship are expected. The author will focus on the responsible persons<sup>3</sup> for the business relationship in the two involved companies and get his/her perception of the development of the business relationship and the influencing factors. In other words, this thesis begins on the level of the individual by focusing on the project manager’s estimation of the problem in each of the four business relationships. The author wishes to discuss the possible differences in the project manager’s choice of factors and to argue that there are factors for the development of long-term business relationships which can be perceived as

<sup>3</sup> In the following, the responsible persons will be referred to as the “project managers” or “the respondents.”

critical by either “buyer” or “seller” and some factors which can be perceived as critical to both “buyer” and “seller”.

### **1.3.2 Second part of the thesis**

The second part of the thesis is focused on the question:

*What influence do specific incidents or events have on the development of the business relationship?*

The author is convinced that a business relationship can be described and analysed from an event or incident perspective. The events or incidents can occur on different levels of the business relationship or/and in the interorganisational interaction. Events or incidents can be caused by the interacting companies, by other players in the network of the companies or in the surrounding world, or be the result of some large phenomenon in the macro context of the companies. The event or incident can be characterised by its influence on the contents and the process of the development of the business relationship. It can be characterised as large or small, as well as restrictive or driving events according to their influence and consequences for the business relationship.

### **1.3.3 Third part of the thesis**

As a result of this research process, a dyadic process framework will be developed. It will be based on the theoretical and empirical investigations, will integrate the critical factors for the development of the business relationship from the perspective of both the “buyer” and the “seller,” and it will in detail describe the development processes of a business relationship from an interactive point of view.

A framework contrasts with a model built on “systems of statements which in their logical consistence and operability do not fulfil the strict requirements of hypotheses systems” (Royer, 2005, p. 11). A framework is, in accordance to Andersen (1997, p. 30), a “logically developed, described and elaborated network of associations among concepts that have been identified through theoretical and empirical research.” The purpose of the framework is thus to show how the analyst recognizes the investigated phenomena as well as how the analyst understands the factors that have impact on these phenomena (Royer, 2005).

## **1.4 A Short Theoretical Review**

The proposed thesis can be answered on the basis of different theories. In the following, “the marketing channel approach,” “the resource dependence theory,” “the social exchange theory,” “the transaction cost theory,” and “the industrial network approach” will be described shortly. Each of the five theoretical directions could be used as the starting point to answer the questions posed by the thesis.

#### **1.4.1 The Marketing Channel Approach**

According to Stern and Reve (1980), the traditional “marketing channel” literature consists of two main streams, namely, the micro-economical and the behavioural paradigms.

The micro-economical paradigm and several of the micro-economical models have been criticised for failing in relation to the process that characterises the relation between the channel members. In this paradigm, in accordance with the neo-classical theory, the individual companies are perceived as black boxes or bundles of functions (Nelson, 1991) and the relation between these are not conceptualised beyond the functional dependences that take place.

In order to respond to these identified limitations, the behavioural paradigm developed. The primary focus of this paradigm was on the design of mechanisms that could control the individual channel members’ performance (Stern, 1969). Despite the important insight the behavioural paradigm contributed, it was criticised for focusing on behavioural phenomena isolated from their assumptions (among others Gattorna, 1978), e.g., no initiative was taken to specify the relation between power and performance despite the fact that performance systems represent a crucial element for this paradigm.

A unity of these two research streams leads to the marketing channel approach, which looks upon channel decisions as a general trade-off between costs and control (Anderson and Weitz, 1983). On the one hand, internalisation of a certain channel function is seen as an opportunity to improve control measures because of the created relation between the involved employees. On the other hand, the control advantage linked to ownership must be seen in relation to the cost efficiency of outsourcing the function to external specialists.

The early empirical research within the marketing channel literature has primarily been focused on how the companies acquire and use power, causes and consequences of inter-channel conflicts, the interrelation between power and conflict, and the channel member satisfaction (Reve and Stern, 1979 for review). Later on, Fraizer (1983) developed a framework for interorganisational exchange

behaviour in marketing channels aimed at describing and explaining the initiating, implementation, and patterns of ongoing channel relations.

#### **1.4.2 The Resource Dependence Theory**

The Resource Dependence Theory poses another perspective in interorganisational relation theory. The first basic assumption is that organisations use relationships in order to gain access to the resources that are vital to their continued existence (Easton, 1992).

The second basic assumption is that companies will try to reduce insecurity and to control dependence by structuring their exchange relationships in order to establish formal or semi-formal links to other companies (Ulrich and Barney, 1984). Conceptually, within the resource dependence approach, the establishment of inter-firm links is seen as a means of handling the insecurity and dependence by consciously increasing the extent of the coordination with the relevant exchange partners (Cyert and March, 1963).

The Resource Dependence Theory focuses mainly on the way in which companies manage individual relations. The behaviour of the companies is seen as the result of two opposite forces: first, from the competing and often contradictory desires of stakeholders within the organisations, and, second, from the external requirements of the organisation that receives and distributes resources.

The Resource Dependence perspective primarily contributes two aspects within the studies of industrial systems. First, relations are perceived as being multiple. Second, the resource is considered to play a dominant role and to be a determining factor in relation to behaviour.

#### **1.4.3 The Social Exchange and Social Network Theory**

The primary focus of social exchange theory is the explanation of the emergence of various forms of social structures, including networks and corporate groups (Cook and Emerson, 1984). The central concept for the social exchange theory is “connection”. Two exchange relationships can have a positive or negative influence on one another. This concept raises the possibility of moving beyond the dyad and claiming “system-wide” effects. In other words, the social exchange theory poses the concept of indirect relations where A can influence C through B because there are connecting exchange relations between the three parties.

The Social Exchange Theory states that complex network behaviour can be seen as a result of the interaction between relatively simple defined exchange relationships. In practise, it is predominantly with a starting point in the social exchange theory that simple analytical models for network behaviour have been tested by means of experiments. In contrast to research within communication and social network, this research has had a very inductive character (Rogers and Kincaid, 1981). The analysis unit has in this context primarily been the individual in a social context, and the network is defined as the pattern of communication and social interaction that arises among the individuals. In this context, the largest problem has not been in relation to the collection of data, but in relation to the analysis. The large number of links that exist in such a network makes the distinction between the individual patterns very difficult (Easton, 1992). Researchers within this approach are therefore of the belief that the network should be treated as a whole, that network boundaries are very problematic to define, and that network models should be more dynamic in nature (Easton, 1992).

#### **1.4.4 The Transaction Cost Theory**

The basic unit of analysis in the Transaction Cost Theory is the transaction. According to Williamson, a transaction occurs when: *“a good or service is transferred across a technologically separate interface* (Williamson, 1985, p.1). Williamson (1975, 1985) assumes that there are two alternative methods that can handle transactions. The first alternative is that the transaction is not necessarily a transfer between two juridically separate parties. A transaction can take place within the same company—an event that is recognised by Williamson (1975, 1985) as an internal transaction. The second alternative is that the transaction marks the transition between the two technologically separate units. When a transaction takes place, a number of costs will accumulate, according to Williamson. Williamson defines transaction costs as “costs of running the economic system” (Williamson, 1991, p. 269). Williamson’s transaction analysis is a static comparative analysis where focus is on the relative transaction costs within alternative forms of organisation. This focus means that Williamson does not deal with the size of the absolute transaction costs, but looks solely upon the minimizing ability of the regulation structures’ transaction costs in relation to other possible alternatives. This is where the difference to the neo-classical micro theory lies.

In the neo-classical micro theory, companies are seen as production functions operating in markets that are presumed to frictionless. On the other hand, the Transaction Cost Theory assumes that the markets are characterised by economic friction. The new economic theory is new thinking in relation to the traditional economical theory because it introduces bounded rationality, the possibility of

opportunistic behaviour, as well as insecurity and frequency, which give rise to transaction costs (Williamson, 1975).

#### **1.4.5 The Industrial Network and Interaction Approach**

The first current within the network and interaction approach focused on the dyadic business relationship between buyer and seller. The Industrial Marketing and Purchasing (IMP) Group demonstrated successfully the existence of stable long-term buyer-seller relations. In continuation of this, they developed the interaction model that is based on four analysis elements describing the diversity and complexity in the buyer-seller relation.

The second and subsequent IMP current continued to focus on the individual relationship but also further developed the approach to examine the individual relation in connection with the other company relations. In this way, this second current operates on a higher aggregation level as compared to the first current.

Today, the industrial network approach is concentrated on understanding the totality of relations between the companies engaged in production, distribution, and use of goods and services in what can be best described as an industrial system (Easton, 1992).

Within the network approach, the relation between the players and aspects of this gained network are emphasised: “In the network approach, markets are described as a set of interconnected exchange relationships between actors controlling resources for production” (Johansson and Mattson, 1992), and “industrial networks emerge and develop as a consequence of interaction” (Håkansson and Mattson, 1988).

The determination of the boundaries for the industrial network system is problematic and these will vary according to the aim for establishment of a border. This research focuses on the network and not on the individual company or relationship. However, companies and relationships can be studied if the aim is to understand the overall network.

Among other things, Easton (1992) describes the industrial network as an aggregation of relationships. He underlines that a business relationship consists mainly of four elements: the mutual orientation and commitment, the dependence which the parties have—or believe themselves to have—to each other,

different obligations of varying strength, as well as the investments made by the parties in the relationship. Each of these elements is interdependent (Easton, 1992; Håkansson and Snehota, 1997).

One of the assumptions for the existence of a relationship is, according to Håkansson and Snehota (1997) and Easton (1992), that there is an ongoing mutual orientation and commitment present, which involves that both companies are ready to interact with each other.

Generally speaking, the business relationship within this perspective is understood as being interactive and containing not only the exchange of products or services for money, but also social and personal interactions as well as other interactive processes (Håkansson, 1982, Håkansson and Snehota, 1997, Ford, 1984, 1997). This interaction leads to different dependences between buyer and seller that are only indirectly related to the individual exchange episode.

Research within this philosophy is driven by “inductive discoveries” focusing on the interaction, the length of the relationship, and the dependence of the players in the trade. The research is predominantly descriptive. The research group, the IMP GROUP, has made the predominant research trend within this philosophy in Europe.

## **1.5 Why an Industrial Network and Interaction Approach?**

This thesis has chosen to take its theoretical start in the IMP-driven industrial network and interaction approach.

The industrial network and interaction approach can be seen as some sort of offshoot of the four previously sketched theories. There is no doubt that the previous researchers within this industrial network approach have looked for inspiration in “the marketing channel theory”, “the resource dependence theory”, “the social exchange theory and social network,” as well as in “the transactions cost theory”.

Several fundamental conditions can be mentioned which make the industrial network and interaction approach perceived as the most correct theoretical reference for solving the present thesis.

First of all, the industrial network and interaction approach focuses on the description of market processes, which are seen as an interaction between the actors in the network. The aim in this theory is

to describe the network and the relations as they are and not as how they ought to be, which is in line with the thesis's overall aim to contribute with increased knowledge about the development of long-term relationships. The focus of this thesis will in this way be in accordance with the industrial network and interaction approach, because the focus is on the description, understanding, and analysis of specific developmental processes of business relationships in their real context and not as in the more management-oriented approaches where the focus is on how the business relationship ought to be.

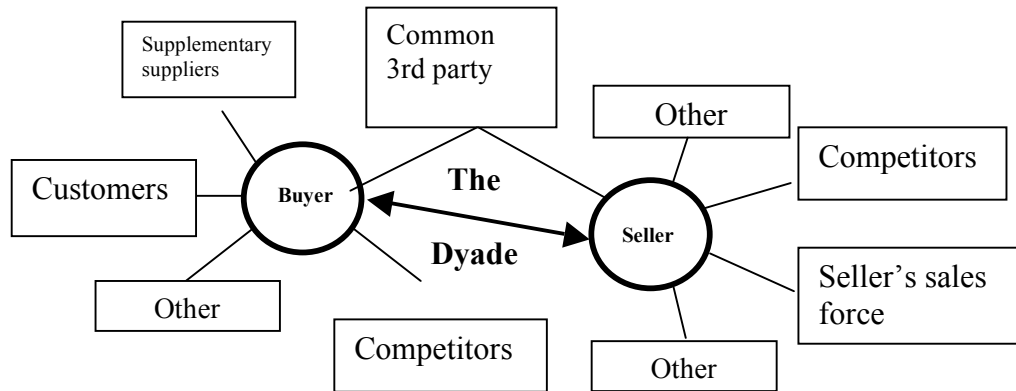
Second, the author is convinced that business relationship is dynamic in nature and that it can never be seen as stable and/or static. It is therefore important that the reference is in a theoretical framework that accepts and can handle a process focus. The fact that the industrial network and interaction theory is very focused on connections between the parties in the network and their interaction with each other implies that the theory in its assumptions is dynamic and development oriented. It would furthermore be difficult to obtain an interaction as a static figure.

Within the industrial and interaction theory, the business relationship is considered to be of a long-term character with a mutual dependence between the parties in the network. As mentioned before, it is this thesis' overall aim to contribute with increased operational knowledge about how business relationship develops. It is therefore necessary to take as a starting point a theory where business relationships are regarded as being long-term and not consisting of single independent transactions.

An additional condition which separates the industrial network theory and the interaction theory from traditional marketing and that should be underlined in this connection is that both buyer and seller are active partners in the market. This aspect is central in relation to the problem addressed in this thesis and can be seen as an additional reason for choosing a theoretical reference in the industrial network and interaction theory.

When choosing the theoretical basis for this thesis, it was important to find a frame of reference that makes a focus on the dyad possible. However, it is important to be aware that this relationship must not be perceived in isolation, but as connected directly and indirectly to other relations. See figure 1.1



**Exhibit 1.1 Connected relations for companies in a dyadic relation**

Source: Author.

One of the reasons for the importance of this focus is that this thesis will use an event-based method to identify the factors that are believed critical for the development of long-term relationships. It is therefore important that a theoretical framework is chosen which is focused on the creation of an understanding of which conditions and factors influence (not always cost-minimizing) the interaction between minimum two partners. At the same time, it is a decisive factor that a theoretical starting point is chosen where focus can be on the dyad without ignoring the entire network, because the author believes that the events/incidents which influence the dyadic business relationship will be found in the direct relationship but also in the more indirect network surrounding the focal relation.

The industrial network and interaction theory holds that relationships can exist on several levels. A minimum of four levels can be identified: network, company, group/department, and individual (Wilson and Mummalaneni, 1986).

Håkansson and Snehota (1997) work with a similar levelling in their ARA model. However, they believe that two dimensions can be used to describe the business relationship levels—the substance of the business relationship and its function. Håkansson and Snehota (1997) identify three layers of substance in business relationship: activity, resource, and player levels. The three substance levels are dependent on each other; an interaction takes place between the activity links, the resource limitations, and the player relations. The interaction between these three levels is, according to Håkansson and Snehota, the beginning point for the development and the change in a business relationship and is seen as a driving force in the development of the business relationship (Håkansson and Snehota, 1997). When Håkansson and Snehota (1997) discuss the function of business relationship, they take as their starting point the micro-functional perspective developed by Alderson in 1965. By adopting this

perspective on business relationship in the industrial market, one can identify at least three different functions: the function for the dyad, the single actor function, and the “network function.” According to Håkansson and Snehota, the object is to find the balance between the three functions<sup>4</sup> (Håkansson and Snehota, 1997). The ARA model is presented in Exhibit 1.2.

**Exhibit 1.2 ARA model**

	<b>Company</b>	<b>Business relationship</b>	<b>Network<sup>5</sup></b>
<b>Activities</b>	Activity structure	Activity links	Activity pattern
<b>Players</b>	Organisational structure	Actors bonds	Web of actors
<b>Resources</b>	Resource collection	Resource ties	Resource constellation

Source: Håkansson and Snehota, 1997, p. 45.

The author has chosen to present the ARA model based on the primary reason that this model visualizes how the levels in the business relationship influence each other from a network point of view. In this thesis, considering the network approach, the unit of analysis will be on the dyad. With reference to the Industrial Network Approach, the dyad will not be regarded as isolated, but as a part of a larger and more complex network. Considering the conditions proposed here, it becomes obvious why the industrial network and interaction approach is perceived as the most appropriate reference in relation to the actual thesis.

## 1.6 Limitations within the Industrial Network and Interaction Theory

However, there is no doubt that some areas within the industrial network and interaction theory can still be regarded as weakly analysed and explained. One of the areas that can be stressed is the research generated within the area of development processes of business relationships. Research focusing on these phenomena is very descriptive and of very little operational character. Despite the increased research and interest in the long-term business relationship, studies of the development processes of business relationships have been partly neglected. The lack of focus on the

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<sup>4</sup> If the company puts too much emphasis on the individual company, it can have the opposite effect and destroy the dyadic team function. However, if too much emphasis is put on the dyad, this can also function as un-productive because an altruistic behaviour can be damaging to the self-interest of the company. Ignoring the network function can lead to the company not discovering certain development possibilities produced by the network.

<sup>5</sup> The consequences of a business relationship between the two companies are not limited to the influence on the two involved companies. Other companies and business relationships can also be influenced. The activity links are part of a broader activity pattern that reaches several companies, the resource linkages are part of a large resource juncture, and the players are part of the large web of actors. Once again, there is a mutual influence between the business relationship and the structure of the network.

dynamic dimension of business relationships can be regarded as a serious lack in the knowledge created within industrial network theory. If the industrial network theory is contemplated more broadly, a few studies and analyses (Ford, 1984; Wilson and Mummalaenen, 1986; Dwyer, Schurr, and Oh, 1987) of the development of the buyer-seller relation can be mentioned. These studies have as already mentioned primarily been very conceptual and descriptive, and no attempt has been made to incorporate the existing knowledge about critical factors into the development of long-term dyadic business relationships.

Furthermore, within this area of research, only a few attempts have been made to concretise those factors that can be estimated as critical for the development process of the business relationship at a certain point in time. The research made with this focus has until now also been very descriptive and difficult to use in practice. The research generated within the development process of business relationships within IMP does at no point in time try to distinguish between a buyer and a seller perspective in the choice of factors influencing the development process of business relationships.

There is no doubt that an operational model of the development of a dyadic business relationship from a network point of view focusing on when which specific factors can be regarded as critical from both a buyer and a seller perspective in the concrete development process will be a contribution to the research within industrial network and interaction research area.

In the same way, there are only a few models that examine the development process of the business relationship from a process perspective. It is even rarer to find a model that can be characterised as setting out from the process perspective and based on a longitudinal research design. According to the author, there is therefore a need to develop a model which can be seen as using the process perspective, is based on a longitudinal research design, is dyadic in nature, and which integrates the existing knowledge about relationship development processes.

Furthermore, it is believed that the critical incident technique can be beneficially used as a research method to describe and analyse the relationship development process. This is a research method that is rarely used within this research field. Using the critical incident technique within the research area stressed in this thesis can be regarded as a methodological contribution.

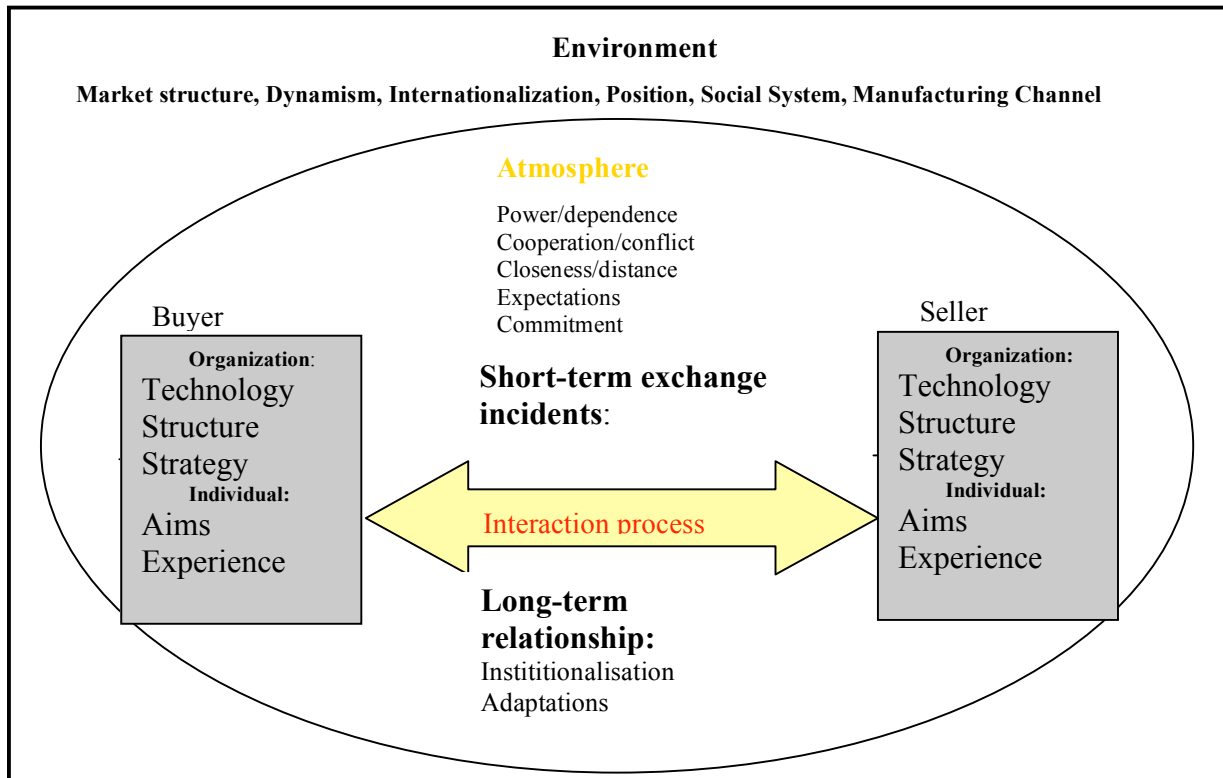
## **1.7 The Theoretical Background—The Interaction Model**

As previously mentioned, this thesis has its theoretical reference in the industrial network and interaction approach. More specifically, the starting point of this thesis will be in the Interaction Model developed primarily by Håkansson in 1982. The author will primarily use research within the industrial interaction and network approach, but in the areas which are judged to be insufficient, I will seek inspiration within other related theoretical fields. With this research process, the researcher intends to contribute to the development of knowledge within the industrial network and interaction approach.

The Interaction Model will function as a frame of understanding for the theoretical description and discussion of the thesis. The interaction approach has its inception in Scandinavia and the Western part of Europe. The inductive case-based approach has been one of the characteristics for the empirical research within the interaction approach. Researchers within this approach have produced important conceptual theories and models to understand the development of the buyer-seller relationship. The body of thought developed with the interaction approach is primarily based on data collected through interviews with 878 buyers and sellers from 318 companies in France, Italy, Germany, Sweden, and England.

The interaction approach is based on two fundamental assumptions which previous research has neglected. However, empirical studies have indicated that these assumptions are important in the industrial market. The first assumption is that both buyer and seller are active partners in the market, which is a distinction compared to the traditional Marketing Mix approach. This is in contrast to earlier research that suggested that the seller was the primary active party. This aspect is essential in relation to the problem of this thesis and can be seen as one of the author's primary reasons for choosing the interaction model as the framework for understanding this thesis.

The next assumption builds on the characterisation of business relationships as long-term, close, and consisting of a complex pattern of connections between the involved companies and the involved actors. In this process (cf. the ARA model) resource ties, activity links, and actors bonds are created between the two companies (Håkansson and Snehota, 1997). These ties, links, and bonds are often institutionalised in the shape of some roles and expectations linked to the performance of the parties. The interaction model sees the interaction between individuals and organisations as complex and influenced by many aspects. The starting point for the model is the dyadic relation; however, the model can easily be extended to contain more than one relation (Håkansson, 1982). The model is shown in Exhibit 1.3.

**Exhibit 1.3 The Interaction model**

Source: Håkansson, 1982, p. 23.

Fundamentally, the interaction model relates to four elements influencing the interaction between the two parties (see Exhibit 1.3).

The first element Håkansson discusses is the interaction process. The interaction process expresses the exchanges between the two companies as well as the development of the interaction over time. Focus is on variables that describe the contents and the process in the interaction. Håkansson has chosen to describe the interaction process from two angles: the individual transactions and the long-term perspective in the relationship. The individual transactions can be equated with the process behind the individual exchanges. According to Håkansson, there is a distinction between four different individual incidents of exchange on the industrial market: exchange of products or services, exchange of information, financial exchange, and social exchange.

Håkansson (1982) emphasises here that social interaction is especially critical in the development of long-term business relationships. Through communication or exchange of information, a steadily more interorganisational pattern is developed. This contact pattern can consist of individuals or groups

that have different roles, work in different functions/departments, and distribute different messages of technical, commercial, or social character. Adaptation is another important aspect which is emphasised by Håkansson and which is important for the long-term business relationship. The parties' mutual adaptation arises as a consequence of the exchange process. This adaptation of individual episodes helps to modify the business relationship in the long run.

According to Möller and Wilson (1988), the interaction process consists of three sub-processes: the exchange process, the coordination process, and the adaptation process. Möller and Wilson (1988) see the business relationship as the result of these three processes. Johansson and Mattson (1987) divide the exchange process into social exchange, business and information exchange, and exchange of resources. Coordination processes are processes that aim at harmonising the participating companies' acts and decisions in order to gain the expected advantages from the business relationship. The coordination process is often associated with the structural dimension of the business relationship, like the organisational structure, the level of a centralised decision structure, and the like (cf. Van de Ven, 1976; Halinen, 1997). The adaptation process, the third sub-process, is implemented when the companies start to cooperate in excess of a day-to-day interaction level. (Hallén et al., 1987).

The participants in the interaction process are the second element in the interaction model. The interaction process and the business relationship are dependent on the characteristics of the participating organisations as well as the individuals representing them. Håkansson emphasises the following as organisational characteristics: technology, size of the organisation, structure and strategy, as well as the experience of the organisation. The individuals participating in the interaction will have different roles and functions in the company and be involved in the interaction in different ways because of their diverse personalities, experiences, and motivations. Individuals will exchange information, and develop personal relations and social bonds. These bonds will influence the decisions that are taken in each involved company as well as in the overall business relationship.

The third element mentioned by Håkansson (1982) in his interaction model is the surrounding environment or context. According to Håkansson (1982), the dyadic interaction cannot be analysed without considering the surrounding environment. In relation to this assertion, Håkansson has described five central aspects in the interaction environment: market structure, dynamism, internationalisation, the position of the business relationship in production, and the social system.

A business relationship must be considered as being one out of a number of similar business relationships that exist on either the national or the international market. The market structure is

dependent upon the concentration of buyers and sellers, changes in the market, and its “members.”

The number of buyers and sellers decides the number of possible alternative partners for a company, which will have a direct effect on the competition and the desire to interact with a certain counterpart (Håkansson, 1982).

The degree of dynamism in a business relationship and on the market is an aspect of the surrounding world. According to Håkansson, it influences the relation in two opposite ways. In a close business relationship, the partners’ ability to predict each other’s behaviour increases alongside their knowledge about the counterpart’s visible behaviour and acts in certain situations. However, in a dynamic surrounding world, the costs of being dependent on one single business relationship or a few business relationships can be very high—expressed in the form of alternative development possibilities with other market participators. In this way the dynamics of the market play a central role in relation to the long-term perspective of the business relationship.

The degree of internationalisation in both the buyer and seller market is interesting when it motivates the companies to enter into international business relationships. If so, it will influence the involved companies’ organisation and level of knowledge (Håkansson, 1982).

A further aspect linked to the surrounding context that Håkansson (1982) considers is the position in the production channel of each individual business relationship: start-producer to end-consumer. This position will be important to the appearance and development of the business relationship.

Håkansson (1982) describes the social system as the characteristics in the broad surrounding world. According to Håkansson (1982), these are especially relevant in an international business relationship where—generally speaking—attitudes, perceptions, and postures can be different depending on the home country of the partner.

The fourth and last element in Håkansson’s interaction model (1982) is the atmosphere. The atmosphere is the context where the interaction takes place and consists of the active environment or setting for the individuals and their interaction with each other. The atmosphere influences the interaction and vice versa, and can be seen as some sort of hybrid culture that reflects elements from both the involved organisations. The atmosphere concept is defined as follows: “...the emotional setting, in which business (interaction) is conducted” (Hallén and Sandström, 1991, p. 113).

Håkansson can describe the atmosphere by means of five atmospherical dimensions: cooperation/conflict, power/dependence, trust, commitment, and closeness/distance (Håkansson,

1982). The dimensions are considered as a group of intervening variables, defined by various combinations of environmental, company-specific, and interaction process characteristics.

## 1.8 The Interaction Model as Overall Framework for Development of the *A priori* Framework

Several investigations have been carried out with the aim to develop concepts and models focusing on close interactive business relationships between buyer and seller.<sup>6</sup> The author estimates the interaction model (Håkansson, 1982) to be the best attempt. Wilson and Mummäläinen (1986) also see the interaction model as the best model because it considers a broad spectrum of aspects of the buyer-seller interaction. There exist three superior reasons why Håkansson's interaction model is chosen as the underlying framework of understanding for this thesis.

First of all, several researchers (Wilson and Mummäläinen, 1986; Lynn, Frear and Krishnan, 1992) consider the model to be the best one for analysis of dyadic long-term business relationships because it incorporates several aspects of the business relationship.

Lynn, Frear, and Krishnan's (1992) operationalisation of parts of the model<sup>7</sup> supports its validity. Their results showed that the parties' cooperation was an indicator of the companies' willingness to adapt to each other. As the exchange became more dynamic and the atmosphere more cooperative, there is a growing probability that adaptations in the exchange process will take place.<sup>8</sup> The parties' perception of the importance of the product was also found to be a predictor for the willingness of the companies to make product or process adaptations. And finally, the exchange of technical information and support were regarded as influencing the adaptation positively. From Lynn, Frear, and Krishnan's results (1992), it can be established that the factors *exchange of information* and *social exchange* are general indicators of the degree of cooperation between buyer and seller.

An interorganisational contact and role pattern develops when satisfactory communication and exchange of information takes place. The personal relations between buyer and seller will ease the exchange process and be useful to solve problems that have arisen. According to Lynn, Frear, and Krishnan (1992), personal exchanges will establish a mutual trust between the two companies and

<sup>6</sup> Among others: Anderson & Narus, 1990; Dwyer, Schurr & Oh, 1987; Fraizer, Spekman & O'neil, 1988; Ford, 1980; Håkansson, 1982; Wilson, 1995; Pick, 1999; Conway & Swift, 2000.

<sup>7</sup> Lynn, Frear, and Krishnan (1992) tested the empirical interaction model with the method of multiple regression analysis. First of all, they tested if the exchange of information and social exchanges lead to a cooperative relationship between buyer and seller. Second, they tested if the relationship between buyer and seller influences their willingness to make adjustments in the exchange process. Third, they tested if the perceived importance of the product gives rise to larger investments or adjustments with either of the parties, and finally, if the exchange of information process eases the adaptation process. If each relation is considered individually, a significant connection is found between both the exchange of information and the social exchange, as well as between cooperation and the adaption process, between the product importance and adaptation process, as well as exchange of information and the adaptation process (Lynn, Frear, and Krishnan, 1992).

<sup>8</sup> For a closer description of the implemented adjustments, please refer to Lynn, Frear, and Krishnan, 1992, p. 34.



create an atmosphere characterised by cooperation. The results from Lynn, Frear, and Krishnan's empirical research decisively support the interaction model.

The aim of Lynn, Frear, and Krishnan (1992) was to operationalise parts of the interaction model, because it was not possible to examine all the included aspects. It must therefore be stipulated that there are still elements that have not been tested empirically. The investigation was carried out in the American aircraft industry, so the assertion that the interaction model is valid outside the US must be considered cautiously. However, the research indicated that the four elements in the model are relevant when long-term business relationships are examined.

The second reason for the choice of the interaction model as the framework of understanding is that it sees both parties in the dyad as active. As the author wishes to identify critical factors from the point of view of both buyer and seller, both parties are important for the development of the business relationship. It is therefore significant that the author chooses to begin with a theoretical model that agrees with this point of view.

The third reason for the choice of the interaction model is that it incorporates several levels. The individual business relationships' development will be examined from a process perspective by studying the nature of the relationship, sequences, and order of events, as well as activities that evolve as the relationship develops over time.

The author has chosen to describe the development process of the specific business relationships using an event-based method. The reason for this choice of method is that the events occurring in the development process of the business relationship will influence which factors are perceived by the respondents as critical for the development of the business relationship.

In order to complete a meaningful study of a process phenomenon, it is necessary to consider the following levels of the business relationship and their mutual influence and connection: the contents of the phenomenon, the process in itself, and the context (Pettigrew, 1990). Accordingly, the author has chosen to divide the factors that are believed to influence the development process of the business relationship into four factor groups, namely, *environmental factors*, *individual related factors*, *organisational factors*, and *inter-individual and interorganisational factors*.

The author sees the division in four levels as very valuable to this investigation, as some factors will be related to the contents of the business relationship, some to the context, and some to the process.

This understanding corresponds well with Håkansson and Snehota's (1997) perception that a business relationship can be seen from both a substance (content) and a function perspective, as well as with Pettigrews' content-context-process perception (1990).

Kale and Barnes (1992) similarly divide the business relationship into levels. They believe that both content and style in the dyadic interaction between companies will be adapted to three levels: the national character, the organisation, and the individual (Kale and Barnes, 1992). This stratification can also be found in the interaction model where the national character level is contained in the surrounding world element, while the interaction participants constitute the organisational and individual levels.

Möller and Wilson (1988) have tried to enlarge the model by integrating ideas from other research traditions. They have suggested an explorative dyadic interaction model that focuses especially on identifying the factors that influence the buyer-seller interaction, but at the same time develops a conceptual understanding of the contents of the business relationship. They have classified four groups of factors:

“Contextual factors,” which define the surrounding world and the situation where the interaction takes place.<sup>9</sup>

“Task factors,” which refers to the characteristics of the key task in the interaction.<sup>10</sup>

“Interaction process factors” consisting of the sub-processes which are necessary to complete the assignment.<sup>11</sup>

“Outcome factors,” which define the intentional and non-intentional results of the interaction behaviour<sup>12</sup> (Möller and Wilson, 1988).

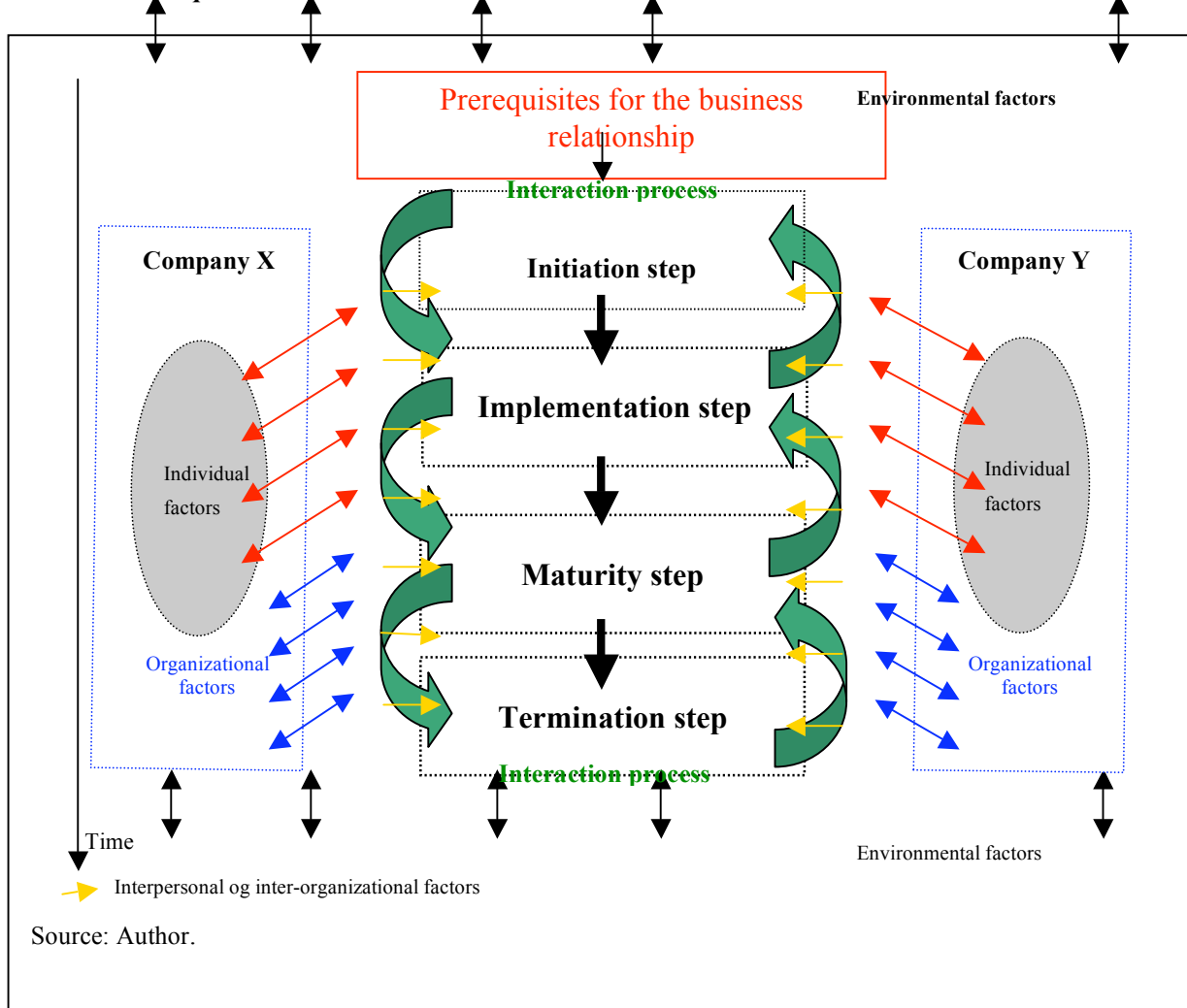
The *a priori* framework for this thesis is primarily based on the interaction model as well as on the further development of this model by Möller and Wilson (1988, 1995) and on the interpreted parallel stated by Kale and Barnes (1992). The reason for the choice of this basis is that the stated models and frameworks include concepts and identify factors that are estimated to be critical for the development of dyadic business relationships. Exhibit 1.4 provides an overview of the *a priori* framework posed in this thesis in relation to the development of the buyer-seller business relationship.

<sup>9</sup> Examples of factors can be: the national culture, the competition in the market, the risks in the market, richness of resources, etc.

<sup>10</sup> Examples of factors can be: complexity, degree of innovation in the assignment, degree of importance connected to the assignment, etc.

<sup>11</sup> Examples of factors can be: the exchange process, adaptation, cooperation, etc.

<sup>12</sup> Performance, bonds, changes in the other groups of factors.

Exhibit 1.4 *A priori* framework

Inspired by the preliminary case, the author has chosen to make the *a priori* framework consist of four developmental steps. The preliminary case showed that a business relationship can be described as going through some different phases, stages, or development steps. The area sales manager and the sales director from KL made it very clear that the business relationship with the English development company consisted of three phases—the clarification and start-up phase, the implementation phase, and the production phase. However, the author believes that Ole Kirk and Sten Pedersen have overlooked a phase, namely, the termination phase. This phase becomes evident as the business relationship with the English development company ends after 9 years. Therefore, the author believes that a four-step model must be proposed here.

The first developmental step will be characterised by negotiations and a definition of roles and responsibilities between the two companies. Typically, not many persons will be involved in this

process and, based on the preliminary case, the process will take place on a strategic level.

The second developmental step will typically be focused on the implementation of the content of the business relationship. In the preliminary case, this step was about testing the product that had been developed in the first developmental step. Based on the experiences from the preliminary case, the author is convinced that a larger number of persons will be involved in this process—primarily from the tactical and operational level of the organisation.

In the third developmental step, the business relationship is assumed to run in a stable manner as this step was described as production or up and running in the preliminary case.

The fourth and last phase is, as previously emphasized, the termination phase. The possibility for the companies to withdraw from the business relationship due to disagreements is, however, implied during the entire development process.

In the *a priori* framework, the factors that are estimated to influence the buyer-seller relation are described in four factor groups: environmental, individual, interpersonal, and interorganisational. The author intends that the integrated process model will contain some specific critical factors that are found in these four factor groups.

In making this division, the author has primarily been inspired by Kale and Barnes (1992). However, another level has been added to the three levels of Kale and Barnes (1992), namely, the inter-individual and interorganisational level. This level partly corresponds to the interaction process in the interaction model. The four factor groups in the *a priori* framework incorporate the surrounding world element, the interaction process, and the interaction participants from the interaction model, as well as Möller and Wilson's (1988) factor groups: "Contextual," "Task" and "Interaction process factors." The group "Outcome factors" presented by Möller and Wilson (1988) will be described indirectly in the individual factors, the environmental factors, the inter-individual factors, and interorganisational factors.

It is evident from the exhibit that the inter-individual and interorganisational factors (yellow arrows) are estimated to have influence later in the process as compared to the other three groups of factors. This is because the inter-individual and interorganisational level is not established before buyer and seller have started the interaction. The influence from the individual factors (red arrows) is visualized in the exhibit as having the largest influence in the beginning to the middle of the development process

of the relation. The organisational factors (blue arrows) are influential from the middle to the end of the development process of the relation. This shift is caused by the fact that the individual is assumed to play the large role in the first step as this step is characterised by negotiations regarding the specific form of the business relationship, while the second step is focused on integration and implementation of the business relationship in the two organisations. The four factor groups will have a mutual influence on each other like the four elements in the interaction model. However the primary focus of this thesis will be on the influence of the factors on the business relationship.

The author has chosen to visualise both buyer and seller in the *a priori* framework in order to identify critical factors for the development of the buyer-seller relation from the point of view of both buyer and seller. The logical rationale is that both parties are active participants in the business relationship even though they perform different marketing functions. Because of the differing marketing functions, it is expected that differences in choice of critical factors for the development process of the factors will occur.

The focus of this thesis will be on the dyadic business relationship where the interaction process plays a central role and where it will generally be considered as *interaction between two or more individuals who are each tied up in their own business contexts*. In other words, business relationships that are formed between companies are analysed from the point of view of the individual. Although the author has chosen to regard the interaction from the level of the actors, it is important that the other levels are considered indirectly.

The development of a business relationship is not one-sided. It requires a collocation of the two companies. When the first relation is established, it will have its own life and develop its own substance as a dyad. The dyadic perspective is often referred to as “the joint perspective of manufacturer and distributors” (John and Reve, 1982; Eliashberg and Michie, 1984). The atmosphere element in the interaction model can be defined only very loosely. In this connection, the author has chosen to interpret the atmosphere as a sort of hybrid relation that develops between the two companies. This hybrid relation reflects elements of the two companies’ cultures but must be considered different from these.

The interaction between the individuals is considered the driving force behind the business relationships’ development process and it plays an important role for the development of the relationship. The interaction process can be regarded as consisting of several partial processes, e.g., of the exchange process, the coordination process and the adaptation process (Johansson and

Mattsson, 1987; Ruekert and Walker, 1987; Möller and Wilson 1988). Möller and Wilson consider the business relationship to be a result of these three processes. The processes are closely connected, and it is important to note that the business relationship is initiated, maintained, and ended through the interaction process.

Different factors can be considered important for the development process of the business relationship; the focus of this interaction process that takes place between the parties also changes during the course of the development. In the *a priori* framework model, no distinction is made between the interactive processes taking place in the four development steps. However, it is the intention to focus on the four development steps of the interaction process in the integrated process model that evolves as a result of this thesis.

## 1.9 The Structure of the Thesis

This PhD project has followed a research path that is characterised as S-M-C<sup>13</sup> (cf. Brinberg and McGrath, 1987), and this research will ‘go through’ three domains of knowledge which form the structure of the thesis.

The first domain will be the substantive domain (S), which is characterised as being a recognition and problem-based area. This domain starts in the existing literature within the network and interaction approach. The second domain is the methodological domain. It is focused on choice of method, collection of data, and handling of data. The third domain, the conceptual domain, is centered on analysis and interpretation of data and conceptualisation of these.

The substantial domain has two overall objectives: 1) to describe in theoretical terms the different approaches to the development processes of long-term business relationships and 2) to make a theoretical concretisation of which factors are estimated to be critical for the development of a business relationship. The *a priori* framework aims at introducing the reader to the author’s understanding of the correlation between the individual elements in the thesis. The *a priori* framework will form the basis for the development of the dyadic process framework and the *a priori* framework assumes that a business relationship is a dynamic process that over time goes through some different phases, stages, or steps. The substantial domain will try to elucidate the importance of different factors in the individual development steps. This presentation will be based on theoretical and empirical contributions within the Industrial Network and Interaction Approach.

<sup>13</sup> S: Substantive, M: methodical, C: conceptual.

Further, the substantial domain will introduce the relevant theory in relation to which factors are considered critical for the development process of business relationship. The author has divided the factors influencing the development of the buyer-seller relation into the four previously mentioned factor groups.

The factors that have been identified in the substantial domain as being important for the development of a business relationship will form the basis of the empirical work.

The first part of the methodological domain will concentrate on the scientific position and methodological choice and considerations. The choice of methodology is based on the problem from the thesis. The research strategy will be divided in the research steps, which will be described and discussed separately.

In the methodological domain, the main emphasis will be on four case descriptions. The three “DANDY-JOYCO” cases function as the primary basis for the empirical work while the “DANDY-Hollywood” case will function as a sort of test case.<sup>14</sup> The structure of the four cases is identical. First, there is a description of the developments of the specific business relationships from the point of view of critical events. Subsequently, the factors relating to the development process will be described, discussed, and ranked by both parties in the relation. Finally, the meaning of these factors in each of the identified development steps will be analysed, estimated, and compared. The author will discuss the differences and similarities found in the parties’ perceptions of the critical factors for the development of the business relationship.

In the conceptual domain, the *a priori* framework model will be confronted with the knowledge gained in the empirical cases. Using an analysis and a comparison of the four cases as a starting point, the critical factors will be identified from the point of view of the buyer and the seller, and these will form the basis of the further development of the *a priori* framework into the dyadic process framework. The analyses and the comparisons of the four cases will seek to create new ideas and theoretical modifications based on the chosen research strategy. Old concepts will be discussed and rejected, and partly new, more “true and fair” concepts will be substituted. The integrated process framework will be developed by separately discussing in detail the conceptual and processual elements in the *a priori* framework. Finally in the conceptual domain, practical and theoretical implications for the thesis will be posed and discussed.

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<sup>14</sup> This is described in more detail in chapter 4.

The following table briefly summarizes the content of the three domains for the present thesis.

**Table 1.1 Content in the three domains**

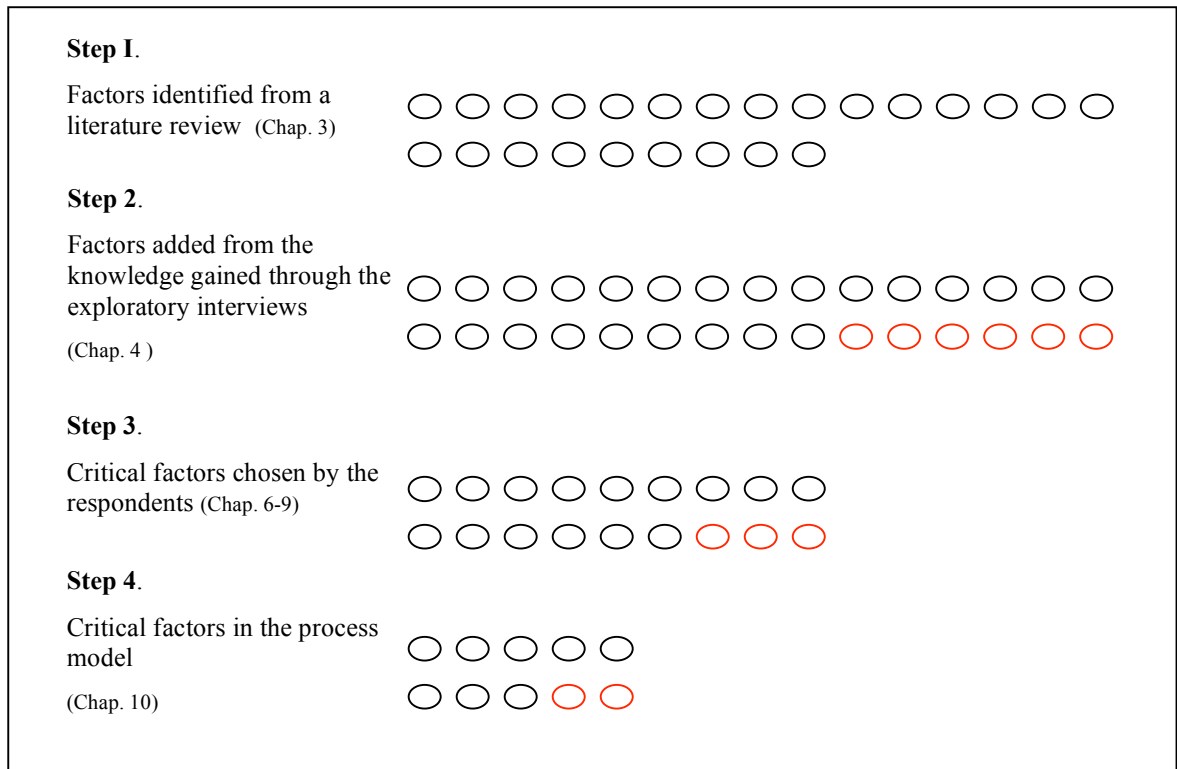
<b>Substantive domain</b>	<p>Summary of previous models of the development processes of business relationships</p> <p>Theoretical identification of critical factors for the development of business relationships</p> <p>Consideration of importance of factors from a process perspective</p> <p>The creation of the basis for the selection criteria of business relationships</p>
<b>Methodical domain</b>	<p>Determination of the scientific orientation</p> <p>Methodological considerations and choices</p> <p>Research strategy:</p> <ul style="list-style-type: none"> <li>Case selection</li> <li>Purposeful sample</li> <li>The critical event method</li> <li>Data collection</li> <li>Data analysis and estimation criteria</li> </ul>
<b>Conceptual domain</b>	<p>Development of process model based on the <i>a priori</i> framework</p> <p>Theoretical and practical implications before the investigation is made public</p>

Source: Author.

As focus in this thesis is on identification of critical factors for the *entire* development of the business relationship, the entire process must be considered. During the work with the thesis and in the companies, further critical factors were identified and add to the list of critical factors.

The process of identifying the critical factors can be described as a screening process in four steps as in Exhibit 1.5



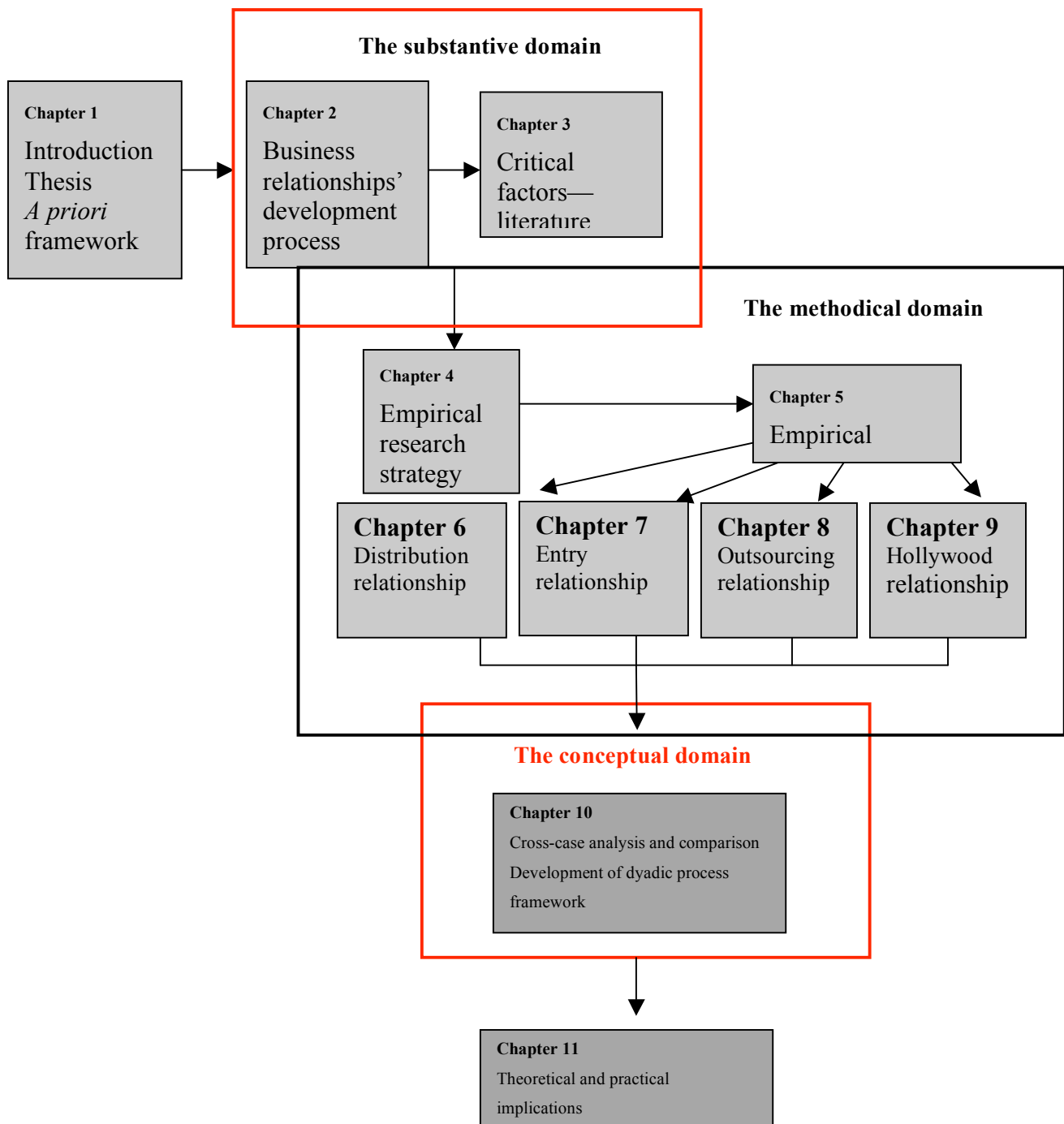
**Exhibit 1.5 Screening process of critical factors**

Source: Author.

In the first screening step, the author identifies the factors that are seen as critical for the development of long-term business relationships based upon an intensive literature review (Chapter 3). The number of factors will be added to another smaller set of factors in the second screening step, which the author will be able to determine based on the first interview with the respondents (Chapter 4). In the third screening step, the respondents choose for each of the three analysed business relationships a small number of factors based on the definition of a critical factor for the development process of the business relationship. In this step, a limitation of the number of factors will occur. (Chapters 6–9). In the last screening step, across the three cases, another small number of factors will be chosen which will constitute the content in the dyadic process framework. This set of factors can be seen as the identified critical factors for the development of three (four) long-term business relationships (Chapter 10).

An overview of the structure of the thesis shown in Exhibit 1.6.

Exhibit 1.6 The structure of the thesis



Source: Author.

## PART I: THE SUBSTANTIVE DOMAIN

The substantive domain, which consists of two chapters, starts out with the existing theoretical contribution of the industrial network and interaction area. Chapter Two will also define and discuss the relation concept. Following, the content in the interaction process, which is a very important concept within the network and interaction approach, will be discussed and analysed. Then, motives to enter into strategic business relationships will be described and discussed in brief. The author has chosen to discuss this aspect because the motives for entering a relationship are regarded as being interesting for the understanding of the development process of the business relationship. Subsequently, different theoretical approaches to the development process of business relationships will be presented and discussed.

The second chapter in the substantial domain (Chapter Three) is focused on the identification of critical factors for the development of business relationships. Factors for the development process of the business relationship will undergo a theoretical presentation based on the conceptual *a priori* framework. The *a priori* framework visualises the author's perception of the connection between the different aspect and factor groups in the present thesis.

## Chapter 2 Research on the development of business relationships

In this chapter, focus will primarily be on defining the business relationship from an industrial network and interaction approach. The central concept—the interaction process—within the industrial network and interaction approach will be discussed. Furthermore, existing theoretical models for the development of long-term relationships will be presented.

### 2.1 Business relationship from the point of view of an industrial network and interaction approach

The business relationship is a complex and intangible phenomenon. In their definitions, researchers see the phenomenon from two different approaches. Either they have tried to classify and characterise different types of relations, or they have tried to identify the necessary conditions for the relation to survive.

Within the industrial network and interaction approach, researchers have primarily seen the phenomenon from the point of view of the conditions necessary for the existence of a relation. Within the industrial network and interaction approach, researchers regard the relation as consisting of four elements: *mutual orientation and commitment*, *dependence* which the parties have or believe themselves to have on each other, different types of *bonds* with different strength, and *investments* brought into the relation by the parties. It is made obvious that each of these elements is interdependent (Easton, 1992; Håkansson and Snehota, 1995).

The first element in the definition of the long-term business relationship is *mutual orientation and commitment*. These factors are considered to be prerequisites for the existence of a relation as they imply that the two companies are ready to interact with each other (Easton, 1992). The factors imply that the business relationship is considered to be long-term. Research has shown that dyadic<sup>15</sup> interaction processes often show a remarkable continuity and stability and that the average age for a business relationship to a company's main customer or supplier is around 10–20 years (Håkansson and Snehota, 1997).

<sup>15</sup> Most often examined relation between buyer and seller.

To consider the relation from a long-term perspective is perceived to be important (Håkansson, 1982; Sheth and Parvatiyar, 1992; Parkhe, 1991; Sharma, 2001) and any exchange episode must be seen in relation to its history and presumed future (Dwyer, Schurr, and Oh, 1987).

Within the industrial network and interaction approach, the term *long-term business relationship* is used and at no point in time is the term *strategic alliances* used. The term *long-term business relationship*, as opposed to the term *strategic alliance*, indicates that the formal contract is not seen as in particular important for the existence of the business relationship. Wahyuni, Ghauri, and Karsten states that strategic alliances are formed when two firms combine their skills and resources to achieve strategic goals that cannot be attained independently. Strategic alliances have a contractual base but do not necessarily require joint ventures (Wahyuni, Ghauri, and Karsten, 2007). Formal contracts are ordinary but their roles are often limited. Formal contracts are ineffective in connection with the handling of conflicts and crises that the company may encounter over time. The industrial network and interaction approach emphasises the more informal parameters like trust and commitment, which are believed to influence the development of the business relationship. Sharma (2001), Håkansson and Snehota (1997), and Easton (1992) refer to a long-term consideration in the relation by underlining the commitment as having a key role. Commitment implies the presence of a future orientation and refers to the stability and duration of the business relationship (Halinen, 1997). Within the industrial network and interaction approach, the parties' commitment to the relation is often perceived as obvious, which can implicitly be seen in Håkansson and Snehota's (1997, p.25) definition of a business relationship: "a mutually oriented interaction between two reciprocally committed companies." Starting with the preliminary case, the author believes however that you can talk about different levels of commitment, which will change for both parties during the development of the relationship. Events and occurrences will arise in the business relationship's internal and external contexts that will either have an encouraging or a limiting influence on the commitment. Consequently, mutual commitment should not be perceived as a matter of course.

The second element used to describe a business relationship is *dependence*. In some ways, dependence can be seen as the price a company must pay to gain the advantages from a business relationship. With dependence, problems of power and control arise. A business relationship between two parties can be characterised as being in balance or out of balance with regards to power and control. You can distinguish between positive and negative network connections according to whether a business relationship positively or negatively influences another business relationship. The distinction between positive and negative network connections is important as different types of dependence are created

which determine the division of power (Blankenburg, Holm, and Johanson, 1996). An empirical analysis performed by among others Hallén, Johanson, and Mohamed (1987, p. 22–37) has shown that companies use considerable resources in the interaction with other companies in connection with long-term business relationships and that they are dependent on others' resources in different ways.

The third element conveyed is the *bonds* that arise between two companies. There is a distinction between weak and strong bonds and between social and structural bonds. Strong bonds create a more stable and predictable structure that can resist the changes better, whereas the opposite applies to weak bonds. A related characteristic is duration or lifetime of a business relationship. Bonds are regarded as having different economical, technical, logistical, administrative, informative, legal, and time-based dimensions (Mattsson, 1984). Empirically, it has been proven that business relationships over time develop from being formal economical and juridical bonds to more informal personal and social bonds (Nielsen, 1993, p. 61-65). Accordingly, bonds are typically conceptualized based on a two-part classification of structural and social bonds. Both structural and social bonds have been identified as being prerequisites for the buildup of commitment between the parties and, as such, a critical variable for the performance of the business relationship. A high degree of bonding will make the termination of a business relationship more difficult and costly. The bonds are interdependent, which is described by Mattsson: "The different types of bonds are not independent of each other. Thus social bonds of more than minimal strength and content might, e.g., be necessary for the development of knowledge based bonds which in turn might be a prerequisite for strong technical bonds" (Mattsson, 1984).

The fourth element that defines a business relationship is determined by, among others, Johansson and Mattsson to be *investments*. "Investments are processes in which resources are committed in order to create, build or acquire assets which can be used in the future" (Johanson and Mattsson, 1986). These are investments in a specific business relationship. The return on such investments can be more effective exchanges, accumulations of knowledge, or increased mutual control possibilities vis-à-vis the other party. There is a distinction in the literature between hard and soft investments. An example of a soft investment can be time used on establishing a good social contact.

The chosen, presented consideration of the long-term business relationship does not relate to whether it is a business relationship within or across national boundaries. This fact is basically considered a strong point for the posed definition as it indicates that the four elements are seen as having some sort of general validity across borders. What primarily separates the national business relationship and the international business relationship is that the different cultural backgrounds of the persons involved make the complexity around the relationship rise considerably. The different national cultures greatly influence the determination of the involved persons' attitude and behaviour, and consequently the way

business is done (Williams, Han and Qualls, 1998). This means that the cooperating parties' abilities to harmonise their expectations as to outcome, to engage in effective operational coordination, and to resist external crisis are the object of constant testing.

The definition of the business relationship indicates that the latter possesses some structural as well as process characteristics. The structural characteristics that will be discussed in the following are continuity, complexity, and symmetry; process characteristics are adaptation, cooperation/conflict, routines, and social interaction.

## 2.2 Structural and process characteristics

As mentioned above, the structural characteristics are *continuity, complexity, and symmetry* (Håkansson and Snehota, 1995).

Research has shown that long-term business relationships between buyer and seller often show remarkable continuity and stability. Long-term business relationships between companies are complex in several ways. The number, the type, and the contact pattern between the involved parties can be emphasised. There are usually 10–15 persons from each party, and the involved persons all have a different status, function, and role in the company. When the people who have to interact come from different national cultures, this situation is particularly interesting because of the involved persons' different mental programming.

Another complex element is the scope of the business relationship. Often a business relationship has different aims in different situations besides the more strategical aim. A consideration of the symmetry in the business relationships on the industrial market points in the direction of a balance between resources, capabilities, and initiative. The buyer's resources (persons, knowledge, financial means, and technology) often match those of the seller.

The four process dimensions that are significant for a business relationship are *adaptation, cooperation/conflict, social interaction, and routines* (Håkansson and Snehota, 1995).

Mutual adaptations are a kind of prerequisite to make a business relationship work and develop between the companies. Mutual adaptations exist and develop between the companies. They emerge from a wish that the companies can coordinate their activities with each other. The mutual adaptation will strengthen the bonds between the companies as they become more interdependent.

Characteristics like cooperation and conflict handling and solution are elements that apply in order to make the business relationship work. Not all conflicts or problems can be solved once and for all. Some conflicts are even regarded as “healthy” for a positive development of the business relationship, provided these can be solved in a cooperative and functional way so that the business relationship does not develop into a zero-sum game. Conflicts of different sizes will arise in a business relationship. However, if the parties perceive that the business relationship is valuable, mutual trust and commitment will develop with the purpose of finding constructive solutions to these conflicts (Håkansson and Snehota, 1995).

Over time, it has become evident that different routines—defined as implicit and explicit rules of behavior and rituals—have developed between the companies in the development of the business relationship. The routines are developed as a means to minimise the costs involved in the transactions between the parties. The routines are to a certain point also able to lighten the decision-making regarding specific conflicts (Håkansson and Snehota, 1995).

Business relationships are mainly built up through social exchange processes. Focus is on the development of the social bonds between the individuals in the cooperating businesses. The social bonds are established through the social interaction, which means that there is a close connection between the social bonds and the social interaction.

Individual exchanges are an integrated part of the process around the building of mutual trust and commitment. Social interaction is identified as having significant influence on the strength of the relation. The industrial network and interaction approach has been inspired by “social exchange theory.” Blau characterises it as “the social exchange relation,” which he describes as follows: “Social exchange relations evolve in a slow process, starting with minor transactions in which little trust is required because little risk is involved and in which both partners can prove their trustworthiness, enabling them to expand their relation and engage in major transactions” (Blau, 1968, p.454). The social exchange process implies that the social aspect is an important factor in the development of relations between the companies. This process should be understood as an investment, as development and adaptation are time consuming and costly. These investments lead to the establishment of commitment and trust, which represents the value for the parties and gives access to external resources through the relationship (Håkansson and Snehota, 1995). Within the industrial network and interaction approach, social interaction is in this way regarded as a very important parameter, especially in the treatment of international long-term business relationships, because it can be fundamentally important



for the buildup of commitment.

In the following, the interaction process will be elucidated. Within the network and interaction approach, the relation concept is best understood if the interaction process and its meaning and content are known.

## **2.3 The interaction process**

Within the industrial network and interaction approach, the business relationship is seen as the result of the interaction that takes place between the involved parties. The interaction process is regarded as complex and covers a large number of functions and activities (Holmlund, 2004).

The interaction process can be described as consisting of three sub-processes:

1. Exchange process
2. Coordination process
3. Adaptation process (Johansson and Mattsson, 1987; Ruekert and Walker, 1987; Möller and Wilson, 1988).

The business relationship is a result of these three sub-processes, according to Möller and Wilson (1988). The three processes within the interaction process are closely connected and it is important to notice that the business relationship is initiated, maintained, and ended through the interaction.

### **2.3.1 The exchange process**

The exchange process is a concept with roots going farther back than the network and interaction approach. The exchange process is, like many other concepts within the network and interaction approach, taken from older complementary literature. Already in the nineteen-sixties, the exchange process was considered a key concept by many researchers within marketing (see Kotler and Levy, 1969). These exchange relationships were studied regarding the way transactions were carried out and the exchange relationships were regarded as restricted and separated episodes. The more complex and continuous part of the interaction did not receive much attention. The social exchange theory developed by Cook and Emerson in 1978 can be regarded as the first attempt to conceptualise the more complex side of the exchange process within marketing theory.

Overall, the exchange theory aims at mapping which factors and processes lead to cooperation between a minimum of two companies, as well as how business relationships can possibly develop

(Cook and Emerson, 1978). The industrial network and interaction approach, closely inspired by the social exchange theory, considers the interaction process to consist of an exchange process. The exchange process forms the core of the interaction and is defined by Cook (1977) as “a voluntary transaction and involving a transfer of resources between two actors for mutual benefit” (p. 64). The resource concept in the definition is seen as any beneficial activity, service, or product. The exchange is connected to the exchange of a product or a service in return for money, but does also include social, psychological, or other intangible concepts (Bagozzi, 1975). As the exchange is dependent on previous exchange episodes, it can be described as an exchange relationship that follows its own rhythm instead of the market mechanism (Johanson and Mattson, 1988).

As claimed in Chapter 1, exchange can consist of four types: the product or service exchange, the information exchange, the financial exchange, and the social exchange (Håkansson, 1982). Johansson and Mattsson (1987) divide the exchange process into only three types: the social, the business, and the information exchange; Möller and Wilson (1988) see only two types: the resource exchange and the social exchange.

According to the author, the business relationship on the business-to-business market will typically be centered on the exchange of a product or a service, while the social and information exchange are an integrated part of the exchange process. Social exchange and information exchange cannot be separated from the product or service. The information exchange is a basic part of the product or service because it helps create a larger understanding of the exchanged product or service. The social exchange is essential in relation to the personal communication, which determines the values and attitudes between the two companies.

### **2.3.2 The coordination process**

The coordination process is the second sub-process of the interaction process. According to Tuominen (1981), the coordination process is that: “...by which the interacting firms harmonise their actions and decisions, in order to achieve the expected benefits from the business relationship” (p. 4). The coordination process includes decisions in relation to the exchange, rules and procedures regarding implementation of the physical flow of resources between the two companies, as well as ad hoc responses to conflicts and changes in the surrounding world (Möller and Wilson, 1988; Fraizer, Spekman, and O’Neil, 1988). Conflict-solving mechanisms can in this way be included in the coordination process.

Coordination involves the daily work pattern between buyer and seller. It can take some time to

develop the correct relationship pattern, e.g., how buyer and seller will control, coordinate, and communicate in the business relationship. The coordination mechanism is closely connected to structural dimensions of the business relationship such as the organisational structure and the degree of centralisation in the decision-making process (Van de Ven, 1976).

In connection with the coordination process, it has become apparent that different routines develop between the companies. These routines are defined as implicit or explicit rules for behaviour and rituals. The routines are developed as a means to minimise the costs involved in the transactions between the parties (Håkansson and Snehota, 1997).

As with Halinen (1997), institutionalisation will here be considered to be a dimension of the coordination process. Institutionalisation is the process that establishes different norms, patterns of behavior, and expectations as to the other's behavior. The process is linked to the emergence of different rules, routines, and habits in business relationships (Ford, 1982; Håkansson, 1982). The institutionalisation is often associated with the reduction of costs related to the interaction. However, institutionalisation is potentially dangerous because the parties can develop reactive behaviors towards changes in the market and become inefficient in their business relationship.

The author believes that the network and interaction approach's fixed coordination process has been inspired primarily by transaction cost theory and its aim to minimize costs related to the exchange.

### **2.3.3 The adaptation process**

According to Håkansson and Snehota (1997), mutual adaptation, the third and last sub-process in the interaction process, is a prerequisite for the existence and development of a business relationship between two companies. The partners' mutual adaptation arises as a result of the adaptation process.

According to Johanson and Mattsson (1987), the mutual respect for the other party's interests is a central aspect in the adaptation process, because this respect provides an important motive for the further development of the business relationship. The exchange process makes it possible for the partners to test how well they "fit" each other. This testing is not only a learning process but also a mutual adaptation process. The mutual adaptation process has been defined by Turnbull and Brennan (in Fang, 1999) as follows: "Interfirm adaptations are behavioural modifications at the individual, group or corporate level carried out by one organisation, which are initially designed to meet specific needs of one other organisation" (Turnbull and Brennan in Fang, 1999, p. 1).

Mutual adaptations are very different and frequent and emerge from the company's wish to coordinate activities, which is why the adaptation and coordination process can be considered to be closely related. Mutual adaptation will have an enhanced influence on the bonds between the companies as they become more interdependent.

The advantages of adapting companies can be considered in relation to a reduction of costs, increasing profit, or different types of exchange controls. The adaptation of the parties is not necessarily a planned procedure, as this can happen throughout the relationship in more unconscious ways and in small steps. Hallen, Johanson, and Seyed-Mohamed (1991) and Ford (1980) talk in this connection about formal and informal adaptations. Formal adaptations are adaptations that are contractually agreed upon by the parties, whereas informal adaptations are those arranged to recover from different problems in the course of the relationship. According to Ford (1986), informal adaptations can be considered as a way to show commitment to the partner.

Having determined the relation concept and analysed the content of the interaction process, the author will focus in following section on the companies' motives for entering into a long-term business relationship.

### **2.3 Motives for entering into long-term business relationships**

Companies can have different motives for entering into a long-term business relationship with another party. In contrast to the previous section, the author will in this section be inspired broadly by the literature and not adhere only to those motives stated in the network and interaction approach. The reason is that the author considers it important to investigate a larger number of motives than can be outlined based on the network and interaction approach. This enlargement is not considered a problem because the motives presented in the present paragraph will not be inconsistent with the network and interaction approach.

Oliver (1990) distinguishes between four overall motives to enter into a relationship—reciprocity, efficiency, stability, and legitimacy. These are considered necessary in order to gain influence, power, or control of another organisation or its resources.<sup>16</sup> Reciprocity emphasises relationship and coordination between the companies and a wish to gain equal advantages instead of dominance,

<sup>16</sup> Molnar (1978) and Paulsen (1976) state that lack of resources motivates companies to cooperate. (Resource Dependence Theory)

power, and control. Oliver (1990) sees efficiency as an internal focus and not an external focus. The central point is the companies' attempt to improve the internal input/output relationship.<sup>17</sup> The third motive put forward by Oliver (1990) states that entry into the relationship leads to stability. From this perspective, the business relationship serves as a strategy to predict or absorb insecurity, with the aim of gaining a well-organised and reliable pattern of resource flow and exchanges (Pennings, 1981). In literature, the increase of organisational legitimacy is often said to be a significant motive for companies to cooperate (DiMaggio, 1988; Meyer and Scott, 1983; Scott, 1987). Establishing a business relationship can demonstrate or improve a company's reputation, image, or prestige in its institutional surrounding world.

The marketing literature shows that researchers have seen the mutual benefits or advantages in a relationship as critical motives. Researchers have assumed that shortage of resources calls for relationship rather than competition, that business relationship is characterised by harmony and mutual support instead of conflicts and dominance, and that companies expect that the advantages in a relationship outnumber the disadvantages (Kotler, 1986; Wilson and Mummalaneni, 1986).

Focusing on the present thesis, the author has identified the following conditions as prerequisites for the establishment of a relationship. They are:

*Common interest and expectation in wanting to develop the relationship*

*Agreement in the perception of the advantages of the relationship*

*The existence of complementary needs and resources between the parties*<sup>18</sup>

The mutual interest in and expectation as to the development of the relationship arises from the perceived complementarity between the parties' needs and resources. Whether an exchange can take place depends upon whether the parties feel they are better off now compared to before the exchange/relation. This is important with every single transaction, but in order for the relationship to exist, both parties must have a mutual interest to build up the relationship to a certain extent. This means that the parties must have a common expectation to the outcome of the relationship. However, Ford et al. emphasise that all relationships contain elements of both conflict and mutual interests and expectations (Ford, Håkansson, and Johansson, 1986).

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<sup>17</sup> In Williamson's transaction cost perspective, the efficiency argument is also seen as an underlying determinant for inter-organizational relationship.

<sup>18</sup> Inspired by Halinen, 1997.

A prerequisite for the establishment of a business relationship is that the companies have something of value to offer each other (Kotler, 1986). An interaction or a relationship will take place because the parties estimate that they can profit from the other party and from a relationship (Ford, Håkansson, Johansson, 1986). According to Ford et al. (1986), the interaction will in this way be considered and estimated on a regular basis on the basis of the following questions: “What can you do for me? And what can I do for you?” (p. 30). Throughout this process, the companies’ essential passive resources (financial, the physical company/plant, technical, management) will be transformed into capabilities of the specific partner. The capabilities that are of no value to the other party will stay passive.

In the following, the existing literature within business relationships will be presented.

## **2.4 Existing theoretical models for the development of long-term business relationships**

In this section, focus will be on how the development of long-term business relationships can be understood generally and how the existing literature has studied this phenomenon in real life. In the same way as a company's strategic process can be described, the development of a company’s long-term relationship can be described (Halinen, 1997).

Van de Ven underlines three perspectives that can form the basis for these relationship models: the input-output perspective, the change perspective, and the process perspective (see Van de Ven, 1992).

In the input-output models, the research interest lies in the antecedents and consequences of development, i.e., in the influence of some independent variables on some dependent outcome variables. The models may focus on the factors that foster the initiation, maintenance, or dissolution of the business relationship, or examine the factors that influence, for instance, the success or failure of a relationship in its different phases.

Models and studies using the change perspective tend instead to look at the development process in terms of change in a specific number of variables over time (Miller and Friesen, 1983; Van de Ven, 1987). One may examine, for instance, how exchange volume, the experience of the trading partner, or commitment changes over time from one point in time to another. On the basis of change models, one can usually say only whether a change has happened, not how it happened (Halinen, 1997).

Models that take a processual perspective on development approach the question about how changes occur. Process models take up the process of development as such, i.e., the nature, sequence, and order of events and activities that unfold over time and that describe how things change. Within the business relationship literature, there is generally a distinction between two types of theories used within the processual perspective: the evolutionary theory and the life cycle theory. The life cycle models divide the development of the business relationship into stages as a consequence of the presumed phases in the life cycle theory. These life cycle models show some weaknesses. The models tend to consider the development process as being deterministic, independent of evolution and where the relation moves progressively from one stage to another until it ends. It is improbable that the business relationships will follow such a pattern (Ford, 1989; Hedaa, 1991; Halinen, 1997). Relationships are instead developed consciously and unconsciously through the interaction between the companies.

If the development process of the business relationship is described as an evolutionary phenomenon, it will appear without deterministic phases. These evolutionary models, which are particularly rare, provide rich explanations of development. They are explanatory, not predictive, process models. It should be noted that these models can also use phasing, for instance, as a means of organising data or simplifying the description of development. The underlying theory of development is, however, different from that of life cycle models. Evolutionary models apply the processual perspective to development and try to capture the content of the relationship in dynamic concepts that are themselves defined in relation to temporal modes: to the past, present and future. The development process of the relationship is reviewed in relation to the processes occurring in relationships and events in the context of the relation, not in relation to the mere passage of time (Van de Ven, 1992). There is no doubt that this thesis takes as its starting point the evolutionary process perception of the development of a business relationship.

In the following paragraph, a large portion of the empirical and conceptual model describing the buyer-seller relations' development process on the industrial market will be described and discussed. On top of this, these models will be considered in relation to the three perspectives posed for the consideration of the development process. All these models build on interaction thought.

### **2.5.1 Models and frameworks for the development of the buyer-seller relationship**

In this paragraph, focus will be on a broad number of central models for the development of the buyer-seller relationship. The author has chosen to emphasise Ford's 1982 "Development of buyer-seller relationships," Dwyer et al.'s 1987 "Relationship development process," and Wilson's 1995

“Integrated model of buyer-seller relationships.” There are three primary reasons for this. First of all, the stated models are considered the most methodical, operational, and most significant contributions to the creation of understanding of the development process of the business relationship. Secondly, all the emphasised models build on the interaction idea. Dwyer et al.’s model must however be considered with reservations as it is primarily based on a “social exchange” perspective which corresponds with the interaction idea in many ways. Thirdly, the three models focus particularly on different factors’ importance for the development process.

In the following section, the models that have been developed during the past 30 years will be outlined. These models have been collected from a broad selection of literature—not only from the industrial network and interaction approach.

### **2.5.2 Models for development of long-term business relationships—a short literature review**

One of the earliest models for development of the buyer-seller relation was proposed by Guillet de Monthoux in 1975. He presents the industrial market as consisting of stable buyer-seller relations. His empirically based model describes the development process of the business relationship as a “mating process” consisting of four phases. Guillet de Monthoux (1975) regards the development process from a change perspective and analyses it in relation to exchange volume, complexity, and mutual dependence. The first phase is called “romance” and focuses on how the seller makes himself attractive to the buyer and establishes a contact to the buyer. The second phase from “romance to affair and finally marriage” will, according to Guillet de Monthoux (1975), commence with the buyer making an order with the seller. This phase can start with a small order that over time grows to a large number of complex exchanges. In this phase, Guillet de Monthoux (1975) emphasises that the way to “marriage” is not without problems. These problems will especially be connected to the adaptation process of the companies. The third phase—“divorce risk”—is the phase where the tension and uneasiness in the business relationship are partly taken over by routines and formal procedures. In this phase, there is minimal risk of divorce, especially if the buyer does not perceive his investment in the seller’s development as having the required outcome. The last phase, “new romance,” describes the conflicts that can arise in the relationship and how it can end and be replaced by another romance (Guillet de Monthoux, 1975).

In 1982, Ford presented his model “Development of buyer-seller relationships.” His model sets out in the interaction tradition developed by the IMP Group and builds on data from a broad database collected by the IMP Group. Ford’s model is especially focused on the nature of the relation and the



changes that occur as a consequence of the development process. Ford's thoughts about the nature of the development process do not only take a change perspective but also consider the relation from the life cycle approach. Ford's (1982) model will be examined in more detail in the following section.

Wilson and Mummalaneni (1986) produced a model for the development of the business relationship based on the social psychology. They present a conceptual evolutionary model with focus on the processual aspects of the development process. According to their model, the development process runs through six stages where satisfaction, investments, and commitment are developed between buyer and seller as a result of successful interactions. The model is primarily constructed from cross-sectional data.

Dwyer et al. (1987) presented a similar conceptual model which is also based on research from the social psychology. Dwyer et al. (1987) regard development from a processual perspective and consider the development process from a "social exchange" perspective. Dwyer et al. (1987) assume that the relationship runs through five phases, and they consider the development process as a process where the strength and the depth of dependence are seen through five sub-phases. Dwyer et al.'s model will like Ford's phase model be described more thoroughly in the following section.

Liljegren's cyclic model builds, like Ford's phase model, directly on the network and interaction approach posed by the IMP Group. Liljegren (1988) examines not only the specific business relationship but also considers the role of the surrounding world and the importance of critical events for the development process. Liljegren (1988) bases the model on longitudinal, retrospective case studies. She sees the development process as a cyclic process that focuses on adaptations, insecurity, conflicts, network, and critical events. Liljegren (1988) describes seven phases but separates the insecurity phases as a separate phase for the development process of the relation.

Fraizer et al. (1988) propose a model with focus on just-in-time (J-I-T) relations. The J-I-T exchange makes demands on the supplier to produce and deliver the necessary units in the specified amounts at the right time (see Hayes, 1981). Fraizer et al.'s (1988) conceptual model is based on a broad selection of theoretical approaches. They emphasize in their model those factors that influence the J-I-T exchange in the individual stages. Fraizer et al. (1988) are, however, more focused on the structural aspects and prerequisites for the business relationship than on the development process. Fraizer et al.'s model consists of four stages: "Interest," "Initiation-Rejection," "Implementation," and "Review." The first stage is focused on a number of factors that influence the company's interest in entering a J-I-T-relationship. The second phase is centered on a seeking and evaluation process. On the basis of this

evaluation process, the company can develop an understanding of its strategic vulnerability when forming a J-I-T-relationship, which will in turn influence the decision to enter into a J-I-T-relationship. The implementation phase focuses on the processes of exchange, interaction and norm creation, and on internal socio-political development. Based on the implementation, both companies reach a certain outcome. The last phase is concentrated on the estimation of the J-I-T relationship. The factors that Fraizer et al. (1988) regard as important for the development processes can be viewed in table 2.2.

One of the newest models within this area is Wilson's (1995) integrative model, which incorporates the knowledge from the conceptual process models, e.g., Dwyer et al. (1987), with empirical knowledge about the success variable for the development process of the business relationship. Wilson's (1995) model shows that some variables are active and some are latent at different points in time in the development process of the business relationship. Wilson's (1995) model can be characterised as taking a processual perspective of the development process. Wilson (1995) is in his work inspired by research generated by the IMP Group and this way takes a theoretical starting point in the interaction approach. The factors chosen by Wilson to be critical for the development of the buyer-seller relationship primarily build on the factors that Han and Wilson regarded as important in their article from 1983. In Wilson's integrative model, these variables are regarded in relation to the five phases proposed by Dwyer et al.'s model for "Relationship development process." In the following, Wilson's integrative model will be described more thoroughly.

Andersen's (2001) model has chosen to focus on the importance of communication in the relationship development process. Andersen (2001) divides the development process of the relationship into three phases, namely, "pre-relationship stage," "negotiation stage," and "relationship development stage," and the communication aspect into three areas, specifically, "communication task,"<sup>19</sup> "communication type,"<sup>20</sup> and "communication tactics."<sup>21</sup>

Regarding the first phase, Andersen (2001) discusses the primary objective of creating attention about the decision process. The argument is very important for this phase.<sup>22</sup> The communication will primarily be one-sided from the seeking company to the potential partner. Andersen (2001) claims that establishing an identity is crucial for this phase as this is the phase where the companies can estimate each other. In the second phase, attraction, force of persuasion, power in communication, norms, and expectations are central aspects. This means that the communication between the two companies is

<sup>19</sup>Which relates to the aim of the communication activity.

<sup>20</sup>Which relates to whether the communication is bidirectional or unidirectional.

<sup>21</sup>Which relates to the operational conditions of communication.

<sup>22</sup>For further information, please refer to Andersen, 2001, p. 172-173.

dialogue oriented. The type of communication is typically bidirectional, because conversation takes place between more persons from the involved companies. The third phase is “relationship development.” This phase is characterised by a continuing rise in the advantages gained through the exchange, but also by an increasing dependence on the partner. From a communication perspective, the increasing episodes of information exchange lead to a gradual development of an interactive atmosphere that includes the actual and perceived feelings, intentions, and interests in each other. This leads to the development of some norms for the communication: recommended rules for conversation in the relationship expressed in a common technical language that reflects similarities in interpretation, understanding, and reaction of the relationship participants to the information. (Duncan and Moriarty, 1998).

V. M. Sharma's (2001) model for “how the business relationships develop” can be characterised as one of the latest within the area. As opposed to most previous models, V. M. Sharma considers the development process as consisting of only two phases: “relationship building” and “relationship maintenance.” V. M. Sharma's (2001) model is based on Arndt (1979), Fraizer (1983), Dwyer et al. (1987), and Wilson (1995). V. M. Sharma has chosen to pose only two overall phases for the development process, which can each be described as containing some important activities. V. M. Sharma (2001) describes the “relationship building” phase as containing three important activities, namely, “partner selection,” “relationship advocacy,” and “establishment of a relationship framework.” The maintenance phase consists of two main activities: “relationship administration” and “relationship monitoring.” These activities have a helping function in relation to the increase of trust and commitment to the relationship. V. M. Sharma (2001) concretises the role of the seller in each role based on the important activities.

Another model to be emphasised in this section is Tuten and Urban's (2001) model for “Partnership formation and success.” This model can be regarded as an extension of Mohr and Spekman's model from 1994. Tuten and Urban's data was primarily collected through interviews with 76 purchasing managers. The researchers found that the following factors were important for the initiation of a business relationship: “desire for lower cost,” “providing increased service,” “enhancing competitive advantage,” “improving performance indicators,” “increasing products/service quality,” “gaining various benefits from a relationship with a partner,”<sup>23</sup> Factors which influenced the development of a successful business relationship were as follows: “improved communication,” “characteristics of a strong relationship” (trust, reliability, honesty, fairness), and “satisfactory performance indicators.”<sup>24</sup>

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<sup>23</sup> For an elaboration, please refer to Tuten & Urban (2001), p. 154-156.

<sup>24</sup> For an elaboration, please refer to Tuten & Urban (2001), p.157-185.

A final framework to be emphasised in this section is Powers and Reagans five step model. The five relationship stages are: partner selection, defining purpose, setting relationship boundaries, creating value, and relationship maintenance. The first step, partner selection is focusing on identifying an appropriate partner. This step is regarded as critical for a successful relationship development process. The second step defining purpose stage provides organisational sanctions of the relationship that gives legitimacy between the partners and within each organisation. The partners must develop a common understanding of the purpose of the relationship. Boundary definition, the third stage defines the degree to which each partner penetrates the other's organisation and achieves joint action. A new set of informal rules defining how much each partner may call upon the other develops as the partners begin to adapt processes, products or services to accommodate the other partner. The fourth step, value creation is the process by which the competitive abilities of the partners are enhanced by being in the relationship. This value is created by the synergy from the partnership whereby each partner gains from the relationship. This value may come in the form of technology, market access, information, lower prices and operating costs, knowledge; often the partner will adapt their processes or products to meet a partner's specific need. The last stage, Relationship maintenance is the stability of the relationship that has developed as the previous stages have been developed and have been positive outcomes. Powers and Reagan states; when the relationship has developed to this stage, working with the partner is very much like working within your own company. (Powers & Reagan, 2007)

In the following section, the phase models of Ford (1982), Dwyer et al. (1987), and Wilson (1995) will be explained in more detail.

### **2.5.3 Ford's "Development of buyer-seller relationships" and Dwyer et al.'s "Relationship development process"**

#### **Phase 1**

The first phase in Ford's (1982) and Dwyer et al.'s (1987) models is characterised by the fact that a new business relationship is to be established. Ford (1982) calls the first phase "the pre-relationship stage." The process of evaluating potential business partners marks this phase. The evaluation of partners will depend on three factors—experience, insecurity, and distance. In the first stage the parties will have no or only limited experience and knowledge about each other and will only suppose what the partner expects from the relationship. This lack of knowledge between the parties will result in an evaluation of each other based upon the partners' reputations in the market. Both parties will be aware of the risks and costs in connection with a business relationship and will try to estimate the other's willingness to develop the relationship. In this phase, Ford talks about "perceptions of

commitment to the other company,” and he emphasises that it is a long-term process to convince and demonstrate to each other that a long-term relationship is desired (Ford, 1980).

The perceived distance that exists between the two companies is, according to Ford (1980), comprised of several aspects. Distance is comprised of the social distance,<sup>25</sup> the cultural distance,<sup>26</sup> the technological distance,<sup>27</sup> the time distance,<sup>28</sup> and the geographical distance<sup>29</sup> (Ford, 1980).

Especially with regard to this phase, the perceived social distance between the companies will be large because the two companies' knowledge about each other will be at a minimum. This social distance can be combined with a large geographical and cultural distance when work is done internationally.

Dwyer et al. (1987) are inspired by Lewitt's (1983) analogy between the development process in a marriage and the development process in a business relationship. In a marriage or a marriage-like relation, some of the advantages are companionship, confidence, reproduction and parental care, personal development, establishment of a common housekeeping, and social support. On the contrary, marriage excludes other sexual possibilities; demands a higher degree of responsibility, care, and protection; and can be very costly if it is terminated. Lewitt (1983) found that similar advantages and disadvantages were inherent in the buyer-seller relation. On top of the previous elements, reduced insecurity, effective exchanges, and social satisfaction may be mentioned as results of the relationship.

Dwyer, Schurr, and Oh (1987) have called their first phase “awareness.” This phase is characterised by one party being convinced that the other party is a possible business relationship partner. The situational proximity between the parties eases the conscience and turns attention towards the opposite party. In this first phase, there has been no interaction between the parties even if there is positioning taking place as the parties try to increase their own attractiveness towards the partner.

## Phase 2

In Ford's phase model, “the exploratory stage”—the second phase—is characterised by two parties engaged in serious negotiations and discussions concerning the creation of the relationship. Between the parties, there will be a limited perception of what the companies' expect from each other and from the outcome of the relationship; this limited perception results in the sense of great risk (Ford, 1980).

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<sup>25</sup> Which describes to what extent the two companies and involved individuals are unknown of each other's way of working.

<sup>26</sup> Which is the degree of difference in norms, attitudes, and working methods caused by different national characters.

<sup>27</sup> Which indicates differences in the two companies' products and technologies.

<sup>28</sup> This refers to the two companies' perceptions of how much time must pass from the initiation of a contract to receiving an order.

<sup>29</sup> Which is the physical distance between the two companies.

At this early stage in the development of the relationship, there will only be limited possibility to reduce the distance to each other (Ford, 1980). There will still be a lack of knowledge of the counterpart as well as a lack of established personal bonds between the involved individuals. Because of this lacking social relation, the cultural distance will not be reduced at this stage in the relationship. Likewise, the parties will have little or no possibility to estimate each other's commitment to the relationship. According to Ford, it will be likely that the real commitment from both companies is limited at this stage of the development process. The perception of the company's commitment will be influenced by factors outside the scope of the present relationship, like number and importance of the partner's other customers and suppliers (Ford, 1980).

Dwyer, Schurr, and Oh (1987) like Ford (1980) call their second phase the "explorative phase," which refers to the seeking and testing process in relation to the exchange. According to Dwyer, Schurr, and Oh (1987), this phase is either pretty short or is characterised by an intensive period where testing and evaluation is done. Dwyer, Schurr, and Oh choose to be inspired by Scanzoni's (1979) work and divide the explorative phase into five sub-phases: (1) attraction, (2) communication and bargaining, (3) development and exercise of power, (4) norm development, and (5) expectation development (Scanzoni, 1979).

Attraction is the initiating process in the explorative phase. The degree of the partners' mutual attraction will be a result of the perceived gain from the relationship.

The subsequent sub-phase is characterised by an intensive period of negotiation and communication. The negotiation is characterised as a process where resistance is seen and where the parties' divisions of obligation, services, use, and burdens change and are redistributed. The perceived willingness to negotiate is regarded by Scanzoni (1979) and Dwyer, Schurr, and Oh (1987) as a significant aspect of the attraction, as it signals that the partner estimates the relation to be value creating. This phase will be characterised by dialogue and Dwyer et al. (1987) regard the two-sided communication as being of great importance to the development of the relationship.

The third sub-phase concentrates on the power structure between the partners. Power is perceived as the possibility to achieve the premeditated goals or results.<sup>30</sup> Dwyer, Schurr, and Oh (1987) distinguish between fair and unfair power structure.

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<sup>30</sup> As described by Thibaut and Kelley (1959): The company A's power over company B is determined by B's dependence on A's productive resources. B's dependence on A is large if there are limited resources besides the resources of A (Thibaut and Kelley, 1959, in Dwyer, Schurr, and Oh, 1987).

The norms and standards that characterise a long-term business relationship are shaped in the fourth sub-phase. Norms equip the partners with guidelines for commencing trade and exchanges between the partners. Norms are in this respect regarded as being “an anticipated pattern of behavior” (Lipset, 1975, p. 173). If a fair power structure and a common objective exist, the involved partners are more suited to allocate roles among themselves in relation to what they perceive as necessary (Dreywer, Schurr, and Oh (1987).

The last sub-phase focuses on the expectations of the business relationship. The expectations of the partners as to the relationship can imply conflicts of interest, and future areas of agreement versus areas of disagreement can be predicted. The expectations can either intensify or reduce the solidarity. Trust<sup>31</sup> is, according to Dreywer, Schurr, and Oh, an important concept in relation to understanding the expectations regarding the business relationship. Goblembiewski and McConkie even claim that trust is perhaps the only variable which influences the behavior between individuals and groups comprehensively (Goblembiewski and McConkie, 1975, in Dreywer, Schurr, and Oh, 1987, p. 18).

### Phase 3

The “developing phase” which is the third phase in Ford's model commences when the number of exchanges increases and the contract is signed. At this point in time, both parties are in the process of integrating the relationship in their organisations. The experience of the companies about the work processes and methods of each other is increasing and the involved persons have acquired knowledge about the norms and values of the others. With the companies' increased knowledge and experience of each other, the insecurity falls. Ford (1980) states that the necessary adaptations and costs in connection with these adaptations are easy to concretise at this stage in the development process. The social distance is reduced as a result of the social exchange that is taking place among the companies. With an increasing knowledge about each other and the rise of personal relations, a trust among the parties will be established. However, Ford (1980) underlines that this trust cannot only be established on the basis of the personal relations. The adaptations that the companies make in order to meet the wishes and demands of each other will contribute to a reduction of the technological distance. Because of the increasing number of transactions, the gained experience implies that the time distance between order and delivery has been eliminated.<sup>32</sup> According to Ford (1980), effort to reduce the social distance is a way in which commitment to the partner can be demonstrated.

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<sup>31</sup> Dreywer, Schurr and Oh agree with Rotter's classical definition (1967) of trust in their perception of the concept.

<sup>32</sup> However, only in cases where products or services are to be delivered continuously.

Dwyer, Schurr, and Oh (1987) refer to the third phase as “expansion” because it primarily focuses on the still increasing advantages gained from the relationship. The five sub-phases that were described in the explorative phase also apply in the “expansion” phase. The critical difference is that the foundation for trust and the common satisfaction established in the explorative phase now leads to an increasing risk within the dyad as the degree and depth of mutual dependence have increased. The relationship has developed significantly from one of trying and testing to that of two dependent partners. Fraizer (1983) sees this extension process, which takes place in the third phase, as a consequence of the satisfaction of the partners with each other's performance and the attendant rewards” (Fraizer, 1983).

#### Phase 4

This phase is characterised by the companies' importance to each other. The companies' extensive experience in cooperating with each other leads to the establishment of some procedures for the daily operations, a rise in the trust as well as norms for the accomplishment of different areas. The insecurity with the partner is reduced to a minimum.

Paradoxically, this reduction in insecurity can, according to Ford (1980), cause problems as some tasks have developed into routines that have become institutionalised in the relationship. It is possible that these routine-like ways of handling some tasks no longer relate to the needs of the partner. These institutionalised patterns can make it difficult for the company to meet the real demands of the other company, and it might in this way be perceived as less committed to the relationship. Institutionalised methods or procedures can, according to Ford (1980), make a company dependent on the counterpart.

The social distance is likewise reduced to a minimum in this phase. An extensive contact pattern has developed which can involve several functions and departments in the companies with the aim to establish an effective match between the systems and procedures of the parties.<sup>33</sup> Likewise, some strong personal bonds will have been created between individuals in the two companies. The advantages from this can take the shape of a common discussion of problems or the shape of informal adaptations. Disadvantages in this regard can be when the companies' interest becomes opposed to interests in personal relations, the very extreme of which is described by Ford (1980) under the term “side-changing.”<sup>34</sup> Finally, Ford (1980) mentions that companies can be personified by the persons representing them, e.g., if the company has some sort of key person or “relationship promoter” (Walter, 1999) who takes care of the overall relationship.

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<sup>33</sup> According to Ford (1980), it is highly desirable that the interaction between the functions and the departments happens relatively separately.

<sup>34</sup> Which occurs if an individual starts to act against his own company's interest and in interest of the partner.



The commitment of both companies to the relationship will be demonstrated through the extensive informal and formal adaptations. Here Ford (1980) discusses two difficulties related to commitment: First of all, the balance between the need to show a strong commitment and the fear of becoming dependent on the partner. Second, a party's perception of the counterpart's commitment can be different from the commitment the counterpart intends to show. This disparity can occur when most resources to be invested in the relation have been used before the "long-term" phase was reached and the partner does not have the possibility to show commitment in the same way (Ford, 1980).

The fourth phase described by Dwyer, Schurr, and Oh (1980) is "commitment," which implicitly as well as explicitly focuses on the promise to stay in the relationship. In this progressed phase of dependence between buyer and seller, the business relationship has reached a level of satisfaction in relation to the exchange that in reality will exclude the interest of alternative business relationship partners. At this point in time, a loyalty is established among the partners, according to Dwyer, Schurr and Oh (1987). However, the partners will still pay attention to potential alternative business relationships.

The perception of commitment means that a solidarity and cohesion exist. Dwyer, Schurr, and Oh (1987) feel, however, that these concepts are too unclear and therefore lean on Scanzoni's three measurable criteria for commitment: "input,"<sup>35</sup> "durability,"<sup>36</sup> and "consistency."<sup>37</sup> If there are fluctuations in the input, it will be difficult for the partner to estimate the result of the exchange. Disagreement in relation to this fluctuation will reflect a low level of commitment and lead to a reduced reliability in relation to the result of the business relationship (Dwyer et al., 1987). It is decisive for the commitment phase that the partners oblige resources intentionally to maintain the business relationship. The continuous advantages of a business relationship are the reasons why the involved companies adapt the relationship instead of, for example, terminating it. These advantages are security in relation to the mutually expected roles and targets, and the efficiency resulting from the improvements to and reliability of the working of the exchange (Dwyer et al., 1987).

## Phase 5

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<sup>35</sup> By "input" is understood that the partners make relatively high levels of input available to the relation, e.g., economical, communicative, or emotional resources.

<sup>36</sup> By "durability" is understood that over time some sort of durability will be present. A long-term business relationship is not stable in content, but depends on the demanded adjustments in relation to the surrounding world and the companies' willingness to meet and carry through these adjustments.

<sup>37</sup> Which correlates with the input brought about in relation to the business relationship and the partners' expectations.

Ford's "final stage" can only be reached on a long-term stable market and is characterised by a high degree of institutionalisation. This phase is only described briefly in Ford's article. The last phase in Dwyer, Schurr, and Oh's (1987) model is called "dissolution." The four authors mentioned, thus, conceptualize four phases for the long-term business relationship development process and only one phase for the withdrawal process. The possibility that the companies withdraw because of disagreements is part of the entire development process. There is only a limited knowledge about such termination processes but they are estimated to have large consequences for the companies if carried out when the companies have become interdependent. Research has shown that the termination of a personal relationship is regarded as a significant source of physical and psychological stress, and Dwyer, Schurr, and Oh (1987) believe that the termination of a business relationship will bring similar reactions.

Miller and Parks (1983) found it useful to regard the termination as the opposite of the formation process of the relationship. The author, however, does not support this view, as she believes the development process is a process that in contrast to the termination process demands effort from both parties. However, it can be argued whether the termination process that Dwyer, Schurr, and Oh (1987) present in their fifth phase constitutes only one phase.

#### **2.5.4 Wilson's integrative process model**

Wilson (1995) has developed a process model where he integrates the present knowledge about the factors that are critical for the development of the buyer-seller relation. Wilson (1995) starts with Dwyer, Schurr, and Oh's (1987) five-phase model and with Bory and Jermison's (1989 in Wilson, 1995) hybrid concept. Wilson believes that there exists an active phase, where the critical factors are central for the development process of the relationship, and a latent phase, where the factors are still important but have no active importance for the development process. Different kinds of changes (surrounding world, participants in the interaction) can activate the construction and in this way also the factors. For example, Wilson (1995) believes that trust can be a very active factor in the early stages of the development process of the relationship but then subsequently becomes more hidden until an event activates the factor again, e.g., the exchange of management.

The factors that Wilson has chosen to be critical for the development of the buyer-seller relationship are as follows:

Commitment, trust, relationship, mutual goals, interdependence/power imbalance, performance/satisfaction, comparison level of the alternative, adaptation, nonretrievable investments, shared technology, reputation, structural bonds, and social bonds.

Wilson (1995) calls the first phase “search and selection” and regards this phase as being more active than Dwyer, Schurr and Oh’s (1987) “awareness” phase because the buyer often already buys from the seller but decides to widen the relationship further. The factors “performance satisfaction” and “trust” are two of the active factors in this phase. The factor “performance satisfaction” will typically be evaluated from the partner’s reputation in the market as well as from the factor “comparison level of the alternative,” and will in this way also be an active factor in the first phase. When the parties are more engaged in the relationship, the establishment of social bonds has commenced and the interaction will influence the development of mutual trust. Wilson (1995) regards the factors “mutual goals” and “power/dependence” as active factors in this first phase.

Wilson’s (1995) second phase is “defining purpose.” Wilson believes that the factor “mutual goals” is critical. In this phase, a conflict between the common and the individual targets can arise and Wilson (1995) believes that it is very difficult if the individual goals are dominant. To define the aim of the relationship will help the parties to adjust their individual goals in relation to the overall goals of the relationship. The common goals will be what keep the two companies together in times of pressure. The creation of a common culture (hybrid culture or atmosphere), which provides directions on behavior, attitudes, and legitimacy between the two companies, helps develop some sort of security. According to Wilson (1995), the ideal result of this phase is uniformity on common goals, promoting the development of the social bonds, and trust. If this result is not reached, a possibility of failure will arise. Wilson (1995) also expects in this phase that the primary focus will be on the establishment of “performance satisfaction” and “trust.” The relationship is still fragile because both parties still have a limited commitment to the relationship and will be able to end it quickly.

The following phase, “boundary definition,” must clarify where both organisations end and the hybrid begins. Joint ventures have specified limits, but this hybrid type of business relationship seldom has formal structures defining the limits. Wilson (1995) is inspired by the hybrid concept where he regards the informal structure that develops as a result of the two companies. The persons forming the hybrid team receive assets for their parent organisation, as it is necessary to commit people and resources to the relationship. In this context, Wilson (1995) regards the factors trust, social bonds, and mutual resources as active factors. When the parties commit to each other, an adaptive process commences.

“Creating relationship value” is the next phase in Wilson’s (1995) model. Value is generated by the synergistic combination of the strong sides of the parties in the hybrid and provides both parties with the possibility to profit. Creation of wealth for both parties is an important outcome of the relationship.

Wealth is created in many different forms, e.g., technology, market access, information/knowledge, and low costs in the shape of technology, product, or process adaptations. If innovative technology is used, it will help increase the structural bonds and a greater dependence among the parties will be created. Wilson (1995) and Badaracco (1991) regard acquired knowledge as the most valuable outcome that can be gained from a business relationship. The acquisition of knowledge that, e.g., is hidden in routines of one party can be of considerable value to the other party. However, it is critical that this value can be very difficult to measure. In a relationship where an equal spread of power/dependence exists, the commitment to the relationship<sup>38</sup> will increase in order for the parties to generate more profit. According to Wilson (1995) both parties will typically fight hard to gain an even greater value within the limits, however, of the established mutual trust. Both parties carry out “nonretrievable” investments<sup>39</sup> in order to increase the value and to create strong structural bonds. The process of generating wealth contains many elements and levels in the organisation and has a strengthening effect on the creation of social and structural bonds.

Wilson (1995) calls the fifth phase “hybrid stability.” He regards this stability as a function of the partners’ success in creating positive results in the early stages of the relationship. There is only limited theory that discusses this aspect. Wilson (1995) assumes that the factors trust, performance, and satisfaction become latent in this phase. Wilson (1995) emphasises that it is not because those factors are insignificant, but that they do not demand much attention from the persons controlling the relationship. The social bonds, trust, norms, and commitment have brought about a stable atmosphere.

In table 2.1, an overview of the factors that Wilson assumes to be active in the five development phases can be seen.

<sup>38</sup> Wilson defines relationship as do Anderson and Narus: “...similar or complementary coordinated actions taken by firms in interdependent relationships to achieve mutual outcomes or singular outcomes with expected reciprocation over time”(Anderson & Narus, 1990, p. 45).

<sup>39</sup> “Nonretrievable” investments are defined as “...relationship-specific commitment of resources that a partner invests in a relationship,” e.g., buildings, equipment, training, or capital improvements.

**Table 2.1 Critical factors integrated in the development process of the business relationship**

Factors	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Reputation	.....				
Performance/Satisfaction	.....				
Trust	.....				
Social Bonds	.....				
Comp. Level of Alternat.	.....				
Mutual Goals	.....				
Power/Dependence	.....				
Technology	.....				
Nonretriev. Investments			.....		
Adaptations			.....		
Structural Bonds				.....	
Cooperation				.....	
Conflict				.....	

Source: Wilson (1995), p. 340.

### 2.5.5 Summary and discussion of the relationship development models

The overall picture of the existing models and frameworks can be characterised as unstructured, which indicates that this area of research still has not had sufficient attention. Further, it can be stated that the authors either refer insufficiently to previous models or further develop existing knowledge within this research area. This is evident in particular among European and American researchers. At present, no uniformity can be found regarding the conceptual language that is used to describe the development of the business relationship on the industrial market.

It is important to note that not all relationships reach stability. The author believes that most well-established business relationships typically will go through several stages of development. It can also not be guaranteed that the distance to the business partner reduces and that trust increases. These features will be dependent on the business relationship partner's perception of the importance and outcome of the relationship and a consequence of the management's commitment in the development of the relationship.

The author believes that several of the models posed supplement each other well; of particular mention, Ford (1980), Dwyer, Schurr, and Oh (1987), and Fraizer et al.'s (1988) phase models. The authors behind these models agree on which aspects characterise the individual phases but have however chosen to discuss them partly on the basis of different factors. A depicted similarity can be seen between Ford (1982) and Dwyer et al.'s (1987) second phase—the explorative phase. Here focus is on the following factors: the expectations of the company, the negotiation process, and the establishment of commitment and trust. However, the overall focus for the third and fourth phases of the two models is on mutual dependence and inherent risk.

As opposed to Ford's phase model (1980), Dwyer, Schurr, and Oh (1987) discussed in their fifth phase the possibility of withdrawing from the business relationship. The author believes that a similar phase model could be developed for this termination process. However, as opposed to the development models, this model will primarily take its source in the individual company and not in the dyad. Empirical work by Baxter (1985) and Duck (1982) suggests that the termination of the business relationship starts with an intrapsychical phase where one party evaluates—independently from the other party—the achieved understanding in relation to costs and the modified advantages of the relationship. Subsequently, the termination process moves into an interactive phase where the partners negotiate about the termination of the business relationship and the real withdrawal is then presented in the third phase. The companies will subsequently be in a stage that is characterised by a social and psychological reconstruction process, after which the companies will return to “the pre-relationship” phase in the formation model (Baxter, 1985).

Andersen (2001) agrees with Ford (1980), Dwyer, Schurr, and Oh (1987), and Wilson (1995) that a business relationship goes through different phases, but he still believes that the five-phase distinction is too extensive and difficult and therefore suggests dividing the process into three phases. Like Dwyer, Schurr, and Oh (1987), Andersen (2001) focuses on a possible fourth stage, the “termination stage,” as this is also important in the strategic management of the business relationship. Andersen is the only one who explicitly looks at the role of communication in relation to the development process of the business relationship. However, Dwyer et al. (1987) touch upon communication in several places in their article. They highlight, e.g., dialogue as being of vital importance to the explorative stage. This corresponds well with Andersen's (2001) assessment that communication can be characterised as being dialogue oriented in the second stage of his model.

In table 2.2, the author has compiled four of the presented models. The four models are emphasised because they represent the factors regarded as important for the individual stage steps by the authors.

**Table 2.2. Important factors and characteristics for the individual stages**

Stages	Ford (1980)	Dwyer, Schurr and Oh (1987)	Fraizer, Spekman and O'Neal (1988)	Wilson (1995)
1.	<p>Little experience and knowledge about each other</p> <p>Perceived large risk</p>	<p>Attention</p> <p>Mutual attraction</p>	<p>Insecurity about the decision-making process</p> <p>The market position of the company</p> <p>Characteristics of sub-components</p> <p>Characteristics of end components</p> <p>External economical and political conditions</p>	<p>Reputation</p> <p>Performance</p> <p>Trust</p> <p>Social bonds</p> <p>Alternatives</p> <p>Common objective</p> <p>Power/dependence</p> <p>Technology</p>
2.	<p>Negotiations</p> <p>Little experience and knowledge about each other</p> <p>Estimate expectations</p> <p>Perceived large risk</p> <p>Small commitment</p>	<p>Exchange of expectations</p> <p>Negotiations</p> <p>Communication</p> <p>Power structure</p> <p>Establishment of norms</p> <p>Trust</p>	<p>Transaction specific investments</p> <p>Transaction costs</p> <p>Possibility for potential exchange partner</p> <p>The level of financial resources</p>	<p>Performance</p> <p>Trust</p> <p>Social bonds</p> <p>Alternatives</p> <p>Common objective</p> <p>Power/dependence</p> <p>Technology</p>
3.	<p>Increasing number of exchanges</p> <p>Increasing knowledge and experience with each other</p> <p>Reduced insecurity</p> <p>Trust and commitment</p> <p>Adjustments</p> <p>Social interaction—personal bonds</p>	<p>Negotiations</p> <p>Communication</p> <p>Power structure</p> <p>Establishment of norms</p> <p>Trust</p> <p>Dependence—increased risk within the dyad</p>	<p>The J-I-T relationship contract or agreement</p> <p>Internal socio-political structure</p> <p>Expectations</p>	<p>Social bonds</p> <p>Common objective</p> <p>Power/dependence</p> <p>Technology</p> <p>Nonretrievable investments</p> <p>Adaptations</p> <p>Structural bonds</p>

Stages	Ford (1980)	Dwyer, Schurr and Oh (1987)	Fraizer, Spekman and O'Neal (1988)	Wilson (1995)
4.	Patterns of contact, routine, and norms— institutionalization Minimum of insecurity Commitment Dependence Social interaction— strong personal bonds	Commitment Dependence Loyalty Sense of security Personal bonds	Standards for comparison Evaluation of Performance	Common objective Nonretrievable investments Adjustments Structural bonds Commitment Cooperation
5.		Dissolution		

Source: Ford, 1980; Dwyer, Schurr, and Oh, 1987; Fraizer, Speckman, and O'Neal (1988); Wilson, 1995.

The table above is intended to show different authors' considerations of which factors can be considered important for the development process of the business relationship. If these factors are regarded laterally, it is clear that the authors agree that the companies will be tied together closer as the relationship runs through the individual steps—until, for example, the relationship can end. Especially in the fourth stage in the presented models, focus is on the factors related to mutual dependence and bonds of different types of commitment. Likewise, the first steps are centered on the factors related to the insecurity in the relationship and the entrance into a long-term business relationship.

The factors that the individual authors include in their models are very descriptive and have very little operational character. It could be interesting to start out with a more practical approach, by which the author means that the concretisation of the individual development steps can start out in some general task and division of labour that the author assumes to characterise the individual steps.

The author is like Andersen (2001) convinced that the five phases or more proposed by among others Ford (1980), Dwyer, Schurr, and Oh (1987), Liljegren (1988), and Wilson (1995) for the development process of the business relationship are too extensive and too detailed when the different phases are analysed. The more phases, the more difficult it will be to concretise and divide these from each other.



None of the posed phase models relates to how long the business relationship rests on each phase or stage. This can be because every relationship is considered unique and goes through the phases in an individual pace. The transition from one phase to the next of these phases is a critical area. The authors try in their conceptualisation of the individual phases to divide these from each other—and this way make the transitions more obvious. However, it is important to point out that this author is convinced that this is not a deterministic division in phases or stages, and that it is not appropriate to identify a starting point and an end point between the individual stage steps, but that these are sliding transitions between the individual phases. From this point of view, the business relationship does not run through phases but can instead be situated at different development steps.

None of the four models mentioned try to distinguish between a buyer and a seller perspective in the choice of the factors estimated to be important for the development process of the business relationship, and the author regards this area to be very inadequately enlightened. The intention of the author is to develop a process model that regards the factors from both the buyer and seller's point of view. In the same way, there are only a few models that examine the development process of the business relationship from a processual perspective. So according to the author, there will be a need to pose *a model that can be regarded as being processual, longitudinal, and dyadic, and that integrates the existing knowledge* within the area.

## Chapter 3 Critical factors for the development of long-term business relationships—a theoretical review

This chapter can be considered as the second part of the substantial domain. The chapter has two main objectives.

The first objective is to concretise what is understood by the term *critical factors* when they are regarded in relation to the relationship development process. In this connection, it is important to investigate the term *success* further, as the author believes that the critical factors are assumed to be positively correlated with success in the individual business relationships. Therefore, it will be difficult to determine the critical factor concept without regarding the successful relationship concept.

The other objective of this present chapter is to generate knowledge, primarily within the industrial network and interaction approach, about factors that are regarded as critical for the development of the relationship. The second part of Chapter Three can in this way be regarded as a literary review of the existing literature within the focus areas. The author has chosen to present the factors in four categories: the individual-related factors, the organisation-related factors, the environment-related factors, and the inter-individual and interorganisational factors, cf. the four categories of factors stated in the *a priori* framework.

The outcome of the third chapter will be a list of potential critical factors that will form the basis of the empirical work.

### 3.1 Successful business relationships and critical factors

Before it is possible to discuss the critical factors for the development of a business relationship, it is necessary to concretise what is understood by success. When a company invests resources in an activity, the company normally wants to have success within the given activity. Otherwise, the invested resources would be wasted. Therefore, it is obvious to learn from those who are already successful.

In a company, success is often operationalised in the form of financial goals. As the scope of the financial goals is insufficient and not all activities can be converted into financial goals (Doyle, 1992), a need to find non-financial success goals.

*Oxford Dictionary* defines success as:

“a favourable outcome, accomplishment of what was aimed at, attainment of wealth or fame or position, thing or person that turns out well” (p. 863).

What is considered to be “favourable, accomplishment, wealth, fame, or position” is for the individual to assess and decide. What is to be underlined in this definition is that the perception of success always depends on the context. In relation to the definition, success is “what was aimed,” so what is considered successful is adjusted to changes in society/the surrounding world and/or the values, attitudes, expectations, and experience of the individual, e.g., changes in the values and attitudes in the surrounding world will lead to the creation of criteria for the evaluation of success.

This thesis focuses on the development of long-term business relationships—and what in this connection can be regarded as a success will depend upon the context in which the relationship takes place. The idea behind the conceptualisation of success of the business relationship is based on the idea that success is a sort of achievement or redemption of some implicit and explicit objectives evaluated on the basis of certain criteria and within a certain period of time. The objectives of success are to be derived from needs of the present company. The evaluation of success starts in the company's consolidated needs and the partner's perception of having reached these (Kotsalo-Mustonen, 1996). As stated previously, the company's needs lead to a determination of certain objectives. There will be some explicit and tacit objectives for both the company and the individual. Some of the objectives of the individuals will be derived from the company's objectives, but some will also be characterised as more private. In regards to the company's and the individual's objectives, some can be competitive and some complementary. Objectives are regarded as being an important aspect of success as they touch upon performance (Visala, 1993).

The success of the relationship will depend upon the objectives of both companies and the involved persons' perception of the achievement of the objectives. These companies' objectives within the relationship are not perceived to be the same, but to correspond with each other. On the basis of this, the success of a business relationship is regarded as: *“The partners' satisfactory fulfilment of some explicit and implicit corresponding objectives for the criteria at a certain period of time.”*

Accordingly, the aim of this thesis is to concretise which factors are critical for the achievement of the objective. Likewise, as described above, these can be different factors depending on which role the company and especially the individual has had in the development of the business relationship.

In the following, the concept “critical factor” will be determined.

### 3.2 Determination of the concept “critical factors”

Concepts such as “best practice” and “critical factors” are concepts that describe what has been done in different projects to create decisively better competitiveness (Kølsen De Witt, 2000). Best practice refers to an exemplary behaviour, while the critical factors are a group of factors that are presumed to correlate positively with success. This thesis will focus directly on the critical factors for the development of the business relationship. Best practices will be dealt with implicitly in Chapter Ten where recommended actions in relation to the critical factors are recommended for the handling of the development process of the relationship.

One of the first times the concept “critical factor” was discussed directly was by Rockert in 1979. He builds on earlier conclusions made by Daniel (1961) and the definition by Antohony, Dearden, and Vanciels from 1972. He determined on this basis that critical factors are a limited number of areas, which if carried out well will ensure the success of the company. At the same time, Rockert (1979) made it clear that, despite the fact that the company has its own set of critical factors that can develop over time, it must be assumed that there is a common set of factors for each trade.

In her thesis Kølsen De Wit (2002) divides the term *success factors* into three application areas. She states that it is uncertain how the original term has spread but suggests that a parallel can be drawn to Daniel’s (1961) original perception of the term. The three areas of application proposed by Kølsen De Wit (2000) are:

1. Success factors as a method to plan an information system (refer to Rockart, 1979)
2. Success factors in the business strategy factors. Grunert and Ellegaard (1993) recommend examining three schools:
  - a. Factors that characterise the company<sup>40</sup>
  - b. Factors as planning tool<sup>41</sup>
  - c. Factors as a market description<sup>42</sup>
3. Success factors in project control, typically for development projects or in reconstruction project management (Kølsen De Wit, 2000).

<sup>40</sup> Design of the company as a match between the company and the surrounding world.

<sup>41</sup> The formulation of a company strategy by focusing on the few critical areas (key competences).

<sup>42</sup> What type of strategy to which type of market conditions.

Even though Kølsen De Wit talks about success factors and not critical factors, the author believes that the stated division in the three application areas can be used directly for the concept of critical factors. In the following, the success factors will be referred to as critical factors.

Parallel with the development of the critical factors within the field of strategy, a development of critical factors develops within the field of management science. Within this area, focus is on the development of problem-solving techniques based on decision-making, which improves the efficiency of the organisation through organisational changes (Schulz and Slevin, 1979).

When focus is on identification of critical factors for the *entire* development of the business relationship, the entire process must be considered. Compared to the *a priori* framework, there will in this way be critical factors for each of phases: start, implementation, mature, and termination. The author believes that the development of a long-term business relationship can best be compared with the implementation of a project. One of the reasons behind this estimation is the perception of the relevance of human and organisational aspects for the implementation of projects. These aspects were considered as very relevant after studies showed that project success is not only dependent upon which project tools and control systems applied (e.g. Might, 1984). Therefore, the precision and concretisation of the term *critical factors* can take its starting point in the project management literature.

Within the project management literature, a distinction between success and failure factors should be made. Offhand one could imagine that the two terms *critical factors* and *factors of failure* describe the same factors from opposite viewpoints. However, there is not necessarily a connection between these factors such that the presence of the factor creates success and the absence creates failure—or the other way round (Kølsen De Wit, 2000). However, it is assumed that some of the factors identified by the development process of the business relationship can be identified as leading to both success and failure. This means that if the given activities are carried out satisfactorily in relation to the factor, it will lead to success, and if they are carried out on a wrong basis, it will lead to failure. An example within the project literature is the selection of project participants.

Often the terms “success criteria” and “critical success factors” are mixed. However, the author does not believe that they are the same. In order for a business relationship to be perceived as successful, it is necessary to put up some goals or the like that can be regarded as success criteria. Lim and Mohamed (1999) use the following distinction between the concepts: the degree of success is

measured by the success criteria and the prediction or explanation of success is contained in the critical factors.

If the term *critical factor* is regarded in relation to the project management literature, then it indicates that some task must be carried out well for the achievement of success, but the term furthermore states that this task is very difficult to accomplish with success. There exist two components within the critical factor concept: 1) the importance of the factor is decisive for the result of the project and 2) the factor describes an element with a critical degree of difficulty which makes it problematic to carry out the element successfully (Kølsen De Wit, 2000).

In the project management literature, it is estimated that generally applicable critical success factors do not exist. It is estimated that general pattern would be uncovered, but that the factors are dependent on the context. The author however believes that some factors such as trust and commitment can be regarded with a certain degree of generality across trades and types of relations.

In this thesis, *critical factors* are defined as:

- 1) Factors that are crucial for the successful development of the business relationship and
- 2) that possess a critical degree of difficulty in their accomplishment.

If the connection between the development of a successful business relationship and the critical factors is considered, the factors are regarded as having a decisive influence on the development of a successful business relationship. Or put differently: the successful business relationship can be regarded as a goal and the critical factors as a means to reach the goal.

In the following, a detailed literature review of critical factors for the development of long-term business relationships will be presented. The review will begin with industrial network and interaction theory. If there are areas where the network and interaction approach is estimated to be unsatisfactory, contributions from other related theories within the relation marketing theory will be taken into the discussion.

The critical factors will be presented in the four groups: individual-related factors, organisational-related factors, environmental factors, and inter-individual and interorganisational factors, cf. the *a priori*-framework model in Chapter One.

### 3.3 Individual-related factors

The first category of factors that will be presented is that of the individual-related factors. In a relationship, at least two persons are involved—one from each company. But often, several different persons from different functions and levels in the hierarchy, with different experiences and roles in the involved companies, are involved in some sort of interpersonal interaction. They exchange information and develop the relationship by building up some strong social relations that influence on the involved companies.

Wilkowski and Thibodeau (1999) regard the individual as consisting of a mental system of opinions that consists of: "...how the world is represented to the self and to other people, [which] originate[s] in one's own personality, values, opinions, and attitudes" (Wilkowski and Thibodeau, 1999, p. 317). When an interaction takes place, the involved persons bring opinions into the relation from their mental system and the relation process is then based on achieving an understanding of the involved persons' systems of meaning. This understanding is achieved through personal communication. When a relationship is carried out in an international context, this process is complicated, as it is regarded as more demanding to achieve an understanding of the partner's opinion compared to a relationship with persons of equal cultural background. The individual's perceived distance to the other party will influence how strange the other party's opinions are perceived to be and thus influence the person's precautions and assumptions about this person.

The representatives of the companies will, because of their different personalities, experiences, and motivation, participate in the social interaction in different ways. According to Håkansson (1982), their participation in this process will influence the overall business relationship. Furthermore, the central persons' roles, functions, and hierarchical levels will influence the possibilities for the future development of the relationship.

Influence of factors related to the individual on the development of the relationship has up until the present had little attention from the network and interaction approach. Instead, several individual-related factors have been identified as important and crucial for the agreement between buyer and

seller (Bagozzi, 1975), for the type of communication between buyer and seller (Kale and Barnes, 1992; Shet, 1983), or for the degree of success of the business relationship (Kanter, 1994).

In the following, the individual-related factors will be discussed. They are personality/personal competences, specialist competence and experience, and the perceived distance to the partner.

### **3.3.1 Personality and personal competences**

Personality and personal competences are factors that can be difficult to separate from each other.

The personality concept has primarily been utilized within consumer behaviour theory, as well as within management theory, in the shape of tests in connection with recruitment of employees.

Within the industrial network and interaction approach, research has been very limited and concentrated on the connection between the salesperson's personality and job performance (Aaker and Bagozzi, 1978; Churchill, Ford, and Walker, 1979) and on buyer-seller similarities together with dimensions as personality and demography (Busch and Wilson, 1976; Churchill, Collins, and Strang, 1975), where it has been possible to underline that similarities in the personality of buyer and seller have had a positive influence on the outcome (Dion, Easterling, Miller, 1995). But so far, the results have not been convincing, so efforts to get a better and more in-depth understanding of the buyer-seller similarities in the result of the transaction are necessary. As a consequence, it has been necessary to seek inspiration from other related theories in order to try to concretise the concepts of personality and personal competence.

Kale and Barnes (1992) belong to the number of researchers who consider the personality of the involved persons as an important factor for the development of successful business relationships. Based on more than 100 different definitions of personality, Kale and Barnes (1992) have chosen the following definition: "...an individual's consistency in behaviour and reactions to events" (1992, p.5).

Personal competences refer, according to Bergenhenegouwen (1996), to the fundamental personality characteristics that form the basis of a person's acts in different situations. Thus, the personal competence concept takes as its starting point underlying personality aspects like values, attitudes, etc. McClelland (1993), for example, describes personal competence as some fundamental personal characteristics that are crucial factors for being successful in the job or in other situations.



Bergenhengouwen (1996) describes the structure of the personal competences from the point of view of an iceberg consisting of four levels where the higher the level, the more invisible the competence structure becomes. Both the specialist/functional and the personal competences<sup>43</sup> exist within the posed competence structure by Bergenhengouwen (1996). This division into specialist/functional and personal competences starts in the discussion of whether the individual can acquire different competences or not. The general position within the discussion is that the specialist/functional competences can be learned or acquired more easily than the personal competences—if the personal competences can be learned or acquired at all. The specialist/functional competences will be described in the following section.

The personal competences are those competences Bergenhengouwen (1996) refers to as being in the third and fourth levels of the “competence iceberg.” On the third level, values and standards are discussed internalised on the basis of the education, experience, and knowledge of the person. These values and standards are expressed as a special mentality. Bergenhengouwen (1996) considers that it is on the third level where the personality of a person comes forward weakly. On the fourth level, Bergenhengouwen (1996) underlines characteristics of personality as groundedness, image, actual motives, values, and sources of enthusiasm. According to Bergenhengouwen (1996), the personal competences control how a person reacts and acts in different situations.

Considering the two concepts *personality* and *personal competences*, the author believes that there is a considerable equality between these two concepts. However, the author estimates that the personal competence concept is somewhat more extensive than the personality concept, and that personality can be perceived as contained in the personal competences. The author chooses to agree to a large extent with Bergenhengouwen’s (1996) perception of this factor.

### 3.3.2 Specialist competences and experience

Individual specialist competences consisting of professional abilities and work-related knowledge are important resources when an interorganisational relationship is carried out. The individual specialist competences are primarily regarded as acquired through experience and education.

Within the network and interaction approach, the specialist competence development is considered a result of a learning activity based on working experience. The company improves its actions through gained experiences. In “The Uppsala model of internationalisation,” the concept “experiential knowledge” is posed to describe the experience/knowledge that has been gained as a consequence of

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<sup>43</sup> This division in the competence concept is found in, among others, Haydock, Connor, and Dawes, 1995.

the activities carried out on the international market. “Experiential knowledge” is tied to individual persons or a group of individuals that takes part in the internationalisation of the company. The level of one person’s “experiential knowledge” is considered in the model to be the driving force to minimize the insecurity of international activities (Johanson and Vahle, 1990). This author primarily regards the experiential knowledge concept as having a positive influence when an international business relationship is carried out, but it can also influence in a negative way. A person’s experience in cooperating with partners from a certain country can become a stereotyping of representatives from this culture. So negative experience gained in a single relationship will in this way be able to change the attitude of a person radically and continuously when cooperating with partners from this specific culture.

Bergenhengouwen (1996) refers to the specialist competences in his description of the first two levels in the competence iceberg. He refers on the first level to “instrumental knowledge and skills,” which are skills learned on professional and practically oriented courses or through education documented with some sort of diploma or certificate. On the second level, Bergenhengouwen (1996) describes the widely applicable vocational skills, which include social, communicative, general technical, practical, and basic abilities primarily related to the work situation of the individual. Experience-oriented competence is included in the last stated level.

The author has chosen to follow Bergenhengouwen’s (1996) definition of the specialist competences as it is regarded to be more specific and to cover more broadly as compared to the concept of experiential knowledge.

Here, the derived definitions of individual-related critical factors are summarised:

<b>Personal competence</b>	The fundamental number of values which control acts and behaviour	Derived from Bergenhengouwen (1996)
<b>Specialist competence and experience</b>	Professional abilities and work-related knowledge partly learned through education and/or courses or through experience.	Derived from Bergenhengouwen (1996)

In the following, focus will be on the organisation-related factors.

### 3.4 Organisation-related factors

The development of a business relationship will from an organisational point of view depend upon the characteristics of the two companies. Most of the factors put forward in this section are relevant to both the buying company and the selling company. However, their importance for the development of a buyer-seller relation can be of very different character.

The author has chosen to discuss the organisation-related factors: expectations, organisational culture, company size, strategy, structure, technology, and organisational experience/learning.

### **3.4.1 Expectations for the relationship**

The company's expectations as well as its perception of the other company's expectations as to the development and formation of the relationship will influence the relationship. In the beginning, the companies will have little or no knowledge about the other party's expectations of the relationship, cf. Ford's (1980) pre-relationship phase. As this develops, the companies will know more about each other's expectations and will perhaps harmonise with them.

Within the network and interaction approach, nothing is explicitly stated about the importance of the companies' clarification of expectations for the relationship in the beginning of the relationship. However, it is implicitly understood that if expectations for the relationship are clarified, this will increase the possibility of developing the relationship and in this way the development of trust and commitment to the other party.

The following authors deal more explicitly with this factor. According to Levine and Bryne (1986), one of the reasons for failure can be if the partners' expectations are not compatible regarding the management style, the motivation, and the commitment of the partners. Wilson and Mummalaneni (1986) state that the perception of common interests and expectations and the adaptation of a cooperative orientation contribute to growth and progression in the relationship, while antagonistic expectations and goals connected with a competitive orientation will lead to a weakening of the relationship.

According to authors, a common parallel can be drawn between the common expectations of the partners and their common goal for the relationship, as it is expected that the goals will be reflected in the partners' expectations of the relationship. The issue regarding the establishment of goals is also an element that is only weakly discussed by the IMP supporters.

To communicate own goals to the partner and to find together with the partner common goals for the relationship are regarded by McQuiston (2001) as being critical for a successful development of the relationship. This is confirmed by Ouchi (1979), Eisenhart (1984), and Kumar and Andersen (2000), all of whom underline that by minimizing the divergence of preferences between the partners, the partners will choose to cooperate on accomplishing the common goals because they are thus easy to understand and internalise. It is important to emphasise that it is a common *expectation as to the goal* of the relationship that is important for the relationship, and not *common goals* for the relationship, which this author regards as important to the relationship. Actually, the goals for the relationship can be very different from the point of view of the buyer and seller at the same time as the partners have a common perception of the outcome of the relationship.

In a relationship, the goals of the persons and the goals of the companies for the relationship are not always consistent. The most extreme is described by Ford (1980) as “side-changing,” which is a concept the network and interaction approach deals with. The concept describes the situation where a person starts to trade against the interest of the company and for the interest of the partner.

A further concept derived from this problem is “interpersonal inconsistency,” which is also mentioned by the IMP group. A company cannot produce a total uniformity in the interaction because of the large number of persons, departments, and other groups that are involved in the interaction. Ford et al. (1986) refer to this as “interpersonal inconsistency.” The persons will have their own interests with regard to the interaction and own expectations and opinions to and about the partner. Some persons will also be more suitable or motivated in the interaction with a certain company than others. The motivation determines the willingness to work with a specific task or relation. It is based on the perceived importance of the relationship and on the perceived reward that can be expected from the interaction. This problem poses a central question. Whose goals, opinions, and interaction style are the right one for the companies?!

The author has chosen to classify the factor “expectations of the relationship” as an organisation-related factor despite the fact that, given that the individual plays a large role in the shaping of the factors, it can be seen from both an individual and an organisational perspective. But it must be assumed, that the overall expectations of a relationship must be derived from the company’s long-term strategy and goal.

### 3.4.2 Organisational culture

The factor “organisational culture” is a concept that has not directly been discussed within the industrial network and interaction approach. However, the author believes that this concept is very central in relation to the interaction that takes place both on an individual and organisational level. Therefore, inspiration has been sought in other theories to create an understanding of the content of this factor. According to the author, the values and behaviour stipulated in a company influence how a relationship will develop. The organisational culture and the common values are regarded as being important in connection with the development of international relationships because they can be characterised as an informal and hidden force in the company which influences the behaviour of members of the organisation.

In their article, Kale and Barnes (1992) regard the organisational culture as being the second level, besides the national character, which influences the interaction. Schultz, Evans, and Good (1999) estimate that the partners' understanding of and acts in relation to each other's organisational cultures are key factors for the establishment and development of successful business relationships. In their article, Schultz, Evans, and Good (1999) analyse the role of the seller in relation to entering into an international relationship with a buyer. When two companies enter into a relationship, the involved persons will be faced with a different organisational culture, which they must try to understand and to which they must relate and adapt. For example, there could be a different handling of conflicts, a different priority of goals, and different organisational structure or attitude towards the employees and their needs (Schultz, Evans, and Good, 1999).

According to the functionalists, organisational culture is manifested through: “...the pattern of shared values and beliefs that helps individuals understand organisational functioning and thus provides the norms for behaviour in the organisation” (Deshphade and Webster, 1989, p. 4; Deshpande and Parasuraman, 1986; Wilkens, 1983). Shein (1990) states that there is a distinction between three different levels in the organisational culture: 1) the observable artefacts, 2) values and 3) the fundamental assumptions and prerequisites. The construction of the concept is estimated as being difficult to operationalise. Many and varied definitions of the concept have led to a confusion of the concept so that it is unclear and difficult to handle. However, the element ‘values’ is present in nearly all definitions of organisational culture.

In his research Reynolds (1986) identified and operationalised 14 aspects<sup>44</sup> which characterise the organisational culture. From a marketing perspective, it is estimated that there are five aspects that are important for an understanding of the dyadic interaction. The five aspects are: “External versus Internal Emphasis,” “Task versus Social Focus,” “Conformity versus Individuality,” “Safety versus Risk,” and “Ad hocery versus Planning” (Reynolds, 1986).<sup>45</sup>

A company that emphasises the external focus is according to Reynolds (1986) very focused on the customers or clients and will to a large extent be driven by the market, while a company situated in the opposite end of this dimension will be more focused on the internal organisational activities and will typically be producer oriented. The dimension “Task versus Social Focus” outlines the relation to organisational work and the interest in the social and personal needs of the employees. A company with a social focus will deliberately try to consider the social needs of the employees with regard to status, appreciation, and a feeling of affiliation. Companies with only task-related focus will strive towards maximizing profit and a realisation of growth targets (Reynolds, 1986).

The dictomy “Conformity versus Individuality” decides a company’s degree of tolerance towards abnormality and distinctiveness between the employees. The one extreme promotes homogeneity in work habits, clothes, and personal life of the employees, while the other extreme tolerates variation within the group. This dimension could also be presumed to be externally important aimed at, e.g., influence on a company’s tolerance towards a business partner and the partner’s dissimilarities.

The company’s response towards risk is regarded as an important dimension of the organisational culture especially today where companies are part of a changeable and variable business world. The one end of the dimension describes the degree of tolerance for anxiety and willingness in relation to testing new methods and procedures. Such companies will typically have a slow decision-making process, especially when it comes to decisions concerning the global market place. Companies situated in the opposite end of the “Safety versus Risk” dimension will typically wish to be pioneers either in relation to product development or market penetration. The employees will be allowed a larger degree of freedom of action and the possibility to learn by experimenting. In general the management only be willing to take a certain degree of risk and this degree of risk will differ from company to company and from individual to individual.

<sup>44</sup> Is based on previous research by Ansoff, 1979; Deal and Kennedy, 1982; Hofstede, 1980; Peters and Waterman, 1982.

<sup>45</sup> Reynolds uses a reliable, tested questionnaire to catch the dimensions of the organizational culture.

The dimension “Ad hockery versus Planning” describes interorganisational variations in the willingness to plan and foresee changes. Some companies create plans that can meet almost any scenario. Plan-oriented companies will typically prefer to develop forecasts, mathematical models, and economic analyses. Companies that are more oriented towards “Ad-hockery” will trust their intuition more.

The author believes that Reynold’s (1986) aspects of organisational culture make the concept more operational and easier to handle. Schultz, Evans, and Good (1999) indicate indirectly in their article that a match in the organisational cultures of the business relationship partners is more important for a successful business relationship than a match in the national culture of the partners. The author regards Reynold’s (1986) dimensions of the organisational culture to be used to identify, e.g., matched or mismatched parts of the organisational culture of the partners. Further dimensions of the organisational culture or other operational approaches to the determination of this phenomenon will also be applicable. However, the author regards Reynold’s (1986) 14 aspects as a fine and extensive tool to use to get behind the organisational culture phenomenon.

Concepts such as management style, decision structure, and risk willingness are regarded as important aspects in relation to the development of successful dyadic relations. However, the author has chosen not to discuss these factors separately under the theoretical presentation as they are hidden in the organisational culture.

### **3.4.3 The structural characteristics of the organisation**

The structure, size, and strategy of the organisation, as well as the importance and legitimacy of the relationship, are factors that help define the position from which interaction takes place. Håkansson has already discussed this aspect in 1982 in his interaction model.

The structure of the involved organisation, the extent of centralisation, specialisation, and formalisation will influence the interaction process in several ways, e.g., the number of persons involved, the exchange procedure, the use of the communication pattern and media, formalisation of the interaction, as well as the contents of the exchanges (Håkansson, 1982). In the short run, the organisational structure is regarded as the framework where interaction takes place. However, in the long run, it is possible that the organisational structures will be modified because of the produced interaction (Håkansson, 1982; Evans and Good, 1999).

The organisations' degree of technical expertise will also influence the character of the business relationship. For example, a relationship where a large technical gap between the companies exists will develop differently than a relationship where the technical expertise is divided equally. Technical problems in the relationship are often critical in the industrial market. The entire intention with the interaction will often be perceived as a process of tying the technological systems of the buyer and seller together. The characteristics of the technological systems and differences between them provide the basis conditions for the interaction. This influences all dimension of the interaction process, e.g., the need for adaptations, the development of mutual trust, as well as the development of the previously described contact pattern (Håkansson, 1982).

Basically, a big<sup>46</sup> powerful organisation with considerable resources poses the possibility of dominating the relationship partner as compared to a small company. This means that if one company is larger than the other company, it is possible that the power balance will be asymmetrical. (Im)balanced power is a result of a(n) asymmetrical dependence. If there is imbalanced power and therefore an asymmetrically dependent relationship, this imbalance can influence the creation of commitment. This applies when a partner is sought with valuable resources that the company wishes to access, but also when an existing relation is developed further. According to Buckley and Casson, a more equal power balance is created when commitment has developed as a consequence of the increased mutual dependence. This dynamic also applies if the power balance is unequal beforehand (Buckley and Casson, 1988). The factor "power and dependence" will be discussed more thoroughly under the fourth factor category.

The overall organisational strategies of the buying and the selling companies will, according to Halinen (1997), influence the business relationship's nature and vulnerability. First of all, the company strategy will determine the number of interesting business partners. The involved organisation's perception of the importance of the business relationship will help determine the degree of attention and resources applied from the organisation to the relationship. The importance of the relationship is regarded as a multidimensional perception and can be defined as the perceived financial and strategic importance of an assignment or task. This means that the importance of an assignment or task refers to its perceived potential influence on both organisations' profitability and its influence on the implementation of the company strategy (McQuiston, 1989). Research results within industrial buying behaviour have shown that if several persons from more organisational levels are involved in the buying process, it is typically perceived to be important (Johnston and Bonoma, 1981).



A business relationship that has legitimacy in the organisation tends to be more efficient in its accomplishment of goals and to be less exposed to unproductive conflicts that weaken the possibility of reaching the previously mentioned goals. The concept *legitimacy* is here considered to be: “generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed systems of norms, values, beliefs and definition” (Suchman, 1995, p.574). One of the decisive tasks for the relation manager may thus be to initiate and maintain the legitimacy of the business relationship.

#### **3.4.4 Organisational experience and learning**

Organisational experience and learning is regarded as being a relevant factor influencing the development of the buyer-seller relationship. The organisational experience can be defined as experience gained with a specific partner as well as gained outside the local relationship. Håkansson (1982) regards the experience of the organisation as a result of the knowledge collected in different similar relationships prior to the present relationship. This experience will provide the company with knowledge about how business relationships are run and managed. According to Håkansson (1982), the experience of the organisation will influence the level of importance tied to the relationship and in this way influence the commitment of the organisation to the individual relationship.

Experience and capabilities are equally relevant factors within the context of the organisational- and individual-related factors. It can be discussed whether an organisation can learn or whether the knowledge is embedded only in the individuals (Van de Ven and Poole, 1989). In this thesis, the author has chosen to discuss these two factors from both an organisational and personal point of view.

In the section focusing on the environment-related factors, the experience or learning of the organisations will be discussed indirectly, as the experience from working in a specific market or internationally will influence the organisations’ ability to enter into business relationships.

This figure summarises the derived definitions of the organisation-related factors:

<b>Expectations</b>	Common expectation as to the goal of the relationship	Derived by Kumar and Andersen (2000)
<b>Organisational culture</b>	A pattern of common values and conviction among the members of the organisation which helps create an understanding of how the organisation works as well as determining norms and behaviour	Derived by Deshpande and Webster (1989)
<b>Structural characteristics of the company</b>	The size, strategy, technology, and structure of the company and <b>the importance and legitimacy of the relationship.</b>	Derived by Håkansson (1982)
<b>Experience and learning – organisation</b>	A result of collected knowledge gathered in and outside the specific relation—in other similar business relationships.	Derived by Håkansson (1982)

Source: Author.

### 3.5 Environment-related factors

The unit of analysis in this thesis is the dyadic business relationship between two co-working companies in the industrial market. In order to understand the development of such a relation, it cannot be regarded in isolation but must be viewed in relation to the surrounding world. The environment-related factors should not be regarded as a joining of the other factor levels but as the wide context surrounding the business relationship, e.g., network of other customers and suppliers, competitors, the country, and other actors in the industrial system (Halinen, 1997).

According to the network perspective, the specific dyadic relation is part of a broader context—a network of dependent relations. All companies are directly or indirectly linked together in an industrial network which stretches across the traditional boundaries like markets, trades, or nations (Håkansson and Snehota, 1995; Johansson and Mattson, 1987). So explanations of events that take place in a specific dyadic relation can also be found in a broader network perspective. So each business relationship appears to be linked together with other business relationships and the specific relationship's development process will not be understood completely if the surrounding world is not considered as well.

The organisation and its business relationships are here seen as open, dependent systems with erased borders to the surrounding world. This means that the buyer and seller are dependent on other players and their network behaviour.

In relation to the environmental factor level, the factors *market structure*, *dynamics*, *internationalisation*, *position in the production channel*, and *national character* will be discussed. These factors are regarded to be important for the development of buyer-seller relations within the industrial network and interaction approach.

### **3.5.1 Market structure, risk, dynamics, and position in the production channel**

The market structure, the country risk, the dynamics in the relationship, and the position of the relationship in the production channel are aspects that Håkansson (1982) regards as important environmental factors.

A business relationship must be regarded as one in a number of similar relations that exist on either the national or the international market. The market structure depends upon the concentration of buyers and sellers and of changes in the market and its “members.” The concentration of buyers and sellers determines the number of possible alternative partners for a company, which will have a direct connection to the pressure surrounding the wish for a specific interaction partner (Håkansson, 1982).

The external insecurity, typically referred to as “country risk,” is regarded by Anderson and Gatignon (1986) as an important environmental factor. The country risk is a quite general term which can take many different shapes, e.g., political instability, economic fluctuations, currency fluctuations, etc. (cf. Herring, 1983). The insecurity creates anxiety, a situation that the human being will try to avoid. The management typically reacts to this insecurity by developing plans, procedures, and trade traditions, which all act as insecurity absorbers (Aharoni, 1966).

The degree of dynamics in a relationship and in the market is an environmental factor that generally influences the relationship in opposite ways. In a close relationship, the knowledge of the other partner’s visible behaviour and acts in certain situations is increased and consequently also the ability to predict them. However, in a dynamic world, the opposite effect is that the costs of being dependent on a single business relationship or a small number of relationships can be very high, expressed in the shape of alternative development possibilities with other participants on the market. In that way, the dynamics play a central role in relation to the development of long-term business relationships.

A further environmental aspect that Håkansson (1982) believes is necessary to mention is the individual business relationship’s position in the production channel: start-producer to end-producer. This position will influence the formation and development of the relationship.

### 3.5.2 National character

The characteristics of the broad surrounding world are especially relevant when focusing on an international relationship where attitudes and perceptions generally can be different depending on the recipient country.

Differences in the national character of the relationship partners and their importance for the relationship development process are not topics that have received much attention within the industrial network and interaction approach. The initiatives that have been taken to discuss this factor have been very descriptive and often have had very little focus on the understanding of the factor. Therefore, the author will look for inspiration in other parts of the relationship marketing literature.

Kale and Barnes (1992) regards “the national character” as being important because of the factor’s influences on the development of the dyadic business relationship.

According to *The Dictionary of the Danish Language*, “national character” is “the way of thinking and feeling of a nation.” Askegaard (1991) believes that the concept must be understood as an ideal type. This means that national character does not exist in reality but is an analytical tool that makes it possible to connect typical features of a certain category without all existing representatives showing all the characteristics. Based on this idea, a country’s national character can be perceived as a number of ideal typical features that can be identified with members of the cultural circle and which divide them from other cultures.

Clark defines the national character as: “...the pattern of enduring personality characteristics found among the populations of nations”(Clark, 1990, p. 66). Hofstede uses a similar definition in his work: “The collective programming of the mind which distinguishes the members of one category of people from another”(Hofstede, 1994, p.23). These definitions are not focused on the characteristics of the individuals but on the characteristics of a large group of people with similar background, education, and experience.

Based on the definitions of “the national character,” it is obvious that this concept is closely linked to the concept of national culture. According to several authors,<sup>47</sup> culture has an in-depth influence on how people perceive and behave. But the conceptualisation and use of the concept has been problematic. Within international marketing literature, culture is typically identical with the nation. So it can be discussed if the nation is the correct unit of analysis for studies where culture is regarded as an important factor. In many cases, the answers will be negative and some of the reasons for that are:

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<sup>47</sup> Clark, 1990; Hall, 1976, 1983; Kale and Barnes, 1992.

(1) there are huge differences between different social groups and classes as well as between different sub-cultures within the given nation, (2) generalisations on nations and people are not possible, (3) estimation and fixing of nations is irrational and imprecise, and is usually based on indirect experiences, and (4) fixing of a national character is based on racism, ethnocentrism, and discrimination (Peabody, 1985).

However, the author states that it is still worthwhile to talk about a possible existing national character as this is regarded as valuable when investigating international business relationships. This value arises from the observation that national differences exist and that these differences can be observed and tabulated and that they have a significant importance for the interacting individuals. However, it is important to be aware of the fact that the validity of such a concept depends on how homogenous a given nation is.

An often-discussed problem within the international strategic alliance literature is the development of common norms and values between cultural divergent partners, which is vital for the success of the relationship (Harrigan, 1988; Parkhe, 1991). The different national character can likewise cause complications for strategic decision-making. The link between decision-making and management action has been known for a long time. March and Simon (1958) suggest that the organisation is seen as a result of human behaviour. Cross-cultural studies of marketing have been able to identify national differences, e.g., in the negotiation process (Campell et al., 1988) but also in the decision-making process (Tse et al., 1988). If this is regarded in relation to the interaction in international business relationships, the author believes that national character can be important in regards to the behaviour of the individuals in relation to decision-making, problem identification, strategy formulation, and implementation. The perceptions and behaviours of individuals in the organisation are influenced by their national character: persons who have different cultural backgrounds and different mental programming are involved in the relationship, which can mean that there are different interpretations of behaviour, performance, rules, routines, etc., which often make it difficult to build and develop personal social relations (Hallén and Sandström, 1991). Business relationship partners can likewise perceive different problems and possibly react differently to these problems. So their perception of what makes a successful relationship and what makes an unsuccessful relationship can diverge (Kumar and Andersen, 2000).

It has been suggested in the literature<sup>48</sup> that several dimensions can characterise the national character. Over time, on top of this discussion in literature about the dimensions of the national character, a certain convergence has been seen among the proposed dimensions. In 1969 Inkeles and Levinson suggested the dimensions “relation to authority,” “conceptions of self,” and “primary dilemmas or

<sup>48</sup> Eysenck & Eysenck, 1969; Hall, 1959; Hofstede, 1980; Inkeles & Levinson, 1969; Kluckhohn and Stodtbeck, 1961.

conflicts.” Hofstede found amazing similarities between the dimensions he suggested in his empirical analyses and the dimensions which Inkeles and Levinson suggested in their theoretical studies. Despite criticism of Hofstede’s research, his work is considered to be the most extensive done in order to identify the national character. Hofstede ascribed five dimensions: “Power distance,”<sup>49</sup> “Individualism versus collectivism,”<sup>50</sup> “Masculinity versus femininity,”<sup>51</sup> “Uncertainty avoidance,”<sup>52</sup> and “Long-term versus short-term orientation”<sup>53</sup> (Hofstede, 1994).

The dimensions for the national character will according to the author be used in similar ways as aspects of the organisational culture.

Below, please find the surrounding world critical factors in summary:

Market characteristics	The market structure, the dynamics in the relationship and in the market, the risk in the market, and the position in the production channel of the business relationship	Håkansson (1982)
National character	A pattern of continuing and similar personal characteristics among a population of individuals.	Hofstede (1992)

In the following, the interpersonal and interorganisational factors will be discussed.

### 3.6 Interpersonal and interorganisational factors

The factors that can be described under the fourth category—the interpersonal and interorganisational factors—are factors that first become important when the interaction between the partners has started. This means that the factors discussed in this category are factors that can be regarded as resulting from the interaction process. The interaction process is at a minimum bilateral, which means that there are at least two partners involved. The interaction process can be considered as consisting of three sub-processes: the exchange process, the coordination process, and the adaptation process (Möller and 102\_\_\_\_\_

<sup>49</sup> “Power distance” describes a society’s relation to inequality. People possess unequal physical and intellectual skills, which some societies allow to develop into inequalities in power and welfare. These societies are those with a “large power distance,” whereas societies that work against inequalities in society are characterised by a small “power distance” (Hofstede, 1994).

<sup>50</sup> The “Individualism versus collectivism” dimension describes the relation between people and fellows. A society that makes a large degree of freedom possible for the individual at the same time as it requires the individual to look after his- or herself is described as a society characterised by a large degree of individualism. Societies where everyone is expected to take care of “the whole group” and the interest and opinions of the group are situated at the other extreme: collectivism (Hofstede, 1994).

<sup>51</sup> The “Masculinity versus femininity” dimension concerns to a certain degree how society relates to values that traditionally are regarded to be either predominantly masculine or predominantly feminine. Examples of masculine values include self-confidence, respect for “the super executor,” and acquisition of money and tangible goods. Feminine values are care, interest in the environment, relations, and protection of the weak (Hofstede 1994).

<sup>52</sup> The dimension “uncertainty avoidance” relates to the way society acts in relation to insecurity and ambiguity in everyday life. Society with weak “uncertainty avoidance” socialises people to handle insecurity without dislike. People in societies like that handle things when they arise and show a greater tolerance towards different opinions and behaviour as compared to people from societies with a high degree of “uncertainty avoidance.”

<sup>53</sup> The fifth dimension that Hofstede applied is “Long-term versus short-term orientation.”

Wilson, 1988), cf. Chapter 2. The factors that will be presented in the following are all closely related to the interaction process.

### 3.6.1 Communication

Research within social psychology claims that the personality dimension has a significant influence on the effect and the outcome of dyadic communication (Padgett and Wolosin, 1980). The individual personality has significant influence on both the content and the style of the dyadic interaction and communication. Andersen defines communication as: "...the human act of transferring a message to others and making it understood in a meaningful way" (Andersen, 2001, p. 168). This definition is stressed because it focuses on the effectiveness of the communication instead of focusing on the frequency of the information exchange.

Through the communication or the exchange of information, an interorganisational contact pattern develops. This contact pattern can consist of individuals or groups that have different roles, work in different functions/departments, and distribute different messages of either technical, commercial or social character. These patterns can be regarded as parallels to Håkansson and Snehota's (1997) activity link and actors bonds, and these can to a certain extent interconnect the partners. It is important in this context to pay attention to the fact that exchange of information and social interaction/exchange can continue for some time without having any kind of parallel product or monetary exchange.

In several of the models that describe long-term business relationships, a communication dimension is incorporated, as it is regarded necessary for the development of the relationship. (Anderson and Narus, 1990; Anderson, Lodish, and Weitz, 1987; Dwyer, Schurr, and Oh, 1987; Tuten and Urban, 2001). Communication is a more or less coordinated process that applies in all organisational surroundings and is described as the glue that keeps interorganisational connections together (Anderson and Narus, 1990). Communication is central in order to produce an understanding of the intentions and abilities that must form the relationship.

Empirical studies have indicated that communication has a direct influence on several of the central factors within the network and interaction approach: trust (Mohr and Nevin, 1990; Andersen, 2001), coordination/adaptation (McQuarrie, 1993; Andersen, 2001), commitment (Håkansson, Johanson, Wootz, 1976), and success (Tuten and Urban, 2001).

In the literature, there is disagreement about the direction of the link between the factors *communication* and *trust*. For example, Anderson, Lodish, and Weitz regard communication as a

prerequisite for the development of trust between the partners (1987), whereas Dwyer, Schurr, and Oh (1987) believe that trust creates communication. This author's interpretation of these links is that the development and sustainment of a dyadic business relationship is an iterative process. Meaningful communication between the partners is necessary before trust is established. Later on, this trust will lead to improved communication, which again will lead to improved trust and so on.

Within the traditional parameter mix, communication was identified primarily as a persuading/convincing instrument, which led to the perception that communication mostly flows one way. Within the network and interaction approach, communication is perceived as fulfilling obligations beyond persuading and convincing. The different roles of communication, e.g., informative, listening, answering, and asking, demand a two-way communication (Duncan and Moriarty, 1998). In order to meet each other's demands, an effective dialogue and interaction is needed. The perception of communication as being mutual coincides with the anticipation of interaction theory thought that both partners in a relationship are active.

### **3.6.2 Trust**

Trust and commitment are two factors that often have been subjects for studies and analyses. For example, within organisational behaviour, norms of trust have been considered a characteristic that divides management theory from "organisational economics" (Barney, 1990; Donaldson 1990). Within communication theory, trustworthiness is a key area (Hovland, Janis, and Kelley, 1953). Within the literature on strategic alliances, Sherman concludes, "the biggest stumbling block to the success of alliances is the lack of trust" (1992, p. 78). And finally, trust has been regarded as vital in several studies carried out by the IMP Group (among others Håkansson, 1982; Ford, 1997; Håkansson and Snehota, 1997). The following section will mainly focus on the industrial network and interaction approach's perception of the factor.

The successful development of a long-term business relationship depends upon the development of mutual trust between the partners and a commitment to the overall relationship (Johanson and Mattsson, 1987). This is stressed by Morgan and Hunt (1994) who claim that if there is trust and commitment to the business relationship partner and the relationship, it will encourage the partners to invest in the relationship, to resist alternatives in relation to the relationship that could cause short-term benefits, and at the same time to not act opportunistically in the relationship. Therefore, Morgan and Hunt consider trust and commitment as the key factors in relation to the development of successful business relationships as they lead directly to a cooperative behaviour (Morgan and Hunt, 1994).



The understanding of how commitment is created and developed must consequently be an important variable to explain when research is done on long-term business relationships. Before commitment can be created to a relationship, it is necessary that the partner feel that there is a certain degree of trustworthiness in the partner. The author regards this condition as a prerequisite for committing to a certain activity. Conway and Swift define trustworthiness as “The long-term attitude of relying upon the other party in the relationship, where negative incidents can be tolerated provided long-term expectations of positive development” (Conway and Swift, 2000, p. 1393). The concept of trustworthiness that Conway and Swift use corresponds well with the present chosen definition of trust. Morgan and Hunt conceptualise trust as existing “...when one party has confidence in an exchange partner’s reliability and integrity” (1994, p.23). It is here possible to draw parallels to Moorman, Zaltman, and Deshpande’s definition of trust, which says: “a willingness to rely on exchange partner in whom one has confidence” (1993, p.82). Both definitions build on Rotter’s classic definition of trust from 1967: “Trust is a generalized expectancy held by an individual that the word of another...can be relied on” (1967, p.651). Both definitions emphasise the importance of confidence. Anderson and Narus focus in their presentation on the perceived result of trust and define it as “the firm’s belief that another company will perform actions that will result in a positive outcomes for the firm as well as not take unexpected actions that result in negative outcomes”(Anderson and Narus, 1990, p. 45). Actually, a company would expect actions with positive outcomes from a partner if they trust their integrity.

According to several researchers, personal relations contribute in developing mutual trust between the partners. Thus trust serves as a risk-reducing mechanism (Ford, 1980; Cummingham and Homse, 1986). Trust between decision makers is also very important for the business relationship, as the decision makers partly or entirely base their decisions on the perceived trust in the partner (Danddson, 1993). According to Moorman, Zaltman, and Deshpande (1993), trust is the behaviouristic intention of willingness. They claim that this behaviouristic intention of trust is a critical facet of the conceptualisation of trust, for “if one believes that a partner is trustworthy without being willing to rely on that partner, trust is limited” (1993, p. 82).

Dwyer, Schurr, and Oh (1987) as well as Anderson and Narus (1990) claim that there is a positive link from trust to cooperation based on the fact that when trust is established, the companies learn that coordination and joint efforts will lead to the best results as compared to the company on its own. Cooperation is the only result which Morgan and Hunt (1994) regard to have a direct influence on both commitment and trust. A relationship partner who is committed to cooperation will cooperate with the other partner with the aim of making the relationship work. Both theoretical and empirical work indicate also that trust leads to cooperation (Morgan and Hunt, 1994; Anderson and Narus, 1990)

Pruitt (1981) believes that trust and the wish to coordinate with the partner are closely related. He suggests that a partner who has trust in his counterpart will show more risk-willing behaviour. Typically, the direct experience with the partner forms the basis of the evaluation of the partner's trustworthiness. This can also be shown by meeting the partner's wishes, e.g., informal adaptations even if they are connected with costs in the form of time and capital.

The author has chosen to follow Morgan and Hunt's (1994) perception of the trust concept: that the willingness to act is implicit in the conceptualisation of trust, as a company will not consider a partner reliable if the partner is not willing to show this in his behaviour. The willingness to act is according to the author in this way a result of a perceived acceptable risk. At the same time, the author believes that the concepts of trustworthiness and trust are both included in Morgan and Hunt's definition. Therefore, this thesis has chosen to use only the concept of trust.

### **3.6.3 Commitment**

Morgan and Hunt (1994) define the relationship-commitment as "...an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely" (1994, p.23). Thus, they state that the committed party believes that the relation is worth investing in and worth keeping going. Morgan and Hunt's definition of "relationship-commitment" once again coincides well with Moorman, Zaltman, and Deshpande's (1992) definition, which states, "Commitment to a relationship is defined as an enduring desire to maintain a valued relationship" (1992, p. 316). Moorman et al. (1992) talk about the valuable business relationship here. This corresponds with Morgan and Hunt's perception of the relationship commitment that exists only when the relationship is perceived as important and long-term. The author regards Moorman, Zaltman, and Deshpand's (1992) definition of commitment as the most operational definition and has therefore chosen to use this definition.

The concept of commitment is relatively new in connection with discussions of long-term business relationships. However, it is a concept with a long story within "social exchange" literature (Blau, 1964; Thibaut and Kelley, 1959; Cook and Emerson, 1978). For example, Cook and Emerson characterise commitment as "a variable we believe to be central in distinguishing social from economic change" (1978, p. 728). Social bonds that will appear as a consequence of the exchange process will consequently influence the development of commitment. Here focus is on the development of social bonds between individuals in the cooperating companies.

As commitment brings along a sort of vulnerability, the company will try to seek only a reliable partner. The social exchange theory explains this causality as follows: "...mistrust breeds mistrust and

as such would serve to decrease commitment in the relationship and shift the transaction to one of more direct short-term exchanges” (McDonald, 1981, in Morgan and Hunt p. 26). Therefore, the author poses that trust is a decisive factor for commitment. Before commitment can be established, a minimum of trust in the relationship and in the partners must be present. The development of commitment will then have a positive influence on trust, which again will be reflected in an even stronger commitment to the relationship.

Morgan and Hunt (1994) have in their research identified five important forerunners for relationship commitment and trust. First of all, they assume that the costs related to the termination of the relationship<sup>54</sup> and the advantages of the relationship have a direct influence on commitment. If the company predicts that a shift to an alternative relationship partner is connected with high costs, this will increase the company’s interest in sustaining a valuable relationship and this will influence the existing commitment. Morgan and Hunt argue also that the companies that acquire advantages from their business relationship will be committed to the relationship.

A further aspect which Morgan and Hunt (1994) assume is that common values directly influence both trust and commitment. This is the only aspect that Morgan and Hunt (1994) believe is a direct forerunner for both trust and commitment. Morgan and Hunt (1994) state that common values are regarded to be the extent to which the partners agree on the importance/unimportance of goals and politics and appropriate/inappropriate behaviour—a problem that is discussed in this thesis under the factor “expectations of the relationship”.

Morgan and Hunt (1994) determined that communication has a direct influence on behaviour. Morgan and Hunt (1994) believe like Narus and Anderson (1990) that the partner’s perception that communication with the counterpart has been relevant, on time, and reliable will result in greater trust in the partner. Anderson and Narus (1990) found in their research that, from the point of view of both distribution and production, communication was positively linked to trust.

The factor *opportunistic behaviour* has its foundation in transaction cost theory and is defined as “self-interest seeking with guile” (Williamson, 1975, p. 6). Morgan and Hunt (1994) determined that this has a direct negative influence on trust development. If a partner believes that the opponent engages in opportunistic behaviour, this perception will lead to a lower degree of trust.

Morgan and Hunt (1994) determined that trust helps reduce uncertainty around the decision-making. The uncertainty of decision-making refers to the extent to which a partner 1) has enough information to make a central decision, 2) can predict consequences of the decision, and 3) trusts the decision (Archrol and Stern, 1988).

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<sup>54</sup> “Termination costs” are all the expected losses in connection with the termination of a relationship. If one of the relationship partners wants to seek an alternative relationship, this change will incur expenses.

Another way in which commitment can be demonstrated is the way the company organises personal contact, e.g., by involving people with high status in the relationship (Ford, 1980). Typically in the beginning, there will only be a limited trust between the partners and in the relationship, which according to Andersen and Christensen (2000) will imply that the companies will not commit many resources to the relationship in the beginning, but take part in a “let us see” game where trust is gradually increased and the resources in the relationship grow proportionally.

#### 3.6.4 Personal relations

Personal relations are documented as having influence in different ways on the results of interorganisational exchanges. Larson (1992) found that relations between individuals worked like the shapes of the interorganisational exchanges by reducing the risk and uncertainty surrounding the intentions and motives of the other party. Ring and Van de Ven (1994) found that as a relationship develops over time, personal relations start to fulfil the formal relations, and Wilson and Mummalaneni (1986) found that strong personal bonds between buyer and seller lead to a greater commitment in relation to sustaining the business relation.

Within the industrial network and interaction approach, the concept “actors bonds” is regarded as corresponding to the factor *personal relations* (Håkansson and Snehota, 1997). What sort of actor bonds are created depends upon what the partners know about each other and what they can exchange. Any act in a relationship is based on the counterpart’s supposed identity. Different things give a company a supposed identity. Some come from the experience of the company in interactions, some from what is generally known about the company, or more often from what is expected to be known about the company. The process surrounding the creation of identities in a relation is close to the process of learning. Learning is according to Håkansson and Snehota (1997) central in a relationship. The partners in a relationship get to know each other well over time and this will influence the perceived identity of each. They get to know about each other’s ambitions and expectations, and this increases the possibilities of using each other in future situations. However, Håkansson and Snehota (1997) underline that no matter how much the partners learn about each other, there will always be a degree of uncertainty present. There will always be a limit to the conviction and trust shown, and at this point the factor *commitment* is essential. These authors regard the development of trust as a social process that will typically follow the development process of the relationship. The factors *commitment*, *trust*, and *identity* are in some ways limiting, but on the other hand they are also factors that will be normative for the behaviour of the partners. To be regarded as trustworthy, to have a special identity, and to be committed means that the players must adhere to certain rules. Håkansson and Snehota (1997) use the designation “bonds” to note these restrictions.

If the factor “personal relations” is considered in a broad theory scenario, then the research of Kanter (1994), McQuiston (2001), and Witkowski and Thibodeau (1999) can be indicated. Kanter (1994) said that successful business relationships almost always depend on the creation and maintenance of comfortable personal relations between the senior management. She also found that settled strategies do not develop in real life before the persons in both companies know each other personally and are willing to exchange information which can help the other. McQuiston (2001) supports this view. He found in his research that the most productive relations were those that had moved from being strict business relations to being relations characterised by personal relations (McQuiston, 2001). The personal bonds lead to that fact that a common “microculture” is created among the participating individuals (Witkowski and Thibodeau, 1999).

Witkowski and Thibodeau (1999) have developed an empirical three-phase model for the personal bonding process. The first phase describes the prerequisites for the individuals to commit to each other. These are the reputation of the business partner, common expectations, linguistic abilities, and family and ethical bonds that create a context for the following bonding process. In the second phase, Witkowski and Thibodeau (1999) distinguish between two types of interaction: “communication at a distance” and “visiting,”<sup>55</sup> which serve the purpose of making the personal bonds even stronger. The third phase is focused on friendship, the level of comfort, and the trust that develops as the personal bonds become stronger and stronger. Together, the second and the third phases encompass the microculture of the relation consisting of interactions and attitude creation (Witkowski and Thibodeau, 1999).

Researchers consider there to be a close connection between the factors “personal relation” and “social interaction.” “Social interaction” is the next factor discussed.

### **3.6.5 Social interaction**

Social interaction is a concept that has gained great attention within the IMP network and interaction approach.

Interaction style is regarded as an important element of the social interaction. Interaction style can be defined as “...the manner in which interaction is conducted” (Cunningham and Turnbull, 1982, p. 312). The interaction concept has been used and analysed in different ways and with different purposes. For example, Shet (1976 in Halinen, 1997) has studied personal communication style in the buyer-seller relationship and argues that a satisfactory interaction can also be obtained if content and style of communication is consistent.

<sup>55</sup> For further information, please refer to Witkowski and Thibodeau (1999), pp. 321-322.  
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Håkansson (1982) underlined that the company representatives' different personalities, experiences, and motivations mean that the individuals will take part in the interaction in different ways.

Cunningham and Turnbull (1982) connected the style in the interpersonal contact pattern with the company, the market, and the trade levels and found differences in relation to style with regards to proximity, formality, and institutionalisation.

Although long-term relationships involve economic exchange between firms, rather than individuals, it is known that individuals play an important role in these relationships. According to John Browne, CEO of British Petroleum: "You never build a relationship between an organisation or a company... You build it between individuals" (Prokesch, 1997, p.155). On the other hand Adobor states that firms need to be cautious about relying too heavily on strong interpersonal relationships in inter-organisational relationships. He observed that strong interpersonal relationships can sometimes make partnerships vulnerable to failure. (Adobor, 2006).

According to the author, social interaction plays an important part in developing a relation from being a business relationship to establishing personal relationships between the involved persons. Therefore, a close connection can be seen between the social interaction, the social relation, and the personal relations.

Social exchange/interaction is an important element in reducing the uncertainty between the two partners. This applies in particular in two cases: 1) when a cultural difference exists between the two companies or 2) when only limited experience in cooperating is available in the relationship. Social interaction is the most important long-term function, according to Håkansson (1982). By successive social exchanges the two companies are tied closer together and a mutual trust develops. The development of trust is a social process that depends upon the involved persons as well as the successful implementation of the exchange.

The social exchange process implies that the social aspect is an important factor in the development of relationships between the companies (Håkansson and Ostberg, 1975; Campell, 1985; Gulati, 2000). According to this author, these social aspects must be regarded as an investment, as development and adaptation take time and are expensive. This investment leads to the establishment of commitment, trust, and common involvement, which represent values for the partners and access to external resources through the relationship (Håkansson and Snehota, 1997).

### **3.6.6 Conflict resolution**

“Conflict resolution” is a concept that received less attention within the industrial network and interaction approach. The author has in this respect primarily been inspired by the American literature which analyses the many different aspects of conflicts that can emerge in a relationship.

Conflict is a blocking behaviour in a working relationship. Conflict is usually expressed in terms of disagreements, tension, and frustration. (Leonidou, Leonidou and Talias, 2007)

Small or large conflicts, e.g., as a consequence of the nature of the exchange, adaptation, and coordination process, will arise during the relationship. A condition for a continuous development of trust in the relation is the handling of the conflicts in a functional way (Rosenberg and Stern, 1970; Robicheaux and El-Ansary, 1976; Rosenblom, 1973, all in Anderson and Narus, 1990). The functionality of the conflict is defined as “...an evaluative appraisal of results of recent efforts to resolve disagreements” (Anderson and Narus, 1990, p., 45), which means the perception of those involved as to whether a conflict has been resolved productively and constructively. Disagreements can thus be used as a way to “clean the air” of potentially damaging tension in the relationship; in this way, conflict can have a functional and productive effect on the overall relationship.

Critical for the success of the relationship is whether the partners see the relationship as creating value for them as a whole. One way to contribute to a value-creation relationship is to strive for a functional solution to conflicts. Anderson and Narus (1990) and Deutsch (1969) have claimed that past communication and cooperative behaviour leads to the perception whether conflicts have been resolved in a functional way or not. Morgan and Hunt (1994) however claim that trust leads the partners to believe that future conflicts will be functional. Past cooperation and communication lead, according to Morgan and Hunt (1994), to a growing functionality of conflicts resulting in a growing trust. Conflicts can exist simultaneously with cooperative behaviour. It is important to emphasise that cooperation is not a result of the absence of conflicts (Fraizer, 1983).

In a relationship where a strong trust between the partners has been established, it is likely that conflicts will be handled more peacefully and a level of conflicts will be accepted as “just another way of doing business” (Dwyer, Schurr, and Oh, 1987; Anderson and Narus, 1990).

### **3.6.7 Power and dependence**

Power and dependence are concepts that have been discussed within the industrial network and interaction approach. Instead of posing a concrete definition of the power concept, the author wishes to present a four-dimensional model that shows the multifaceted way in which power works. This model is not developed by IMP.

According to Lukes (1974), the concept of power can be understood as consisting of three dimensions, while Hardy and Leiba-O'Sullivan (1998) have chosen to add one more dimension to the three dimensions proposed by Luke (1974). The first and second dimensions of power are based on how the power is divided in relation to solving conflict in the decision-making process. Both dimensions focus on the use of power in or around the decision-making process as a part of an intentional strategy to reach an intentional outcome. Luke (1974) states that power can be mobilised through the decision-making process or through resources. Luke (1974) estimates that if power were mobilised through the decision-making process, it would appear less visible compared to a mobilisation through resources. However, it must be emphasised that in both the first and the second dimension, power is only used given a conflict or opposition (Luke, 1974; Hardy and Leiba-O'Sullivan, 1998).

The third dimension of power builds on completely different prerequisites in relation to the conflict compared to the first two dimensions. Power is not only used to overcome conflicts but as a way to avoid them. Through the production of attitudes and applications in everyday life, power is used to bring forward a real consensus and approval, and as a result of this, power is placed as a hidden cultural norm for dominance (Hardy and Leiba-O'Sullivan, 1998).

Hardy and Leiba-O'Sullivan (1998) have added the fourth dimension to Luke's three dimensions. Hardy and Leiba-O'Sullivan (1998) based the fourth dimension on Foucault's work on power (1980, 1982). Foucault conceptualises power as a network of relations and discourses. In this way, power is not perceived as a practical, manipulative, deterministic resource controlled by autonomic players, but as a phenomenon incorporated in the system.

Luke (1974) and Hardy and Leiba-O'Sullivan's (1998) four dimensions of power are considered by the author based on the visualisation of an iceberg, where only the first two dimensions are visible and easily understandable on the surface, whereas the last two dimensions can be considered more intangible and institutionalised in their attitudes and behaviour situated under the surface. The reason why the author has chosen to state this perception of power in brief is to emphasise that power is contained in more than what we see.

In regards to the dependence concept, the authors wish to pose an interesting and central perspective on dependence, that being relative dependence, which is perceived as "...a firm's perceived difference between its own and its partner firm's perceived dependence on the working partnership" (Anderson and Narus, 1990, p. 43). The construction of this relative dependence is supported by several conceptual and empirical studies (Cadotte and Stern, 1979; Robicheaux and El-Ansary, 1976; Emerson, 1962, all in Anderson and Narus, 1990).



One of the first consequences of relative dependence is the use of power. Fraizer (1983) and Anderson and Narus (1990) use the constructions “influence *over* the partner firm” and “influence *by* the partner firm.” These constructions reflect how a company is willing to use its power to influence the actions of the partner company. The author believes that Anderson and Narus’s (1990) understanding of power is parallel to the first and second power dimensions posed by Luke (1974).

Anderson and Narus believe there is a positive connection between relative dependence and “influence by the partner firm” and a negative connection between relative dependence and “influence over the partner firm.” This is because a company with a large relative dependence will per definition have a greater interest in “feeding” a long-term relation. A way to do this is to be more positive to inquiries and manageable in relation to changes proposed by the partner company. In contrast to this, a company with a lesser degree of relative dependence use its superior position to request changes by the partner that the dominant company believes will help increase the outcome for both companies or for the company in itself. These connections are supported by both empirical and conceptual research (Fraizer and Summers, 1986; Gaski, 1984).

The mutual adaptation and coordination of the companies helps to increase the mutual dependence between the partners. The more intense the exchange process, the more the companies are likely to adapt and coordinate (Hallén, Johanson, and Mohamed, 1987). The mutual adaptation and coordination will strengthen the resource ties between the companies, and they will become more interdependent. However, it must be noted that there is not necessarily talk about a symmetrical dependence, cf. the aspect concerning relative dependence. An empirical investigation performed by, e.g., Hallén, Johanson, and Mohammed (1987) has shown that cooperating companies become dependent on the resources of the partner in several ways and the mutual dependence is regarded as an important factor for the development of successful business relation (McQuiston, 2001) .

The network and interaction approach perceives positive and negative network connections depending on whether a certain relation influences another relation negatively or positively. The distinction between positive and negative connections is, according to Blankenburg, Holm, and Johanson, an important aspect in connection to the creation of different types of dependence that determine the division of power (Blankenburg, Holm, and Johanson, 1996).

The following table summarises critical interpersonal and interorganisational factors:

Interpersonal communication	Passing on of an understandable message to another	Andersen (2001)
Trust	The partner's willingness towards, and confidence in the trustworthiness and integrity of, the exchange partner	Morgan and Hunt (1994)
Commitment	The growing interest in, and promise to maintain, a valuable cooperation of the partners	Moorman, Zaltman, and Deshpandes (1993)
Social interaction and personal relations	Interpersonal social contact pattern that leads to the establishment of bonds between specific individuals	Håkansson and Snehota (1997)
Conflict resolution	The way in which conflicts are estimated, resolved, and met by the individual company	Anderson and Narus (1990)
Power and dependence	The company's perceived dependence on, and power balance in, the relationship	Anderson and Narus (1990)

### 3.7 Summary of literature review on critical factors

The factors that have been emphasised in the theoretical review are all factors that often are mentioned in the literature and regarded as important for a successful business relationship. The previous theoretical review showed that not all posed factors were equally well discussed within the industrial network and interaction approach. This led to necessity to look for inspiration from other theoretical fields trying to conceptualise the factors. The theoretical inspiration has come from many different research areas: relationship marketing, organisation, management, sociology, interorganisational theory, traditional theory, and the new economy.

The author chose to divide her presentation of the factors into four categories. With regard to some of the factors, the division was very easy, whereas it was difficult in regard to others. The reason for this is that some factors could be regarded from the perspective of an individual or of an organisation, or from the perspective of an interpersonal and interorganisational level. Because this range of perspectives could be applied, e.g., to the factors *expectations*, *communication*, *conflict solution*, *trust*, and *commitment*, the author has chosen in Table 3.1 to summarise the levels from which the factors were considered.

In summary, there is generally something that points in the direction of the fact that a long-term business relationship must contain elements which can *serve the interests and expectations of both partners; establish a frequent and effective information and communication flow between the*

*partners; establish mutual trust and commitment; establish respect and understanding of the behaviour, values, and business of the partner; and create a dependence between the partners.*

The subsequent table summarises the factors that were presented in the previous theoretical part. In the table, only those authors who regard the factors as critical for the development of a successful business relationship are repeated.

**Table 3.1 Overview of critical factors—in relation to the four factor groups.**

	FACTORS	THEORETICAL CONTRIBUTIONS
<b>Individual-related factors</b>	Experience, specialist competence	Håkansson (1982), Bergenhenegouwen (1996)
	Personality, personal competences	Kale and Barnes (1992), Busch and Wilson (1976), Churchill, Collins, and Strang (1975), Padgett and Wolosin (1980), Bergenhenegouwen (1996), McClland (1993)
<b>Organisation-related factors</b>	Organisational culture, common values	Kale and Barnes (1992), Schultz, Evans, and Good (1999), Håkansson (1982), Reynolds (1986)
	The size, strategy, structure, and technology of the company	Håkansson (1982), Evans and Good (1999), Buckley and Casson (1988).
	Experience	Håkansson (1982)
	Expectations, common goals	Håkansson (1982), Levine and Bryne (1986), McQuiston (2001), Ouchi (1979), Eisenhart (1984), Kumar and Andersen (2000)
<b>Environment-related factors</b>	Market structure	Håkansson (1982)
	National character	Kale and Barnes (1992), Campell et al.(1988), Tse et al. (1988), Hallén and Sandström (1991), Hofstede (1992)

Table 3.1 Overview of critical factors—in relation to the four factor groups (continued)

	FACTORS	THEORETICAL CONTRIBUTIONS
<b>Interpersonal and inter-organisational factors</b>	Communication, interorganisational contact pattern, two-way communication	Padgett and Wolosin (1980), Anderson and Narus (1990), Anderson, Lodish, and Weitz (1987), Håkansson and Snehota (1997), Dwyer, Schurr, and Oh (1987), Mohr and Nevin (1990) in Andersen (2001), McQuarrie (1993) in Andersen 2001, Andersen (2001), Håkansson, Johanson, and Woootz (1976), Hallen and Sandström (1991), Duncan and Moriarty (1998), McQuiston (2001)
	Commitment	Sharma (2001), Morgan and Hunt (1994), Moorman, Zaltman, and Deshpandes (1993), Håkansson (1982), McDonald (1981) in Morgan and Hunt (1994), Anderson and Narus (1990)
	Trust	Johanson and Mattsson (1987), Anderson and Narus (1990), Morgan and Hunt (1994), Conway and Swift (2000), Moorman, Zaltman, and Deshpandes (1993), Ford (1980), Cunningham and Homse (1986), Sherman (1992), Håkansson (1982), Ford (1997), Håkansson and Snehota (1997)
		Håkansson (1982), Håkansson and Snehota (1997), Håkansson and Ostberg (1975), Campell (1985), Gulati (2000), Sharma (2001), McQuiston (2001), Håkansson and Snehota (1997), Kanter (1994), Larson (1992)
		Dwyer, Schurr, and Oh (1987), Anderson and Narus (1990), Morgan and Hunt (1994), Rosenberg and Stern (1970), Robicheaux and El-Ansary (1976), Rosenblom (1973), Deutsch (1969), Anderson and Narus (1990), Morgan and Hunt (1994), Håkansson and Snehota (1997), Sharma (2001)
	Power/dependence, “influence over the partner firm/influence by the partner firm,” A/Symmetrical, activity link, company size, mutual dependence	Fraizer (1983), Anderson and Narus (1990), Fraizer and Summers (1986), Gaski (1984), Blankenburg, Holm, and Johanson (1996), Hallén, Johanson, and Mohamed (1987), Håkansson and Snehota (1997), Håkansson (1982), McQuiston (2001)

Source: Author.

The previous section explained that many factors are interconnected, e.g., the following could be empirically linked: communication and behaviour, communication and trust, trust and uncertainty regarding the decision-making process, and the perceived value of the relationship and commitment. It is important to be aware of these possible connections between the individual factors and that the possible connections make it complicated to separate the factors, to look at the factors in isolation, and to establish their importance for the successful development of a relationship.

The theoretical work under this domain forms the basis for the factors that will be analysed empirically. The list of critical factors that will be analysed in four cases is not complete and could undoubtedly be extended. The author has chosen represent a number of factors that are supported theoretically as well as empirically. Furthermore, the author has chosen to summarise some of the factors under one heading (factor), for otherwise the number of potential critical factors would be too extensive. In table 3.2, the chosen factors and their definitions are summarised.

**Table 3.2 Factors and definition of factors for the present thesis**

<b>FACTORS</b>	<b>Content and understanding</b>	<b>Primary source of inspiration</b>
<b>Individual-related factors:</b>		
Personal competence	The fundamental set of values of the individual that control acts and behaviour	Bergenhengouwen (1996)
Specialist competence and experience	Professional abilities and work-related knowledge partly learned through education and/or courses or through experience	Bergenhengouwen (1996)
<b>Organisational-related factors:</b>		
Expectations	The interest, motivation, and expectation as to goals for the shape and development of the relationship of the company	Kumar and Andersen (2000)
Organisational culture	A pattern of common values and convictions among the members of the companies which help create an understanding of how the companies work as well as standardising norms and behaviour	Deshphade and Webster (1989)

<b>FACTORS (continued)</b>	<b>Content and understanding</b>	<b>Primary source of inspiration</b>
The structural characteristics of a company	The size, strategy, technology, and structure of the company	Håkansson (1982)
Experience and learning—organisation	A result of the gathered knowledge in and previous to the specific relationship—in other similar business relationships	Håkansson (1982)
<b>Environment-related factors:</b>		
Market characteristics	The market structure, the dynamic in the relationship and in the market, the market risk, and the position of the relationship in the production channel	Håkansson (1982)
National character	A pattern of continuous and similar personality characteristics among the population of a nation	Hofstede (1992)
<b>Interpersonal and interorganisational factors:</b>		
Communication	Passing on of a message to another in an understandable way	Andersen (2001)
Trust	The willingness and faith of the partner in the exchange partner's trustworthiness and integrity	Morgan and Hunt (1994)
Commitment	The continuing interest and promise of the partners to maintain a valuable relationship	Moorman, Zaltman, and Deshpandes (1993)
Social interaction and personal relation	Interpersonal social contact pattern which leads to the establishment of ties between specific individuals	Håkansson and Snehota (1997)
Conflict resolution	The way in which conflicts are estimated, resolved, and met by the individual company	Anderson and Narus (1990)
Power and dependence	The company's perceived dependence on, and balance of power in, the relationship	Anderson and Narus (1990)
Adaptation and coordination*	Adjustment and coordination either on the individual, group, and/or organisational level	Turnbull and Brennan in Fang (1999), Tuominen (1981)

\* Factor from Chapter 2.

Source: Author.

As evident from table 3.2, the content definitions are as short and precise as possible. This is deliberate because the content definitions must form the basis of the explanation of the factor to the respondents.

The author has demonstrated that the industrial network and interaction approach is mostly centred on the interpersonal or interorganisational factors. This does, however, appear quite logical, as they are the factors that form the basis of an interaction.

In particular, the factors *trust* and *commitment* must be emphasised, as they are regarded to be the factors most often quoted in the presented literature. Commitment is the most often described dependent factor for the development of business relationships. Commitment is an important factor in relation to distinguishing between “stayers” and “leavers,” as well as in the evaluation of the wishes and obligations of the partner to continue the relationship and work to ensure its future development.

Trust is regarded as a fundamental factor in order to develop a successful business relationship and is therefore a factor that is included in almost every analysis of dyadic business relationships. In the definition of trust lies a belief that the one partner will act in the best interest of the other partner. The author regards “trust” and “commitment” as two closely related factors that have a mutual influence on each other.

The author has also chosen to leave the factor “cooperation” out of the list of possible factors shown in table 3.2. This is because the author regards the cooperative behaviour as a prerequisite for cooperation—without a certain level of cooperative behaviour, the business relationship would not be able to exist. Therefore, the factor “conflict resolution” is positioned as an organisation-related factor.

### **3. 8 Conclusion of the substantive domain**

The substantive domain consisted of two overall parts: Chapters Two and Three.

Chapter Two, the first part of the substantive domain, had three objectives. The first objective was focused on concretisation of the relationship concept within the industrial network and interaction approach. The author estimated this area to be very well documented—at times, however, with a somewhat diffuse structure. The author chose to consider the business relationship on the substantive level as a continuing cooperation between two or more independent companies each in their own country and the interaction in the relationship in itself as being based on the level of the individual.

The second objective of Chapter Two was to put more focus on motives for entering into long-term business relationships. This aspect was regarded as important for the understanding of the development process of the business relationship as well as for the understanding of the critical factors influencing the development of the relationship.

The third objective was to look at the development process of the business relationship. The author can conclude that this area is only weakly discussed in relation to the time focus of the aspect. Only a few of the models consider the development process of the relationship from a processual perspective. Even more seldom is it to find a model that can be characterised as being processual and based on a longitudinal research design. Consequently, the author believes there is a need for posing a model that can be regarded as processual, longitudinal, and dyadic, which also integrates the existing knowledge in the area.

The first objective of the second part of the substantive domain, Chapter Three, was to concretise both those factors that can be regarded as critical and the connections between the critical factors and the development of successful business relationships. Based primarily on the project literature, the author established the critical factors; in addition, the successful business relationship was regarded as the aim of the relationship and the critical factors as the means of reaching the aim.

The second objective with the substantive domain was to theoretically identify the factors that are regarded critical for the development of dyadic business relationships. The *a priori* framework model based on the interaction approach was used as a framework for the theoretical presentation of these factors, which meant that the factors were presented in relation to four categories.

The problem regarding critical factors for the development of dyadic business relationships is quite well documented in literature, and the author estimates that among the individual theoretical as well as empirical contributions, there is agreement about which factors are critical for the development of such relations. However, it must be ascertained that the main part of the contributions within this focal area do not or seldom do commit to when during the relationship the individual factors are regarded as important. In 1995, Wilson tried best to integrate those factors that previous research has shown are critical towards the success of the relationship with the step-wise development of the relationship. On top of this, the theoretical and empirical contributions that support the selection of factors critical for the development of long-term business relationship only very rarely address the critical factors for both partners in the relationship.



In this way, the author believes that it is necessary to contribute theoretically as well as empirically in this area. Based on the existing knowledge, the author will analyse the critical factors based on both partners in the dyad. Furthermore, the author will make a processual estimation on the development process of the relationship and present a model that emphasises when the individual factors in the development process can be regarded as critical.

## PART II. THE METHODOICAL DOMAIN

The methodical domain consists basically of two parts. The first part of the methodical domain will be centred on the methodological choices, considerations, research setting, and research strategy of the thesis (Chapter 4 and 5). The second part of the methodological domain will be focused on four case descriptions (Chapter 5–9). The three DANDY-JOYCO cases work as the primary foundation of the empirical work, while the DANDY-Hollywood case will work as a sort of testcase.<sup>56</sup> The structure in the four cases is identical.

First, the author will try to identify the three (four) development steps for the analysed business relationships. Following, a description of the development process of the specific business relationship based on identification of critical events will be presented. Then the critical factors chosen by buyer and seller will be respectively described, discussed, and put in order of rank. Finally, the importance of the factors for each individual development step will be analysed, estimated, and discussed in relation to each other. The author will discuss differences and similarities that will appear in the partners' perception of the critical factors for the successful development of the business relationship.

<sup>56</sup> This is described in more detail in Chapter Four.

## Chapter 4 Empirical Research Design

This chapter will commence with a paradigmatic clarification of this thesis. Furthermore, the research process, the case selection method, the data collection methods, and the procedures for data analysis will be outlined. The empirical setting itself will be the subject of the subsequent chapter.

### 4.1 Paradigms and “orientation”

Since Kuhn (1970) underlined the role of the paradigm, there has been a general consensus that different “routes” must be identified to carry out a socio-scientific research dependent on the paradigmatic point of view of the researcher. Kuhn (1970) claims that paradigms within social science exist as a group of researchers working from a common set of parameters. This means that Kuhn found that scientific research could be divided into groups based on specific ontological and epistemological assumptions that were taken for granted by the researchers. A paradigm can in this way be defined as “Basic meta-theoretical assumptions, in relation to the nature of science and society” (Astley and Van de Ven, 1983, p. 246).

The fundamental assumptions are those which are not questioned during the daily research activities and which form a common foundation based on a common conviction within a specific group of researchers. Such a paradigm determines what questions should be asked, what discipline should be studied, and what methods should be applied. A paradigm is therefore rooted in a social context (Andersen, 1995).

If the previously mentioned is summarised, two overall reasons can be presented claiming that it is important to reflect on the paradigmatic foundation of the thesis. First of all, the researchers’ perception of the world will saturate any act and this will decisively influence the outcome and interpretation of the research process. There will be great connection and consistency between the studied phenomenon and the applied method if the paradigmatic consideration is well thought-out before the commencement of the research. Secondly, the paradigm will determine what is considered to be valid, which means having an influence on the evaluation of the research.

Easton (1995) prefers the term “orientation” instead of paradigm when the methodical approach to the research process is determined. This is because when epistemology is discussed, the other dimensions—axiology, ontology and methodology—will be involved implicitly. A way to uncover

this is to use the term “orientation,” which “...represents a fixed profile of positions on the dimensions that define more than one of the influencing factors and research process choices in the framework” (Easton, 1995, p. 421).

## 4.2 Realism

Easton (1995) defines four different orientations: “positivism,” “conventionalism,” “realism,” and “constructivism.” This thesis is based on the scientific realism. Realism works based on the assumption that there is a world out there independent of whether it is being perceived or not (Hunt, 1990)—as opposed to Olson’s (1987) relativism. Realism is a scientific direction that emphasises that the aim of research is to produce as true explanations as possible. Theoretical explanations must therefore be interpreted literally, just like the researcher is obliged to use prerequisites related to the real world (Knudsen, 1994). Realism can be characterised as taking an ontological outset, but the implications have an important epistemological meaning, because the assumptions of realism about the world also influence the way knowledge about the world is perceived. If the world is “real,” anyone can acquire knowledge about it—the only problem is how (Easton, 1995). Realists emphasise the ability to explain empirical phenomena. By “explanation” is meant “a causal explanation” within the realistic orientation that shows how an empirical generalisation is produced. To create a causal explanation, it is necessary to use theoretical entities that are ascribed to a literal interpretation (Knudsen, 1994).

According to Bhaskar’s (1978) realistic science theory, distinctions should be made between three different layers of reality: the real, the actual, and the empirical. On the most fundamental level, a number of mechanisms are real in the sense that they exist independent of us and without their characteristics having to be factual. Contrary to this, events are real, which means that they are not only real but actually occur. However, events can exist without the observer observing them. The third layer of reality, the empirical, focuses on all that which can be identified by our senses (Knudsen, 1994).

Within scientific realism, there are several approaches.<sup>57</sup> This investigation will primarily be based on critical realism, which argues that “...all knowledge claims must be critically evaluated and tested to determine the extent to which they do, or do not, truly represent or correspond to that world” (Hunt, 1990, p. 11).

<sup>57</sup> Naive realism, sophisticated realism, classical realism, fallibilistic realism, critical realism (Hunt, 1990; Easton, 1995).

Critical realistic thought states that it is the task of science to use methods that can improve our perceptual processes in order for the illusion to be separated from reality and in this way generate the most accurate description and understanding of the world (Hunt, 1990). The method to develop multiple measurements of constructions and to test the multiple surrounding world connections derives from the critical realistic orientation. To choose critical realism as the ontological basis for this thesis is based on the need for a process study that allows unpredicted phenomena to arise, e.g., as an outcome of the interaction between the partners. The critical realistic perspective is in its methodology pluralistic and open to the use of data triangulation (Neergaard, 1998).

### **4.3 Methodological considerations and choices**

Research within critical realism is theory driven. This means that the researcher identifies and develops themes and rules based on the existing literature. A prerequisite for this is a review of the existing literature in order to get an insight into the development of possible thematic rules. These rules can be modified or supplemented in the data collection process with the purpose of incorporating new knowledge. Consequently, the data analysis is carried out on the basis of thematic rules or codes. To build on existing theory is an effective technique to contribute to the development of new knowledge within a field. Data interpretation thus builds on existing literature, which will lead to a modification of the theory.

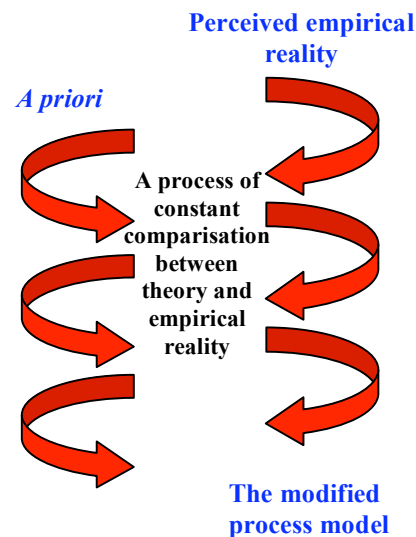
In methodological terms, this research can be characterised as being an explorative, longitudinal, evolutionary, dyadic, multi-case process study.

#### **4.3.1 Explorative study**

This study can be considered as being explorative in its character. The purpose of the thesis is to develop a model that integrates the critical factors in the development process of the business relationship from the perspective of both buyer and seller. Interplay between deductive and inductive research strategies will be used to develop the model. The existing theoretical and empirical knowledge will be used as a source to develop the model. The model development is influenced by the theory building principles proposed by Glaser and Strauss (1967), but it diverges from their purely inductive emphasis by drawing on extant literature for model development. There are several reasons for adapting Glaser and Strauss' theory-building approach. The conviction underlying this approach is that it is impossible to investigate a phenomenon with no sort of pre-understanding.

The investigation follows the theory-building/theory-testing approach in which the conceptual *a priori* framework is tested through a programme of multiple case studies iteratively linking data to theory in an inductive process moving towards the generation of an empirically valid theory that is subjected to testing and refinement through replication logic (Eisenhardt, 1989, Parkhe, 1993). This research strategy is illustrated in exhibit 4.1. The comparison of each empirical case with existing theory is perceived as an important method of creating new theory. The *a priori* model based on extant theory guides the empirical investigation, but it still allows for flexibility and openness towards new and creative ideas emerging from the empirical data. Furthermore, the construction of conceptual frameworks has a focusing and bounding role in a study (Miles and Huberman, 1994).

#### Exhibit 4.1 The research strategy



Source: Halinen, 1997, p. 19.

There are many reasons for outlining an *a priori* framework and for making the theoretical perspective explicit. First, it is particularly difficult to study a processual phenomenon without drawing up some preliminary definitions and limits concerning its content and context. A theoretical framework helps to focus the analysis and reveal the links between context and content in a processual study.

Secondly, the comparison of each empirical case with existing theory is perceived as an important method of creating new theory. The *a priori* model based on extant theory guides the empirical investigation, but it still allows for flexibility and openness towards new and creative ideas emerging from the empirical data. Furthermore, the construction of conceptual frameworks has a focusing and bounding role in a study (Miles and Huberman, 1994).

### 4.3.2 Case study method

The investigation will be carried out using a case study method. Case study is the preferred strategy especially when “how” or “why” questions are being posed, when the researcher has little control over the events (as opposed to the experiment), and when focus is on a contemporary phenomenon in its real-life context (Yin, 1989). Case studies allow an investigation to retain the holistic and meaningful characteristics of real-life events, such as individual life cycles, organisational and managerial processes, and international relations (Yin, 1989). Case descriptions often provide important insights into the studied phenomenon and lead to the formulation of hypotheses that can subsequently be more rigorously investigated. Case studies that aim at building theory are especially relevant in a new research area where little is known about the phenomenon or in an area where current perspectives seem inadequate because they have little empirical substantiation (Eisenhardt, 1989). Broad and complex phenomena that cannot usefully be studied outside their natural context, such as dyadic interaction between buyer and seller, are best approached by case strategy (Bonoma, 1985).

Yin (1989) defines the case study as “...an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used” (Yin, 1989, p. 23).

Case studies are a preferred approach when trying to establish holistic pictures. The depth and detail necessary for describing evolutionary processes in networks cannot be obtained through large-scale surveys. Methodologies such as multiple case studies, event histories, and ethnographic inquiries represent the best ways of obtaining otherwise unobservable idiosyncratic effects (Easton, 1995).

The case is always a phenomenon that arises within a limited context either in the shape of time or place (Miles and Huberman, 1994). In this study, the term *case* refers to a business relationship between a company in Denmark (DANDY) and an international partner company; the primary context is limited to the dyad. The dyad or “two-partner” approach is an essential characteristic in this study. Business relationships and their development are always a bilateral matter. The smallest meaningful unit for building a process model for the development of a buyer-seller relationship is therefore the dyad of two parties.

### 4.3.3 A longitudinal process study

The study can be characterised as longitudinal research since it investigates the development of business relationships over time and involves data from several periods of time. Kimberly (1976)

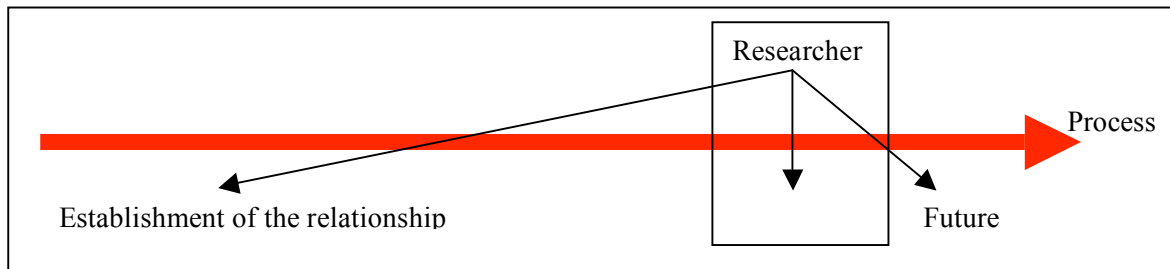
agrees with Miller and Friesen (1982) who defined longitudinal research as “those techniques, methodologies and activities which permit the observation, description, and/or classification of organisational phenomena in such a way that process can be identified and empirically documented.” Several researchers have recently called for longitudinal studies in order to gain a better understanding of the dynamics of business relationships (see, e.g., Narus and Anderson, 1990; Heide and John, 1992).

The longitudinal research design makes it possible to identify and document the procedural and dynamic characteristics of the phenomenon. An increasing number of researchers have during the last decade encouraged a more broad use of longitudinal case studies for theory development (Easton, Wilkinson, and Georgieva in Gemünden, Ritter, and Walter, 1997; Godfrey and Hill, 1995; Candance Jones, 2002; Aldrich, 2002). The longitudinal study has the advantage of providing linkage between the past, the present, and the future. Furthermore, longitudinal research also facilitates attempts to establish causality, a central concept of critical realism.

Miller and Friesen (1982) divide the longitudinal analysis of organisations into five categories depending on the basis of the breadth of scope of the research, the number and diversity of the organisations being studied, and the degree to which the qualitative and the quantitative procedures are used to point out the conclusions. Longitudinal research design attempts to establish causality since the temporal sequence of events and activities can be elucidated. The use of the iterative approach of analysing one case at a time and comparing it with the a priori model also enables the identification of critical factors and increases the ability to infer causality. Thus, a longitudinal process perspective seems in accordance with critical realist ideals (Knudsen, 1995).

Gummerson (1991) divides longitudinal studies into three groups: “historical-retrospective studies,” “real-time studies,” and “future studies.” In this investigation, the historical-retrospective method is applied because the main part of the events and activities, with which the analysis is primarily concerned, has already taken place. However, as opposed to in most other retrospective studies, those events with which we are concerned here are quite recent and bring us up to the present time. Historical process studies are reflections of the view that history is always present and that new history is always in the process of being created from current reality (Gummerson, 1991) or that the legacy of the past is always shaping the future. What happens, how it happens, the location in the processual sequence, and the rhythm of events are all characteristic for a given process (Sztompka, 1991). This is illustrated in Exhibit 4.2.



**Exhibit 4.2 The historical analysis**

Source: Gummerrsson, 1991

This model is evolutionary in its perception. The evolutionary process model describes relationship development without deterministic phases. The buyer-seller relationship will be considered as an evolutionary phenomenon without any deterministic establishment of any phases in the development process. It attempts to capture the content of relationships in dynamic concepts that are defined in relation to temporal modes. Thus the history of the firm not only highlights the roots of the present by studying the past, but also provides the means and patterns to guide the future (Oden, 1989).

## 4.4 Research strategy

The term “research strategy” sets the stage for a plan made up of a number of sequential steps which are envisaged to lead the researcher through the process from start to end. However, the research process often makes it necessary to consider the research strategy as a framework. In this process a number of iterative loops through which some ideas disappear and new arise and where the actual outcome is a consequence of the researcher's interaction with the research area. The author has decided to present the research strategy as a structured, scheduled presentation. The research strategy developed for this thesis consists of the superior steps:

Step 1	Preparation
Step 2	Data collection
Step 3	Analysis

### 4.4.1 Preparation

The first challenge in the preparation step of the research process was to establish a research focus and—derived from this—the thesis. The way in which the thesis is formulated will influence the

collection of data (Andersen, 1995). The research questions will be constructed by studying the existing literature within and related to the field. This process serves several different objectives. First of all, it provides a relevant overview, which is necessary in order to be able to relate the present thesis to the overall discussion within the research field. Second, it helped identify an interesting problem and make precise the position of the author and the foundation of the thesis. Third, the pre-understanding of the field confirmed that the thesis did not duplicate existing research. However, it was important in this process to maintain some sort of openness and not rigidly stick to the theoretical inspiration because it is through this openness that existing ideas are challenged and new knowledge are acquired.

Within qualitative research, it is discussed whether theory inhibits/binds or inspires the researcher. One argument that theory is inhibiting is that it takes control of the researcher by means of the *a priori* framework by adding his or her specific definitions and causal connections to his or her understanding of reality (Glaser and Strauss, 1967). It is also argued, however, that an advantage of the use of the theory-driven research is that the theory has a value which provides an understanding of a specific phenomenon in a research situation. The role of theory in this thesis could be regarded as some form of preparation and an inspiration to the researcher more than a means to divide reality in different groups. The theory gave the researcher a technical language that helped refine the research design and evaluate the limits and advantages.

Generally speaking, in the academic world it is accepted to use the theory as a framework for interpretation (Morgan, 1993; Strandskov, 1993; Mintzberg, 1985). However, theory will no doubt have given the researcher a tendency to see the problem from a certain angle and partly make her blind towards alternative interpretations.

#### **4.4.1.1 Case selection**

The strength of a case study is very much dependent on the criteria set for the selection of the concrete case. The first considerations in relation to this were to establish two aspects of the desired data:

1) what site to choose and 2) the number of sites in the investigation. A site is a limited context, a piece of reality. In the following, the two aspects will be discussed based on the present study.

The objective of the study was to identify the factors that are critical for the development process of the business relationship. There are at least two types of case designs that can be used for theory-gathering purposes: the representative and the deviant. The former refers to the selection of a typical case among the population of research objects, whereas the latter refers to the selection of a case that

according to some logic is divergent in relation to the population. Both designs require knowledge of the population from which the case is selected (Eisenhardt, 1989).

Eneroth (1984) has paid special attention to the selection of cases in studies that address the dynamics of particular phenomena. By applying his idea to what the author has earlier presented regarding different perspectives on development (see Chapter 2), two further types of case design can be distinguished: those that employ a change perspective and those that adopt a processual perspective. When the process of development is viewed from a processual perspective (as in this study), the cases are logically selected in order to ensure that they have already been through different processes of events and activities. In this option the age of the relationship may be used as a choice criterion. The primary task, however, is to ensure that certain processes have already occurred in the relationship.

This study adopts a representative multiple case study design and the process perspective.

In this connection it was considered important to find a context where long-term business relationships were a known and often-used structure. The reason for this focus was primarily that the study aimed to identify the factors that are critical for the development of a relationship. As the author is convinced that the development of a relationship is the result of a learning process, the author wanted to find a context where the development of business relationships was a reasonably known phenomenon that had resulted in a learning process. As the objective of this thesis is to develop a model for the development of business relationship, the processual perspective was chosen in the selection of case design. In this way, it was ensured that the chosen business relationships were mature enough to implement the relations that were estimated to be carried out in the relationship.

Based on these considerations, the first contact was taken to the chewing gum company, DANDY, in Vejle, Denmark. DANDY is known for its experience with entering into long-term business relationships deviating in relation to other similar business-to-business (b-to-b) organisations. DANDY has experience from entering into long-term business relationships back to the 1980s, when this way of creating competitive advantages was a seldom-used structure. Based on this, it was estimated that DANDY could be the right organisation to study and analyse in order to be able to develop a model of the development of long-term business relationships. At the time, DANDY had not, despite from their long experience in developing long-term business relationships, developed a frame for handling this process.

The aim of this study is to develop a process model that integrates both a buyer and a seller perspective on the development process; it was therefore important to choose a case where it was

possible to interview both the business partners. DANDY top management suggested for two reasons to study the partnership with the Spanish bubble gum company JOYCO. First of all, the management estimated that this relationship was successful and of a strategic importance for both companies. Secondly, the management believed that because of the good relation to JOYCO, it would be possible for the author to interview the strategic manager of JOYCO.

Before the data collection at DANDY began, a pilot study in a medium-sized Danish production company, KL Fiberglas A/S,<sup>58</sup> which produces fibreglass for various purposes, was completed. There were two objectives of the pilot study. First of all, the author wanted to get more practically based knowledge beyond the knowledge gained through literature studies concerning the development process and which factors influence the successful development of the relationship. The second purpose was to test and adjust the question techniques and question guides to be used in the interview process by DANDY.

The interviews at KL Fiberglas A/S were based on a specific relationship with an English developing company in regards to the production of a fibreglass trailer spring. The technical director, the sales manager, and the sales director at KL Fiberglas A/S were interviewed. The author regards this pilot project as extremely valuable especially in relation to the practical knowledge gained through the interview at KL Fiberglas A/S. This increased practical knowledge resulted in an adjusted question guide, so the author became more precise in her handling of the individual topics. The interviews also made the author choose to divide the factor “organisational culture” into several factors, as it became apparent that it was too extensive and too complex and in this way too difficult for the respondents to handle.

#### 4.4.1.2 Purposeful Sampling

The researcher must consider for a particular study whether it is more important to assess a large number of cases or fewer cases in greater depth. This study includes four cases, following Eisenhardt's (1989) recommendations for this type of theory-generating, theory-testing study. Eisenhardt concludes that “between 4 and 10 cases usually works well” (1989, p. 545). She argues that with fewer than four cases, it is often difficult to generate theory with much complexity and its empirical grounding is likely to be unconvincing, unless the case it is embedded, i.e., it has several cases within the case (Eisenhardt, 1989).

<sup>58</sup> In consideration of the participants' wish for anonymity, the company name is fictive.

For this thesis, an embedded case consisting of three sub-cases and an additional case as a sort of test case was chosen. The embedded case is the DANDY-JOYCO relationship, which consists of three relationships:

- 1) a distribution relationship,
- 2) an established relationship, and
- 3) an outsourcing relationship.

In the thesis, the three subcases will be treated as three individual cases. Furthermore, it has been decided to carry out the same investigation on a previous DANDY relationship, namely, the Hollywood relationship. This is done based on two motives: first, to see if there was correspondence or not between the critical factors for this relationship and the JOYCO relationships, and second, to see if there was a development in the choice of the critical factors given that DANDY had gained a larger experience in developing and maintaining long-term business relationships since their first relationship with Hollywood. As previously mentioned, this case will function as a test case. However, it must be stated that it was not possible to get an interview with the marketing director of Cadbury, France, which has been a part of the relationship from the beginning. After several inquiries to the person from both DANDY and the author yielded no result, the author had to realize that this interview would not take place.

As mentioned above, this study follows a multiple case strategy where the high reliability of the results is gained through the repetition of the same procedure with another sub-case. The strength of the multiple case study is the precision, validity, and stability of the result. The multiple case study is based on the replication logic alleged by Yin (1989). The argument for using such a procedure is that it is valuable that the same theory is tested on several cases. In this way, it is critical that the cases are selected so that they are alike in certain predetermined dimensions. This is the prime reason for selection of four cases (relationships) within the same organisation.

The applied procedure using in the analysis of the cases is built on a detailed theoretical framework that clearly specifies the conditions under which the phenomenon is investigated and what can or cannot be expected from the investigation. This coincides with the replication procedure for multiple case studies (Yin, 1989). However, it is important to emphasise that the use of multiple cases does not change the generalisation value of the study. Generalisation can only happen from one case to another on the basis of the underlying theory. However, a multiple case strategy provides a greater reassurance that the derived results are generic as compared to a single case study.

The multiple case design is chosen for two reasons. First, it is regarded as a theory-creating method as it allows for replication. In this way, it eliminates random discrepancies with the existing theory or previous cases. Second, multiple cases often underline complementary aspects of a phenomenon.

#### **4.4.1 The Critical Incident Technique**

The critical incident technique has been chosen to describe the relationship development processes. The primary reason for this choice that can be underlined is that the factors chosen by the respondents must have an attachment to the specific events and the cause of events through which the individual relationship has gone. In other words, there must be a sort of connection between the chosen factors and the experienced course of events.

The critical incident technique had its days of glory in the nineteen-sixties and nineteen-seventies and is still rather unknown in Northern Europe (Kølsen De Wit, 2000). The method was originally developed by Flannagan (1954) to identify critical requirements for key positions in the U.S. Air Force. Flannagan described the technique as “...a set of procedures for collecting direct observations of human behaviour in such a way as to facilitate their potential usefulness in solving problems” (Flannagan, 1954).

It has since been the principal analytical tool used in a variety of contexts to describe development processes (Edvardsson, 1992). However, using the technique to explore the development process in interorganisational relationships is a recent development that has entailed some adaptations due to the differences in research focus.

The development process of a business relationship can be described in terms of incidents or events that occur within a relationship and in the context. In focusing on events, the content and process of relationship development become linked with the context of a relationship and its dynamics (Halinen, 1997). This linkage is necessary for understanding the development of the buyer-seller relationships.

Flannagan (1954) defined an event as “any human activity that is sufficiently complete in itself to permit inferences and predictions to be made about the person performing the act” (Flannagan, 1954, p. 327). According to Gummerson (1991), an event or action can be observed, measured, and must contain an empirical value or meaning. Events are the principal points of access to the structuring of social action in time (Abrahams, 1982, p. 192). An event is a happening, an occurrence that takes place in time and in a specific setting. Events may arise from different levels of a relationship’s context or from inter-firm interaction itself. Events may thus be related to the interacting companies, may be caused by other actors in the companies’ task environment, or by major phenomena in the

macro-environment. Exchange processes or specific interaction episodes also form events in the buyer-seller relationship.

Events may be characterised on the basis of their influence over the content and process of relationship development. There are major and minor events, categorised according to their consequences. Events will be defined as: “happenings that make a difference between a before and a hereafter. They can be identified, anticipated and remembered only as such a difference” (Luhmann, 1990, p. 11).

According to Van de Ven and Poole (1991), an event is defined as being critical when “...the parties engage in actions related to the development of relationships which impact the firm’s further development and future prospects.” In this study the term *critical events* is used for those events that are decisive for the relationship and function either as driving or checking forces in its development (see also Elsässer, 1984; Liljegren, 1988; Halinen, 1997).

It is typical of critical events that some types increase perceived uncertainty regarding relationship continuity, while others decrease it. An event can cover a single point in time or a period of time, while critical events only can arise once (Hedaa, 1991). A single case study normally contains several critical events in different periods in time, each leading the firm to opt for one alternative action over another. Thus, a firm’s present position will always reflect past choices. The critical events can be perceived as a motivator to change status quo.

Data of critical events can be collected in several ways but it is essential to gain access to the phenomenon being studied. In this thesis, events will be identified by their function as being either driving or limiting for the development of the relationship and based on their estimated influence on the respondents’ estimation of the critical factors for the development of the business relationship. A critical event which will positively influence the level of satisfaction in the relationship as well as tie the relationship partners closer together will be regarded as a driving event for the development process—and the opposite trend will be regarded as restricting the development process of the business relationship.

In this thesis, the critical incident technique is part of an empirical qualitative method based on four cases. The critical incident technique is originally a behaviouristic scientific method that is ascribed to the American behaviouristic tradition. In this thesis, the weight has shifted from the behaviouristic to the cognitive.

The critical event method is typically used to describe a single job function, for example a manager, a sales person, or the like. The aim is to use the technique to make a non-person-specific “job description” of a relationship—where the job must be perceived as the relationship development process. When a relationship development process is studied, many different job functions are involved over time. Furthermore, the development process does not exist independent of the participating people whose acts control the process. The optimum for such a study would be to study all involved employees in the process of the relationship. As this is regarded to be too extensive, the description will focus on the two project managers' acts and estimations of the other participants' acts in the process.

#### **4.4.2 Data collection**

To perform field studies can be characterised as an iterative process where the researcher connects with reality. From the explanatory point of view, the greatest challenge for this field study was to record and understand the factors that led to actions, activities, and interaction.

##### **4.4.2.1 Data sources**

Two empirical methods can be ascertained to determine the critical factors for development processes: A consultant, a project leader, or another experienced practitioner tells what he/she believes are critical factors for the development of the process. Researchers make a systematic quantitative investigation of what the manager believes to be critical factors for the development process (Kølsen De Wit, 2000). The first method is chosen for this study. However, this method cannot be considered optimal as it primarily focuses on the project manager and does not incorporate other participants in the development process. However, the author attempts to meet this criticism by elucidating the development process from the point of view of both project managers in the relationship.

The primary data sources used to document the critical factors for the development of the relationship were the personal interviews and filed data such as company profiles, letters, e-mails, contracts, memos, etc. As this thesis is focused on the development process of the relationship, it is important to get access to data that can give insight into the development relationship from day one until today.

The secondary data sources were predominantly newspaper articles, internal periodicals, and Internet sites. These documents helped establish the correct order of events, the specific context for communication, and the interaction between the involved persons. Furthermore, analytic sources such as consultants' reports, industry analysis reports, newspaper and magazine articles, etc. were used to create an understanding of the world surrounding the companies.



#### 4.4.2.2 The data collection procedure

Data on events can be collected in different ways. It is decisive, however, that knowledge is gained on the studied phenomenon. Observation within this area is a frequently used qualitative data collection source that is closely linked to the ethnographic and anthropological tradition.

However, the author estimated that the development process of the relationship was not suitable for observation, as the observation period would spread over a long time. Furthermore, Shattuck and Woods (1994) underline that the work situation today is not suitable for observation as work nowadays is less physical and more cognitively based.

The researcher identified the critical events related to the evolution of the process as the interview develops and concentrated further questions around these events. The respondents were then asked to describe in detail what led up to the situation, how it evolved, and its outcome, and if possible in this description process to identify further events. The idea was to generate data with a level of detail and richness that put the researcher close to the realities of the process being studied. This was achieved through personal interviews in which the respondents described their experience in their own words.

Through interviews and dialogue with the respondent, the researcher gradually gained an understanding of the phenomenon studied. The interview with the respondent consisted of three sessions from which the researcher had to gain more insight and information every time and use this knowledge to open up new discussions. Therefore, the interview can be characterised as a series of face-to-face dialogues and reflections.

Flanagan (1954) recommends that whenever possible respondents should be selected on the basis of their familiarity with the activity. Based on this recommendation the author chose to concentrate the personal interviews on the project managers from both involved companies. In the JOYCO relationship, DANDY had involved three project managers—one for each sub-project—while JOYCO had the same project manager on all three sub-projects. The project managers from DANDY were interviewed three times for 1.5 hours each time; the project manager at JOYCO was interviewed once for six hours. The reason for this was that the interview with the project managers took place in Barcelona, Spain, and for economic reasons it was only possible to visit him once.

The first interview was very explorative. Using particular events as a starting point, the respondent was asked to describe the actual development of the business relationship from its start until today (February 2002). The result of this exploratory approach was that the respondent told his perception of “the story.” Storytelling is a fundamental way in which people communicate. The content of a story

can be perceived as a meaning-creation process that does not require one to address the issue of how to translate one's own knowledge into words (White, 1980). It is not important that there are everlasting structural schemes for the stories. The essence is that a person tells another person that something has happened. The story will be the person's personal interpretation of the past, the present, and the expected future (Kølsen De Wit, 2000). Such research methods are regarded as acceptable when the starting point is a concretisation of events.

During the interview, the researcher was focused on identifying events that were related to the evolutional process of the relationship. Consequently, the researcher focused on the present event by asking further questions about the event. The respondent was asked to describe what caused the situation, how it developed, and if possible to identify other events. The idea behind using this technique was to gain detailed data on a specified process, because the author believes that the events arising in the development process of the business relationship had an influence on which factors the respondents deemed critical for the development of the relationship.

The researcher worked in this process as some sort of journalist and tried to minimize leading cues in order to make the participant describe the behaviour and interaction that occurred. Predominantly, the interview worked well with this method. However, there was one interview where the respondent found it difficult to tell about the specific relationship's evolution process without any restrictions. The interviews were transcribed immediately after taking place in order for the author to be able to identify critical factors for the development process of the business relationship. After the explorative interview, it was possible for the author to identify another eight factors, in addition to those established by the literature review, that were regarded as important by the respondents for the development process of the relationship. These were: openness, flexibility of the individual, flexibility of the company, priority of the partner products on equal terms with own products, risk willingness, management form, decision-making structure, and the strategic importance of the relationship. These factors will be added to the list presented in table 4.1. This final list forms the basis of the third round of interviews.

Table 4.1 Final list of possible critical factors for long-term business relationship development

FACTORS	DEFINITION
<b>Individual-related factors:</b>	
Personality	The fundamental set of values of the individual that controls actions and behavior.
Specialist competence and experience	Specialist abilities and work-related knowledge partly learned through education or/and courses or through experience.
Flexibility	The willingness of the individual to show a flexible behavior.
<b>Organisation-related factors:</b>	
Expectations	The interest, motivation, and expectations as to objectives in relation to the setting and the development of the relationship of the company.
Organisational culture	A pattern of common values and convictions among employees that helps create an understanding of how the company works, and norms and behavior.
Management form	The knowledge, attitude, and behavior that is expected by the organisation with the aim of influencing the individual in order to gain a certain target.
Decision-making structure	The division of the decision-making competence and the way in which decisions are evaluated and carried out.
Risk willingness	The management/company's willingness to take on a certain degree of risk.
The structural characteristics of the company	The company's size, strategy, technology, and structure.
Experience and learning – organisation	A result of gathered knowledge prior to the specific relation—in other similar business relationships.
Flexibility	The company's willingness to show a flexible "behaviour."
Openness	The company's willingness to enlighten the other party in all company relations.
The strategic importance of the relationship	The estimated strategic importance of the relationship for the individual company's future performance.
Priority of the partner's products on equal terms with own products	That own as well as partner products are prioritised equally with the customer's.
<b>Surrounding world-related factors:</b>	
Market characteristics	The market structure, the dynamic in the relationship and in the market, market risks, and the position of the relationship in the production
National character	A pattern of continuing and similar personal characteristics among the population of a nation.

FACTORS	DEFINITION
<b>Interpersonal and Inter-organisational factors:</b>	
Communication	Passing on of a message in an understandable way.
Trust	The partner's willingness and trust in an exchange partner's trustworthiness and integrity.
Commitment	The partners' continuing desire to maintain a valuable relationship.
Social interaction and personal relation	Interpersonal social contact pattern which leads to the establishment of ties between specific individuals
Conflict resolution	The ways in which conflicts are estimated, resolved, and met by the individual company.
Power and dependence	The company's perceived dependence on the partner and the perceived balance of power in the relationship.
Adaptation and coordination	Adjustment and coordination of individual, group, and/or organisation.

Source: Author.

The factors written in red are the factors that were added to the list after the first round of interviews.

The author requests especially to emphasise “the priority of the partner’s product on equal terms with own products,” as this factor is considered different in comparison with the other factors. The reason for adding this factor to the list is that it was emphasised as being important when the relationship focuses on outsourcing, which was the case in one of the analysed business relationships.

Based on the detailed descriptions from the first round of interviews of the specific development processes, the author/investigator estimated that it was possible to describe the relationship based on four development steps. In the second round of interviews, the respondents were therefore confronted with this four-step model and all the respondents approved of this structure.

In the second round of interviews, an interview guide was used to get to the things that were not directly observable. The author had made a basis checklist based on theory and the knowledge gained in the prior interview. The interview guide is a flexible instrument that makes adjustments possible with regard to language and sequence in relation to the specific respondent. This way, the researcher is given the possibility of asking additional relevant questions and thereby building up a dialogue within a certain topic.

Finally in the third round of interviews, the respondents were asked to choose a maximum of ten critical factors from a final list consisting of relevant <sup>59</sup> factors for the development of a long-term business relationship as shown in table 4.1. The author decided that a maximum of ten critical factors could be chosen instead of a fixed number so that the respondents were not “artificially” to chose ten factors if they only believed there to be, e.g., eight factors. However, the author chose to make a limit of ten chosen critical factors. Two considerations lay behind this decision. First of all, the author did not want to end up in a situation where the respondents would chose all kinds of factors as they in some way or the other would be relevant for the course of the relationship and in that way be considered important. It was the objective of the author to gain a deeper knowledge of a limited number of factors. Second, it would be difficult to handle a large number of factors for analytical reasons. Before the selection of factors, the respondent was made aware of the definition of a critical factor from Chapter 3.

The respondents had no problems with selecting these factors. After the selection, the respondents were asked to estimate the importance of the chosen factors for the three steps in the development process. This part of the process did not cause any problems for the respondents either.

#### **4.4.3 Data analysis**

The analysis of data already starts “in the field” as different patterns through the dialogue and analysis begin to emerge. Furthermore, the researcher is influenced by impressions that are received in connection with the collection of data, which in itself is an analysing activity, only partly visible. Based on this, it can be misleading to describe the data analysis as an activity that takes place when the field study is completed. However, it must be ascertained that two important parts of the data analyses are carried out after the data collection, namely, “post-field” data analysis and report writing (Andersen, 1995).

The analysis of field data can be characterised as the process of getting an insight into more formal structures, like ideal types (Minzberg, 1987) or development of theory (Glaser and Strauss, 1967). This can be accomplished with different degrees of formality—from the completely unstructured analysis where it is expected that some nondefinable patterns arise from the collected data to the very structured method, e.g., the analysis of the use of language.

The data analysis in this thesis has two overall objectives: First, to procure an analytical and reliable description of the four empirical cases, and, second, to create an empirical foundation for the development of an operational process model for the development of long-term business relationships.

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<sup>59</sup>Based on literature review and the completed interviews.

#### 4.4.3.1 “Within-case” analysis

The process data influencing the individual cases consisted partly of stories of what happened when and who did what. This is data consisting of events, activities, and choices positioned in an order of time (Langley, 1999) and partly of more concrete knowledge of the individual factors' importance to the development process of the business relationship. The case descriptions are in this way an interpretation of what happened in the studied relationships. Despite the fact that the cases are only descriptive, they are central for creating insight into the concrete process (Eisenhardt, 1989). It is not precisely the objective to establish when something happens but to understand how the phenomenon develops over time and why it develops in this way (Van de Ven and Huber, 1990). Flanagan (1954) establishes that it is not the data collection but the interpretation that is regarded to be the most problematic. The overall weakness of this method is if the interviewer filters, misinterprets, or misunderstands the respondent (Neergaard, 1998). Process data are fluid in their character and spread over time (Pettigrew, 1992) and often involve several levels of analysis<sup>60</sup> (Ring and Van de Ven, 1994). These levels of analysis are practically difficult to divide from each other and lead to a rise in the complexity surrounding the collected data. In this process, the pre-understanding acquired through literature studies is regarded as an advantage as long as the researcher keeps openness in relation to the participants.

Abbot (1988) suggests using sequence analyses to organise longitudinal data. Such time-ordered displays preserve the historical chronological flow and permit a good look at what led to what, how, and when (Miled and Huberman, 1994). The case descriptions are formed as a story of events over time focusing on what caused their appearance and their consequences. In each of the cases, the events are organised in relation to a timeline that summarises the chronological evolution of the qualitative events. This process allowed a unique pattern to appear for each case before a generalisation was made across these events. The author has chosen to present the individual cases in the shape of event flows. The primary reason that can be emphasised is that there must be some kind of linkage between the chosen factors and the underlying course of events.

The second objective for the data analysis process was to create an empirical foundation for the development of a model that integrates the critical factors in the relationship development process from the perspective of both buyer and seller. This integration is a modification and further development of the *a priori* framework by integrating the gained empirical knowledge.

<sup>60</sup>These data characteristics coincide well with the assumptions within realism.

The critical factors for the business relationship chosen by the two project managers were presented in a table. The author was convinced that the critical factors identified played a different role in different points in time in the development process. Therefore, the estimation of the respondents of the factors was presented in the table based on the predominant importance of the factors in the individual development steps. At the same time, the factors were divided according to the buyer's and the seller's estimations in order to visualise the differences and similarities in the choice of critical factors. Apart from the visual presentation, the author discusses differences and similarities in the choice of critical factors and supports this discussion with quotes from the two project managers. From this discussion, a clear picture appeared of the events and activities in the individual business relationships, as well as a clear indication of which factors are important at what point in time in the development process. This indication of which factors are important at what point in time during the process is discussed again in relation to the assumptions in the developed *a priori* framework.

#### 4.4.3.2 “Cross-case” analysis

Cross-case analysis aims at comparing the *a priori* framework model, its assumptions, and relations with empirical reality; based on this comparison it seeks general patterns among the four individual cases.

In order to avoid reaching faulty conclusions based on a comparably limited set of data, Eisenhardt (1989) recommends comparing the conclusions or tendencies from the cross-case analysis from several angles. Ways to do this are to choose groups or categories and consider similarities and differences between the cases within these groups/categories.

The author has chosen to consider the chosen critical factors based on the following three groups: First, the factors chosen by all the respondents will be considered in relation to the factors' estimated importance for the four development steps. Second, the chosen factors will be regarded from a buyer perspective, and, third, considered from a seller perspective. Thus, it will be possible to derive some tendencies as to which factors are important to the buyer or seller respectively at what time. Based on this, it will be possible to recommend which individual or organisational competences are required in different steps in the development process of the relationship.

The critical event technique is regarded as especially useful for the theory's further development, as events, according to Gummeson (1991), will form some patterns that will provide the researcher with the possibility of developing competences, models, or theories. Events will in the individual cases be compared in relation to time and in relation to events in other cases and surroundings at the same time. The technique also makes it possible to collect more events than it would be possible to do using direct observation.

## 4.5 Data quality and validity

The validity of the study depends upon the coherence between theoretical reasoning and the comprehensiveness of case descriptions, not upon the sample size or empirical coverage (Halinen, 1997). In the critical realist paradigm, case studies are valid because they are concerned with the clarification of structures and their associated generative mechanisms that have been contingently capable of producing observed phenomenon. However, it must be noted that within critical realism, it is not regarded as sufficient to only produce patterns of similarities and differences regarding the studied phenomenon. Valid research within this paradigm needs to establish the how, what, and why underlying patterns of events and interaction (Neergaard, 1998).

Case studies are not evaluated on their representation but on their trustworthiness—meaning the extent to which the result may be faulty. Yin (1989) judges cases based on four evaluation criteria that are predominant within positivism: construct validity, internal validity, external validity, and trustworthiness. The use of these four criteria for qualitative investigations can be regarded critical, as case studies seem to be separated significantly from the quantitative investigations.

Therefore, the author has chosen to primarily use the four estimation criteria proposed by Lincoln and Guba (1985). The first criterion posed by Lincoln and Guba is the “trustworthiness criterion” where focus is on whether the case is explicitly identified and described in necessary details. Patton (1990) states that the trustworthiness of a case study depends upon how cogently and systematically the analysis has been performed. The author has tried to meet this standard by making a detailed description of the data collection and analysis methods and by researching rival explanations. The use of interviews as a primary source can be linked to predominant pitfalls. The first pitfall is that both the respondent and the researcher can contribute by influencing the interpretation of the data. The memories of the respondent will probably have been influenced during the time since the event and are in that way possibly misinterpreted and rationalised. As a consequence, retrospective case studies might be incomplete as some memories are “forgotten.” Retrospective data do, however, also have some advantages. The reconstruction of case stories eases the identification of change and continuity, cycles and breakthroughs in the development of the relationship. Without retrospective data, there would be neither understanding of specific occurrences nor of how the past influences the present and the future—and therefore no possibilities of establishing causalities.

Patton (1990) proposes another important aspect of the trustworthiness of the investigation, namely, the trustworthiness of the investigator. The author has tried to address this aspect by dividing personal and specialist information that may influence the collection of data. Whether the investigation can be



considered fair and balanced is another aspect Patton (1990) presents as important for the entire estimation of the investigation's trustworthiness. Behind the estimation criterion still lies the prevailing discussion on whether qualitative case studies can be considered scientifically.

The next criterion posed by Lincoln and Guba (1985) is "the generalisation criterion." Now the generalisation value of the cases is estimated. The generalisation logic for the case studies is completely different from other types of research (Neergaard, 1998). It is probably the criterion that can be regarded as the most problematic. The generalisation criterion for case studies is often the focus of criticism. Yin (1989) however emphasises that case studies are interested in the analytical generalisation that arises on theory level and in the contextual generalisation that touches upon the possibility of transferring the gained knowledge to a different context. Lincoln and Guba (1985) estimate that it must be the reader who should decide the transferability of the knowledge gained in a specific case study to a different context.

"The dependence criterion" suggests that a case investigation takes place in constantly changing surroundings—as opposed to quantitative investigations where the investigation context is regarded as more consistent. The author has tried to meet this by accounting for the changes of the surroundings and what consequences these might have for the results of the case analyses. The final estimation criterion which Lincoln and Guba (1985) state is "the confirmation criterion," which is based on avoiding subjectivity and biased interpretations of the data. The author has tried to avoid these issues by using data triangulation as well as by allowing the respondents to read the interview transcripts after the collection of data. The author chose to let the respondents read the transcripts rather than the outline of the case analysis, as the respondents were to have no influence on the interpretation of the analyses.

Within the topic there is still disagreement on which estimation criteria should apply within case research. However, the author estimates that the most important are that the investigator is explicit with regard to the case selection, the chosen structure of the collection of data, and how the case analysis is carried out.

## **4.6 The research process—an overview**

Overall, the research process can be divided into three sub-processes or phases:

Literature review and thesis

Preparation of collection of empirical data

### Analysis and writing process

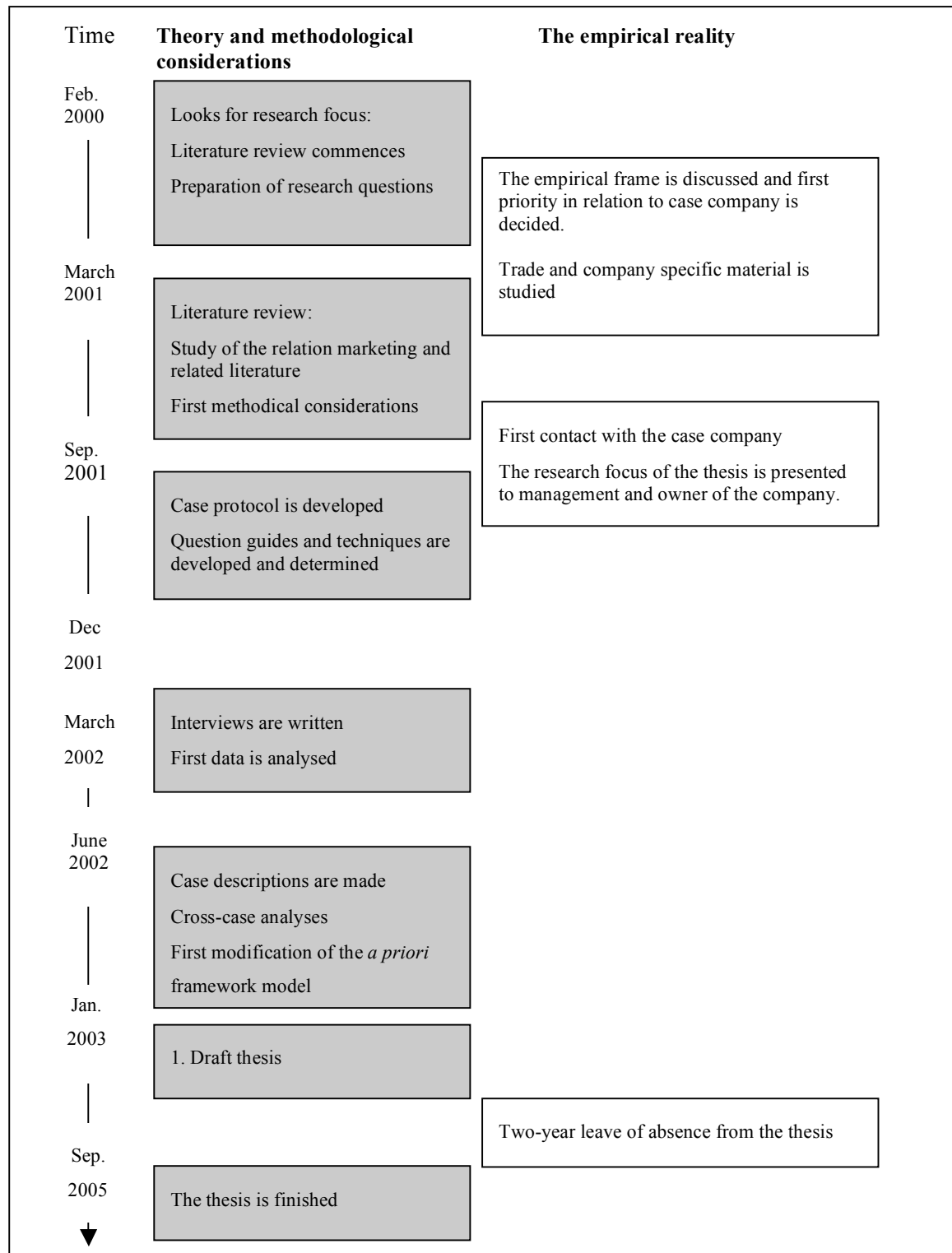
The first sub-process was commenced in February 2000 with the objective of seeking an interesting theoretical and empirical research focus within the field of relation marketing. The author anticipated a long-term process characterised by intensive literature study primarily within the relation marketing, especially in regards to research generated within the industrial network and interaction approach. After the first year, the research focus was determined and a more specific thesis formulated. However, these were reformulated in the subsequent periods and “fine-tuned” several times, though still with the same research focus. Simultaneously, the empirical frame for the investigation was discussed and specific literature was studied.

In the middle of 2001, the main features in the data collection process were established and the research process moved into the second phase. Inspired by Yin (1989), the author had developed a case protocol for this purpose that contained the substantive questions in the investigation. The questions in this protocol were aimed at the author and worked as a sort of reminder in relation to the data that needed to be collected. Based on this, the structure of the question guide and technique was concretised.

In the autumn of 2001, the first contact was made to the preferred case company and the research focus of the thesis was shortly thereafter presented to the owner and the management of the company. In the end of 2001 and in January 2002, the planned interviews were carried out, with the exception of the interview in Barcelona, which was carried out in June 2002. The iterative process between data collection and data analysis lasted for approximately eight months.

During the summer of 2002, the focused writing process commenced. The research questions were finally established and a final structure for the presentation of the thesis decided upon. The writing process can be described as a sequence with periods of intense literature studies, data analyses, and comparisons with literature, and another sequence where the acquired knowledge needed to be structured, adjusted, and written down, and the *a priori* framework model concretised and modified.

From mid-2003 until May 2005, the researcher took a leave of absence from the thesis. By the summer of 2005, the author finalised the thesis alongside the conduct of a full-time job at the Confederation of Danish Industries. In all, the course of research can be seen as an intense learning process where time was extremely important. The research process is sketched in Exhibit 4.2 and can be characterised as a dialogue between theoretical and methodical knowledge and empirical reality. The exhibit emphasises the most important events in the course of the research.

**Exhibit 4.3 The research process**

Source: Author.

## Chapter 5 The Empirical Research Setting

This chapter can be characterized as the second part of the methodical domain and aims at introducing the context from which and in which the relationship takes place. The chapter will present the three companies that participated in the four cases described and analysed in chapters 6–9. The three companies' historical background, products, as well as their development over the last 15 years are described. Focus will be on the Danish chewing gum company, DANDY.

### 5.1 DANDY<sup>61</sup> ([www.gumlink.com](http://www.gumlink.com))

DANDY is a Danish chewing gum producer with approximately 2,000 employees that produces around 25,000 tons of chewing gum each year. In 2000, DANDY had a net turnover of 1.85 million DDK, a surplus of 20% compared to the previous year. DANDY's products are sold in more than 70 countries, there are 22 sales companies and offices outside Denmark, and production takes place in three different factories in Vejle (Denmark), Novograd (Ukraine), and Africa.

DANDY's mission is "We want to see the consumer smile." It is the vision of DANDY to be the best chewing gum producer in the world. The company wishes to be an attractive partner and an international work place. The company believes that cooperation, networking, and alliances are the way to the future.

#### 5.1.1 Historical Background

DANDY was founded in 1915 by manufacturer Holger Sørensen. The company started as an ordinary confectionery company but around 1930 began producing chewing gum. In the beginning, the company was called "Vejle Tyggegummi," later on "Holger Sørensen Tyggegummi." When the company began exporting in 1947, the American-inspired name "DANDY" was introduced as a synonym for something new and modern. DANDY exported mainly to the countries not affected by World War II, which meant primarily countries outside Europe. In 1965, the first subsidiary was established in Belgium in cooperation with the Dutch importer at that time. In 1956 DANDY's first brand "STIMOROL" was presented and in 1978 a sugar-free version was produced for the first time. In the 1970s, sales subsidiaries were established in Holland, Sweden, Switzerland, Germany, and France, where DANDY had previously used an agent/importer to maintain the market. In the 1980s a

<sup>61</sup> Today, DANDY is owned by Cadbury Schweppes.

subsidiary was opened in Poland and later in other Eastern European countries. From the 1990s subsidiaries with regional offices were established in the Russian market. The places where DANDY does not have subsidiaries or regional offices, they cooperate with agents/importers. There are agents in Greece, Spain, and Italy who sell DANDY's products together with other chewing gum products.

### 5.1.2 Products

DANDY produces only chewing gum, but in a wide variety and in different brands. The company's chewing gum products are of the dragée type, which are produced using relatively advanced technology. DANDY's key competences lie in the coating process of chewing gum pieces. The tablets are coated with a mixture of water, sweetening agents, and flavor additives that creates an outer shell. The coating process demands constant electronic surveillance of temperature and air humidity. The main brands are DIROL®, STIMOROL®, and V6®, as well as a number of private labels focused on retailing and on the larger pharmaceutical companies.

The purchase of chewing gum is characterized as an impulse purchase with a low level of buying involvement. There is a relatively small brand loyalty and the target group is 13–24 years old—the age group that accounts for 50–60% of chewing gum consumption worldwide.

#### STIMOROL®



The Stimorol® chewing gum is offered to the consumer in many different varieties. In 1956 Stimorol® was introduced in Western Europe and in 1978 the first sugar-free version was introduced on the market. Stimorol® was not introduced in Eastern Europe until 1990. In 2000, Stimorol was the market leader in Switzerland, Denmark, and Belgium.

#### V6® and DIROL®



DIROL® and V6® are among the largest and most famous brands within dental chewing gum, which is chewing gum that protects the teeth against caries. The products contain the active agent carbamid, which neutralizes the acid that results in caries. The target group is 20–40 years old for V6® and 15–30 years old for DIROL®. For V6® Junior, the target group is 5–10 years old and DIROL® Kids targets 9- to 12-year-olds. V6® is sold in Western Europe and DIROL® in Eastern Europe, Central Asia, the Middle East, and Africa.

### 5.1.3 The development from “goodies” to functional products

In 1978, DANDY founded their pharmaceutical division, Fertin Pharma, which separated as an individual unit on 1 January 2001. Fertin Pharma A/S develops and produces medical chewing gum in close cooperation with some of the world’s leading pharmaceutical companies. Fertin possesses know-how in relation to the addition of active agents in chewing gum and is European market leader within this sector.

In 1994 Fertin entered a partnership with Smith Kline Beecham to produce the dental product ODOL (Aquafresh®), which is sold in more than 20 countries today. One year later, an agreement with Novartis Healthcare was signed for the production of a nicotine chewing gum, Nicotinell®. In 1996, Fertin entered an agreement with Dumex-Alpha to produce the chewing gum Fludent® against caries and an agreement with Unilever followed in 1998 regarding the dental product, Mentadent®. FERTIN also cooperates to produce the private brands of some large supermarket chains in Europe and the U.S. Fertin’s most important markets are Europe, the U.S., Australia, the Middle East, and Southeast Asia.

Through these cooperations, Fertin has built up competences within the development of medical chewing gum that have made them an attractive business partner. The company has gained knowledge about how a substance (e.g., medicine) can be placed in the middle or in the dragée (demands a different form of dragée compared to the traditional one), how it can be released, and how an unpleasant medical taste can be camouflaged in a chewing gum. This knowledge builds on several years of work and research with leading pharmaceutical companies. When an active agent is added to a product, US Food and Drug Administration approval is obligatory, as the agent affects the body.

According to Fertin, there are many future prospects within the medical area and the use of chewing gum as a way to dispense medication. Research has ascertained that some active agents are better absorbed through chewing gum as compared to traditional methods of taking medication. The reason is that the medication is absorbed more quickly through the mucosa in the mouth and the more direct absorption means that less medication is needed. Chewing gum can also reduce the dislike associated with consuming certain types of medicine. DANDY’s aim is to enter into long-term business relationships regarding medical chewing gum for allergy, headache, fever, ulcer, and slimming.

### 5.1.4 Markets

Twenty years ago, DANDY decided to limit their competences to the production and development of chewing gum of the dragée type. This has proven to be the right decision as the market development

goes from sticks to dragée chewing gum. Possible reasons for the increased popularity of dragée chewing gum are its use of taste additives and its ability to carry active agents.

DANDY is typically market leader in the small markets (e.g., Denmark and Russia) and number 2 or 3 in the larger European markets. DANDY has no large market share in the Southern European countries or in South America. One of the reasons for this is that the dragée chewing gum product is not suitable for countries with a high level of humidity and with high temperatures, as humidity and heat make the dragée dissolve.

### 5.1.5 Business relationship partners

DANDY claims in their vision that cooperation and network is “the way ahead” and that DANDY can only secure continued development and growth through business relationships with business-to-business customers. Table 5.1 summarizes DANDY’s alliances from 1986 to 2001. The relationships can include all parts of the value chain—from raw material to end customer.

**Table 5.1 Overview of DANDY’s business relationships**

Alliances	Year	Purpose
<b>KGFF (Cadbury) France</b>	1986	Production and distribution agreement in France and Belgium
Lotte	1986	Distribution agreement in Russia
Albert Heijn, Holland.	1990	Production of private labels for own stores
Kesko	1992	Production of private label chewing gum
Glaxo Smith Kline	1994	Production of Aqua Fresh (private brand) in Germany, the UK, the USA, Denmark, and Southern Europe.
Novatis Healthcare	1995	Production of nicotine chewing gum
CMS Leaf, Holland	1998	Distribution agreement for Russia/CIS
Unilever	1998	Production of Mentadent and Signal, private brand especially for Southern Europe.
Aldi in Denmark, Germany, Holland, and Belgium	1998	Production of private label for own stores.
Delhaize, Belgium	1999	Production of private label for own stores.
Morrison, UK	2000	Production of private label for own stores.
Elite, Israel	2000	Production of private label for own stores.
Bergi, Italy	2000	Production of private label for own stores.
<b>JOYCO, Spain</b>	2000	Distribution agreement in Russia/CIS. JOYCO produces DANDY’s bubble gum.
Colgate Palmolive	2001	Production of functional chewing gum for Canada and the USA.

Alliances	Year	Purpose
Kroger, USA	2001	Production of private label for own stores.
Sweet'n Low, USA	2001	Production of private label for own stores.

Source: DANDY, November 2001.

### 5.1.6 Competitors

Table 5.2 depicts DANDY's competitors as well as their market share in the world market. Exhibit 5.1 shows the position of the competitors in selected markets.

Table 5.2. Competitors on the world market 1999

Producer	Share of world market
Wrigley	35 %
Warner-Lambert (Adams)	23 %
Lotte	10 %
Nabisco	5 %
DANDY	5 %
Kraft Jacobs Suchard	4%
Perfetti	3%
General de Confiteria	1%
CSM Leaf	1%
Cadbury	1 %
Andre	12 %

Source: DANDY, November 2001.

Exhibit 5.1. Position of the competitors in different regions

South America	North America	Western Europe	Eastern Europe	India, Africa, Middle East	The Pacific Rim
Wrigley W-Lambert KJS Cadbury Sta. Dos en uno Arcor Confiteca Caramelos-Ryal	Wrigley W-Lambert LifeSavers (Nabisco) Canelas	Wrigley KJS Perfetti W-Lambert Leaf DANDY JOYCO Lamy Lutti	Wrigley DANDY DANDY-Turkey W-lambert Leaf Perfetti KJS	W-Lambert Wrigley DANDY DANDY-Turkey Bim Bim Perfetti Royal Beech Nut Kent Baycan JOYCO Ulker Nahda Cadbury	Lotte Wrigley Hai Tai JOYCO W-Lambert Leaf Tong Yang Ezaki Glico

Source: DANDY, November 2001



## 5.2 Cadbury Schweppes Plc. ([www.cadburyschweppes.com](http://www.cadburyschweppes.com))

Cadbury has existed in England since the 1920s and is today a global group with approx. 37,500 employees. In 1999 Cadbury's turnover was approximately 4.234 million pounds. The confectionery division accounts for 53 % of the turnover. From a global point of view, Cadbury is the third largest "soft drink" company, fourth largest confectionery company, and the world's largest chocolate confectionery company.

In the last 3 to 5 years, Cadbury has focused on building up its global position within the confectionery area. As part of this strategy, Cadbury bought Kraft Jacob Suchard confectionery division in January 2001 and purchased DANDY's private brands and companies in Russia in the end of June 2002. These are Cadbury's first two serious penetrations into the chewing gum market.

Cadbury Schweppes Plc. has a lot of confectionery products in the portfolio. The most well-known brands are: Dairy Milk, TimeOut, Bassets softmints, Bassets Liquorice Allsort, Bassets Jelly Babies, Piasten, Bouquet d'Or, and many more. Within the chewing gum brands, Cadbury possesses Hollywood, Tonigum, Malabar, Leaf, Poli, Xylifresh, and—since June 2002—Stimorol, V6, and Dirol.

Table 5.3 depicts Cadbury's different production units

**Table 5.3 Cadbury Production Plant Portfolio**

Company	Since	Country	Brands	Remarks
Cadbury	1922	Australia	Dairy Milk, Fruit and Nut, Snack, Cadbury Favourites, Milk Tray, Red Tulip	There are three plants in Australia, including one in Tasmania
RHudson and Company	1930	New Zealand	Cadbury Dairy Milk, Cadbury Roses, Cadbury Moro, Cadbury Crunchie, Pascall Party Pack, Pascall Pebbles, Pascall Minties	The New Zealand operations (two plants, 1,000 employees) merged with Cadbury Australia in 1986.
Cadbury	1932	Ireland	Dairy Milk, Snack, Twirl, Moro, Chomp, Eclairs, TimeOut, Wholenut, Fruit And Nut, Golden Crisp, Tiffin—over 200 products manufactured for export in Ireland	The Rathmore plant produces chocolate crumb. Two more plants in Ireland. 1,600 employees. £20 m. spent on the TimeOut product/process.

Company	Since	Country	Brands	Remarks
Monkhill		England	Private brands	Cadbury is the largest private label confectioner in the UK.
Cadbury India	1964 1966 1989	India	5star, Dairy Milk, Fruit & Nut, Creamy Bar, Crackle, Roast Almond, Perk, Relish, Eclairs, Tiffins, Gems, Multies, Pic Nic,	Also into malted food drinks. Employs over 2000 people. Also production of intermediary products.
Cadbury	1965 (40%)	Nigeria		
MacRobertsons	1967	Australia	Easter Eggs, Yowie, Cherry Ripe, Crunchie, Picnic, Twirl, Freddo Frog	Administrative HQ Asia-Pacific is situated in Melbourne
Red Tulip	1987	Australia		
Chocolat Poulain	1988	France	Premium boxed chocolates	Produces private labels
Hershey Foods	1988- license	USA	York, Peter Paul, Cadbury Crème Eggs	License only.
Bassett + Trebor	1989	UK	Bassett's softmints, Basset's Liquorice Allsorts, Basset's Jelly Babies and more	
Chocolates Hueso	1989	Spain		
Piasten	1992 (70%)	Germany	Cherry Kiss, Cracken, Big Ben, Eclairs, Curly Wurly, Cadbury's 1848, and many more	Another 15% acquired in 1997
Stani	1993 (80%)	Argentina	<b>Beldent, Bazooka</b> , Marble	Remaining 20% acquired in 1997
Cadbury	1993	Poland		
Bouquet d'Or	1994	France	Premium boxed chocolates	Produces private labels
Dulciora	1994	Spain		
Cadbury	1993	China		
Cadbury	1995	Russia		
Allan Candy	1995	Canada	Caramilk, Crispy Crunch, Crunchie, Wunderbar, Cadbury's full line of Easter Chocolates	Cad Canada employs over 1,000

Company	Since	Country	Brands	Remarks
Neilson Cadbury	1996	Canada	Jersey Milk, Burnt Almond, Pep, Cerises, Caramel Chunks, Golden Buds, Coconut Fingers, Coolmints, Slowpokes, Dairy Milk, Fruit & Nut, Hazlenut, Crunchie, Caramilk, etc., and some 20 seasonal products	
Craven Keiller	1996	UK		
Jaret (distribution)	1997	USA		
Bim Bim	1997	Egypt		
La Pie Qui Chante	1997	France		
Wedel	1999	Poland		
Kraft Jacobs Suchard	2000	France	<b>Hollywood, Tonigum</b> , Malabar, Kiss Cool, La Vosgienne, Krema, Suchard, Milka, Toblerone, Côte d'Or	
Wuxi-Leaf Confectionery Ltd.	2000	China	<b>Leaf, Poli, Xylifresh</b>	
Bromor Foods (Pty) Ltd	55.3%	South Africa		
Gersy Food Industries		Egypt		
Bortz Chocolate		USA		
Crystal Candy Ltd	49 %	Zimbabwe		

**Chewing gum in bold**

Source: Material prepared by DANDY, December 2000

### **5.3 Agrolimen and the JOYCO Group ([www.joycogroup.com](http://www.joycogroup.com))**

Agrolimen is owned by the Catalan family Carulla, led by Lluís Carulla. Agrolimen is the parent company of JOYCO (confectionery company), Pans & Company-Bocotta (fastfood chain), Arbora Holding (diapers, sanitary towels), and Galena Blanca (ready-made food, fruit drinks, soups, etc.). A rough estimate of the groups' total turnover amounted to close to 750 million Euros in 1999.

#### **5.3.1 JOYCO Group, S.A.**

JOYCO is a dynamic group consisting of chewing gum and candy factories. JOYCO was founded in 1977 and became the leading confectioner in Spain in just ten years. In the course of the 1980s and 1990s, JOYCO grew rapidly and expanded into more than 70 countries worldwide.

The JOYCO Group has its head office in Barcelona, Spain, where an advanced R&D center is situated that develops products and technologies for all companies in the group. Sales were assessed at more than 300 million Euros in 2000, an increase of 19% over 1999, during which sales had already increased by 21 % over the previous year. The JOYCO Group employs more than 3,000 people in nine factories and sales offices worldwide.

Today, the JOYCO Group consists of several companies, partnerships, and joint ventures. JOYCO has factories in Spain, China, Mexico, Poland, the USA, Italy, France, the Philippines, and Russia, and is represented in many more countries through trade offices and export.

The JOYCO Group owns Cafosa Gum S.A., the world's leading producer of chewing gum base. Cafosa Gum S.A. produces more than 400 chewing gum bases for all kinds of chewing gum.

JOYCO is market leader in candy for children. In markets like Spain, Poland, India, Mexico, and China, the market share is more than 50 %. JOYCO states that the consumer is at the center of their vision and that the company is very eager to give the consumer a flavor experience.

### 5.3.2 Historical Background

In 1977, the Spanish confectionery company started under the name “General de Confiteria,” a small company with big plans to establish itself within the chewing gum trade. The company was known for its enterprising attitude and love of fun.

In 1979, the company launched “Bang Bang,” Spain’s first bubble gum and the first hit of the company. In 1983, the company introduces a new brand “Trex,” which soon becomes the most popular chewing gum in Spain. A new chewing gum hit “Boomer” follows in 1985. At this point in time, the company was the leading candy producer in Spain and it was time to think globally. In 1988, the company became the first confectionist to try to enter the Chinese market.

JOYCO goes into Poland in 1992 and builds a factory in Poland the following year. In 1993, the company enters into a joint venture in India, developing an extensive national network, and in 1995 builds a factory in India. At the same time, “Boomer” became the leading brand in India. In 1996, the company exported to more than 70 national markets. In 2000, the company entered into a new joint venture in China aiming at becoming confectionery market leader. And in 2001, JOYCO signs a new joint venture contract in a possible new market in the Philippines.

### 5.3.3 Products

“Boomer” is the flagship of the JOYCO group among chewing gum brands.



Boomer is available in three sizes: single package, multi package and roll. The brand is synonym with its super hero Boomerman. Of other brands can be mentioned Bang-Bang, Trex, Ta-Ta, Dunkin and Licor del Polo, a dental chewing gum

The most popular chocolate brands are Duvalin, Lunctas, and Dunketas. The best-known candy brands are Pim Pom (the company’s lollipop brand), After Dinner, Chimos, and Chunkys.

The chewing gum department accounts for 58% of JOYCO’s total sales, candy for 27 %, followed by chocolate with 15%.

Table 5.4 summarizes JOYCO's most recent activities.

**Table 5.4 Recent JOYCO activities:**

2001:	A 60/40% joint venture, JOYCO Trolli China, is established with the German Mederer Group with the aim to produce and sell wine gum in China.
2001:	JOYCO URC Philippines, a 50/50% joint venture with Universal Robinson Corporation is created. The total investment is expected to amount to 9.6 millions Euros. Chewing gum and lollipops in South East Asia.
2001:	A new factory in Mexico is build.
2000:	A new chewing gum and lollipop factory is build in Toluco, Mexico (Ptas1.9b)
2000:	100 % ownership of Chinese partner is gained.
2000:	The construction of the Guangdong factory is completed (ISO 9002) (Ptas2.2b)
2000:	The advanced 12,000 m2 large factory is completed in Himachal Pradesh, India (\$7m)
2000:	The distribution work with DANDY is started (Rusland).
2000:	A new department, JOYCO Toys2000 is opened: the world wide lollipop production is extended to two billion units in four production units.
2000:	An agreement with Hasbro, Zeta Espacial, BIP Holland and Cadbury in Europe is made regarding distribution of their products through JOYCO's European partners and joint ventures.

JOYCO and DANDY are competitors in Spain. JOYCO sells a product called TREX, and DANDY sells Stimorol and V6. In Spain, DANDY's products are distributed by Chup-o-chup and not by JOYCO. Because JOYCO is more focused on production and is not particularly sales driven, their distribution is not at a level that would be desirable to DANDY. "They are not very good within distribution. Their competences are in price and production. This is probably because they have not yet learned how to do it. They have chosen to specialize in quality and production. They have not yet been able to develop the distribution channel." (Andersen, a, 2002).

## Chapter 6 The distribution relationship between DANDY and JOYCO

This chapter will describe, discuss, and analyse the distribution relationship.

### 6.1 Identification of development steps for the distribution relationship

The identification of the development steps of the relationship starts with the assumptions of three development steps and one termination step as outlined in the *a priori* framework in Chapter One.

Based on the preliminary interview with Jens Andersen from DANDY, it was possible to divide the distribution relationship in three development steps. In June 2001, José Rosello was confronted with this division of the relationship, and he was straight away able to identify with the relationship going through three development steps. The fourth development step was not interesting, as the relationship at that time was ongoing. Please refer to Table 6.1.

Table 6.1 Identification of three development steps for the distribution relationship

	Development step 1	Development step 2	Development step 3
Identification of specific characteristics for the development steps in the distribution relationship.	<p>October 1999, José Rosello, JOYCO, contacts Jens Andersen, DANDY, for the first time.</p> <p>Nov. 1999 Idea about the relationship is presented to the managements of DANDY and JOYCO. Strategic negotiations commence.</p> <p>Only a few people are involved in the relationship.</p> <p>April/May 2000, contract framework is ready.</p>	<p>May/June 2000, the departmental managers are involved in the relationship from a tactical and operational point of view.</p> <p>August 2000, the contract is signed.</p>	<p>The relationship runs more stably.</p> <p>Spring 2001, Jens Andersen and José Rosello start discussing possibilities for other distribution relationships, e.g., in Denmark and Sweden.</p> <p>At this point in time, the responsibility for daily operations is placed with the department managers.</p>

Source: Author.

As can be seen from table 6.1, the business relationship is about 6 to 7 months in the first development step, and ten to 12 months in the second step. At the time of data collection, the relationship was in the last development step. It was not expected that the business relationship would terminate in the near future, which is why it was not possible at the time of writing to estimate the duration of the third step.

The author found it possible to identify three development steps. However, it was surprising that the contract was not prepared and signed in the first development step. The contract was not signed until the second step in the distribution relationship. The overall framework was determined in the first development step. According to Jens Andersen, DANDY, the reason for signing the contract in the second step must be found in the fact that the involvement of specialists presented the management with questions for which they were unprepared. This specialized knowledge can directly influence the realization of the relationship and may therefore be very important for the final contract preparation.

## 6.2 The critical factors for the distribution relationship

The two respondents were asked to choose the factors that they regarded to be critical for the development of the distribution relationship. The selections were made by General Director Jens Andersen from DANDY and by Strategic Manager José Rosello from JOYCO. Both respondents emphasized that the factors are very context dependent and other factors would be in play if JOYCO were to distribute DANDY's products!

The chosen criteria for the distribution relationship are summarized in table 6.2.

**Table 6.2. Chosen critical factors in a prioritized order**

	DANDY	JOYCO
<b>Critical factors</b>	<ol style="list-style-type: none"> <li>1. The strategic importance of the relationship</li> <li>2. Commitment</li> <li>3. Trust</li> <li>4. Social Interaction and personal relation</li> <li>5. Communication</li> <li>6. Decision-making process</li> <li>7. Organisational culture</li> <li>8. Risk willingness</li> <li>9. Specialist competence and experience</li> <li>10. Flexibility – individual and organisational</li> </ol>	<ol style="list-style-type: none"> <li>1. The strategic importance of the relationship</li> <li>2. Expectations</li> <li>3. Commitment and trust</li> <li>4. Power and dependence</li> <li>5. Openness</li> <li>6. Personal competence</li> <li>7. Organisational culture</li> <li>8. Management style</li> <li>9. Conflict solution</li> <li>10. Organisational flexibility</li> </ol>

Source: Author, based on interviews with General Director Jens Andersen, DANDY, and Strategic Manager, José Rosello, JOYCO. The factors in red were chosen by both respondents.



Table 6.2 illustrates that four factors were chosen by both respondents as critical factors for the distribution relationship: the strategical strength of the relationship, commitment, organisational culture, and the flexibility of the organisation. A more detailed discussion and interpretation of the motives behind the respondents' selections of specific critical factors will follow in this chapter.

The division in the three development steps will form the structure in the following case description and discussion.

### **6.3 The first development step**

In 1999, DANDY decided that the company wanted to become leader in the market for “fast-moving consumer goods” in Russia and Eastern Europe. DANDY discussed with Dirol Rusland the possibility of positioning more products in the product range, which could help reduce the costs of the Russian sales organisation. Based on this, it was decided to enter into distribution relationships (with DANDY as distributor) with other players in the market.

Internally, DANDY discussed the profile of a potential business relationship partner with products within DANDY's area of focus, which is the checkout area or hotzone. In June 1999, the first distribution relationship was entered into with the multinational confectionery producer, CMS Leaf, aiming at distributing the products Mynthon and Chewits on the Russian market.

The entire JOYCO relationship started by coincidence. JOYCO had been hit hard by the Russian crisis: they had lost their distributors and a large part of their sales. Their only option to stay on the Russian market was to find a new distributor for, among other things, their bubble gum product Boomer. In October 1999, JOYCO's strategical manager José Rosello visited Jens Andersen, DANDY's then factory director in Russia, without invitation, with the aim of making DANDY distributor of JOYCO's products. At that time, DANDY was in the middle of negotiations with two other companies regarding distribution of their products.

After the first distribution business relationship was entered into with CMS Leaf, DANDY was more convinced that they needed very specific indications as to what a “brand” was supposed to gain in the market in order for DANDY to distribute the product. The demand from DANDY was that it needed to be a “\$15 million brand,” meaning that the product alone would have sales of \$15 million (USD) a year.

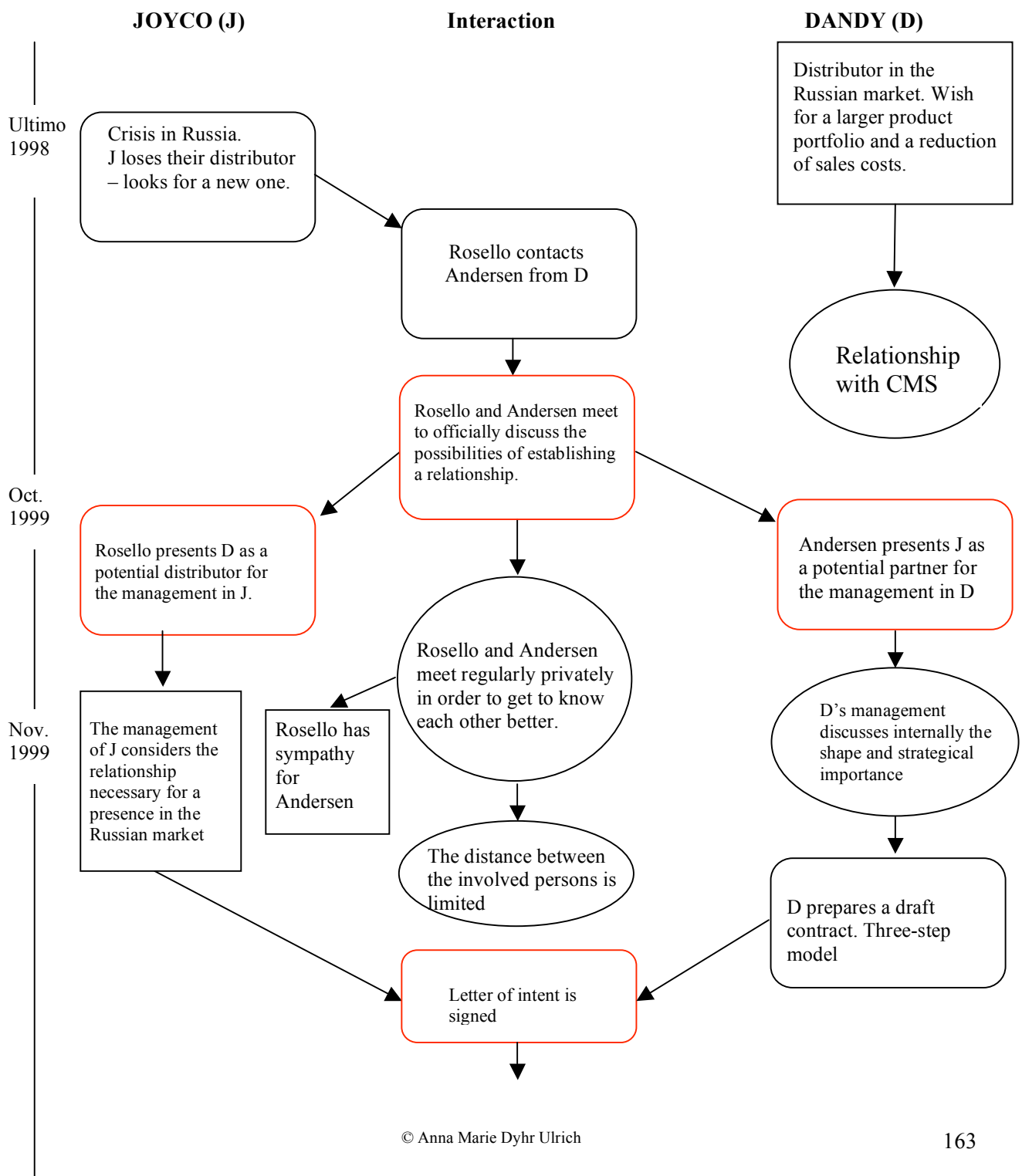
When Rosello had presented JOYCO's products and wishes to the distributor, Andersen believed that DANDY could become JOYCO's distributor in Russia. According to Andersen, JOYCO's bubblegum "Boomer" fulfilled the "\$15 million brand" demand. After the first meeting with Rosello, Andersen stopped the negotiations that were underway with the other two companies at that point in time because he could clearly see some advantages in getting a bubblegum product in DANDY's existing product portfolio. The agreement with Rosello stipulated that he would do the same until DANDY returned with either a positive or a negative answer. Subsequently Andersen presented the idea to distribute for JOYCO in the Russian market to DANDY chairman and owner Holger Bagger-Sørensen and to managing director Lars Funder. They were basically positive towards this business relationship; however with the reservation that a long-term perspective needed to be incorporated into the contract in order to mitigate the otherwise too large risk for DANDY in taking JOYCO's partly competitive product into their product portfolio. Before the negotiations could proceed, secrecy had to be undersigned by both parties. As JOYCO and DANDY are competitors on certain markets, it was necessary for both companies to ensure that all information would be dealt with confidentially.

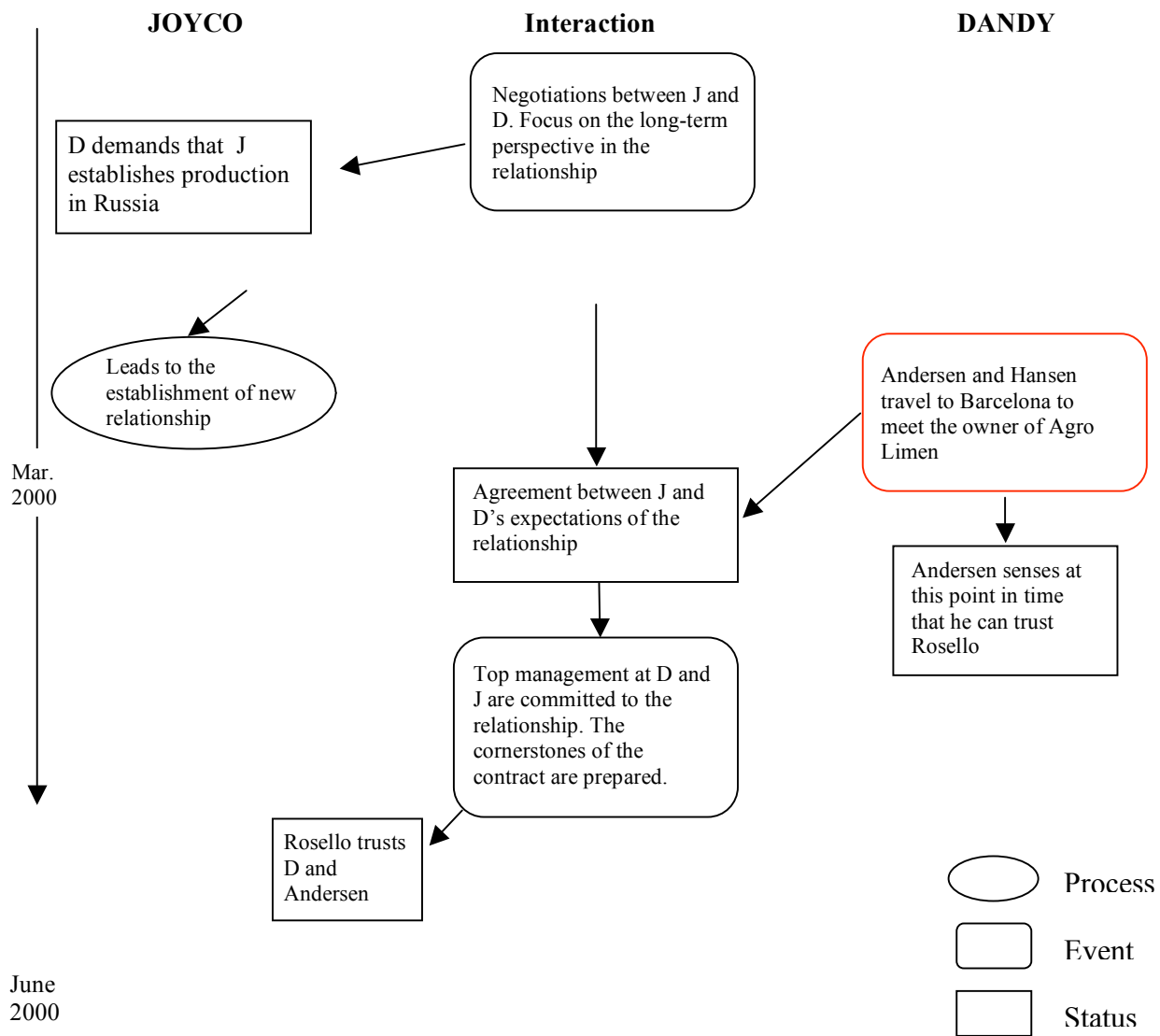
Jens Andersen and DANDY proceed very systematically when they weigh if they want to enter into a business relationship. Jens Andersen believes that no company enters into a business relationship if it in the long run is not anticipated to yield some sort of benefit for both parties—either possible economic benefit or increased knowledge about a certain area. DANDY is in this way convinced that the relationship must have strategical importance for the company. Therefore, DANDY only wishes to enter into a relationship if it contains a long-term prospects. Whether the relationship has strategical importance is dependent upon the intended relationship partner. Consequently, it is important that the business relationship partner and DANDY supplement each other. The most important prerequisite is to be able to estimate if the right partner is under consideration. DANDY must also be conscious about what they are looking for in a relationship and what value the relationship must have to DANDY. (Andersen, a, 2002).

So, in order to perform this assessment, DANDY must define their own strategy, vision, and mission, and know their weak and strong sides. In this way, it is possible for DANDY to estimate how a potential business relationship partner's strategy, vision, and mission coincide with DANDY's. Here it is very important that they are complementary and not competitive. As JOYCO has strategical focus on children's chewing gum products and not adult chewing gum products like DANDY, the two companies supplement each other well. The next step before a possible contract is to consider if the relationship partner's attitudes, targets, and work methods coincides with DANDY's and to assess if the relationship partner can help DANDY provide the growth desired on a specific market. At the

point in time when JOYCO contacted DANDY, DANDY was faced with the desire to reduce costs in the sales organisation and to become stronger in trade, which could be achieved by taking other products into their distribution channel. As Jens Andersen put it: “It is not only money-wise but also power-wise that the companies can support each other. After entering into the relationship, we are stronger in trade with our display.” (Andersen, a, 2002).

Exhibit 6.1. Development of the distribution relationship - first step





Source: Author

**Red** : Event that has a driving influence on the development of the relationship

**Blue**: Event that has a limiting effect on the development of the relationship

Dandy's relationship draft to JOYCO was prepared as a three-step model:

Step 1: Distribution in Russia and other CIS markets

Step 2: Entry relationship. Production in Russia

Step 3: Relationship on other markets primarily in Western Europe.

A longer-term perspective was in this way worked into the contract. DANDY is a very strong distributor in the Russian market and it takes a great effort from the sales force to sell new products. Therefore, DANDY wanted JOYCO to commit more of its resources to the market, which would

make it impossible for JOYCO to withdraw its products from the market quickly. The requirement that JOYCO position its production in Russia could act as a deterrent to such a quick withdrawal.

JOYCO was open towards DANDY's draft, which resulted in Jens Andersen and his manager at that time, Nikolai Hansen, flying to Barcelona in March 2000 to meet the owner of JOYCO's parent company (Agrolimen) as well as José Rosello and his manager, Javier Mir. JOYCO was positive and accepted the draft after brief negotiations. As Andersen put it: "It seemed as though we needed to be approved and then they were very fast, which I do not think they normally are. So it was very positive." (Andersen, Feb. 2002) The framework of the contract was built up around this three-step model.

Part of the contract negotiations was to determine an index for how much bubble gum could be sold on the Russian market. A minimum sales threshold that each partner found satisfactory needed to be incorporated into the contract. DANDY asked JOYCO to state a number, as they were the ones with knowledge of the bubble gum market. According to Jens Andersen, this is an example of how DANDY senses if you can trust the other company, depending on the correctness of the sales index. "They can easily say that we would be able to sell index 100 and when we only reach index 50—we are dissatisfied and do not have trust in them" (Andersen, a, 2002 ).

Jens Andersen quickly sensed that he could trust José Rosello, that he was smart, tactical, and intelligent. In this way, he quickly sensed that the trust between him and José was established: "He kept his word all the time and slowly I began to trust him and you start counting on each other. He kept his deals all the time—and that is actually not common for a person from Southern Europe." (Andersen, b, 2002). Rosello likewise felt that Jens Andersen was highly trustworthy and that he therefore could trust DANDY as a relationship partner.

This development step was characterized primarily by a dialogue between Jens Andersen and José Rosello. Each has a dialogue with the management of their company respectively. In the following, the critical factors for the first development step will be discussed and analysed.

### **6.3.1 The business relationship's strategical importance and expectations – DANDY and JOYCO**

Because Jens Andersen of DANDY correlates the strategical importance of a business relationship with the degree of commitment both companies bring to the relationship, he considered the factor

“strategical importance” to the most important critical factor among those he chose. Given that one of the prerequisites for determining the strategical importance of a relationship is that the involved companies are convinced of what they seek in and expect from the relationship, Anderson believes that the factor “expectations” is contained in the factor “the strategical importance of the relationship.”

The strategical importance of the business relationship is first and foremost expressed through the top management’s commitment and obligations to the relationship. Top management is active in this first development step of the business relationship, and on the top management level the factor is of utmost importance, according to Andersen. The fact that the relationship is set in motion by the top management will influence how the integration of the relationship in the other organisational levels in the company will proceed. The higher the strategical importance of the business relationship for the company, the easier the establishment of commitment in the company for the relationship will be (Andersen, a, 2002). DANDY is a very strong distributor and according to Andersen, distribution is JOYCO’s weak side, so in this way to two companies supplement each other well.

José Rosello, JOYCO, also considered “the strategical importance of the relationship” to be critical factor number one. Like Andersen, Rosello argued that if the relationship was not highly important for both companies, it would be difficult to determine and discuss its long-term prospects.”He is also convinced that these factors are of prevailing importance for the first development step. In this step, the top management discussed the overall framework of the relationship and showed their commitment and obligation towards it ,which in turn helped to create openness, trust, and commitment.

José Rosello regarded “expectations” as the second most important factor, whereas Jens Andersen believed that it was contained in the factor “the strategical importance of the relationship.” Rosello believes that it is extremely important that the two companies have the same expectations as to the extent and horizon of the relationship. He feels that DANDY’s and JOYCO’s expectations of their partners were very complementary. JOYCO was seeking a strong distribution partner and DANDY wanted a partner that could supplement their product portfolio. He therefore considered the strategical importance of the relationship as decisive in the second development step. José Rosello believes some of the expectations harmonized on a conceptual level in the beginning of the relationship, but that it was in this second development step that the companies lived up to these expectations in order to convince the partner of their intentions. Therefore, it was not possible until this moment to evaluate if both companies felt that their expectations were fulfilled. (Rosello, 2002)

### **6.3.2 Power and dependence—JOYCO**

Rosello selected “power and dependence” as his fourth critical factor. He believes that a somewhat symmetrical balance of power is decisive for the success of the relationship. Rosello estimated that the balance of power in this relationship was approximately equally distributed. DANDY is a very strong distributor on the Russian market but JOYCO possesses an extensive product portfolio. Rosello also believes that JOYCO and DANDY by virtue of their relatively similar size have an equal balance of power. He believed that the critical factor “power and dependence” was important for the first two development steps. In the first step, the balance of power was primarily expressed through the contract negotiations, while in the following step the factor was evident at the point where the agreed steps were to be implemented. José Rosello did not at any time feel that either of the companies dominated the other over a long period of time (Rosello, 2002).

### **6.3.3 Personal competence—JOYCO**

José Rosello chose “personal competence” as his sixth most important factor. According to Rosello, sympathy for and understanding of the attitudes and behavior of the other party definitely had a positive influence in resolving conflict and other discrepancies in the course of the relationship. As the surrounding world is constantly changing, some aspects may influence one party more directly than the other, perhaps necessitating that previously agreed conditions be discussed again and possibly revised. Rosello holds that it is important that both parties are involved in such a process and show understanding for the situation of the partner so that a joint solution can be reached considering the changed surrounding world conditions. According to Rosello, this is by far the easiest if the chemistry “fits” and there is empathy between the interacting parties, as was the case for the present relationship.

Rosello considered “personal competence” to be most important during the first step, because at this stage the perceived distance between parties was large and the involved persons used many personal resources to understand one another’s attitudes and behavior. In the course of the relationship, sympathy and understanding were quickly established as the chemistry between the persons matched. This led to the fact that the perceived distance between the persons was quickly diminished—according to Rosello, the involved persons perceived each other as friends. To José Rosello, it was important to establish a personal tie within the partner company, as he believed that this would create the right relationship of trust (Rosello, 2002).

### **6.3.4 Communication—DANDY**

The factor “communication” was ranked fifth by Jens Andersen, DANDY. He estimated “communication” to have more importance in Step 1 as compared to the two subsequent steps because, according to Andersen, the need to negotiate the most important issues demanded effective and direct communication.

Andersen indicated that many resources were used in the first two development steps to build up a structure for how meetings were to be prepared and carried out. DANDY wanted the issues to be discussed in a meeting to be communicated before the meeting so that the involved persons could prepare for the demands and expectations beforehand. Examples of this could be demands and expectations to product plans, launches or investments. According to Andersen, this structure was not used by JOYCO, and it took a long time to build it up: “It still does not work optimally when they write something; it is still a bit messy. In order for communication to run ideally, it is a prerequisite that the person communicating has understood the message.” (Andersen, b, 2002) To be able to face possible problems that could be caused by lack of communication, DANDY and JOYCO decided to host a management meeting every three months to discuss different problems not solved on a daily basis.

Andersen saw a close connection between the ways in which conflicts are handled, the social relations, openness, and the communication. He believed that a close social relationship with the business relationship partner eased and opened communication, which made it easier to solve possible conflicts arising in the process.

### **6.3.5 Openness—JOYCO**

The factor “openness” was ranked fifth by José Rosello, JOYCO. It is decisive for the success of the relationship that both parties understand that nothing be kept secret. Openness is a decisive factor in order to build trust between the partners. The other partner will often sense if information and relevant knowledge is withheld, and he will feel that he cannot trust the partner one hundred percent. José Rosello is also convinced that openness is a necessity to overcome potential conflicts in the relationship.

Because it was particularly important to show great openness in the first development step in order to build up trust, Rosello considered this factor to be the most critical for this step. If there is no openness to begin with, more time will pass before the partners trust each other. In order to speed up this



process, both companies must be very open minded from the outset. If openness is established, it will be subsequently unnecessary to demonstrate it, as it will be taken for granted.

### **6.3.6 Decision-making process—DANDY**

Jens Andersen assessed the factor “decision-making process” as most important in the first development step, as it was in this step that the decisive and directive framework for the relationship was established. In the second development step, the decisions of a less fundamental and more operational nature were made, though they were still of a more important character than in the stable development step. Therefore, Andersen considered the importance of the decision-making process to be less important in the second step and even less in the third step.

Early in the process Jens Andersen expressed that he could sense that there was a difference in the decision-making processes and structures of the two companies. To begin with he sense that the involved employees from DANDY possessed a larger decision-making competence as compared to the employees from JOYCO. In family-owned companies, however, it is easier to make fast decisions and discuss urgent problems, because the employees are in direct contact with top management, according to Jens Andersen. Family-owned companies are therefore potentially more flexible and dynamic, as was the case with JOYCO, according to Jens Andersen.

### **6.3.7 Specialist competence and experience—DANDY**

The critical factor “specialist competence and experience” was rated ninth overall by Jens Andersen. He estimated that the experience of the individual was most critical for the first and second development steps of the relationship.

It is important for the start of the relationship that the persons representing the two companies show professionalism, commitment, and specialist competence in relation to handling the process surrounding the relationship. Jens Andersen and José Rosello worked as sort of key persons and it was primarily their actions that were reflected in the first development step. Andersen underlined that it is of outmost importance that the first impression of the person representing the partner company is positive with respect to both the technical and the personal, as it is very important to get on with the process.

Andersen estimated that the competence of the individual was still important in the second development step, where the key persons had both strategic and more operational roles. The overall strategic framework for the relationship was negotiated by the top managements of the respective companies. It was in the development step that José Rosello and Jens Andersen had the opportunity to show the involved companies that they were capable of implementing and fulfilling the agreement. The primary task in the second development step was in this way to involve further persons in the practical fulfillment of the relationship. It is vital here that Andersen and Rosello were able to involve and motivate the right persons for this task. Once Andersen had to ascertain and tell Rosello that one of the individuals he had picked for the task was unprofessional and that DANDY wanted him off the task.

As the business relationship moved into the third development step, Jens Andersen did not think that individual competences were important any longer. As the distribution relationship moved into this step, Rosello and Andersen withdrew partly from the relationship and daily operations were taken over by other persons. However, José Rosello and Jens Andersen still had overall responsibility for the relationship. When problems arose which could not be solved locally, Andersen and Rosello were again drawn into the relationship.

It was important that the key person responsible for the relationship had a strategic position in the home company so that he was in close contact with the top management and could therefore present the content and possibilities in the relationship to top management. Furthermore, it was very important that the key persons were aware of what their companies were looking for and wanted from the relationship. Jens Andersen estimated that José Rosello was very competent both technically and personally, experienced, and professional. His job title was “strategic manager” and he was the person with the overall responsibility for the DANDY relationship as well as a number of other projects within JOYCO Group. As Jens Andersen expresses it: “If it had not been for him, I do not think the relationship would have developed in the right direction.” (Andersen, b, 2002) Six years before DANDY had been in contact with JOYCO regarding a relationship in Scandinavia but it failed due to the lack of harmony in the chemistry and cooperation between the involved persons. “It is not enough that the products match. The persons need to match as well, and that was not the case then.” (Andersen, b, 2002)

### 6.3.8 Individual and organisational flexibility—DANDY

The factor “flexibility” was evaluated in regards to both the company and the individual; however Jens Andersen believed that these two factors were so closely related that he wanted to consider them as one. He ranked the factors “flexibility-individual” and “flexibility-organisational” as tenth and last among the factors he chose. Andersen determined that the flexibility of the company was most critical in the first two development steps, while the flexibility of the individual was decisive for the first development step. He estimated the first two steps as the most important for demonstration of flexibility, as those two steps demanded the greatest adaptations by the two companies to one other. The flexibility shown by DANDY was dependent upon the attitude of the management to the relationship. If the DANDY management could see a long-term advantage to the relationship, they would be more flexible and possibly also risk willing towards JOYCO, according to Jens Andersen.

Individual flexibility was extremely important in the beginning of the relationship. “If you face a person who constantly says no, then nothing happens and we end up in a deadlock.” (Andersen, c, 2002) According to Jens Andersen, it was necessary that both sides were flexible or else nothing would arise from the negotiations. It was impossible for either DANDY or JOYCO to implement things 100% as desired, so compromises had to be made. “You have to be flexible and accept that you might loose a little in the short run, show risk willingness in other words, but that is because you can see the long term perspective of the relationship.” (Andersen, c, 2002) Flexibility shown by the involved person as well as the company he represents positively influences the buildup of commitment and openness to the relationship, according to Jens Andersen. The flexibility of the person will partly be reflected in how flexible the home company is.

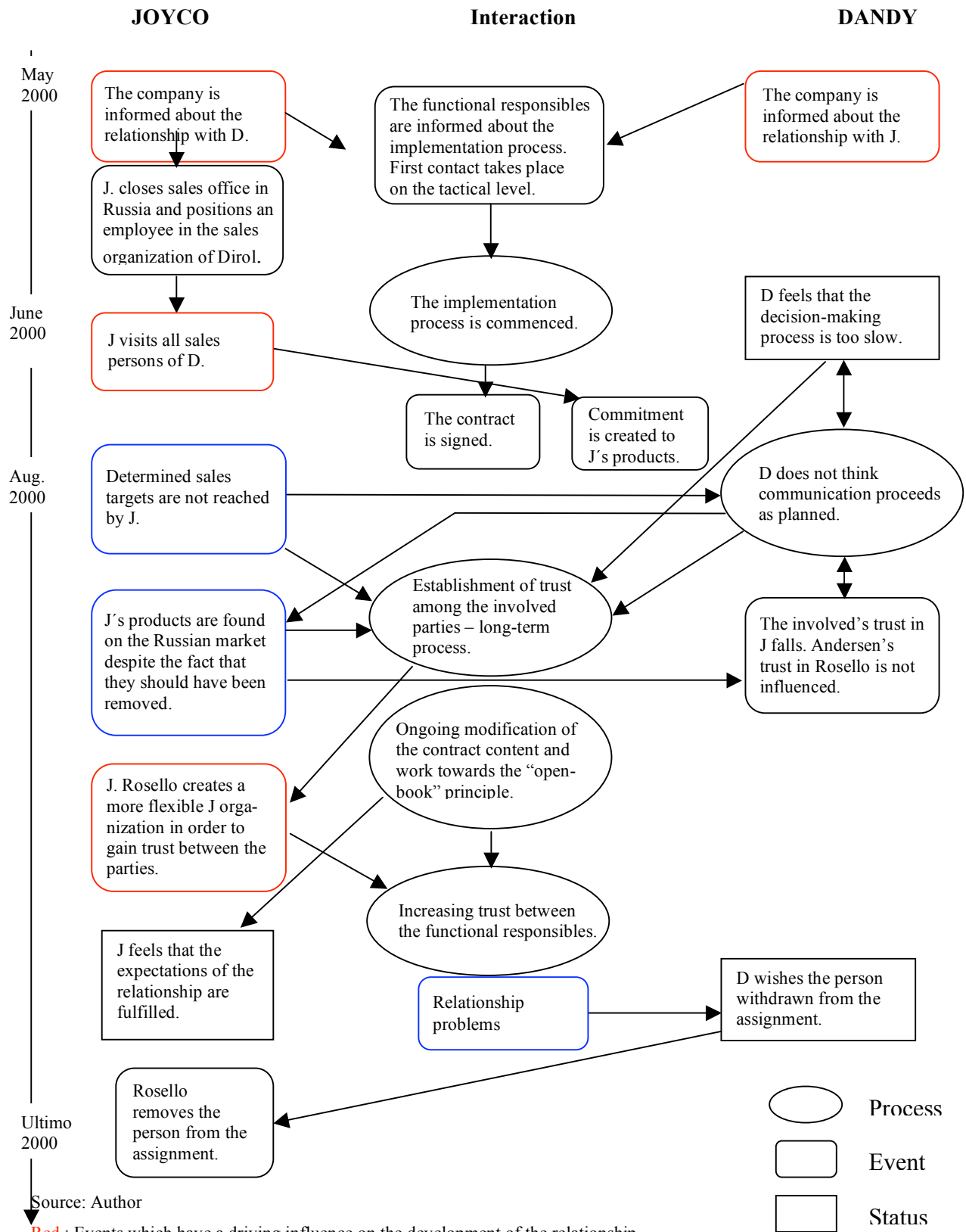
## 6.4 The second development step

JOYCO was very positive and attentive and quickly sent some of their people to Russia to start analysing the sales division. Shortly after this, they closed their own office in Russia and instead positioned a person in the sales division of Dirol (DANDY). In June 2000 JOYCO started presenting their products to the sales division of DANDY. Demands were made that JOYCO visit all DANDY’s salespersons and that they host different events for the sales force in order to make the sales force feel positively towards their products.

In April/May 2000 the framework of the contract was established. The final preparation of the contract took place at the same time as the content in the contract was implemented locally. In August 2000 the final part of the distribution part was signed. A three-year sketch that contained the distribution of JOYCO's products and establishment of production in Russia was planned for the completion of the total project. In the beginning much time was used to prepare plans for which products to launch, when to discuss investments, when to host evaluation meetings, and how often. As Jens Andersen describes this process: "The first time we met we sort of tried to go on, but after a little while we learned and it just went smoothly; this was real relationship. After the first time, there was a plan for the process." (Andersen, a, 2002)

It was difficult to build trust as quickly in implementing step as in the starting step because more persons were involved in the relationship and some incidents occurred which did not influence trust positively. For example, on one occasion JOYCO belatedly notified DANDY that they would be unable to fulfill their part of some jointly planned sales targets for JOYCO's products on the Russian market. These incidents made the buildup of trust more troublesome in the implementing step; however, Jens Andersen added, "it did not influence the trust I had in José Rosello and the JOYCO Group." Not everyone in the JOYCO Group had been as flexible and fast in relation to the tasks that needed to be solved upon implementing the relationship. However, Rosello was aware of the importance of showing flexibility and active behavior for the degree of trust, so, Andersen said, Rosello had to push a lot internally in the JOYCO Group.

Andersen indicated that today a mutual trust between the two companies has been established and that this trust must be sustained or else the relationship will end.

**Exhibit 6.2 Development of the distribution relationship - second step**

In the JOYCO relationship, Jens Andersen experienced communication with the wrong people—specifically, people who worked as messengers and who had not quite understood the message to be carried: “It could be that the person was to explain something about a product which he had never seen, for example. When that happens you lose respect and start doubting if this is good enough and it affects your trust in the company and a conflict arises,” Andersen said.

An example of how an internal communication problem in the JOYCO Group affected DANDY’s trust in JOYCO is found in a situation from the implementation phase of the distribution relationship. The distribution contract stipulated that no JOYCO products were allowed in the market upon the commencement of the DANDY distribution. But after the start-up, DANDY found out that there had been a re-import of JOYCO’s products from other countries to Russia that in places made DANDY uncompetitive in price. This situation occurred because JOYCO did not completely control their distribution flow and had not communicated the message that their products were not to be present in the Russian market once DANDY started distributing. The result was that JOYCO had to buy their own products on the Russian market in order for them to keep the agreement and maintain DANDY’s trust.

The fact that the decision-making process was longer at JOYCO became obvious in the second development step in the relationship. José Rosello's manager, Javier Mir, had at that point in time only been manager for a year, which meant that he did not know the trade very well and therefore had to analyse the problems more thoroughly before making any decisions. At the same time, Javier Mir was formulating new strategies for JOYCO, which meant that his focus was not on the relationship all the time. At times it was therefore difficult for Rosello to reach Mir, and consequently the decision-making process was prolonged. Jens Andersen said: “However, there is typically a balance to be found between two companies, but sometimes it is difficult. We have had to demand that decisions were taken in order to keep up with the time schedule.” (Andersen, b, 2002)

In the following, the critical factors for the second development step will be discussed and analysed.

#### **6.4.1 Social interaction and personal relation—DANDY**

Jens Andersen was convinced of the importance of social interaction for the development of the business relationship. He estimated this factor to have fourth priority among the critical factors he chose.

He believed that social interaction and the overall importance of personal relationships to be most valuable in the second development step. He argued that in the first step, social interaction and personal relationships were less important as compared to in the second step, as the primary objective of the first step was to determine a formal framework for the relationship. A further reason for Jens Andersen's high estimation of the importance of this factor was that in the second step only a few people were involved in the process. According to Andersen, the most important feature of the second step was the need to establish a valuable social relationship between José Rosello and himself, as they were the key persons in the subsequent development step. Therefore, Rosello and Andersen spent a lot of time together both professionally and privately in order to get to know each other in the beginning: "It was something that I was very aware of, and so was José, and I think that has been the key to many successes in this relationship. This is one of the available factors to make things flow." (Andersen, a, 2002)

According to Andersen, a good social relationship is characterized by the fact that problems can be solved in a more informal way instead of going through a more formal communication process with the business partner.

In relation to JOYCO, the social interaction attained a level where if problems arose, Andersen contacted José Rosello, who subsequently solved the problem with his company—and vice versa. The two men worked as "internal players" for one another within their respective companies. They used their social relationship with each other as a basis when other people needed to be contacted in DANDY or JOYCO (Rosello, 2002 & Andersen, a, 2002).

Jens Andersen and José Rosello's good social relationship, which was expressed as an interest in each other both privately and professionally, has contributed to the desire to develop the business relationship further. When the relationship was stable, they started to discuss if they possibly should develop the relationship further and find additional synergies (Andersen, b, 2002). "As late as at the fair in Germany in January 2002, we discussed how we could utilize one another's competences in different ways." (Andersen, a, 2002)

#### **6.4.2 Organisational culture—DANDY and JOYCO**

Jens Andersen ranked "organisational culture" as the seventh critical factor for the distribution relationship. While his assessment was that "organisational culture" was predominately important in the second development step, he still found it important in the first step. In the first development step,

the managements of the two companies used considerable resources on analysing if the organisational cultures of the companies and the strategy statements matched. According to Jens Andersen, it was important that the strategies of the two companies complemented each other. JOYCO wanted to be market leader within children's bubble gum and DANDY within adult chewing gum. For this reason, the two companies made a good match. Andersen indicated that as the relationship moved into the second development step, the factor "organisational culture" was of great importance. It was in this step that the two companies had to cooperate on several levels and the attitudes and values that the companies describe in their strategies and visions became visible.

Jens Andersen characterized the organisational cultures of DANDY and JOYCO as very similar. One of the points he mentioned was that the two companies are family-owned. According to Jens Andersen, family-owned companies treat their employees differently compared to limited liability companies. "We protect each other more and have a greater understanding of each other. There is sort of a unwritten law between family-owned companies to help each other." (Andersen, b, 2002)

In addition, Andersen saw a match between the organisational cultures of JOYCO and DANDY. DANDY is more structured compared to JOYCO, whereas JOYCO is more creative. DANDY needed to be the structured partner because they distributed JOYCO's products. Had it been the other way round, it would not have been a good match.

José Rosello also ranked the factor "organisational culture" seventh in importance. Rosello agreed with Andersen that it was important for the success of the relationship that the organisational cultures of the two companies matched. Rosello also paid particular attention to the fact that both DANDY and JOYCO are family-owned companies and he felt that the organisational cultures of the two companies fit very well: "*We handle things and problems in a more personal way.*" (Rosello, 2002) José Rosello believed that the organisational culture was a factor that contributed to reaching the targets set for the relationship. Therefore, it was important that the two cultures corresponded and did not compete.

In the first development step, the partners did not know each other well, so it was difficult to assess the organisational culture of the partner. Rosello therefore held that "organisational culture" was very important in the second development step, as this was the point at which things were initiated in relation to the set targets.



Jens Andersen believes that JOYCO perceived DANDY as a very consistent and tough company with which to work and negotiate, which he contends resulted in respect and made further negotiations in the development process of the relationship more focused and effective.

The attitudes of the two companies as to how to penetrate a market is an example of the difference between JOYCO and DANDY. DANDY is very focused on their brands and uses many resources on building them up in the right way in a new market. Before the brand is established and has a certain volume in sales, DANDY will, e.g., not consider establishing production. On the other hand, JOYCO acts more spontaneously according to Jens Andersen. E.g., if there is a market with a billion consumers, there is a big likelihood that JOYCO will gain a 5% market share with their bubble gum and this is often enough reason for JOYCO to establish production in that market. It is approximately ten times more expensive to establish production of dragée chewing gum than that of bubble gum, which is also one of the reasons for JOYCO's greater tendency towards quick establishment of a production in a new market. This example illustrates that there is a difference in attitude in this area. The way DANDY leans towards working with brands is, according to Jens Andersen, an attitude that JOYCO finds difficult to understand.

### 6.4.3 Management style—JOYCO

The factor “management style” is ranked eighth by José Rosello. José Rosello underlined that he sees management style as derived from the organisational culture, but felt that treating this factor as separate from the factor “organisational culture” would be too extensive and difficult to handle. According to José Rosello, management style should support and initiate some effective acts. Rosello believed that it was important that the cooperating companies' management style were not distinctively different as this could be frustrating for the relationship. He estimated both management style at DANDY and JOYCO to be efficient and dynamic. José Rosello felt that the management style at DANDY was very focused on planning and time played a different role in JOYCO compared to DANDY. *“We are probably more creative in our approach to things and that makes the decision-making process longer, etc.”* (Rosello, 2002).

Jens Andersen also underlined JOYCO's more creative approach when the author discussed the factor “organisational culture” with him. In this light, it could be assumed that Andersen regards the factor “management style” as an element of organisational culture. In different situations, Andersen has experienced that Spanish management often found it difficult to orientate towards Northern and Western Europe. They found it easier to focus on Spanish-speaking countries. This difficulty has not

been the case for JOYCO, which, according to Andersen, has been able through their managing director to internationalize towards Northern and Western Europe.

As for the factor “organisational culture” Rosello chose to rank the factor “management style” as most important in the second development step. He argued likewise that in this step actions had to be engaged and managed; the management form was consequently not visible to the partner until this step.

#### **6.4.4 Conflict resolution—JOYCO**

Rosello ranked “conflict resolution” in ninth position among his critical factors. Small or large conflicts that require resolution will continually arise in a relationship. According to Rosello, it was important that the two companies together developed a procedure or method as to how to resolve conflicts. He estimated that “conflict solution and handling” was most important in the second development step, because the first development step was mainly influenced by contract negotiations and only to a very limited extent by conflicts. These did however arise more often in the second development step as the two companies had to transform the objectives for the relationship. In the second development step, the involved persons worked out a common method to handle conflicts locally.

#### **6.4.5 The Flexibility of the organisation—JOYCO**

José Rosello ranked “flexibility–organisation” tenth in importance. He felt that it was necessary to show willingness to meet the desires and wishes of the other party when cooperating. “If you only believe in yourself, no development in the relationship will occur.” (Rosello, 2002)” He estimated that the flexibility of the company was most important in the last two development steps. In the second development step, the two companies had to adapt to each other. The adaptation process contained several areas which needed to be discussed and renegotiated as they turned out not to be executed as planned. However, Rosello felt that both companies in this area were kind and willing to revise some decisions if this was appropriate for the relationship. The reason why Rosello considered flexibility to be as important in the third development step as in step two was that the surrounding world had become so unstable that new aspects would arise constantly which could influence the relationship. It was consequently important that both companies also showed flexibility in the third development step in relation to changing their agreements if this was regarded necessary.

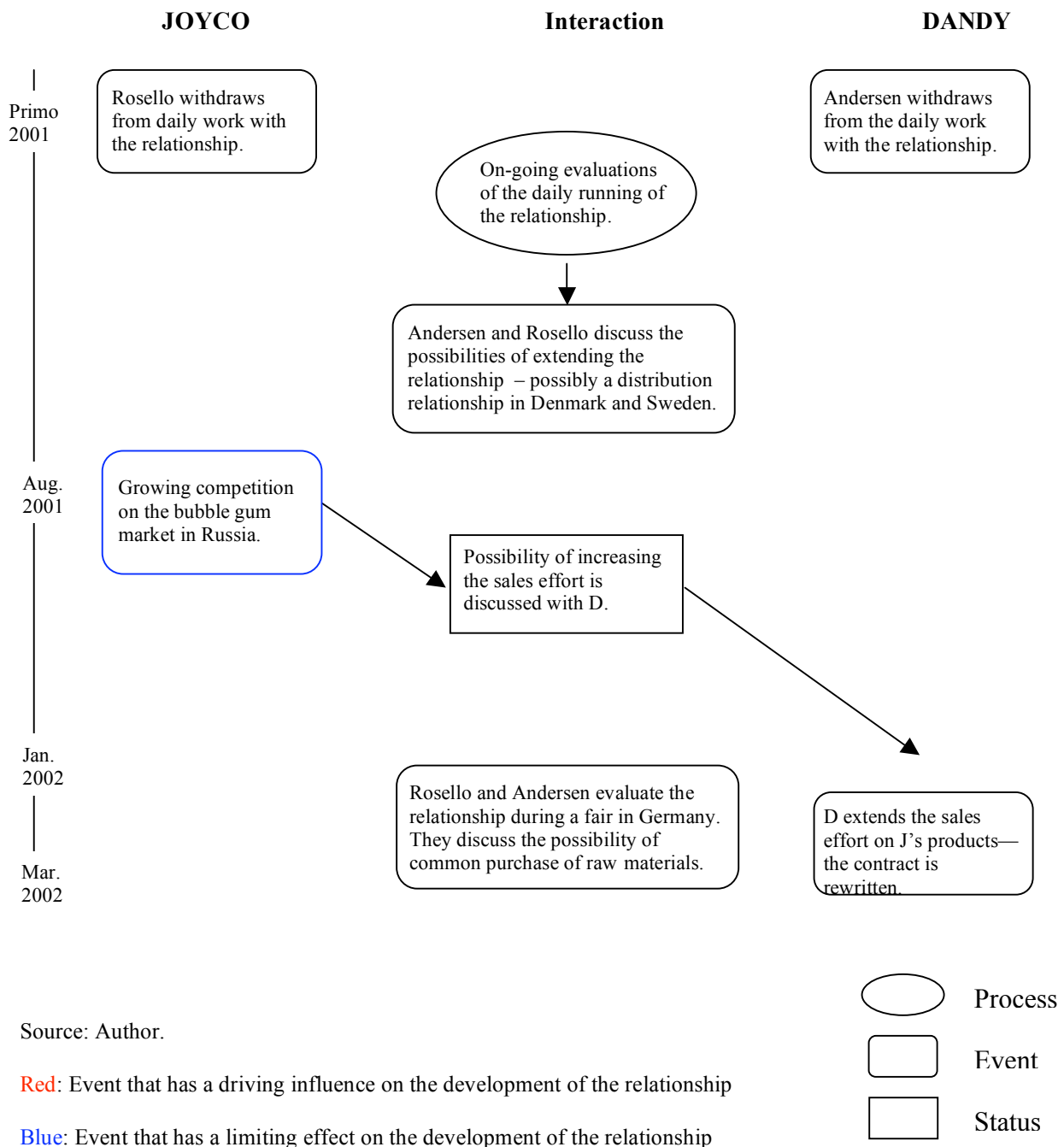
## 6.5 The third development step

In the beginning of 2001, Jens Andersen and José Rosello began to concentrate on developing the relationship by focusing on how the two companies could use each other's competences in other areas. At that time, the two had withdrawn from the daily running of the relationship and different employees at DANDY and JOYCO had divided that responsibility.

In the beginning, there were many different ideas relating to possible further development: JOYCO could produce DANDY's bubble gum in Spain, DANDY could produce JOYCO's adult chewing gum, DANDY could distribute JOYCO's products in other markets through subsidiaries, and JOYCO is present in markets where DANDY is not present at the moment. Andersen and Rosello decided however to focus on the possibility of DANDY distributing JOYCO's products in other markets, possibly Denmark and Sweden.

In the spring of 2002, there was a bit of tension between JOYCO and DANDY when JOYCO's sales did not proceed as planned. In the autumn of 2001, Wrigley relaunched their bubble gum "Hubba Bubba" and competition consequently became fiercer, which pressured JOYCO. As a consequence, JOYCO wished to raise the level distribution, which was 40-50%. DANDY had a distribution level of 90% in Russia; this means that 90% of the sales outlets in Russia offered DANDY's and JOYCO's products. To raise the distribution degree required new negotiations between DANDY and JOYCO (Bentsen, b, 2002).

When working with strategic business relationships, it is important to keep focusing on the relationship when the relationship moves into the mature development step, according to Jens Andersen. If the relationship is of strategic importance for the companies involved, it requires that both partners are visible and that there is effective follow-up on the process during the entire development of the relationship. If this follow-up is not carried out all the time, Jens Andersen believes that the companies easily lose their relationship focus, which then limits the possibility for the relationship to develop further. Therefore, Jens Andersen favors meetings every quarter where possible problems and development possibilities are discussed (Andersen, b, 2002). "So if you want to have strategic business relationships, it demands a lot of manpower in the form of time in order for the relationship to be other than sales and purchase." (Andersen, b 2002)

**Exhibit 6.3 Development of the distribution relationship - third step**

In the following, the critical factors for the third development step will be discussed and analysed.

### 6.5.1 The flexibility of the organisation—DANDY and JOYCO

According to both Jens Andersen and José Rosello, it was also important in the third development step that the cooperating companies continue to show flexibility in relation to each other and their

agreement. In the autumn of 2001, Wrigley relaunched their bubble gum brand “Hubba Bubba” in the Russian market, which made competition in this particular market fierce as Wrigley very quickly recaptured a large market share. This competition created a different situation for the distribution relationship, which probably meant that certain things had to be changed. In such situations, it is very important that both companies are open and flexible in relation to the adjustments to be implemented. “To work together closely to solve such a problem, to be open and flexible as well as willing to make compromises, helps create an increased trust in each other and a sense of solidarity.” (Bentsen, b, 2002)

### **6.5.2 Commitment—DANDY and JOYCO**

The factor “commitment” was ranked second by Jens Andersen, DANDY. He estimated the factor to be equally important for the developmental process of the relationship in each of the three development steps. According to Jens Andersen, commitment was expressed through the flexibility and risk willingness shown when negotiating. It was important that a commitment was established on all organisational levels and throughout the entire developmental process of the relationship. Andersen saw it as a necessity for the success of the relationship that all persons involved felt a commitment and an obligation towards the tasks to be carried out in relation to the relationship. One of the prerequisites to be able to establish a commitment to the relationship was that both parties felt that they would gain more from a relationship compared to working alone (Andersen, b, 2002). It was characteristic for the presence of commitment and obligation to the relationship that a problem was respected and treated by both sides despite the fact that it possibly only affected one part more directly than the other.

“Distribution—that is not my problem, but yours. You get your 2% for solving this task! That is how it is typically.” (Andersen, a, 2002)

According to Jens Andersen, this attitude has never been the case in the relationship with JOYCO. He felt that early in the development process, a commitment and common obligation to solve possible problems was established. If there is a commitment to the business relationship, this will have a positive influence on the building of trust, conflict handling, and communication, according to Jens Andersen, as both parties are interested in making the relationship work smoothly and effectively.

José Rosello rated this factor to be the third most important critical factor for the development of the business relationship. He believed like Jens Andersen that if no long-term commitment to the relationship existed, it would fail. Commitment to the business relationship must be sensed by both partners and functions as a supporting factor during the entire business relationship. José Rosello believed that “commitment” to the relationship was a must to be able to overcome discrepancies and

conflicts arising in the course of the relationship. He therefore rated this factor to be equally important in the three development steps of the relationship. If a commitment can be sensed, it will positively affect factors like “trust” and “openness,” stated José Rosello.

### **6.5.3 Trust—DANDY and JOYCO**

According to Jens Andersen, trust is a prerequisite for the existence of a business relationship and consequently he ranked it as the third critical factor. He estimated the factor as equally important in the three development steps, however with a slight predominance in the first development step. José Rosello, JOYCO, gave the factor the same priority. However, he believed that trust and commitment go together and consequently regarded the factor “trust” in the same way as the critical factor “commitment.”

Jens Andersen spoke of trust to be built on two levels: an organisational level and an individual level. On the organisational level, trust was created between the companies primarily through the contract creation and endorsement. On the individual level, all involved persons in the relationship had to build up trust in each other: “It is not enough that José and I trust each other. Trust must also be established with all people to be involved in the implementation of the agreement.”(Andersen, b, 2002)

It was decisive for the growth of trust that actions conformed to the expectations around and in the agreement. The social interaction between the involved persons had a positive influence on the creation of trust, according to Andersen and José Rosello.

In the first development step of the relationship, the main focus was on establishing trust between Andersen and Rosello, as well as between the two involved companies. The reason why Jens Andersen rated the importance of this factor as greater in the first step as compared to the following steps was that if trust were not established in the first step, the relationship would not commence. Already during the second meeting between Andersen and Rosello, Jens Andersen emphasized: “This is never going to work if we are not open and honest with each other.” (Andersen, b, 2002).

According to both respondents, openness is not gained until the partners trust each other. As DANDY was to distribute JOYCO's products, it was easier for DANDY to make demands of JOYCO. One demand was that the relationship was run by the “open-book” principle, as this was necessary to get a good dialogue running, according to DANDY. This demand implies that DANDY needed to understand the entire value chain and complementary breakdowns of JOYCO. Today, DANDY can make calculations down to cost price on JOYCO's products. According to Jens Andersen, it was in the

beginning difficult for JOYCO to accept this demand, as they felt very vulnerable, but today the “open-book” principle is part of the every day running of the relationship.

Both Andersen and Rosello were very conscious about the meaning of trust for the development of a successful relationship. They also agreed that this factor was of critical importance throughout the entire relationship. From the answers of both respondents one can see a close connection between the factors “commitment” and “trust”—and, as previously mentioned, they regarded commitment as the precursor of trust. They also both regarded reliability and honesty as important indicators of trustworthiness of the involved employees. Very early in the relationship, DANDY regarded it as a necessity that the partners were completely open towards each other. Both men, however, regarded this as possible only when trust was established between the partners.

#### **6.5.4 Risk willingness—DANDY**





















Jens Andersen rated risk willingness eighth and of approximately equal importance in the three development steps, though with a slightly greater weight in the first development step, cf. table 6.3. If the company chooses to enter into a relationship, both partners must be prepared to face the consequences and to demonstrate their willingness to take on a risk in relation to the content of the business relationship. (Andersen, b, 2002) It is easy when both companies are clear regarding the division of competences and tasks as well as the framework for the relationship: “It is not just a buyer-seller business relationship. It means that you are in the same position as your partner. And if the partners are not prepared to take on a certain degree of risk, the relationship has a defect.” (Andersen, c, 2002)

To DANDY, the risk was that they took on a partly competitive product in their product portfolio and thereby risked a decline in sales of DANDY's products. And according to Jens Andersen, this was a big risk because if sales started to decline, DANDY could lose their production and large sales force in the long run, which would mean a loss not only to DANDY but also to JOYCO. Another risk to DANDY by taking on JOYCO's product was if the end consumer was not satisfied with the quality of the product. Dissatisfaction could have had a negative effect on DANDY's reputation in the market and it would have been quite probable that DANDY would be related to JOYCO's product in the first place.

### **6.6 Discussion of the motives for the selection of specific critical factors**

Table 6.3 summarizes DANDY and JOYCO's estimation of the importance of the factors for the individual development steps.

**Table 6.3 Summary of the importance of the factors in the individual development steps**

Factors	1 <sup>st</sup> Development step	2 <sup>nd</sup> Development step	3 <sup>rd</sup> Development step
Specialist competence & Experience			
Flexibility–Individual			
Personal competence			
Strategic importance	 		
Flexibility–Organisation	 		
Risk willingness			
Organisational culture		 	
Management style			
Openness			
Decision-making process	 		
Expectations			
Trust			
Commitment	 		
Social interaction & personal relation			
Power & dependence			



Factors	1 <sup>st</sup> Development step	2 <sup>nd</sup> Development step	3 <sup>rd</sup> Development step
Conflict resolution	.....	.....	.....
	.....	.....	.....

.....: DANDY    .....: JOYCO

Source: Author.

As can be seen from Table 6.3, the majority of factors are estimated to be most important in the first and second development steps, while only a few factors are found in the third development step. Based on this, it can be established that Rosello and Andersen regarded the first two development steps as decisive for the success of the relationship. At first, it seems logical that a start-up and implementation step typically would be connected with problems and decisions.

In the *a priori* framework presented in Chapter 1, the individual-related factors are regarded as most important for the commencement of the development process, the organisation-related factors primarily in the second step, and the interpersonal and interorganisational as equally important during the entire development process. These assumptions can be partly confirmed for the distribution relationship. As can be seen from table 6.3, the chosen individual-related factors are estimated to be most important during the startup; however, Jens Andersen regards the flexibility of the individual to be equally important in the first two development steps.

If the critical factors are considered, they were important in the first development step. A number of critical factors are considered to be most important in the first development step. The critical factors “trust” and “commitment” were however considered to be equally important un all three development steps, while “power and dependence” was estimated to be equally important in the first two development steps. As can be seen from table 6.3, the critical factors typically appear in the group of interpersonal and interorganisational factors, which means that for the distribution relationship, the project managers of DANDY and JOYCO typically estimate the factors that touch upon the interaction between the two companies to be critical factors.

José Rosello, JOYCO, chose the factor “personal competence” to be important for the development of dyadic business relationships, but did not however choose the factor “social interaction and personal relation” to be important for the development of the relationship. However, the author believes that parallels can be drawn between Jens Andersen’s description of the social interaction’s influence upon

conflict resolution, creation of understanding for the other party, and establishment of personal bonds and José Rosello's underlining of the importance of establishing personal bonds in DANDY.

Therefore, the author believes that the perception of the respondents of these two factors will be closely related. If there is sympathy for the other party, it will, according to the author, lead to an increased social interaction.

The author estimates that the failed start of the relationship with JOYCO six years earlier can be one of the reasons why Andersen estimates the individual related factors "specialist competence and experience" and "flexibility" to be more important than does José Rosello. When Jens Andersen and DANDY got into contact with JOYCO the second time, they were very aware of this condition. Therefore Jens Andersen assessed José Rosello's experience with and wishes to cooperate closely before entering into the relationship (Andersen, b, 2002). This preliminary evaluation can be regarded as an example of how previous experiences with a person from a company influence later acts and considerations.

If the chosen organisational factors are considered, their importance to the respondents is estimated to have a somewhat equal importance for the startup and implementing steps. Andersen and Rosello agreed on their estimation of the critical factor "the strategical importance of the business relationship" for the distribution relationship. Both estimated it as having first priority, cf. Table 6.2, and indicated it had a decisive influence in the first development step. Consequently, both men believed that this factor create the foundation for the buildup of commitment to the relationship.

The same assessment applied in relation to the factor "organisational culture," which was ranked seventh by both respondents and played a decisive role for the second development step. It is important to emphasize that both men assigned considerable weight to the fact that both companies are family owned and to the effects of family-ownership on the way problems and the like are handled. Both José Rosello and Jens Andersen argued in the same way that it is not until this second development step that organisational culture becomes "visible."

Jens Andersen expressed that he early in the process sensed that there was a difference in the decision-making process and structure. Based on this, he sensed that the involved persons from DANDY possessed a larger decision-making competence compared to the persons from JOYCO. The author senses that the lack of a timely decision-making process at JOYCO often created irritation at DANDY.

Jens Andersen did not choose the factor “openness.” The author does not interpret this to mean that Jens Andersen does not regard the factor to be important, but more that Jens Andersen considers it as being a prerequisite for a relationship. Very early in the negotiations in the startup step, DANDY said that they regarded openness and “the open-book principle” as being necessary in order to cooperate. It must therefore be understood that Jens Andersen has not chosen this factor as being critical for the development of the distribution relationship, because he considers openness to be a prerequisite factor that applies to all relationships on equal terms with the factor “economic success” (win-win situation). Please refer to the paragraph on the empirical research design. A reason why José Rosello, JOYCO, did not regard the factor “risk willingness” to be a requirement for the distribution relationship could be that to have DANDY as distributor of their products was the only possibility left to JOYCO on the Russian market. Therefore this situation could be described as “all to win, nothing to lose.”

Rosello also estimated an “organisational flexibility” to be ranked tenth, but unlike Andersen he regarded the factor as most critical in the last two development steps. He argued that it was in the second step that the two companies had to adjust to each other, in the course of which several areas were found that had to be discussed again and renegotiated as sales turned out to be lower than expected. Rosello felt, however, that both companies were kind in their approach to this area and willing to revise some decisions if it was to the advantage of the relationship as a whole. The reason why Rosello estimated this factor to be equally important in the mature step was that the surrounding world seemed unstable and new aspects arose constantly on the market that influenced the relationship. (See the above-mentioned situation where Wrigley relaunches “Hubba Bubba” on the Russian market.) As does Andersen, Rosello underlines that it is therefore important that both companies show flexibility in relation to changing what has been agreed upon if this is regarded necessary. A possible reason why Rosello does not estimate flexibility to be critical to the first development step could be that he regards the flexibility of the company as related to organisational adaptation, which the author interprets as most important in the last two development steps.

The estimation of the importance of interpersonal and interorganisational factors was similar for all three-development steps, which coincide well with the assumptions made for the *a priori* framework. The two respondents were in agreement on the importance of the critical factor “commitment” for the development process of the relationship: the factor had equal importance and priority in all three development steps. It was also agreed that the factor had a positive influence on the resolution of potential conflicts and the establishment of trust, which implies that both respondents believe that the establishment of commitment precedes the establishment of trust. Andersen underlines at the same time that commitment influences the factor “communication” and Rosello emphasizes that it

influences the factor “openness.” The author believes that parallels can be drawn between these two ascertainties as the factor “communication” can be presumed to influence openness.

Andersen did not choose the factor “power and dependence” as critical for the development of the distribution relationship from the point of view of DANDY—possibly because DANDY at that time regarded itself as being less dependent on JOYCO than the other way round. DANDY is a very strong distributor in Russia and at that time JOYCO had no distribution network. Because of the Russian crisis, there was only a very few strong distributors left on the Russian market, which meant that JOYCO had very few alternatives to DANDY. Consequently, the author believes that DANDY and Jens Andersen did not estimate the power factor as being critical in the way that JOYCO did.

Rosello did not choose the factor “communication” as important to the development of the distribution relationship. The author believes that JOYCO was very satisfied with the communication process. The reason why Jens Andersen chose this factor could be because DANDY’s requirements regarding communication were different and higher as compared to JOYCO, and DANDY felt that it would take a lot of effort to “lift” JOYCO to this level.

Jens Andersen did not choose the factor “conflict resolution” as critical for the development of the distribution relationship. The author perceives that this might be because DANDY possibly feels that they have greater power in the relationship compared to JOYCO. Consequently, they will not regard the way conflicts are resolved as critical in the same way that JOYCO does, because DANDY will not be the weak party in those discussions.

None of the respondents chose any of the environmental factors. Jan Andersen said about the factor “national character” that he felt that a match in the companies was more important than a match in national character for this type of business relationship. He argued that the company would only hire a person who is familiar with the specific national culture and who consequently can explain and “interpret” possible different attitudes and behavior (Andersen, a, 2002). José Rosello agreed: he did not think that differences in the national culture had been noticed in the relationship. However, it is the opinion of the author that it may be discussed whether, e.g., the experienced differences in management style, decision-making processes, and communication are not a result of a difference in national character between the two partners.

The influence of environmental-related factors can however implicitly be seen in the surrounding events. E.g., José Rosello estimated the factor “organisational flexibility” to be very important in the

third development step. The estimation of the importance of this factor for this development step can be influenced by Wrigley's re-launch of their bubble gum in the Russian market and by Dandy's reaction to this and their attitude towards JOYCO showing a flexibility and willingness to increase the sales efforts on JOYCO's products. Similarly, it can be assessed whether the DANDY-JOYCO relationship would have become a reality if the Russian crisis had not arisen.

## **6.7 Discussion of the individual factors' interrelatedness**

One cannot regard the factors and their influence in the development and buildup of strategic business relationships in an isolated way. From the interviews carried out, several connections between the factors could be emphasised. It is easy to imagine other connections between the factors than the ones discussed in the following. The relations or connections considered are those that Jens Andersen, DANDY, and José Rosello, JOYCO, regarded to be the most obvious within the Russian distribution relationship.

Several times during the interviews Jens Andersen (a,b, 2002) said that social interactions influenced several of the other factors. He estimated based on his experience that social interaction had a positive influence on the decision-making process, trust, communication, and the handling of conflicts. He argued that if you have a good social relationship and interaction between the involved parties, it is easier to handle conflicts, it eases the decision-making process, and communication is smoother and more informal. Social interaction helps move things more easily and with fewer complications. The most decisive factor for the establishment of a social relation and interaction is the personality of the partners. According to Andersen, the personalities of the involved persons must fit or else it is impossible to establish a valuable social connection (Andersen, a,b, 2002). José Rosello likewise stated that the personalities of the involved persons influence the resolution of conflicts and other disagreements (Rosello, 2002).

Trust building is influenced by the factors reliability, commitment, social interaction/relation, and flexibility. Through the social interaction, trust can be built between the interacting partners. The social interaction helps people to get to know each other as private persons and this has in most cases a positive influence on the professional interaction between the partners. Andersen (b, 2002) believes that reliability as expressed in the connection between statements and acts has a great influence on trust. This is one of the decisive factors for the establishment of trust between the companies and the involved persons. Furthermore, Andersen (b, 2002) regards the flexibility shown by the companies and the employees, as well as their commitment and obligation to the relationship, as important for building trust. José Rosello regarded openness a decisive factor for building trust between the partners.

The factors risk willingness, flexibility, and expectations as to the strategic importance of the relationship all influence the establishment of commitment. Jens Andersen estimates that there is a connection between the strategic importance of the relationship and commitment. The higher the strategic importance of the business relationship is, the easier the establishment of commitment in the involved organisations. José Rosello saw the connection in the same way: when management perceives the strategic importance of the relationship as high, they more willingly commit resources, which in turn creates openness, trust, and commitment.

However, the prerequisites for establishing commitment include, per Jens Andersen, that the companies are conscious about their expectations of the relationship and that they believe their expectations can be fulfilled. José Rosello (2002) stated that a commitment can be sensed to have a positive influence on “trust” and “openness.” In the same way, Jens Andersen (b, 2002) said that some problems caused by lacking or misleading communication can immediately influence trust negatively.

## **6.8 Discussion of critical factors in relation to the course of events**

The author believes that there can be a connection between the course of events that characterizes the specific business relationship and the factors chosen by the project managers as having specific importance in the business relationship development.

The reason why the relationship with JOYCO was initiated was that at that time there was an economic crisis on the Russian market that meant that JOYCO had lost their distributor. The players left on the market were much pressured by the fierce competition caused by a bad economy. From this point of view, the DANDY-JOYCO relationship could be very important for the continuation of both companies on the Russian market. It can in this way be assumed that the crisis in Russia and what it brought the two companies was one of the reasons why both JOYCO and DANDY estimated the factor “strategical importance of the relation” to be such a critical factor for the relationship.

In order for DANDY to become distributor for JOYCO, they demanded that JOYCO had to establish a production on the Russian market. The author assumes that this demand could influence the choice of the factors “commitment” and “trust” by both respondents as having particular importance in the relationship.

It can also be assumed that the fact that Rosello and Andersen had sympathy for one other and ended up as friends may have influenced the selection of the factors “personal competence” and “specialist competence and experience.” It is possible that when the respondents think back on the relationship that this personal relation between the project managers will be emphasized.

In the course of the summer and autumn of 2000, events took place in the distribution relationship that the author assumes can have influenced some of the factors chosen by the project managers. JOYCO did not reach some predetermined sales targets and DANDY found some of JOYCO’s products on the Russian market despite the fact that JOYCO had promised to remove them previously. These events had an influence on the communication process, the potential for conflicts, and the establishment of trust in the employees of JOYCO for several of the employees from DANDY. Furthermore, some cooperation problems arose between the responsible employee from JOYCO and several of DANDY's employees. Jens Andersen asked José Rosello to remove the person in question from the task as, from the point of view of DANDY, he blocked the relationship. JOYCO tried to accommodate these things by being flexible on an organisational level and trying to make things right. Both Jens Andersen and José Rosello implied that their good social relation had a large importance in the handling of these problems throughout the process. The author is therefore convinced that these events can have influenced the selection of the factors “trust,” “conflict solution,” “communication,” “social interaction and personal relation,” as well as the “flexibility of the organisation.”

## Chapter 7 The entry relationship - production in Russia

The establishment of the entry relationship between JOYCO and DANDY in Russia took place partly parallel with the distribution relationship. In the contract signed in connection with the Russian relationship, DANDY required that JOYCO establish production in Russia. However, DANDY was not required to assist JOYCO in this process. The official relationship was a time-limited agreement. This chapter will described, discuss, and analyse this entry relationship.

### 7.1 Identification of the three development steps for the entry relationship

It may be discussed whether the entry relationship is a long-term business relationship as it is a relationship which is time limited. Based on the interviews with Carsten Bentsen, it has however been possible to identify the same development steps that have been analysed in connection with the other business relationships. On top of this, DANDY and JOYCO regard the entry relationship as part of the overall strategical Russian relationship. Table 7.1 sketches the characteristics of the development of the relationship.

Table 7.1 Identification of the three development steps for the entry relationship

	Development step 1	Development step 2	Development step 3
<b>Identification of specific characteristics of the development steps of the entry relationship</b>	<p>In the spring of 2000, the first talks took place between Carsten Bentsen and José Rosello in relation to establishing an entry relationship.</p> <p>The idea of an entry relationship is presented to the management of JOYCO and intense negotiations commence.</p> <p>August 2000, the framework of the contract is present and letter of intent is signed.</p>	<p>Autumn 2000, a project and management group is established which is responsible for the implementation of the management agreement.</p> <p>Project plan is prepared.</p> <p>October 2000, the contract is signed.</p>	<p>Spring-summer 2001, JOYCO's production is running and only a few adjustments are necessary.</p> <p>At this point in time, José Rosello withdraws from the entry part.</p> <p>January 2002, Carsten Bentsen plans to discuss further JOYCO-DANDY relationship possibilities with JOYCO's new plant manager in Russia.</p>

Source: Author.



As it can be seen from table 7.1, the relationship is in the first development step for five to six months. The implementation step lasts for approximately eight months as a result of the fact that a timeframe was set in the contract for the implementation and management service. Consequently, this period of time cannot be compared with the periods of time for the other relationships in their second development step. As in the distribution relationship, the contract is also signed after the establishment of a project group.

## 7.2 The critical factors for the entry relationship

The two respondents were asked to choose up to ten critical factors for the development of the entry relationship. The chosen factors are shown in table 7.2 in the prioritized order.

**Table 7.2 Chosen factors in a prioritized order**

	DANDY	JOYCO
<b>Critical factors</b>	<ol style="list-style-type: none"> <li>1. The strategical importance of the relationship</li> <li>2. Trust</li> <li>3. Commitment</li> <li>4. Communication</li> <li>5. Openness</li> <li>6. Social interaction and personal relation</li> <li>7. Power and dependence</li> <li>8. Organisational experience</li> <li>9. Flexibility of the individual and the company</li> <li>10. Conflict handling</li> </ol>	<ol style="list-style-type: none"> <li>1. The strategical importance of the relationship</li> <li>2. Expectations</li> <li>3. Organisational experience</li> <li>4. Commitment</li> <li>5. Management style</li> <li>6. Risk willingness</li> <li>7. Communication</li> <li>8. Conflict solution</li> <li>9. Organisational culture</li> <li>10. Social interaction and personal relation</li> </ol>

Source: Author, based on interviews with Carsten Bentsen on 8 March 2002 and 15 May 2002, and with José Rosello on 18 June 2002.

Factors written in red were chosen by both respondents.

As can be seen from table 7.2, there is general agreement between the two project managers regarding the ten chosen factors. The project managers agreed on six out of ten chosen critical factors.

In the following, the entry relationship will be described based on the critical incident technique. The three development steps will form the structure of this presentation.

### 7.3 The first development step

During the spring of 2000, the first talks between Carsten Bentsen, DANDY's plant manager in Russia, and José Rosello started regarding the entry relationship. As a part of this, JOYCO's employees came to Novgorod, Russia, where they visited DANDY, who presented them with the idea of managing JOYCO's entry into Russia. Subsequently, DANDY made a draft proposal to JOYCO in which DANDY offered to work in an advisory and managing function in relation to JOYCO's entry into Russia.

The negotiations regarding this agreement took place for a period of time between the two companies. Many different scenarios were presented in order to secure both companies in the best possible way. The foundation had to be solid for DANDY to enter into a relationship. According to Carsten Bentsen, the conditions were that this be a win-win situation, that the profit matched the investment, and that there was a long-term perspective in the relationship for both parties. Without this basis, the relationship would never work. If both companies sense that the foundation is solid, the top management will enter the relationship with initiative and a positive and open attitude aiming at success. "In my opinion, the foundation needs to be present in order to start a relationship in the right spirit." (Bentsen, b, 2002)

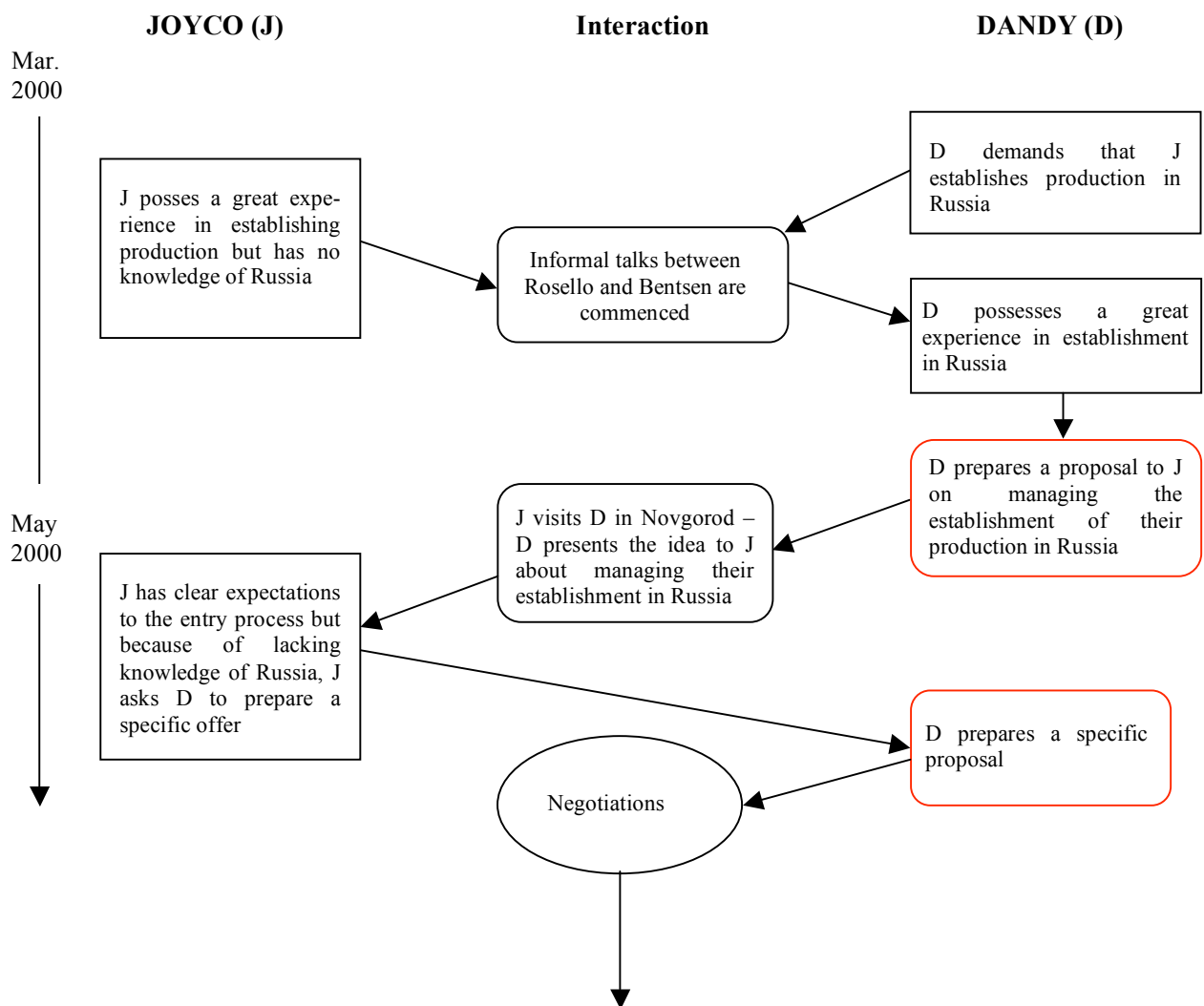
The spring and summer of 2000 were characterized by many negotiations in which both parties participated in a very focused manner. Carsten Bentsen felt that the first development step was very demanding, as much time was used discussing the wording of and content in the contract, as well as agreeing on all the details. (Bentsen, a, 2002) At this time, Carsten Bentsen also participated in several of the meetings between the managing director of DANDY, Lars Funder, and the managing director of JOYCO, Javier Mir. During these meetings Bentsen clearly sensed that the managements of both companies were very interested and committed to establishing a long-term business relationship. (Bentsen, a, 2002) Both companies also expressed this fact through their commitment and focus in getting the legal framework right.

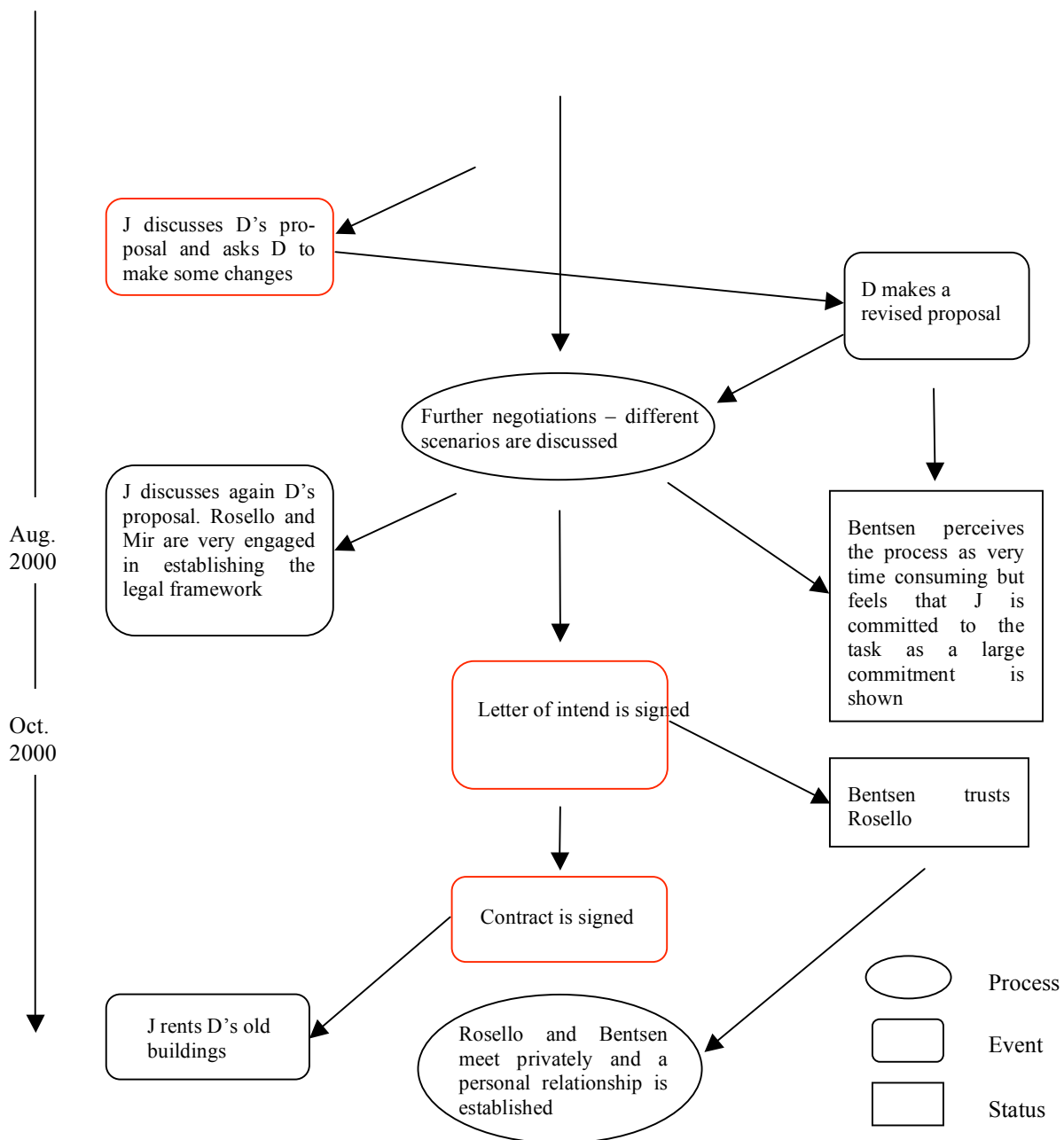
In the beginning of the relationship, Bentsen felt that the willingness of the parties to create trust made the atmosphere surrounding the relationship positive. Furthermore he found early in the relationship that it was very easy to establish trust in José Rosello. "He was very positive, experienced, and constructive and could regard the relationship both from an operational and strategic perspective. José Rosello is the reason for a large part of the success of the relationship." (Bentsen, a, 2002)

In August 2000, the first papers (letters of intent) were signed and in October 2000 the contract was signed. The management part consisted of consultancy in legal matters in relation to the entry in Russia, recruitment and training of personnel, identification and qualification of sub-suppliers, and the establishment of contacts with the political network and authorities. The management agreement was a time-limited service which ceased when JOYCO had their production and network running. It was planned to last eight months.

On top of this, a rental agreement was established between JOYCO and DANDY. JOYCO rented the old buildings that DANDY has bought in 1995 in connection with establishing their packinghouse in Novgorod. DANDY wanted to sell the buildings to JOYCO, but they ended up renting the buildings with a right to purchase. JOYCO wanted first to see how the development was in the Russian market for their bubble gum “Boomer” before they started to invest any further into Russia.

Exhibit 7.1 Development of the entry relationship - first step





Source: Author.

**Red** : Event that has a driving influence on the development of the relationship

**Blue**: Event that has a limiting effect on the development of the relationship

In the following, the critical factors for the first development step will be analysed and discussed.

### **7.3.1 The strategical importance and expectations of the business relationship— DANDY & JOYCO**

The strategical importance of the business relationship is the critical factor that is estimated to be most important for the development of the relationship. The reason adduced to account for this measure is that the factor is essential for the relationship especially when entering the relationship but also for the subsequent course of development. As soon as a relationship has no strategical importance for the company, it will slowly dissolve, according to Carsten Bentsen. (Bentsen, c, 2002)

Carsten Bentsen clearly regarded the strategical importance of the relationship to have a decisive influence on the first development step. If the top management does not see a strategical perspective in the relationship, it will influence the rest of the organisation. It is especially in the first step through the top management's commitment and interest in the relationship that it can be sensed how large an influence the relationship has for the companies.

Carsten Bentsen regarded the Russian JOYCO- DANDY relationship to have a large strategical importance for both partners. JOYCO became established in the Russian market again and the relationship gave both companies the possibility to increase their dominance and penetration power in trade, because DANDY's sales force now had a more extensive product portfolio to position in the hotzone. "If a company has an extensive product portfolio to sell, it will be easier to position the goods correctly." (Bentsen, b, 2002)

José Rosello positioned the critical factors "the strategical importance of the relationship" and "expectations" in first and second priority. As the establishment of production (the core of the entry relationship) was part of the total Russian relationship and a requirement from DANDY in order to secure their distribution services, José Rosello felt that these two factors should be positioned equally as in the distribution relationship.

José Rosello estimated for the factor "the strategical importance of the relationship" that it had a decisive influence in the first development step. Like the distribution relationship, the long-term perspective of the relationship was determined and discussed in this step. The factor "expectations" also had substantial importance in this step. As a demand was made that JOYCO had to establish production in Russia in order for the distribution relationship to be valid, both companies had some precise expectations of the forthcoming relationship. JOYCO had a lot of experience in establishing production and had some precise expectations about this process. DANDY had also gained experience previously by establishing in the Russia market and possessed an opinion on how this could be done.

According to José Rosello, these expectations regarding the establishment process adjusted during the first step in particular.

### **7.3.2 Commitment—DANDY & JOYCO**

“Commitment” was seen by Carsten Bentsen to be the second most important factor for the development of the relationship and was thereby the second critical factor chosen by him. Both commitment and trust are essential factors in order to get a successful relationship. Trust is more important than commitment in the first development step, as the companies here need to agree on the content of the relationship. Later on in the course of the relationship, commitment is equally important as trust in creating and maintaining drive. (Bentsen, c, 2002)

Carsten Bentsen estimated the critical factor “commitment” to be important in the first development step. He believed that commitment had to be established from the beginning. If there is no commitment and sense of obligation from the beginning, nothing successful will derive from the relationship. (Bentsen, a, 2002) It will not be possible to maintain the same degree of commitment from the top management throughout the entire relationship, who will be more outspoken in the first step. It is however important that the top management regards the relationship as an area of responsibility which they follow up on regularly—also when the relationship is more stable. (Bentsen, a, 2002)

José Rosello ranked the factor “commitment” fourth overall. As JOYCO accepted to establish production in Russia, they demonstrated a great commitment to the relationship. As the establishment of JOYCO’s production in Russia was a demand from DANDY, JOYCO also sensed that DANDY wanted the relationship in the long run.

José Rosello estimated that the factor “commitment” is very important in the first step. He argued that in this step the decision about the plant was taken. If the involved persons had not felt that in this particular development step there was a strong commitment to the relationship, the decision to establish production in Russia would not have been taken.

### **7.3.3 Trust—DANDY**

Carsten Bentsen ranked the factor “trust” third as a critical factor. Carsten Bentsen wished to give the factors “commitment” and “trust” the same priority, as he believed there was close connections between the two factors. Carsten Bentsen estimated the factor “trust”—like the factor

“commitment”— to be most important in the first development step. Carsten Bentsen is convinced that it is very important that trust is created by the other party especially in this preliminary stage. The most important thing in this step was that the top management trusted the partner, as this trust was decisive for the future course of the relationship.

According to Carsten Bentsen, trust is mainly created by sincerity, openness, seriousness, honesty, and determination. Therefore, the companies must show that they agree with a decision 100% when the decision has been made and they must solve possible problems in cooperation. (Bentsen, a, b, 2002)

In the beginning of the second development step, Carsten Bentsen estimated that mutual trust had been established between JOYCO and DANDY's strategical levels. This became obvious when the contract had to be translated into Russian. First, the legal agreement had been prepared in English and signed by both companies. Subsequently, it had to be translated into Russian and adapted to the Russian legal conditions, which meant that some things had to be changed or left out. In relation to these changes, both companies were very flexible when the English agreement had been entered into and signed. Both companies felt obligated in relation to the English contract, even though the companies were convinced that should a large conflict arise, the Russian contract would be decisive. According to Carsten Bentsen, this showed that a mutual trust had been built between the managements of the two companies. (Bentsen, b, 2002)

The above shows that trust must be established in several organisational levels in the companies and that this is done during different steps in the development process of the relationship.

#### **7.3.4 Communication—DANDY**

The critical factor “communication” was ranked fourth by Carsten Bentsen. As Carsten Bentsen said: “If you want a relationship to be successful, you need to communicate often, openly, and honestly.”(Bentsen, 2002) He estimated that there was a connection between the critical factors “communication,” “trust,” “commitment,” “openness” and “flexibility” on an organisational as well as on an individual level. (Bentsen, c, 2002)

Carsten Bentsen believed that the critical factor “communication” was a tiny bit more important in the first development step and had equal importance in the subsequent steps. The reason for the increased importance in the first development step was that this step was characterized by contract negotiations that demanded intense communication between the two companies.

Carsten Bentsen describes the communication between JOYCO and DANDY as good. He believed so because he had not experienced any types of inhibitions. He felt that there was an open and very clear communication through out the entire relationship. He estimated that in this relationship, the communication had been more intense in relation to what he had experienced in other relationships. English was the language used and this did not lead to any larger misunderstandings. The reasons for misunderstandings were rather if the partners did not express their opinion regarding a specific situation or topic precisely. The discussions typically concerned the content of different topics or agreements where one party perceived that something was implied in relation to what had been agreed whereas the other party thought differently. “This has given rise to some discussions but based on the ‘spirit’ behind the agreement, we have been able to agree quickly.” (Bentsen, a, 2002)

Communication has been characterized by being oral and “meeting-like.” JOYCO did not emphasise written memos and plans such as DANDY was used to. Decisions were at times very slow in coming; however, it is not Carsten Bentsen's understanding that this was because of communication problems, but rather that the decision-making competence was positioned high in the organisational hierarchy of JOYCO. (Bentsen, b, 2002)

What DANDY did specifically to ease the communication on the second development level was to propose some formalized frameworks for the communication: a framework for reporting, for holding status meetings, as well as for the written and oral communication between the companies

### **7.3.5 Risk willingness—JOYCO**

José Rosello ranked the factor “risk willingness” sixth of the critical factors. José Rosello felt that establishing a production in Russia was connected with a large degree of risk because JOYCO had to make some decisions without possessing much knowledge about the market. Russia was characterized as a very unstable and insecure market that gave the factor “risk willingness” meaning in this relationship. Rosello believed that the factors “commitment” and “risk willingness” were closely related in this relationship, because JOYCO felt a large commitment to the relationship and through this they also showed a large risk willingness by accepting to position production in Russia.

As with “commitment,” the factor “risk willingness” is most important in the first development step. Rosello used the same reasoning regarding the relative importance of both factors. In the second development step, the perceived risk was not great, as the fundamental decisions had been made. The



reason for the importance in step one was that JOYCO decided to position a plant in Russia, an investment of approximately \$10 million.

According to José Rosello, the risk willingness influenced the critical factors “commitment” and “flexibility” because demonstrating risk willingness also showed commitment and flexibility. E.g., when JOYCO decided to position a plant in Russia, besides a large risk willingness, they also showed a commitment, a sense of obligation, and flexibility towards the relationship partner.

### **7.3.6 Power and dependence—DANDY**

Carsten Bentsen regarded the factor “power and dependence” to be a critical factor. He claimed that it was important that the balance of power and dependence were not obviously unequal, as this would make the successful development of the relationship difficult. (Bentsen, c, 2002) To begin with, it is important in a relationship to feel that both parties are equal and that the reward from the relationship for both organisations is approximately the same. Carsten Bentsen is convinced that if one company feels that it gives more to the relationship over a long period of time as compared to the other, the relationship will not succeed. “The companies must feel that the efforts they make measure up to the return from the relationship—which was the case for this relationship.” (Bentsen, b, 2002)”

The factor “power and dependence” is, according to Carsten Bentsen, important predominantly in the remaining two development steps. The reason for the slightly greater importance in step one is that this point was when the framework of the relationship was established. In this step, the two companies will try to have as large an influence on the design as possible. However, Carsten Bentsen underlined that he did not feel that the power was used directly in the negotiations; it was more a question of making it work for both parties (Bentsen, a, 2002).

Bentsen believed that the division of power was closely linked to the competences of the companies. In the JOYCO relationship, he experienced that the one with the largest competences within an area also had the largest power. “As DANDY distributes JOYCO’s products in Russia, we take the lead in this area.” (Bentsen, b, 2002)

Bentsen regarded the division of power between DANDY and JOYCO to be equal, maybe with a slightly greater weight to DANDY. As JOYCO uses DANDY’s distribution network in Russia, they are very dependent on DANDY. JOYCO does not have its own distribution network in Russia. However on the side, DANDY depends on the earnings they get through JOYCO, but all things

considered, Bentsen estimated this dependence on JOYCO as less than JOYCO's dependence on DANDY.

#### **7.4 The second development step**

As the framework of the relationship was established, a project group was established consisting of three persons from Dirol in Russia who worked full time with JOYCO's establishment and two to three additional Dirol employees who at specific times were drawn into the project when their competences were needed. These additional people were employees from the purchasing department, the human resource department, and the sales department. The project manager was Carsten Bentsen, and the three full-time employees on the project were two persons with legal/technical experience and a secretary. JOYCO also established a project group to cooperate with DANDY's project group. José Rosello was project leader and two to three JOYCO employees were hired to the project also. This project group was connected to a steering committee that included Bentsen and Rosello as well as their managers, Nikolai Hansen and Javier Mir. This meant that the project group had a direct reference within the Dirol organisation but also to Dandy in Vejle, Denmark. Carsten Bentsen had the overall responsibility for the project. But it was the project employees who managed the daily relationship with JOYCO and the implementation of the agreement. The steering committee's role was to attend to the quality of the work, to make sure that time limits were kept, and to control the relationship on a higher level.

In the second development step, Carsten Bentsen was convinced that there was a large commitment to the relationship after he was introduced to the persons who were directly involved in the establishment relationship. "They were very positive towards the relationship and very committed in the project and in Russia. The project manager, their managing director, and a few others were from the beginning employed full-time with the establishment in Russia." (Bentsen, a, 2002)

During the process there were incidents where some of the persons from DANDY found it difficult to trust JOYCO's employees even though trust had been established between the companies on the strategical level at this point in time. They felt at times a lack of understanding in relation to the strategical perspective of the relationship from JOYCO. According to Carsten Bentsen, this was because JOYCO had hired new employees to take care of the implementation of the relationship. Bentsen perceived that JOYCO's management did not communicate the task and content of the relationship to the new employees, which meant that the DANDY project employees were perceived as not very flexible and at times relationship problems arose.

During the implementation step, Carsten Bentsen felt that the two companies had built up so much knowledge about each other that it was possible to start predicting reactions on different problems as well as knowledge about the procedures and the like. This was a process where the involved were currently aware of differences and started to understand these differences. “Even though you are aware of differences, they are not manifested until you experience specific examples of differences.” (Bentsen, a, 2002)

Bentsen was also convinced that the good social connections had helped make the implementation faster and more effective, as it meant that the partners were more open and direct towards each other. At some point in time in the second step, some delays occurred relative to the time schedules, because some of the decisions to be taken by JOYCO made slow progress due to the fact that JOYCO’s home organisation in Barcelona had other priorities at that point in time. Carsten Bentsen was convinced that the good social relations and the mutual sympathy between JOYCO and DANDY helped overcome some of these problems in the development of the relationship. (Bentsen, a, 2002)

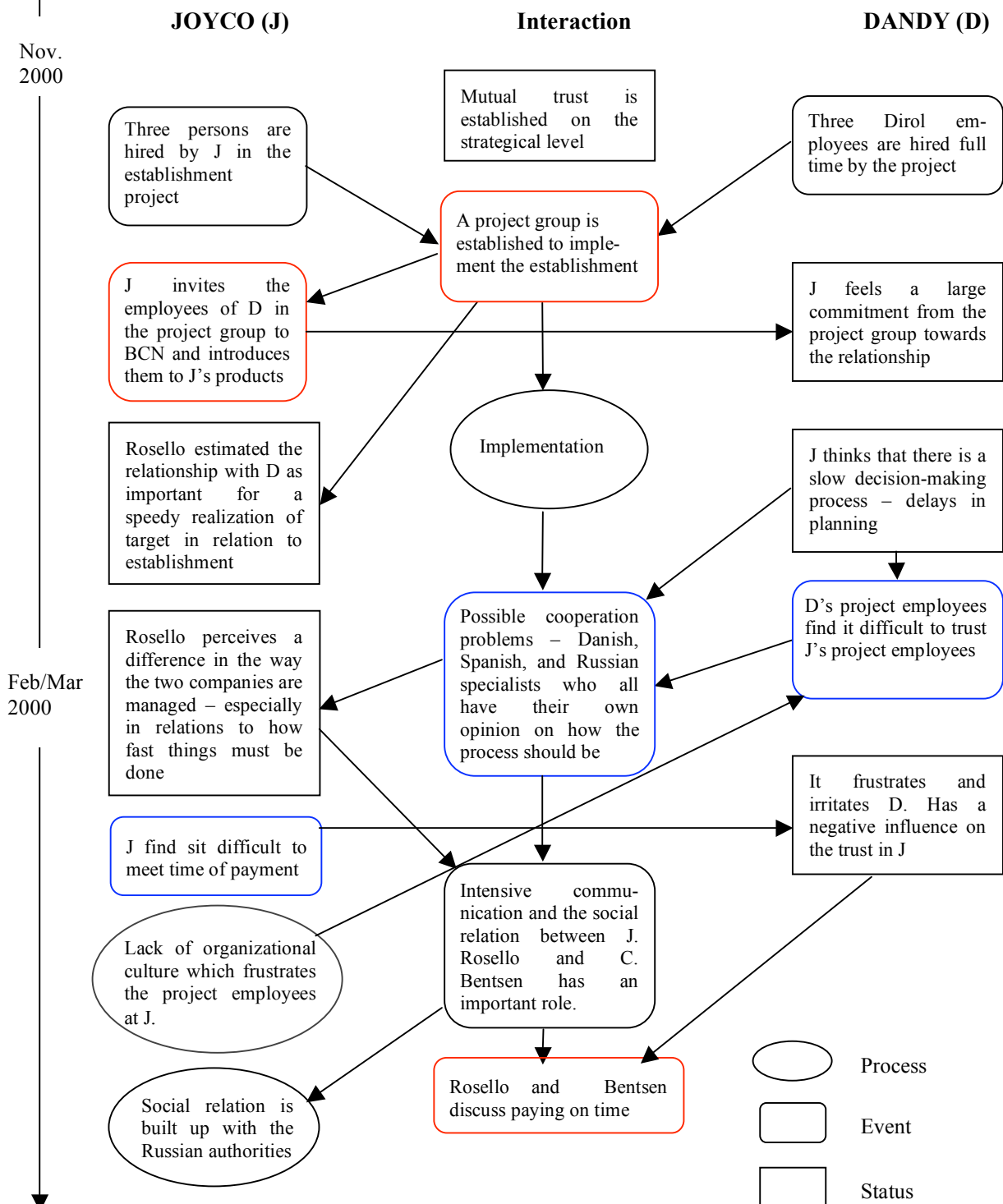
In the second development step, the discussions were typically regarding the launch of products, taste varieties, or “forgotten” payments. According to DANDY’s marketing manager in Moscow, JOYCO found it difficult to commit to the new launches until very late, which often meant that there was not enough time to adjust DANDY’s launch plans. According to the marketing manager this situation was caused by the fact that JOYCO works much more impulsively than DANDY and that JOYCO’s decision-making competence is positioned high in the organisation—often with the top management. (Bentsen, a, 2002)

In the second development step, the observance of time limits and payment times were discussed. The opening date for JOYCO’s plant was coincident with Novgorod’s birthday, which was planned to pressure the authorities of Novgorod to supply the necessary permits on time. In this period JOYCO did often not meet the predetermined terms.

In relation to payments, Carsten Bentsen did not believe that JOYCO would not pay, but more that their administrative procedures were very bureaucratic—or that they had just had two days of holiday. The solution was that DANDY mailed a reminder a few days before payment was due; this was not a notice but merely a reminder. As Carsten Bentsen expresses it: “You gradually get used to this and probably become more tolerant even though it never becomes acceptable that the time of payment is not met 100%. You can choose to create a conflict based on this or call and say that if payment is not

made, then this and this will happen. There has been and still is a different perception about how fast things should be done.” (Bentsen, a, 2002).

### Exhibit 7.2 Development of the entry relationship - second step



Source: Author

Red : Event that has a driving influence of the development of the relationship

Blue: Event that has a limiting effect on the development of the relationship.

In the following, the critical factors for the second development step will be discussed and analysed.

#### **7.4.1 Organisational experience—DANDY & JOYCO**

José Rosello ranked the factor “organisational experience” as the third critical factor for the development of the entry relationship. From the point of view of JOYCO, DANDY’s experience in establishment in the Russian market was an obvious advantage for the making of the relationship in the first place. The organisational experience was clearly expressed in the second development step, where Rosello estimated it to be decisive for the entire course of development. Rosello believed so because when the objectives had to be realized, it was easy for JOYCO to see that DANDY was experienced in the way they handled things. Rosello maintained that the establishment in Russia only went fast and easily because JOYCO could use DANDY’s knowledge about Russia.

Carsten Bentsen did not estimate that the factor “organisational experience” was as important as José Rosello estimated. He believed that the experience of the organisation in cooperating was partly built of successes and that it could help avoid conflicts, seek compromises, and reduce the perception of risk. (Bentsen, c, 2002) The experience of the organisation in cooperating was regarded by Carsten Bentsen to be most important in the first and second steps, when the interaction is most intense. In these steps the framework of the relationship must be determined, and structures, routines, and methods must be incorporated into how the relationship is to proceed. Particularly at this point, Bentsen believed, the experience of the organisation to cooperate could contribute to solving these issues (Bentsen, b, 2002).

Carsten Bentsen regarded it as important that DANDY build up competence in working in long-term strategical business relationships. Carsten Bentsen held that it was very important for future business relationships that the company structure and systematically gather experience gained from close work with other companies. Carsten Bentsen estimated DANDY to be a more experienced company in entering into long-term relationships as compared JOYCO. He felt that DANDY was more “mature” in this area and quickly perceived the business logic in the relationship and was therefore more quickly able to commit to a relationship, whereas JOYCO was less experienced and tested the area more. (Bentsen, b, 2002)

### 7.4.2 Management style—JOYCO

José Rosello ranked the factor “management style” fifth among the critical factors. In a market like the Russian that is unstable, changeable, and influenced by fierce competition, it was important to apply a fast-acting and aggressive management style. Rosello described the management style at DANDY in Russia in this way. This management style was expressed explicitly in the second development step, where Rosello believed the importance of the factor to have been decisive, as all that had previously been agreed had to be implemented on this step.

A divergence between the two management styles existed especially in relation to how things should be implemented, which according to José Rosello led to more discussions and the preparation of methods to handle this difference.

### 7.4.3 Individual and organisational flexibility—DANDY

The factors “individual and organisational flexibility” were ranked eighth and ninth by Carsten Bentsen. He estimated the factor to be most important in the second development step as compared to the other steps because more people were involved in the relationship at this point. Furthermore, the people involved in this step were met with a large need for changes and adjustments. The abovementioned example that described the English contract translated and adopted to Russian conditions shows a large amount of flexibility from both partners (cf. paragraph: Factor: trust).

Bentsen believed that flexibility was expressed through openness and understanding for each other's situation. As they act in a very unstable and changeable world, the relationship partners will be confronted with changes to which they must relate in connection to the relationship. It was consequently important for the relationship that the partners were able to make compromises. As Bentsen expressed it: *“Both partners must in the development of the relationship be willing to change direction and not be completely locked on a course they believed to be right from the beginning.”* (Bentsen, b, 2002)

### 7.4.4 Organisational culture—JOYCO

The factor “organisational culture” was ranked ninth by José Rosello. As it was a new plant that needed to be built and all employees to be hired, an organisational culture was not present until after the implementation. This lack of a sense of organisational belonging was very obvious in the second

development step, as no routines or procedures were established. Therefore Rosello estimated that this factor was important in the second development step.

The lacking organisational culture often resulted in frustration among the involved persons and led to much discussion and conflict that could have been solved primary internally, according to José Rosello.

#### **7.4.5 Conflict resolution and communication—DANDY & JOYCO**

Carsten Bentsen positioned the factor “conflict solution” last in the prioritized order. He held that several of the previously mentioned factors influenced the handling of conflicts, which meant that the factor “conflict handling” per se was not particularly important on its own. (Bentsen, c, 2002)

Carsten Bentsen regarded the factor “conflict resolution” to be important in the last two development steps. He said that in an entry relationship, the established obligation and commitment combined with the fact that both partners consider the relationship to have strategic importance for their development results in little conflict in the first development step; they arise later on. Bentsen believed that the factor was less important in the third development step then in the second development step. However, he did chose to give them the same degree of importance as different things changed in the market all the time, which meant changed conditions for one partner (that would also affect the other partner). This changeability led to new problems that had to be discussed and decisions that had to be revised (Bentsen, b, 2002).

The conflict that had occurred in the entry relationship had only been of a business-like character and not personnel-related. In the first development step, the discussion was of an economical character, for example: What should the rent of the building be, how can it be controlled, what about pre-emption right on shares? These were discussions where a “time out” was necessary in order for the partners to evaluate their situation alone and discuss further internally.

Carsten Bentsen believed that the two organisational cultures saw conflict resolution and problems differently. DANDY regards problem solving as structural, systematic, and logical, supported by plans specified with goals and targets. JOYCO on the contrary was much more explorative in their approach to solving problems and this approach could at times seem somewhat incidental. But at no time did Bentsen feel that the differences in problem solving prevented a good relationship. He felt that at all

times there was a will present to make compromises, as both partners could see the relationship advantages.

The factor “communication” and the factor “conflict solution” were ranked seventh and eighth by José Rosello, who chose to comment on the two factors together, as he regarded there to be a large connection between the two.

One of the overriding reasons for possible conflicts in the entry relationship was that specialists from DANDY, JOYCO, and Russia were all involved in the establishment of JOYCO’s plant in Russia. These specialists had, according to Rosello, their own perception of “the right way to do things” and the speed at which things had to be implemented. The need for many different people had to interact resulted in a lot of discussions and conflicts that needed to be resolved, according to Rosello, in particular in the second development step as this step involved more people.

#### **7.4.6 Social interaction and personal relation—JOYCO**

Rosello ranked that factor “social interaction” tenth. He did not think only of the interaction between DANDY and JOYCO, but also of the social interaction that he considered a necessity with the Russian authorities.

Here he estimated that this factor had most importance in the second development step. In relation to the interaction between DANDY and JOYCO, it was important in this step, where many different people were involved, to establish social bonds between the individuals. It took some time but Rosello believed that they were established last in the second development step.

The second development step in relation to the Russian authorities required a lot of social interaction between the authorities and the managements of DANDY and JOYCO. Rosello felt that the Russian authorities actually regarded this as a matter of course.

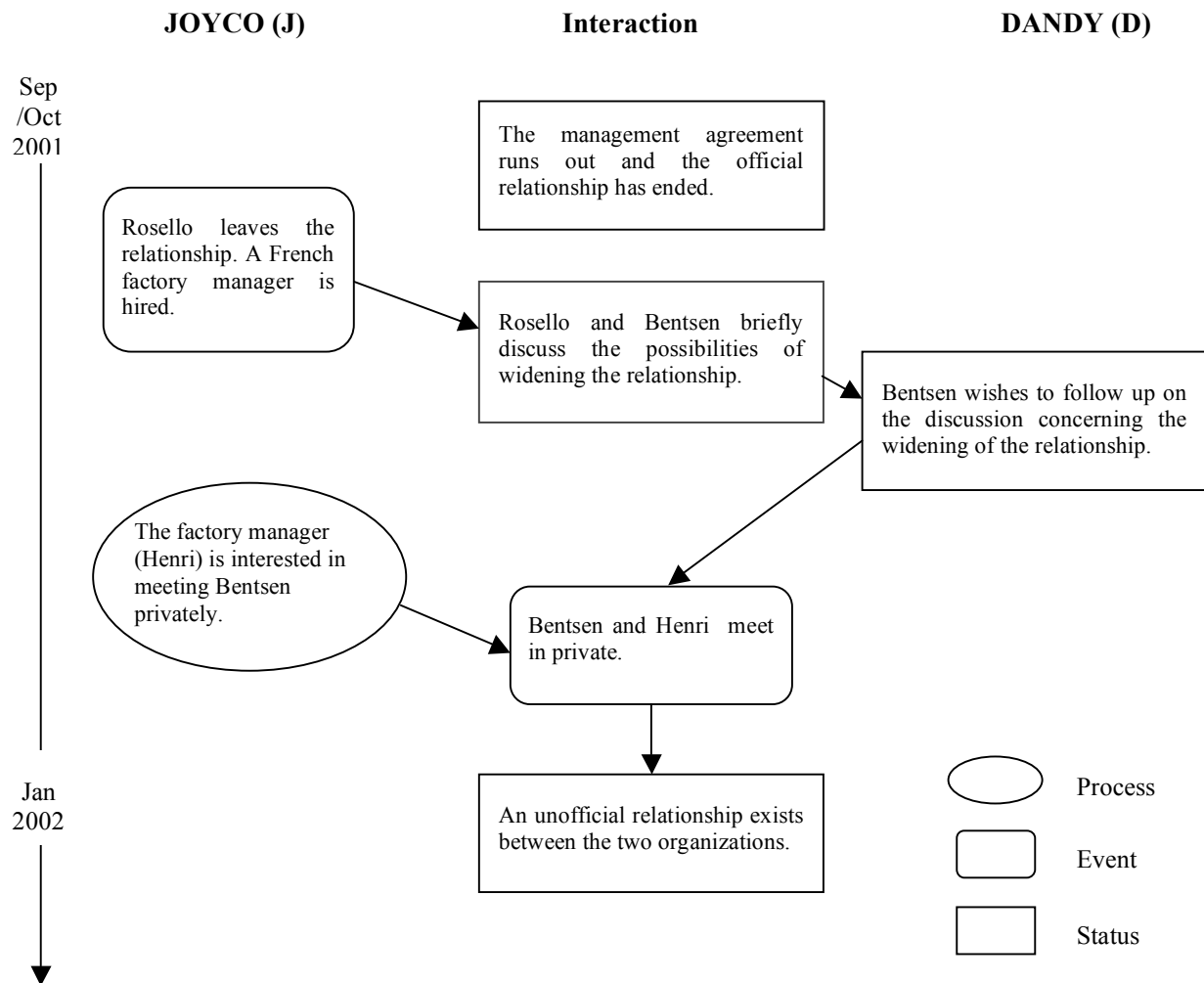
### **7.5 The third development step**

In the autumn of 2001, the establishment of JOYCO’s production was completed and the management agreement fulfilled. In the mature step, the implementation step was evaluated and only a few adjustments needed to be made and small problems solved. As the implementation of the Russian relationship was a limited project with a detailed project plan, it was easy to evaluate.



In the stable step, the project group was dissolved and José Rosello withdrew. JOYCO hired a new person from France to be responsible for JOYCO's plant in Russia. Therefore Carsten Bentsen and José Rosello only discussed briefly how the two companies could cooperate further in the Russian market. Some of the things mentioned were common purchase of raw materials and the establishment of an experienced group to discuss different topics and problems regarding the existing operations. It was Bentsen's aim to discuss these ideas with JOYCO's new plant manager in Russia. However, this aim became a little difficult as the close relationship had ceased and each company had an everyday life. JOYCO's new man in Russia was however very focused on building up a personal relationship with Carsten Bentsen, and he tried to determine some dinner appointments where the two could meet privately (Bentsen, a, 2002).

Today JOYCO functions as an independent legal unity in Russia renting DANDY's old buildings. Today, close relations have been established between JOYCO and DANDY in Russia, also through the extant distribution relationship. The two companies still use each other but in a more informal way, e.g., if problems arise.

**Exhibit 7.3 Development of the entry relationship - third step**

Source: Author

**Red:** Event that has a driving influence of the development of the relationship**Blue:** Event that has a limiting effect on the development of the relationship

## **7.6 Critical factors with equal importance for the entire development process**

The following will discuss the critical factors with equal importance for the entire relationship development process.

### **7.6.1 Openness—DANDY**

Carsten Bentsen ranked the factor “openness” fifth in relation to the other chosen critical factors and estimated that the factor would be equally important in all three steps in the development process of the business relationship. He considered it important that the partners were open to [[with]] each other throughout the entire relationship and said that this factor influenced the ability to create and maintain trust and to find solutions to problems and conflicts (Bentsen, c, 2002).

In order to demonstrate openness in relation to JOYCO, DANDY allowed JOYCO's employees to go everywhere in their departments in Novgorod and Moscow and openly told them about their chewing gum production. Because JOYCO is also a chewing gum manufacturer, DANDY was not able to tell everything about their product development, as the two companies are competitors in certain markets. Furthermore, DANDY introduced JOYCO to the authorities of Novgorod and to other decision makers in the city (Bentsen, b, 2002). According to Bentsen, JOYCO demonstrated their openness by inviting DANDY's employees to Barcelona, where they made a presentation about JOYCO. Bentsen estimated that this gave a larger understanding of JOYCO and their products. On top of this, the managing director of JOYCO, Javier Mir was very involved in the beginning of the relationship, which also helped to show JOYCO's openness.

### **7.6.2 Social interaction and personal relation—DANDY**

Carsten Bentsen regarded the factor “social interaction and relation” to be equally important during the entire relationship development process. He did not regard this factor as decisive only for the success of the relationship but also believed it would function well to resolve conflict, reducing administrative burdens and encouraging compromises. (Bentsen, c, 2002) He claimed that social relations must be made on more levels. In the beginning, it was the relationship between the top managements; in the intermediary and mature steps, the relationship was between the persons who had to implement and “maintain” what had been agreed. Therefore it was important that the people who had to work together were able to create a social relationship with each other. This demanded that the chemistry of the

involved persons fit to a certain extent and that it was possible to meet outside of the business relationship. As Carsten Bentsen put it: *“This was run by people—all is not systems and procedures.”* (Bentsen, b, 2002)

Bentsen described his social relations and José Rosello as good. They met privately and their families knew each other. This connection helped make it easier to resolve potential disagreements and address crises and misunderstandings in the course of the relationship. Thus, according to Bentsen, the social interaction and personal relation was a factor that made things run more smoothly.

He did however believe that a business relationship could work without any social contact. In that case, certain more strict frameworks apply as to how things are done. *“But you can compare the social relation with waxing your skies; you can ski without wax but the ride is going to be more smooth and nice if you wax your skies!”* (Bentsen, b, 2002) Bentsen further emphasizes, *“The strong structural bonds help glue things together and the social bonds make things run more smoothly.”* (Bentsen, b, 2002)

Bentsen also maintained that good social relations between the involved persons in a business relationship could help create development in that relationship, because the more intense communication between the individuals increased the likelihood that topics not directly linked to the business relationship would be discussed.

## **7.7 Discussion of the motives for the selection of specific critical factors**

Table 7.3 summarizes DANDY’s and JOYCO’s estimations of the critical factors in the individual development steps.

**Table 7.3 Summary of the importance of the critical factors in the individual steps**

Factors	1 <sup>st</sup> Development step	2 <sup>nd</sup> Development step	3 <sup>rd</sup> Development step
Flexibility-individual	.....	.....	.....
Strategic importance	.....	.....	.....
Expectations	.....	.....	.....
Risk willingness	.....	.....	.....
Specialist competence & experience	.....	.....	.....
Openness	.....	.....	.....
Organisational culture	.....	.....	.....
Management style	.....	.....	.....
Flexibility-organisation	.....	.....	.....
Commitment	.....	.....	.....
Trust	.....	.....	.....
Communication	.....	.....	.....
Power & dependence	.....	.....	.....
Conflict resolution	.....	.....	.....
Social interaction & personal relation	.....	.....	.....

Source: Author   : **DANDY**   : **JOYCO**

As in the distribution relationship, the respondents generally estimated the factors to be most important in the first two development steps. Cf. Table 7.3. Thus the author concludes that, as for the distribution relationship, both Bentsen and Rosello considered the first two developments steps to be decisive for the entry relationship.

If the assumptions put forward in the *a priori* model are considered in relation to the importance of the factors for the entry relationship, the project managers chose only one individual-related factor<sup>62</sup> they estimated it to have prevailing importance in the second development step. This outcome does not coincide with the *a priori* framework's assumption that the individual-related factors will be important in the first development step. The two project managers considered the organisation-related factors most important in the first two development steps, with a tendency towards assigning them greatest importance in the first development step. Similarly, then, no agreement with the *a priori* framework can be found, as the *a priori* framework assumed that the organisation-related factors were most important in the second development step.

If the critical factors chosen by DANDY are regarded, five were considered most important in the first development step. However, it must be underlined that Carsten Bentsen regarded the critical factor "openness" to be equally important in each of three development steps. If the critical factors chosen by JOYCO are regarded, three were most important in the first development step, whereas two were most important in the second development step (cf. Tables 7.2. and 7.3). Therefore, the first development step is more decisive for the successful development of the entry relationship. If the critical factors are regarded in relation to the four groups of factors, they are almost equally distributed between the category "organisational factors" and the category "inter-personal and inter-organisational factors" with an emphasis on the organisation-related factors.

As with respect to the distribution relationship, the respondents did not choose any environmental factors. However, Carsten Bentsen chose the factors "flexibility of the individual" and "flexibility of the organisation" and emphasized in the discussion of these two factors that it is important that the individual and the organisation must be flexible in order to match the changeable and unstable surrounding world characterized by Russian society.

Another aspect that must be emphasized in relation to the environmental aspect is the establishment of social relations to the surrounding Russian world—more specifically, with the Russian authorities. DANDY and JOYCO were convinced that some elements in the Russian context had to be handled in a certain way by the companies in order for the establishment to be carried out successfully. Based on this thinking, the surrounding world is important in several ways for the establishment relationship.

<sup>62</sup> It must be prioritized that there is a great likelihood for an overweight of chosen organizational and inter-personal and inter-organizational factors as the number of possible factors is larger in these two categories as compared to the other two categories (individual related factors and surrounding world related factors).

Both project managers regarded the factor “the strategical importance of the relation” as a critical factor for the entry relationship. As in the distribution relationship, both respondents considered this factor to be decisive in the first development step. Both respondents argued that it is the top management who estimate the strategical prospects in the relationship and it is in particular in the first step that their participation in the process is found.

Like in the distribution relationship, José Rosello chose the factor “expectations” as the second critical factor for the relationship. He again argued that it was very important that the two companies had almost the same expectations as to the extent and horizon of the relationship. One of the reasons why Carsten Bentsen did not choose this factor can surely be found in the fact that DANDY offered JOYCO a service to manage their establishment of a production in Russia. In that way, it was JOYCO that was faced with clarifying its expectations of the establishment process. José Rosello emphasized that JOYCO was very experienced in establishing production and consequently had clear expectations as to the establishment process.

Approximately the same reasoning can be found for why only JOYCO chose the factor “risk willingness” to be important. To build a plant is a considerable investment, which in this case was connected with a greater than normal risk. A risk that DANDY did not have to entertain and therefore found less important to their overall experience of the relationship.

Carsten Bentsen and José Rosello regarded the factor “organisational experience” as important for the development of the relationship. The reason why Carsten Bentsen estimated this factor to be very important in the first development step can be assumed to be because it was in this step DANDY had to convince JOYCO that they possessed a large organisational experience in establishment on the Russian market. On the contrary, to JOYCO the factor was decisive in the second development step. As JOYCO had chosen to let DANDY manage the establishment process in Russia, they were very dependent on DANDY possessing the needed experience in carrying out the process because it would otherwise mean a great financial loss to JOYCO.

The factors “trust” and “commitment” were both regarded as decisive by Carsten Bentsen, while José Rosello only selected the factor “commitment” as decisive for the entry relationship. Rosello did not even comment on the factor “trust” during the entire interview focusing on the entry relationship. This lack of comment immediately surprised the author somewhat as trust was a factor emphasized by all the other respondents. The author interprets that two things could cause this disparity. First of all, it can be assumed that José Rosello through the distribution relationship has already built up a trust in DANDY and that the factor consequently had no particular importance to him during the following

two relationships. A second reason could lie in DANDY project managers' perceptions of the Spaniard. In two of the interviews, they drew attention to the fact that some North Europeans believe that Southern Europeans are less trustworthy and trusting as compared to the North Europeans. It could be assumed that these prejudices have marked the course of the relationship in such a way that the project managers from DANDY have paid a lot of attention to building up trust in JOYCO.

Only José Rosello regarded the factor "organisational culture" critical for the development process. However, he regarded the factor differently compared to the other interviewees—more like "lack of organisational culture." As JOYCO unlike DANDY at that time had a company with an established organisational culture, the lack of organisational culture was often frustrating for JOYCO's employees in Russia. JOYCO's employees were physically positioned in the DIROL organisation, which meant that the employees felt divided by not being part of DIROL but being a part of something under construction.

Unlike Rosello, Bentsen did not regard the factor "management style" as important for the entry relationship. However, Carsten Bentsen did several times during the interview mention that JOYCO's slow decision-making process often irritated DANDY. It can therefore be suggested that Bentsen does not regard organisational decision-making style as part of management style. However, it must be emphasized that Carsten Bentsen did not choose this factor as a critical factor, but chose the factor "communication" as critical. Carsten Bentsen suggests that the factor "communication" and "social relation" help dissolve the differences that might otherwise be attributed to differences in management style.

The factor "social relation and interaction" was considered to be a critical factor by both project managers, however with a different estimation of its importance in the individual steps in the development process. Carsten Bentsen estimated it to be equally important in each of the three development steps, whereas José Rosello estimated it to be decisive in the implementation step. One of the reasons for this distinction could be Rosello's perception that social relations were important in order to overcome conflicts and discussions between the specialists in that step. Furthermore, Rosello emphasized the establishment of social relations with the Russian authorities as one of the tasks in the second development step. It does however seem natural that José Rosello emphasized this process, as this was something with which he had not been previously acquainted.

A further thing to be stipulated with respect to the factor "social interaction and relation" is that Carsten Bentsen underlined that he estimated this factor to be more important to JOYCO than to DANDY in relation to establishment of trust. What is interesting in this connection is that Bentsen



nevertheless ranked the factor fifth, while Rosello ranked the factor tenth. This difference could be caused by the fact that Bentsen felt that the entry relationship focused on the establishment of good social relations, whereas Rosello perceived this process as a matter of course.

Only Carsten Bentsen chose the factor “openness” as a critical factor for the Russian establishment relationship. It is assumed that one of the elements in DANDY’s organisational culture is openness. During the first interview with managing director Lars Funder, the “open-book” principle was stated as being extremely important when you have to cooperate. This principle was stipulated by each of the three project managers with DANDY at some point during one or more of the three interviews. Therefore the author assumed that it is an aspect much emphasized by DANDY’s management, which could be a possible reason why Carsten Bentsen estimated this factor to be a critical factor with a similar importance for the entire development process.

## **7.8 Discussion of the individual factors interrelatedness**

The interviews with Bentsen and Rosello drew the author’s attention to several connections between the critical factors. The description of these connections to follow is built only on the perceptions of Bentsen and Rosello as to which factors influence each other during the entry relationship.

The factor “communication” was considered by Carsten Bentsen to be a factor that influences several of the other factors. According to Bentsen, this factor influences the establishment of trust and commitment, conflict handling, and both individual and organisational flexibility.

Furthermore, Carsten Bentsen estimated there to be causal influence between the factors “openness” and “communication”—if the partners are mutual open to each other, this helps create a good communication between the partners. Based on this, it must be concluded that Bentsen estimates the factor “communication” as having a very central influence on the development of the establishment relationship.

He also maintained that there were several factors that could inspire confidence: openness, communication, and social interaction and relation. At the same time as the factors “trust” and “commitment” had an influence on each other—to demonstrate commitment inspires confidence and confidence inspires commitment. In the same way, there were several factors that influenced commitment: the strategical importance of the relationship, the experience of the organisation, communication, and trust.

José Rosello believed that there was a connection between the factors “commitment” and “risk willingness.” He stated that as JOYCO felt a large commitment to the relationship, they also showed great risk willingness by accepting to position production in Russia.

From the interviews, it also became apparent that several factors influenced conflict handling. Carsten Bentsen considered them to be social relation and interaction, communication, organisational experience, and organisational culture. This [[what?]] was the reason Carsten Bentsen ranked the factor conflict handling ninth. If you have good handling of the previously mentioned factors, this will influence the conflict handling positively. That is why this factor in isolation is not that important for the development of the relationship. (Bentsen, c, 2002)

Likewise, José Rosello regarded the factor “communication” to be very important for the solution of conflicts. Rosello also put forward that he estimated that the lack of organisational culture within or between DANDY and JOYCO meant that more conflicts arose as compared to between two cooperating companies each with its own established organisational culture.

## **7.9 Discussion of critical factors in relation to the course of events**

The first aspect that the author wishes to emphasize is the importance of the fact that DANDY demanded that JOYCO establish production in Russia to JOYCO’s perception and selection of some of the important factors for the entry relationship. From the point of view of JOYCO this demand was connected with a large risk and large dependence on DANDY. These features no doubt influenced JOYCO’s expectations of this process and the author estimates that they were important for José Rosello’s selection of the factors “expectations,” “risk willingness,” and “power and dependence.”

JOYCO had also just hired a new managing director, Javier Mir, who was preparing new strategies for JOYCO as well as getting acquainted with JOYCO’s products, the trade, competitors, etc. This meant that Javier Mir did not focus on the entry relationship all the time, which in turn meant that decisions could be prolonged. Carsten Bentsen regarded this process as requiring a great deal of time and communication. José Rosello also sensed that there was a difference between the two companies as to how they perceived the speediness of the realization of things. According to the author, this has no doubt influenced Carsten Bentsen’s choice of the factor “communication” and José Rosello’s choice of the factor “management style” as decisive for the entry relationship.

At a certain point in time during the relationship, communication problems were on the rise, which according to the two project managers was primarily caused by the fact that specialists from three countries were involved in the process. They all had their perception of how things should be handled. The author believes that this can have influenced Carsten Bentsen's estimation of the factors "conflict handling" and "organisational flexibility" as important for the entry relationship.

The fact that JOYCO's plant was under construction and JOYCO consequently did not have an organisational culture<sup>63</sup> often meant that JOYCO's employees were frustrated, which resulted in more conflicts. This has no doubt influenced José Rosello's choice of the factor "organisational culture" as important for the entry relationship.

## Chapter 8 The Outsourcing Relationship

In the following the outsourcing relationship will be described, discussed, and analysed.

### 8.1 Identification of the three development steps for the outsourcing relationship

As for the distribution and entry relationships, it was possible to identify three development steps for the outsourcing relationship. The description of the outsourcing relationship is based on interviews with project manager Inga Felt from DANDY and strategical manager José Rosello from JOYCO.

Table 8.1 summarizes how the outsourcing relationship has developed in relation to the step model.

**Table 8.1. Identification of the three development steps for the outsourcing relationship.**

	Development step 1	Development step 2	Development step 3*
<b>Identification of specific characteristics for the development step of the outsourcing relationship</b>	<p>In the beginning of 2000, Jens Andersen and José Rosello started to discuss the possibilities of an outsourcing relationship</p> <p>May 2000, contract negotiations commence between Inga Felt and José Rosello concerning the outsourcing relationship.</p> <p>The framework of the relationship is outlined.</p>	<p>September/October 2000, the responsible parties involved are drawn into the relationship</p> <p>In November 2000, the contract is signed.</p> <p>During the first quarter of 2001, the integration of the production of DANDY's bubblegum at JOYCO commences.</p> <p>April/May 2001, JOYCO's first failed delivery of DANDY's bubblegum.</p>	<p>Since the third quarter of 2001 the production of DANDY's bubblegum at JOYCO has run smoothly.</p> <p>October/November 2001, Inga Felt and José Rosello discuss the possibilities of joint goods purchase.</p>

Source: Author.

\*Commenced by the then logistics manager Lars Jensen

From table 8.1 it can be seen that the outsourcing relationship was approximately eight months in the first development step. The implementation of the production of DANDY's bubblegum with JOYCO lasted approximately one year. As of the third quarter of 2001, the production of DANDY's bubblegum with JOYCO has run without complaint and at present there are no intentions of changing partners in this relationship. Like with the previous two relationships, the contract was first signed during the first development step. It appeared that it started or it took place that the integration of the DANDY bubblegum production with JOYCO commenced before the contract was signed.

## 8.2 The critical factors for the outsourcing relationship

With regard to the outsourcing relationship, the project managers were asked to choose up to ten critical factors for the development of this relationship. Inga Felt and José Rosello chose to select only seven and eight critical factors respectively in relation to this relationship. Both respondents said that they felt that the more limited number of factors correctly provided a realistic picture of the outsourcing relationship.

The table below summarizes the critical factors chosen by DANDY and JOYCO.

**Table 8.2 Chosen critical factors in a prioritized order**

	DANDY	JOYCO
<b>Critical factors</b>	<ol style="list-style-type: none"> <li>1. Organisational experience</li> <li>2. Strategic importance of the relation</li> <li>3. Trust</li> <li>4. Commitment</li> <li>5. Communication</li> <li>6. Social interaction and personal relation</li> <li>7. Priority of partner's products on equal terms with own products</li> </ol>	<ol style="list-style-type: none"> <li>1. Expectations</li> <li>2. Organisational experience</li> <li>3. Strategic importance of the relation</li> <li>4. Openness</li> <li>5. Commitment</li> <li>6. Power and dependence</li> <li>7. Flexibility-organisation</li> <li>8. Communication</li> </ol>

Source: Author, based on the interviews with Inga Felt, DANDY, and strategical manager José Rosello, JOYCO. The factors written in red are factors that were chosen by both respondents.

Based on table 8.2, it was apparent that there was agreement on four of the factors chosen by the respondents: organisational experience, strategical importance of the relation, communication, and commitment. Thus there was reasonably large agreement between the two project managers at to which factors could be considered critical for the development of the outsourcing relationship.

### 8.3 The first development step

In the beginning of 2000, Jens Andersen and José Rosello started to discuss the possibility of JOYCO producing DANDY's bubble gums. At that time, DANDY had already decided that they wanted to build up their competences within dragée chewing gum, of which bubble gum is not a part. While JOYCO was interested increasing their production, their costs needed to be lowered. DANDY's primary target group is the 18- to 30-year- old, however, with the exception of their children's dental chewing gum aimed at younger children.

JOYCO is one of the leading companies within bubble gum production. DANDY regarded JOYCO as very creative and innovative in relation to the children's segment. Children are seen as a very loyal customer group; it is therefore very important to maintain their interest in the product. JOYCO does so by combining the purchase of bubble gum with different kinds of collection items: children's tattoos or stickers of popular characters. DANDY wanted to outsource their bubble gum because they wanted to focus on dragee chewing gum.

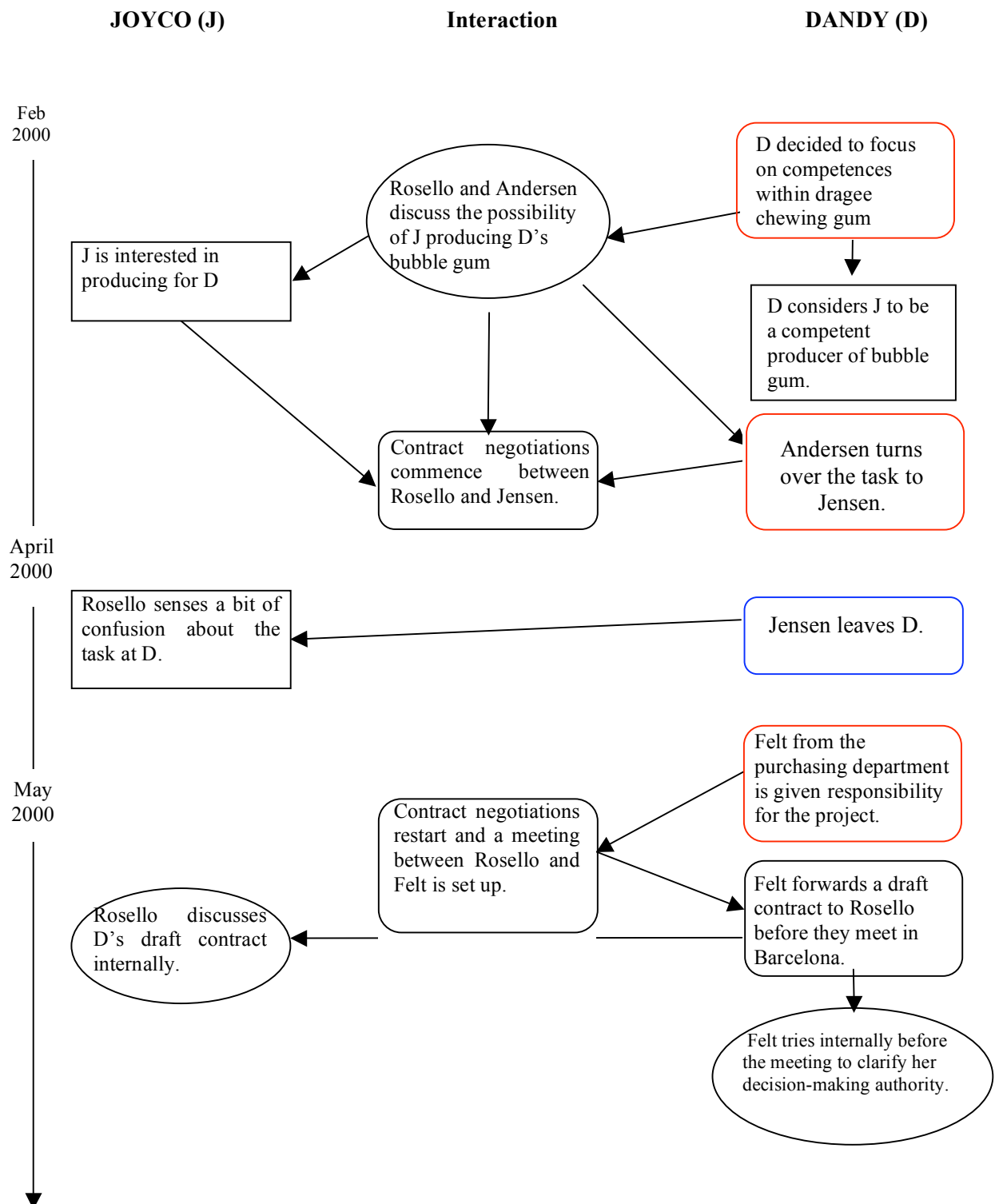
In April 2000, the contract negotiations commenced regarding the outsourcing relationship. From the beginning, the negotiations were between José Rosello, JOYCO, and Lars Jensen, DANDY's logistics manager. Shortly after the commencement of the negotiations Lars Jensen resigned from DANDY, which meant that a new person had to be assigned. At this point in time, José Rosello says there was a little confusion with regards to the relationship and who was responsible for the outsourcing project.

In May 2000, Inga Felt from the purchasing department at DANDY was assigned to the tasks that consisted of finalizing and then implementing the contract. At the time of the transfer, different proposals as to the shape of the outsourcing relationship were prepared. Inga Felt met the people from JOYCO for the first time when she visited DANDY's purchasing department in Russia to discuss how the two companies could unify purchases, which was another relationship between the two companies that was under discussion at that point. At that time, Inga Felt had no knowledge of JOYCO. In Russia, she agreed to meet José Rosello in Barcelona, where the outsourcing contract was to be discussed. José Rosello and Inga Felt decided to start their meeting in Barcelona with an informal breakfast in order to get to know each other better before the contract negotiations commenced. At that time, José Rosello and Inga Felt only knew each other by name and through correspondence per e-

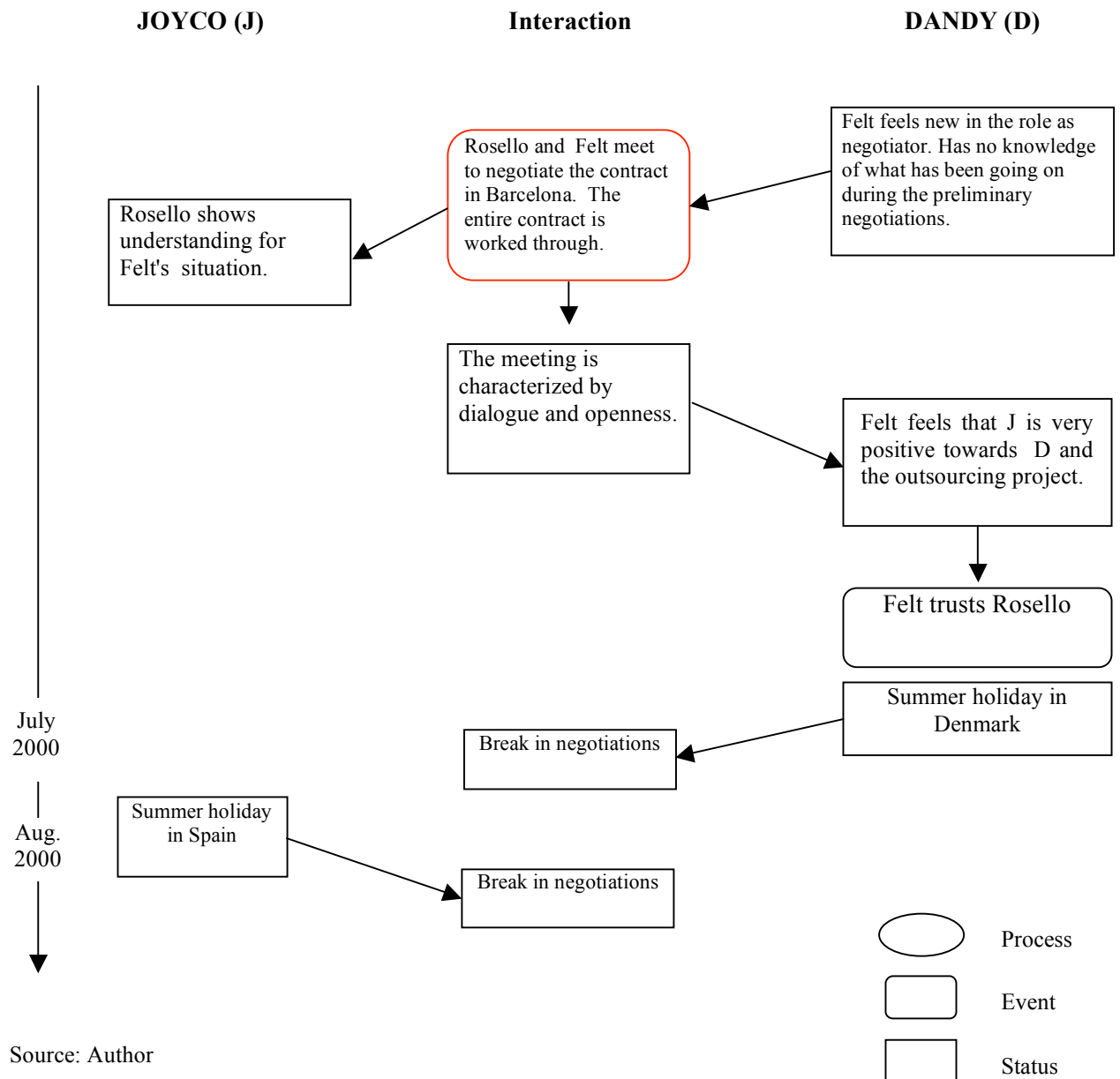
mail (Felt, a, 2002). Before the first meeting, Inga Felt had forwarded the latest contract draft to José Rosello, who gave feedback before the meeting. This exchange meant that José Rosello and Inga Felt already before the meeting had an idea of what needed to be discussed or negotiated further. As Inga Felt did not feel particularly experienced in relation to contract negotiations, it was important for her to clarify in relation to DANDY what scope she had in these negotiations.

During the meeting, Inga Felt and José Rosello went through everything in the contract. If there was disagreement, both persons openly and honestly went into dialogue aimed at finding a solution to the problem. Inga Felt regarded the negotiation that took place in the first development step as very easy and quick. However, she believes that this is primarily due to the fact that José Rosello and JOYCO had several relationships with DANDY and were therefore positive towards the relationship (Felt, a, 2002).

In Exhibit 8.1 outlines the course of events in the first development step.

**Exhibit 8.1 Development of the outsourcing relationship - first step**





Source: Author

**Red :** Event that has a driving force on the development of the relationship

**Blue:** Event that has a limiting effect for the development of the relationship

In the following the critical factors for the first development step will be discussed and analysed.

### 8.3.1 Trust—DANDY

Inga Felt regarded the factor “trust” to be the third most critical factor. She estimated that it was decisive in the first two development steps. She argues that it was decisive for the success of the relationship that the top managements felt that there was trust between the partners or else the

outsourcing relationship would not have commenced. Inga Felt could feel when she got involved in the outsourcing relationship that trust had been established between JOYCO and DANDY on the organisational level because of the relationship in Russia. She felt that this was much more about building trust between herself and José Rosello and JOYCO. Inga Felt had previously been in contact with JOYCO's purchasing department but not with José Rosello. When she for the first time visited JOYCO for the first contract negotiations, she was given an open and professional reception at JOYCO. As Inga Felt expressed it: *"I actually felt that I was one of their own employees."* (Felt, b, 2002)

Inga Felt believes that trust in José Rosello was built very quickly. He was, according to Felt, a very open and honest person who had a large positive influence on the building of trust. He also demonstrated an understanding for Inga Felt's situation and took time to introduce her to what was going on before she was involved in the relationship. José Rosello did however mention to Inga Felt that the outsourcing relationship had been a difficult process as many different persons had been involved in the process. Inga Felt did not think that this difficult process had affected the trust between JOYCO and DANDY (Felt, a, 2002). Rather, Inga Felt felt sensed that the DANDY departments influenced by the outsourcing agreement found it difficult to trust JOYCO, in particular in the second development step, for several reasons. First of all, DANDY had never before tried to outsource an inhouse production to another company, so this was a very new process where the departments involved had no previous experience. This inexperience gave rise to a lot of discussions and insecurity on the more operational levels regarding whether JOYCO was the right partner to take on this task. Felt estimate the insecurity of some at DANDY towards the process is reflected in the very detailed and specific contract. Secondly, there were several departments that were personally involved in the process as some of their tasks were transferred to JOYCO.

According to Inga Felt, these things could have an intense negative effect on the building of trust. This negative effect was made worse by JOYCO missing the first delivery of Shake<sup>64</sup>. She met comments like: "There you see, now the first delivery is delivered and even that they cannot do—we need to get out of this relationship as fast as possible; you cannot cooperate with a Spaniard!" (Felt, b, 2002) However, Inga Felt feels today that the entire DANDY organisation trusts JOYCO very much.

<sup>64</sup> A bubble gum with a high content of sal-ammoniac.

### 8.3.2 Commitment—DANDY

The factor “commitment” was estimated in the same way of the factor “trust,” as Inga Felt was convinced that the factors “trust” and “commitment” go together. As a result, Inga Felt rated “commitment” fourth in relation to the other factors. She argues that if the company managements are not committed to the relationship, the relationship will possibly never even exist. She estimated the factor “commitment” to be decisive in the first development step. The reason why this factor is considered decisive for this step was that Felt was convinced that it was important for the development of the business relationship that the top management was fully engaged and committed to the relationship. Inga Felt did not rate “commitment” as the most important factor for the development step, because it was not enough that the top management was committed to the relationship. It was also important that the underlying organisational levels were committed, as they are involved in the relationship on a daily basis.

It was important per Inga Felt that DANDY sensed that JOYCO felt obliged towards DANDY’s products and was engaged in the development and production. “JOYCO is more than a supplier to DANDY, as the product development is also placed within JOYCO.” This also applied when prices and forecasts were discussed. (Felt, b, 2002) If DANDY suddenly feels that the commitment to their products from the point of view of JOYCO is decreasing, Inga Felt does not doubt that you will start to discuss internally at DANDY if JOYCO is still the right outsourcing partner. (Felt, b, 2002)

### 8.3.3 Expectations—JOYCO

José Rosello ranked the factor “expectations” as the first critical factor for the outsourcing relationship. José Rosello focused in particular on that JOYCO had to match or live up to DANDY’s expectations of JOYCO as sub-supplier, in particular with respect to product development and quality. The factor was decisive in the first development step as this was the point where all expectations were harmonized and an overall structure for how, e.g., new taste variants had to be developed and tested. However, José Rosello estimated that this critical factor was important in the more mature development steps as JOYCO constantly had to live up to DANDY’s expectations and demands of an outsourcing partner even though the relationship had moved to the last development step. This means, said Rosello, that JOYCO had to think new ideas all the time in relation to the development of DANDY’s bubble gum, so that DANDY constantly felt that JOYCO was a competent business

partner. José Rosello felt that DANDY even today<sup>65</sup> is satisfied with JOYCO as producer of their bubble gum.

### 8.3.4 The strategical importance of the relationship—DANDY & JOYCO

The factor Inga Felt ranked “the strategical importance of the relationship” as the second critical factor for the outsourcing relationship. She estimated that this factor was decisive for the first development step and argued that in this development step the top management evaluated the relationship and its strategical importance. If the top management could not see a long-term perspective in the outsourcing relationship, the outsourcing would never be established.

As noted before, the strategical perspective for DANDY in outsourcing their bubble gum was primarily that DANDY wished to use its resources more intensively on building up their competences in the dragée chewing gum—an area to which bubble gum does not belong. In this way, DANDY freed some resources by placing the production of bubble gum with JOYCO. Furthermore, DANDY’s management was, according to Inga Felt, convinced that JOYCO was more competent in producing childrens’ products than was DANDY.

José Rosello also chose the factor “the strategical importance of the relationship” as a critical factor for the outsourcing relationship. He estimated the outsourcing relationship to be an important part of the total JOYCO-DANDY relationship. “This relationship helped make the entire JOYCO-DANDY relationship broader and thereby more important to both companies’ strategical perspectives.” (Rosello, 2002) Rosello also estimated the factor to be decisive in the first development step as it was in that step finally decided to outsource DANDY’s bubble gum to JOYCO. This decision would never have been taken if DANDY had not been able to see the long-term perspective in the relationship, Rosello estimated.

### 8.3.5 Openness—JOYCO

The factor “openness” was ranked fourth among the critical factors chosen by José Rosello. He felt that JOYCO was very open in relation to providing DANDY with insight into their prices, production, and product development. It was therefore important to JOYCO to make the relationship work.

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<sup>65</sup> Year 2002

According to Rosello, JOYCO was very fair both regarding their price per produced unit and in relation to the price of the machines they bought from DANDY. On the other hand, José Rosello also felt that DANDY was very open when they implemented the production line at JOYCO. He did not feel that they withheld any knowledge in relation to production of the taste variants or the development of these variants. Rosello felt that the critical factor “openness” had the largest importance in the first development step as the prices of different items to be part of the contract were discussed at this stage. José Rosello generally felt that these negotiations were characterized by openness and he did not at any point in time feel that information was hidden.

### **8.3.6 Power and dependence—JOYCO**

José Rosello perceived this factor from two perspectives: in relation to the overall DANDY-JOYCO relationship and in relation to the outsourcing relationship. In relation to the overall relationship, José Rosello felt that power and dependence were more evenly divided after the agreement about the outsourcing relationship had been put in place. Before that José Rosello felt that JOYCO’s dependence on DANDY was large, but with the outsourcing relationship this dependence was more equal.

Rosello ranked the factor “power and dependence” sixth and estimated the factor to be important in the first development step. In the course of the negotiations, the power and dependence of the companies became more visible.

## **8.4 The second development step**

It had been the aim of Inga Felt to finish the contract before the Danish summer holiday in July 2000, but she did not succeed, partly because she found it difficult to clarify her decision-making authority and scope at DANDY. This delay meant that the negotiations first ran into the Danish summer holiday and then the Spanish summer holiday. Inga Felt was convinced that if she had known her decision-making authority, the contract could have been finished in the beginning of July 2000.

In November 2000, the contract was signed. At this time, the implementation of the outsourcing relationship had already commenced. The content of the contract said that DANDY’s entire production and product development of bubble gum was outsourced to JOYCO. In the agreement, it was established that JOYCO should develop up to two new flavor variants each year on DANDY’s

demand and approved by DANDY. The contract also required the sale of a particular machine to JOYCO. Because parties no longer working at DANDY had inserted the sale and collection of the machine into the contract, no one at DANDY understood why the machine was part of the agreement. (Felt, a, 2002). The collection of the machine was very late. The machine was not collected before 17 December 2001.

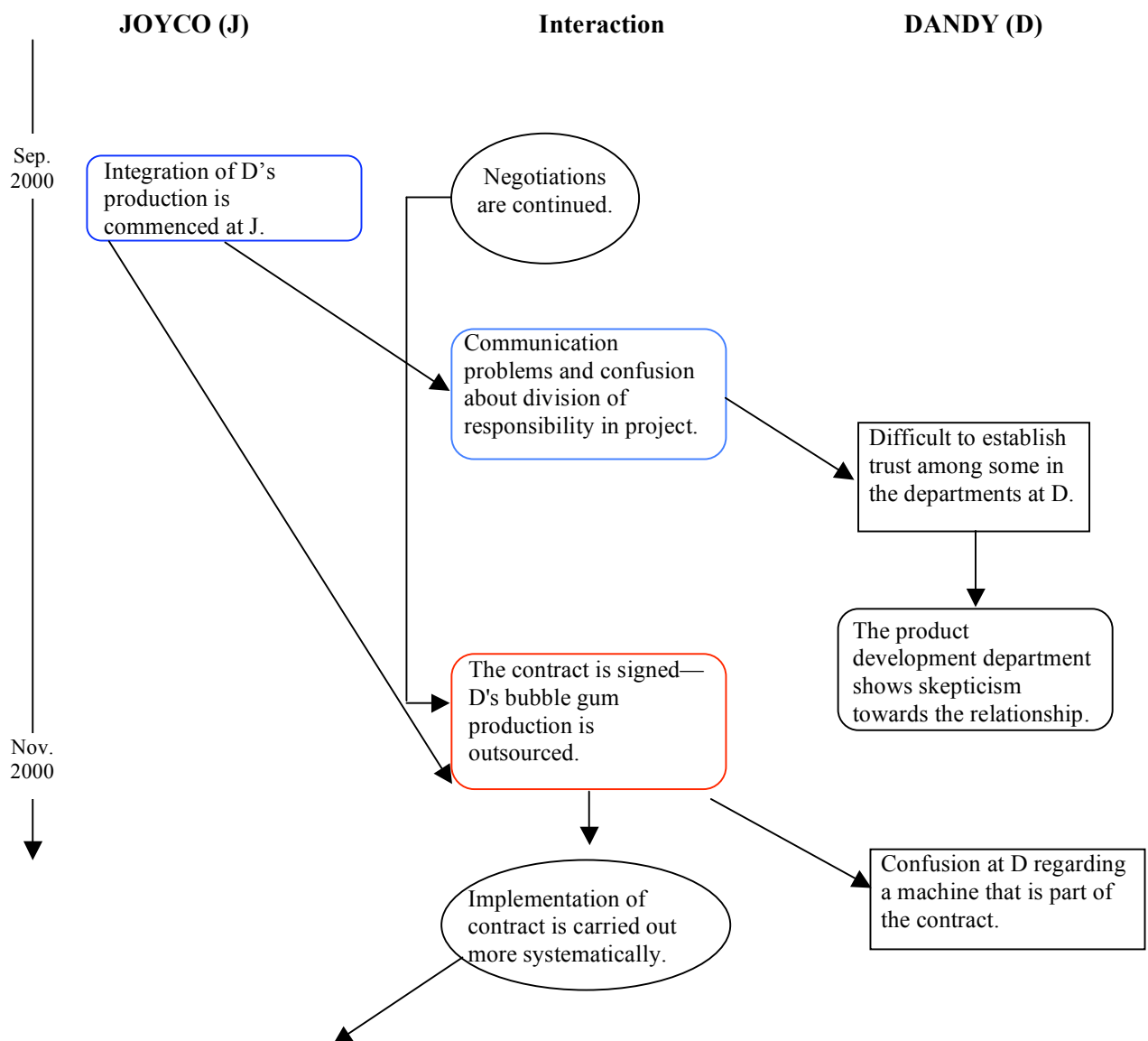
Before the contract was finally in place, the integration of the production of DANDY's bubble gum at JOYCO had commenced and the relationship moved on to the second development step. In order to ease this implementation step, Inga Felt prepared a template where she described in detail the individual assignments in the production of bubble gum as well as the persons in charge for these assignments. The aim with this template was to provide JOYCO with an overview of contacts in relation to the different assignments connected with the production of DANDY's bubble gum.

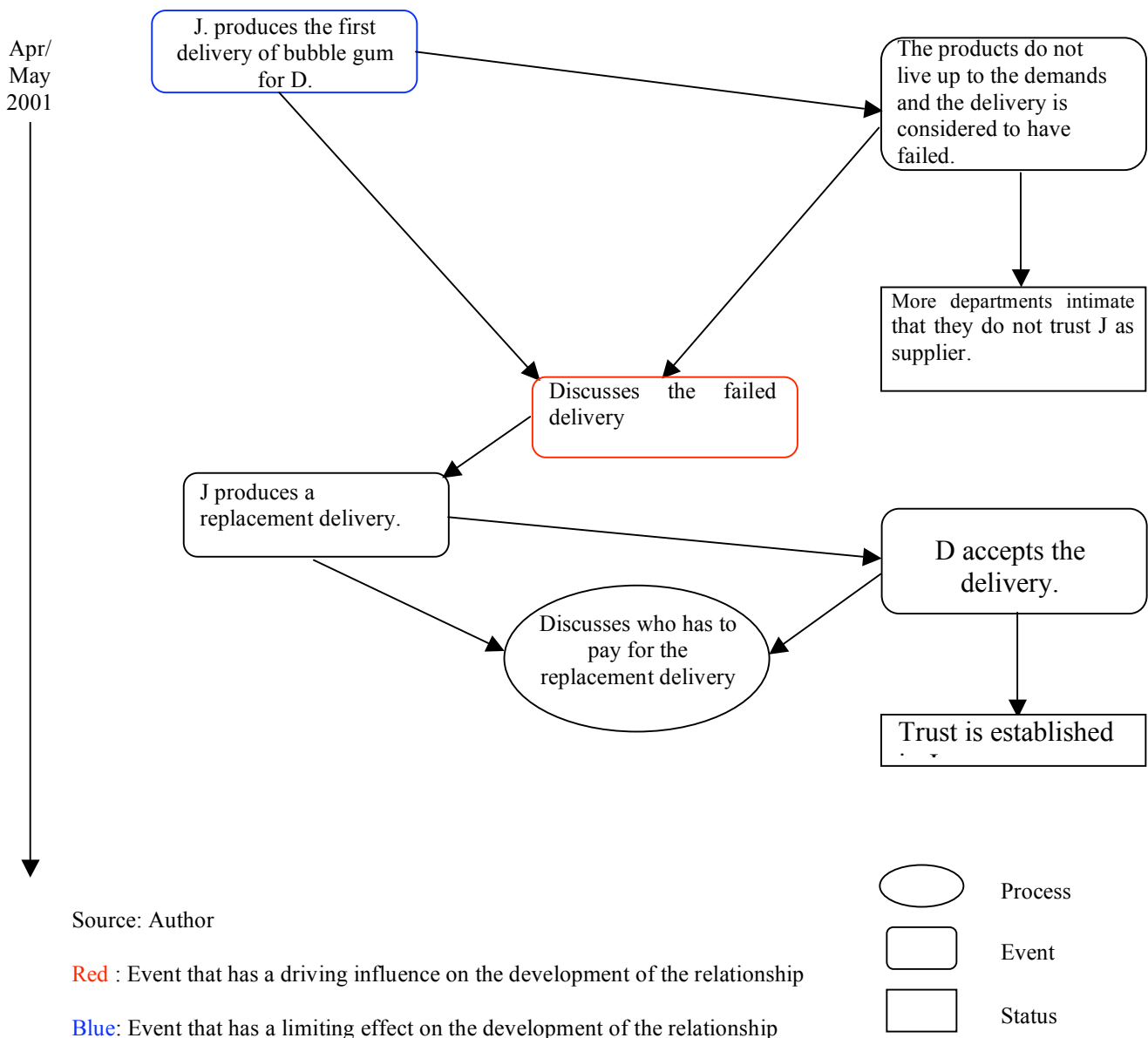
In April/May 2001, the first delivery of bubble gum came from JOYCO. They were to have produced the bubble gum Shake, which has a large content of sal ammoniac. They failed this delivery. One bubble gum was too soft; another had the flavor used for the previous production of another bubble gum. There was clear cause for a claim. This failed shipment produced a lot of commotion at DANDY as several persons expressed their opinion in relation to JOYCO not being competent enough to produce DANDY's bubble gums. Inga Felt sensed that several in the DANDY organisation subsequently could not commit to the relationship. Inga Felt, however, believed there were several reasons for this lacking commitment. First of all, in relation to product development, some assignments handled internally were now placed outside DANDY. At the time of the outsourcing of the bubble gum production, the product development department disagreed with the decision that the development of new flavor variants also had to be outsourced. So when JOYCO missed the first delivery of Shake, this subject was of course discussed again.

The reason why the first production of Shake failed was, according to Inga Felt, that DANDY had not given JOYCO the knowledge particularly necessary for the production of Shake. Salmiak bubble gum is a taste variant that is almost solely produced in Scandinavia. Inga Felt said: "JOYCO is an expert in producing bubble gum but not sal-ammoniac products." (Felt, a, 2002) When JOYCO was subsequently given the knowledge about producing Shake for DANDY, JOYCO's replacement delivery fulfilled the criteria for Shake with regard to consistency and taste. Subsequent, there were some discussions regarding who had to pay for the failed delivery. Since this first claim, the products produced by JOYCO have always met in full DANDY's demands regarding bubble gum.

Inga Felt sensed signs of mistrust also within marketing and sales as their deadlines slipped because Shake could not be delivered as agreed. She felt that the commitment and trust in the relationship with JOYCO were not really established internally in DANDY before the production of DANDY's bubble gum went smoothly.

**Exhibit 8.2 Development of the outsourcing relationship - second step**





In the following, the critical factors for the second development step will be discussed and analysed.

#### 8.4.1 Organisational experience—DANDY & JOYCO

Inga Felt chose “experience - organisation” as the first critical factor.

From a process perspective, Inga Felt estimated that the factor “experience - organisation” was very important in the second development step. Inga Felt argued that it was not until production had to be



integrated that DANDY could estimate if JOYCO was competent enough to produce the bubble gum in a satisfactory way.

In relation to cooperating with a company on outsourcing production, DANDY was completely inexperienced. DANDY had earlier taken an outside product in-house, e.g., the production of the Hollywood drage chewing gum, but had never previously outsourced an existing production. Inga Felt believed that JOYCO also produces bubble gum for other companies besides DANDY, so they know about the process connected to taking a product in-house. According to Inga Felt, José Rosello seemed very experienced in relation to this assignment. It was important to DANDY that JOYCO was experienced in integrating new outside productions into their company but also experienced in bubble gum production, because poorly made outsourced product would otherwise destroy DANDY's bubble gum brand and their reputation in the market. JOYCO demonstrated the trustworthiness of their experience through professionalism and openness about their production. (Felt, b, 2002)

The factor "experience – organisation" was ranked second of the critical factors chosen by José Rosello. He felt that JOYCO's experience in bubble gum production and in taking a production in-house was decisive for the outsourcing relationship. To DANDY, it was a completely new assignment to outsource an existing production so JOYCO's experience in this area was vital. According to José Rosello, JOYCO's experience in taking production in-house was very important in the second development step when the task had to be implemented. "In the beginning, you tell your partner that you are an expert, but during the implementation, JOYCO had to prove that they were the expert they claimed to be. Therefore this factor was most important in the second development step." (Rosello, 2002)

#### **8.4.2 Communication—DANDY & JOYCO**

Of the chosen critical factors, Inga Felt ranked the factor "communication" fifth. She emphasized that she regarded the factor "communication" from two angles: communication between the relationship partners and communication internally at DANDY. From this point of view, she estimated the factor to be most important in the second development step. Especially in the first two development steps she felt that communication was important. In the first development step it was primarily the communication between José Rosello and his management and Inga Felt and her management. This

communication process went smoothly, according to Felt. In the beginning, communication took place primarily through e-mails and telephone, but also a lot of face-to-face meetings were carried out.

In the beginning of the business relationship's second development step, some confusion arose concerning the communication process, which was caused, according to Felt, by the fact that DANDY and JOYCO had started implementing before the contract had been finished in detail. Consequently it was not established at that time which people from the individual departments had to be involved in the outsourcing project. The resulting communication problem, per Felt, had a negative influence on the creation of trust between the involved persons on the operational levels. This example clearly illustrates how such an event can be important for the selection of a specific factor. Subsequently, Inga Felt prepared an overview of appropriate contact people in the involved departments at DANDY. Inga Felt regarded this to be necessary, as DANDY had not selected a key person to maintain the JOYCO relationship.

Inga Felt felt that in particular in the second development step of the relationship a more intense communication internally at DANDY was needed, as only few of the involved employees felt committed and trusted the relationship. Cf. the above-mentioned example.

José Rosello chose "communication" as his final critical factor for the outsourcing relationship. The first development steps demanded intense communication between the partners in relation to negotiating the agreement and planning the outsourcing. In the second development step, a lot of people were involved in the implementation plan who had not taken part from the beginning, so close communication required at this stage. José Rosello estimated that the factor was equally important in the first and second development steps. Some DANDY departments that had to participate in the implementation of the outsourcing were unable to see the perspective in outsourcing DANDY's bubble gum production to JOYCO. "Therefore, it demanded a lot of explanation from DANDY's point of view before the relationship got started properly in the second development step." (Rosello, 2002)

### **8.4.3 Commitment—JOYCO**

Rosello ranked the factor "commitment" sixth. José Rosello estimated that the critical factor "commitment" influenced the second development step a great deal, as it was on this step that JOYCO had to demonstrate towards DANDY that they could live up to their negotiated commitments.

In choosing to outsource production to a partner, a company demonstrates a great commitment to that partner. If it had turned out that JOYCO could not live up to the role as producer of DANDY's bubble gum, Dandy might have incurred considerable losses, both financial and in reputation.]Based on this assumption, José Rosello felt that DANDY showed trust and commitment to JOYCO. José Rosello felt that JOYCO showed commitment to cooperate not only by offering DANDY a very fair price for each produced unit but also by purchasing DANDY's old machines without having any use for them.

#### **8.4.4 Priority of partner products on equal terms with own products—DANDY**

Inga Felt estimated the factor “priority of partner products on equal terms with own products” as the last critical factor for the outsourcing relationship. Inga Felt believed that this factor was very important in the second development step. Inga Felt said: “It is in particular when the agreement needs to be implemented that DANDY will be able to sense if JOYCO lives up to prioritizing DANDY's products on equal terms with their own products.” (Felt, b, 2002) She estimated that this factor would not be as important for other business relationships as it was for an outsourcing relationship. Inga Felt said: “It is like sending our children to daycare— we want there to be someone who nurses our products and respects our brands. They must take on this task at minimum on the same level as we would do ourselves.” (Felt, b, 2002) If a company senses that the products are prioritized on equal terms as the partner's own products, the company will be ready to build up or strengthen the trust in the partner and you will quickly get the feeling that the partner has committed to the task. Inga Felt estimated that JOYCO at any point in time during the relationship had fulfilled these expectations.

#### **8.4.5 Flexibility of the organisation—JOYCO**

José Rosello ranked the factor “flexibility of the organisation” as the seventh critical factor. The factor “flexibility of the organisation” was very important in the second development step. He evaluated flexibility both from the point of view of DANDY and from the point of view of his own organisation. If DANDY is considered, according to Rosello, it was important that DANDY's organisation was flexible and accepted a product produced by someone else—in particular in relation to product development, as JOYCO was to develop new taste variants for DANDY as well. From the point of view of JOYCO, it was important to show flexibility in relation to the demands and wishes DANDY had for their product, as DANDY would now function as a customer of JOYCO.

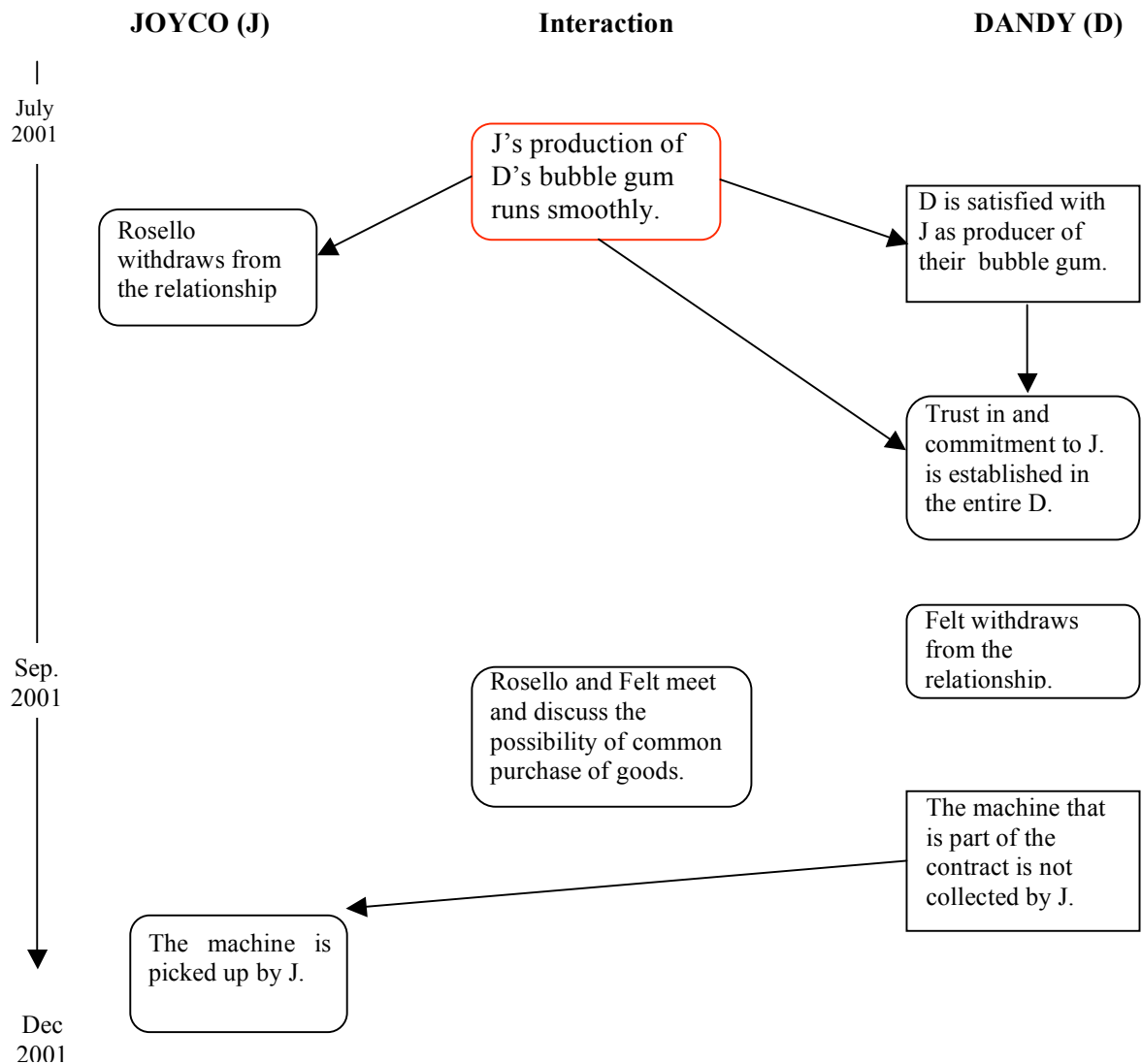
## 8.5 The third development step

Since the third quarter of 2001, the production of DANDY's bubble gum has run smoothly at JOYCO. Inga Felt and José Rosello withdrew slowly from the relationship, which signaled that the relationship had moved on to the mature development step. In this development step, a structure for the working of the production and development processes was prepared. This structure comprises in brief:

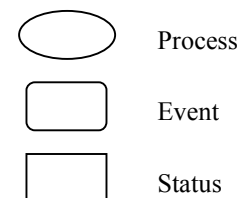
1. DANDY tells JOYCO to develop two new taste variants that are described in detail.
2. JOYCO then develops two new taste variants
3. DANDY tests them and provides feedback
4. JOYCO adjusts according to the feedback from DANDY and produces a pilot sample
5. DANDY tastes the sample again and provides feedback
6. JOYCO makes all possible adjustments and sets up a production line.

In September/October 2001, José Rosello and Inga Felt started to discuss the possibility of common purchasing for their Russian production units. At that time, an agreement regarding this had not yet been established. (Felt, b, 2002)

To JOYCO, the outsourcing relationship primarily implied that they would be able to increase their production. Furthermore, Inga Felt believed there to be another inducement: JOYCO was very interested in extending the relationship with DANDY. JOYCO was very open and wanted to discuss potential development possibilities. Inga Felt believes there are many development possibilities in the JOYCO-DANDY relationship, e.g., further distribution relationships and common purchase of goods.

**Exhibit 8.3 Development of the outsourcing relationship - third step**

Source: Author.

**Red** : Event that has a driving influence on the development of the relationship**Blue**: Event that has a limiting effect on the development of the relationship

### **8.5.1 Critical factors with equal importance for the entire development process**

In the following, the critical factors with equal importance for each of the three development steps will be discussed.

### **8.5.2 Social interaction and personal relation—DANDY**

Inga Felt did not feel that social relations had a direct decisive influence on the outsourcing relationship and argued that at this point in time social connections had already been built between the two companies. Consequently, building social relationships did not require many resources at DANDY because the only new relations to be built were on an individual level. Inga Felt estimated that the situation would have been different if the outsourcing relationship was the first relationship to be established between DANDY and JOYCO. The social interaction would in that case have been more important in relation to building up trust, commitment, and openness. However, because of the Russian relationship, Inga Felt believed that trust and openness were built between the two companies before the start up of the outsourcing relationship.













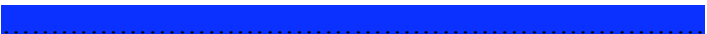

Social interaction and personal relation was equally important in each of the three development steps, according to Inga Felt. The reason for this is that the social interaction and personal relation had to be established among all those involved in the relationship on all organisational levels. Inga Felt felt that it was important for the success of the relationship that the people involved got along well. She thought that it was only possible to establish valuable social relations if the cooperating persons had some sort of sympathy towards each other. She also believed that it was beneficial for the relationship and eased the solving of specific tasks when good social relations existed towards the relationship partner. Before Inga Felt was given the responsibility of the outsourcing relationship, she knew nothing about JOYCO or José Rosello. Consequently, she felt that it was of great importance for the proceeding contract negotiations that she and José Rosello spent time together to get to know each other, not only professionally but also personally before they started negotiating. She sensed that to create openness, honesty, and trust among the partners helped ease the contract negotiations. Felt also held that José Rosello's good relationships to among others Jens Andersen and Carsten Bentsen had positive influence on the social interaction between herself and José Rosello and consequently on the contract negotiations of the outsourcing relationship.

José Rosello regarded the relationship very positively already before it began. According Inga Felt, this was because José Rosello had a very positive attitude towards DANDY in general.

## 8.6 Discussion of the motives for the selection of specific critical factors

Table 8.3 summarizes DANDY and JOYCO's estimation of the critical factors' importance in the individual development steps.

**Table 8.3 Summary of the importance of the factors on the individual development steps**

Factors	1 <sup>st</sup> Development step	2 <sup>nd</sup> Development step	3 <sup>rd</sup> Development step
Strategic importance	 		
Priority of partners product equal to own			
Specialist competence & experience		 	
Expectations			
Openness			
Flexibility - organisational			
Commitment			
Trust			
Communication*	 		
Social interaction & personal relation			

Factors	1 <sup>st</sup> Development step	2 <sup>nd</sup> Development step	3 <sup>rd</sup> Development step
Power & dependence	<div>.....</div> <div>.....</div>		

.....: DANDY    .....: JOYCO    \* The factor is estimated to be a little more important in the first development step.

Source: Author.

Based on table 8.3, it can be seen that the respondents only chose factors from the following categories: organisation-related, inter-personal, and inter-organisational factors. It can therefore be concluded that the individual and environmental world level were not estimated to be important for the outsourcing relationship according to the two project managers. However, Inga Felt did mention during the interview that José Rosello's openness and experience had helped ease in particular the contract negotiations.

If this fact is considered in relation to the *a priori* model, the assumptions of the model that the individual-related factors are important primarily in the beginning of a relationship and the organisation-related factors are important during the implementation coincide only partly with the outsourcing relationship. Despite the fact that the respondents did not chose any individual-related factors as critical factors, it cannot be determined if the individual-related factors were in fact the most important factors in the first development step. Furthermore, in contrast to the model assumptions, the project managers regarded the organisation-related factors as equally important in the first two development steps.

As with the two previous analysed business relationships, the first two development steps also play an important role for the development of connections in the outsourcing relationship. As a matter of fact, only the factor "social interaction and personal relation" is estimated to be important in the last development step. Based on the estimations of Inga Felt and José Rosello of the importance of the individual development steps, the author estimated that the first development step is considered more decisive for the development of the relation as compared to the second development step.

If the chosen critical factors are regarded, there is in the outsourcing relationship compared to the two previous relationships the largest agreement between the two project managers about which factors can be considered critical for this relationship. Inga Felt and José Rosello agreed on four of the factors.



Inga Felt did not choose “expectations” as a critical factor. It could however be presumed that this factor could have been important for DANDY, as their expectations and demands of an outsourcing partner with respect to the production of their bubble gum were perceived by JOYCO to be very specific and precise so as to not lose product quality. The reason why Inga Felt did not choose this factor could be because she did not take part in the preliminary negotiations and coordination of expectations, as she was not assigned to the job until later on. It could therefore be assumed that the overall expectations of JOYCO were coordinated at that time and therefore Felt did not consider the factor important for the outsourcing relationship.

José Rosello, like Felt, did not choose the factor “trust” to be important for the outsourcing relationship. This decision could have occurred for several reasons. First, Rosello already had established trust in DANDY and DANDY employees through the experiences with the previous two relationships and therefore did not regard this factor as particularly important for the outsourcing relationship. On the contrary, Inga Felt was confronted on several occasions with a lack of trust in JOYCO on the part of a few DANDY departments, which may have caused the fact that she often defended JOYCO. Inga Felt therefore no doubt felt that the establishment of trust was very important for the outsourcing relationship.

Only José Rosello chose the factor “openness.” At first, it might seem logical that this factor received the most attention from JOYCO, as JOYCO had to allow DANDY an insight into their production.

## **8.7 Discussion of the individual factors interrelatedness**

One of the first relations between the factors emphasized by Inga Felt was that she regarded the openness of a person to have a positive influence on the establishment of trust on the individual level. She felt that the fact that José Rosello was very open and honest about the relations regarding the outsourcing meant that Inga Felt quickly gained trust in him and the things he carried out.

Inga Felt also held that the organisational experience had an influence on trust. JOYCO’s radiating experience and professionalism in integrating a production into their company appeared very attractive

to Inga Felt. At no point in time did she feel insecure about transferring the production of bubble gum to JOYCO.

Inga Felt considered the factors “trust” and “commitment” likewise. She felt that these two factors were closely related and that nothing unambiguously could be said about whether trust precedes commitment or vice versa. For example, before José Rosello started negotiating with Inga Felt, she estimated that he had already established overall trust in DANDY and DANDY’s employees, which meant that he was very committed in relation to realizing the outsourcing project. However, she estimated for herself that “commitment” to the project and JOYCO preceded the establishment of trust.

The factor “communication” or more precisely lack of communication could have a negative impact on the establishment of trust among the involved. This dynamic occurred partly in the second development step as the integration of DANDY’s production at JOYCO had commenced before it was absolutely clear who was responsible for what. This lack of clarity created more communication problems between the involved employees on the operational level, which according to Inga Felt influenced the establishment of trust in a negative direction.

Both José Rosello and Inga Felt estimated that the strategic importance of the relation influenced the level of commitment to the relationship. As both partners could see a strategic perspective in the outsourcing relationship, commitment to the relationship was quickly established, per the two project managers.

## **8.8 Discussion of critical factors in relation to the course of events**

Before the outsourcing relationship was established, JOYCO felt that DANDY possessed a little more power in the relationship and that they were more dependent on DANDY as a partner than DANDY was on JOYCO. With the establishment of the outsourcing relationship, it could be noted that the total DANDY-JOYCO relationship became more equal in terms of power and dependence between the two companies. The author regards this changing dynamic as important for José Rosello’s choice of the “power/dependence” factor as critical for the relationship.

In the beginning of the outsourcing relationship, there was a little confusion from the point of view of DANDY as to who was responsible for the outsourcing relationship, because the then project manager Lars Jensen left DANDY in the beginning of the contract negotiations. The author estimates that this can have influenced Inga Felt and José Rosello's selection of the factor "communication" as important for the outsourcing relationship. The integration of DANDY's production with JOYCO was commenced before the contract had been signed, which created uncertainty as to who within the individual departments was to be involved in the outsourcing project. According to Inga Felt, this created some communication problems that had a negative effect on the creation of trust among the involved persons on the operational levels. This example illustrates how this event could be important for the selection of the factor "communication."

The first delivery from JOYCO of DANDY's bubble gum did not live up to DANDY's demands. This failed delivery caused a lot of commotion within DANDY and several departments said that they distrusted JOYCO as a producer of the bubble gum, which in turn led to many intense discussions in particular between Inga Felt and the mentioned departments. The author believes that this event once again influenced Inga Felt's choice of the factor "communication" but also the selection of the factor "trust."

## Chapter 9 The Hollywood Relationship

Managing director Lars Junker described DANDY's relationship with the French chewing gum producer Hollywood as DANDY's first strategic relationship. The Hollywood case will be used with a different objective compared to the three DANDY-JOYCO cases. This case will work as a sort of test case. The objective with the Hollywood case will first of all be to see if there is coincidence between the critical factors in the development of this relationship and the critical factors in the JOYCO relationship, or if they can be characterized as being context dependent. Secondly, it will be examined if there is a development in the choice of critical factors as the organisations gain wider experience in developing and maintaining long-term business relationships.

The structure of the Hollywood case will only partly follow the same structure as the preceding three cases. The reason for this is that the author despite several attempts has not had the opportunity to receive an assessment of the relationship from the French partner. Therefore in this case only a description and not a visualization of the specific course of events will be presented. The focus of this case will be centered on the critical factors.

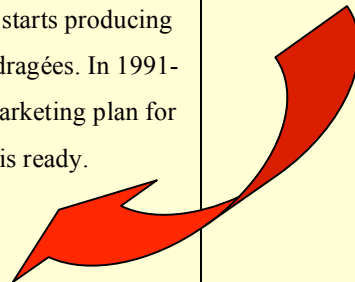
### 9.1 Identification of the three development steps for the Hollywood relationship

Based on the preliminary interview with Else Vig, DANDY, it was possible to divide the Hollywood relationship into three development steps.

Table 9.1 summarizes how the Hollywood relationship developed.

**Table 9.1 Identification of the three development steps of the Hollywood relationship**

	Development step 1	Development step 2	Development step 3
<b>Identification of specific characteristics for the development step in relation to the Hollywood relationship.</b>	<p>In September 1986, General Food France (GFF) addresses DANDY from the parent company in the USA.</p> <p>In the ensuing six months, DANDY and GFF discuss the possibilities of a relationship.</p> <p>These negotiations run until the end of 1987, after which the partners agree on the content of the contract between the two companies</p>	<p>Spring 1988, a common project group is made together with GFF.</p> <p>Summer 1988, the final contract is ready for signing.</p> <p>In the end GFF is taken over by Kraft and changes name to Kraft General Food France (KGFF)</p> <p>In the beginning of 1989, DANDY starts producing KGFF's dragées. In 1991-92, the marketing plan for Stimorol is ready.</p>	<p>Managing director Holger Bagger-Sørensen withdraws as responsible for the relationship and this responsibility is given to Else Vig.*</p> <p>The relationship is stable until January 2001 when it is transferred to Cadbury.</p> <p>January 2002, the relationship is again stable in most areas.</p>



New integration of the relationship can begin and parts of the relationship move back to

Source: Author

\*Else Vig was however involved in the relationship from the first development step.

As it can be seen from table 9.1, the business relationship stayed approximately 14–16 months in the first development step. The part of the relationship that focused on DANDY's production of GFF's

dragée product stayed 1½–2 years in the second step, while the marketing relationship for Stimorol in France stayed for a further 1½–2 years in this step. This longer step was caused mostly by disagreement among the partners as to how to market the Stimorol brand. Subsequently, the relationship stayed in the third step until January 2001. With the transfer of brands to Cadbury, the relationship returned to the implementing step again, which is shown in table 9.1 with the red arrow. The relationship was again in the third step in the beginning of 2002.

As for the DANDY-JOYCO distribution and outsourcing relationships, the contract here was first signed after the implementation of the relationship was started. As with respect to the two previously mentioned relationships, the assumption that the contract is signed before the implementation is started does not coincide with the Hollywood relationship in real life.

## 9.2 The critical factors for the Hollywood relationship

Else Vig, the project manager for the Hollywood relationship, was asked to choose the factors which she regarded to be critical for the development of the present relationship. Vig became project manager of the Hollywood relationship shortly after the first negotiations had commenced, which means that Else Vig has followed the relationship since 1987.

The chosen critical factors for the Hollywood relationship are summarized in table 9.2.

**Table 9.2 Chosen critical factors in a prioritized order**

<b>Critical factors per Dandy</b>	<ol style="list-style-type: none"> <li>1. Trust</li> <li>2. Commitment</li> <li>3. Specialist competence and experience</li> <li>4. Adaptation and coordination</li> <li>5. Decision-making process</li> <li>6. Openness</li> <li>7. Personal competence</li> <li>8. Social interaction and personal relations</li> </ol>
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Source: Author, based on interviews with Else Vig

In the following, the first development step of the Hollywood relationship will be described.

### 9.3 The first development step

In 1986, DANDY had their own sales subsidiary in the French market with approximately 60 employees. The chewing gum market in France was at that time distributed in such a way that American-owned General Food France (GFF), owned by Phillip Morris USA, held a very strong – almost monopolistic – position with their Hollywood brand. GFF held 80% of the market with their Hollywood brand, while DANDY had 7% with their Stimorol brand. GFF was as particularly strong on sticks whereas on the dragée market they had rather old-fashioned production technology. The production technology on the dragée area is quite complex and requires a lot of knowledge as compared to the stick area, where it basically “only” comes down to cutting the chewing gum in the right shapes.

Compared to the Danish retail chains, the French retail chains at that time had somewhat larger negotiating power. DANDY was faced with the dilemma that they found it difficult to gain further market share because the large chains would demand large amounts for listing<sup>66</sup> Stimorol.

In September 1986, DANDY was contacted through a company broker by GFF’s parent company in the US who asked if they could come and visit DANDY in Vejle, Denmark. It has to be said that General Food France at that point in time (before they were acquired by Philip Morris in December 1988) was the world’s second largest food producer. The managing director of DANDY at the time, Holger Bagger-Sørensen (HBS), was as a matter of fact tired of such inquiries, because it was normally only with the aim of buying DANDY. The DANDY management however decided to host a short meeting with the people from GFF, so HBS sent his then marketing director Poul Ernst Rasmussen (PER) to Copenhagen partly to receive the directors of Kraft General Food (who arrived in a private airplane) and partly to investigate their real intentions for the meeting. At the subsequent meeting in Vejle, two DANDY employees (HBS and PER), the general manager of GFF (French), and a director from the USA headquarters (American) participated, as well as the previously mentioned company broker.

At first during the meeting, there was talk about different things in order to “get a feeling of the parties intentions,” as HBS expressed it. (Hollensen, 1992) It was however quickly clear that Kraft General

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<sup>66</sup>This means that money has to be paid (on top of the normal price) to continue to be represented on the shelves in the retail chains.

Foods had not come to buy DANDY, but on the contrary to discuss a possible relationship with DANDY. GFF had noticed DANDY's special key competence with regards to production technology in the dragée area. The meeting in Vejle ended in a positive atmosphere and in the meeting minutes HBS wrote: "It is possible that they in the long-term hope to be able to buy us but in the short term they might have an interest in cooperating with us. We expressed that we in principle were NOT interested in a relationship with others as we could see that the large player became larger and that we as a small player could get squished. On the other side, we were competitive because we invested in new technology, etc., which was necessary because we only produced chewing gum. We have large turnover in France but earn no money and are very vulnerable because of the difficult business conditions, which is further made difficult by the fact that we only have one product) as well as the necessity of a large sales force." (Hollensen, 1992)

The following six months were spent seeing what the other party was about. HBS said in that connection: "It takes time to convince each other that you are serious about the relationship. What DANDY was afraid of was that now big brother is coming to take you. GFF could at the same time be afraid of whether DANDY would be able to deliver the 2,000 tons of dragée chewing gum at the right time and of the right quality." (Hollensen, 1992)

In the following, the critical factor for the first development step will be analysed and discussed.

### 9.3.1 Trust

The factor "trust" was selected by Else Vig as the most important critical factor. She subsequently regarded the factor to be most important in the first development step.

In the beginning of the relationship, a lot of resources were used to build up trust between the partners. According to managing director Lars Junker, the then director of GFF had a very large influence on this process. He was very open and internationally oriented, which according to Lars Junker was to a large degree caused by the fact that he was Dutch. "Without their Dutch director, the relationship would never have been realized, as the French were much too introverted!" (Funder, 2001)

Else Vig felt that the building of trust was closely related to the two main points in the contract—the production of KGFF's Hollywood dragée and the marketing of Stimorol. Else Vig clearly felt that it took DANDY a long time to gain trust in KGFF "because you want the best for Stimorol and they were afraid that the brand would 'die' if it wasn't treated well." (Vig, a, 2002) The thing which according to Else Vig was decisive for the establishment of this trust in relation to GFF/KGFF's



marketing of Stimorol was that KGFF joined in and paid for the participation in a large international examination of Stimorol which DANDY carried out in 1992. In that way, DANDY sensed for the first time that KGFF was committed to the task, interested in getting an insight into the key values of Stimorol, and would not harm them when Stimorol had to be marketed differently from their own dragée chewing gum. (Vig, b, 2002)

According to Else Vig, a large part of the trust was a result of the presented honesty, openness, and commitment to cooperation. It is very important to tell the truth always, as the opposite often will be discovered by the relationship partner, and this way will have a negative influence of the future relationship. Else Vig experienced in the relationship that some of her superiors from DANDY tried to avoid telling the entire truth. The French saw this right away, which meant that Else Vig subsequently had to make an effort to re-establish trust. (Vig, b, 2002)

After 5–6 years, Elisabeth felt that mutual trust was established between the two companies and she feels that this trust has been present since then. After the sale of the distribution and marketing rights of Stimorol to Cadbury, Else Vig had however to build trust in [[with?]] the new partners. In 2001, she did not feel that trust had yet been established between Cadbury and DANDY. (Vig, b, 2002)

### 9.3.2 Specialist competence and experience

Else Vig ranked the factor “specific competence and experience” second among the eight chosen critical factors. For this business relationship, Vig’s experience in working together with the French was of great importance for the development of the business relationship. After the first negotiations had commenced, Vig was asked to be responsible for the Hollywood relationship. Prior to her employment with DANDY, she had worked in France for many years. At that time, DANDY considered it very important for the development of the relationship to hire a person with knowledge about the French, the language, and the culture. Else Vig regarded this to be the right decision not only because of the language—as the involved French spoke English very well—but because: “I understood the fine differences and the values; I could ‘dig a little deeper.’ Also in relation to their reservations towards the very open Danish way—that might scare them a little—if they are asked something very directly in English, then I can quickly translate into French. And their reaction is: “Ahh bon c’est ça?. . . is that what they want?” I function as sort of a buffer.” (Vig, a, 2002)

Else Vig estimated the factor “specialist competence and experience” to be most important in the beginning of the business relationship, as this was when it was important that the individuals who had

to cooperate had experience in entering into business relationships so as to ensure that all important elements were addressed. DANDY had upon entering the contract with GFF/KGFF no previous experience in relationships. According to Else Vig, this was partly expressed in the contract, which was very detailed, but also in the long negotiations between the partners before the relationship became official for the rest of the DANDY organisation.

### 9.3.3 Openness

The factor “openness” was regarded as the sixth critical factor. Vig regarded the rating of this factor as very difficult because she felt there was a diverging perception of the meaning of openness between the partners. According to Else Vig, the French had continuously during the relationship had a tendency to “keep their cards close” (Vig, c, 2002)

Else Vig regarded the factor “openness” to be most important during the first two development steps of the relationship. Already in the first development step, the partners discussed the meaning of openness, and it was as a consequence written in the contract that the prices to KGFF were to be made according to the open-book principle. This principle meant that KGFF each quarter received an overview of prices, for e.g., raw materials, wage, packaging, and other related costs, wherein each component was listed, so that the French could see DANDY’s exact costs in connection with the production. (Vig, b, 2002)

It was important that both partners did not “keep their cards close,” but were willing to share the gained knowledge about the competitors. Hollywood like DANDY produces chewing gum, just in the form of sticks, so part of the contract was to establish a common raw material purchase and in the long run build a joint rubber base factory. In that connection, DANDY allowed that KGFF’s purchasing manager sat with DANDY’s purchasing manager and compared prices. It appeared by the comparison that DANDY could buy far cheaper than KGFF mainly because DANDY bought in large quantities compared to KGFF. However, Else Vig sensed that the French were very suspicious with regard to this. She clearly felt that they thought: “It cannot be true that DANDY has these good purchasing prices; they are telling us a price different from what they really pay!” (Vig, b, 2002) Else Vig had the feeling that KGFF did not for a long time believe in the purchasing prices quoted by DANDY. The realization of the rubber-base factory never materialized and Vig believes that this is partly because of a lack of openness and honesty between the partners. (Vig, b, 2002)

Else Vig estimated that DANDY was more open than KGFF, and she believed that it took a long time to build up trust and consequently openness. Around 1990-1992, DANDY took part in a “cost-reduction program” carried out by KGFF, where an estimation of purchasing prices was implicit. Per Vig, it was not until after the completion of this program that “real” openness and trust between the partners was established—the process had lasted for approximately six years! (Vig, b, 2002)

Approximately one year before the sales of the distribution and marketing of the chewing gum brands to Cadbury, Else Vig and her manager sensed that KGFF was keeping some information from DANDY. The reason for this was that some re-negotiations in relation to the first contract were prolonged and the French were not very specific in these negotiations. When KGFF one year later announced the sale of the distribution and marketing rights for Stimorol to Cadbury, DANDY’s hunch about KGFF’s reluctance was confirmed.

In 2002, approximately one year after the transition of the distribution and marketing of Stimorol to Cadbury, Else Vig still did not feel that the open attitude she had had with KGFF had been re-established with Cadbury. (Vig, b, 2002)

## **9.4 The second development step**

In the time just after the first meeting, at DANDY only HBS and PER knew about the relationship project. Later on, when calculations had to be made, the two additional people from the DANDY management group joined: the production technical manager and the financial manager. The four persons ran a secret project group for some time.

Late in 1987, the partners had arrived at a proposed contract for further internal discussion. At this point in time, the DANDY management also estimated that the relationship with GFF would most probably be a reality, so more people from the DANDY organisation were involved. The business relationship can here be described as moving towards the implementing development step. Then a common project group was established together with GFF. This group was to plan the production in detail so that deadlines could be met.

In 1988, the final contract between DANDY and GFF was ready for signing. The total contract contained the following GFF obligations towards DANDY :

1. *Distribution and marketing of DANDY's Stimorol in France. GFF should the first year sell at least 90% of the average sales DANDY had in the last years.*
2. *On top of this, GFF had to help developing Stimorol in the hyper – supermarket through their large sales force of 150 people in relation to DANDY's 40 people.*
3. *Production of DANDY's sticks.*

DANDY had to make available the following resources to GFF:

1. *Production of GFF's dragée (their Hollywood brands), in total approx. 2,000 tons per year of a total DANDY production of approx. 16,000 tons (at that time).*
2. *Try to market GFF's Hollywood brands through DANDY's sales channel where Hollywood was weak (at that time, they were only strong in France, Belgium, and Switzerland). DANDY had a much more diversified international distribution system as compared to GFF.*

Furthermore, DANDY and GFF wanted to develop the relationship about the following:

<i>Purchase cooperation:</i>	<i>Exchange of knowledge about supplier prices, terms of delivery, etc.</i>
<i>Product development:</i>	<i>A common development program on rubber base.</i>

The relationship was based on two parts, which DANDY regarded as important because they created a power balance in the relationship. According Lars Junker, managing director, it was important to establish a symmetrical balance of power and a mutual dependence in the relationship in order to enable the partners to assess and test contract compliance with one another. (Funder, 2002)

Not all the abovementioned agreement elements became a reality. The most important of the agreement components for DANDY was clearly the production of the 2,000 tons of dragée for GFF, because DANDY thereby increased their production revenues significantly. After the realization of the contract, DANDY closed their subsidiary with a limited loss. Not until the beginning of 1989 did DANDY start to produce GFF's dragée, because GFF had to close down a factory in Italy first.

Two to three times a year, DANDY's management hosted meeting with GFF's management to discuss the overall framework on amounts, prices, time schedules, development plans, etc.

In the following, the critical factors for the second development step be discussed and analysed.

#### 9.4.1 Adaptation and coordination

Else Vig ranked the factor "adaptation and coordination" fourth among the chosen critical factors. According to Else Vig, it was a daily nuisance and very time consuming that administrative systems and procedures of the two companies did not fit. ElseVig ranked this factor third, as she is part of the daily work with Cadbury.

Else Vig estimated that the factor "adaption and coordination" was most important in the second development step, because the importance of the factor did not manifest itself until the two companies had to work together on a daily basis.

DANDY and KGFF worked for several years in this relationship with different budgeting methods. The planning horizon at DANDY was 13 months, while it was only 12 months at KGFF, which meant that the two companies could never compare their budgets directly. At DANDY a specific person prepared an Excel spreadsheet where DANDY budgets were transformed into 12-month periods. After some years, DANDY decided to change the budget horizon to 12 months, which eased the work. It has now become apparent that Cadbury applies a budget horizon of 13 months—*"so now all the fun can start all over again!"* (Vig, b, 2002)

When the systems of the two organisations did not fit, it demanded considerable understanding among the involved persons, as well as a lot of information exchange, Vig said. As such, she emphasized, the factor "specialist competence and experience" played an important part. "The more experience the involved persons have in overcoming such situations, the more easily they are solved." (Vig, c, 2002)

### 9.4.2 Decision-making process

Else Vig ranked the factor “decision-making process” fifth among the critical factors she chose for the development of the Hollywood relationship. She claimed that it took a long time for the DANDY organisation to get used to GFF/KGFF’s and later Cadbury’s hierarchical organisational structure. Decisions to be made by GFF/KGFF and Cadbury took a lot longer than at DANDY, as the decisions had to pass through a lot of people. Therefore Else Vig felt that this difference was something she was “fighting” a lot in connection with GFF/KGFF and Cadbury. Consequently, she often had to explain to the management and managing director of DANDY why decisions were slow. (Vig, b, 2002)

Else Vig estimated that the factor “decision-making process” was most important during the second development step, as it was here in particular that the importance of the factor became apparent—the reason being that a lot of decisions had to be made at this stage, in particular concerning the marketing of Stimorol. Multiple management levels at both KGFF and Cadbury combined with lesser individual decision-making authority than was usual at DANDY meant that very few decisions could be made without prior acceptance from a superior who also had to receive approval from above. Sometimes it was not even possible for the company in France to make a decision before it had been discussed with the parent company in England.

According to Else Vig, a further reason why DANDY could make decisions quickly was that DANDY was a family-owned company, while the other two were public companies that had to pay attention to stockholders and their wishes. As owner Holger Bagger-Sørensen and managing director Lars Junker had been very interested in this relationship throughout the entire course of events since 1986, it was easy for Else Vig to get the attention of DANDY management in order to discuss and make decisions regarding the Hollywood relationship.

In 2002, Else Vig still felt that GFF/KGFF and Cadbury were very decision-making heavy companies to work with. (Vig, b, 2002) Every time decisions had to be made regarding the launch of new product variations or new marketing measures, Else Vig felt that the relationship fell back to the second development step in relation to the factor “decision-making process.” “It feels as if we almost start from scratch every time.” (Vig, b, 2002) Vig felt this regression could also be caused by the fact that the French analyse and turn new measures upside down in a more structured and academic way compared to what she was used to from DANDY. Else Vig often heard managing director Lars Funder say: “We go from here to there in order to reach a goal. The French make huge detours, measure, and weigh and often in the end reach the same result we do!” Else Vig, b, 2002) At times, this difference

meant that DANDY had already reformulated or rejected some discussion items before the French had reached a decision. (Vig, b, 2002)

## 9.5 The third development step

In December 1988, Phillip Morris was acquired by Kraft, and GFF becomes Kraft General Foods France (KGFF). This event posed a bit of a problem as some of the managers from the original General Food France in France were no longer employees at KGFF afterward the acquisition. Some of the new managers did not perhaps feel as committed to the original prepared contract, which made it important for DANDY to increase social relations with the new managers. However, Else Vig felt that this transition process went relatively easily because the relationship at that time was in the earlier development steps. (Vig, a, 2002)

After the relationship with first GFF and later on with KGFF was established, DANDY sold (on top of the 2,000 tons each year to GFF) approximately 900 tons of Stimorol each year to the French market through the distribution apparatus. After the signing of the contract, there were a lot of discussions regarding the marketing of Stimorol in France. The primary problem was that the relationship partner had its own chewing gum product that addressed the same customer segment that Stimorol had until that point addressed in France—the 12- to 25-year-olds. It was therefore KGFF's proposal that they in the marketing of Stimorol would address this chewing gum brand to the target group 25+. DANDY did not approve of this target group, as it is a group that does not chew much chewing gum as compared to the 12- to 25-year-old target group. There is a general tendency that less chewing gum is chewed as the consumer becomes older. The partners did not agree in this area on the marketing strategy for Stimorol on the French market.

To DANDY, it was important to re-launch the brand in France so that it was differentiated from Hollywood but at the same time did not leave the international key values contained in the Stimorol brand. At first these negotiations took place between Else Vig and KGFF's employees, but later on the then managing director, Holger Bagger-Sørensen, was drawn into the negotiations. In the end of 1989, it was decided to market Stimorol as proposed by the French, which meant that a considerable number of addenda were adjoined to the contract prepared in 1988. Around 1991–92, KGFF had consequently designed the marketing process for Stimorol in France.

The decision to go along with KGFF's proposal for Stimorol target group proved right, as a third party, Wrigley, in the meantime had entered the market. Wrigley had in no time gained a market share of 34% in France, which did not hurt Stimorol's market share but did hurt the Hollywood brand. Stimorol's market share remained at 6–7 %, which in 2002 was annoying to DANDY, as the French market is huge. (Vig, a, 2002)

During the relationship, Else Vig and DANDY often discussed the marketing of Stimorol with KGFF because KGFF lacked focus on this issue at times. This lack of focus resulted from KGFF having been pressured hard by Wrigley, and consequently having used most resources on keeping their own brand alive.

In 1993, there was a merger of Kraft and the Swiss company Jacob Suchard and the partner was now called Kraft Jacob Suchard (KJS). This merger had, according to Else Vig, little importance for the original relationship with DANDY.

In January 2001, the distribution and marketing of the chewing gum brands Hollywood, Tonigum, and Stimorol sold to the English-owned Cadbury and only a few employees from the original KJS organisation transferred to Cadbury. These reassignments could easily be detected in the relationship, as several areas of the relationship had to be re-integrated in relation to the Cadbury organisation. In 2002, Else Vig hoped that Cadbury would provide further resources for the marketing of Stimorol compared to the amount KJS had spend over the past 2–3 years. (Vig, a, 2002)

The integration of the relationship at Cadbury was tough. As Else Vig expressed it: "They had absolutely nothing under control. I was asked the same question by three different persons." (Vig, a, 2002) In the beginning of 2002, however, Vig felt that the relationship in most areas again could be characterized as almost stable. (Vig, a, 2002)

In the following, the critical factors with equal importance for the entire development process will be discussed and analysed.

### **9.5.1 Commitment**

Else Vig estimated that the factor "commitment" was equally important in the three development steps of the relationship, because the obligation and commitment to the relationship had to be permanently present or else "the relationship would die." (Vig, b, c, 2002) Else Vig felt that the factors



“commitment” and “trust” had mutual effect on one other. “If you sense that a partner company is committed and has an obligation towards the agreed this has a positive influence on trust and the other way round.” (Vig, b, c, 2002)

In relation to the contract part in connection with GFF/KGFF’s marketing of Stimorol, DANDY felt for years that GFF/KGFF did not prioritize this very much. Else Vig said: “They were probably mostly interested in having their dragée chewing gum produced by us, and I had a feeling that GFF/KGFF felt that the marketing assignment was an assignment that just came along!” (Vig, a, 2002)

According to Else Vig, this disinterest was also expressed through their apparent lack of respect for DANDY. “We could have arranged a meeting with their marketing manager. When we arrived, he could be in a meeting on the sixth floor. They prioritized that over some Danes who had flown to France to decide one thing or another. We experienced that often and the Danes got angry. We were probably a little bit too patient in relation to this in the beginning but then I had a new superior who right from the beginning said that if they did not arrive at the meeting as agreed upon, we would go back to Denmark. Then the secretary contacted the person we were to meet and was told that he would be back in 45 minutes. That cleared the air and they really respected each other afterwards. We kept up with too much to begin with and you lose your patience and faith in the relationship.” (Vig, 2002)

Else Vig sensed that DANDY believed that KGFF had not really committed themselves in the previously mentioned international investigation of Stimorol before KGFF felt an obligation towards this assignment.

### **9.5.2 Personal Competence**

The personal competence of the partners was estimated by Else Vig to be equally important in each of the three development steps.

The reason why Else Vig chose this factor for the development of the Hollywood relationship was that several times during the relationship, some individuals had been involved who were directly hindering the development of the relationship. The first time, it was a man who had been hired by DANDY. He was half French, half Moroccan. According to Else Vig, he had no understanding for the French relationship partners. “He was extremely temperamental, obstinate, and stubborn. Every time he took part in discussions or negotiations with the French, it went all wrong—the chemistry simply did not fit.” (Vig, b, 2002) To Else Vig, this meant that she after each meeting had to spend a lot of time

straightening things out and creating an understanding between the partners. Finally, KGFF asked DANDY to remove the man from the assignment, as they felt he was obstructing the relationship. A similar situation applied later on where DANDY had to ask KGFF to find a new person for an assignment.

Else Vig believed that a large part of understanding each other's personality was to be open and understand the differences of the partners. According to Else Vig, it was important to analyse whom you were sitting in front of, to consider their cultural background, to not be judgmental, and to try to regard a person from more than one perspective. Else Vig believed that the social interaction was important because it helped people to perceive others from several perspectives. Therefore, Else Vig was convinced that had the social interaction played a larger part in this relationship, there would in many situations have been a larger understanding of the personalities of the cooperating people. (Vig, b, 2002)

### 9.5.3 Social interaction and personal relation

The factor "social interaction and personal relation" was estimated by Else Vig to be important to the same degree as the factor "personal competence" for the three development steps of the relationship. She believed that these factors were interdependent. Good social relations depend on whether the personality and chemistry of the partners match.

Else Vig estimated the factor to be of the lowest priority among the chosen factors and consequently rated last of the chosen factors. She argued that generally speaking in the relationship with KGFF, there had not been a lot of social contract between the involved persons. However, Else Vig did believe that the social interaction that had taken place was valuable for the relationship. A couple of times, some of the KGFF employees had participated in the events at DANDY. As Else Vig expressed it: "They are impressed with such events and a small Danish company with business relationship partners from all over the world—of which most take part in the event". At such events, Else Vig sensed that there was a possibility of getting to know each other better, which she felt would be beneficial for the relationship. Else Vig said: "You care more for each other and gain a larger understanding of each other and each other's situation." (Vig, b, 2002)

During the daily relationship, there had never been time for the partners to do things together that were not on the agenda, according to Else Vig. First of all, this distance was caused by the fact that there was no longer the "partnership spirit" in the relationship that was there in the first years. She felt that

KGFF and today Cadbury regarded DANDY as a mere sub-supplier whose primary task was to deliver on time and at the right price. Else Vig spent a lot of time trying to re-establish this understanding of the relationship as a partnership by introducing to cooperate on certain different topics, e.g., exchange of experiences and knowledge about competitors, etc. In 2002, Else Vig felt however that this would continually be a difficult process. (Vig, a, 2002)

Another reason for the lacking social interaction in the Hollywood relationship, which Else Vig was familiar with from other relationships with Southern Europeans, was as Else Vig expressed it: “Our French are some very English/American-influenced French, so that is probably the reason why he social relationship is less important to them as compared to other people from Southern Europe.” (Vig, , 2002) In this relationship, there was not a lot of focus on the social dimension, but Else Vig was convinced that the social dimension is more important than the partners realized.

## 9.6 Summary of the Hollywood case

In Table 9.3, the importance of the factors in each development step is summarized.

**Table 9.3** Summary of the importance of the factors in the individual development steps.

Factors	1 <sup>st</sup> Development step	2 <sup>nd</sup> Development step	3 <sup>rd</sup> Development step
Specialist competence & experience	.....		
Personal Competence	.....		
Openness	.....		
Decision making process	.....	.....	
Commitment	.....		
Trust	.....		
Adaptation	.....	.....	
Social interaction & personal relation	.....		

Source: Author. ....: DANDY

As illustrated in Table 9.3, the majority of the chosen factors are interpersonal and inter-organisational. If Table 9.3 is considered, it can be seen that Else Vig regarded those factors as most important in the first and second development steps, which does not surprise the author. In the three previously described business relationships, it has proven to be the first phase that has been considered as most important by the respondents.<sup>67</sup>

The assumption put forward in the *a priori* framework that the individual-related factors have the largest importance in the first development step and the organisation-related factors in the second development step coincides well with the conditions in the Hollywood relationship.

Several times during the interviews, Else Vig pinpointed that connections could be drawn between several of the chosen factors—e.g., between the factors “personal competence” and “social interaction and personal relation.” At first she said that good social interaction between the partners helped create an increased understanding of each other's personality. On the other hand, Vig emphasized that the personality of the partners is partly decisive for the presence of social interaction and personal relationships between the partners. This mutual impact, which according to Else Vig is present between these two factors, can be likened to a spiral that starts with the factor “personal competence,” as that factor is decisive for the establishment of social relation between the partners, according to Else Vig. When the spiral is present, it will influence the creation of an increased understanding of each other's personality, which again will influence the social interaction and personal relation in a positive way, etc.

As all former respondents, Else Vig also regarded there to be a close connection between the factors “trust” and “commitment.” This connection can in a similar way be described as a spiral like that described above. Else Vig believed that the commitment shown by the partners was manifested through the trust established between the partners. According to Vig, the trust the partners sense in each other will have a positive influence on the commitment to the relationship, etc.

However, Vig did not regard the factor “commitment” to be the only factor that positively influences the creation and growth of trust. The factor “openness” is also considered important with regards to building trust. The fact that the partners took an open attitude towards the relationship and provided insight into their companies inspired much confidence, per Vig. However, it was a slow and difficult process possibly due to the partners' lacking of experience cooperating with a competitor.

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<sup>67</sup> Considered in relation to the number of factors regarded to be most important on this development step.

## Postscript

On 27 June 2002, part of the DANDY Group was sold to Cadbury Schweppes. Cadbury Schweppes acquired the DANDY Group's private brands (Stimorol, V6, Dirol), their production in Russia and Zimbabwe, as well as their contribution network to which the Hollywood relationship belonged. The B2B part was the only which remained 100 % in the Bagger-Sørensen family. The factory in Vejle is owned 75% by Bagger-Sørensen and 25% by Cadbury, and that part of the former DANDY is today called Gumlink A/S. Gumlink A/S's largest customer today is DANDY. Furthermore, a common R&D company was established between the two companies with 50% ownership by each company.

### PART III: THE CONCEPTUAL DOMAIN

The conceptual domain can be described as the domain where theory and “real life” are united in the attempt to develop a dyadic operational process framework. In this domain, the thesis will be discussed by confronting the *a priori* framework with the knowledge gained in the empirical cases. Starting out in an analysis and comparison of the four cases, the critical factors will be identified from the perspectives of a buyer and a seller and this will create the basis for a further development of the *a priori* framework into a more operational dyadic process framework. The analyses and comparisons of the four cases will try to create new ideas and theoretical modifications based on the chosen research strategy. Old concepts will be rejected and new more “right concepts” will be introduced instead. The integrated dyadic process framework will in this way be developed by separately discussing in detail the conceptual and processual elements in the *a priori* framework.

## Chapter 10                      Development of a dyadic process framework

The purpose of the present problem is: to create a larger operational knowledge on how international business relationships develop.

This was done by:

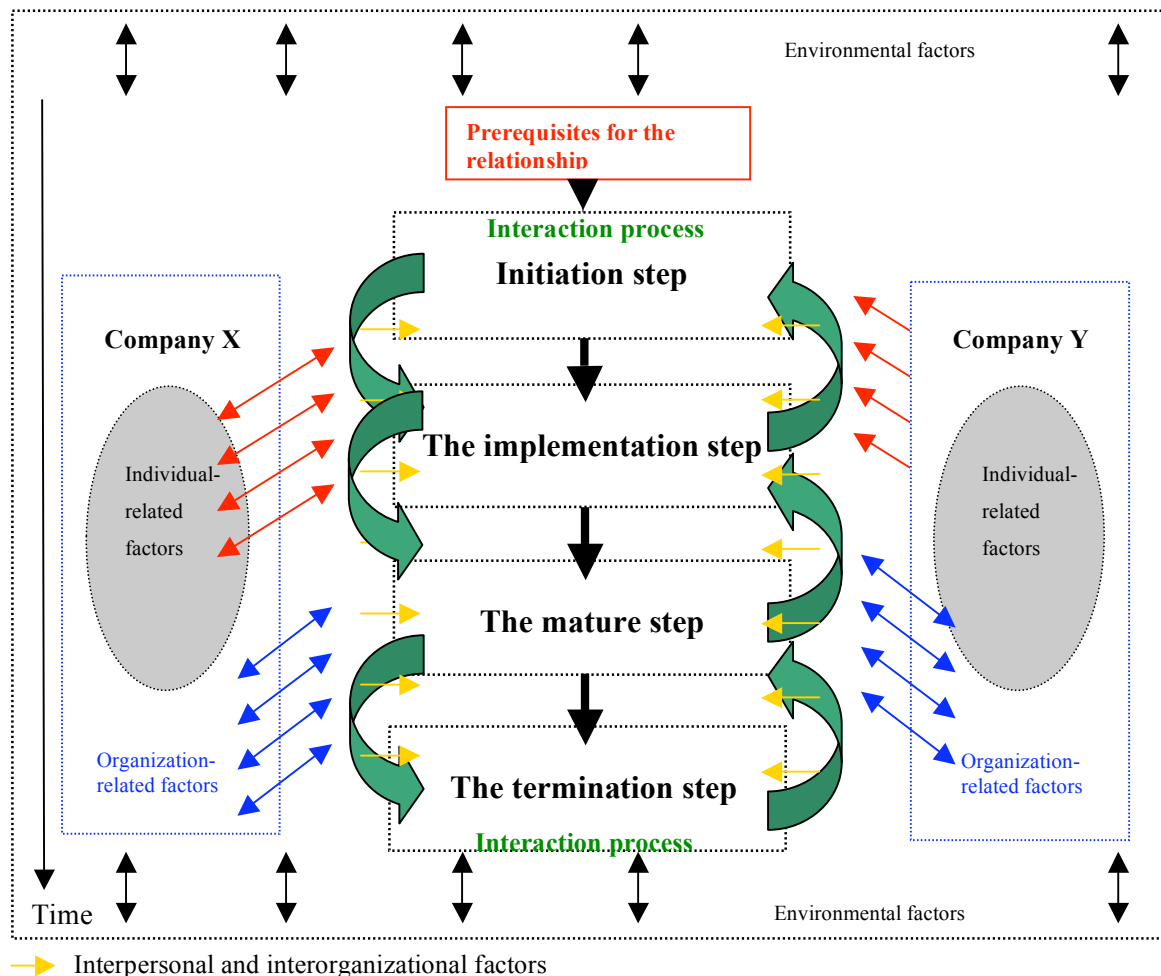
- 1) *Identifying and operationalising critical factors for the development of international long-term business relationships at different development steps in the relationship. These factors are identified from the perspectives of both buyer and seller.*
- 2) *Analysing the course of development of specific business relationships from the point of view of an event method.*

The result of this will be the development of a dyadic process framework that integrates the critical factors for the development process for four international business relationships from the perspective of both buyer and seller.

The problem is built up around the *a priori* framework presented in Chapter One, in which the author suggested that the relationship can be described as a development process that runs through four development steps. First, this assumption regarding the course of development will be discussed in relation to the four cases and it will be estimated if it is possible based on the critical events to describe the relationship as a course of development consisting of four identifiable steps.

In Exhibit 10.1, the *a priori* framework is repeated.

**Exhibit 10.1** The *a priori* framework



Source: Author.

Subsequently, the factors that can be regarded as critical will be identified for each of the four steps of the development process of the business relationship.

Furthermore, the characteristics of the interaction process, which is active in the individual steps, will be discussed. The author is convinced that the interaction process cannot be described as a uniform process throughout the entire development process, but must be based on certain characteristics that are founded on the factors active on the development steps in question.

The dyadic process framework will contribute to the existing literature by creating a larger understanding within three aspects. First, it will create a larger understanding of how business relationships are developed. Second, the factors that are considered critical for the individual development step will be emphasised. Third, the critical factors will be regarded from the point of view of both partners in the business relationship. Before the critical factors in the individual



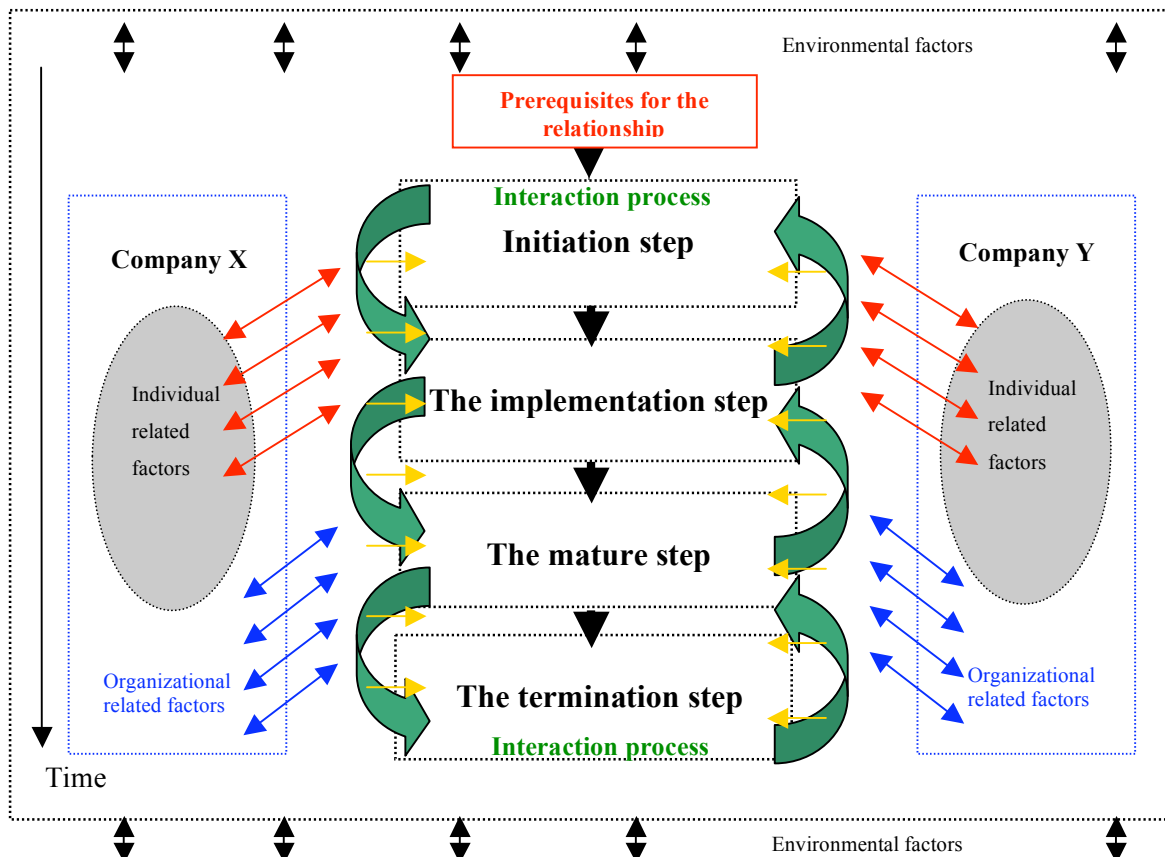
development steps are considered, a short presentation of the conditions for entering into a strategic business relationship will take place. These prerequisites are presented as a separate conceptual category in the *a priori* framework and will be dealt with accordingly.

As a closing of the conceptual domain, the author will discuss the theoretical as well as managerial implications of the investigation. The theoretical implications will be based on an estimation of where a further development of the existing theory has taken place. The managerial implications will be based on an account of what competences are demanded on an individual as well as an organisational level to develop a successful business relationship. The competence estimate will be presented based on the posed development steps.

## 10.1 Motives for entering into a long-term business relationship

In the *a priori* framework, the aspect “prerequisites for the relationship” is regarded as a separate element that is naturally prior to entering into the relationship. This element will be regarded in the following in relation to the four empirical cases. The element is emphasised in red in Exhibit 10.2.

**Exhibit 10.2 The *a priori* framework – prerequisites for the relationship**



The three conditions that have been identified by the author as being prerequisites for the establishment of a relationship are:

1. *Common interest in and desire to develop the relationship*
2. *Agreement in the perception of the advantages of the relationship*
3. *The existence of complementary needs and resources between the partners.*<sup>68</sup>

These three conditions could more or less implicitly be identified as being elementary assumptions for entering into the four business relationships. The empirical study, however, implied that these three conditions could not be considered assumptions for the initiation of the relationship, but that the project managers considered these conditions as a *continuous demand for the existence of the business relationship and that these continuously were the basis of the estimation of the partner*.

The three conditions posed by the author are almost directly comparable with what was emphasised by Carsten Bentsen, DANDY, in the first interview as being the foundation of the relationship. He claimed that *the foundation must be in place before it is interesting to enter into a business relationship*.

The foundation for whether DANDY wanted to enter into a relationship was according to Carsten Bentsen that the relationship had to be characterised by:

1. a win-win situation
2. a rate of return equal to the investment and
3. a long-term perspective in the relationship for both partners.

Without this foundation, the relationship will never work. If both companies feel that the foundation of a relationship is solid, as is the case in the DANDY-JOYCO relationship, the top management will enter into the relationship with initiative and a positive and open attitude that it will be a success. “In my opinion, the foundation needs to be in place in order to start a relationship in the right way” (Bentsen, b, 2002).

The three requirements for the foundation emphasised by Carsten Bentsen correspond well with the three conditions posed by the author. By a win-win situation, Carsten Bentsen understands that both partners have the perception that the relationship will be beneficial to them both.

<sup>68</sup> Inspired by Halinen (1997).

### 10.1.1 Common interest in and desire to develop the relationship

The first condition—the *common interest in and desire to develop the relationship*—is clearly expressed in the DANDY-JOYCO relationship. If the overall relationship is considered first, then it was a prerequisite for DANDY to function as JOYCO's distributor that JOYCO had to establish themselves permanently on the Russian market, which JOYCO accepted. This indicates that both partners had an interest in developing the relationship and not just maintain it as a distribution relationship.

It was JOYCO that, as a result of the Russian crisis, was looking for a new distributor and that consequently contacted DANDY without prior invitation. Jens Andersen, DANDY, made it obvious during the interviews that he proceeded systematically as he estimated the conditions for entering into a relationship with JOYCO. He emphasised that in order to know what you as an organisation want and expect from your relationship partner, it is necessary to be very conscious about your own strategy, mission, and vision. This is important because a potential partner must be able to match these.

Another fact that became evident in all three business relationships is that in the third step of the relationships, measures were taken to discuss the future development of the relationship.

If the distribution relationship is considered first, Jens Andersen and José Rosello discussed the possibility of extending the relationship to cover distribution of JOYCO's products on additional markets. As a result, a distribution relationship in Denmark and Sweden between DANDY and JOYCO was agreed on in the middle of 2002.

For the entry relationship, Carsten Bentsen and José Rosello discussed only briefly the possibility of developing the relationship further. This was caused by the fact that José Rosello left Russia and a new factory manager was hired for JOYCO's factory in Russia. However, Carsten Bentsen emphasised in the interview that it was his intention to discuss the development of the relationship with the new factory manager. Carsten Bentsen said that he wanted to discuss the possibility of a joint raw material purchase and establishment of an ERFA group.

In the same way, José Rosello and Inga Felt discussed the development of the outsourcing relationship as this moved to the third development step. In September 2001, José Rosello and Inga Felt met with the aim of discussing the possibility of a joint raw material purchase.

If the first condition is considered in relation to the Hollywood relationship, the first ever relationship entered by DANDY, it was the intentions of the managements of the two companies to develop the relationship to include a purchase relationship and a product development relationship. These intentions were however never met. Else Vig has to realise that she today<sup>69</sup> believes that Cadbury France perceives DANDY as a sub-supplier and not as a strategic partner, which was the original intention of the relationship.

Based on the previous considerations and indications, the author concludes that the first presented conceptual condition for the entering into of a strategic relationship—the common interest in and desire to develop the relationship—is present in the three JOYCO-DANDY relationships. This feature does not, however, appear only as a condition to enter into a relationship but also as a requirement for the continued existence of the relationship.

### 10.1.2 Agreement in the perception of the advantages of the relationship

The other condition presented—*agreement in the perception of the advantages of the relation*—is not commented upon directly by DANDY's project managers except for Carsten Bentsen, who clearly emphasises that the relationship will never be a success if it is not built up on a win-win situation. If the three DANDY-JOYCO relationships are evaluated, there is no doubt that the partners were very conscious about their own and the partner's advantages connected to the relationship. The table below summarises the partners' advantages from cooperating with each other.

**Table 10.1 Estimated advantages of the DANDY-JOYCO relationship**

	The project managers' estimated advantages of relationship:	
	DANDY:	JOYCO:
<b>The distribution relationship</b>	Gained a larger product range Lowered sales costs	JOYCO possessed no distribution network in Russia. The relationship consequently provided JOYCO with the opportunity of remaining on the Russian market.
<b>The entry relationship</b>	Possibility of renting out old, empty buildings to JOYCO. Extra income through the management agreement.	Carry out the establishment process faster as the management agreement made it possible to use DANDY's knowledge in relation to establishing themselves in Russia, which is estimated as a very risky market.
<b>The outsourcing relationship</b>	Possibility of carrying out the focus strategy with dragee chewing gum as the core. That JOYCO in the long run can develop a better bubble gum compared to DANDY, as they possess larger competences in the area.	Possibility of gaining a scale in the production.

Source: Author.

As it can be seen from table 10.1, both partners are convinced of which advantages the relationship can give their organisation. As stated in the beginning of this paragraph, Carsten Bentsen emphasises that it is a prerequisite for entrance into and existence of a relationship that both partners perceive what advantages the relationship can bring their individual organisation. In a similar way, Jens Andersen says, based on the distribution relationship, that the companies will not cooperate if they cannot see an advantage in the relationship. However, he emphasises that there can be different types of profits, e.g., economical or in the shape of increased knowledge within an area.

If this aspect is considered in relation to the Hollywood relationship, the advantages of the partners in this relationship can easily be made clear. The then GFF was to produce DANDY's stick products and market STIMOROL in France. DANDY should in the same way produce Hollywood's dragee chewing gum as well as try to market the Hollywood brand through DANDY's sales channels in the areas where Hollywood was weak. The most important of the agreement components for DANDY was clearly the production of the 2,000 tons of dragee for GFF, as DANDY in this way got scale in their production.

The author here prefers to apply the condition *the win-win perception*, as this term clearly illustrates the meaning and content of the motives discussed in this paragraph.

### 10.1.3 The existence of complementary needs and resources between the partners

The last condition for entering into a long-term relationship was *the existence of complementary needs and resources between the partners*.

Jens Andersen and Carsten Bentsen both said during the interviews that a potential business relationship partner's strategy, vision, and mission must be matching with DANDY's strategy, vision, and mission. It is important in this context that these are complementary and not competitive. As JOYCO has strategic focus on children's chewing gum products and not on adult's chewing gum products like DANDY, the two companies complement each other well. Based on this feature of their businesses, it is assumed that DANDY and JOYCO will be able to use this complementary strategy on other markets too.

In a similar way, Cadbury and DANDY complement each other. By producing each other's dragee and stick products respectively, the companies could focus on what they did best. It was/is important for both companies to have both stick and dragee chewing gum in their line of business.

Based on the courses of events, it was clear that the needs and resources of the partners changed over time. Each time there is a change in the macro- or microenvironment, the partners needed to create a new "fit" between their needs and resources to maintain the relationship. Changes can arise in the external world or internally in the two companies. In the DANDY-JOYCO relationship, there were several examples of how changed conditions in the surrounding world demanded an adjustment in the "fit" of the needs and resources of the partners.

In the spring of 2002, competition on the Russian market had increased as Wrigley had introduced their bubble gum 'Hubba Bubba'. This situation meant that JOYCO's sales of bubble gum had declined, which in turn meant that JOYCO's needs changed. They wanted to increase the degree of distribution from 40-50% to 90%. This resulted in new agreements and adjustments at DANDY.

In a similar way, the fact that Lars Jensen left DANDY in the beginning of the contract negotiations in the outsourcing relationship can be considered as requiring adjustments. There was a changed need for information at DANDY as they positioned a new person to the task who knew nothing about drafting contracts or the contracts of the DANDY-JOYCO relationships. This meant that JOYCO and DANDY had to find a new "fit" for their resources and needs.

The author is convinced that throughout the entire course of relationship, adjustments will arise continuously between the needs and resources of the partners as a result of the changes facing the relationship. However, like Ford (1986), the author is also of the opinion that it is not merely a changed need that results in a changed composition of resources. The companies also gain new resources over time and their existing resources develop through interaction. As expressed by Ford et al., "...interaction does not only employ the resources of a company, but also translates the resources into capabilities, and leads to change and development in resources over time" (Ford et al., 1986, p. 33).

#### 10.1.4 Conditions for entering into a long-term relationship—a summary

If the three conceptual conditions or prerequisites for entering into a long-term business relationship are considered, the author is convinced that these three prerequisites clearly can be found in the four cases.

Based on the previous considerations, it is believed that the four business relationships coincide with among others Kotler's (1986) and Wilson and Mummalaneni's (1986) opinion that:

- *a relationship is characterised by harmony and mutual support instead of conflicts and dominance*
- *companies expect that the advantages exceed the disadvantages in a relationship.*

It is thus emphasised that the ***posed conditions should not only be considered as prerequisites for the entering into of a relationship, but also as requirements for the continued existence of the relationship***. Based on this, the following three conditions can be determined:

1. *Common interest in and desire to develop the relationship*
2. *Win-win perception*
3. *The existence of complementary needs and resources among the partners*

The author believes that the estimation of the posed conditions is situated right before or very early in the first development step. In the dyadic process framework, this element would therefore be closely linked to the first development step.

As in the *a priori* framework, this element will become part of the dyadic process framework.

## **10.2 The importance of events for the business relationship development process**

The critical event method was used as an analytical tool to structure and describe the three<sup>70</sup> development processes of the business relationship. Events were defined as events which could be either promoting or limiting.

During the collection of data, the critical event method proved to be a useful tool for the understanding of the development process of the business relationships. The events had an influence in different ways on the content and process of the development of the business relationship. Events could also function as “break-points” (Van de Ven, 1987) or turning points that identified the limits between the different development steps. They could also appear to limit or promote the development process of the individual business relationship. An event that made the interaction and/or the adaptation between the partners increase seemed to have a positive influence on the level of satisfaction and in that way tied the partners closer together. Such an event was regarded as promoting the development process of the relationship. The opposite trend was regarded as restrictive for the development process of the business relationship. Furthermore, it proved to be the case that some of the events could have the effect of increasing or decreasing the perceived level of insecurity in relation to the continuity of the relationship.

### **10.2.1 Limiting events**

If the events that are regarded to be restrictive towards the relationship development processes are considered, similarities between them can be emphasised. Please refer to Table 10.2 below.

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<sup>70</sup> It was not possible to use the critical event method on the Hollywood relationship.



**Table 10.2 Events that are considered restrictive for the development process of the business relationship**

	Events	Restrictive influence
<b>The distribution relationship</b>	<ol style="list-style-type: none"> <li>1. J does not meet determined sales targets</li> <li>2. J's products are found on the Russian market despite the fact that they should have been removed</li> <li>3. Relationship problems</li> <li>4. Increasing competition on the Russian market for bubble gum</li> </ol>	<p>D does not feel that the communication proceeds satisfactorily—trust decreases.</p> <p>The D's functional responsables' trust in J decreases. The build-up of trust is a long-term process.</p> <p>If the relationship is to work, D demands that J removes a particular employee from the task.</p> <p>Wish for increase in the sales effort—paragraphs in the contract are renegotiated.</p>
<b>The entry relationship</b>	<ol style="list-style-type: none"> <li>1. Approaching cooperating problems among the specialists</li> <li>2. J has difficulty meeting the date of payment</li> </ol>	<p>D's project employees find it difficult to establish trust in J's project employees. A large difference is sensed between the companies regarding how fast things are done.</p> <p>Creates frustration and nuisance at D. Has a negative influence on trust.</p>
<b>The outsourcing relationship</b>	<ol style="list-style-type: none"> <li>1. Lars Børgesen leaves D</li> <li>2. The integration of the production is commenced before the contract is signed.</li> <li>3. First delivery is produced—faulty delivery !</li> </ol>	<p>Break in the contract negotiations and confusion as to who shall carry on the negotiations on behalf of D.</p> <p>Communication problems and confusion as to who is responsible for what. Difficult internally in D to create trust in J—especially from product development.</p> <p>It is now indicated in several departments of D that they do not trust J as a supplier.</p>

J: JOYCO, D: DANDY

Source: Author.

First of all, in two of the business relationships, there was replacement of employees. As anticipated, the employee replacements had a weakening effect on the development of the relationships. This scenario applied to the entry relationship where José Rosello left Russia and a new factory manager was hired for JOYCO's factory. This change meant that the discussions that had been started between José Rosello and Carsten Bentsen regarding a joint raw material purchase and the establishment of an experience group were never finished. It was argued that JOYCO's new factory manager and Carsten Bentsen at that time had no personal relation to each other.

The event that Lars Børgesen left DANDY in the middle of the contract negotiations for the outsourcing relationship resulted in a break in the negotiations, which caused a lot of confusion as to who at DANDY should proceed with the negotiations.

It applies for both events that the ties between the two companies were weakened for a period of time and the interaction volume reduced. Periodical changes in the mutual commitment and attraction between the companies also arose. The new employees typically needed time to get to know their new area of responsibility, to adjust to the present relationship, and new personal relations had to be built up. The two changes in the composition of employees meant new coordination and adaptation efforts, e.g., change in plans, new organisational adaptations, and rising demand for communication.

As a consequence of the implementation of the second development step, all three business relationships experienced cooperation problems caused by different perceptions of how things should be done. The main reason why problems cooperating arose at this step is that more people were involved in the implementation process than in the other development steps. As for all the countries, it applies that the cooperating problems caused a periodical drop in the trust among the persons on the operational level, and reduced interaction volume and the willingness to adapt among the involved persons. To make things right, it demanded an intensive communication and flexibility in particular among the project managers. It has however proven possible for all business relationships to establish trust between the partners again.

### **10.2.2 Driving events**

If the promoting events are considered in the three business relationships, they were centred on events that aimed at creating a structure for the relationship. Please refer to Table 10.3 below. This table in particular discusses the content of the relationship, establishment of project groups, and signing of contracts. These promoting events will be dealt with in more detail in the following section, as they will be the primary foundation for the empirical identification of the three development steps.

**Table 10.3 Events considered to be promoting for the development process of the relationship**

	<b>Critical events</b>	<b>Promoting influence</b>
<b>The distribution relationship</b>	<ol style="list-style-type: none"> <li>1. A. Rosello and J. Andersen meet to officially discuss the possibility of a relationship.</li> <li>2. Secrecy is signed and J. Andersen and N. Hansen travel to Barcelona to meet the owners of Agrolimen.</li> <li>3. The companies inform the organisations of the relationship—a project group is formed.</li> <li>4. J visits all D's sales personnel.</li> <li>5. Rosello created a more flexible J organisation.</li> </ol>	<p>Interaction between the partners is commenced and adjustments in relation to the contract are carried out.</p> <p>The top management is very committed to the relationship. Trust is created on the strategic level. Wishes to secure a long-term relationship.</p> <p>The implementation is commenced, which results in a more intense interaction and adjustment between the partners.</p> <p>Creates a commitment to and satisfaction with J's products.</p> <p>Results in an increasing trust among the functional responsables.</p>
<b>The entry relationship</b>	<ol style="list-style-type: none"> <li>1. D prepares a proposal to J on how to manage their establishment.</li> <li>2. D prepares a more specific offer.</li> <li>3. Letter of intent and contract are signed.</li> <li>4. Project group is established.</li> <li>5. The project group visits J in Barcelona.</li> <li>6. Discussion between the project managers about meeting payment schedule.</li> </ol>	<p>J visits D in Novgorod and asks them to prepare a specific offer.</p> <p>Intensive negotiations between J and D—a commitment to the relationship is established.</p> <p>J rents D's old buildings. Trust is established on the strategic level.</p> <p>The implementation process is commenced.</p> <p>Creates a large commitment from the project group.</p> <p>Helps re-establish commitment in the relationship and trust in the partner.</p>
<b>The outsourcing relationship</b>	<ol style="list-style-type: none"> <li>1. D decides internally to commit to development and production of dragee chewing gum.</li> <li>2. J. Andersen transfers the assignment to L. Børgesen.</li> <li>3. The assignment is transferred to I. Fabrin.</li> <li>4. I. Fabrin and A. Rosello meet in Barcelona.</li> <li>5. The contract is signed.</li> <li>6. The conditions surrounding the faulty delivery are discussed.</li> <li>7. J's production of D's bubble gum runs smoothly.</li> </ol>	<p>Preliminary discussions concerning the outsourcing relationship are commenced between J. Andersen and A. Rosello.</p> <p>Specific contract negotiations start.</p> <p>The contract negotiations are re-started.</p> <p>Great openness between the partners. Trust is established between I. Fabrin and A. Rosello.</p> <p>The implementation process is carried on in a more systematic way.</p> <p>The replacement delivery is produced and is accepted by D. D is satisfied with J as a producer.</p> <p>Trust is re-established in J.</p>

Source: Author.

For the implementation process for each relationship, an event could be mentioned that focused on straightening the relationship problems and as a result increased trust, commitment, and the interaction between the partners. The responsible project managers initiated this process for each of the three relations. The events that are referred to are as follows: the fifth event for the distribution relationship, the sixth event for the entry relationship, and the seventh event for the outsourcing relationship. The reason why these events are emphasised is that these events resulted in tying the partners closer together, re-establishing trust, and increasing the interaction volume.

A visit by DANDY at JOYCO or JOYCO to DANDY had a promoting effect on the relationship process for all three business relationships. The visits created commitment and trust among the partners, which proved to be valuable for the subsequent interaction.

On balance for the present investigation, it can be concluded that *events may arise internally in the companies, in the relationship, or in the surrounding context*. For the analysed relationships, a prevailing number of events arose in the dyad as a result of the interaction between the partners. The events have in this way affected the development of the business relationship, as they touched upon the conditions of the relationship and necessitated new requirements for the complementarities of the needs and resources among the partners. Some of the critical events meant clear changes of needs and resources, whereas others seemed to change preferences and estimations of needs.

In relation to the investigated business relationships, the author would like to propose that *the strength of the effect of an event is very dependent on the given situation*. The development step or the level of trust and commitment seemed to determine the effect of the events (see also Hedaa, 1991; Halinen, 1997). It is important in this connection to see whether there is a common history between the partners, how strong the ties are between the partners, and how complex the infrastructure is between the partners at the present point in time.

Furthermore, it can be concluded that *the effects of an event are extremely dependent on the situation*. The development step of the relationship and the depth of trust and commitment in the related events determine the degree of the prohibiting or promoting event (please also refer to Halinen, 1997).

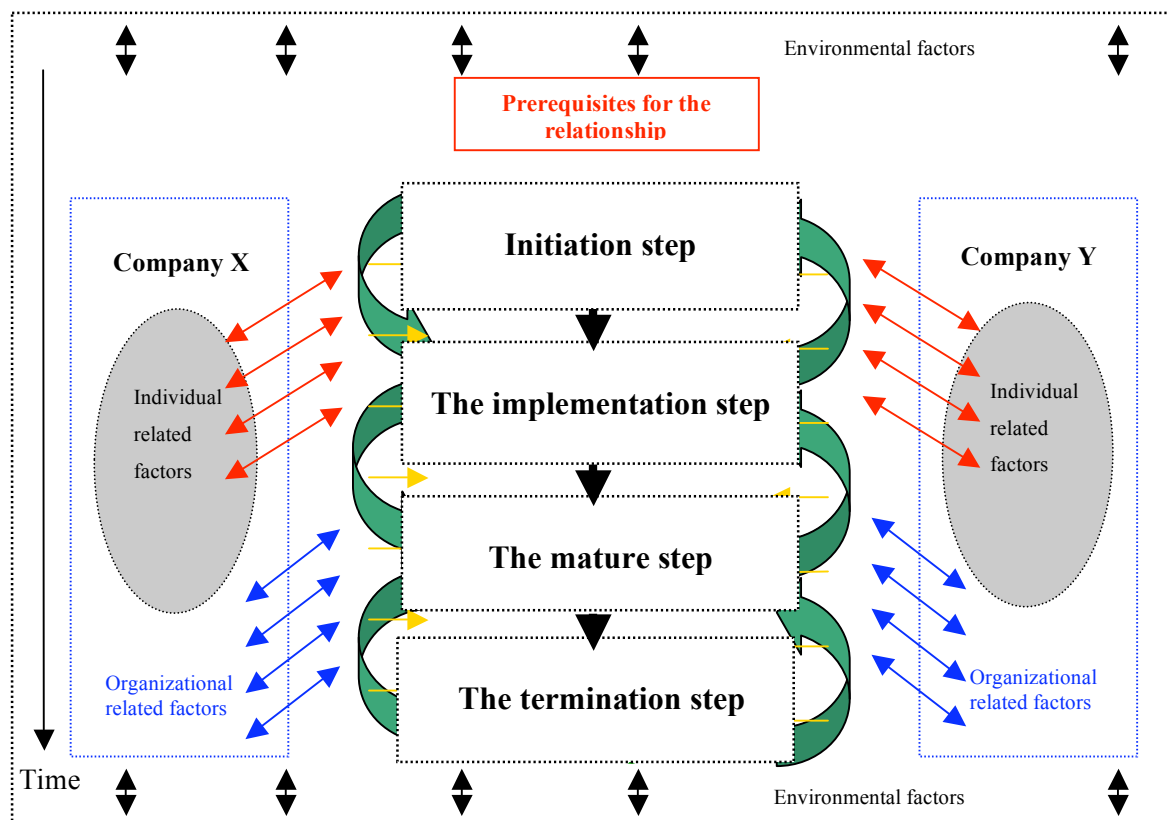
In the following, focus will be on the four development steps presented in the *a priori* framework. These four steps will be compared to the empirical knowledge gained from the four cases.

### 10.3 The development steps of the relationship

In the *a priori* framework, four development steps were described, cf. Exhibit 10.3

- 1) The initiation step
- 2) The implementation step
- 3) The mature step
- 4) The termination step.

**Exhibit 10.3 The *a priori* framework—development steps**



Source: Author.

The author intends to describe the individual development steps from a very practical angle; that is, to describe the individual steps based on some general tasks and divisions of work.

The conclusion was that *the first three development steps could be identified in the studied business relationships*. Logically, it was not possible to identify the fourth step as none of the studied relationships intended to terminate or had terminated. Consequently, the author chose to in the future focus only on the first three development steps.

Each development step characterises a development tendency between the involved persons as well as some elements in the interaction. The identification of the individual development steps is closely related to the events in the business relationships, as the events marked a turning point in the development process of the relationship and in that way clearly mark the limits between the individual steps. *In the course of the relationship, the events in this way functioned either as prohibiting, promoting, or as a trigger for new development steps.* Thus it turned out that a small number of events followed the first occurring event and the relationship evolved incrementally.

When the business relationships were examined from a retrospective point of view, a tendency that these are perceived more continuously and cohesive as compared to an observer approach can be assumed. Minor events and changes were related to more significant events and were probably not perceived as critical. As opposed to this, it is likely that if an observer approach was used and the business relationships were analysed in a faithful manner, minor events would also be perceived as turning points for the business relationship.

Based on the examined business relationships, it will subsequently be sought to give a more general presentation of the three development steps illustrated with examples from the investigated cases.

### **10.3.1 The initiation step**

The first development step, the initiation step, was first characterised by the establishment of contact typically between an individual from each involved company. This contact could be:

- 1) Randomly established or
- 2) One company consciously approaches the other company or
- 3) As a further development of an already existing business relationship.

The DANDY-JOYCO relationship can be described based on the last two examples. JOYCO consciously approached the companies in Russia who were known for having a distribution network in Russia. Despite the fact that Jens Andersen regarded the entrance into of the distribution relationship as a mere coincidence, the author will however regard this more as a conscious strategy pursued by JOYCO. That DANDY was chosen as distributor for JOYCO was possibly the result of correct timing, because at exactly the time when JOYCO was looking for a new distributor, DANDY was by its own means looking for a way to reduce their sales costs in Russia.

If the entry and outsourcing relationship is considered, there is no doubt that these are the result or further development of the distribution relationship. Very early during the contract negotiations, the

companies made known their interests in developing this relationship further. In the first development step, two persons, who initiate the contact, start an interaction with the purpose of testing each other. They estimate whether the strategies, attitudes, objectives, and work methods of the two companies match and if the two companies complement each other in order for them to reach their objectives in a certain market. If these two persons believe that there is a foundation for a future relationship, they will commence a dialogue with the management in their respective organisations with the aim of presenting the framework for a possible relationship. If the companies see the possibilities in the relationship, in the time to follow there will be an intensified interaction between the two persons who initiated the relationship and their managements, respectively. In this process, the involved persons will negotiate about the framework of the relationship. The negotiations will typically be centred on finding business logic in the relationship, the strategical perspective, legal framework, and economy. It is assumed in the conceptual step model that the judicial contract is signed in this development step. This did not, however, apply for the four business relationships analysed, in which the contract was not signed until the second development step. As indicated in A and B in Exhibit 10.4, persons will subsequently be appointed project managers and work as responsible for the continuation of the business relationship.

The first sketched development step can be compared to Ford's (1980) first two phases—"the pre-relationship stage" and "the exploratory stage"—and to Dwyer, Schurr, and Oh's (1989) first two phases—"the awareness stage" and "the exploratory stage." It has been chosen to include this process in one step as opposed to two steps because the author estimates it to be very difficult to separate the two steps. If Ford's (1980) and Dwyer et al.'s (1989) phase models are compared, their first phases are characterised by an evaluation process where the partners try to estimate the competences of the potential business relationship partners and their commitment to the relationship. This step could also be found in the three DANDY-JOYCO business relationships, but the author quickly sensed that this evaluation process was not only an evaluation of the partner but also a preliminary negotiation regarding the potential relationship. Based on this, it is estimated that this process cannot be split into an evaluation step and a negotiation step as it is a process which runs partly concurrently, however with the evaluation process as the start-up process.

Based on this assumption, it has been chosen to rename the first development step as the **evaluation and negotiation step** as this description is more correct considering the interaction in the step.

Briefly, the following practical identification criteria are determined for this first development step:

- *Evaluation of the opponent*
- *Contract negotiations*
- *Only strategic level in the companies is involved*

### 10.3.2 The implementation step

The next step in the process is called the implementation step.

This step was characterised by the establishment of a project group that should take care of the practical part in relation to the implementation of the relationship. The two companies sent a responsible person for each department. It was the functional responsables who provided the turning points in the implementation of the relationship. For the business relationships analysed here, it turned out that the contract was signed only after the project group had been established. This was caused by the fact that the project managers had experienced that after the start-up of the implementation process, some problems arose that could be important for the looks of the contract. These problems were typically on a more detailed level about which only the functional responsible knew.

The functional responsables started an interaction with each other aiming at implementing the business relationship. A large degree of adaptation and coordination took place between the two companies in the beginning of this development step. In the course of implementation, problems arose which created a lot of discussion among the functional responsables and which lead to a decrease in trust in and commitment to each other as well as to the overall relationship. This meant that at times an intensified communication took place between the functional responsables and their project managers, which again resulted in an intensified dialogue between the project managers. The problems that arose were typically based on different expectations and perceptions of how things should be implemented, which in some cases is assumed to mean that the two project managers had to renegotiate parts of the contract.

For the implementation, a project plan was prepared with objectives and acts and a project responsible was appointed for each area. This development step was also characterised by an increasing interaction and exchange between the partners and the establishment of a satisfaction as to the performance of the partners. This development step is visualised with red arrows in Exhibit 10.4.

The implementing development step can be compared with Ford's (1980) and with Dwyer et al.'s (1987) third phase—the developing phase. Ford briefly describes this phase as being characterised by an increased number of exchanges; the contract is signed, and the integration of the relationship is commenced. Dwyer et al. (1987) focus further in their third phase on the mutual dependence and its associated increased risk. Ford (1980) does not make it clear in his presentation whether the contract is signed before the implementation of the relationship is started. It turned out for the examined



DANDY-JOYCO business relationships that the integration of the relationship was started before the contract was signed, which was estimated to be both an advantage and a disadvantage. The project managers emphasised that the reason why the contract was not signed until after the establishment of the project group was that problems could arise about which the project managers knew nothing, but that could be important for the content of the contract.

As Andersen (2001) describes the second phase in his model, the second development step could in a similar way be described as being characterised by a dialogue-oriented communication that takes place between several persons from the two involved companies at the same time.

In brief, the following practical identification criteria can be determined for the second development step:

- *Tactical and operational levels in the company are involved*
- *Project plan is prepared*
- *“Physical” implementation of the relationship*
- *Dialogue-oriented communication.*
- *Establishment of project group*

### 10.3.3 The mature step

When all the project tasks are implemented, the business relationship slides into the third step, which the author has chosen to call the “mature” development step. The business relationship has in this step moved to a level that is characterised by being more operating-oriented as compared to the two previous development steps.

The two companies have adjusted to each other and different kinds of routines, norms, and procedures have been established for the relationship, as well as how to run communication. In this step, the overall things in these analysed business relationships went smoothly, while the rest of the problems were characterised by small conflicts and problems to be solved. The two companies were closely linked in this step and trust had been established as well as commitment to the continuation of the relationship.

In this step, the project managers withdrew from the daily work in the relationship and the daily responsibility was given to the respective departments. If large problems arose in this step, the project

managers were, however, part of the solution. The problems arising in this step were primarily based on changed surrounding world conditions to which the partners had to relate and about which they had to cooperate. These changed surrounding world conditions could lead to the renegotiation of specific items. The courses of interaction (arrows) act in the same way as in the implementation step, however with a low level of intensity, which is why the arrows are dotted. Please refer to Exhibit 10.4.

Ford's (1980) fourth phase can be compared to the three-step model's mature step. The danger in institutionalising routines in the relationship is that some may no longer be needed or even visible in the analysed business relationships. However, this does not imply that this aspect does not apply for the studied business relationships. As the project manager was no longer part of the daily management of the relationship in this step, it is possible that the project manager was not aware of the risk connected with the institutionalisation of routines and procedures taking place.

Dwyer et al. (1987) call their fourth phase *the commitment phase*, as it focuses on the promise to maintain the relationship. This coincides well with the description of the mature development step. Dwyer et al. also deal in their 1987 article with the fact that different factors in this step can influence the tension of the relationship and how commitment plays a role in solving these problems. This applies well with the conditions that could be described for the third development step.

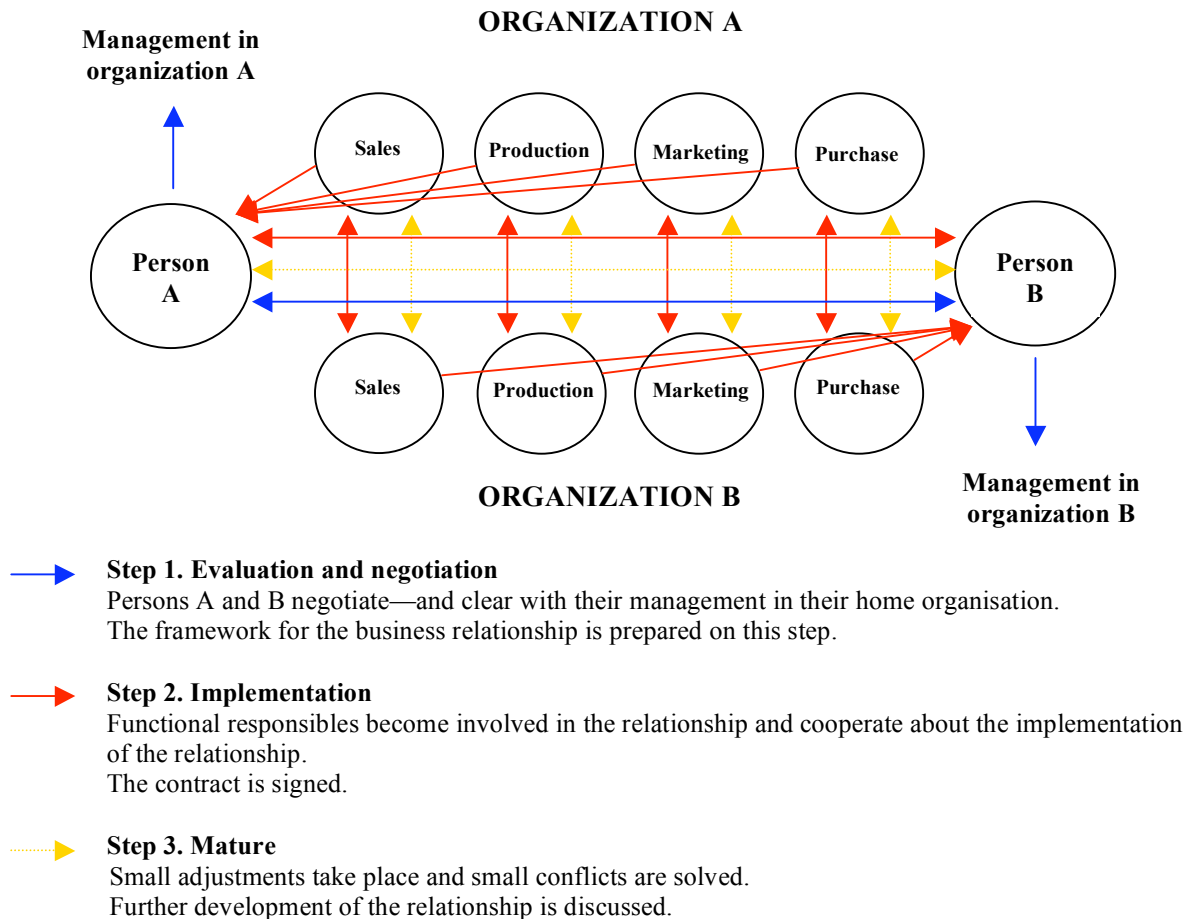
Andersen (2001) emphasised in his phase model that the third phase was characterised by developing some routines and norms for how to communicate. With respect to the analysed business relationships, this characterisation applied for the distribution and establishment relationships as well as the Hollywood relationship.

In short, the following practical identification criteria can be determined for this first development step:

- *Relatively smooth running*
- *Norms and routines have been created*
- *The project managers have withdrawn from the relationship*
- *The project managers discuss if the relationship can be developed further*

In Exhibit 10.4, the structure of the three-step model is sketched.

**Exhibit 10.4 Three-step model**



Source: Author.

### 10.3.4 Summarising comments on the development steps of the relationship

The posed three-step model must not be considered as a deterministic model that predicts exactly how a business relationship will develop. It is important to emphasise that the model must be perceived as sort of a structure that emphasises some development steps which a relationship will go through at some time. It is stressed that the phases between the individual steps in the model are sliding and there is no exact start or end between the individual steps but these should be regarded as a kind of evolutionary process. The phases can be described as a spiral that develops proportionally in time.

The amounts of time when the relationship is in the individual steps are not necessarily similar, and each relation will have its unique course of development. The reason why the development process of the relationships is considered idiosyncratic is that the relations will also be confronted with different

events and the interacting persons' behaviour will be considered unique. Any business relationship will have its own specific context and own relations. The development process of the relation will also be dependent on the behaviour and reactions of the partners in different situations. Business relationships develop based on the intentions of the cooperating partners but some times the intended events do not appear, which can influence the evolution of the relation (Halinen, 1997).

Based on these assumptions, it is not considered appropriate to talk about a deterministic phase model but about a structure for the development process.

The author is convinced that the three-step model and Andersen's (2001) three-phase model that is based on the importance of communication in the three phases can supplement each other well. It must however be underlined that the division of the three phases/steps in the two models does not coincide completely. Andersen (2001) has chosen to let the first phase deal solely with the evaluation and selection of the potential partner. As perceived by this author, Andersen has chosen to let negotiations and implementation take place in the second phase, whereas in this thesis the author has chosen to leave these two processes to constitute the first and second development step in the three step model. Despite the deviations, the author believes that the division of the two models into phases/steps makes the content of the models complementary.

The author chose to omit the fourth step, the termination step, from the dyadic process framework. The author is of the perception, like Baxter (1985) and Duck (1982), that the termination of a relationship can be described as development based on different phases including specific termination processes and different time perspectives. The reason why this phase is not included in the dyadic process framework is thus not because it is considered unimportant, but rather that there is no data available which can describe this process given that all business relationships at the time of data collection still existed. Four months after the termination of the data collection, it did however turn out that the Hollywood relationship ended when Cadbury acquired parts of DANDY including the Hollywood relationship.

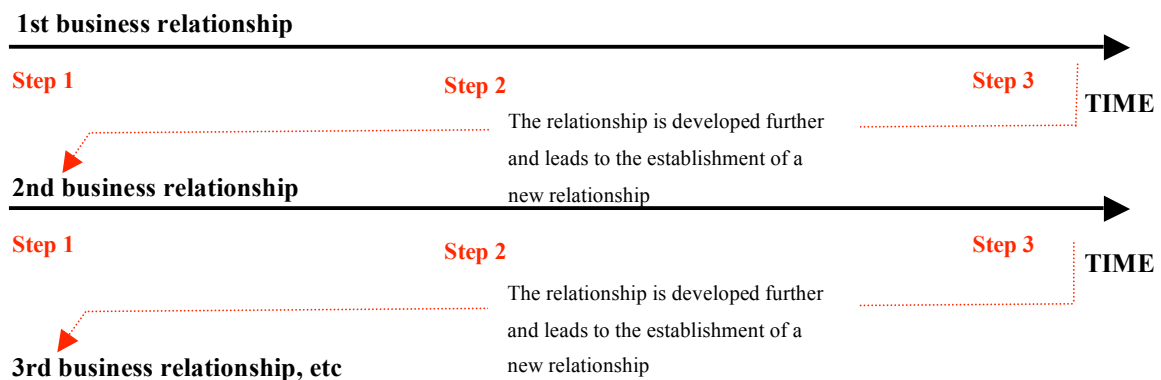
The business relationships analysed in this thesis followed the aforementioned step model. The amounts of time the business relationships stayed in each step were not the equivalent. In the analysed business relationship, there was a tendency that the evaluation and negotiation step was the shortest in duration, followed by the implementation step and then the mature step.

The duration of the individual steps depended on the individual business relationship. The first development step in the Hollywood relationship was relatively long (two years) and the contract was signed before the implementation had commenced. This meant that more “site-letters” had to be prepared for the contract as unforeseeable problems arose in the implementation step, as the contract had already been signed. Based on this experience, DANDY has learned, as previously mentioned, that it is desirable to first sign the contract when parts of the implementation have taken place and a large part of the organisation is involved. The author estimates that this knowledge has meant that Step 1 has been shortened and the implementation step has been prolonged in duration, as there has been a move into the implementation step earlier in the process.

It has become evident that, since the start in 2000, the JOYCO business relationship has over time developed into four business relationships. The JOYCO business relationship started out as a distribution relationship where DANDY distributed JOYCO’s bubble gum in Russia. For this to be realised, DANDY required that JOYCO establish production in Russia, which led to a management relationship where DANDY worked as an advisor on the JOYCO establishment in Russia. As these two relationships could be considered as having reached the mature step in the development process, José Rosello and Jens Andersen started to discuss if the two companies could use each other in other areas. Consequently, the outsourcing relationship was established. And in the end of 2002, a new relationship was established where DANDY had to distribute JOYCO’s products in Denmark and Sweden. In that way, the Russian distribution relationship formed the basis of a further development of the DANDY – JOYCO relationship. This development process is shown in Exhibit 10.5.

Consequently, it seems that if the partners perceive the relationship as creating value, then the possibility of a new relationship is big.

#### Exhibit 10.5 The further development of the business relationship



Source: Author.

The Hollywood relationship has in a similar way followed the process described in Exhibit 10.5. Until 2000, the relationship remained in the mature step, but when Kraft Jacob Suchard in 2000 sold the their chewing gum brands including Stimorol to Cadbury, for Dandy it was like having a new relationship partner, which has meant that the relationship feels as though it is back in the implementation step in the step model. The framework and the contract for the Hollywood relationship is still the same but these had to be implemented with the Cadbury organisation. According to Else Vig at the time of the data collection, the relationship was in the implementation step.

## **10.4 Cycles which support the understanding of the business relationship development process**

Identification of the individual development steps is first and foremost an effective way of giving a simple and understandable description of the development process of a relationship. What more specifically happens in the course of these development steps is elucidated by means of the cycle concept. This concept is used based on the promoting and limiting events.

For the individual business relationship's development process, it was possible to describe some cycles that the individual business relationships went through at different times during the course of development. The cycle concept is perceived by the author as being a useful tool to describe the development process from the process perspective. A cycle is, according to Van de Ven (1987), a periodical pattern of activities.

The author has chosen to identify two cycles: the growth cycle and the decreasing cycle.

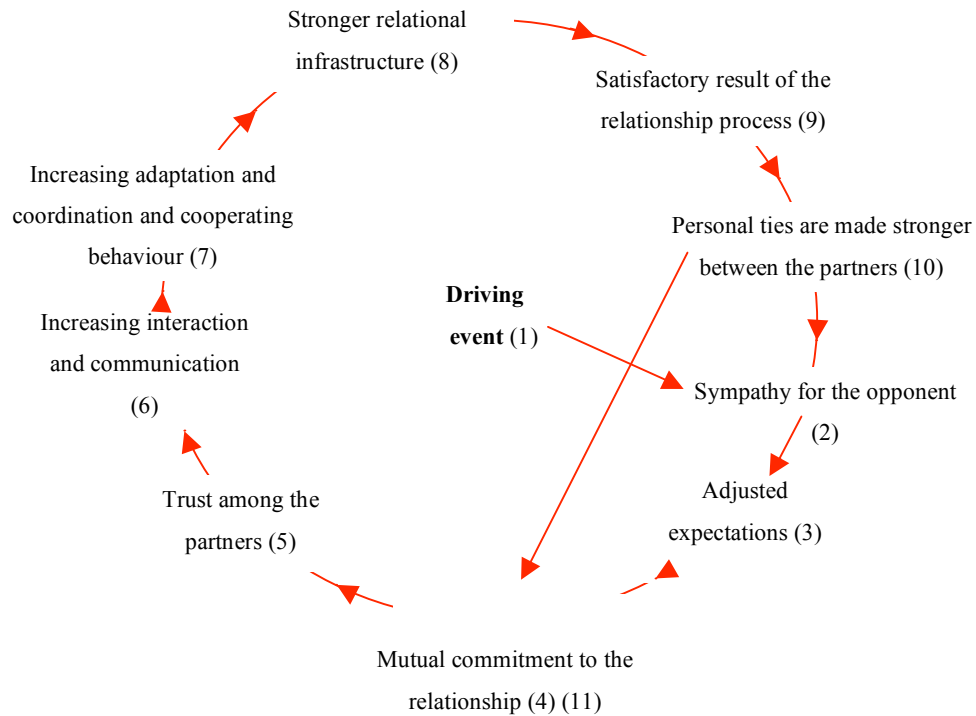
### **10.4.1 The growth cycle**

The growth cycle proved to be initiated by one or more driving events, e.g., when the first papers which shape the relationship were determined and signed, when the project group was established, or when the interacting persons visited each other with the aim of knowing each other's products. These promoting events created sympathy for the partner that eased the interaction process between the two companies, which again had a positive influence on the degree of expectations of the partner as to the relationship. The perceived sympathy for the partner and the adjusted expectations about the future course of events seemed to stimulate the development of commitment and trust in the relationship and the partner. This led to an increased interaction, a more intense communication, an increasing adaptation and coordination, as well as to cooperative behaviour between the involved

parties. The increasing interaction resulted in the relational infrastructure growing stronger, the inter-organisational network of personal relations becoming stronger, and the crystallisation of different norms in the relationship. The improved relational infrastructure created the possibility of gaining a better result in the relationship for both partners.

In Exhibit 10.6, the growth cycle is shown.

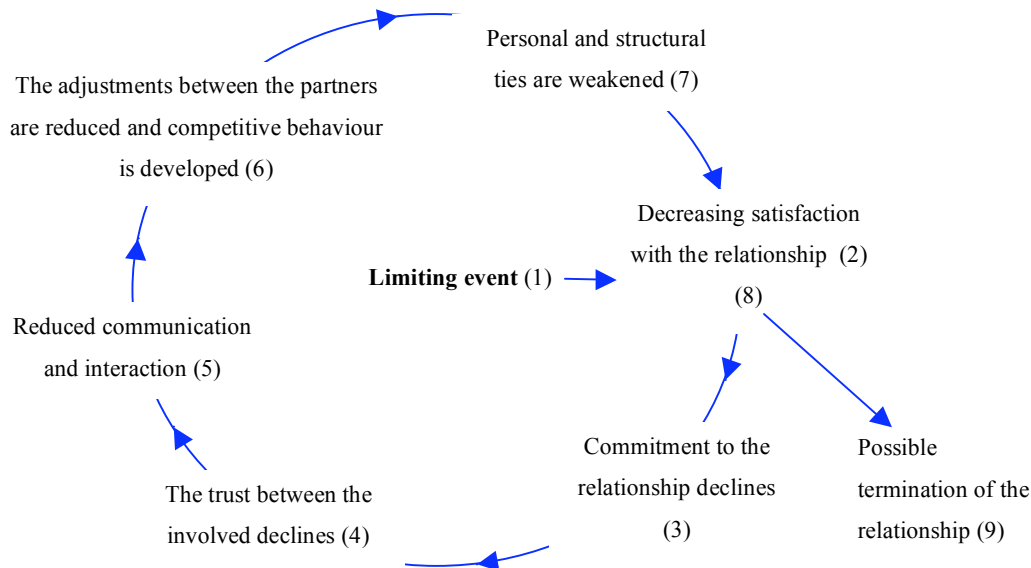
**Exhibit 10.6 Growth cycle**



Source: Author, inspired by Halinen 1997.

#### 10.4.2 The decreasing cycle

As opposed to the growth cycle, the decreasing cycle can be described as being based on a limiting event. These limiting events resulted in dissatisfaction with the relationship; a decrease in both commitment and trust in the relationship and in the involved persons; a reduced interaction, communication, and adaptation; development of competitive behaviour; and weakened ties between the persons and the companies. These changes again lead to further dissatisfaction with the relationship, which in the end can lead to the termination of the relationship. The decreasing cycle can lead to inertia and at least one of the partners starting to take the other partner for granted. In Exhibit 10.7, the decreasing cycle is visualised.

**Exhibit 10.7 The decreasing cycle.**

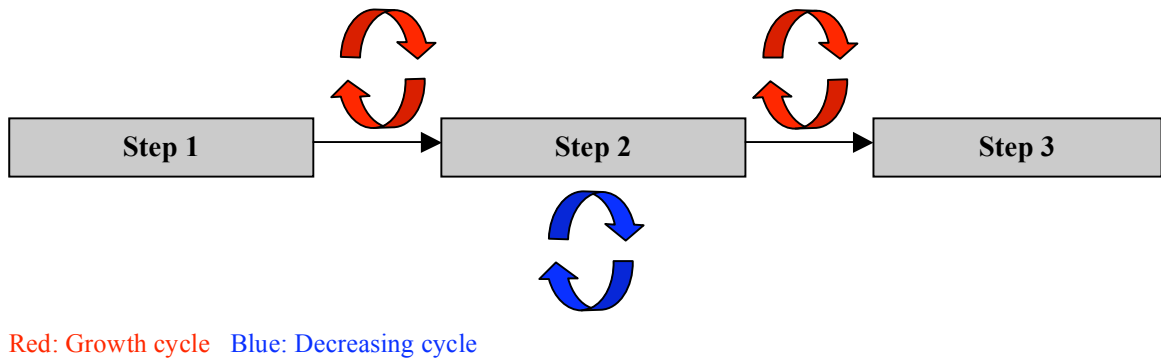
Source: Author, inspired by Halinen, 1997.

### 10.4.3 Cycles—a supplement to the three step model

As previously stated, the described cycles are to contribute to the creation of the better understanding of what happens in the course of the development process and must consequently be perceived as supplementary to the three-step model. Exhibit 10.8 visualises a way in which the three-step model and the two cycle types can be combined. It must be emphasised that the growth cycle and the decreasing cycle can occur at different points in time during the relationships and not only as visualised in Exhibit 10.8.

In the three business relationships studied, it appeared that there was typically a growth cycle first, which was replaced by a decreasing cycle further on in the relationship, and then another growth cycle. How the relationship is restored after the decreasing cycle depends to a large degree on how the two partners handle the situation. In the case of the analysed relationships, a decreasing cycle led to a discussion between the two project managers about the prohibiting event, which led to actions to turn the situation around.



**Exhibit 10.8 The three-step model and the supporting cycles**

Source: Author.

Having focused on the steps a relationship is presumed to go through, the author will shift focus to the factors that are estimated to be critical for the individual development steps.

In the following, the critical factors will be analysed and discussed from the perspective of a buyer and a seller as well as in relation to their importance in the individual development steps. Before this is done, the author wishes to introduce a theoretical example of a model that could inspire the development of the dyadic process model.

### 10.5            An example of an integrated model and a “buyer–seller” consideration

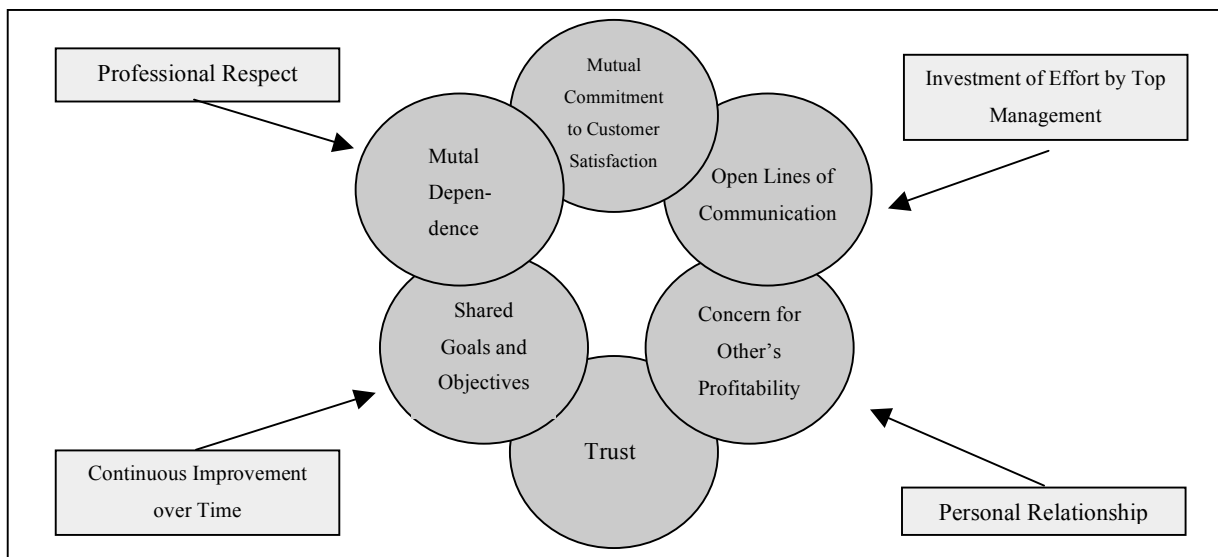
In the aforementioned theoretical and empirical contributions to the specification of the critical factors for the development of long-term business relationships, no attempt is made to integrate existing knowledge about the critical factors with the process perspective. In contrast, cf. Chapter Two, Wilson (1995) has tried to do so by developing a model for the development of strategic business relationships.

Likewise, no specific distinction is made between the buyer and seller perspective. The author is convinced that both perspectives of the development process would be valuable as both partners are active participants, albeit with different roles in this development process. In this context, the author wishes to present the McQuiston (2001) model, which considers the factors from the point of view of both partners.

McQuiston (2001) has researched in the identification of success factors for the development of long-term business relationship between representatives for the producer and those of their principal. Data was collected through in-depth telephone interviews with 21 representatives from the producer and 22 from the principal.

He has in this conceptual model chosen to work with a division of the factors into “core values” and “supporting factors.” The core values are shared goals and objectives, trust, mutual dependence, open lines of communication, mutual commitment to customer satisfaction, and concerns for other’s profitability. The supporting factors were identified by McQuiston (2001) to be professional respect, investment of effort by the top management, personal relationship, and continuous improvement over time. Please refer to Exhibit 10.9.

**Exhibit 10.9 McQuiston’s conceptual model**



Source: McQuiston (2001), p. 171.

The core values are in the rings in the middle of the exhibit and they are the values that were often mentioned by both the representative and the principal as being critical for the development process. That the factors interact shows that all six factors are equally important for the success of the relationship.

The supporting factors are found in the rectangles outside the core values. The supporting factors are the factors that were not mentioned as often as the core values, but still often enough to secure their presence in the model. The supporting factors tend to be more interpersonal as they typically exist between individuals, while the core values are more interorganisational in nature (McQuiston, 2001).

This coincides well with Kanter (1994) who states that effective business relationships consist of a combination of organisational and interpersonal factors. Based on the stated nature of the core values and the supporting factors, the author could imagine that the core values would be developed before the supporting factors. McQuiston's article does not talk about the importance of the relation of the supporting factors or the core values to different stages of the development process.

As it is assumed that Wilson (1995) and McQuiston (2001) each deal with some central aspects in the development of the buyer-seller relationship, the author has chosen to let the dyadic process framework developed here be inspired by Wilson's (1995) and McQuiston's (2001) descriptions. It is the author's intention *to combine what Wilson (1995) and McQuiston (2001) have presented in the two models into one dyadic process framework*.

As mentioned previously, the author's framework will only contain three development steps, as opposed to Wilson's five phases, which are adopted from Dwyer et al. (1987), cf. Chapter 2.

## 10.6 Critical factors and the three-step model

Like Wilson (1995), the author is convinced that the factors are of different importance at different points in time during the development process of the relationship. It has been chosen in the discussion of the critical factors to lean on Wilson's (1995) terminology describing factors as "active" and "latent. Wilson laid down in this presentation that the factors can have an active importance and a latent importance at different points in time during the development process of the business relationship. Like the author, Wilson also believes that there can be a connection between events in a course of development and the activated factors. A critical event can influence whether or not an otherwise latent factor is activated.

The author believes that a parallel can be drawn between the author's perception of the critical factors and McQuiston's (2001) perception of his core values. In McQuiston's presentation, the core values are defined as the values that are most often mentioned by the respondents. However, in this thesis, the author has chosen to define the critical factors as decisive for the successful result of the relationship and as possessing a critical degree of difficulty.

If the critical factors are combined with Wilson's (1995) division of concepts into active and latent, then some critical factors will be active versus latent at different times during the development process of the relationship.

## 10.7 Seller versus buyer in the analysed business relationships

Before it is possible to discuss the critical factors in relation to the individual development steps in the three-step model, it is necessary to first determine who can be considered to be buyer and seller in the three business relationships. In the following table, the division of roles between JOYCO and DANDY is visualised in relation to who can be considered to be buyer and seller in each of the three business relationships.

**Table 10.5 Concretising of the buyer and seller role**

Business relationship	Buyer	Seller
The distribution relationship	JOYCO	DANDY
The entry relationship	JOYCO	DANDY
The outsourcing relationship	DANDY	JOYCO
The Hollywood relationship		DANDY

Source: Author.

If the Hollywood relationship is considered, DANDY acts as a seller in relation to the production of Hollywood/Cadbury dragee chewing gum and as a buyer in relation to the fact that Hollywood/Cadbury does the marketing of Stimorol in France. And in a similar way Cadbury/Hollywood acts as both parties in the relationship. As the author considers DANDY's production of Hollywood's chewing gum to be the load-bearing element in the business relationship, the author has chosen to consider DANDY from the point of view of a seller.

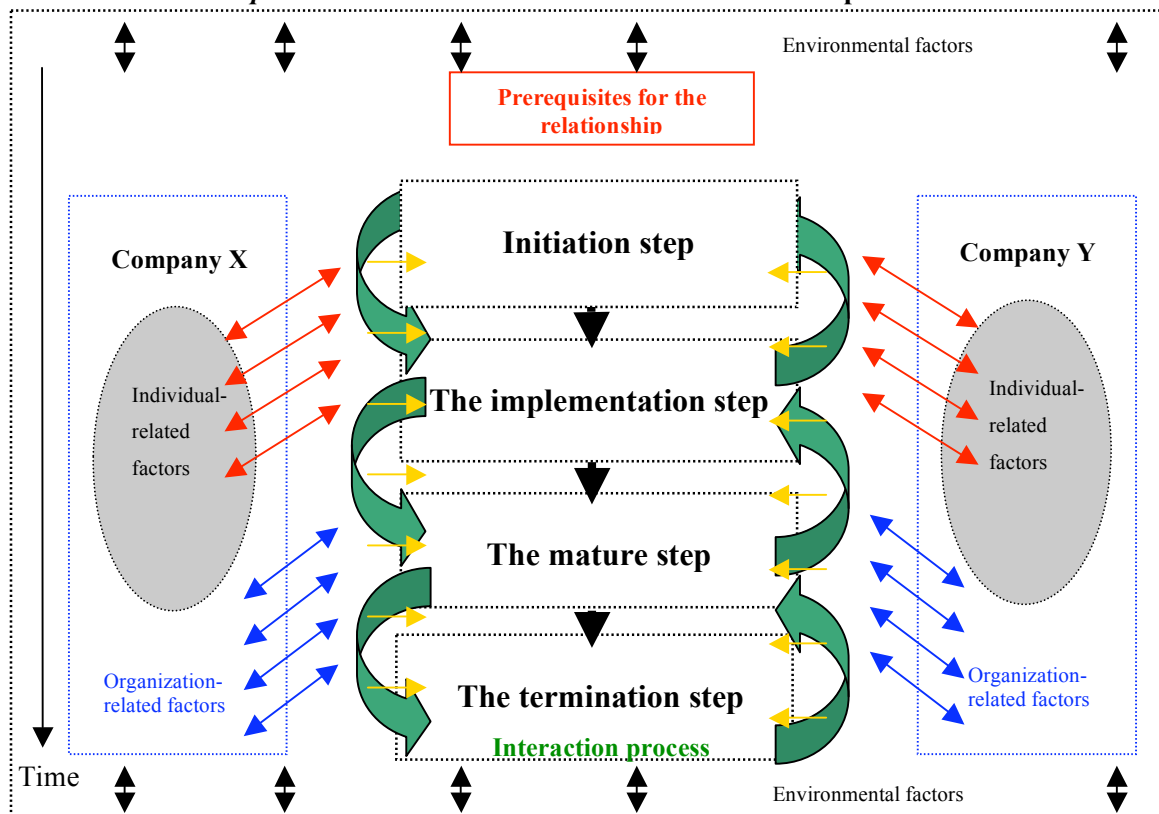
In the following, the critical factors for both seller and buyer based on the four cases will be compared and discussed. However, before this comparison, the author wants to emphasise that each business relationship at the outset is unique and dependent on the situation. Keeping this in mind, the author will, however, try to bring forward some similarities and discuss differences in relation to the chosen critical factors; based on this discussion, the author will present what factors will be integrated into the dyadic process framework.

The factors that will be present in the dyadic process framework will be the factors that approximately 30% of the respondents<sup>71</sup> has emphasised as active in different development steps. It must here be emphasised that the factors, which are active, e.g., in the first development step and latent on the subsequent two steps, must not be considered as being without importance for the two development steps but merely as having a passive role.

## 10.8 Critical factors for the evaluation and negotiation step

The following section focuses on the critical factors for the evaluation and negotiation step. Please refer to Exhibit 10.10.

**Exhibit 10.10** The *a priori* framework—Critical factors and first step



In the present section, the author's understanding of these factors will be presented. This understanding is obviously based on a combination of the respondents' perceptions of the individual factors and on the theoretical conceptualisation of these. The aim of the discussion and the analysis of the individual factors is to present an operational understanding of the individual factors in order for the dyadic process framework to gain a larger operational value.

**Table 10.6 Critical factors for the evaluation and negotiation step**

	<b>Buyer</b>	<b>Seller</b>
<b>The distribution relationship</b>	The strategic importance of the relationship Commitment Trust Power and dependence Openness Personal competence	The strategic importance of the relationship Commitment Trust Communication Decision-making process Risk willingness Specialist competence & experience Flexibility—individual and organisational
<b>The entry relationship</b>	The strategic importance of the relationship Expectations Commitment Risk willingness	The strategic importance of the relationship Commitment Trust Openness Communication Social interaction and personal relation Power and dependence Experience—organisational
<b>The outsourcing relationship</b>	The strategic importance of the relationship Trust Commitment Communication Social interaction and personal relation	Expectations The strategic importance of the relationship Openness Risk willingness Power and dependence
<b>The Hollywood relationship*</b>		Specialist competence & experience Commitment Trust Personal competence Social interaction and personal relation Openness

\* Dandy's estimation will appear in the "seller column." It must however be emphasised that DANDY holds both roles in the Hollywood relationship.

Source: Author.

If the factors are estimated in relation to the assumption posed in the *a priori* framework that it will primarily be the individual related factors that will be active in the first development step, this assumption can be partly confirmed.

When the critical factors for the first development step are considered, they are found within the categories interpersonal and interorganisational as well as individual-related factors.

Consequently, it appears that the respondents estimated relations connected to the interaction between primarily single individuals to be critical for the successful development of a relationship.

If the critical factors on the first development step are considered across the four business relationships, they deviate from the point of view of the seller only a little compared to the critical factors chosen by the buyer. For example, the factor “the strategical importance of the relationship” was chosen by both buyer and seller in the three DANDY-JOYCO business relationships. In a similar way, the factors “commitment,” “trust,” “openness,” “communication,” “personal competence,” “expectations,” “social interaction and personal relation,” “risk willingness,” as well as “power and dependence” were chosen by both buyer and seller. It must however be emphasised that several of the respondents considered the factors “trust” and “commitment” as being active in the entire course of development. As it can be seen from table 10.6, the critical factors “risk willingness” and “specialist competence and experience” were chosen only by the seller.

The assumption that there must be a difference in the critical factors in relation to whether they are regarded from the point of view of a seller or a buyer can therefore be *only weakly confirmed*. Please refer to table 10.6. Based on this estimation, it can be determined that it is **not** necessary to distinguish between a buyer and a seller perspective when the critical factors for the evaluation and negotiating step are implemented in the process model.

## 10.9 Analysis and discussion of the critical factors for the evaluation and negotiation step

As previously mentioned, the factors which will appear in the dyadic process framework will be the factors which have been chosen to be active in the first development step by approximately 30% of the respondents.<sup>72</sup>

The critical factors that will be active in the first development step in the process model are:

The strategic importance of the relation	Risk willingness
Expectations	Personal competence
Specialist competence & experience	Communication
Power and dependence	Trust
Openness	Commitment
	Social interaction and personal relation



Source: Author. \*Will be dealt with in a separate section.

In the following, the chosen critical factors will be discussed and summarised based partly on theory and partly on the empirical investigation.

### 10.9.1 The strategic importance of the business relationship

The strategic importance of the business relationship was chosen by all the respondents except for one as decisive for the first development step. This factor was one of the factors that was added to the list of possible critical factors after the first interview with the respondents were carried out.

This factor is defined as *the estimated importance of the relationship for the future performance of the company*. In this definition of the concept, the key words are “the estimated importance” and “the future performance.” The author submits that one of the assumptions enabling an estimate of the importance of the relationship is that the companies are conscious about what they look for and expect in a relationship. In order to achieve an awareness of this, it is necessary that the company’s long-term strategy is clearly defined and known by the interacting persons, as this forms the basis of the estimation of the strategical importance of the potential business relationship.

Several times during the interviews, Jens Andersen, DANDY, emphasised the importance of the factor “strategic importance of the business relationship.” He emphasised that DANDY was not really interested in entering into business relationships where both companies could not see the long-term perspective in cooperating. He also hinted that if the relationship one day no longer possesses this long-term perspective and strategic importance, there is a large probability that the relationship will cease to exist. Exactly the same is emphasised by Carsten Bentsen and Inga Felt, the other two project managers at DANDY. They both said that as soon as the relationship no longer has a strategic importance for one of the companies, it will cease to exist. It is implied that the companies need to have a *continuous* common interest in developing the relationship in order for it to remain strategically important for the companies.

If a relationship is regarded to be of high strategic importance for both companies, it eases, according to the Spanish project manager, the determination and discussion of the long-term perspective of the relationship. Here the second central wording in the definition of the factor “the strategic importance of the relationship” is dealt with, being “the future importance.” Here a perception is implied that the potential business relationship must have a present and future value for the company and influence the overall performance of the company in a positive way. This can be referred to some sort of performance process that reflects the level of satisfaction that the partners perceive for all the

interactions in the relationship in summary. The relationship must result in some sort of perceived performance and consequent satisfactions with the two companies in order for it to remain strategically important for the respective companies.

The strategic importance of a relationship is a concept which is not used within the industrial network and interaction approach. The empirical cases make it very obvious that the strategic importance of the relationship is a factor that is very critical for the first development step. Therefore, the author believes that the industrial network and interaction approach should be inspired by American-based theories in which the concept “strategic alliance” is often used.

Within the strategic alliance literature, there are two approaches overall regarding when the business relationship can be considered strategic. The first perception regards the relationship as being strategic from the beginning. This is motivated by an assumption that, before specific negotiations are initiated, the management of the involved company can estimate if the present business relationship contributes to achieving the overall strategic goals of the company. Strategy is here defined as being: “...the pattern in the stream of decisions and activities...(Mintberg and McHugh, 1985, p. 6)...that characterises the match an organisation achieves with its environment...and that is determinant for the attainment of its goal”(Hofer and Schendel, 1978, 25). If this applies to the present relationship, it can be regarded as being strategic from the outset.

The other perception believes that a business relationship develops into having a strategic importance for the involved companies. The business relationships are first strategic when the partners have full access to information and have an increased knowledge not only about the objective of the relationship but also about the long-term advantages which may be gained (Sharma, 2000).

The author believes that a business relationship cannot be perceived as strategic from day one, but that the strategic importance of the relationship can be determined relatively early in the course of the relationship. This is also the overriding reason why it has been chosen to let the factor “the strategic importance of the relationship” be a critical factor and not a condition or assumption for entering into a relationship. It must however be emphasised that the conditions for entering into a relationship and the first development step are closely related.

The concept “strategic business relationship” indicates that there is a formal contract between the partners. Formal contracts are regarded as being ordinary, but their role is often limited. An empirical investigation carried out by Tuten and Urban (2001) showed that half (47.8%) of those asked had

some sort of formal agreement of the relationship, 15.8% stated that there was no sort of formal contract, while the rest stated that the agreement between the two cooperating partners varied from a hand shake to a less formal contract.<sup>73</sup>

Formal contracts are ineffective in connection with the handling of conflicts and crises that the companies meet during the relationship. More informal parameters like trust and commitment are estimated by several authors to have a larger influence on the development of the relationship (Moorman, Saltman, and Deshpandes, 1992; Morgan & Hunt, 1994; Håkansson and Snehota, 1997). If the definitions within strategic alliance literature are regarded, the contract is often described as a “cooperative agreement”. The fact that a common agreement exists of a more or less formal form can be emphasised.

Among the respondents, there was agreement that the strategic importance of the relationship first and foremost was expressed through the commitment and obligation to the relationship by the top management. The top management was in relation to the analysed business relationships most active in the first development step as they are important for the negotiation process that takes place in this step. It is estimated by the author that this is a further reason why this factor is regarded critical and active in the first development step.

Consequently, there was overall agreement among the respondents that the estimated strategic importance of the relation influences the commitment that is established in the relationship. It is therefore wished in continuation to conclude that as stated by the project manager for the distribution relationship, “The higher the strategical importance of the business relationship is for the company, the easier it can be to establish a commitment in the organisation to the relationship.” This link was supported by the Spanish project manager who said that when the management expresses that the relationship has a high strategical importance for the company, this helps create openness, trust, and commitment to the relationship. This statement coincides well with the factors of trust, openness, and commitment which were chosen by the respondents as active and decisive for the first development step.

### 10.9.2 Expectations

The author believes there is a close connection between the two critical factors “expectations” and “the strategical importance of the relationship.” The critical factor “expectations” was defined as “the

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<sup>73</sup> For further information, please refer to Tuten and Urban, 2001, p. 158.

interest, motivation, and expectations of the company to goals in relation to the shaping and development of the relationship.”

If the two critical factors “expectations” and “the strategical importance of the relationship” are considered, it might seem as though they overlap. They are perceived as being of a connecting but different character. What divides the two factors is that the factor “the strategical importance of the relationship” is centred around the perceived present and future importance of the relationship, while the factor “expectations” is focused on the motivation and interest of the company in developing the relationship. The connection between the two factors can be estimated from the point of view that if the company senses a motivation and interest from the relationship partner in developing the relationship, this will no doubt have a contributory influence on the estimated importance of the relationship.

*To communicate own expectations and to find some common expectations and objectives for the relationship* are essential for the first development step. The author would like, as in Chapter three, to pinpoint that this is a common expectation as to the objective of the relationship that is considered necessary for a relationship and not common objectives that are not considered necessary for the relationship. As a matter of fact, the objectives of the relationship can be very different from a buyer versus a seller perspective at the same time as the partners have a common perception of the result of the relationship.

For all the analysed business relationships it applies that the partners’ expectations as to the relationship were adjusted in the first development step. It did however also appear that despite the establishment of agreement in relation to the expectations as to the objectives between the top managements of the companies, disagreements arose; e.g., in the case of the establishment relationship, a disagreement arose among the involved specialists in the implementing development step regarding how these expectations as to the objectives can be understood.

Consequently, relative to the first development step, the author wants to present the importance of gaining a common expectation as to the objectives of the relationship. Therefore, the author wishes to revise the factor “expectations” that will take part in the modified process model to read “common expectation as to objective,” as this wording is more precise as well as makes the factor easier to handle in real life.

### 10.9.3 Openness

The factor “openness” was one of the factors that was added to the list of possible critical factors after the first interviews with the respondents.

The factor “openness” is presented within the industrial network and interacting approach in relation to the creation of open communication. For the present thesis, it has been chosen to consider the concept from a slightly different angle, specifically, *the company’s willingness to provide the partner with an insight into all company relations*.

The reason for this is that openness is perceived as consisting of a behavioural and an attitudinal aspect. The behavioural openness is focused on the actions and choices through which over time openness is shown, while the other aspect refers to the willingness of the partners to develop and maintain an open attitude towards each other. The author regards the two aspects of openness as closely related—if you have an open attitude this will often lead to openness in behaviour.

DANDY presented early in the course of the relation, already on the second meeting with JOYCO regarding the distribution relationship, that they regarded openness as extremely important for the establishment of a successful relationship. Jens Andersen said, “This is never going to work if we are not open and honest towards each other” (Andersen, b, 2002). The above can be considered as an example of a request about attitudinal openness in relation to the relationship. There are several examples in the analysed business relationships that can be emphasised in relation to the behavioural aspect of openness. For example, for the establishment relationship, DANDY allowed the JOYCO employees access to all departments in Novgorod and Moscow and openly told them about the chewing gum production. Because JOYCO was also a producer of chewing gum, DANDY could not tell everything in relation to product development as the two companies were competitors in other markets (Bentsen, b, 2002). A further example to emphasise from the establishment relationship is JOYCO’s way of showing their openness by inviting DANDY’s employees to Barcelona, where they presented their company.

Jens Andersen pinpointed that the relationship with JOYCO was managed by “the open book” principle, which has meant that DANDY can make estimations to cost price on JOYCO’s products today. According to Jens Andersen, DANDY, it was in the beginning difficult for JOYCO to accept this principle, as they felt very vulnerable towards DANDY.

The author sensed during the interviews that how the respondents understood the factor was not just as a general “openness” between the partners but more as a mutual “openness.” “Openness” is something that is only created mutually. If only one party demonstrates openness, it will create mistrust in the relationship, as the open party will consider the reason for the lacking openness of the other part.

It has therefore been chosen to in the future to name the factor “Mutual openness.”

#### **10.9.4 Communication**

It appeared in the investigated cases that effective communication for the respondents in many ways could be compared with open communication. In the present investigation, communication was perceived as the “passing on of a message from one person to another in an understandable way.” This is an individual-born act. This perception of the concept is influenced by Andersen’s (2001) perception of the communication process.

Openness in communication can be perceived as how sincere and to what extent the partners share information and opinions with each other (Halinen, 1997). Based on this, it seems obvious that there must be a close connection between the concepts openness and communication. Examples stated earlier in this chapter under the factor openness will also be stated in relation to the factor communication. All respondents who had chosen the factor “communication” as critical for the development of the relationship stated that they saw a connection between the two factors “communication” and “openness,” which can confirm the presumed connection between the two factors.

It is regarded as decisive for the success of the relationship that the partners reached a common understanding of the objectives of the relationship and in this connection open communication played a vital role. As one of the respondents stated, “If you want to cooperate, often, open and honest communication is necessary” (Bentsen, 2002). If the Hollywood relationship is considered, the realisation of the rubber base factory never became a reality and according to Else Vig this was partly caused by lack of openness and honesty between the partners (Lemvigh, b, 2002).

If the early start of the distribution relationship is considered, the communication could be considered one-sided from the seeking company to the potential partner—that is, from JOYCO to DANDY. This only applied for the distribution relationship, as it was the forerunner of the two other relationships.

The early start of the establishment and outsourcing relationship can in this way not be considered the result of a seeking process.

Furthermore, the cases show that the communication that to a large extent took place in the first development step was focused on the negotiations of the contract behind the relationship. The communication had thus in the first development step the primary objective of creating attention about the decisions that were related to the contract. Communication took place primarily between the two project managers and between their management; that is, among a limited number of persons. The communication could be characterised as being partly dialogue-oriented, but it is the opinion of the author that the negotiations played a vital role for this communication process. The aspects presented here for the communication factor in the first development step can partly be compared with Andersen's (2001) description of the communication process in the pre-relationship phase in his model.

The author therefore wishes to operationalise the factor "communication" in the first development step in order for it to be renamed as "argumentative communication" in the modified process model.

Apparently, there was nothing in the cases that indicated language problems, as the verbal communication for both partners was carried out in a foreign language for both: English. This might be because English today can be considered a language that a large number of companies use as their business language, which also applied in the case companies. E.g., Carsten Bentsen emphasised that the reasons for misunderstandings in the relationship were not based on language problems. The discussions typically handled the content of different paragraphs or agreements where one party as opposed to the other held the belief that something had been implied in the relation that was different to what had been agreed upon.

### **10.9.5 Power and dependence**

For the present thesis, it has been chosen to consider two concepts "power" and "dependence" as one: *the company's perceived dependence on, and division of power in, the relationship.*

This aspect was chosen by the respondents as a critical factor, however with the reservation made by the project manager of the distribution relationship: *As long as the power balance and dependence is equal, this factor has no decisive influence for the successful development of the relationship* (Bentsen, c, 2002).

In their presentation of the concept, the respondents focused more on power than on dependence in the relationship. This could be because the respondents regard these two concepts to be relatively close. The author sensed that the respondents perceived that if one of the partners was more dependent on the relationship as compared to the other, the most independent would possess a larger power in the relationship and possibly be less interested in a close relationship. This corresponds well with Narus and Anderson's (1990) considerations of the relative dependence and power connected with this (please also refer to Chapter Three).

The respondents therefore considered the symmetry of the balance of power and dependence important for the success of the relationship. It is however no matter of course that these two symmetries go together (please refer to Hallén, Johanson, and Mohamed, 1987).

The project managers of the DANDY-JOYCO relationships believed overall that the present business relationships could be described as having an equal balance of power and division of dependence. Especially after entering into the outsourcing relationship, José Rosello in particular felt that the dependence became more mutual. Previously, José Rosello felt that JOYCO's dependence on DANDY was larger compared to the other way round. DANDY did not, however, take advantage of this situation, according to the Spanish project manager.

The Spanish project manager also stated that the size of the companies could influence the balance of power in the relationship. As DANDY and JOYCO can be considered to be equally large in so far as number of employees is concerned, he viewed the power balance as almost equal.

The power balance is most important in the first development step in connection with the negotiations of the contract. When the contract had been entered into, you had "to fight" for your wishes.

It could be deducted from the cases that the respondents perceived the power as being tied up in the competences of the company. This means that the company that possesses the largest competences within an area will thus have the greatest power within this specific area. As Carsten Bentsen expressed, "As it is DANDY who distributes JOYCO's products in Russia, we take the lead in this area" (Bentsen, b, 2002).

Based on this, the power of the cooperating companies will vary from area to area depending on who possesses the largest competences within a given area. Therefore a symmetrical power balance will



reflect the balance of competences between the two companies. The factor will be renamed as follows: “Symmetry in power and dependence”

### 10.9.6 Risk willingness

The factor “risk willingness” was one of the factors that were not emphasised in the literature within the industrial network and interaction approach but that was emphasised by two respondents. They perceived the risk willingness as “the willingness of the management/organisation to take on a certain degree of risk.”

Risk willingness can be regarded as a behavioural assumption. Cyert and March (1963) claimed that managers were risk averse from the outset. The insecurity creates anxiety and it is a situation that the human being will try, based on a psychological consideration, to avoid. The management of companies typically react to this unpredictability by developing plans, procedures, and trade traditions that seem to absorb insecurity in an insecure environment (Aharoni, 1966).

The terms *risk* and *insecurity* are often used as synonyms in daily use. According to the author, this usage is incorrect. In 1921, Knight made the first distinction between these two concepts. He considered risk as a situation where the likelihood of alternative results is known, while the insecurity is immeasurable (in Aharoni, 1966). Knight’s distinction between the two concepts is not particularly sharp as the likelihood that is referred to under risk is based on subjective measures. The author wishes to distinguish between the two concepts in the following way: risk is the chance of suffering from damage or loss compared to some of the previous norms, while insecurity is the sense of doubt and unreliability.

If this is considered in relation to the present investigation, risk is presented by the respondents as *their subjective evaluation of a possible loss in relation to either some expectations that were not fulfilled or an economic loss to the company*.

The degree of risk willingness can determine the degree of commitment to the relationship. This means that to show a high degree of risk towards the relationship can be a way to demonstrate a commitment to the relationship. E.g., when JOYCO chose to position a factory in Russia, they demonstrated a high degree of risk willingness, a commitment, and an obligation towards the relationship.

In order to specify this factor, it will in future be named “The risk willingness of the management in relation to the relationship.”

### **10.9.7 Personal competence**

Bergenhengouwen (1996) has in his discussion of the personality concept chosen to use the terms personal and specific/functional competences. According to the interpretation of these concepts, personal competence is a better and more extensive concept than personality and personality can (as stated in Chapter Three) be regarded as being contained in the personal competence concept.

It was chosen to define the factor “personal competence” as “the fundamental set of values of the individual which controls acts and behavior.” As presented by Bergenhengouwen (1996), the present investigation showed that this fundamental set of values is extremely difficult—if at all possible—to identify. This meant that the respondents used concepts like “chemistry,” “sympathy,” and “empathy” when discussing the personal competence concept.

These three concepts are however considered here as being different but related. Empathy is perceived as a personal competence or a personality that visually manifests itself through behaviour and attitudes. There are different attitudes in the literature to whether this competence can be learned or if it must be considered to be natural. It is not desired to discuss this any further here. One of the problems about empathy is that the person might feel a high degree of empathy for the opponent but does not express this through his behaviour.

Empathy can according to the investigation create sympathy among the partners. Sympathy can be described as a construction where there is a kindness, solidarity, and harmony between a minimum two persons. Based on the underlying empiricism, the author regards sympathy as an interpersonal phenomenon.

If the term “chemistry” is considered, it can be regarded as being independent of the empathy. “Chemistry” is in daily use considered an interpersonal phenomenon that describes the match between two persons’ personalities. It is perceived that the respondents regard this phenomenon in the same way in the investigation. There is also the perception of chemistry as something which does not develop over time but which very early in a relationship can be sensed as being present or not. This does not however imply that the persons cannot learn to handle each other’s attitudes and behaviour in

a constructive way. If there is chemistry between the cooperating partners, often sympathy for the counterpart will develop and they will be tied closer together.

According to the respondents, the presence of sympathy, chemistry, and empathy in each other helped create a larger understanding of the partner's divergent or different behaviour or attitude. If there is sympathy for each other, this helps ease the handling of critical problems, as the partners will show a larger willingness and understanding of the problem of the partner. This mutual sympathy meant that the perceived distance between the partners was reduced and personal bonds between the involved individuals developed, which helped making the relationship strong.

In the Hollywood relationship, Else Vig refers to a situation where the chemistry between the two leading persons at DANDY and Cadbury did not fit. This meant that the relationship progressed slowly and a lot of energy and resources were used to make things work. This resulted in the removal of the employee from the specific assignment.

The tensions that may arise as a result of the interacting partners' different personalities, attitudes, and behaviour can be based on a cultural context. While an expressed attitude or behaviour might be intended by one partner to have a kindly influence on the other partner, the other partner may not, due to cultural differences, know how to handle this behaviour or/and attitude, so the behaviour/attitude will probably not be interpreted in the correct way. The investigation therefore showed that openness towards the partner plays a vital role in this connection. (Please refer to Chapter Nine, the Hollywood relationship).

Based on the above discussion of the concept of the personal competence, the author has chosen to alter the term in relation to the modified process model. Instead of stating the term "personal competence," it has been decided to name the factor "empathy, chemistry and sympathy," as these are concepts that primarily refer to the empirical investigation.

### **10.9.8 Specialist competence and experience**

Specific competence and experience will in this thesis be considered as "professional abilities and work-related knowledge partly gained through education or/and courses or through experience." In the present investigation, the respondents estimated only the project managers' specific competence and experience and the importance of this factor for a successful development of the business relationship.

The empirical investigation showed that for the start of the relationship, it was important that the persons who represent the two companies showed professionalism, commitment, experience, and a specific competence in relation to being able to handle the process surrounding the business relationship. This means that these are abilities that are visible for the surrounding world and possible to acquire (cf. Bergenhenegouwen, 1996).

Two reasons why the respondents considered this factor active in the first development step can be emphasised. First, it is important to discuss the importance of the experience of the project managers in entering business relationships and thus their experience in those elements in order to reduce the time of negotiation during the first development step. The lacking experience in entering into business relationship became obvious during the Hollywood relationship, where the first development step was estimated to last for two years.

Second, the investigation indicated that the project managers' experience in cooperating with persons from the partner's culture could be regarded as having a positive influence on the successful development of the relationship. This is because this knowledge created a larger understanding of the attitudes and behaviour of the project manager and the partner, which had a reducing effect on the number of conflicts. In this connection, the Hollywood relationship must be emphasised in particular.

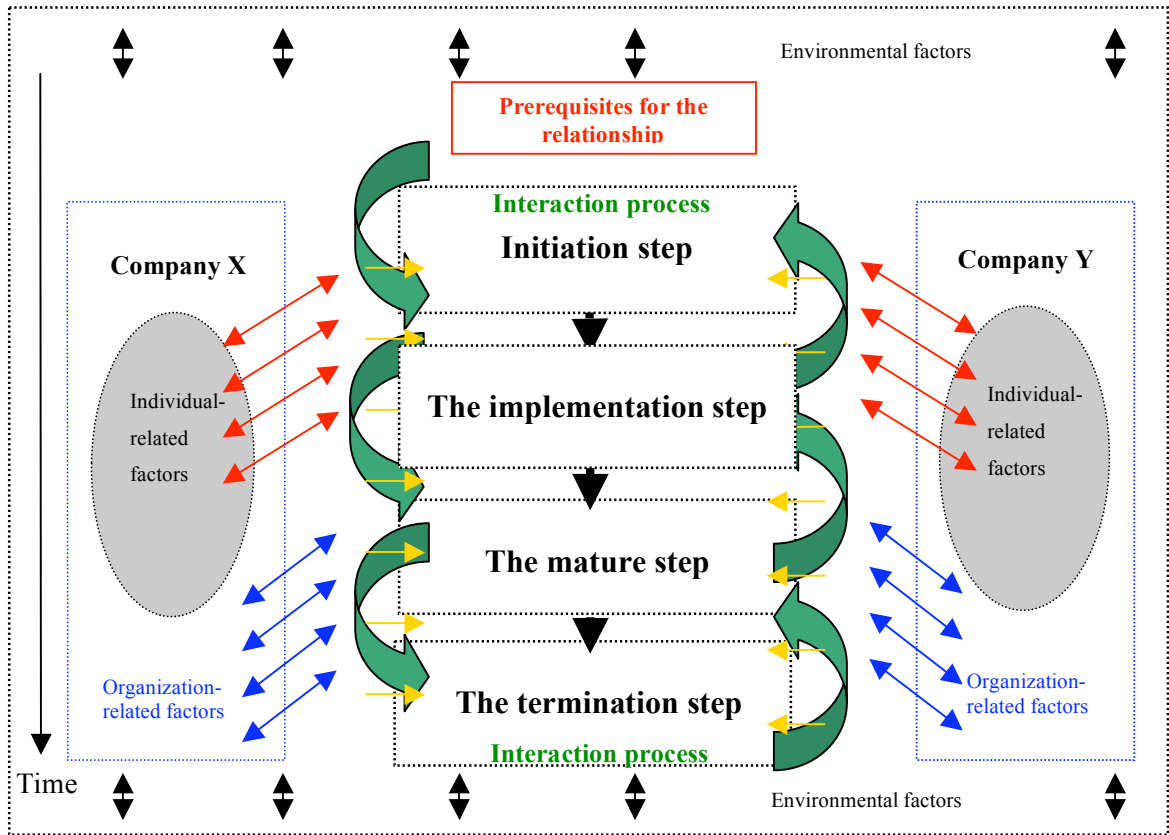
The factor "the experience of the individual and the specific competence" seemed easily understandable for the interviewed persons. Therefore, the wording of this factor will not be changed in relation to the dyadic process framework. It must however be emphasised that this factor relates to the experience and specific competence of the project manager.

On balance, it can be emphasised for the chosen critical factors that they were regarded as closely related according to the respondents. It is therefore important *that the critical factors in the first development step are not considered in isolation but must be regarded as being interrelated*. This will be visualised in the dyadic process framework by the rings surrounding the individual critical factors that interact. Cf. Exhibit 10.15.

## **10.10 Critical factors for the implementation step**

In this section, the critical factors for the implementation step will be discussed, analysed, and operationalised. Cf. Exhibit 10.11.

Exhibit 10.11 The *a priori* framework—Critical factors and second step.



Source: Author.

In table 10.7, the critical factors for the implementation development step are presented.

**Table 10.7 Critical factors for the implementation step**

	Buyer	Seller
<b>The distribution relationship</b>	Expectations Commitment and trust* Power and dependence Organisational culture Management style Conflict solution Flexibility—organisation	Commitment* Social interaction and personal relation Trust* Organisational culture Flexibility—individual and organisational
<b>The establishment relationship</b>	Experience—organisation Management style Communication Conflict solution Organisational culture Social interaction and personal relation	Openness* Experience—organisation Flexibility—organisation and individual Social interaction and relation* Conflict Solution
<b>The outsourcing relationship</b>	Experience—organisation Social interaction and personal relation Prioritise partner products like own Social interaction and personal relation	Experience—organisation Commitment Flexibility—organisation Communication
<b>The Hollywood relationship</b>		Commitment Adaptations Decision-making process Personal competence Openness Social interaction and personal relation

Source: Author.

If the chosen factors are considered in relation to the assumption in the *a priori* framework, then the organisation-related factors and the interpersonal and interorganisational factors will be most important in the implementing step.

In regards to the critical factors for the implementation step, there was agreement between buyer and seller that the factors “experience-organisation,” “commitment,” “trust,” “social interaction and personal relation,” “organisational culture,” “communication,” “organisation—flexibility” and “conflict handling” were active on the implementation step.

The factor “management style” was emphasised by two buyer respondents as being active, while the factor “individual—flexibility” was considered active in the second development step by two seller respondents. Otherwise there was large equality between the estimation of the respondents of the active factors in the implementing step. Therefore, as in the evaluation and negotiation step, the author will not distinguish in the implementing step between the factors chosen by buyer or seller respectively.

## 10.11 Analysis and discussion of the critical factors for the implementation step

The critical factors for the implementation step can be summarised to be:

<i>Social interaction and personal relation*</i>	<i>Organisational experience</i>
<i>Communication</i>	<i>Trust*</i>
<i>Organisational culture</i>	<i>Commitment*</i>
<i>Conflict solution</i>	<i>Flexibility of the individual</i>
<i>Flexibility of the organisation</i>	<i>Management style</i>

\*Considered separately in a subsequent section.

The individual factors will be discussed and operationalised in the subsequent paragraphs.

### 10.11.1 Organisational experience

The present thesis chose to perceive the experience of the organisation, with inspiration from Håkansson (1982), as “*A result of knowledge gathered in advance of the specific relation in other similar business relationships.*”

The experience of the organisation is meant to provide the company with knowledge about how business relationships should be managed and controlled. This proved critical for the implementation step. One of the reasons which can be stated for this was, first of all, that when the agreed upon things had to be implemented, it was important that the *entire* organisation was experienced enough to be able to handle this process.

The respondents considered the experience from two dimensions, which can be characterised as relation-specific and task-specific experience. The relation-specific experience was related to the knowledge about cooperating that the company had acquired over time from this and similar business relationships (cf. Håkansson, 1982). It can consequently be considered very fortunate that the company is able to develop competence in conducting long-term business relationships. As presented by DANDY’s project manager regarding the entry relationship, this demands that the company systematically and structured gathers the experiences it has gained from working closely with another company and is able to use this knowledge when entering into future business relationships.

The task-specific experience that could be specified based on the analysed business relationships was connected with the experience possessed by the company in relation to solving the specific task in connection with the relationship, e.g., production or distribution of a product. It is believed that the partner will estimate the task-specific experience early in the relationship development process, as this is considered an important criterion to make the relationship a reality. As with the relation-specific experience, the task-specific experience can practically “be measured” when the two companies must interact regarding what has been agreed on. As the Spanish project manager said, “In the beginning, you tell your partner that you are an expert but during the implementation, JOYCO must prove that they are the expert which they claimed to be, which is why this factor is most influential in this development step” (Rosello, 2002).

It is estimated based on the empirical investigation that task-specific experience tied to the specific business relationship can be considered asymmetrical, as the two companies each possessed their own task-specific experience. By cooperating, the two companies can get a better match, as the task-specific experiences complement each other.

The factor previously called “organisational experience” will hereafter be named **“task- and relation-specific experience”** in the modified process framework.

### 10.11.2 Communication

The communication in this development step was mostly between the two project groups and the project managers respectively. In other words, communication took place between a large number of people, via persons and groups of people, at different points in time. The communication between the two companies can therefore be described as having been dialogue-oriented. The type of communication was bi-directional, given that conversation between several people from the two involved companies took place at the same time (please refer to Andersen, 2001).

In the second development step, focus is also on open communication and it is also in this case considered necessary in relation to gaining satisfaction in the overall relationship. It is regarded as easier for the partners to reach an understanding of common expectations and interest in the development of the relationship through open communication. Without good and open communication on the inter-organisational roles and feedback on the information regarding the relation, the expectations of the partners for the relationship “pass by each other,” which creates frustration, disappointments, and dissatisfaction in the overall relationship.



It is sensed that when communication channels of positive and negative feedback are established in the implementing step, the barriers for smooth interaction become smaller and potential conflicts are solved in a more functional and constructive way. This was displayed in particular in the outsourcing relationship, where the implementation process was commenced before the responsibilities of the individual assignments was determined. This created a great deal of confusion about communication, as it at times was unknown with whom to communicate in order to solve potential problems.

As the respondents did not consider the factor “openness” active in the second development, the author consequently wishes to rename the communication factor in the implementing step to “Open dialogue-carried communication.”

### 10.11.3 Organisational culture and management style

To begin with, the opinion of the author was to consider the two factors “organisational culture” and “management form” as two separate factors. This intention is revised after the data collection. The reason is that the respondents refer to predominantly the same problems with regard to these two factors.

The term *organisational culture* is often used, but it is a difficult concept to operationalise. Fundamental in this concept is the focus on common values in the individual company. It turned out that the respondents did not have the same broad perception of the concept as theory has. The respondents did perceive the organisational culture as a set of common values and attitudes in the company that were created and essential for how the company works. But they did not believe that the factors “risk willingness,” “flexibility,” “decision-making,” and “management style” should be part of the factor “organisational culture.” Based on this, the author has chosen to focus on the element “*the value and attitudinal patterns of the company*” in order to understand this factor.

The factor “management style” can be perceived as some sort of directional norm in relation to behaviour. This factor will in the following be perceived as both a part of and a result of the value and set of attitudes of the company.

The empirical investigation showed that the factor “management style and the values and attitudes of the company” is active in the second development step. This factor can partly be characterised as an informal and hidden factor that influences the behaviours of individuals interacting with each other. The respondents emphasised for this factor the importance of the fact that the two attitudinal sets of

values of the two organisations match. For the DANDY-JOYCO relationships, the importance of the fact that the two companies were family-owned was emphasised. There was between the project manager for the distribution relationship and the Spanish project manager a clearly similar perception of the importance of this relationship. According to the mentioned persons, family-owned companies treat their employees differently than registered companies. Jens Andersen's comment emphasised this difference: "We protect each other more and have a larger understanding of each other. There seems to be an unwritten law between family-owned companies that we gladly help each other" (Andersen, b, 2002), as did the comment of the Spanish project manager: "We handle things and problems in a more personal way" (Rosello, 2002).

If Reynold's (1986) "Ad hockery versus planning" dimension of the organisational culture is considered, something points in the direction that DANDY and JOYCO are not in the same dimension. The project managers describe DANDY as being very structured, planning and analysing, while JOYCO is more creative and open in their approach. The author estimates that DANDY would be closer to the "planning-pool," while JOYCO would go in the opposite direction. It is consequently believed that something indicates that the optimal fit between two interacting companies' attitudes and set of values do not necessarily need to be identical but merely complement each other, as is the case in the presented example. This applies in a similar way for the factor "management style".

As a result of this analysis, the original factors "organisational culture" and "management style" are operationalised in the modified process model as "Complementary management style, attitudes, and values."

#### **10.11.4 Conflict resolution**

The critical factor "conflict resolution" was considered as "the way in which conflicts are estimated, resolved, used, and met by the individual company." In this definition of the concept, the phrase "the way in which conflicts ..." is used, which gives a hint of the existence of a conflict resolution method.

The respondents who chose the factor "conflict resolution" said that DANDY and JOYCO solved conflicts in different ways. For example, DANDY's project manager for the establishment relationship emphasised that he regarded DANDY as observing a problem-solving method that is structural, systematic, logical, and argumentative supported by plans specified with acts and aims. On the contrary, he characterised JOYCO as being more explorative in their approach to solving problems, which could at times appear somewhat uncoordinated. This description of the two companies' preferred problem-solving method corresponds well with the description of the organisational culture

of the two companies in relation to the dimension “Ad hockery versus planning” presented by Reynolds (1986), cf. section 10.11.3.

In Chapter Three, the concept “functionality of a conflict” was presented. Based on the present investigation, the author feels that it is more correct to talk about a functional problem-solving method instead of a conflict-handling method. The reason is that the episodes that the respondents refer to under this factor have more of a character of problems that needed to be solved than of conflicts. This factor will therefore be renamed “functional problem-solving.”

### **10.11.5 Organisational and individual flexibility**

The relationship between the individual’s and the organisation’s flexibility were both factors which were added to the list of critical factors after the first round of interviews. Primarily for two reasons, the author has chosen to treat these factors together. First, it was the perception of the author that the flexibility that the individual shows is mostly dependent on the flexibility the company is willing to show. Second, several of the respondents chose to discuss the two factors as one, as there is a close connection between the two.

The willingness to show a flexible behaviour is an important element for this factor. The author holds that the willingness to show a flexible behaviour can be considered a function of the management’s perception of the specific strategic importance of the relation. It can be stated that the higher the perceived strategic importance of the individual business relationship for the company, the higher the willingness to show a flexible behaviour towards the relationship partner.

In the individual relationships the expressed flexibility shown depended on the tasks to be performed in the individual relationship. In this connection the author wishes to present that the factor “flexibility” overall could be considered as the willingness of the individual and of the organisation to show a flexible behaviour, but the way in which and in relation to what this behaviour was shown depended on the specific relation.

The reason why “flexibility” played a large role in the implementing step is estimated to be that it was connected to the adaptation and coordination process that took place on this step. The adaptation and coordination process made large demands on the flexibility of the individual, as the involved persons and companies through the entire course of implementation were met by current demands for changes and adjustments. As a result of this, the desirable importance of *reciprocity* in the shown flexibility is

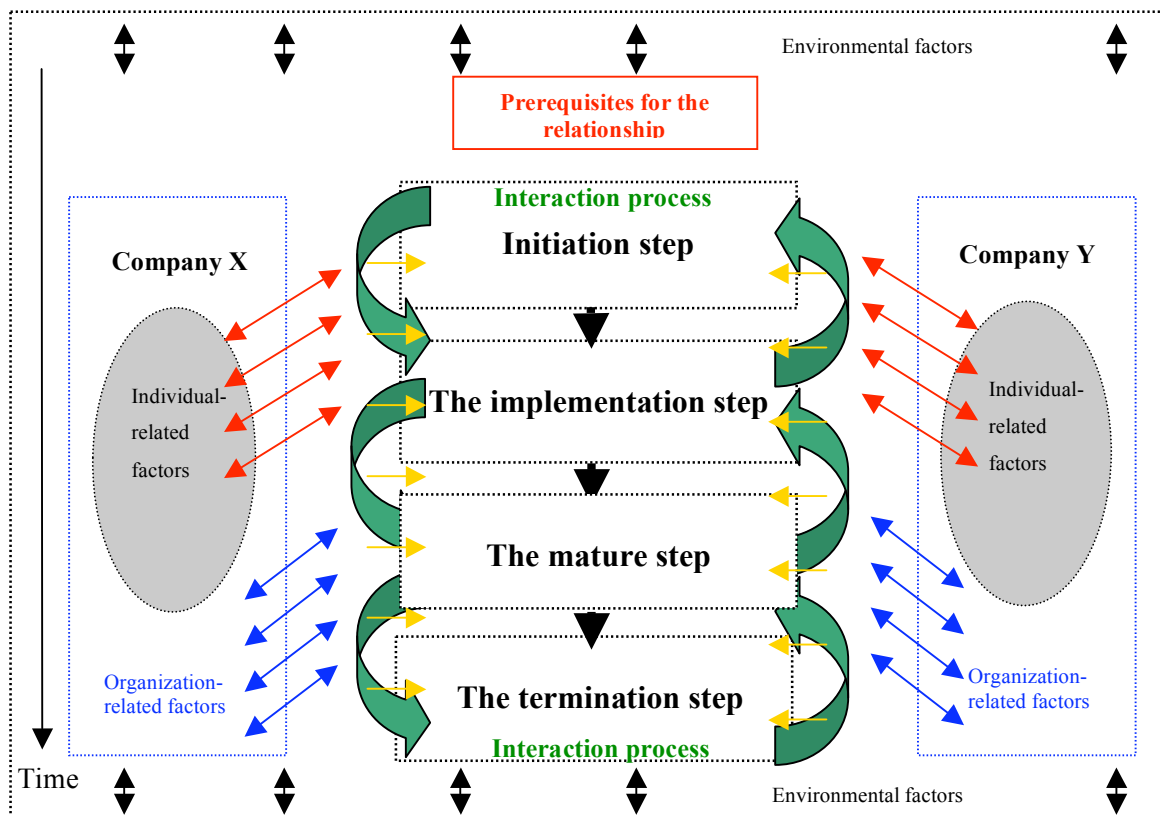
presented. As the project manager from the entry relationship said, “Both partners must during the relationship be willing to change direction and not be completely determined on a direction they believed to be right from the beginning” (Bentsen, b, 2002).

Consequently, the author wished to emphasise the reciprocity in relation to the flexibility and therefore names this factor “Mutual flexible behaviour” in the modified process model.

## 10.12 Critical factors for the mature step

In this paragraph, the critical factors for the mature step will be treated, analysed, and specified, cf. Exhibit 10.12.

**Exhibit 10.12 The *a priori* framework—Critical factors and third step**



Source: Author.

In table 10.8, the critical factors for the third development step are visualised.

**Table 10.8 Critical factors for the mature step**

	<b>Buyer</b>	<b>Seller</b>
<b>The distribution relationship</b>	Commitment Trust Flexibility—organisation	Commitment Trust
<b>The entry relationship</b>		Openness Social interaction and relation Conflict solution
<b>The outsourcing relationship</b>	Social interaction and personal relation	
<b>The Hollywood relationship</b>		Trust Personal competence Social interaction and personal relation

Source: Author \*The factors are not adjusted in regard to the previous paragraphs.

Based on the characteristics which describe the mature development step, it is not surprising that there are only a few factors in relation to the other two development steps which are estimated to be active in the mature step.

Therefore, it can quickly be summarised that the active critical factors on the mature step are:

*Trust\**  
*Commitment\**  
*Social interaction and personal relation\**

\*Is considered separately in a later section.

Subsequently, the critical factors “trust,” “commitment,” and “social interaction and personal relation” will be discussed.

### 10.13 Trust, commitment, and social interaction and personal relation

The empirical results showed that the factors “trust,” “commitment,” and “social interaction and personal relation” were the only factors that were regarded as critical for the entire development process of the business relationship. Previous investigations with focus on the factors have shown similar results, cf. Fraiser (1983), Dwyer et al. (1987), Wilson (1995), Sherman (1992), Håkansson (1982), Ford (1997), Håkansson and Snehota (1997), Morgan & Hunt (1994).

The subsequent presentation of these concepts is based on a discussion of the perception of theory together with the understanding of the respondents and aims at making the concept more operational.

#### 10.13.1 Trust

For the present thesis, “trust” has been considered as “the partner’s willingness and trust in the credibility and integrity of the exchange partner,” cf. Chapter Three. This perception of the trust concept corresponds well with Moorman, Saltman, and Deshpande’s (1993) and Morgan and Hunt’s (1994) understanding of this concept.

Based on the case investigations, it makes sense to distinguish between two types of trust, as do Halinen (1997) and Young and Wilkinson (1989), namely, a general and a specific trust. General trust is based on the overall general knowledge and its characteristics that are had/known (in advance) about the partner, while a specific trust is based on the personal experience with the other party. The trust referred to in Chapter Three and in this chapter can primarily be described as being of the specific nature. Logically enough, it turned out as presented by Halinen (1997) and Young and Wilkinson (1989) that the general trust in the integrity of the partner played the largest role in the start-up of the relationship. In this context, the distribution relationship is emphasised in particular, as this was the first relationship entered into with JOYCO. The subsequent relations can be considered as partly a further development of the distribution relationship so that when the entry and outsourcing relationships were started, the author sensed that the general trust was established between DANDY and JOYCO. Another example of this general (dis)trust which can be presented is DANDY’s previous relationship with JOYCO, which was never fulfilled for personal reasons. It is estimated that, based on this experience, during the early start-up of the distribution relationship DANDY paid a lot of attention and estimated whether they could trust JOYCO.

The empirical investigations showed that specific trust had to be established on different levels in the two companies. First, specific trust was established on the strategic level based on the general trust among the relationship partners. This is primarily about creating trust between the two project managers and their managements respectively. This trust-generating process between the strategic levels of the two companies took place primarily in the evaluation and negotiation step and appeared to be the least complicated. The second part of the trust-generating process focused on the establishment of trust between the other organisational levels in the two companies, and this took place primarily on the implementation step.

Establishing trust in the second development step was considered to be more complicated than it had been in the first development step. Two reasons primarily account for this perception. The first reason which can be presented for why this trust-generating process is considered faster and easier in the first development step is that the involved parties on the strategic level basically had positive preparation to the fact that this relationship would gain value over time for their company. This advance attitude to the relationship and the partner was estimated to have a positive influence on the establishment of trust between the partners. The second reason which can be presented is that in the first development step, trust only had to be established between a minor number of persons (on the strategic level) in contrast to the implementing level where a larger number of persons were involved in the relationship.

Trust stems from the past and is primarily based on common previous experiences, but at the same time determining for the future relationship. This clearly applied for the analysed business relationships. The trust that was established through the distribution relationship had a positive influence on the establishment of trust in the two subsequent DANDY-JOYCO relationships. This dynamic is also clear in relation to the Hollywood relationship. When GFF was acquired by Kraft and later by Cadbury, then any acquisition was connected to the establishment of new trust between the involved partners. This applied in particular for the Cadbury takeover of Kraft's chewing gum brands. It was the perception of the project manager that this specific relationship consequently developed into being perceived as a sub-supplier relationship instead of a partnership, which was not the original idea of the relationship, cf. Chapter Nine.

The trust between the involved partners can be considered as an interorganisational or as an interpersonal thing. It was estimated that this trust could be considered based on an interorganisational point of view corresponding with the general trust, as this typically manifests itself at the organisational/company level. It is possible for people to trust a company based on its reputation and publicity in the market and not because you have faith in a person representing the company.

If the trust is perceived as an interpersonal matter, this corresponds well with the perception of the specific trust. In this thesis, trust will in this connection be considered from an interpersonal approach, as the individuals representing the company carry the trust created in it. Based on this consideration, trust will thus be perceived as a social phenomenon where the social interaction between the partners plays a vital role. Thus, specific trust was shown to form a mutual bond that keeps the companies together. In other words, it is necessary with a mutual trust to develop the relationship progressively. This was apparent in the studied cases from the fact that several of the interviewed project managers said that behaving in a reliable way led to a radiation of trustworthiness which encourages others to engage in trustworthy behaviour and actions. So a certain degree of trustworthiness in the partner could be considered as a prerequisite for the establishment of trust (cf. also Young and Wilkinson, 1989).

In Chapter Three, it was stated that the limited level of trust between the partners in the beginning of the relationship meant that the partners did not commit early with a large amount of resources. It also stated that the extent of resources was gradually built up (Andersen & Christensen, 2000). This situation turned out to be only gradually applicable for the DANDY-JOYCO relationship. Already before the start up of the distribution relationship, JOYCO committed to establishing a production unit in Russia. Consequently, JOYCO must be regarded as having trusted DANDY very early in the first development step.

As implied above, the social interaction and relation have had a positive influence on trust. If there is a strong social relation between the partners, there is something in the analysed cases that pointed in the direction of this raising the trust level between them. So a favourable personal relation that involved an interpersonal trust strengthened the partners' belief that the partner would in the future act advantageously and beneficially in relation to the overall relation. The author consequently states that a strong personal relation helps strengthen the trust between the interacting partners.

All respondents agreed that the factors "openness," "communication," "the social interaction and relation," as well as "commitment" had an influence on the creation of mutual trust. It could however not be clearly determined which factors came first. Is it necessary to create openness before trust can be established? A lot points, however, in the direction that when the partners trusted each other, they were more willing to show an openness and enter into open communication, which then again affected trust in a positive way, which again had a positive influence on openness and communication. This way, there was some sort of self-increasing positive spiral that was characterised by a cooperating



behaviour, cf. the growth cycle. The opposite would apply if mistrust had been established between the partners.

Several authors<sup>74</sup> perceive satisfaction with the result of the business relationship as a prerequisite for the establishment of trust. This connection could also be confirmed in the present thesis. An example that illustrates this can be put forward from the outsourcing relationship. When JOYCO missed the first delivery of DANDY's bubble gum 'Shake,' this created a widespread mistrust and doubt with several of those involved at DANDY in relation to whether JOYCO could handle this task. As JOYCO then subsequently proved that they could without any problems produce DANDY's bubble gum, the trust in JOYCO was slowly re-established. This example clearly demonstrates a connection between satisfaction with the result of the interaction and the establishment of trust.

In summary, it can be concluded for this section that the factor "trust" is renamed "mutual trust."

### **10.13.2 Commitment**

Commitment becomes in theory perceived as an implicit and explicit promise between the relationship partners on continuity in the relationship. To concretise the concept of commitment, it has once again been chosen to adjoin Moorman, Saltman, and Deshpande's (1992) and Morgan and Hunt's (1994) perceptions of the concept. The concept is perceived for the present thesis as "the partners' continuous interest and promise to uphold a valuable relationship."

In the literature the factor "commitment" is like the factor "trust" considered a key component for the development of a successful business relationship (among others, Ford, 1982; Dwyer et al., 1987; Morgan and Hunt, 1994). It proved applicable for the present investigation that the factor "commitment" was estimated to have a decisive influence for the entire course of development by a predominant number of respondents.

Hallén and Sandström (1988) have in their work identified two dimensions of commitment: the attitudinal and the behavioural. The first dimension refers to the partners' willingness to develop and maintain the relation in the future, while the other dimension is focused on the choices and acts taken over time through which the partners are committed to each other. The presented division of the concept "commitment" proved to be relevant for the present investigation.

Relations that demonstrated a commitment could in the investigation be considered essential indicators for the attitudinal commitment and also function as sharpening the partners' perception of

<sup>74</sup> Dwyer et al. (1987), Anderson & Narus (1990).

commitment. Initiatives of investments that had a positive influence on the relationship could be considered as a sign of the attitude of a committed person, as the investment initiatives indicate a present positive attitude and willingness to develop the relationship further. Further examples which can be emphasised include JOYCO's acceptance of DANDY's demands that they establish a production unit in Russia in order for the distribution relationship to become a reality; this acceptance can be considered as a large degree of an attitudinal commitment to the relation from the point of view of JOYCO. DANDY's acceptance of increasing the degree of distribution of JOYCO's products after increased competition on the market can be perceived in a similar way.

The adaptation process could on the contrary be considered as a sign of a more behavioural commitment. The fact that both partners respected and treated a problem in the relationship despite the fact that it possibly influenced only one partner more directly than the other similarly demonstrated a more behavioural commitment.

Likewise, it appeared as with the trust factor that commitment is a reciprocal phenomenon, which means that the commitment of the partners to the relationship was based on the perception of the partner's commitment (please also refer to Halinen, 1997; Anderson and Weits, 1992). As with the trust factors, this is about creating commitment in all hierarchical levels of the company and throughout the entire development process.

Another important aspect, previously presented by Fichman and Levinthal (1991), that could also be assigned to the present investigation was the timely importance of the commitment. Commitment is closely adjusted against the past as this concept reflects the past of the business relationship, but on the other hand, the concept has gained a lot of influence for the future orientation. The commitment is limited towards future acts as this makes the resistance against changes rise, but on the other hand it encourages the continuity in the relationship. Satisfaction in the results of the relationship and the process surrounding the course of relationship is emphasised by Wilson and Mummalaneni (1986) and Dwyer et al. (1987) as being an experience that is commitment creating. It is obvious that there needs to be a certain level of satisfaction with how the interaction has progressed in order for the partners to commit behaviourally to the relationship. Something that illustrates this on an overall level in the present investigation is the way in which the distribution relationship produces the entry and outsourcing relationship, as well as the distribution relationship on the Danish and Swedish markets.<sup>75</sup> So the commitment established in the distribution relationship was considered to very much influence

<sup>75</sup> This relationship was in its beginnings as data was collected.

the interest and willingness to develop the relationship further instead of seeking new business partners to take care of these things instead.

The existence of close personal relations turned out to have an influence on the development of commitment in the relationship. In all four case studies, the author estimated that the personal relation between the project managers was of great importance for the stability and continuity of commitment in the relationships. Hedaa (1991) emphasised in his thesis that friendship between decision-makers can be considered a more favourable indicator of a strong and stable relationship as compared to personal relations on other hierarchical levels. Several times, the respondents emphasised the good personal relations between themselves and the partners' project managers as an influential factor for how disagreements between the partners were dealt with and trust and commitment could be maintained/built up between them. This is supported by Wilson and Mummalaneni's (1991) investigation that found that the personal bonds between two key persons are important for the development of commitment.

The dependence of the partner also helped increase commitment in the relationship. The author sensed that the more dependent one partner was on the relationship, the more this partner showed commitment towards the other partner. This could be one of the reasons why JOYCO was willing to meet the demand of establishing a production unit in Russia. The distribution relationship with DANDY based on the Russian crisis at that time was possibly JOYCO's only chance of remaining on the Russian market.

In summary, it can be concluded that the commitment in the realised study typically could be identified based on the following:

1. The adaptation process
2. Investment initiatives
3. Satisfaction with personal and business results
4. The personal relations
5. Dependence of the partner

If the growth cycle that was initiated by a promoting event is considered, it created commitment and trust that resulted in an increased interaction and a cooperative behaviour between the partners. There are several studies that have shown that there is a relation between trust and cooperative behaviour. In studies carried out by among others Holden (1990) and Schurr and Osanne (1985), trust was considered a determinant for the development of a cooperative behaviour and not the other way round,

while the opposite was documented by Anderson and Narus (1990), who found that the cooperative behaviour could be considered a determiner for trust. Based on the present study, the author like Holden (1990) and Schurr and Osanne (1985) holds that a mutual commitment and a mutual trust create a cooperative behaviour, and that the cooperative behaviour again has a positive influence on commitment and trust. This is once again a cumulative event, and the decreasing cycle has the opposite effect.

The present investigation made it clear that there is a close connection between commitment and trust and that this will be of mutual character.

### **10.13.3 Social interaction and personal relation**

The factor “social interaction and personal relation” was, like the trust and commitment factor, estimated to be equally critical in all three development steps.

The social/personal relation plays a decisive role for the exchange of the necessary information in relation to negotiation, in relation to solving conflicts, for the creation of an open dialogue, and for the results of the interaction. It can therefore be concluded that the social/personal relation can be considered multidimensional, as it has a different influence depending on the context in which it is used.

A certain degree of social and personal relations in the relationship is necessary in order to carry out the exchange. The investigation then showed that these relations over time developed into a network of interorganisational personal relations.

The project managers did not consider the social relation as decisive for the success of the relation but critical in order to make things work. “The thing with social relation is that it is almost like waxing your skis; you can ski without waxing but you will ski easier and faster with waxed skies!” (Bentsen, b, 2002) and, in continuation to this, Carsten Bentsen pinpointed that, “The structural bonds are those which make things fit together and the social bonds make them run smoothly” (Bentsen, b, 2002).

This means that the respondents perceived a strong social/personal relation as a factor that can seem promoting for the solution of different disagreements that may arise in the relationships. In this connection, with inspiration from the project manager for the distribution relationship, the author presents the term “a valuable social/personal relation.” A social/personal relation can be considered as

having a value when it works promoting for different problem-solving processes. The author believes that this can be considered to apply for the DANDY-JOYCO relationships. Several times, in particular in relation to some of the problems arising on the implementing step, the project manager noted the importance of their valuable social/personal relation to the other project manager in question in relation to overcoming these problems in an informal and constructive way.

Something which characterised the personal relations and the social interaction taking place between the project managers was that it was always based on a perception that the social interaction could benefit the overall relation. Jens Andersen stated, e.g., that it was very consciously that he and José Rosello in the beginning of the relationship spent a lot of time together—both professionally and privately. “It was something I did consciously and so did José and I think that was the key of the many successes in this business relationship. It is one of the factors which made it work” (Andersen, a, 2002).

Based on the realised interviews, it was possible to identify two aspects estimated to be central for the characterisation of the social/personal relation between the two project managers: the chemistry between the interacting persons and the interpersonal trust.

The project manager for the entry project said that the social/personal relation only hardly could be established if the chemistry of the interacting persons did not match. As Carsten Bentsen expressed it, “It is driven by human beings—it is not all systems and procedures” (Bentsen, b, 2002). And Jens Andersen said, “If it had not been for him [José Rosello], I do not think the relationship would have become a reality” (Andersen, b, 2002). A further example illustrates Jens Andersen’s perception of the relationship that six years earlier had been tried between DANDY and JOYCO and which did not materialise due to the fact that the chemistry of the then persons in charge did not fit: “It is not enough that the products match; the persons have to match as well and that was not the case here” (Andersen, b, 2002).

In the section “trust,” it was said that a strong personal relation helps strengthen the trust between the interacting partners. This could also be confirmed in relation to the respondents’ perception of the factor “social interaction and personal relation.” As two of the project managers said, it is important to establish personal bonds in the company because they are convinced that this helps to create a real relationship of trust in the relationship (Rosello, 2002; Bentsen, 2002).

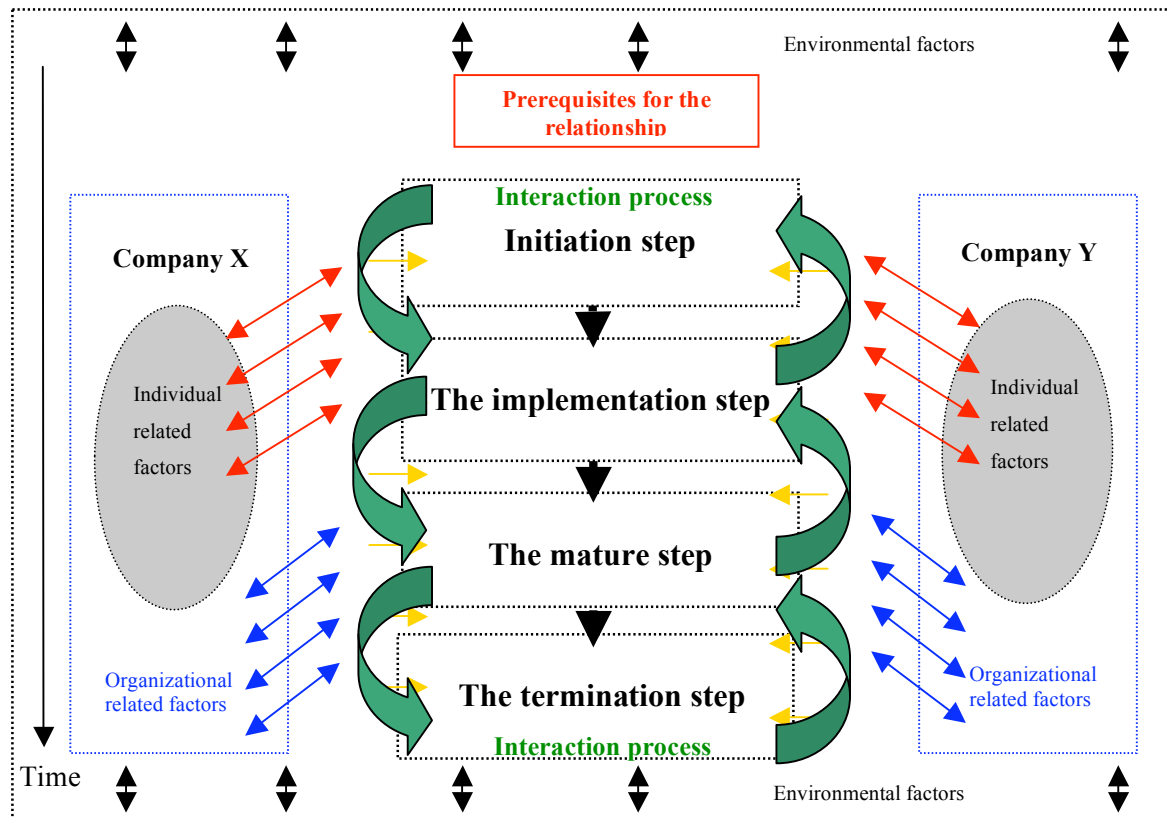
The present investigation showed that a beneficial social/personal relation created openness in the relationship that the respondents perceived as important for the establishment of trust and open communication. For example, the personal relation was strong, which made the author estimate that it was considered easier to provide, e.g., negative feedback to the person and engage in carrying out some correcting acts without this creating disputes among the project managers. Examples that can be presented to illustrate include Jens Andersen's request that the decision-making process at JOYCO was too slow and a way to solve this had to be found, JOYCO's faulty delivery of DANDY's bubble gum, and KGFF's and later DANDY's request to remove a person from the assignment as this person did not live up to expectations.

Based on this analysis, this factor will in the modified dyadic process framework be called "valuable social and personal relation."

In the subsequent paragraph, the interaction process that took place in the three development steps will be discussed, described, and analysed in relation to the critical factors active in the individual steps.

#### **10.14      The interaction process and the critical factors**

The interaction between the individuals is considered to be the driving force behind the development process of the business relationship. It was assumed in Chapter One that the interaction process as a minimum consisted of three interrelated sub-processes—the exchange process, the adaptation process, and the coordination process. The interaction processes are outlined in Exhibit 10.13.

**Exhibit 10.13** The *a priori* framework—the interaction process

Source: Author.

Like Möller & Wilson (1988), the author considers the exchange process as the core of the interaction throughout the *entire* business relationship. In other words, the author regards the interaction that takes place between the individuals either directly or indirectly as being based on the exchange of the product or service. The author is therefore convinced that the core of the interaction process throughout the entire course of development will be the exchange, but that the focus on the interaction in the individual development steps can be described as different. It is thus submitted *that the focus for the interaction process that takes place between the two partners changes during the course of the development*. More specifically, it is believed that the chosen critical factors and the discussion and understanding of these by the respondents provide a picture of the focus for the interaction process in the three development steps.

Based on the completed analysis, it has been chosen to characterise the focus in the interaction process in the first development step as “an attracting and negotiation process,” in the second step as “an adjustment and coordination process,” and in the last step as “a maintenance process.”

The author has thus partly chosen to extend but also differentiate from Möller and Wilson's (1988) division into the three sub-processes. The extension consists of adding more aspects to the interaction process stated by Möller and Wilson (1988). The diversification consists of the fact that the individual interaction process focus is considered as being active at different points in time during the relationship. It has here again been chosen to use the terms "active" and "latent" for the description of the role the specific interaction process has for the individual development step. The reason for this is that the individual sub-interaction processes cannot be considered as isolated and independent processes. The individual sub-processes are closely related, so by using the terms "active" and "latent," the author emphasised that all sub-interaction processes "are" in all three development steps. However they do not play the same role in the development steps. It should however here be emphasised that the exchange process plays an active role **throughout** the entire course of development.

Immediately, there can appear to be a large likeliness—even overlap—between the characteristics of the three development steps presented earlier in this chapter and interaction sub-processes mentioned above: the attraction and negotiation process, the adaptation and coordination process, and the maintenance process. It is here regarded as necessary that there is agreement between the characteristics that specify the individual development steps and the focus of the interaction process in these development steps. The identification of the three development steps was based on the tasks or work divisions that characterised the individual development steps. The interaction processes instead focus on the interaction taking place between the individuals in relation to handling certain activities.

Based on the chosen critical factors as well as the three-step model, the author will in the following describe and discuss the three interaction processes focusing on negotiation and attraction in the first development step, adaptation and coordination in the second step, and maintenance in the third step.

#### **10.14.1 The attraction and negotiation process**

It has been chosen to call the interaction process that is active in the first development step "the attraction and negotiation process". As can be seen from the name, this process consists of two closely connected aspects: an attraction and a negotiation aspect.

The attraction process can be considered both as interpersonal and as an interorganisational phenomenon. The interpersonal aspect of the attraction process is typically studied within social psychology and within marketing research; the phenomenon is considered within the areas of



negotiation and personal sales. Regarding the attraction process from an interorganisational perspective, Dwyer et al. (1987) identified the attraction as a sub-process contained in the explorative phase in their model for the development of the buyer–seller relation, cf. Chapter Two, and in a similar way, the attraction is considered by Narus & Anderson in 1985. Dwyer et al. (1987) and Narus and Anderson (1985) regard the attraction power of a relationship partner as a possible reward/bonus compared to previous or alternative business relationships.

Halinen (1997) has chosen to regard attraction differently and defines it as “...a company’s interest in exchange with another, based on the economic, social reward-cost outcomes expected from a relationship over time”(Halinen, 1997, p. 59). Halinen (1997) does not regard the attraction as an interaction process but as a relational bond between two players. He considers trust and commitment in a similar way in his research.

It has here been chosen to regard attraction as a form of interaction process that is active in the first development step and plays a more latent role in the implementation and mature development steps. It is however believed that a parallel can be drawn between the author’s approach to the concept and Halinen’s perception of the concept. The establishment of a relational bond, which Halinen regards the attraction to be, is a result of an interaction process and it is the estimate of the author that for such a bond to be maintained, it is necessary to have an interaction between the two companies and the responsible persons. This is thus the first argument for having chosen to regard the attraction as some sort of interaction process.

Based on this context, the author regards the attraction process as being an interorganisational phenomenon and has in this connection chosen to align with Halinen’s perception of the concept. The reason why the author chooses this view instead of the view presented by Dwyer et al. (1987) and Narus and Anderson (1984) is that Halinen’s view incorporates the future orientation of the attraction. A business relationship can be considered as an investment where the most valuable relation is the relation that provides the highest positive present net value for the company. The situation of the partners, their demands, and needs will change over time so that the things that create value for the partners will likewise change as a consequence. And thus, the other argument for considering the attraction as some sort of interaction process is presented. For the companies, this is all about meeting the changes and being attractive to the opponent. In this connection, the interaction between the partners plays a vital role as it creates the opportunity to demonstrate what is “attractive” and what makes the partner “attractive.”

In the first development step of the business relationship, the attraction between the partners plays a vital role. It is believed that there must be a certain level of attraction between the partners as a prerequisite for a commencing interaction. If this attraction is present between the partners, the subsequent interaction process will be focused on making oneself attractive towards the potential partner. This can be seen in all four cases. Specifically based on the discussion of the critical factors “expectations” and “the strategic importance of the relationship,” the company’s own attraction and the attraction of the opponent are estimated in relation to the desired value to be created in this relationship. If the perception of the critical factor “the strategical importance of the relationship” from Chapter Three is summarised, this factor was considered to be *the specific business relationship’s importance in relation to the companies’ expected future development and earnings*. This concept definition takes into account both the attraction concept and the future orientation.

One of the prerequisites in order to be able to estimate “the strategic importance of the relationship” is that the companies are convinced about what they look for and expect from a relationship. A seeking and evaluation process is primarily taken care of by the top managements of the specific companies. According to six in seven of the respondents, this critical factor “the strategic importance of the relationship” plays a decisive role for the first development step. It can therefore be concluded that the critical factor “the strategic importance of the relationship” is regarded as a key factor for the attraction process active in the first development step.

As previously mentioned, the attraction is considered an interorganisational phenomenon and it is primarily based on the perceived comparison of organisational needs and resources. It is however important to clarify that even though the attraction is considered as an interorganisational phenomenon, the attraction of the company is transferred via single individuals, in this case primarily by the responsible project managers. The author consequently believes that the individual-related factors play an important but not decisive role for the attraction process. The empathy and experience of the project managers will here contribute to the attractiveness that can be demonstrated. Several times during the interviews with the project managers from DANDY, it was emphasised that JOYCO’s project manager José Rosello’s person played a vital role for the creation of JOYCO’s attractiveness towards DANDY. The author therefore believes that the fact that the factors “empathy, sympathy, and chemistry” and “experience” chosen in the first development step seem very logical. The perceived attraction of the partners and oneself in relation to the partner creates some sort of power position from which negotiations take place. So according to the author, there must be some sort of attraction present between the partners before the negotiation process can commence.

The negotiation process, as opposed to the attraction process, is to be characterised from an interpersonal perspective that would however take place in an organisational context. As previously mentioned in this section, within the marketing literature the topic of negotiation is being treated as an interpersonal aspect of the attraction process. The present thesis will however treat it as a process that is closely related to the attraction process.

Negotiation is defined as “the process of bargaining over a set of issues for the purpose of reaching an agreement” (Holmes & Glaser, 1991). This definition reflects the willingness to negotiate. This willingness will depend on how attractive the partner is perceived to be. The structure and extent of the negotiation can be seen as a function of the problems involved in the negotiation. The problems can be either converging or diverging. Converging problems are problems that are beneficial for both partners in the negotiation, while diverging problems are problems which provide one part with an advantage at the expense of the other (Walton & McKersie, 1965). In other words, the negotiation process can be seen as consisting of a combination of conflicting and coinciding interests among the partners. Furthermore, this means that there is a demand for a larger degree of cooperation and compromises in order to reach agreement on the diverging problems. According to the author, the factors “the argumentative communication” and “the strategic importance of the relationship” play an important role.

The negotiation process can be divided into three (four) classical phases. The reason why the author writes three (four) phases is because the first phase—preparation—lies before the start of the negotiation process. The three classical phases are “positioning,” “reflecting,” and “bargaining” (Holmes & Glaser, 1991). For the present thesis, these three phases can be recognised but it is however believed better to describe them based on a spiral, rather than as a linear process where the process is started by sketching the positions of the partners. This commenced in the examined business relationships where the partners presented a sort of draft for the form. In the course of this process, both partners revealed the position from which the negotiations took place, and they got a sense of the wishes and negotiation position of the opponent. This led the partners to a phase of reflection where reflection of one’s own and the opponent’s level is carried out. This was followed by a negotiation phase where the aim was to agree between the partners’ wishes to cooperate in relation to their differences. The negotiation process focused on the partners’ willingness to adjust and to make compromises. Based on the present investigation, the phase was ended when the companies presented a new draft for the form of the relationship, and in this way it can be said that the positioning phase was started again followed by other phases, etc. Based on this, the author believes that the negotiation

process that took place in the first development step in a realistic way could be described as a spiral where the individual phases are repeated several times.

The aim of the entire negotiation process is to establish a mutual expectation as to the aims of the relationship between the partners. In this process, it is believed that the individual plays a vital role. “Empathy, chemistry, and sympathy,” “specialist competence and experience,” “openness,” and “the argumentative communication” were factors that according to the author primarily influenced the development of the interaction process.

#### **10.14.2 The coordination and adaptation process**

The adaptation and coordination processes require both individual and organisational resources, and the processes can from a theoretical point of view be considered as both interpersonal and interorganisational. But as it was the interorganisational and organisational factors that were most influential for the implementing development step, it makes the most sense to consider the adaptation and coordination process in this step from an interorganisational point of view.

The coordination and adaptation processes can seem very much alike. However, an important difference between the two processes is that the coordination process is a process where both partners at the same time harmonise their acts and decisions with the aim of getting a more overall advantageous relationship (Tuominen, 1981), while the adaptation process is considered a process where one part carries out some sort of behavioural modifications with the aim of meeting the demands of the opponent. According to the author, it is important to remember this distinction when it is necessary to distinguish between the coordination and the adaptation process. The realised investigations did however show that the adaptation and coordination processes can be considered to be closely related. There was something in the investigated cases that indicated that often some sort of coordination of acts and decisions was carried out, which then subsequently resulted in an adaptation of some more physical conditions.

The harmonisation of acts and decisions between the relationship partners reflected an important focus for the interaction in the second development step, and in the investigated business relationships it proved that the coordination involved different elements and levels in the relationship. On the one side, it was connected with coordination between the individuals, but on the other side also between the two companies. The coordination process will in this connection therefore be considered both from an interpersonal and an interorganisational perspective. However, focus will be on the

interorganisational perspective. This means that there will be a harmonisation of acts, behavior, and decisions that are based on an organisational context.

In the implementing step, the author sensed that as a result of the current coordination process, a more visible form of quasi-organisation or hybrid relation between the two companies was shaped. A hybrid relation is a composition of the cultures of the two companies. Williamson (1991) describes the hybrid relation based on the two dimensions *market* and *hierarchy*, which are situated in the middle of the two decisive structures. Therelli (1986) considers hybrids as organisational networks of relations consisting of power and trust through which resources are exchanged among others. Borys and Jerimison (1989) define hybrids as: "...organisational arrangements that use resources and/or governance structures from more than one organisation" (p. 235). Their broad definition covers an extensive selection of organisational shapes that makes it difficult to exactly define and analyse the hybrid.

Inspired by Borys and Jerimison (1989), the hybrid relation is here considered an informal structure that develops as a result of the two companies. According to the author, the hybrid relation arose not automatically but as a result of the interaction process that took place between the project managers and the project groups in the investigated business relationships.

In their model Borys and Jerimison (1989) present four phases for the development of the hybrid: "Hybrid purpose," "Boundary definition," "Value creation," and "Hybrid stability." Here we are talking about a process where the hybrid slowly develops. If this process is considered in relation to the present investigation, this coincides well with the fact that it can be stated that the creation of a hybrid relation is already commenced in the first development step. It is however not until the implementing step that this hybrid relation becomes more visible in the relationship. The creation of the project groups in this development step can be seen as a visualisation of the hybrid relation. The common hybrid relation contributed to providing directions on behaviour, attitudes, and legitimacy between the two companies, and this helped create some sort of security. In the creation of this hybrid relation, the individual partners' organisational cultures play a vital role. The persons who created the hybrid team brought assets from the parent organisation in the shape of attitudes, behaviour, resources, etc., and this provides a starting point for the creation of the hybrid culture. In the entry relationship, the Spanish project manager stated when he discussed the factor "organisational culture" the importance of the fact that the employees sense some sort of affiliation from which action takes place. He sensed that it frustrated his employees to "only" be part of the hybrid culture between JOYCO and DANDY and not to be part of a parent organisation in Russia.

The coordination process involved the harmonisation of the behaviour pattern between the interacting partners and the development of systems and procedures for the handling of the exchange. Based on the contract for the relationship, it had to be decided who was to take care of which assignments in the relationship. Therefore, routines or procedures developed for the caretaking of the individual assignments so that when similar assignments arose, there often was no need to discuss the handling of these. This process on this common coordination of actions and activities between the two partners can be described as a development with some relation-specific abilities (Asanuma, 1989).

Parallel to the concept regarding organisational routines, the concept adds relation-specific abilities to known patterns of interaction in specific situations of exchange that are then shaped and gradually extended. Andersen and Christensen (1999) describe this process as a build-up and further development of common abilities. These abilities are idiosyncratic related to the specific relation and can be regarded as mutual investments in an effective handling of common powers (Andersen & Christensen, 1999). An example of this was the coordination of the communication for the entry relationship. Some formalised framework for communication was set up for this relationship: the framework for reporting, for hosting status meetings, as well as the written and oral communication between the companies. And a further example can be found in the outsourcing relationship where a structure for introduction of new flavours was developed.

Similar to Möller and Wilson (1988) and Fraiser, Spekman, and O'Neil (1988), the author considers the way in which conflicts are handled as part of the coordination process. Several project managers presented how conflicts are handled as being dependent on the organisational culture of the two companies (cf. Schults, Evans, and Good, 1999). The conflicts usually arose in the second development step where the two organisations had to convert the objectives of the relationship. This meant that the involved persons prepared a common method to handle conflicts locally. An example to be emphasised could be the entry relationship's handling of delayed payments where DANDY developed a procedure that ensures that a few days before payment is due, a reminder is sent to JOYCO. This coincides well with the factor "functional problem solving" being regarded as critical for the second development step.

The adaptation process is another process that is considered active in the implementation development step. In the adaptation process, the companies tried to eliminate a potential "mismatch" between their needs, resources, interests, functions, and procedures, and even between their attitudes and values (Johanson and Mattsson, 1987).

Something in the implemented cases suggests that the adaptation includes two dimensions. The first dimension of adaptation can be described as a sort of investment where the company intentionally adapts its resources to the partner with the purpose of getting a more beneficial relationship. The other dimension of the adaptation process can be described as a process where the company adapts to either a demand from the partner or to a request or some changes in the surrounding world. The first dimension of the adaptation process can be considered active and the other dimension as being of a more passive character, but it must however be underlined that both forms of adaptation require resources. Another consideration in regards to the adaptation process is the dimensions “formal” and “informal” presented by among others Ford (1986). However, the author wishes to consider these different dimensions of the adjustment process as different sides of the same phenomenon.

With regard to the examined business relationships, it was easiest to pinpoint the more formal adaptation, which could often be described as being of a larger extent and of a more active character. It is estimated to be so because these adaptations are the easiest to remember for the respondents in relation to the mere informal, passive adaptations. Examples of such formal and thereby planned adaptation can be emphasised from the distribution relationship where JOYCO had to remove their products from the Russian market before distribution by DANDY could commence, or where JOYCO closed their sales office in Russia and instead positioned an employee in Dirol’s sales organisation. These two adaptations can be considered a result of a preceding coordination process between the two companies. Another example to be pinpointed in this connection is DANDY’s demand of JOYCO that JOYCO commit more permanently to the Russian market through the establishment of production on the market, which of course demanded large adaptations from the point of view of JOYCO. This last example can be described as being a both formal and active adaptation as it was a planned adaptation that demanded a large investment from JOYCO.

In this section the author wishes emphasise that the chosen retrospective investigation method made it difficult to pinpoint the most important implemented coordinations and/or adaptations. Despite this difficulty, it is however believed that the second development step was characterised by a mutual organisational coordination and adaptation.

### **10.14.3 The maintenance process**

No critical factors were chosen in the third development step that were active *only* in this development step. This was caused by the fact that the third development step in the four analysed cases primarily

was connected with maintaining and further developing a valuable relation. Based on this consideration, it has been chosen to designate the focus of interaction in this development step as a maintenance process.

The maintenance process is primarily driven by the trust between the partners and the commitment to the relationship. This coincides well with the factors that were chosen by the respondents as active also in the mature development step: “mutual trust and commitment” and “valuable social and personal relation.”

When the business relationship has reached the mature development step, it is important that the two companies maintain the focus. This means that because the business relationship has moved into the mature development step not everything runs smoothly. The author believed that the relationship must be cultivated and maintained or else it will cease to exist over time. DANDY’s project manager for the distribution relationship, Jens Andersen, supports this point of view. According to Andersen, when work is done with strategic business relationships, it is important to focus on the relationship also when the business relationship has moved to the mature development step. If the business relationship has a strategic importance for the companies, it demands that both partners are visible and that the entire relationship process is followed up effectively—also in the mature step. If this follow-up is not consistent, Jens Andersen believes that the companies easily lose focus on the relationship and this may reduce the possibility of developing the relationship further.

In the case of the analysed business relationships, it was in the mature development step that actions were taken to further develop the existing business relationships. The author considers the primary motive for this further development to be the perception of the project managers of the existing and future relationship as valuable. In the case of the three DANDY-JOYCO relationships, the project managers initiated this further development. It is therefore sensed that the project managers have focused in the mature step more on a further development of the existing relationship than on maintaining the existing.

Based on the preceding argumentation, it is also important that when the relation has moved to the mature step, there is one person who functions as sort of “lead person” for the relationship. For all the business relationships, except the Hollywood relationship, the project manager has formally left the relationship when it moved on to the mature step. This meant that there was no longer a formal responsible person for the individual relationships. As this responsibility is not formally transferred to another person, the project managers have despite their withdrawal from the relationship continued to



function as the partner's entry-point or contact to the company. According to the project managers, this role has not always been appropriate.

In continuation of this vein, the author wishes to discuss the role of the project manager in the successful development of the relationship. In this connection, the concept "the relationship promoter" is presented. The relationship promoter does not play a role in only the first two development steps but must be considered a key resource for the entire development process of the relationship. The reason why the concept was not presented in the maintenance process is because it is not until this step that there is no longer a person in the examined relationships who has this role. In the two preceding development steps, the project managers respectively have fulfilled the role as initiator and key person for the relationship.

Subsequently, the concept "the relationship promoter" will be presented and its role described in relation to the development process of the business relationship.

## **10.15 The relationship promoter**

Walter (1999) reflects in his article the importance of a "relationship promoter" for the development of a successful business relationship. "Relationships promoters" are persons who carry out relation performance contributions and have "relationship power sources." Walter presents these aspects in his article based on a management perspective focusing on the roles of the individual.

The term "Relation performance contributions" describes the activities performed by the partners aimed at influencing the attitudes, decision, and behaviour of the partners in order for the successful development of a partner relation. The second relation that Walter describes is "Relationship power sources," which describes the skills and abilities necessary for effectively carrying out "relationship management" (Walter, 1999, p. 539).

### **10.15.1 "Relation performance contributors"**

Inspired from theories on sales interaction (Weits, 1981), organisational buying behaviour (Johnston & Bonoma, 1981), buyer-seller interactions (Gemünden, Heydeck, and Herden, 1992; Möller and Wilson, 1995; Ford, 1980; Dwyer, Schurr, and Oh, 1987; Wilson, 1995), social exchange (Blau,

1968), and the resource dependence approach (Pfeffer and Salancik, 1978), Walter has identified five “relation performance contributors.”

The first measure is the exchange of information. According to Walter (1999), a continual learning process must take place between the partners in order to be able to use the relationship potential. It is therefore an important task for the relation promoter to be able to seek, filter, estimate, and hide information about the partner’s organisation, strategies, aim, potential, and problems, and pass these on to all the persons involved in the specific relationship. This partner-specific information will thus be available with at minimum one partner and can be used in the long run in the relationship. This aspect is partly dealt with by Håkansson in the interaction model; however Walter (1999) focuses in his presentation of the factor on the more interpersonal relation of the data collection.

The next assignment that Walter (1999) describes is to make the right players involved in the relationship. Many persons with different functions are involved in the development of a relationship and it will often over time be an exchange of these involved players. Walter (1999) estimated it to be important for a successful relationship to get the right persons involved all the time. If this is considered in relation to the analysed business relationship, this measure in particular is regarded as decisive for the implementing step where the project group is mobilised.

The large variety of tasks in connection with a relationship demands a wide selection of competences and qualifications. This means that the capacity of one person will not always be enough to contain all these relation-specific demands. So in order to get a successful development process, it is according to Walter (1999) necessary to mobilise several resources from the direct partners but also from third parties. It is therefore determined to be actively important to encourage contacts, coalitions, and relations between relevant players. Here a direct parallel can be drawn to the factor “social/personal relation” that is dealt with in much detail within the industrial network and interaction approach (Ford, 1980; Dwyer, Schurr, and Oh, 1987; Håkansson, 1982; Blau, 1968; Håkansson and Ostberg, 1975; Campell, 1985; Håkansson and Snehota, 1997).

The fourth performance aspect presented by Walter (1999) is “coordination of activities.” In order to develop and maintain an effective business relationship, it is necessary to plan the mission and aims of the company. The activities of the partners in relevant areas must necessarily be structured and synchronised internally as well as in relation to the dyad. On top of this, it is important to coordinate the activities of the specific relation with the other relations of the company. The author senses here

that Walter is inspired by Håkansson and Snehota's (1997) activity layer in their ARA model and that a close parallel can be drawn to the interaction processes "adaptation" and "coordination."

The last aspect Walter (1999) emphasises relates to gaining results in negotiations/discussions. Before and during a relationship, conflicts will arise between the partners. In order to solve these conflicts as functionally and expediently as possible, it is necessary that the partners understand conflicts and will be able to address the underlying problems. At the same time, it is important to be able to identify common goals and make them visible for the involved partner and while keeping these in mind to reach a joint unity (Walter, 1999).

Looking at Walter's five identified "relation performance contributions," the author senses that Håkansson and Snehota's (1997) ARA model, and its division into function and content layers as well as the interplay between these, has in several areas been used as a source of inspiration for Walter's (1999) work. Walter has then chosen to concentrate on the aspects considered most important by him from a management point of view.

Sharma has in her article from 2001 similarly discussed the role and tasks of the seller in connection with the development of a strategic relationship. She has chosen to describe the development process of the relation based on two phases: a relation-building phase and a relation-maintaining phase. She has then within these two phases identified five roles that the seller must possess. These are: "Selector of appropriate partner," "relationship advocate," "relationship expert," "relationship administrator," and "relationship monitor."

If Walter's (1999) "relation performance contributions" is considered relative to the five roles presented by Sharma (2001), there are great similarities on selected aspects, while other aspects can be considered to be different. A similarity that can be presented is between the last three performance aspects presented by Walter (1991) and Sharma's (2001) relationship expert role, which consists of three elements: "goal setting," "assumption of responsibilities," and "setting of conflict control mechanism." This role is in other words focused on creating a sort of infrastructure for the relation. It is thus sensed that Sharma (2001) and Walter (1999) agree to a certain extent on which activities and roles are central when the relation must be implemented.

Walter (1999) does not relate the function of "the relationship promoter" to the selection to the selection of the right partner for the relationship. It is a role that Sharma (2001) emphasises in her presentation. She determines that this role consists of four elements: estimation of willingness to

participate in the relationship, estimation of the credibility of the partner, estimation of the commitment of the partner, and estimation of the compatibility in relation to the resource profiles of the companies.

Walter (1999) does not refer any further to the role of the “relationship promoter” when the relationship is on the mature level. It is however perceived that during the further development and the institutionalisation of the relationship in the companies, it is important to have a person who functions as “the lead person” on this level. Sharma (2001) designates these two roles: “relationship administrator” and “relationship monitor” (for further information, please refer to Sharma, 2001, p. 54–55).

It is believed that these roles/aspects are extremely important in relation to the development of a successful business relationship and the author considers the omission of this aspect to be a lack in Walter’s presentation (1999).

### **10.15.2 “Relation power sources”**

The other relation that Walter (1999) includes in “the relationship promoter” concept is “relation power sources.” Walter (1999) has in his identification of the three “power sources” been inspired by literature and investigations on the balance of power (Manev and Stevenson, 1995, in Walter, 1999), psychology and sociology (Gronovetter, 1991, in Walter, 1999), as well as research on teams and buyer-seller relations (Gabi and Gemünden, 1998).

The first “power source” has been identified by Walter (1999) as social competence. Conflict management, communication abilities, empathy, emotional stability, the ability to motivate, feeling of responsibility, flexibility, ability to adapt, self meditation, and sense of justice are essential in order to be able to motivate relevant players to cooperate, resolve conflicts, and feel responsibility towards the relationship. In order to promote the relation-related teamwork processes, it is according to Walter (1999) essential that the persons involved possess organisational and coordination abilities. Walter (1999) regards social competence as a result of these abilities, as well as the person’s ability to use, develop, and maintain good personal relations and create stable business relationships.

The other “power source” is the knowledge about the network. Walter (1999) is thus of the opinion that the business-to-business market can be described based on network thought. An effective handling

of the players in the direct relations and in the network demands a specific knowledge in relation to their targets, behaviour, expectations, and competences.

Walter's (1999) last "power source" is the "portfolio of relationship." A main person responsible for a business relationship needs according to Walter (1999) an extensive and well-balanced portfolio of good personal relations with players in direct relation as well as relations to relevant persons in the surrounding network. Persons who possess such personal-specific relations are according to Walter (1999) able to look for, bring, and influence players relevant for the specific business relationship.

### 10.15.3 Comments about "The Relationship Promoter"

Walter's (1999) empirical investigation of 191 business relations between customer and supplier<sup>76</sup> showed that "a relationship promoter" encourages the relationship within the variables: sales, innovation/R&D, market access, growth in the specific relation, and the supplier's part in the businesses of the customer.

The individuals who acted like "the relationship promoter" in the analysed national and international relations identified the appropriate players, brought them together, and worked as encouragers of dialogue and mutual trust. The relation promoters coordinated the relationship between the partners and supported the interorganisational learning and conflict-handling process.

The investigation also showed that "the relationship promoter" had a significant positive effect on the development of a successful business relationship. The importance of having some sort of key person who manages the relationship proved in Walter's (1999) analysis to be even more important when dealing in an international context. According to Walter (1999), this is because such relations are particularly complex because of language and other cultural determined barriers. Walter (1999) is like the author thus convinced that the factors "trust," "commitment," and "social interaction and personal relation" will play an even more important role in international business relationships, which coincides well with the major part of the respondents' estimation of the fact that these three factors can be considered as active throughout the entire business relationship.

Walter's (1999) work presents the importance of "the relation promoter" and his/her role in the successful business relationship. This aspect is supported by Spekman et al. (1997 ), who found that "a

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<sup>76</sup> For more information on the investigation, please refer to Walter, 1999, p. 543-545.

relation manager” is a critical factor for a successful relationship. Based on Walter (1999), Spekman et al. (1997), and Sharma’s (2001) estimations of the importance of the relation promoter for the development of a successful business relationship, combined with the priority of the respondents to have a “the lead person” in the relation throughout the entire course of development, the author has chosen to emphasise “the relation promoter” as a separate element in the modified process model. The author has however chosen to rename the concept “the relation promoter” as **the relation agent**. This is because the concept “promoter” primarily gives associations connected with the implementation and search for a continued initiative, while the concept “agent” according to the author aims more broadly. The agent possesses a broader spectrum than the promoter, cf. the discussions of the aspects which Sharma (2001) presents which the author feels lack in Walter’s presentation. In the following, the relation agent’s roles and tasks in relation to the present empirical investigation will be described in more detail.

#### **10.15.4 The role of the relation agent, the three development steps, and the interaction processes**

If Walter’s (1999) perception of the relation promoter is considered, then Walter chose to consider it from two angles: what role/task is the relationship promoter faced with and what abilities and capabilities must be possessed in order to discharge these roles and/or tasks. The present paragraph will primarily focus on the roles and assignments that the relation agent is faced with in relation to the three development steps and interaction processes.

##### **10.15.4.1 The role of the relation agent in the first development step**

One of the first roles facing the relation manager in the first development step was to act as a selector of the correct relation partner. This role is presented by Sharma (2001) as being of immense importance for the creation of a successful business relationship. The right partner is considered to be a partner who radiates willingness to participate in the relationship, who is trustworthy and commitment- oriented, and who has a compatible resource profile (cf. Fraiser, 1983; Shamdasani and Sheth, 1995; Wilson, 1995)

The estimation of a potential business relationship partner’s willingness to participate in the relationship can be connected to the selection of the right relationship partner. According to Gulati, Khanna, and Nohria (1994), potential business partners worry about aim, timeframe of the relationship, expected trade-offs, and future insecurities, which all are aspects which have been

estimated to influence the willingness of the company to participate in a potential relationship according to the previously mentioned authors.

The estimation of the partner's credibility can be described as another important task in connection with the selection of the right business partner. According to Morgan and Hunt (1994), the following factors can be considered as indicators of the credibility of the partner: uniformity, honesty, competence, fairness, sense of responsibility, kindness, common values, kindness, and absence of opportunististic behaviour. A commitment-oriented partner will typically commit to the relationship not only with long-term investments, but also be willing to invest in the short-term.

The resource dependence approach considers each company as being unique because of its resource composition; this uniqueness is regarded long-term. One reason to enter into a strategic relationship is to reduce some costs, among other ways by generating synergistic effects that may become the source of a competitive advantage (Barney, 1991). Based on this, a certain degree of compatibility between the resource profiles of the partners must be considered important for a successful relationship.

If this is considered in relation to the studied business relationship, it limited the role of the relation agent in selecting the right relation partner to apply to the distribution and Hollywood relationships. This is because of the special situation that the entry and outsourcing relationships were forerunners for the distribution relationship, so in the latter case the relation partner is a foregone conclusion. With regards to the distribution relationship, these considerations described by Jens Andersen in connection with the entering into the relationship with JOYCO coincide well with the tasks described in connection with the selection of the right partner. If the entry and outsourcing relationships had not been forerunners of the distribution relationship, the author clearly believes that the relation agent would have been confronted with this role in the first development step. Inspired greatly by Sharma (2001), the author calls the first role in the evaluation and negotiation step "Selector of relation partner".

Also inspired by Sharma (2001), the other role that can be described for the evaluation and negotiation step is the role as "spokesman for the relationship." This role is connected with convincing the management of the partner as well as one's own management of entering into a long-term relationship. In this connection, it is very important that the relation agent is able to estimate the strategic importance of the potential relation for the company and the partner. This will be closely connected with making a "cost-benefit" consideration of the relation, as this "cost-benefit" consideration will be decisive for the making of the relationship.

The task of convincing the management of the partner of entering into a relationship is closely connected with the interaction process in the first development step, cf. the attraction process. A way to make your company attractive in relation to the partner would be to emphasise the advantages that over time are estimated to accrue for the relationship partner in the analysed business relationships. If the advantages with the relationship are irreversible and bring an economic advantage, the relation partner would probably be easier to convince to take part in the relationship (Thibaut and Kelley, 1959).

Håkansson, Johanson, and Woots (1977) have listed three general worries that are typical for the buyer when a relationship is long-term: need insecurity, which can be described as the difficulties of the buyer to specify his demands; market insecurity; and transaction insecurity, which typically is considered to be the doubt of the buyer in relation to the product quality of the seller. If these three insecurity perspectives are considered, they were all perspectives emphasised in the examined cases. In relation to need insecurity, DANDY's difficulties in explaining their needs to KGFF in relation to the marketing of Stimorol in France could be an example. Market insecurity is seen in the demand from DANDY that JOYCO had to establish itself with production in Russia in order to ensure the delivery of JOYCO's bubble gum to DANDY's distribution network. And an example of transaction insecurity can be emphasised in DANDY's considerations of JOYCO product quality when their bubble gum had to be produced at JOYCO. In this process, argumentative communication played an important part, as the relation agent confronted with different problems connected with these insecurities. In this process the partner wanted the relation agent to take a position that assured the partner that the relationship was on the right track.

As it can be seen from the previous examples, it is decisive for the relationship to establish a common expectation between the partners as to the aims of the relationship. This process will depend on the strategic and objective goals of the companies involved, the business context, and the resources of the companies. The negotiation and the open communication are important for this process, as there can be different results of the aims of the relationship. As emphasised earlier, this process demands direct involvement from the top management of the companies not only to help eliminate opposing interests but also to create legitimacy for the relationship. In summary, the third role of the relation agent in the evaluation and negotiation step can be designated as "goal-setter."



#### **10.15.4.2 The role of the relation agent in the second development step**

One of the first roles the relation agent was confronted with in the implementing development step was the role as “creator of a relational infrastructure.” In order to have success in the relationship, both companies must work towards the relationship. This requirement demands that the responsibility for allocating the necessary resources as well as establishing a pattern between the partners for the transfer of information and communication lies with the relation agent (cf. Hutt, 1995). It will thus be the task of the relation agent to create an overview of the necessary resources for the relationship and an implementation plan for these. This process demands a close dialogue between the relation partners as not only complementarity has to be created between the resources of the two companies but also between their organisational cultures and management styles. The creation of the relational infrastructure makes large demands on the companies and the flexibility of the involved persons and will not run without a certain degree of conflict. This leads to the role of the relation agent for the implemented development step as “mediator and conflict resolver.”

Inequalities are rather common in the implementing step in the relationship development process. The formation of the business relationship is about creating a fit between the two companies’ strategic and objective interests. Therefore conflicts may arise based on the different perceptions of the involved persons of the implementation of the work and strategical processes which surround the relation. The relation agent will in the implementing step not only possess the role of the conflict solver, but also that of mediator. The reason why the author has chosen to add this role to the conflict-solving role is that in the implementing step many people are involved, which might mean that across these groups of people tensions build up which hinder the development of the relationship. The relation agent will thus function as mediator between these persons or person groups in order for these relationship problems to be overcome and for the relation to be further developed. Functional conflicts can be healthy for the relationship, but if they arise often, the completion of the aims for the relationship can become costly. It is thus in this connection important that the relationship develops a method through which conflicts can be handled and solved. Dialogue-oriented communication is an important factor for this process.

#### **10.15.4.3 The role of the relation agent in the third development step**

When the largest part of the relationship is being institutionalised for the two companies, it can be considered to be in the mature development step. One of the roles facing the relation agent on this step is to “monitor the relationship.” The threats facing a relationship can be divided into internal and external threats. An example of an internal threat can, e.g., be a destructive act from the employees from one or both of the companies, while an example of an external threat for the relation can come

from competing companies. It is the role of the relation agent in the mature step to monitor the relationship in order for these threats to be met promptly.

In the case of the DANDY-JOYCO cases, the companies withdrew the project managers from the relationship, as it was in the mature step. This change is in the opinion of the author expedient only if a new person is appointed who takes on the role of the relation agent in this step.

A further role specified in the mature step is to “further development of the relationship.” As the relation agent has gained a large knowledge about the partner through the relationship, it will be possible to access how the two companies possibly can use each other within other areas. It will thus be the job of the relation agent to create a forum with the relation agent of the partner where a discussion of a possible further development of the relationship can take place.

For all three development steps, it is important that the relation agent takes on a *trust-creating role*. As previously emphasised, it is essential for the success of the relationship that there is trust among the partners and a commitment to cooperate throughout the entire course of the relation. The relation agent possesses a key function in relation to this role. The relation agent will thus function as a company representative and the acts and behaviour of the agent will be perceived as representative of the underlying company's acts and behaviour. For this role, the abilities of the relation agent to show empathy and sympathy will be important. It is therefore very important that the relation agent is able to create a trustful atmosphere surrounding the relationship. The social interaction and personal relation to the opponent are important for this role.

Inspired by Walter (1999), the author wishes to present the role of “gatherer and distributor of information.” It is necessary to find a continuing learning process between the involved partners in order to use the potential and to further develop the relationship. It is thus important that the relation agent is capable of collecting, using, and passing on important information about the task of cooperating and about the relation partner to the relation agent's own organisation throughout the *entire* relationship. This learning process can be regarded as a sort of company-specific experience base to be used in the long-term.

In the subsequent table 10.9, the overall roles and tasks of the relation agent are divided on the three development steps.

**Table 10.9 Summary of the tasks and roles divided among development steps**

<b>Development step</b>	<b>The roles of the relation agent</b>	<b>The tasks of the relation agent</b>
<b>Initiation step</b>	Select relation partner  Spokesman for the relationship  Goal-setter  Creator of trust  Collector and distributor of information	Estimation of the willingness of the partners to participate in the relationship, trustworthiness, commitment orientation, and the compatibility of the resource profiles.  Estimation of the strategic importance of the relation—"cost-benefit" consideration. Create attractiveness for the partner. The argumentative communication has a decisive role.  Create a common expectation for the goals of the relationship. The negotiation process is decisive for this.  Creator of a trustful atmosphere surrounding the relationship.  Collect, use, and pass on information about the relationship and the relation partner primarily to own organisation.
<b>Implementation step</b>	Creator of relational infrastructure  Negotiator and conflict solver  Creator of trust  Collector and distributor of information	Create an overview of the resource allocations and the implementation of these. Requires a close dialogue between the relation partners, as there is a need for the creation of complexity between the resources of the companies, the organisational cultures, and management styles.  Overcome cooperating difficulties between persons/groups. Develop conflict-solving mechanism.  Creator of a trustful atmosphere surrounding the relationship.  Collect, use, and pass on information about the relationship and the relation partner primarily to own organisation.
<b>Mature step</b>	Monitor of the relationship  Relation developer  Creator of trust  Collector and distributor of information	Monitor the relation in order to meet internal and external threats.  Create a forum for the further development of the potential business relationship.  Creator of a trustful atmosphere surrounding the relationship.  Collect, use, and pass on information about the relationship and the relation partner to own organisation.

Source: Author.

In order for the relationship to develop, it is necessary that the two relationship agents are able to cooperate and together develop the relation. The perceived distance between the two project managers was at the beginning of the relationship considered to be at a maximum. During the interaction the perceived distance was slowly reduced. In the following, focus will be on this distance-minimising process.

### **10.15.5 Minimising of the perceived distance between the two relation agents**

Before it is possible to describe the distance-minimising process that took place in the examined business relationships, the perception of the concept of the distance for the present thesis is specified.

### 10.15.5.1 The distance concept

Summarised, the distance concept covers the degree of confidentiality primarily in relation to the cultural and social aspects. There are different assessments to the distance concept, e.g., Törnroos distinguishes between “physical distance barriers,” “cultural features and distance,” “cognitive and psychological features,” and “different levels internationally and distance” (Törnroos, 1991). In their work, Hallén and Wiedersheim-Poul make a distinction between a physical (geographical) and a psychical (mental) distance (Hallén and Wiedersheim-Poul, 1979). And Ford divides the distance in a cultural, social, technological, time, and geographical dimension (Ford, 1980).

In the nineteen-seventies, several researchers (Johanson & Wiedersheim-Paul (1973) and Hallén & Wiedersheim-Paul (1979) considered the psychic distance on the basis of a cross-cultural relation perspective, and since then there has been a lot of attention about this concept.<sup>77</sup> In 1973, Johanson and Wiedersheim-Paul defined psychic distance as “Factors preventing or disturbing the flow of information between firm and market” (Hörnell, Vahle & Wiedersheim-Paul, 1973).

Since the nineteen-seventies there has been a development within the psychical distance concept. Focus in the nineteen-seventies was on “the flow of information.” In the definition of the psychical distance, Nordström & Vahle changed the definition from “flow of information” to “learning and understanding,” as they believe that these two concepts are more essential for the development of the relationship strategies in a changing context (Nordström and Vahle, in Landeck, 1994, p. 42).

In 1996, O’Grady and Lane further redefined the definition of psychic distance. They incorporated the consequence of the learning as well as tried to specify which factors were limiting towards learning. They defined the psychic distance as “...a firm’s degree of uncertainty about a foreign market resulting from cultural differences and other business difficulties that present barriers to learning about the market and operating there”(O’Grady & Lane, 1996, p. 330).

Ford defines cultural distance as “...the extent to which the norms and values of the two companies differ because of their separate national characteristics”(Ford, 1984, p. 102). Ford has in this definition

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<sup>77</sup> The physical distance concept has its root mainly in the Uppsala School (as well as other international researchers: Kahn, 1978; Wilkins, 1979; Buckley and Robert, 1982; Nicholas, 1982) who through empirical observations pinpointed that the international development and establishment of a company goes through some characteristic phases. The results form a basis for the assumption that the internationalisation of a company happens in small steps. This establishment pattern has by several researchers (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahle, 1977; Bilkey and Tesar, 1977; Cavusgil, 1980) been combined with the fact that the so-called physical distance between a company and its markets influence the internationalisation pattern of the company. The concept has been used as an independent variable to explain the establishment pattern of the companies in their successive internationalisation processes.

of the concept focused on a distance between the two companies rather than as previously between a company and a market. So according to Ford, the concept is regarded as an outcome of the persons involved in the dissimilar cultural background of the interaction. The more dissimilar the cultural background of the other person, the higher the degree of cultural distance perceived. The cultural distance can be a determinant for how a business relationship develops.

Cultural distance is often used as a synonym for the psychical distance. However, Nördström and Vahle (in Landeck, 1994) believe that the psychical distance and the cultural distance are two different but overlapping phenomena; the cultural distance is contained in the psychical distance (O'Grady & Lane, 1996).

The definitions of the psychic distance given by Hörnell, Vahle, and Wiedersheim-Paul (1973), Nordström and Vahle (1994), and Ford (1984) are considered to be on an organisational level and not on an individual level. The author wants to lay out a definition which takes its outset on an individual level: *the distance between the interacting companies resulting from the individual perception and understanding of cultural, business, organisational, and personal differences.*

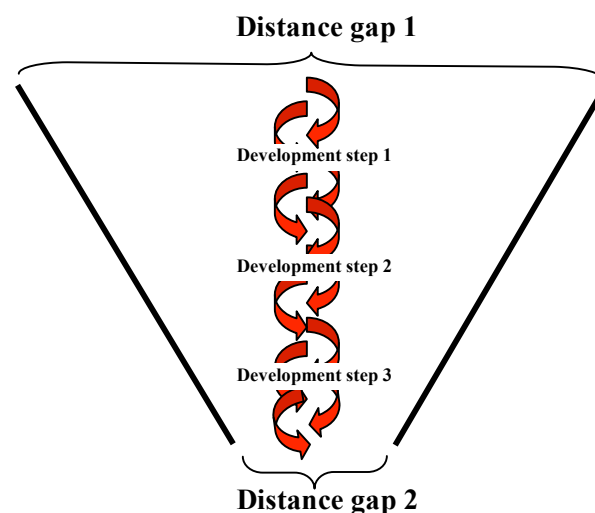
The concept of distance is thus considered as an inter-individual phenomenon that is based on an organisational context. This means that in this thesis, there is talk about a perceived distance between two individuals situated each in their own company in their own national context. The distance concept presented here is related to the cognitive perception of the individuals and not the behaviour of the entire company. It is a distance that exists in human thoughts and the perceived distance depends upon how the individual perceives the world. This means that this is not an objective target. The phrase "psychic" refers to the individual perception (Langhoff, 1999). This is also stated by Strandkov, who considers that the psychic distance components express that need is perceived differently, as the demanding person and the supplying person do not come from the same cultural circles (Strandkov, 1993).

By means of the psychical distance concept, it was originally the intention to emphasise why companies have a tendency to establish first on nearby markets with little psychical distance and not until later to work in culturally distant markets. The author could imagine that the choice of international business relationship partner could follow the same development process as described above (Uppsala model). This means that individuals who have little experience in working in close relationships will have a preference for choosing a relationship partner from a country where they have a limited perceived distance (typically, a market nearby).

### 10.15.5.2 The distance-minimising process

On top of the presumed role the perceived distance plays when choosing a specific business relationship partner, a distance-minimising process could be described which took place in the examined business relationships parallel with the development of the business relationship. This means that the perceived distance to the relation agent of the partner and thus the underlying company was minimised as the relationship developed. It is perceived to be the interaction process that is the driving force behind this distance-minimising process. Exhibit 10.14 shows a simple conceptual model that illustrates the presented distance-minimising process. The red block arrows illustrate the interaction process.

**Exhibit 10.14 The distance-minimising process**



Source: Author.

The result from the present thesis gives rise to presuming that the faster a confidence can be reached with the relation partner, the faster the perceived distance can be minimised. One thing that can be emphasised in the analysed business relationship that could indicate an ongoing distance-minimising process is the understanding established among the project managers. This could, e.g., be expressed through the kindness and flexibility shown among the partners when the situation changed. Another example to emphasise is that the project managers, having “left” the specific business relationship in the third development step, used each other to enter each other’s companies even though the problems arising had nothing to do with the then project manager’s work area.

However, there are several relations that must be emphasised in connection with consideration of the distance-minimising process. First, the level to which the perceived distance will be minimised will be different from relationship to relationship (distance gap 2 in Exhibit 10.14). Second, it is important to keep in mind that it is not certain that the distance will in fact be minimised; the process can also be prolonged, cf. the preliminary case, the trailer relationship. In relation to this, there can be assumed to be a connection between the course of events that the individual relations have gone through and the distance minimising/increasing process that has taken place. Third, the author does not consider it possible to measure the distance, as it is a cognitive phenomenon.

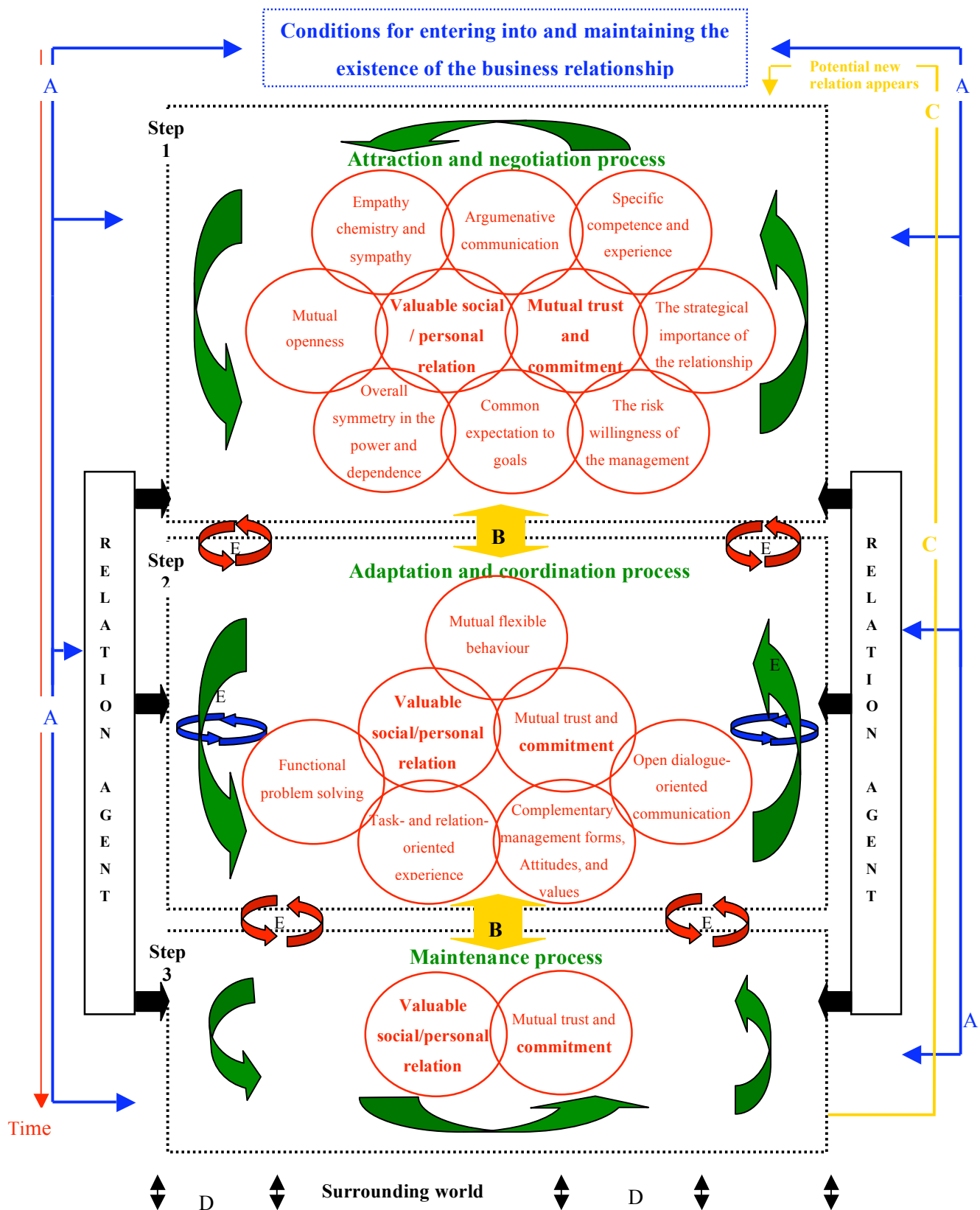
The distance-minimising process referred to in this chapter is between two relation agents—one from each company. It is however in conclusion important to emphasise that a distance-increasing or distance-minimising process will take place between the involved individuals on all organisational levels.

The modified process model will be illustrated in the following, and the individual element will be presented in summary.

## **10.16 Summary and conclusion of the modified dyadic process framework**

Based on this investigation, a dyadic process framework for the development of strategic business relationships is presented. If it is compared to the *a priori* framework presented in Chapter One, new concepts and conceptual categories are added to the modified dyadic process framework. This was also what could be expected given that the *a priori* framework had only one function as a direction and framework model for the development of the dyadic process framework.

Exhibit 10.15 The modified dyadic process framework



Source: Author. \*Source for potential critical events. Exhibits and symbols are explained in the text.



Exhibit 10.15 illustrates the modified dyadic process framework. The model can be concluded to basically consist of six aspects:

1. *Conditions for entering into and maintaining the existence of the business relationship*
2. *Three steps for the development process of the relationship*
3. *Critical factors for the individual development steps*
4. *The interaction process*
5. *Growth and decreasing cycles*
6. *The relation agent*

Based on the implemented empirical studies, it is determined to remodel the element “motives and assumptions for the entering into of the relationship” as “conditions for entering into and maintaining the existence of the business relationship” and to partly integrate this element into the first development step.

It is assumed that the conditions for entering into the business relationship are of a more norm general character, which means that these assumptions or motives are considered to be valid no matter the type of strategic relationship. The reason why this element despite this is partly integrated in the first development step rather than presenting it as an entire separate element is that a close connection exists regarding “conditions for entering into and maintaining the existence of the relationship” and the critical factors “the strategical importance of the relationship” and “expectations” in the first development step. It can be described as the more generally applicable conditions of the relationship are transferred through the critical factors to a more specific meaning based on the specific initiated relationship. This transition is very difficult to isolate and it is therefore chosen to integrate this aspect partly on the first development step.

It is concluded that the presented conditions should not only be considered as assumptions for entering into the relationship but also as requirements for the continued existence of the relationship. The partners estimate the existence of these conditions *throughout the entire relationship*. These conditions are connected with the contents and the three development steps of the relationship. Therefore it has been chosen to illustrate the current estimation of these conditions by making double arrows between the three development steps and the element “conditions for entering into and continued existence of the business relationship” (see arrows A, Exhibit 10.15).

As opposed to with the *a priori* framework, the author has chosen to make the modified process framework consist of three development steps, as the analysed cases provided no knowledge about the fourth step, the termination step. This was caused by the fact that none of the analysed business relationships at that point in time had ceased to exist. This does not however imply that the termination phase is of no importance, but more that this thesis wishes to focus on the development process rather than the termination process.

It is concluded that the critical event method was an effective method to describe the transitions between the three development steps. There is no deterministic requirement of any of the phases in the development of the relation, but rather about some development steps that can be described by means of a spiral where there is a sliding transition between the individual steps. It is probably in the course of the relationship that a critical event can imply that you “return” to the preceding development step (cf. the Hollywood relationship). This is visualised with arrows marked **B** in the framework.

The arrow marked **C** visualises that when the relationship is on the mature step, it is possible that a new relationship arises from the existing relationship, which will then follow the same structure presented in the framework. In this way (the arrows B + C), the author makes it clear that this is a dynamic process framework where the three-step model can be described by means of a spiral.

If the *a priori* framework is considered, it did not state any specific factors in this framework. Four factor groups were presented: the surrounding world, organisational, individual-related, and interpersonal and interorganisational factors. Based on the empirical work, it was thus possible to specify, analyse, and determine the individual critical factors for the individual development steps. The critical factors are written in red in red circles. As it can be seen from the dyadic process framework, the rings around the critical factors overlap. The reason for this is that the individual critical factors can be considered as being closely related and as having a mutual influence on each other.

No surrounding world factors were chosen by the respondents as being decisive for the development processes of the relations. The author did chose, however, to make the surrounding world appear on the dyadic process framework. The overall reason for this is that the relation in a more or less visible way will be confronted constantly with changes in the surrounding world, to which it must relate, and visa versa. This is obvious if the courses of events are considered. In the dyadic process framework, it

has been chosen to let the surrounding world surround the entire course of relation, as it is considered to be the context in which the relationship takes place (cf. the double arrows marked D).

It has been chosen not to name the three development steps more precisely in the framework but rather to name the interaction process active in each individual development step. The reason for this is that there is a necessary agreement between the characteristics that specify the individual development steps and the focus of the interaction process for these development steps. The author believes that the core of the interaction process throughout the entire course of development will be the exchange, but that the focus of the interaction in the individual development step can be described as being different. The total interaction process is indicated in the Exhibit with green block arrows.

It is furthermore chosen to apply the growth cycle and the limiting cycle in the modified process model (marked F). These are based respectively on promoting and limiting events. As previously indicated, the described cycles are to contribute to creating a larger understanding of what happens in the course of the development process and must thus be perceived as a supplement to the three-step model. The author wishes to emphasise that the growth cycle and the limiting cycle can appear at different points in time during the course of the relationship. It has been chosen to apply these cycles in the Exhibit where they are interpreted to appear in the three DANDY-JOYCO relations.

The last element to be commented on in relation to the framework is the relation agent. The author will estimate the relation agent to be a key element in the process framework. An overriding reason for this is that the empirical work showed the extensive role of the project manager in the successful development of the relationship. The project manager performed different functions and roles depending on where in the relation he/she appeared. On balance, it was the two project managers who throughout the entire course of the relation kept the relationship on the right course and made the relationship go smoothly.

It is estimated that it apparently can seem difficult for the potential reader to observe that this is a *dyadic process framework*, as the dyad or the interaction between the two partners is only implicitly repeated in the Exhibit. The author has in the Exhibits named the interaction process that takes place in the individual development steps and visualised the total interaction process that takes place in the course of the relationship with green block arrows. In the Exhibit the relation agents are representatives for the two interacting companies and are “the lead persons” in the development process. This formation is intended to amplify that this is a dyadic model.

One of the reasons that can be emphasised in order for the dyad only implicitly to appear in the model is that the empirical investigation surprisingly showed that there was agreement between buyer and seller about what factors could be considered critical for the examined business relationships. More specifically, this means that the factors that are emphasised in the dyadic process framework are equally important no matter whether a buyer or a seller considers the model.

## Chapter 11 Conclusion and Implications

The conclusion of this thesis will contain several points.

First of all, the problem will in brief be summarised and “answered”. Then there will be an estimation of the academic as well as practical contributions presented by the thesis, the external validity of the thesis will be estimated, and finally future research within the topic will be discussed briefly.

### 11.1 Conclusion of the Thesis

The rationale for this thesis was *to create a larger operational knowledge about how international business relationships develop*. The aim was to develop a dyadic operational process framework for the development of long-term business relationships.

Before this process model could be developed, it was necessary to:

*Identify and operationalise the critical factors for the development of international long-term business relationship in different development steps from the perspective of both a buyer and a seller. This is done by applying an event method.*

First of all in the thesis, there was focus on different, primarily theoretical models for the development of the buyer-seller relation that during the last 30 years have influenced the industrial network and interaction literature. The models were fairly different both in relation to how many phases were contained in the individual models as well as in relation to the things they focus on. If this is considered in relation to the empirical findings for the present thesis, then it can be concluded that *the development of the four analysed business relationships best could be described based on three phases*. For all four business relationships, some practical characteristics had to be identified for each of the three development steps. It is however important in this connection to emphasise that the individual development steps are not considered as very limited and isolated phases. The author regards the development of the relationship as some sort of evolution process that slowly develops into the shape of a spiral or a cycle with no form for deterministic limitation of phases. The individual development steps will thus overlap and there will thus be periods between the individual development steps that most correctly can be called temporary phases or periods.

Nothing specific could be said about the time the relationship spends in the individual development steps. *However for the present investigation, it can be concluded that the second development step consumed the most time and the most resources.*

None of the existing relation development models tried to distinguish between a buyer and a seller perspective in the choice of the factors estimated to have an influence on the development process of the relationship. It did however turn out somewhat surprising that this division into a buyer perspective and a seller perspective in relation to the selection of critical factors was not as relevant as first anticipated. There was a very large uniformity in the critical factors chosen by buyer and seller respectively. The differences in the choice of factors between buyer and seller could not, however, lead back to the fact that the choice was caused by the role of the individual in the relationship, but rather could be ascribed to the course of events the relationship had gone through. *It can thus for the present thesis be concluded that it is not necessary to distinguish between the choice of critical factors of buyer and seller, but rather to consider the choice of critical factors in relation to the development process of the relationship.*

If the existing models are considered within the development of long-term business relationships, then there are only a few models that examine the development process of the relationship based on a processual perspective. It is even rarer to find a model that can be characterised as being procedural and based on a longitudinal investigation design. *The dyadic process framework presented here can be considered to be procedural as well as based on a longitudinal investigation design.*

Furthermore, *the critical event method can be concluded as being a valuable tool in the description of development processes.* By considering the specific event in a course of development, an in-depth knowledge is gained about the analysed business relationships—a knowledge that is estimated to not be presented in as much detail using another investigation design.

By considering the courses of events in the individual business relationships, it became obvious that *the development process overall can be considered as an ongoing interaction process which takes place at different levels in the two companies and with a different focus depending on which development step the relation is in.* Furthermore, it became obvious that at different points in time in this development process, events will occur which will either be limiting or promoting for the interaction process.

The perception of the critical factors is based on the project management literature, and in this connection this means factors that are decisive for the development of the relationship and possess *a critical level of difficulty*. It turned out that the factors the industrial network and interaction literature emphasised as critical were only very descriptive and difficult to operationalise, i.e., there was very little practical relevant information/knowledge contained in them. For example, several researchers state that commitment is important for a successful development of a relationship. In this connection, you do however lack information on how this commitment is established, maintained, and expressed. Without this knowledge, it will be difficult in real life to shape the development process. Chaining together the respondents' discussions of factors and events that they saw as critical for the relationship processes resulted in a conceptualisation and operationalisation of the otherwise abstract critical factors. It also made sense in this connection to work with the critical event method in connection with the concretisation of the individual critical factors, as these factors cannot be considered as isolated but rather as joined with the course of events through which the relation has gone.

This means that the present thesis argues that there are no universal critical factors for the development of a relationship, as these factors will be linked to the course of development a relationship has gone through. This statement is however not entirely true as there appeared to be relatively large agreement about the critical factors chosen across the individual relationships. Thus something says that the examined business relationships in this thesis had a comparable course of development.

In the beginning of the thesis, the critical factors were divided in four factor groups: the individual-related factors, the organisation-related factors, environmental factors, as well as interpersonal and interorganisational factors. It appeared after the discussion and the analysis of the chosen critical factors that several of these were reformulated in order to make them more precise and easily applicable in everyday life. This reformulation meant that it became difficult to group the chosen factors into the four factor groups that were originally assumed. If these four factor groups are considered in relation to the results of this investigation, it appeared that the start-up of the relation is primarily based on very individual-related factors, while the implementation of the relationship is influenced more by the organisational and interorganisational factors.

It was the intention of the author to answer the problem based on research generated by the industrial network and interaction approach. This aim proved, however, to be only partly possible. It appeared that several of the factors that the respondents considered critical were either not discussed in-depth—or only partly so—within the industrial network and interaction approach. This fact applied in

particular for the critical factor “the strategical importance of the relation.” Six out of seven respondents estimated this factor as critical for the first development step. Within the industrial network and interaction approach, the concept *long-term* is used instead of *strategic*. In the opinion of the author, the term *long-term* is implied in the term *strategic*. This means that the term *strategic* covers something further and broader as compared to the term *long-term*. The author does not wish to here present, e.g., factors where the similar applied, as this discussion is presented in Chapter Ten. In continuation of this, it can thus be concluded that *the research which up to now has been generated within the industrial network and interaction approach has a very descriptive character and is not satisfactory when it comes to the identification and specification of critical factors for the development of a relationship.*

An aspect that was not contained in the *a priori*-framework was the relation agent. In the analysis of the empirical cases, it can however be concluded that the project manager plays a very vital role for the development of the relationship. This also appeared from the described courses of events. Several times during the course of development, the project managers had to make sure that the relationship came back on the right track after being derailed as a consequence of disagreements between the interacting players. *It should thus be emphasised that the relation agent is an important element for the development and maintenance of a relationship.*

In the following the academic as well as practical contributions of the study will be discussed.

## 11.2 Academic and practical contributions

Whetten (1989) has presented three different criteria that determine whether an investigation consists of a theoretical contribution:

- The application of an existing model or method to a new setting in order to indicate new ways in which the model functions;
- Add or subtract concepts/elements from an existing model in order to demonstrate how this change affects the previously accepted relationships between concepts;
- Borrow a theoretical perspective from another field in order to challenge or encourage the underlying rationale supporting the existing theory (Whetten, 1989).



In this thesis all three contributions are partly present. *The primary contribution of the thesis is the presented dyadic process framework that contributes with a larger operational knowledge on how dyadic business relationships develop.*

The first academic contribution to be presented is in relation to the modification of the theoretical interaction model. It was in this case necessary to “borrow” concepts from other theoretical areas. In connection with the construction of primarily the *a priori* framework and then the dyadic process framework, new concepts from theory as well as from empirical research were added to the original interaction model. Concepts like attraction and the strategic importance of the relationship were, e.g., borrowed from the American interaction studies.

On top of this, the procedural approach to the development of the relationship emphasised the need to supplement the original model with a different focus on the interaction style at different points in time in the development process .

Below, the elements added and modified in relation to the original interaction model are repeated in brief:

1. *The interaction model is further based on the empirical work*
2. *The interaction model has been divided in three development steps which are characterised by their own interaction process: the attraction and negotiation process in the first step, the coordination and adaptation process in the second step, and the maintenance process in the third step*
3. *The critical factors which influence the development of the relationship have been added to the model and have been specified and operationalised for each of the three development steps, which has contributed with a large knowledge in relation to “what happens” in the individual development steps*
4. *The relation agent has been added to the model, a concept that presently is not available in some of the existing models for the development of the relationship. Furthermore, the roles and tasks of the relation agent for each of the three steps have been defined.*

The other academic contribution that should be presented here is the introduction of a new method to describe the development process of the business relationship. This is a method which has had its use within description of jobs and projects and which has been used only sporadically in connection with descriptions of the development of business relationships. This is thus about transferring an existing method, the critical event method, into a new context. For this investigation the method was especially valuable because it provided a detailed description in the shape of a course of events for each of the analysed business relationships.

The critical event method made use of a longitudinal investigation design where buyer and seller are considered in their real context. This provided a broader and more in-depth understanding of the development process of the relationship. Events acted as either promoting or limiting for the relationship and these could be identified in the individual company, in the dyad, or in the surrounding network. The events marked the beginning of something new as well as the end of something available and could thus be used in relation to the identification of the individual development steps. Furthermore, it turned out that the events created challenges in the relationship, as the events seemed to either promote or limit the interaction between the players in the relationship.

If the presented thesis is considered from a practical point of view, the dyadic process framework provides the companies with knowledge of the essential in the individual development steps for a successful development of a relationship. It must be presumed that a company will aim at bringing a relationship to the mature step as fast as possible as, given that the company does not receive any kind of return on investment until this step. The dyadic process framework and the roles presented for the relation agent indicate for the analysed relations what to focus on at different points in time during the relationship. There is no doubt that the relation agent and the selection of this individual will be important in the development of the relationship. This person must command many different tasks and roles, which makes the role as relation agent extremely demanding and complex. Furthermore, the relation agent must possess good personal relations to persons in his/her own company, in the dyad, and in the surrounding network.

It could be considered that the contribution of this investigation is greatest for the “new” relation agent who has no previous practical experience or does not possess the necessary intuition. This “new” relation agent is provided herein with a balanced description of the development of a relationship and the roles that the relation agent has on the different development steps. Thus, the “new” relation agent gains input other than “learning-by-doing.” The contribution should not be considered as ready-made

solutions as to how one should behave in real life, but rather as an inspiration for the novice relation agent to reflect in a more complex way on real-life situations.

Practitioners with more experience can use the results as inspiration or reference for their own actions. The systematics and the overview of critical factors and their mutual influence provide a framework that does not to date exist in a real-life context. Thus, the framework presented here can help experienced practitioners to gain insight into the content and processes of a relationship, which in turn could support or structure their own professional development.

### 11.3 The validity of the thesis

Brinberg and McGrath's (1985) estimation of the validity of an investigation corresponds to what is often called external validity. Abstractly, the discussion of external validity is about how the product of a research object is rewritten into general knowledge within specific limits. Brinberg & McGrath (1985) use the concept "robustness" as the operationalisation applicable for all three domains: the substantive, the methodical, and the conceptual.

One knows the degree of robustness when the researcher has relayed the limits of the study and the range of generalisation, because it is consequently known under which conditions this result applies—and in particular when it does not apply, how the method has influenced the data collection, and finally to what degree the chosen theory uniquely can explain the empiricism (Brinberg and McGrath, 1985). External validity is a characteristic of the results but the internal validity is a characteristic of the process that has produced the results.

In principle, it is difficult to estimate the robustness of individual studies because the operationalisation of the robustness depends upon whether the study has been carried out on the same object but with different samples, methods, and theoretical framework. A single project like this lacks in principle a framework that can be compared with the way in which robustness is measured.

The subsequent discussion of the external validity is therefore based on the considerations that Brinberg & McGrath (1985) believe to be central for each domain when it is not possible to compare the discussion with other studies. The procedure is that each domain will be analysed for the degree of robustness by applying the terms *convergence* (that the results are the same with another design) and *limits* (under which conditions do the results apply and under which conditions do they not apply?).

Both reduce the insecurity of the results because in the course of the analysis one defines the scope of whether the investigation suffices. There are no criteria of correspondence between the three domains. If each domain is considered to be robust, then the total study is estimated to be robust.

### 11.3.1 Robustness in the substantive domain

The primary focus on robustness in this domain is whether a sample with other respondents will provide different results or not. The question is thus whether the results can be generalised to a specific population. If the results of the studies using different samples converge, then the insecurity is reduced regarding the converging results.

The assumption in the thesis based on the industrial network and interaction literature was that different samples provide different results, which here means different critical factors. As it is estimated by the author that the scope of theory adds great value to the sampling, something indicates that different samplings of respondents provide different results. It can thus be expected that the collected events and critical factors *only* generalise to a population of business relationships that are similar to the four in the investigation. The author wishes in this connection to emphasise that as long as there is no framework of reference of studies to be compared with, the generalisation can only function as an argument.

The data material for the present thesis, events and critical factors, are collected and thus linked to the ordinary human practice. Most persons who have participated in a long-term relationship will no doubt be able to identify themselves with several of the critical factors and will be able to understand the plot in the presented courses of event because they know “the course of the story”—whether or not they agree with the interpretations of the author (Kølsen Dewitt, 2000). As this type of ordinary human practice for a relationship is available for most practitioners with cooperating experience, it can be argued that the result of the thesis can be applied through the understanding of the practitioners to any relationship type that these practitioners intend to engage in. The scope of the results will thus become more general and not statements of the four analysed business relationships.

The other side of the robustness in the substantive domain is the limitations of the results, which means a clarification of the conditions where it is not expected that the results will come true. The results are a description of some chosen business relationship and thus not a *contingent* description. This means that this is *not* a description which includes conditions of when problems arise and how they should be treated. Some might have the opinion that this framework does not provide sufficient information in the description of factors and events because practitioners are not told when

and under which circumstances they can draw on the results of the investigation. Alternatively some might think that there is more information in such an “open” description of the factors and the course of events that does not freeze the relations and the variables in a normative description. The practitioner often experiences that the conditions are unlike the theory or unlike conditions presented in case studies, which makes it difficult to operationalise the act prescriptions the theories provide. The difference between this scenario and this thesis is that the results presented in this thesis try to inform and create an increased awareness in the practitioner and the results are not to be perceived as some sort of rules by which the practitioner should control his acts. This type of results put without a doubt a larger interpretation burden on the reader or the practitioner. But for a reflective practitioner, there is more information in an open description that aims at providing an operational depiction of a course of development including critical factors and coherent relations.

The following argument can be presented: that if more persons and their perception of the relationship had been included in the investigation design, then this would have led to more dimensions of the development process of the relationship, but no further factor groups. This assertion is connected with the fact that a saturation criterion is not applied. This lack of a saturation criterion means that there are dimensions of the relationship that have not been described, in which case the results do not apply as a complete description of the business relationship process.

### **11.3.2 Robustness in the methodological domain**

Regarding the convergence (or triangulation) as part of the robustness in the methodological domain, then it again applies that this is determined by comparing different research strategies and research designs transferred and applied to the same problem. For those cases where the results are the same despite the different methods, it is assumed that the original case method is robust. As stipulated earlier, this does not apply for this investigation.

The great strength of this thesis is at the same time the great weakness of the thesis, namely, the use of a research method that is new within this area. The advantage of using a new approach is that it provides new knowledge and insight that would otherwise have been unattainable if using a tested method. The disadvantage is that the method is not sufficiently developed and described by previous researchers. This meant for the present thesis a lot of trial and error, like the entering into of compromises when it was proven that a desired act was not possible.

Brinberg and McGrath (1985) write, however, that one can analyse towards the limits in order to apply a method. Basically this is about getting to know one's own method so that it is possible to regard one's data critically based on the limits of the method.

In relation to this investigation, the following points regarding the robustness of the present method are emphasised:

- Several persons were contacted several times during a long period of time.
- The project managers read through the case descriptions as well as their perceptions of the events.
- The chain of evidence from the problem to the ultimate conclusion about the individual cases was strengthened in several ways. First of all, knowledge from the interviews, secondary data sources, emails, etc. was collected in one place in order to ease the possibility of checking the clarification/transparency in the data material. Second, specific courses of events were prepared that demonstrate process, status, and events, as well as more analytical summaries for each individual development step. Third, the link between empirical data and the theoretical conclusions became obvious as the empirical examples were referred to in the theoretical conclusions.

A limitation in method that should be presented is that when the developed dyadic process framework only is based on the three DANDY-JOYCO cases and the Hollywood case, there is a great likelihood that this framework only possesses a minor ordinary validity. There is no doubt that the structure applied for the dyadic process framework is influenced by the fact that it is a structure developed primarily by the organisations of DANDY and JOYCO in cooperation. There is thus no basis for estimating whether the dyadic process framework will be valid in companies other than DANDY. As previously mentioned, given that the framework does broadly describe ordinary human behaviour, it will no doubt create a basis for reflection for persons in real life who either face a relationship for the first time or persons who have a large experience in cooperating with other companies.

A further limitation in relation to the chosen method is that the data on which the process framework is based is collected only from the project managers and not from other players in the relationship. There is no doubt that if all affected players in the business relationships had been interviewed, this would have provided a broader picture of the interaction taking place in the business relationships.

The author however chose to limit the data material to include only the project managers of the respective business relationships. This was primarily done on the basis of two considerations. First of

all, the players who took part in the business relationships lived in Denmark, Russia, and Spain. If all these actors had to be interviewed, this would be connected with a lot of travelling several times, which was not estimated possible for the present thesis.

A second consideration on which the present choice was based was the fact that the author estimated that it would be more interesting to analyse four business relationships from the point of view of the project manager rather than studying a business relationship based on all involved persons in a relationship.

### **11.3.3 Robustness in the conceptual domain**

The first part of the estimation of the robustness concerns whether the applied factors (concepts) in the conceptual domain uniquely and adequately cover the investigated phenomenon. Or put differently: Can the presented factors be used to explain the empiricism better than the alternative factors?

In this thesis, where the area of focus was the determination of the critical factors, the robustness of the factors is good when these are data-driven. The factors are partly a description of the empiricism. A question to be asked here is then whether the factors chosen by the author primarily from the industrial network and interaction literature are the right factors? The question on robustness is thus whether another theoretical framework of reference or another choice of factors from the industrial network and interaction literature would have resulted in a different creation of factors? It is a question that is difficult to answer here, as comparable studies are presently not available. The author has however partly tried to meet this question by being inspired by other theories in determining possible critical factors. This was however only done to a limited extent in order to avoid the danger of drowning in literature and thus overloading the real framework of reference.

The second part of the estimation of the robustness is focused on the presented dyadic process framework. The presented framework should not include conflicting elements or illogical connections. There is emphasis on the fact that:

- The framework covers in description and explanation the substantive domain,
- Relevant factors are included and
- The framework is balanced in relation to both theory and empiricism.

The explorative longitudinal research strategy definitely serves the purpose of developing a realistic empirical process framework.

## 11.4 Future research

The need for future research is present in relation to both the need of verification and extending the knowledge of application for the presented dyadic process framework.

It is estimated that the investigation provides a good basis for the planning of empirical tests of the presented process framework, which among other things could contribute to an even larger knowledge about the factors that are critical in the individual development steps. The test of the framework based on a quantitative method is estimated to being a natural continuation of this study. In this connection, it would be interesting to see whether the framework is applicable in the description of other b-t-b business relationships within other trades.

Furthermore, there is estimated to be a need for further empirical clarity in relation to the processual patterns for the development of the relationship. The more cyclical and non-deterministic nature of a relationship is an area that demands more attention in future research.

Another topic has been touched upon only sporadically in this thesis is the determination of the relationship. There is extremely little knowledge about this topic in relation to why and how relations cease to exist. A systematic, longitudinal investigation method that collects data in “real time” from different relations would also be useful in this connection. The knowledge could be very valuable for academics as well as for practitioners.

The importance of the relation agent for the development of the relationship was an aspect that appeared during the work with the present thesis. It could thus be very valuable to specify the acts and roles that the relation agent should take on in order for the relationship to develop successfully.



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