

ENDING RELATIONSHIPS WITH SUPPLIERS

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Abstract

Managing supplier relationships and supply base has been acknowledged to represent a key managerial task in companies in the current business environment characterised by high level of specialization and focus on core competencies. In the research concentrated on supplier relationship management, most of the attention has been given to the start-up or development of the relationships. The ending of supplier relationships has been acknowledged as important, e.g. in terms of research focusing on supply base reduction and supplier evaluations (e.g. selection criteria vendor rating, supplier auditing). However, in industrial purchasing and supplier relationship management, the issue of how supplier relationships are ended has received very scant research attention. The purpose of our exploratory paper is to answer to the following question: *What needs to be considered in the ending of supplier relationship so that future recovery can be facilitated?* To answer this question, we will first review the existing literature within industrial purchasing focusing on supply base management and supply base reduction to find out, how the current research has conceptualised and modelled the way supplier relationships are ended or developed towards lower level of involvement. Secondly, we will use the body of knowledge on relationship ending to develop a model for managing supplier relationship ending and development towards lower level involvement. The present study is a conceptual one with an explorative aim.

Keywords: industrial purchasing, supplier relationships, supply base reduction, relationship ending

INTRODUCTION

Managing supplier relationships and supply base has been acknowledged to represent a key managerial task in companies in the current business environment characterised by high level of specialization and focus on core competencies (Cousins & Spekman, 2003; Roseira, Brito & Henneberg, 2010). Especially in manufacturing firms, the purchasing function's role is very strategic and purchasing work nowadays is highly professional. Large manufacturing firms have typically developed sophisticated methods and tools for managing the supply base and achieving efficiency in the purchasing work in terms of buying processes. Both in terms of academic research and practice of industrial purchasing, the idea of using strategic suppliers for complete solutions instead of small deliveries from various different suppliers has been emphasized for quite some time now. Managing key supplier relationships from initialization, growth, saturation and degeneration represents thus a central issue in terms of industrial purchasing and essential managerial areas included typically entail managing the set-up of the cooperation, development, contracting and disturbances (Moeller et al., 2006).

In line with the focus on key supplier relationships, the supply base reduction has been discussed in the existing research. Supply base rationalisation or supply base reduction aim towards identifying the key supplier relationships and delimiting the number of suppliers to minimum to reduce the amount of resources needed to managing the supply base (Sarkar & Mohapatra, 2006). Literature provides e.g. analyses of the companies employing supply base reductions (Goffin, Szwejcewski & New, 1997; Cousins, 1999; Lemke et al., 2000), critical factors for supply base reductions (Ogden, 2006) and methods for limiting the number of suppliers (Sarkar & Mohapatra, 2006). All in all, as a result of supply base reduction and focusing on key supplier relationships, a number of supplier relationships are abandoned, ended or rejected. Thus, although relationship ending is usually equated with failure it can also be a planned strategy by which a firm changes its relationship portfolio as it responds to changing market circumstances (e.g. Alajoutsijärvi et al., 2000; Havila & Wilkinson, 2002, Vaaland, 2004).

The existing literature on managing business relationships, acknowledged the importance of managing also the ending of relationships due to several reasons. For example, firms may cease trading for periods of time but resume trading later (Havila & Wilkinson, 2002). Typically many industries are composed of relatively small number of actors and the possibility of engaging in business relationships later on in some point can be high. Also, in industrial contexts, the actors often are identifiable and connected with each other through different types of relationships, e.g. social relationships between the individuals. In such a situation, the quality of the process of ending business relationships has been acknowledged as critical (Alajoutsijärvi et al., 2000). In business relationships, the role of history is considered as important for the future exchanges. Hadjikhani (1996) points out, that former suppliers are often seen less risky than prospective suppliers and past resource exchange by the parties may lead to trust which can become a basis for future relationships. Therefore, it is essential to pay attention to the way supplier relationships are ended as it influences the possibility of restoring it in the future.

However, in industrial purchasing and supplier relationship management, the issue of how supplier relationships are ended has received very scant research attention. In their model of supplier relationship management, Moeller, Fasshacht and Klose (2006) have emphasised the supplier dissolution management as important phase to consider. In practice, it might be that firms do not pay attention to the disqualified suppliers since they direct their focus on the

selected suppliers at that point. Literature addressing e.g supplier relationship management or supply base reduction has not paid enough attention to what is done with the suppliers not selected in buying decision making processes. After all, typically in such cases there already has been a history of cooperation between the counterparts in relation to earlier exchanges. How and whether a relationship is maintained with these suppliers and how the result of the evaluation, i.e. the ending of the relationship is communicated to the suppliers is fairly scanty addressed in the purchasing literature.

The purpose of our exploratory paper is to answer to the following question: *What needs to be considered in the ending of supplier relationship so that future recovery can be facilitated?* Our aim here is exploratory in the sense that we aim to provide preliminary understanding of the elements relevant in the ending. To answer this question, we will first review the existing literature within industrial purchasing focusing on supply base management and supply base reduction to find out, how the current research has conceptualised and modelled the way supplier relationships are ended or developed towards lower level of involvement. Secondly, we will use the body of knowledge on relationship ending to develop a model for managing supplier relationship ending and development towards lower level involvement. The present study is a conceptual one with an explorative aim.

SUPPLIER RELATIONSHIP MANAGEMENT

In the following, we will discuss the relevant themes of supplier relationship management and more specifically supply base reduction and supplier development in order to identify the issues that are seen as essential elements in maintaining supplier relationships. This is later on reflected to the knowledge on ending business relationships in order to find out how this knowledge could be applied to supplier relationship ending.

Supply base reduction is seen as strategic decision process involving retention of a limited number of suppliers and developing long-term oriented co-operation with these (Sarkar & Mohapatra, 2006). By limiting the number of selected supplier companies aim towards closer co-operation and improved efficiency in terms of product and service quality and reduced costs (Lemke et. al, 2000). Management of large supplier base creates a lot of different types of costs. Especially for components and products that have central impact on the quality of the final product a close and co-operative relationship to only a few key suppliers is typically preferred (Theodorakioglou, 2006). Supply base reduction or rationalization also includes managerial challenges to firms in the sense that reduced supply base requires a different kind of approach towards the co-operation with the suppliers (Cousins, 1999).

Although supply base reduction has been acknowledged as important theme, models for this are scarce (Sarkar & Mohapatra, 2006). The existing ones suggest ways to evaluate the capabilities of the existing suppliers and selecting the most alluring ones (e.g. Sarkar & Mohapatra, 2006). In other words, these are about supplier selection and attention is merely given to the selecting of the best suppliers and thus they come close to traditional supplier selection models that provide different types of criteria to consider when selecting the best supplier. From the perspective of ending an existing relationship with a supplier (e.g. due to emergence of better supplier) these do not provide much help. According to Ogden (2006), one key success factor in supply base reduction is the engage internally stakeholders in the decision-making process. This implies that different actors in the organization have their views on the supplier relationships and items, technologies, services etc. bought within these

relationships. Although, of course, there are several drivers of this, one could be intertwined with the personal level relationships. This is of course, essential from the relationship ending perspective.

One form of activity that the purchasing is involved with suppliers that are considered as somehow troublesome is the *supplier development*. Supplier development has been defined as any effort by a buying firm to improve a supplier's performance and/or capabilities to meet the buying firm's short- and/or long term supply needs (Krause 1997). Of course, firms engaging in supplier development most likely hold intentions towards having a relationship with the suppliers involved in this as otherwise there is no point in sacrificing resources to the supplier development. Supplier development can strive towards making some immediate changes in the supplier's operations in order to reduce certain problems or it can also have more long term objectives by increasing the supplier's ability to make its own improvements (Hartley and Jones 1997).

Improving suppliers' service and product performance and/or capabilities, following types of practices can be used: introducing competition to the supply base, evaluating the supplier as a prerequisite to further supplier development activities, raising performance expectations, recognizing good supplier performance, promising future benefits, training and educating the supplier's personnel, exchanging personnel between the buying firm and the supplier and investing directly in the supplier (Krause, 1997). In terms of ending relationships with existing suppliers, the supplier development offers some interesting avenues. If we consider ending a supplier relationship while also aiming towards maintaining the possibility for future co-operation, providing the supplier some kinds of suggestions for future improvements could help the supplier to develop its own operations. Thus, even though this is not actually supplier development in the sense that the buyer would use resources to develop the supplier, the same ideas could be applied.

RELATIONSHIP ENDING

Next we will turn to discuss the existing knowledge on relationship ending to identify how it could be applied especially to the supply base reduction perspective. We will first discuss the main elements of business relationships to form an understanding of what is actually ended in relationship dissolution and also, what needs to be restored in case the relationship is to be recovered. After this, we will move on to reasons for relationship ending, ending strategies, process of relationship ending and we will conclude the section with relationship recovery.

Main elements of business relationships

Generally, industrial relationships comprise four main elements; mutual orientation, dependence, investments and bonds of various kinds (Easton, 1992). When thinking about relationship ending, it is obvious that in the ending process mutual orientation, dependence and investments in relationship are all declining. What becomes specifically interesting is the role of bonds between the supplier and customer. Bonds become established in interfirm interaction and affect how the actors perceive, evaluate and treat each other (Håkansson & Snehota, 1992). When certain relationship is being analyzed and evaluated, the nature and strength of these bonds have to be taken into account. Since different kinds of bonds exist each with different strengths, firms are not usually entirely free to dissolve all bonds at will.

In the existing research (e.g. Easton, 1992; Möller & Wilson, 1995), bonds are identified as having, e.g. economic, legal, technical, knowledge, information and social dimensions.

Economic (or financial) bonds are largely self-evident when discussing industrial supplier-buyer relationships since they may be regarded as prerequisite for the existence of a relationship. They are dependent upon the satisfaction with the current exchange and the existence of alternatives. Firms are also bound legally either by contracts or other types of involvement. Technical bonds refer to adjusting products and processes to the partner's requirements. Investments dedicated to the relationship, for example in the form of intertwined technologies, make it difficult to end relationships (Wilson & Jantrania, 1995). Information (or knowledge) can be regarded as the common currency of interfirm relationships as all of the other dimensions operate through the communication of information (Easton, 1992). Finally and perhaps most significantly, social bonds are the result of the relationships with individuals involved and can even exceed the other bonds in importance. They play an essential role in the overall strength of the relationship and can be a *raison d'être* for the relationship to continue. The influence of social bonds extends beyond individual firms and therefore has to be considered also from the network-level perspective. We found social, economic and technical bonds as the most important from the relationship ending point of view. Due to their fundamental character in industrial relationships they might be the most difficult to dissolve and correspondingly, they also play significant role when considering the relationship recovery.

Reasons for relationship ending

Halinen and Tähtinen (2002) suggest that depending on the type of the relationship different kinds of ending processes can be assumed to occur. In continuous relationships the parties are in a relationship "for the time being" and the ending can be characterized as chosen, forced or natural. In chosen ending one or both parties make a decision to terminate the relationship whereas in the case of forced ending a change or an event in the broader network may force the actors to end their relationship. In the natural ending a relationship may have gradually become obsolete and no purposeful decision about the dissolution needs to be made. In terminal relationships the termination is a desired outcome as soon as circumstances permit. As a third type, episodic relationship is established for a certain purpose or time period and the ending is therefore predetermined. If we consider the supply base reduction –type of situation, or a situation where the supplier is dropped out from the preferred supplier's list, the ending can be seen to have characteristics of both continuous and episodic relationship; where frame agreements and partnership plans exits, but orders, in practice, create a relationship of more episodic nature.

Relationships can end for many *reasons* and be initiated by either of the two parties. Halinen and Tähtinen (2002) distinguish three groups of factors influencing business relationship ending. First, predisposing factors already exist when companies enter into relationships which indicates, that history has an impact on relationship ending. These factors may be related to the task the relationship is set up to accomplish, to the actors themselves, to their dyadic relationship or to the surrounding network. Secondly, precipitating events function as impulses for the parties to end their relationship and they may be sudden and dramatic. They may emerge from participants, their dyadic relationship or from the business network in which the relationship is embedded. Thirdly, attenuating factors and events can moderate the effect of predisposing and precipitating factors. Also these factors can be actor, dyad or network related.

Relationship ending strategies

The strategies of relationship dissolution can be divided into two main communication strategies: exit and voice (Hirschman, 1975). Exit strategy implies that the company wants to

terminate an existing relationship whereas the voice strategy implies confronting the other party with the reasons for potential dissolution and thereby possibly restoring and maintaining the relationship. Depending on the reasons for dissolution and the factors characterizing the focal relationship the disengaging actor may choose to use either of these strategies in a direct or indirect way and further, in a self-oriented or other-oriented way (Alajoutsijärvi et al., 2000; Vaaland, 2004). Based on this categorization Alajoutsijärvi et al. (2000) suggest altogether twelve different exit and voice strategies in buyer-seller relationship dissolution.

Firstly, five indirect exit strategies are discussed. Pseudo-de-escalation strategy means that the disengager expresses wishes to change the relationship, but not that it actually plans to exit from it. A more self-oriented strategy is cost escalation which means that the disengager tries to increase the other party's relational costs up to the point that the partner itself starts to dissolve the relationship. In ending supplier relationships, the buyer can for example make demands for such items as tighter delivery schedules or extra services for the supplier which are practically impossible for the supplier to accomplish. Thirdly, in signaling strategy the disengager uses public media or other actors in the network to communicate the decision to exit. Fourthly, fading away refers to the situation where there is no need for communicating exit wishes and that there is an implicit understanding that the relationship has ended. Using withdrawal, a more self-oriented strategy, the disengager expresses its intentions through changed behavior, e.g. decreasing buying frequency.

Next, five direct exit strategies are presented. A strongly self-oriented way is to state explicitly to the partner that the relationship is over, leaving the partner no opportunity to discuss the matter further. This strategy is titled as *fait accompli*. Another self-oriented strategy is attributional conflict in which discussion about the relationship dissolution may raise disagreements and recrimination about the reasons of dissolution. In negotiated farewell the approach is more other-oriented and the relationship dissolution is discussed without hostility or arguments. Further, mutual state-of-the-relationship talk means that the relationship may still be restored if certain actions are taken. On the other hand, in diverging state-of-the-relationship talk the partners views are so distant that continuing the relationship requires that self-orientation of the parties is strongly reduced. Finally, two voice strategies are suggested, i.e. other-oriented voice referring to change of the relationship and more self-oriented strategy where the disengage is aiming to change the partner.

Based on similar categorization of direct/indirect strategies and self versus other orientation, Vaaland (2004) suggests managerial actions to avoid the relationship dissolution. He proposes that by improving the way precipitating events (e.g. conflicts or critical incidents) are communicated and handled the dissolution can be avoided. Thus, when a company employs an exit strategy it should use direct and other-oriented approach, e.g. mutual state-of-the-relationship or negotiated farewell. However, a voice strategy is even better and should focus on changing the relationship instead of the other party. In the case of predisposing elements the parties should reduce differences in relation to uncertainty avoidance and power difference. Finally, in relation to attenuating factors the parties should enhance their awareness of these factors by analyzing them carefully, especially in terms of lost relational investments, dissolution process costs, possible sanctions, network limitations and set-up costs. From the perspective of ending supplier relationships the dissolution strategies provide very interesting insights. It is apparent that in order to end the relationship in a way that future restoring may be possible, strategies of voicing and other-orientation are required. This stresses the importance of open communication towards the deselected supplier.

Relationship ending process

Even though on the basis of the supplier relationship literature, one might get the understanding that the ending of a supplier relationship is just a matter of deselecting one supplier and instead selecting another, in reality, ending a co-operative relationship forms a complex process. In order to manage the ending of the relationship it is important to understand the process of dissolution. Halinen and Tähtinen (2002) describe relationship ending process by dividing it into seven stages: assessment, decision-making, dyadic communication, disengagement, network communication and aftermath stages. At each stage different actor levels are involved, i.e. company/individual, dyadic or network. The model contains a suggestion that the dissolution process may also stop, or be stalled. Following quite similar approach also Tidström and Åhman (2007) suggest different stages through which the relationship ending process proceeds: pre-start, harmony, consideration, disengagement, communication and post-ending.

At the first stage the relationship is assessed and actions to be taken are considered. At the second stage the decisions about the relationship's future are made. Next, at the dyadic communication stage, the intention of ending the relationship is communicated to the partner. Both at the decision making-stage and dyadic communication stage it is still possible to restore the relationship depending whether the parties use either exit or voice strategy (Alajoutsijärvi et al., 2000; Hirschman, 1975). Unless the parties choose to restore the relationship it is likely to enter the disengagement stage, in which business exchange starts to decline and resource ties begin to weaken. Next, at the network communication stage, the ending of the relationship is announced to other network actors and the consequences of break-up on other actors are dealt with. At this point it becomes important to establish and strengthen relationships with other suppliers.

Lastly, at the aftermath stage the relationship ending is mentally processed and finalized. The actors mentally go through the ending process and evaluate what has happened and analyze the reasons. At this point all resource ties and actor bonds are broken. From the viewpoint of this study particularly the aftermath or post-ending stage is interesting as it refers to situation that lasts until all personal relationships associated with the cooperation are broken. However, Havila and Wilkinson (2002) suggest that there still exists "relationship energy" (e.g. in the form of social bonds) of the relationship that has ended, which provides opportunities for the same relationship to be reactivated at a later time. In relation to this, Hadjikhani (1996) talks about sleeping relationship that refers to buyer-seller relationship during the period of discontinuity, for example in the case of project marketing. Also Tidström and Åhman (2007) acknowledge that there is a general possibility of re-activation of the cooperation.

Relationship recovery

Möller and Wilson (1995) suggest that when assessing the state of the relationship it is important to examine the bonds between companies, adaptations made, achieved effectiveness, expectations concerning the relationship, and attraction, trust and commitment between the partners. Harris et al. (2003) suggest that attraction has a strong influence on relationships as it directly affects trust and commitment and this way the overall cooperation between the parties. In their study on business relationship recovery, Salo et al. (2009) concluded, that attraction, trust and commitment and especially the counterparts' perception of these, forms the basis for the course of the relationships in the recovery process. Thus, if one wants to end the supplier relationship in a way that future restoring is enabled, attraction, trust and commitment should not be too severely damaged. By this we mean that in the

possible future recovery these should quickly be re-activated. Trust, for example, may be very difficult to build if the supplier has experienced a dissolution what they felt was handled badly (e.g. with self-orientation only from the buyer's side). Therefore, these elements of relationship recovery: attraction, trust and commitment need attention in the management of the ending of supplier relationships.

BUILDING A FRAMEWORK FOR ENDING SUPPLIER RELATIONSHIPS

Next we will present a conceptual model for ending supplier relationships. In managing the dissolution process of supplier relationships, it is essential to understand, what the ending actually means, what kinds of ties are broken between the actors. On the basis of earlier literature, we have identified social, economic and technical ties. These are the ones that are cut or at least remarkably deactivated. *Economic bonds* are of course inherent in any business relationships and a variety of complex dependencies may be related to these. In case of supplier relationships, the economic ties may be very critical especially from the supplier firm's perspective and cutting these off may be very dramatic. *Technical bonds* are also identified here as essential, since typically a lot of technical bonds are created between the supplier and the buyer, in terms of joint information systems. Also, currently it is very typical that due to heavy outsourcing and fragmentation of competencies suppliers are required to do technological adaptations which further strengthen the technical bonds that they have towards the buyer. The importance of *social bonds* has been acknowledged in the existing literature on business relationships for long now and especially in terms of global sourcing this may have cultural dimensions as well. Although the social bonds are not broken in a similar way as for example the economic bonds are in the deselecting or supply base reduction process, the existence and role of these is clear. Thus we consider these bonds to represent the things that actually demarcate the phenomenon of ending business relationships. These are presented in the left hand side in the following Figure 1.

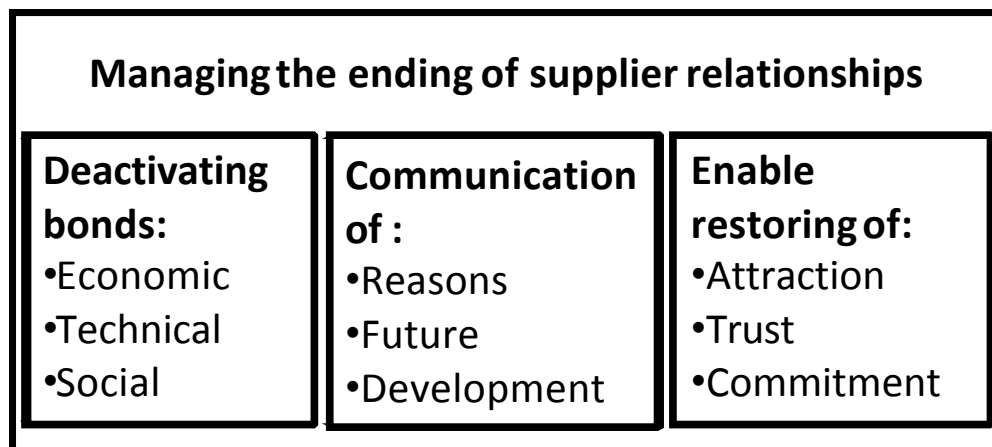


Figure 1. Conceptual model of the elements of ending supplier relationships.

In the right hand side in the Figure 1 we have listed the elements that need to be restored later on, in case the relationship is to recover at some point; *attraction, trust and commitment*. These are the essential elements that form the basis for the course of the relationships in the recovery process and thus in the ending process. In order to facilitate the future recovery, these should be considered. So in our model we have the elements that are cut (economic, technical and social bonds) and the elements that are needed in restoring the relationship (attraction, trust and commitment) and what is the essential activity in the ending process, is

of course the careful *communication* from the buyer to the deselected supplier. As it was already identified in the existing literature other oriented ending strategies are preferred to make the exit as beautiful as possible. Essential in this is the communication of the *reasons* for the ending. In any case, the trust and commitment, for example are weakened due to the ending of the relationship, but with an open communication about the reasons for this, too severe damage to these may possibly be avoided. This may further be strengthened with also giving some insights concerning the *future* prospects that the buyer has in terms of the particular industry or technology that the supplier relationship is covering. By openly communicating the possible outlook and recovery of the relationship commitment and trust may be conserved to some extent. Future attraction may be enabled by including some supplier *development* related elements into the communication as well, e.g. by giving advice and suggestions on how the supplier could improve its products, technologies and services in order to recover the relationship later on.

CONCLUDING REMARKS

The purpose of our paper has been to explore, on the basis of the existing literature, how to manage the dissolution of supplier relationship so that future recovery can be facilitated? We have employed two streams of literature; one focusing on industrial purchasing and supplier relationships and another on business relationship dissolution and recovery. Interestingly, the area of ending supplier relationships appears to be almost neglected in the existing research on industrial purchasing and supplier relationships. No doubt relationships with suppliers are ended, for example on the basis of supply base reduction or just due to deselecting but how this ending is managed has received almost no research attention what so ever. In the present study, we have proposed a conceptual model for ending relationships with suppliers so that future recovery can be facilitated. The presented model offers a preliminary framework to build a more in depth research especially in terms of empirical elaboration. Our conceptual preliminary model, however, yet contributes to the existing literature on supplier relationships in the sense that it is the first one to conceptualise the phenomenon altogether. Our model connects existing knowledge on business relationship ending and to some extent also on relationship recovery.

The present paper is a conceptual one and our intention is to proceed with an empirical study including a qualitative case study of one or more cases. Our empirical strategy can either include studying a relationship that has gone through an ending process in the past but that has later on been recovered. This would enable us to examine especially the elements related to the recovery and how these are perceived. Alternatively, empirical cases could be identified from the perspective of supplier relationship management, including data merely from the buyer company's perspective dealing with their perception of the ending.

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