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What do we know about the re-activation of business relationships?

COMPETITIVE PAPER

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Abstract

Most research in the field of business relationship development in industrial markets has focused on current relationships. However, firms also methodically re-activate previously broken relationships. This stage of business relationship development has been largely neglected by academic research. Hence, this paper seeks to contribute to the literature on industrial marketing and business relationships by focusing on the re-activation of inactive business relationships and the forces that lie behind it. We explain different factors influencing the re-activation process by examining the interactions and connections of four dimensions in relation to time: (1) production facilities, (2) business relationships, (3) business units and (4) products. Multiple exploratory case studies were conducted and three examples of re-activation in a Swedish industrial market were investigated. The cases are structured around issues prior and during the inactivity period of business exchange. They provide details of why business relationships in industrial markets may get re-activated. The results propose that re-activation is embedded in the boundaries to interdependencies resulting from some set of physical and social resources jointly developed during earlier business commitments. Through re-activation, firms can achieve faster and more efficient business exchange compared to the long development process and costs related to initiating a new business relationship starting from scratch.

Keywords

Re-activation; business relationships; industrial markets

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INTRODUCTION

Over the past decades, there has been an increasing interest in understanding the development of business relationships over time (see e.g. Ford, 1980; Dwyer, *et al.*, 1987; Håkansson & Snehota, 1995; Wilson, 1995). A number of studies have addressed different phases of business relationship development such as initiation (Edvardsson, *et al.*, 2008) development, maintenance, (Ford, 1980; Dwyer *et al.*, 1987) termination (Tähtinen, 2001; Tähtinen and Vaaland, 2006) and inactivity (Bartonda and Perry, 2003; Polonsky, *et al.*, 2010; Havila and Wilkinson, 2002; Havila and Medlin, 2012). Although the stream of research provides a valuable point of departure for this paper, not many attempts have explicitly focused on aspects explaining re-activation of previously broken business relationships (Batonda & Perry, 2003; Polonsky, *et al.*, 2010). As a result, existing literature focusing on the phenomenon is scarce. Hence, the purpose of this paper is to increase our knowledge about factors affecting the re-activation process. We do this through an analysis of three case studies of re-activation in a Swedish industrial market.

An extensive amount of literature has demonstrated that that business relationship development in industrial markets is a long and uncertain process that generally requires significant mutual investments and adaptations (see e.g. Ford, 1980; Håkansson, 1982; Dwyer *et al.*, 1987; Johansson and Mattsson, 1987; Hallén, *et al.*, 1991; Anderson, *et al.*, 1994; Håkansson & Snehota, 1995; Schmidt, *et al.*, 2007), which in turn, create various types of interdependencies between the parties involved (Håkansson & Snehota, 1995; Brahm & Tarziján, 2012). Hence, building up a business relationship from scratch takes a long time and requires considerable effort and resources, while benefits tend to lie ahead in time (Ford, 1980; Dwyer *et al.*, 1987; Johansson & Mattsson, 1987; Håkansson & Snehota, 1995; Wilson, 1995). During the business relationship development process, firms go throughout a long journey of different interaction episodes where the past, present and future exchanges are significant factors (Halinen *et al.*, 2012; Håkansson & Snehota, 1995). In the process, firms make substantial mutual adaptations and combine several resources, which frequently lead to strong interdependencies between the parties involved (Håkansson & Snehota, 1995).

The resources developed during the interaction process are not only of physical origin such as production facilities, manufacturing plants and products but also social ones like the skills and knowledge of individuals and groups (Barney, 1991; Håkansson & Waluszewski, 2002; Baraldi, 2003). Thus, when firms stop trading with each other, the business relationship goes into an inactive stage, implying that the relationship can be re-activated when the needs arise. Thus, through re-activation, firms can benefit from the relationship's history and resources that are unavailable with new relationships and reduce the extensive development process and investments related to establishing a new business relationship starting from scratch.

Furthermore, re-activation can provide firms with for example, efficient access to potentially critical resources (Stearns and Mizruchi, 1986; Westphal *et al.*, 2006), potential future benefits can be secured (Welch and Welch, 2006), negative reputation from counterparts can be reduced (Tähtinen & Vaaland, 2006) and unexpected new knowledge, information and innovation can be gained (Levin *et al.*, 2011). On the other hand, relationship's history can also be a constraining factor as in some cases disengaging from a business relationship may be such a painful and negative experience (Dwyer *et al.*, 1987) that re-activation may not be an option. Possibly because the financial costs associated with the process but also due the psychological sentiment of failure, physical stress for the personnel involved, feeling of disappointment and other factors leading to inactivity (Tähtinen and Vaaland, 2006; Dwyer *et al.*, 1987). Firms that re-activate a business relationship by definition spend a period of time without business

exchange (Hadjikhani, 1996; Batonda & Perry, 2003; Polonsky, *et al.*, 2010). However, information and social exchange between parties can continue for a considerable time without necessarily being an exchange of product or money (Håkansson, 1982). In comparison to initiating a new business relationship, there are significant differences, as re-activation does not start from zero but from some set of mutually developed resources formed during earlier business exchanges.

This paper is structured in the following way. First, literature about business relationships is discussed in our theoretical framework. Subsequently, we will present a brief description of our empirical cases, followed by an analysis of potential reasons for re-activation. Lastly, we will present our conclusions.

THEORETICAL FRAMEWORK

It has been widely argued that time is a central component in business relationships dynamics in industrial markets (e.g. Halinen, 1998, Halinen & Törnroos, 1995; Medlin, 2004; Halinen *et al.*, 2012). It has a fundamental role in explaining and understanding exchange as the value is represented and influenced not only by past or present but also by the potential for future business exchanges and interactions (Araujo, 1999; Halinen, 1998; Halinen & Törnroos, 1995; Medlin, 2004; Halinen *et al.*, 2012; Corsaro & Snehota, 2012). A business relationship has value only if time matters (Medlin, 2004). Hence, establishing and developing business relationships in industrial markets is a long and cumulative interaction process (Ford, 1980; Håkansson, 1982; Johanson & Mattsson 1987; Håkansson & Snehota, 1995; Wilson, 1995), which means that the parties involved make significant mutual commitments and investments on the relationships in terms of for example, time, resources and adaptations of products, processes and routines, which are crucial elements in business relationships (Håkansson & Snehota, 1995; Johanson & Mattsson, 1987).

Many of the adaptations represent a combination of resources that make firms involved in the relationship produce something unique, which neither of the firms can produce in isolation and cannot easily be replicated (Håkansson & Snehota, 1995). These adaptations mark a commitment by the buyer or seller to the relationship. As a result, when firms make mutual adaptations to demonstrate their commitment and adapt to fit each other (Dwyer, *et al.*, 1987), high levels of interdependencies between the firms involved in the relationship are created which are enduring and difficult to break off (Håkansson & Snehota, 1995). Interdependencies can bring both positive and negative effects for the parties involved. On the one hand, interdependencies contribute to reach effective solutions such as lowering transaction and production costs (Lusch & Brown, 1996), increase efficiency in production and coordination in industrial activities (Johansson, 1989) but also to develop technology, innovation and knowledge to produce complex and novel products (Brahm & Tarziján, 2012).

On the other hand, the existence of interdependencies and the difficulties of transferring special knowledge and skills also mean that it can be very challenging and costly for the firms involved switching to an alternative partner (Monteverde & Teece, 1982; Dwyer *et al.*, 1987; Tähtinen & Vaaland, 2006). This suggests that business relationships in industrial markets tend to be long term oriented. However, by definition business exchange is not stable and sometimes might be interrupted, implying that business relationships are also characterized by discontinuity with periods of no business exchange at all (Hadjikhani, *et al.*, 2012). According to Hadjikhani *et al.*, (2012) interdependencies based only on the residuals of trust from prior business commitments are not enough to keep two firms in a business relationship during a period of inactive business exchange. But interdependencies resulting from adaptations due to

for example the complexity of a specific technology or special knowledge and skills may keep firms in a relationship interconnected even during an inactive stage (Hadjikhani *et al.*, 2012). Consequently, even though business exchange is inactivated, there are significant interdependencies in terms of mutual adaptations and jointly developed resources during previous business interactions, which make re-activation possible in the future.

Resource interaction in business relationships

Firms possess a range of different resources and resource elements such as products, machinery, equipment, production plants, manpower, knowledge, special skills, trade contacts, financial means, technical, commercial, administrative know-how and reputation (Wernerfelt, 1984; Barney, 1991; Håkansson & Snehota, 1995). Resources are heterogeneous (Penrose, 1959; Barney, 1991; Peteraf, 1993) and their value depends on how they are combined and confronted with other resources (Alchian & Demsetz, 1972; Håkansson & Snehota, 1995). To this regard, resource heterogeneity entails that resources are dependent on each other as the outcomes of the use on one resource is reliant on how another is utilized (Håkansson & Waluszewski, 2002). Thus, a resource should not be viewed in isolation but through underlining its possible combinations with other resources. In addition, the unique history of a business relationship between firms creates resources, which are almost impossible to duplicate or imitate by others (Håkansson & Snehota, 1995). As stated by Barney (1991), firms are naturally historical and social entities and their capacity to attain and exploit certain resources is contingent upon their place in time and space. Hence, the unique path through history enables firms involved in a business relationship to develop valuable, rare and imperfectly imitable resources, which cannot be easily imitated by other firms (Barney, 1991). Many resources are socially complex and imperfectly imitable, beyond the ability of the firms to systematically duplicate and influence (Barney, 1991). This combination and confrontation of heterogeneous resources imply that over time, firms involved in a relationship develop strong resource ties, which make them mutually interdependent (Håkansson & Snehota, 1995).

According to Penrose (1959), resources can be divided into two main categories, physical and human resources. Grounded upon Penrose's work, a theoretical framework that has been used to study resources during an interaction process between firms is the four resources model (4R-model). In this framework, participants interact and carry out activities directed toward one another in order to combine and give value to single resources (Håkansson & Waluszewski, 2002). The model helps to identify and classify the interactions and connections between four different types of resources which are broken down into two categories: (1) physical resources including products and production facilities and (2) social resources embracing business units and business relationships (Håkansson & Waluszewski, 2002; Baraldi, 2003; Gadde *et al.*, 2012). According to Håkansson & Waluszewski (2002) many physical resources such as *products* (e.g. industrial components and systems) are often the results of an interaction process during the business relationship development, which means that firms generally must adapt products to special specifications and requirements.

Other physical resources resulting from business relationships are *production facilities*, for example, production plants, machinery, technology, equipment and IT tools, which also require important investments and mutual adaptations (Baraldi *et al.*, 2013; Håkansson & Waluszewski, 2002). In order to reduce costs and increase efficiency, it is common that production facilities are adapted and fitted to each other; consequently production facilities become part of a relationship (Håkansson & Waluszewski, 2002; Baraldi, 2003). The exploitation of physical resources often involves the use of several socially complex resources (Barney, 1991; Peteraf, 1993). Socially complex resources such as the individual actors or *business units* are critical resources with the ability to co-operate, having special knowledge

about its counterpart, crucial skills, earlier experiences, as well as technical and commercial understandings (Håkansson & Waluszewski, 2002; Baraldi, 2003). Intellectual property rights and patents (Hall, 1992), identity reputation, capabilities and know-how (Håkansson & Snehota, 1995) are also developed during a relationship. Nonetheless, *business relationships* themselves are social resources that can be used as bridges in order to access and affect other resources such as products or production facilities (Baraldi et al., 2013; Håkansson & Waluszewski, 2002). The process required to develop a business relationship has some features comparable to an investment process, it is commonly costly and the costs are ahead the future benefits (Ford, 1980; Dwyer *et al.*, 1987; Johanson & Mattsson, 1987; Håkansson & Snehota, 1995; Wilson, 1995). These socially complex resources are valuable, rare, not subject to imitation and therefore no substitutes exists (Barney, 1991). Thus, when a relationship is developed it becomes a resource that must be taken care of and used efficiently (Håkansson & Snehota, 1995). For that reason, a number of researchers (e.g. Hadjikhani, 1996; Batonda & Perry, 2003; Polonsky, *et al.*, 2010) have argued that after trading between firms ceases, it does not really mean that business relationships are terminated; instead they become inactive relationships with substantial resource ties derived from previous business exchanges.

Inactive business relationships

The stage of inactivity suggests that the relationship is not dead, that is, no future exchanges will occur, rather a business relationship can return to an active status (Hadjikhani, 1996; Havila and Wilkinson, 2002; Batonda & Perry, 2003; Polonsky, *et al.*, 2010). This may be because over the time, firms and personnel involved in a business relationship build up social bonds that are long lasting and can hardly be broken (Havila and Wilkinson, 2002). Subsequently, even if firms have stopped trading, individuals are conscious of each other as possible counterparts at a later time (Havila and Wilkinson, 2002; Westphal *et al.*, 2006). Therefore, although business exchange is inactive, for example, economic, technology and product exchange is no longer active and no knowledge is transferred among the firms (Tähtinen, 2001), social resources like personal relationships, social interactions and information flows may continue during inactivity (Havila & Wilkinson, 2002). For some firms, maintaining social exchange to key personnel may ensure access to critical resources (Westphal *et al.*, 2006). Furthermore, during inactivity, firms frequently keep previously jointly developed physical resource such as products, production plants, machinery, equipment and technology (Håkansson & Snehota, 1995) which can be used again. Nonetheless, inactivity does not mean that firms go into hibernation; instead, they continue developing and acquiring new resources, knowledge and information, which in turn can provide new opportunities if the relation is re-activated (Polonsky, *et al.*, 2010; Levin, *et al.*, 2011). The combination of social interactions during inactivity, along with a set of resource ties developed during earlier business commitments between the parties involved in the relationship, form a potential foundation for a subsequent re-activation of business exchange at a later stage. Put differently, inactive business relationships preserve substantial resources by means of the history of the commitment (Hadjikhani *et al.*, 2012; Batonda & Perry, 2003; Polonsky, *et al.*, 2010) that can be re-activated when the need arises. Several aspects can be identified as being potentially important for re-activation as a result of past business commitments and expectation of future business activities.

Re-activation of business relationships

As discussed in the previous section, resources are heterogeneous, unique, long lasting, leave traces, they are the result of an interaction process and their particular value depends on how they are combined and confronted with other resources between firms (Håkansson & Snehota, 1995). Consequently, the ability to acquire and exploit certain resources is contingent upon time and space (Barney, 1991). When business exchange is carried out and different resources

interact with each other, there is a potential that the effects of these business activities lead to high levels of interdependencies between the firms involved in a relationship (Håkansson & Snehota, 1995; Håkansson & Waluszewski, 2002). Therefore, interdependencies are characterized by the jointly developed resources during a relationship, which in turn tie the firms together even during periods when there is not business exchange at all (Hadjikhani *et al.*, 2012). Based upon the theoretical discussion, our analytical framework is composed of four dimensions, (1) production facilities, (2) business relationships, (3) business units and (4) products (Baraldi, 2003; Håkansson & Waluszewski, 2002), which helps to explore and analyse different aspects of re-activation and the connections between them at different stages.

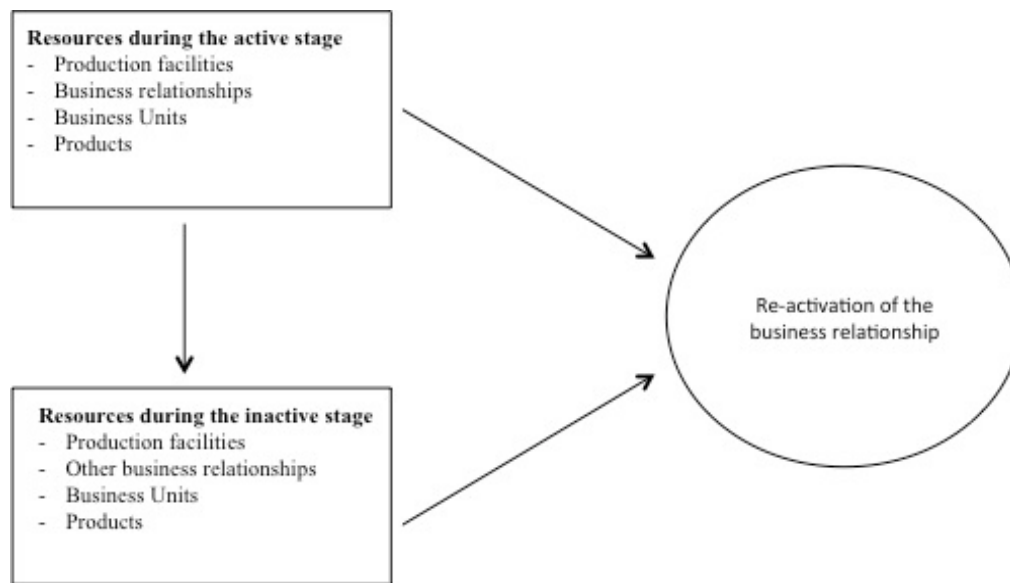


Figure 1 - Analytical framework of factors influencing business relationship re-activation

As depicted in figure 1, each of the dimensions can be analysed in relation to time as they interact with each other in every stage of the relationship. The analytical framework can also contribute to understand what could be the reasons for the firms involved to restore business exchange in inactive business relationships.

METHODOLOGY

A case study approach has been selected as this design involves detailed and intensive analysis where the complexity of the nature of the phenomenon can be sincerely studied (Patton, 2002; Bryman & Bell, 2011). Thus, it allows opening the black box of the “how”, “who” and “why” of individual and collective organized actions as it unfolds over time (Patton, 2002; Yin, 2009) which contribute to explore different factors affecting the re-activation of business relationships. The approach is particularly welcome in new situations where only little is known about the phenomenon (Eisenhardt, 1989; Yin, 2009), as it is the case of re-activation. We consider that a multiple case study is needed to capture considerations of different types of decision-makings when deciding to re-activate a business relationship. The three re-activation case study dyads selected for this paper were found through expert interviews (snowball sampling) with consulting companies, organizations and governmental institutions relevant to the study. Participants were approached via e-mail and telephone and asked if they were willing to contribute to our study. They were requested to provide in-depth interviews at the location of their choice. We carried out 26 semi-structured, in-depth interviews with firms’ representatives such as CEOs, senior executives, middle management (e.g., sales and

purchasing) engineers and technicians involved in the three cases. According to Patton (2002), the importance of interviewing the correct person who has a central position within the company or organization is crucial since it limits the risk of misrepresentations due to a lack of knowledge and increases the accuracy of the answers. Thus, we focused on these participants because we specifically wanted to talk to those persons who were most involved in discussions and decisions about the strategies of the firms to the choices of re-activating inactive business relationships, and they were considered the most appropriate contributors to find possible answers to the research questions. The interviews had a retrospective starting point, where we asked the participants to describe in detail their companies' journey toward re-activation, illustrating both positive and negative experiences during the different stages and to reflect on personal and technical challenges and solutions. Interviews were semi-structured, in that all respondents were asked a series of identical questions, but they were also open ended. In all cases, participants from both firms involved in re-activation were interviewed. The interviews lasted approximately 90 minutes each. All interviews were recorded and transcribed into a verbatim text that serves as the data for the analysis (Patton, 2002). Transcriptions were also sent to the participants in order to correct any misunderstanding and validate the data. The interview data has been supplemented and triangulated with a comprehensive set of archival data, publicly available documents such as corporate websites, annual reports, firm's documents, scientific and media articles, participation in industry-related seminars and when possible, through multiple interviews within the same firm.

THE CASE STUDIES

Table 1 provides a short presentation of the firms. Thereafter, in order to identify and discuss different aspects of re-activation, a description and analysis of the three cases is presented.

Table 1 – Presentation of the firms

Supplier	Customer
Case 1: Nerike Mekan AB and Sepson	
Nerike Mekan AB (Nerike) (previously known as Örebrokugg AB) is located in Örebro, Sweden. The company has 24 employees and a turnover of 26 million SEK. Nerike specializes in production of gear wheels, splines, racks, worm wheels, chain wheels and timing belt pulleys.	Sepson AB (Sepson) is one of the world's leading manufacturers of heavy-duty hydraulic winches. The company is located in Vansbro, Sweden. It currently employs 13 persons, and has a turnover of around 75 million SEK. Sepson and its main customers operate in the defence industry.
Case 2: Habu Technology AS and Flir AB	
Habu Technology AS (Habu) (previously known as Natech AS) is a Norwegian company located in Narvik, Norway. The company manufactures and supplies electronics and electro-optics. Its main customers operate in the defence, oil and gas industry. Currently, Habu has 56 employees and a turnover of around SEK 80 million.	Flir AB (Flir) is a Swedish company situated in Stockholm. The company has 357 employees and a turnover of around SEK 1 billion. Flir develops and produces infrared Cameras and Systems for the defence and security industry.
Case 3: Sanco AB and Bae Systems Hägglunds AB	
Sanco AB (Sanco) is situated in Örnsköldsvik. The company has 31 employees and a turnover of 41 million SEK. Sanco specializes in advanced technical constructions with steered machines such as lasers, stampers, bending machines, milling machines and robot welders.	BAE Systems Hägglunds AB (BAE Hägglunds) is located in Örnsköldsvik. It currently employs more than 800 persons and has a turnover of around 1,5 billion SEK. BAE Hägglunds focuses on armoured vehicle systems and advanced electric hybrid drivelines for civilian applications. The company operates in the defence industry.

Case study 1: Re-activation of the business relationship between Nerike and Sepson

The business relationship began in 1996. At that time, Örebrokugg AB (Örebrokugg) was the largest supplier of gear wheel products to Sepson. The supplier made several adaptations and investments in its manufacturing plant in order to produce specially customized products and meet the requirements of its customer Sepson. The CEO at Sepson stresses that:

“We own our blueprints and Örebrokugg AB manufactures tailor-made products, which cannot be sold to other firms.”

There were several individuals involved in the relationship, such as executive managers and technicians from both firms. During this time, Örebrokugg became the largest supplier of this type of industrial products to Sepson. However, in 2009, Örebrokugg went through a rigorous internal restructuring and the management decided to increase the price of its products by roughly 30 per cent. This change had a negative effect in the relationship. Sepson tried to discuss and reach an agreement on the price rise, but the CEO and other executive managers at Örebrokugg disagreed to decrease it. As a result, after nearly fifteen years of relationship and several months of discussions, Sepson decided to look for another supplier, which accepted the conditions regarding prices, products, quality and deliveries. When Sepson had an agreement with a new supplier (Mölnåls Industriprodukter AB), the company broke its relationship with Örebrokugg. During the inactive period, there were neither business nor social exchanges between the firms. In 2010, Örebrokugg was declared bankrupt. Thereafter, a previous former employee acquired the bankrupt company and changed the name to Nerike Mekan AB. The management team was also changed. However, all employees at the production facility were retained. The new management recognized that Sepson was an important customer as they had represented around 10% of its turnover. But most importantly, it was also realized that Nerike had machinery and equipment that had only been used to manufacture products for Sepson. According to the CEO at Nerike:

“These resources were regarded as wasted, as they could not be used for other purposes.”

Thus, with a background in production, the new CEO made additional adaptations and accomplished to decrease production costs in order to meet Sepson's price requirements. When this was reached, the new management decided to contact Sepson and after various discussions, both companies agreed to re-activate business exchange. Formerly developed products, along with prior experiences of business interactions and expectations of future business activities were crucial in the process. As the purchasing manager at Sepson points out:

“Nerike had delivered high quality products in the past and the company was reliable. It felt positive to go back. We had significant prior knowledge about the products and the supplier.”

Currently, Sepson is purchasing from Nerike, however, the range of products and volumes have decreased considerably when compared with the levels for the previous years. Additionally, there are not formal agreements or any legal contracts between the companies.

Case analysis – factors influencing re-activation

Resources during the active stage of the business relationship

During the first active period of the relationship, the products exchanged were the result of the interaction process during the business relationship development. The supplier developed

several industrial products with specific features explicitly designed for its customer Sepson, which required adaptations and investments in manufacturing. As a result, the supplier made several adaptations in its production plant, manufacturing processes and routines in order to meet the requirements of its customer. During this time, firms acquired specific knowledge information about each other and an understanding on how to cooperate. As a result of the resource interactions, the production plant created significant interdependencies between the firms. Conversely, when both firms disagreed on the price rise, business exchange was deteriorated. The effects are evident in Sepson's decision to break its relationship with Örebrokugg and search for a new supplier. The ending also had effects on the connected network, as Sepson started to develop a new relationship with another supplier - Mölndals Industriprodukter AB.

Resources during the inactive stage of the business relationship

During the inactive period, there was not any type of exchanges between the firms. However, the supplier had considerable physical resources such as machinery and manufacturing equipment in the production plant remaining from previous business interactions that could only be used to manufacture products for this particular customer. Significant social resources also remained since all personnel in production at Nerike were kept after the acquisition. In addition, both firms stored manufacturing processes, routines, delivery procedures, documents and specifically adapted products developed during past business commitments. Products could be exchanged again in the future if certain modifications in price were made. Hence, the supplier carried out further adaptations in manufacturing during the inactive period, which contributed to decrease the price of the products. Thereafter the supplier was prepared to approach its customer with a new proposal in order to re-activate the trading relation. Past business interactions had evidently left some traces.

Resources influencing the re-activation of the business relationship

In this case, production facilities created interdependencies in the relationship. When Nerike was restructured, the new management understood immediately that formerly developed machinery and manufacturing equipment in the production plant could contribute to regain the customer and re-activate business exchange between the firms. From the customer point of view, past business experiences and the supplier's substantial knowledge about manufacturing customized products have been significant reasons for the re-activation of business exchange. From the supplier perspective, previous adaptations in its manufacturing plant and equipment remaining from earlier business interactions had a critical role in the re-activation process. To sum up, although business exchanged has been successfully re-activated, there is no contractual obligation on the customer's part to purchase products from the supplier.

Case study 2: Re-activation of the business relationship between Habu and Flir

The relationship between the firms goes back to the early 80's. However, it was not until 1994 that the firms started to establish a high tech production line for infrared systems to design and develop infrared cameras and systems, which required significant investments and resources from both parties. During this time, Flir provided training to engineers and technicians from the supplier in Stockholm. Subsequently, production facilities were established in Norway and the supplier started to conduct manufacturing there. Products were mainly sold to customers in the defence industry. Nonetheless, Flir owned all patents. Personnel at different levels such as CEOs, executive management, technological and administrative were involved in the relationship. In 2003, the companies stopped doing business with each other, principally due to a decrease in demand from Flir's largest customer in Norway (the Norwegian state).

The CEO at Flir mentions that:

“The inactivation of the relationship between the companies did not cause any negative experience and was merely accepted as a fact with not relevant issues.”

Thereafter, the companies did not have any business exchange for almost ten years, but during the inactive time, the CEOs from both firms maintained contact with each other and even met at different industry related conferences. Several technicians and engineers from both companies were also in contact with each other, as they had built relatively strong professional and social ties during the business relationship. An engineer at Habu highlights that:

“We have developed a special relationship with people working at Flir. We frequently speak with each other and discuss what type of business opportunities might be going on in the industry.”

During the period of inactive business exchange, products and the manufacturing plant developed in earlier business commitments also remained. In March 2013, following heavy losses over a sustained period of time, board members of Natech decided that the company would file for bankruptcy. Subsequently, new investors established Habu Technology. The bankruptcy of Natech resulted in 60 lay-offs in Narvik, but 40 were reemployed as a result of the new contract. In 2013, Flir received an important order from the Norwegian state, which required production and technical capabilities that Habu could provide. Even though there were other suppliers in the market offering similar capabilities, Flir decided to contact Habu as they were regarded to have the capacity, infrastructure and knowledge acquired during previous business commitments that could be used immediately. As the CEO at Flir emphasizes:

“Designing and developing new products in industrial markets is complex and takes many years.”

In addition, a large proportion of personnel from both companies already knew each other since many years back and they were still working at their respective firms. Thus, the CEO at Habu stresses that:

“When you do business in this industry, it is a very important factor that you know each other from previous business commitments so you don’t need to start with a blank sheet of paper.”

The CEO at Flir shares this view:

“It’s very easy when you know the people. In previous cooperation, we developed together important essential knowledge, skills and equipment, which still exists, so we know that Habu has the capabilities to match our needs.”

These factors have been crucial in the re-activation decision process. After several discussions and legal agreements, the companies have successfully re-activated business exchange. The type of product exchanged is different but the new products are based on technology that firms developed together in earlier commitments.

Case analysis – factors influencing re-activation

Resources during the active stage of the business relationship

The products exchanged were the result of substantial mutual adaptations and investments

from both firms. The supplier accommodated part of its production facilities in order to manufacture specially designed products to its customer Flir. The manufacturing plant became part of the relationship as it was adapted and fitted to meet each other's needs. The supplier adapted to its customer in several different ways as the firm developed special products for the customer as well as adapting its production facilities. The customer also changed its working methods in order to adjust to the supplier's production facilities. The benefits were reciprocal as it contributed to cost reduction, increased revenue and more control over the business exchange. Close interaction between a number of specialists and experts from both firms were critical during business interactions. After more than twenty years of relationship, both firms had gained relevant specific information and knowledge about each other and the ability to co-operate had increased significantly, which contributed positively to development of the business relationship itself. Given the very complex relationship between firms' resources, mutual adaptations created significant interdependencies in the business relationship between the firms. The effects of other business relationships are evident in this case as the inactivation was directly connected to the final customer (the Norwegian state).

Resources during the inactive stage of the business relationship

Although there were not business exchange actions during more than ten years, the manufacturing plant, technology, production procedures, blue prints and special knowledge about how to jointly manufacture products and systems were kept by the both firms during the inactive period. Personnel from both firms continued to have social interactions and information streams during more than 10 years, which indicated some kind of openness and willingness for future business exchanges. At the personnel level, maintaining social exchange seemed to be a way to ensure access to important resources. Given the positive previous business experiences, it is perhaps not surprising that when the need emerged, through the business relationship both firms could take advantages of the production facilities and special mutual knowledge developed during earlier business interactions. This can be attributed to the strong interdependence between the firms. Consequently, both firms regarded the inactive business relationship as a valuable resource that could be used again in the future.

Resources influencing the re-activation of the business relationship

This case is broader and denser than only economic aspects spinning around the products as it has important components of mutual orientation, trust, commitment, adaptations, interdependencies and social exchange. On one hand, in order to decrease production costs and increase efficiency in production and coordination, the customer has used the business relationship with its supplier as a bridge to access important resources such as special knowledge, skills, capabilities and the manufacturing plant. On the other hand, the business relationship has enabled the supplier to access certain resources controlled by the customer such as intellectual property rights and patents. Even though the type of product exchanged is different, physical and social resources developed during previous business commitments have formed the foundation for successful re-activation of business exchange. Technology development, innovation and development of new complex and novel products have been spin-offs from re-activation. This implies that re-activation can be a significant driver of innovation as well. Nonetheless, the final customer (the Norwegian state) has also influenced the re-activation process. To summarize, the case proposes that the re-activation of the business relationship has itself represented a valuable resource for the firms involved.

Case study 3: Re-activation of the business relationship between Sanco and BAE Hägglunds

The relationship between the firms started in 1993, when Sanco became a supplier of industrial components and systems for BAE Hägglunds. During this time, Sanco manufactured "built to

print” products for BAE Hägglunds, which required important levels of adaptations and significant investments in their production equipment and machine park. Part of Sanco’s production facility was adjusted in order to fit the needs of BAE Hägglunds. Sanco installed larger machinery to handle larger product deliveries, which was beneficial for BAE Hägglunds because it provided major cost savings. The products were developed in mutual co-operation but BAE Hägglunds owned the patents. There were also modifications in terms of for example, delivery, pricing and information routines. According to the CEO at Sanco:

“Some of the features of our production routines became deep-rooted into our customer BAE Hägglunds.”

As this kind of industrial relationship is very much based on specially customized products, several individuals from both companies working at different departments were involved in the relationship such as production, operations, quality control, executive management, purchasing and sales. Sanco aimed to understand the expectations and directions of the products and BAE Hägglunds to assist in the production process in case there were any technical issues. The CEO at BAE Hägglunds argues that:

“If you are going to develop a special industrial system or product, there are usually several potential suppliers that can be selected. But once you have chosen a supplier to develop such a system or product, the costs to replace it are very high.”

The relationship lasted roughly 10 years before BAE Hägglunds strategically decided to decrease their dependency on Sanco. In 2006, as a result of an internal restructuring, BAE Hägglunds ended its business relationship with Sanco. BAE Hägglunds considered they were too vulnerable by only having one main supplier of these products. The company was also looking for more flexibility and synergies with its suppliers. During the inactive period, Sanco retained almost all its personnel, but a number of staff at BAE Hägglunds who were involved in the relationship had left the company. However, BAE Hägglunds registered and maintained most of the relevant information, documents, special knowledge and administrative procedures regarding its relationship with Sanco. In 2013, BAE Hägglunds changed its supplier strategy again and decided to re-activate the relationship with Sanco. Several individuals were involved in the decision-making process. Operational and production personnel were key influencers as they had significant knowledge and experience from previous commitments. As one of the executive managers at BAE Hägglunds puts it:

“The decision to re-activate the relationship with the supplier was taken at the operational level (quite low level). Then we started to have meetings at the strategic level.”

Although there were other suppliers, BAE Hägglunds regarded the costs for searching and developing relationships with new suppliers as significantly high. Other costs related to geographical and technological distance, uncertainty, quality and delivery time were also considered. The procurement and industrial cooperation director at BAE Hägglunds also emphasizes that:

“Sanco has significant resources left from previous commitments; there is much infrastructure and advanced equipment. The resources are still there and they are very valuable for this type of production. The cooperation has worked well in the past so it will work well this time too.”

On the other hand, the CEO at Sanco states that:

“BAE Hägglunds is one of the most important actors within this industry in Sweden but also worldwide. In addition, the customer has a very high reputation for its technological capability and innovativeness, which is crucial for us. By being connected to them, we can ensure access to significant resources. Thus, BAE Hägglunds is a very important customer to us.

The variety of products and volumes has declined in comparison to earlier orders but is progressively increasing again.

Case analysis – factors influencing re-activation

Resources during the active stage of the business relationship

During the active period, the firms jointly developed several industrial products. In the course of several years working together, business units modified their standard production facilities, products and logistics in order to meet specific needs, which required substantial mutual investments and adaptations. On the one hand, the customer modified its operation routines in order to adapt to the supplier. On the other hand, the supplier adapted its manufacturing unit and machine park to meet the special specifications and requirements of its customer. There were also substantial technical, administrative and commercial mutual adaptations, which contributed to create critical interdependencies between the firms. As it is common in industrial markets, several individuals from both firms at different levels were involved in the relationship, which helped with technical and commercial understandings. As a result, business commitments contributed to increase significant knowledge about each other and the willingness to co-operate. The exchange between the firms was characterised by extensive mutual knowledge, capabilities, crucial skills and a fundamental co-operation between business units. Albeit the customer made a strategic decision to withdraw from the relationship with its supplier, the ending did not cause any dramatic effects between the firms.

Resources during the inactive stage of the business relationship

During the inactive period, there was neither business nor social exchanges between the firms, however, both firms were aware of each other as possible future counterparts. This is demonstrated by the fact that although business exchange was broken, during the inactive period the customer kept substantial information, documents, special knowledge and administrative procedures relevant to the relationship with its supplier. The supplier did not make any critical changes either and physical resources and the machine park and production equipment developed during previous business commitments were kept. The supplier also maintained most of the personnel that earlier had contributed to the relationship with its customer BAE Hägglunds. On the other hand, although many employees previously involved in the relationship had left BAE Hägglunds, significant social resources such as data, information, experiences, crucial skills, manufacturing processes and technological knowledge acquired over the years were passed on to the new personnel. This implies that both business units had certain openness and willingness for the re-activation of business activities at a later stage. Adaptations in production facilities, unique knowledge about each other and the understanding of how to work together formed strong interdependencies between business units.

Resources influencing the re-activation of the business relationship

When the customer underwent a new reorganization, the firm strategically decided to go back to its former supplier as the costs for finding and developing a business relationship from scratch with a new supplier was considered significantly high. The level of uncertainty to start working with a new supplier was also regarded as substantial. Earlier business experiences between business units contributed to develop specific technical and commercial characteristics. Business units had extensive special knowledge about each other but also the ability and understanding to work together. The products and machine park remaining from previous business commitments along with a number of individuals with relevant knowledge have all set the stage for re-activation. The customer regarded that physical and social resources jointly developed during earlier business interactions could be used immediately. Also, the reputation of being a reliable and flexible supplier and high-quality innovative equipment contributed to reduce the perceived risks of the customer. From the perspective of the supplier, the customer's reputation and image in the industry was regarded as a valuable resource. Hence, instead of starting new business relationships from scratch, firms re-activated their broken business relationship and successfully restored effective and efficient business exchange. To wrap up, the customer considered that the gains of re-activation were higher than the alternatives and recognized the resources that it could provide.

CROSS-CASE ANALYSIS

This paper explores different factors affecting the re-activation of business relationships. The cases share many characteristics but they also differ in some important respects. As discussed in our theoretical framework, the relationship specific interdependencies are characterized by the jointly developed resources that tie the firms together. Case 1 puts emphasis on a business relationship between Nerike Mekan AB and Sepson that was broken after more than a decade of business exchange, but which at a later stage was re-activated. Re-activation is influenced by a production facility developed in earlier business interactions. Case 2 describes a mature business relationship between Habu Technology AS and Flir AB that was inactive for nearly ten years. The case is grounded on mutual knowledge and social interactions, which imply that the influence on the business relationship itself is on focus. Case 3 outlines the re-activation aspects built on both physical and social resources developed by business units Sanco AB and Bae Systems Hägglunds AB in earlier business interactions.

Case 1 is labelled as “*the production facilities aspects of re-activation*”. During the active stage of the relationship, the supplier adapted part of its production facility to meet the requirements of the customer, which in turn created substantial interdependencies. This is demonstrated in the inactive period as the supplier recognized that part of its production facility could not be used for other purposes apart from manufacturing products for this particular customer. In this sense, the value of the resources may be sentenced if the re-activation is successful or not. Thus, further adaptations in the production facility during the inactive stage enabled the supplier to initiate a successful re-activation strategy. As a result, production facilities aspects are critical factors influencing re-activation. Productions facilities are also present in case 2 and 3, however, their influence for re-activation are less critical.

Case 2 is categorized as the “*business relationship aspects of re-activation*”. In this case, interdependence is embedded in the relationship itself. During the active period, firms made important adaptations and developed significant social recourses like special knowledge about each other and know-how, which led to strong interdependencies at both firms and personnel level. The interdependence is evident by the particularly close and intensive personal interactions between employees of both firms. Thus, the long period of inactive business

exchange did not restrain close social interactions between a numbers of personnel from both firms, which in turn paved the way for a subsequent re-activation of the trading relation. Past experiences and expectations of future business activities have been critical determinants for re-activation efforts. Hence, during the re-activation process, factors related to mutual knowledge, common history and the recognition of the usefulness of previously jointly developed resources (Håkansson & Waluszewski, 2002) contributed to create a higher level of confidence about the future of the relationship. Firms regarded the inactive relationship as a valuable resource that could be used to access other critical resources. Through social interactions, the customer was able to access resources such as the supplier's production facility and special knowledge. The supplier assured access to resources like patents and intellectual property rights owned by the customer. There are strong indications of mutual interdependencies between the firms, which in turn have clearly influenced the re-activation process. This indicates that inactive business relationships are carriers of important resources, which are necessary for conducting production activities that individual business units do not possess themselves. Resources may be physical, for example, production facilities or social ones such as special knowledge and know-how (Håkansson & Waluszewski, 2002). Nevertheless, this case also shows that other business relationships connected to the dyadic have the potential to influence the re-activation process. Although business relationships have been important in all cases, its significance is more evident in this particular one.

Case 3 has certain specific characteristics as it puts emphasis on "*the business units aspects of re-activation*". In the course of the interactions during the active stage, both firms developed substantial physical resources such as production facilities and customized products but also critical social ones like the ability to co-operate with each other, mutual special knowledge and technical and commercial understandings (Håkansson & Waluszewski, 2002; Baraldi, 2003). The degree of technical and organizational adaptation has also been significant. The effects of the resource embeddedness in the relationship are notorious in the inactive stage. Even though the customer strategically broke the relationship with its supplier, resources in terms of for example, unique knowledge, crucial skills, capabilities and earlier experiences were passed on to the new personnel.

In addition, high level of uncertainty and costs related to develop relationships with new suppliers helped the customer to increase awareness regarding the knowledge about the supplier's production facilities that were used earlier and could be used again. Changing the supplier appeared to be a challenging strategy for the customer. Hence, the case proposes that adaptations resulting from past resource interactions have formed strong interdependencies between the business units, which in turn have set the stage for a subsequent re-activation of the trading relation. Through re-activation, the customer has achieved efficient access to production facilities and crucial skills and capabilities of the supplier. Business units in case 2 and 3 are not less important, however, their characteristics for re-activation are less marked.

Nevertheless, comparisons across the three cases reveal interaction of products at all stages as business units make use of business relationships as well as production facilities for the redesigning or upgrading of old products and the development of new products or products with new features, entailing that re-activation also can be an important driver of innovation.

CONCLUSION

The four dimensions in the analytical model have contributed to identify and analyse different aspects of re-activation and the links between them on different stages. *Production facilities* and *products* are physical resources that can survive long periods of business exchange

inactivity and implicitly maintain firms related to each other. *Business relationships* and *business units* are strong socially complex resources (Barney, 1991; Håkansson & Waluszewski, 2002; Baraldi, 2003) that tie the firms together even during times when there is not business exchange. New resource combinations are thus likely to arise when a business relationship is re-activated. In the three cases, these resources have been crucial in understanding why re-activation occurs as they make it possible for the relationship to remain latent and ready to be re-activated when the needs arise. Our results propose that these are central aspects affecting re-activation. From a theoretical perspective, the findings suggest that our analytical model provides a useful approach for understanding different aspects of business relationship re-activation in industrial markets. There are a number of different motives explaining why firms may decide to re-activate an inactive business relationship. To this point, it appears that re-activation is determined by a combination of economic and social factors, which may be triggered as a result of internal or external changes. Evidence from the cases propose that reasons such as interdependencies resulting from resource ties (both physical and social) developed during earlier business exchanges along with switching costs (Tähtinen & Vaaland, 2006), problems with new partners and perceived costs of establishing and developing new business relationships (Håkansson and Snehota, 1995) are some of the principal aspects affecting re-activation.

Theoretical implications

The three case studies reveal a number of theoretical implications of re-activation. As business relationships develop, firms make significant mutual adaptations and commitments, which simultaneously create strong resource ties and interdependencies between the two parties involved in the relationship (Håkansson & Snehota, 1995). The greater the interdependence, the more difficult it is to change counterpart (Brahm & Tarziján, 2012) and the higher are the switching costs (Monteverde and Teece, 1982; Dwyer et al., 1987; Tähtinen and Vaaland, 2006). Strong interdependence between customers and suppliers implies that a relationship can survive long periods of inactive business exchange (Hadjikhani, et al., 2012). Interdependence can be embedded in for example, products, production facilities, technology, special knowledge, skills, capabilities, social relations and commercial or administrative routines and systems (Håkansson & Snehota, 1995), which in turn contributes to understand why re-activation occurs. We would therefore argue:

Proposition 1: the stronger the interdependence between resources, the greater is the possibility of re-activation.

The effects of time are evident in the three cases. Firms can benefit from the relationship's history and the knowledge of how firms operate and how business activities are conducted along with relevant individuals, networks and contacts from previous business commitments contribute considerably to re-activation. On the other hand, we also propose that time can create hampering factors.

Proposition 2: If the experiences from previous business exchanges have been rather negative, firms may need to counter strong attitudes before any re-activation initiatives can be successful.

Clearly, there are both advantages and disadvantages. Firms can benefit from the relationship's history and sediments that are unavailable with new relationships; thus, when a firm re-activate a business relation with an "ex-partner" they are actually reconnecting with a partner they already know. Consequently, re-activation makes it possible for the firms involved to decrease significant costs and time related to developing a new business relationship from scratch,

providing firms substantial economic benefits. Firms can also achieve positive gains by using each other's earlier acquired special skills, competence, technology, production facilities, old products can be redesigned or upgraded and new products can be developed. Furthermore, due to the nature of the inactive stage, the parties can also provide each other new valuable technical and commercial information. Hence, re-activating business relationships may lead to benefits associated with efficiency, novelty and can provide efficient access to potentially critical resources. Viewing the phenomenon as a process entails that re-activation is not a one-way action, but is an interaction. In other words, re-activation is not something that is done to another party, but a process in which both parties involved participate and simultaneously act as negotiators and referents in the process. The process can be either (1) formal, for example, legal contracts and formal documents or agreements (Håkansson and Snehota, 1995) or (2) informal, through social exchanges where there is not contract and is mainly trust-based (Morgan and Hunt 1994). Thus, we posit that:

Proposition 3: once a mutually satisfactory re-activation is achieved, business exchange between firms will be more efficient compared to the first time a business relationship is initiated.

This is because re-activation is taking off from a more substantial and supportive platform which is different to the first time a business relationship is initiated, where firms lack the type of relevant knowledge about each other (Ford, 1980), trust and commitment is low (Morgan and Hunt 1994), uncertainty is high (Dwyer *et al.*, 1987) and there are not mutually developed resources nor interdependencies that tie the two firms together (Håkansson & Snehota, 1995).

This paper presents empirical evidence that re-activation can be regarded as an underappreciated and overlooked but valuable resource for firms, with significant physical and social resources jointly developed during previous business commitments, similar to a dormant volcano, which is on hold, sleeping and waiting to be awakened. In order to obtain a more holistic understanding of business relationships, it is reasonably clear that re-activation is an important phenomenon that has significant effects on firms and therefore needs more research attention.

MANAGERIAL IMPLICATIONS

We can now turn to some of the managerial implications of re-activation. The most evident implication is that firms should not view inactive relationships as “dead or terminated”. It is thus fundamental to identify the reasons for inactivation and what happens during the inactive period in order to understand the phenomenon. Re-activation is important, not only for its potential for a subsequent re-emergence of a trading relation but also because re-activation, if handled strategically might be a potential resource for the success of the firm.

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