Value Co-Creation in Industrial Buyer-Seller Partnerships – Creating and Exploiting Interdependencies

An Empirical Case Study

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ACRONYMES

MMS	Machinery Management System
CPR	Customer Perception Rating
IMO	International Maritime Organization
IMP	Industrial Marketing and Purchasing Group

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1. INTRODUCTION

Economic theory relies on the rational argumentation of independent actors optimizing their actions in order to reach a set goal and to maximize profit. According to economic theory it is wise to manage a company so that maximal bargaining power will be preserved. This is achieved through acting opportunistically, independently and calculating the optimal solution for profit maximization for each transaction and by not becoming overly dependent on others.

However, just like a dish of food can differ greatly from what is described on the menu, business reality is much more complicated than theories and abstract ideas. It is appealing to think that business decisions are always based on rational choices, such as making or buying, based on economic calculations. In reality it has been seen that business relationships on industrial markets are characterized by long-term interaction where factors such as trust, commitment, social bonds, communication, and even friendship ties are important ingredients. To an increasing extent it has been realized that there are things to be gained by cooperating with partners instead of keeping them at arm's length.

Monetary value is a frequently used concept when assessing the success of business relationships. Monetary value implies that the amount of money that something is worth, serves as an objective measure of value. In business, there obviously has to be an objective measurement unit to enable companies to manage and control their business. However, it has been shown that monetary value is just one way of looking at the value that is created in long-term business relationships. When viewing the world through networks and relationships that develop over time between companies, the rationale for optimization of operations has developed in a different direction than the traditional economic theories suggest.

In a society characterized by speed, complexity, and high information content, the strategic focus of most businesses acting on industrial markets is in constant transformation. As automation and technology take care of routine and labor-intensive tasks, information and expertise have emerged as important trading goods and in many cases the basis for competitive advantage. Increasingly, business is about working with the right partners, being able to utilize each other's resources, and learning and innovating together. Being able to create the right relationship networks emanating from the company has become paramount. In the quest for being successful and maintaining competitiveness companies create partnerships and alliances with other organizations, such as suppliers, customers, research institutions in order to survive and create value for all stakeholders. This trend also shapes the nature of relationships between industrial buyers and sellers, from arm's-length relations, into relations that are increasingly characterized by partnership and cooperation.

According to Porter's (1996) theory on strategy and strategic positioning, striving for operational efficiency does not suffice in the highly competitive global market. Operational efficiency is something that every company can achieve and duplicate and thus does not serve as a basis for building competitive advantage. Companies need to find strategies that give them long-term competitive advantage.

> *"Strategic positioning means performing different activities from rivals' or performing similar activities in different ways" (Porter, 1996, p. 62).*

Managing customer relationships in a way that creates unique value for the customer has become one "*organizational capability"* (Stalk et al. 1998) by which companies can create sustained competitive advantage. The supplier who can maximize value creation for the customer is most likely to be successful in keeping the business. At present, in the era of relationship marketing and customer relationship management, industrial companies are increasingly focused on making the most out of their customer relationships. In the same way, customers are concerned with strategic sourcing and categorization of their supplier relationships.

Industrial marketing deals with exchange between buyers and sellers on industrial markets. Although the concept of opportunistic behavior and profit maximization in each transaction is along the lines of traditional economic theory (like transaction cost economics) empirical research indicates that human behavior in long-term business relationships might not be so *"Machiavellian*" after all (Morgan & Hunt 1994, p 25). When buyers and sellers acting on industrial markets do business and interact over time, new ways of optimizing and new rationales for business emerge. Managers in industrial companies increasingly accept the idea that there is a chance to create something through cooperation with suppliers and customers. Focusing on core business activities and cooperating with carefully selected partners has become a strategic choice of many companies. The rationale is that more value can be created than if both buyer and seller work independently on their own in quest for profit maximization in each transaction. Cooperation always implies involvement, which in turn implies both giving up some independence and investing resources. In trade for giving up some independence and bargaining power industrial companies can create value for themselves and for their business partner through accepting a certain degree of interdependence. Thus exploiting[1] and handling interdependence becomes a source for creating value together.

[1] The word exploit is here used to signify "to make the best use of". (Collins English Dictionary 1992, p 202)

Portfolio management and key account management practices are widely applied by both suppliers and customers on industrial markets. The idea being that companies can apply different relationship management strategies with different types of partners in order to get the most out of them. The most important customers/suppliers are identified, and then customized management models and even tailor-made organizations are designed for these particularly important relationships.

Ford (1980) suggests that a characteristic of industrial marketing is that it takes place within a close relationship between buyer and seller. Companies choose long-term relationships instead of "playing the market" in the name of cost reduction and increased revenues. Companies do not act alone. The definition of "*a company*" includes the idea that the entity is engaged in interaction with other parties, that a company's identity is formed by the partners that it works and interacts with. A company is dependent on its environment - without interaction with other parties the organization has no activity and no means of creating value.

When companies possess complementary, heterogeneous resources, cooperation is likely to emerge. The access to the resources of another company is achieved through interaction, it is through interaction that relationships are created and maintained. Simply put:

> *"... Interaction is not a simple mechanism regulating the life of the company, but a major part of its life. It is through interaction that a company exists and develops... Hence, interaction is a fundamental aspect of development" (Håkansson 2002, p 14).*

Since the 1970´s the dominant discussion within the IMP Approach (the Industrial Marketing and Purchasing School of thought) is about understanding how business markets operate, from single companies interacting with other companies on a transactional basis, towards long-term relationships through interaction to partnerships, alliances, and networks of companies. The interest has been on why companies invest in relationships, what can be gained from this type of interaction, and on the different ways of looking at value and value creation in such a context.

When looking at the world from the point of view of relationships and networks, we see companies that create long-term relationships taking the shape of alliances and partnerships of different kinds, creating networks of interconnected companies that produce the output together by cooperating and joining forces. This change in competitive and cooperative environment blurs the lines between companies and redefines what traditionally has been thought of as enterprises or industries (Parolini 1999). Interaction becomes key; the ability to interact with the right counterparts and be able to use the counterpart's resources in a meaningful way becomes crucial.

> *"It is through interaction that a company's capabilities are used and developed and from which it receives rewards. Crucial decisions for the company concern the extent of the capabilities it will apply to interaction with a particular counterpart and its willingness to invest in capability development for long-term reward" (Ford et al, 2002, p 86).*

Being involved in a number of relationships with buyers, suppliers, competitors, and non-commercial actors, and being interwoven in a web of relationships imply different degrees of involvement and dependence. As companies interact over a period of time with their partners, they get more or less dependent on each other. Being highly involved in a relationship has its advantages, but is not totally risk-, or problem-free either. First of all a high-involvement relationship is always resource demanding and secondly becoming too dependent on a single relationship, either through over customization or dependence in the form of volume is always risky and should be carefully evaluated case by case (Håkansson & Ford 2002). Most companies that have chosen the relationship path seem to be struggling with this issue exactly – how to find the balance between dependence and independence?

An example from a shipyard in China gained during the pre-study illustrates how customization of production facilities can lead to a dependence that hinders the customer from switching suppliers. This particular shipyard had been constructing standard type ships and installing a certain make of diesel engines on the ships for many years. Over the years they had made slight modifications and adaptations in their production line for matching this particular engine make. This customization made it difficult for them to switch suppliers, even if it would have been economically justifiable. The introduction of a new supplier of engines would imply extra work in the form of buying new tools and making modifications in their production line. A situation of dependence had been created between the two companies, which turned out to be an obstacle for successful future business in the long run (Pre-study interview).

Studying the phenomenon of value and how value is created on industrial markets is difficult and complicated in many ways. The study of an intangible concept like value is tricky regardless of the field of research. What makes value such a slippery issue of study is that it has a number of different meanings and definitions, depending on the perspective taken. First, the phenomenon is dynamic – value is not constant, but changes over time. It is also context and actor dependent – what one considers value depends on where this judgment is made and by whom. Obviously the measuring of value by an objective measure, such as the monetary one, is also highly relative when considering complex value creating systems. The argument for choosing and using the value concept in this study rests on the commonly understood meaning of the concept – therefore something may have a certain

value – ways to understand and think about this difficult intangible will be discussed in thesis.

In business, there obviously has to be an objective measurement unit, such as money, to enable companies to manage and control their business. Therefore, "money" and the measuring of value in monetary units, is a necessary prerequisite for the management of business operations. This will not be denied or neglected in this study, even though the interest here is not in quantifying value in monetary terms. Rather the focus is on the process of value co-creation through interaction, by the parties that are engaged in a business relationship.

1.1 The Research Problem

In a world of networks and relationships on industrial markets there is a growing interest in understanding the phenomenon of value and, in understanding the process of creating value through interaction. What is value and valuable in a networked world of relationships and networks? There is an interest in the field of industrial marketing to understand the process of how value is created through interaction, instead of just looking at value as a static entity that can be measured through an objective measure such as money. Given the recent interest in the value phenomenon, there are an increasing number of studies that categorize and conceptualize value in different ways. (Anderson & Narus, 1998, 1999, 2004, Walter el al. (2001, Biong et al. 1997, Ulaga 2001, Dyer and Singh 1998, Normann and Ramirez 1993, 1994, Dwyer et al. 1987, Flint et al., 1997, Ravald & Grönroos, 1996, Shapiro et al., 1987, Storbacka, 1997, Wilson et al., 1994, Håkansson & Prenkert 2004, Möller & Svahn 2003)[2]. The shortcoming with most of the existing studies is that they do not provide insight into the process of the parties in a relationship creating value together. Most studies focus on customer value i.e. how the supplier can get the most out of its customer relationships or on how to categorize the value phenomenon in different ways.

When discussing heterogeneous resources, possessed by two parties in a buyer-seller relationship, the issue of interaction becomes crucial. The parties interact in order to make the best out of both their own resources, the other party's resources and connected resources. Thus the success or outcome of the relationship is highly dependent on how well the parties make use of the resources possessed by the other party.

> *"The features activated in an interface are the result of interaction process over time, where resources have been systematically related and where a solution of how to*

[2] For on overview of the use of the value concept refer to Chapter 3.

combine them has gradually chiseled out. Thus, it is the interaction process that develops and establishes the interfaces where resources are activated. And, the interfaces determine the features of the involved resources. In other words, the interfaces determine the use and the value of resources".
(Håkansson & Waluszewski, 2001, p 4)

The parties involved, the context and the content are all factors that influence the nature of the interaction. The history of the relationship shapes present and future interaction, while simultaneously the present moment shapes how we interpret the history of the relationship. Interaction is dynamic, is in constant movement and change – it is a process. Interaction can be monotonous and uneventful until it evolves notable momentum and something is created out of it – it is the process dynamic that is interesting, and yet so difficult to capture.

What is the problem? That there is only a limited understanding, of the process of two parties, a buyer and a seller, engaged in a business relationship creating value together over time. There is a limited understanding of the process, and which factors in the past and at present are crucial for how value is created jointly by the parties. According to traditional economic theories it is risky for companies to engage in cooperation because this involves becoming dependent, which is against the economic logic of being independent and having bargaining power. There is only a limited understanding of how interdependence, created through years of interaction can be seen as a resource that can be managed and exploited for value co-creation.

For whom is it a problem? The problem of not understanding the dynamics of value co-creation in buyer-seller relationships is a problem first and foremost for managers involved in business relationships. Not having the perspective to see the value of a relationship and the value created in a relationship in new ways in a complex and dynamic world can lead to lost business opportunities. The choice of engaging in a high-involvement relationship (partnership) instead of a transactional approach with a supplier or a customer is a strategic choice. To be able to make an informed choice about the proper relationship management approach is crucial for business success. The benefits of cooperation are to some extent - and increasingly - recognized on industrial markets. However, close cooperation is a resource intensive strategy, to view it as beneficial per se is to oversimplify the situation. The choice of whether to pursue a cooperative strategy instead of a transactional approach should be seen as a strategic choice and given its due attention.

The research problem is also relevant for the academic community, especially for those who are interested in understanding the emerging re-definition of value and value co-

creation in a world of relationships and networks where interdependence can be seen as a positive force.

For business managers one problem is that selection criteria when categorizing relationships and developing relationship management strategies are often not rich enough to provide a good understanding of how resources for the management of different relationships should be allocated. Selection and assessment criteria are often based on direct quantifiable value of a relationship instead of seeing the indirect sources of value that a relationship might give the opportunity to.

Another problem is that mismanagement might be caused when managing single exchange relationships because of the lack of understanding of the process, how history and present, actions, actors, and acts have an impact on relationship management, and how the organization for managing a certain relationship should be designed. Also, the potential future value of a particular relationship might not be realized and the wider context where the dyad resides.

Yet another problem for management is that the traditional mindset of the "economic man" who always seeks to maximize profit through opportunistic behavior does not easily allow for new business logics and new ways of thinking about business to gain foothold. To be able to see interdependence as the key to a new logic of buyer-seller partnerships is a challenge because it requires a change in old, traditional mindsets and ways of thinking about business management.

1.1 The objectives and limitations of the study

The general objective of this study is to explore the development of a buyer-seller relationship from a traditional buying-selling –type of business relationship to a partnership. The focus is on why and how the relationship was developed into a partnership and how value is co-created by the parties through business interaction. The motivation to study a complicated phenomenon like value in buyer-seller relationships is that the existing view on value in business relationships is narrow. In order to more fully understand the dynamics of value in industrial relationships, the meaning of the value concept needs to be researched through empirical studies.

The overall purpose of the research is to explore the phenomenon of value co-creation in an industrial buyer-seller partnership, how such a partnership emerges and developes, and what the prerequisites for value co-creation are. The more specific research questions that the study seeks to answer are:

Question 1: How is the value concept used theoretically in business marketing?

Question 2: How has the focal dyadic relationship developed over time? What is the current status of the relationship?

Question 3: How do the parties in the focal dyadic relationship perceive value?

Question 4: How is value co-created (through interaction) in the focal dyad?

Question 5: What are theoretical and practical implications of understanding the dynamics of value co-creation between a buyer and a seller in business markets?

1.1.1 Method and material

The study is an in-depth, exploratory case study (Stake 1978, 1994, Yin 1994) of a buyer-seller dyad. The pre-understanding of the industry and phenomenon has been gained through working experience. The conceptual understanding of value and value co-creation has been gained through literature studies. The case for the empirical part of the study is one relationship between an industrial buyer and a seller in the marine industry. The material is 24 in-depth interviews with informants from both sides of the dyad. The research process can be categorized as an abductive (Peirce 1931, Kirkeby 1994, Alvesson & Sköldberg 1994, Schauman 2003, Gummesson 2001, Dubois & Gadde 2002) study where the researcher is going back and forth between theory and practice as the research process evolves. A more thorough description of the guiding ideas, research process, and method as well as decisions taken along the way will be given in chapter two on research approach and method.

1.1.2 Limitations of the study

Theoretically the study is limited to study the value concept within marketing literature applying theories of the Industrial Marketing and Purchasing Group, namely network theory and the interaction approach. Other possible choices would have been a more classical transactional view, the value chain, the marketing mix model, or theories related to the strategic alliances etc. However, as this study looks at a process over time and a relationship between a buyer and a seller in a business-to-business context, the IMP approach can be justified as the most appropriate.

Empirically the study is limited to study one single case, a focal dyad, i.e. one exchange relationship between an industrial buyer and a seller. A limitation of the study is that it focuses only on one dyad instead of taking the wider network into consideration.

Möller and Halinen-Kaila (1999) criticize dyadic studies because they fail to take into consideration the complexity of dyadic interaction due to embeddedness and connectedness. However, as the focus of this study is to explore value co-creation between buyer and seller, the dyadic approach can be justified although an obvious limitation from viewing the wider context. Still it should be recognized that a dyad is embedded in a larger network, and simultaneously connected to a number of actors in a network.

An alternative perspective would have been to include the network approach, i.e. buyers´ customers and suppliers´ suppliers. However, in this study the focus is on the buyer and the seller in order to get a deep understanding of the relationship and the dynamics of value creation in the focal dyad. The study does not deal with issues related to portfolio management, assessing the value of different relationships or studying a wider network. The study is limited to examine one exchange relationship, in order to explore how value is co-created in a relationship between a buyer and a seller.

Regarding research method the study is a qualitative, exploratory case study. This choice rules out direct applicability on other cases or a representative sample for statistical purposes. However, this choice allows the researcher to go deeper into the subject and explore something new and unique.

Concerning time, the study is limited to study a period of 30 years in general and more specifically the last 7-8 years of the relationship. The research process itself took place during the years 2003-2004. Geographically the study is limited to study a European supplier and an American buyer, both of which operate worldwide.

The perspective taken in the research is subjectivist, meaning that the story told is a "story" created by the researcher. Moreover this means that the value concept is seen as something subjective - there is no value if it is not value for someone. The parameters for value are different in different contexts. Human beings are the ones who set the parameters and who make the judgment on whether something is of value or not. Throughout this study value should be considered as "perceived value" i.e. there is no value if it is not value for someone - the judgment is always subjective and context dependent - something that will be discussed further later on in the text.

1.2 Defining key concepts

The use and meaning of concepts, especially abstract concepts in exploratory work, can differ widely depending on the context where they are used. The following sections will go through the use of the central concepts that I use in the study and throughout the text.

1.2.1 Relationships

In this study I will use one of the definitions of a relationship commonly used within the IMP tradition. Here a **relationship** is defined as: *"mutually oriented interaction between two reciprocally committed parties"* (Håkansson & Snehota 1995). What is characteristic about relationships is a process over time and interdependence between companies, organizational units and individuals. Activities and resources of the involved companies are interlocked and together they produce something that one company could not achieve alone (Ibid).

Ford et al. (2003) use the term "relationship to describe the pattern of interactions and the mutual conditioning of behaviors over time, between a company and a customer, a supplier or another organization. Time is the defining feature of a relationship. Both the past and the future affect current behavior in a relationship and experiences, expectations and promises underlie the interaction within it. The time dimension of a relationship requires managers to shift their emphasis away from each single, discrete purchase or sale and towards tracking how things unfold in the relationship over time and changing these when appropriate" (p 38).

1.2.2 Value

The value concept is one of the core concepts in this study. At the outset I apply a wide interpretation of the concept. A deeper understanding and a more focused definition will be discussed as the story goes on. However, at this stage it is useful to distinguish between three different perspectives of analyzing value. These are: 1) the value of an offering, 2) the value of a relationship, and 3) the value created in a relationship. These are all related and partly intertwined, but should be regarded as distinct issues of their own, leading to a different set of questions and different kinds of discussions when elaborated upon.

The Value of an Offering: When discussing the value of a single offering, the discussion most often is about measuring the value in monetary units. Like the definition of Porter (1985): "The amount buyers are willing to pay for what a firm provides them". In the same way Anderson et al. (1993) define value as: "the perceived worth in monetary units of the set of economic, technical, service, and social benefits received by the customer firm in exchange for the price paid for a product offering, taking into consideration the available suppliers' offerings and prices" (Ibid.). The parallel between an offering and the monetary value of it is quite easy to draw, and therefore the so called objective measure of value is most often used.

Value of a Relationship: When discussing the value of a relationship, i.e. "relationship value", the understanding and interpretation of value become wider – the discussion no longer only regards monetary value. The definitions presented by Ulaga (2001) fit the purpose of this study and will thus be used as one of the basic definitions as a starting point. According to Ulaga value is: "*a ratio of benefits received versus burdens endured by the customer*" (Ulaga 2001, p. 318). This definition does not involve the idea of money being involved in the definition and includes two highly subjective and intangible concepts: *burden* and *benefit*.

Another definition of value that is important for this study is the one used by a number of authors. "*A trade off between benefits and sacrifices*" (Flint et al., (1997), Biong et al., (1997), Walter et al., (2001). Here again money is not mentioned and the two concepts *benefit* and *sacrifice* are used.

Quantifying "relationship value" is difficult, because the indirect effects of the value that is created in a focal relationship are not easy to evaluate. By indirect value is meant the value for other relationships or the wider network of relationships that the firm is connected to (Wilkinson & Young 1994).

1.2.3 Perceived value

In long-term business-to-business relationships what is perceived to be the value gained from the relationship can be seen as the trade off between benefits and sacrifices. The definition does not include the idea of value being a measurable unit such as money, but it includes the idea of value being a subjective perception of what has been gained when weighted towards what has been given away or sacrificed – something subjective, meaning that there is no value if it is not value for someone. This definition is going to be used and further elaborated on in the study, where value is seen as a dynamic phenomenon that varies over time. Perceived value can only be studied through the person who perceives and therefore the value that is discussed in this study should always be regarded as perceived value.

1.2.4 Value creation and value co-creation

The understanding of value creation in the study builds on the Borys & Jemison (1989) definition where value creation is seen, as the process by which the resources of two companies are combined in order to achieve something that one of the parties could not achieve alone.

Ramirez (1999) has introduced the idea of "*value co-production"* as opposed to the traditional industrial idea of *value creation*. He sees the role of the customer to be one of the main differences between the two schools of thought. In industrial value creation, customers were seen as "*destroying the value which producers had created for them"* while in the alternative view customers are actively co-creating and re-creating value both with their suppliers and their own customers (p 51).

1.2.5 Partnership

What makes a relationship a partnership? There is no easy answer to this question. In general a partnership is seen as a high-involvement relationship characterized by something referred to as "closeness". According to Gadde & Snehota (2000) closeness should be regarded as degrees of integration and go further into proposing involvement as a relevant concept when discussing partnerships. They conclude that involvement has three dimensions: coordination of activities, adaptations of resources, and interaction among individuals. In summary a partnership should be characterized by involvement along the lines of activities, resources, and individuals.

In this study the word partnership has been chosen and is used because the involved companies refer to their relationship as a partnership. The above definition suits this study because involvement can be identified between the companies according to the three dimensions suggested above. However, the definitions provided by the interviewees in the study give a different perspective on a partnership, something that will be further discussed in the case analysis section.

1.2.6 Interaction

Interaction is here seen as the basic prerequisite for a relationship – interaction is what makes a relationship. Interaction is the means of two companies getting to and making use of each other's resources. Holmlund and Törnroos (1997) define relationships as *"an interdependent process of continuous interation and exchange between at least two actors in a business network context"*. (p 305). Highlighting the connection between relationships and interaction. Relationships are interaction processes over time, as Håkansson and Waluszewski (2001) puts it: *"The features activated in an interface are the result of interaction processes over time (...) where a solution of how to combine them has been gradually chiseled out (...)In other words, the interfaces determine the use and the value of resources."* (p 4).

1.3 Outline of the study

The study starts with a general introduction into the topic area. I present the wider societal context that the research problem relates to and frame the research problem within both a wider theoretical context and a more pragmatic discussion on the ongoing trends on industrial markets. Here I present the research questions, chosen research approach, and define the most important concepts.

The research method is described in chapter two. The chapter on research approach and method includes a discussion about the pre-understanding, questions related to the scientific philosophical orientation of the work, the research strategy, and design. The chapter includes a discussion about qualitative research in general and about conducting qualitative interviews. In this chapter I discuss the role of the researcher and the challenge of developing models out of empirical, qualitative data. I also touch upon questions related to reliability and validity of qualitative studies.

Chapter three deals with the core concept of the study, namely value. I present a literature review on the concept of value in business studies and go more deeply into how the concept has been used in the field of industrial marketing. The chapter ends with a conceptualization of how I use value in the study.

Chapter four deals with theoretical cornerstones of the study. The underlying theoretical arguments for studying relationships in the b-to-b context will be provided. A literature review on how the concept value has been used in business literature is presented in this chapter. The different ways of using and understanding the concept are reviewed, followed by an overview of how the concept has been used in the IMP literature. The chapter ends with a discussion about how the value is understood in this study, dealing with a specific b-to-b context of dyadic, buyer-seller relationships.

Chapter five contains a description of the empirical context where the study is situated. Here I present the major characteristic of the cruise ship and the diesel engine industries followed by a more detailed description of the two studied companies.

Chapter six gives a detailed description of the focal dyad and the development of the relationship over time. The description involves the actors, the activities, the major events in the relationships, and the process of interaction between the two companies. The interaction is here viewed through the lenses of value co-creation. Chains of incidents are identified and the dynamics of value co-creation and how it relates to interdependence are discussed.

Chapter seven contains the analysis of the empirical material, presenting the empirical findings and major results of the study. Here I provide an analysis of the empirical results by using theoretical concepts introduced in the study.

Chapter eight contains the conclusions and implications of the study, based upon theoretical and empirical analysis. I end with a critical discussion about the limitations and shortcomings of the study as well as suggestions for further research.

2. RESEARCH APPROACH AND METHOD

The chapter on research methodology starts out with a general description of my personal journey through the research project. It is followed by a discussion on the values and worldview that has guided the project. A short introduction into qualitative research will lead into a more focused discussion on the case study method as such, and more specifically into the case of this research project. After this I will be reflecting upon the impact of the pre-understanding that I had prior to the study, and on the impact of this prior knowledge for the research process. After this there will be a discussion about how I have gained the conceptual understanding of value and relationships on industrial markets. Towards the end of the chapter I will discuss in more detail the methods used i.e. interviews and observations, and the applied methods for analyzing the empirical material. The chapter ends with some critical remarks on the study and a summary.

2.1 The evolving project

Throughout the chapter on research methodology I will be using the forms "I" and "me". The reason being that I see *"the researcher as the number one research instrument"* (Gummesson, 2001, p 28). The study is a construction of a case; the text is my view of a specific case and my way of telling the story. The reader will judge the quality of the study by assessing its credibility, transferability, and dependability on how well I manage to communicate my story, i.e. how I maintain the main thread throughout the analysis and how I substantiate my conclusions at the end in a way that the main thread is maintained throughout the analysis.

The case study is a product of a research process, a journey that started as early as in February 1997 with an extensive pre study consisting of some 100 interviews carried out during two years of traveling around the world interviewing customers in the ship building industry. At the time I was a researcher at the Research Group for Project-Based Industry at Åbo Akademi University, conducting customer satisfaction surveys for industrial companies. After two years of traveling and interviewing customers the research process went on as I joined a consultancy specializing in creating customer relationship management strategies between the years 1999 and 2002. At the consultancy I was involved in a number of projects with the aim of developing customer relationship management strategies in different types of organizations, both on industrial and consumer markets.

The years of working with buyer-seller relationships gradually led me to the decision to start a doctoral thesis project that would focus on investigating buyer-seller relationships, on the long-term nature of industrial buyer-seller relationships, on the value that is created

in such relationships, and on how this value is created. As I rejoined academia in 2002 I had the opportunity to get involved in a research project called ValueNet. The ValueNet is a consortium of four Finnish universities, financed by the LIIKE programme of the Academy of Finland. The ValueNet research is focusing on the challenges of an increasingly global economy for business life, and more specifically on business networks, their management and value creation in business networks. The involvement in the ValueNet research community gradually directed my work towards focusing on the concept of value.

Another significant factor that has been guiding and giving direction to my work has been the introduction into the research of the IMP Group. As I started taking part in IMP inspired conferences, discussing with people from the IMP group and reading literature, I gradually found my theoretical home in the IMP tradition.

Concerning the context of the research I have been studying a dyad, a relationship between a buyer and a seller in the marine industry, where the buyer is a ship owner and operator, and the supplier is a diesel engine manufacturer. By choosing to focus on a dyad I have taken a "micro-position" in relation to setting boundaries for the network that I am studying (Johanson & Mattsson 1988). The focus has been on how value is created jointly by the parties, through interaction. The dynamics of value is captured through discussing the development of the relationship over 30 years; starting with the first delivery in 1970 that then evolved into the high-involvement relationship between the parties that exists today.

The next figure is an approximate illustration of the research process.

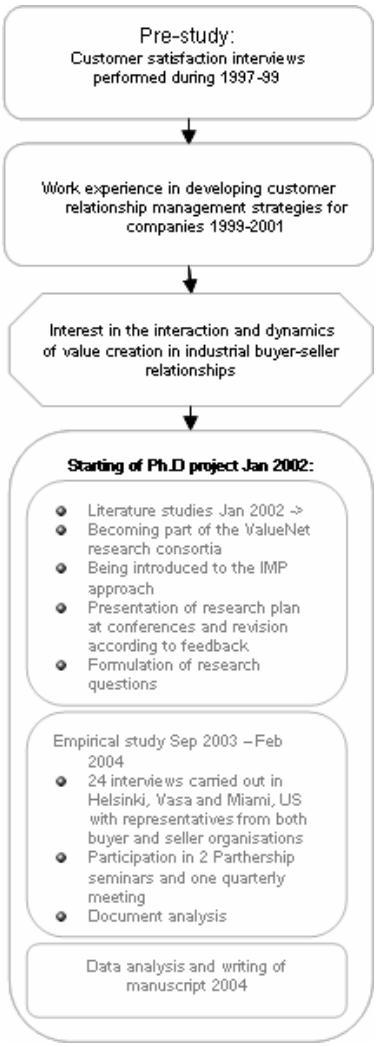

Figure 2.1: A general overview of the research process

The following chapter describes the research process – the values, ideas, and views that have guided the process – and the different considerations and decisions taken along the way. The chapter starts with a discussion on the ontological and epistemological considerations that the study is based on and goes on into discussing qualitative research in general. After this the research strategy used in this study is discussed followed by a presentation of the qualitative analysis methods applied. The chapter ends with some often heard criticism about qualitative research, some critical comments about the study, and finally with some concluding comments about the whole chapter.

2.2 Research approach

"Human grasp of reality can never be that of God's, but hopefully research moves us increasingly toward a greater understanding of how the world works"
(Strauss and Corbin, 1998, p 4, based on Dewey, 1922 and Mead, 1934)

Guba and Lincoln (1994, 1998) divide qualitative research into four competing paradigms: positivism, post positivism, critical theory and constructivism (Guba and Lincoln, 1994, 1998). The paradigmatic stance of this study is constructivist (Goodman 1984). A paradigm is here understood as *"a basic set of beliefs that guide action"* (Guba, 1990, p. 17). A paradigm encompasses three elements: epistemology, ontology and methodology (Denzin and Lincoln, 1998). Each of these will be discussed in the sections below.

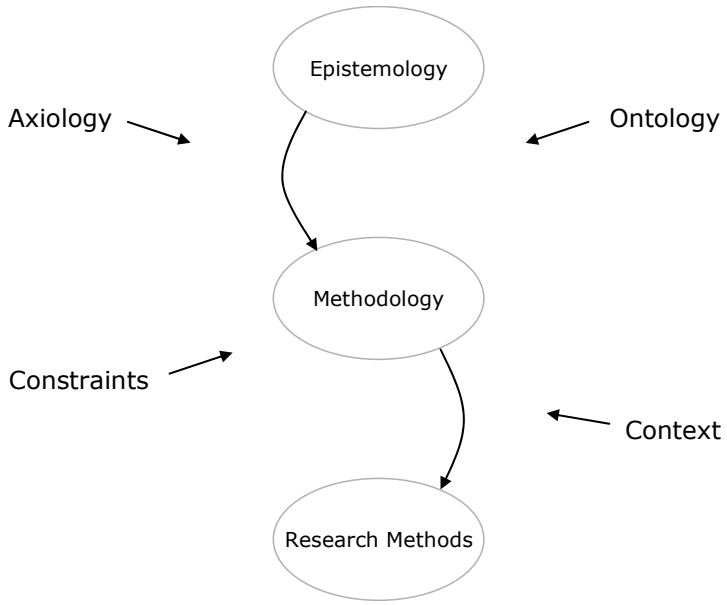

Figure 2.2: A simple research process framework (Easton, 1995)

Easton (1995) proposes a research process framework, which is presented above. The framework will here be used as a structure for the discussion on the paradigmatic stance of the study.

Axiology deals with questions related to the kind of values the researcher has and the goal of the research. Regarding the values of the researcher; I am proclaiming a subjectivist worldview, meaning that I believe that there is no true or objective reality, but only our own, individual constructions of it (Berger & Luckmann 1967). Thus, the goal of this study

is to explore and understand a real life phenomenon and from this generate information on a more general level; in other words to strive to generate an abstract model out of the construction.

The study assumes relativist ontology, along the lines of the constructivist paradigm. Relativist ontology excludes the possibility of a "true" construction. "There are only more or less informed or sophisticated constructions" (Guba and Lincoln, 1998, p. 206). There is no objective world or objective truth; everything is relative and created by social creatures. The way we interpret the world - our versions - belong both to what is interpreted and to a system of interpretation. (Goodman 1978). The world and the truths we perceive are products of our own mind and constructions of our own thinking. Moreover there is no such research as value-free research; everything is affected by the norms and values of the researcher, formed by the culture and society of which the researcher is a product. As human beings, we constantly construct the reality in which we live.

Regarding epistemology, the constructivist paradigm assumes a subjectivist epistemology, meaning that the knower and subject create understandings, that the findings are created as the process of investigation goes on. Due to the variable and personal nature of social constructions, social constructions can only be refined through interaction between investigator and respondent. The aim of this type of research is to create a more informed and sophisticated construction than the constructions presented before (Guba and Lincoln, 1998, p 206). The researcher strives for a greater understanding ("Verstehen") of a phenomenon through interpreting its manifestations.

Von Wright (1971) discusses positivism versus hermeneutics as two opposite epistemological stances, where hermeneutics emphasize the impact of the researcher and his/her subjective role in the research process. Using these two opposite epistemologies, this study falls into the category of a hermeneutical study, where "I" as a researcher create the story that I am telling. Consequently, the aim of the study is not to reach an objective truth, but to create an understanding of a studied phenomenon under certain, thoroughly described circumstances.

The constructivist paradigm assumes a naturalistic set of methodological procedures. Questions associated with credibility, transferability, and dependability are central in this type of research, instead of the usual positivist criteria of internal and external validity, reliability, and objectivity (Denzin and Lincoln, 1998, p 27).

As a researcher I create the story that I am telling while interacting with the objects of my study. The method used is the case study method; the case study is an in-depth exploratory processual single case study, where most of the data have been gathered through personal interviews supported by participant observations and document analysis. According to Yin (1983):

"In case study both the researcher and those being studied interact with one another. The researcher can influence the course of events merely by his existence, even though he tries to avoid interfering. The report of the events is his personal interpretation of it. There are several aspects that require careful consideration from the reliability point of view. In the ideal situation, the research report is written in a so thorough and vivid way that it is possible to recognize every feature of the event, and that it can be examined in detail".
(http://www.metodix.com/showres.dll/en/enindex)

The research process is affected and influenced by the insights that I gain during the research process and also the experiences and insights that I have gained through my work in the field of customer relationships in the past, the interviews that I conducted during 1997-99, and my work as a consultant in the field of customer relationship management. These experiences should be seen as a part of the research process - a process that has to a great extent developed intuitively and does not follow precisely the pre designed steps of a book on research methods or methodology.

2.2.1 A mix of induction and deduction

Inductive theory building is said to be more prominent and suitable for case-study research than a deductive approach. This means that the researcher would not have any theoretical framework in mind when entering the field, but rather develops theory from empirical observations. Grounded theory developed by Glaser and Strauss (1967) probably represents the most pure form of induction. The authors have later altered their position and acknowledged that in practice there is hardly ever a situation where a researcher would enter the field without any prior theoretical understanding of the studied phenomena. As Perry (1998) puts it*: "it is unlikely that any researcher could genuinely separate the two processes of induction and deduction"* (p 788). Quite simply, in practice it is hard to ignore the pre-understanding generated from theory that one has in one's mind before starting the research process. The question is when this would be purposeful. *"Pure induction might prevent the researcher from benefiting from existing theory, just as pure deduction might prevent the development of new and useful theory"* (Perry 1998, p 789).

This study is an example of a process that involves both induction and deduction, a combination that Alvesson and Sköldberg (1994) call abduction. Pettigrew (1997) also supports the idea of using both induction and deduction in a case study that involves a process over time i.e. a processual case study.

The logic of abduction is that the research process commutes between theories and practice - a dialogue between theory and empirical findings. In a doctoral thesis Schauman

(2003) has developed an abductive construing spiral to illustrate the abductive analytical process of a qualitative research process. Using the spiral metaphor the process of analysis in this study is depicted in the figure below.

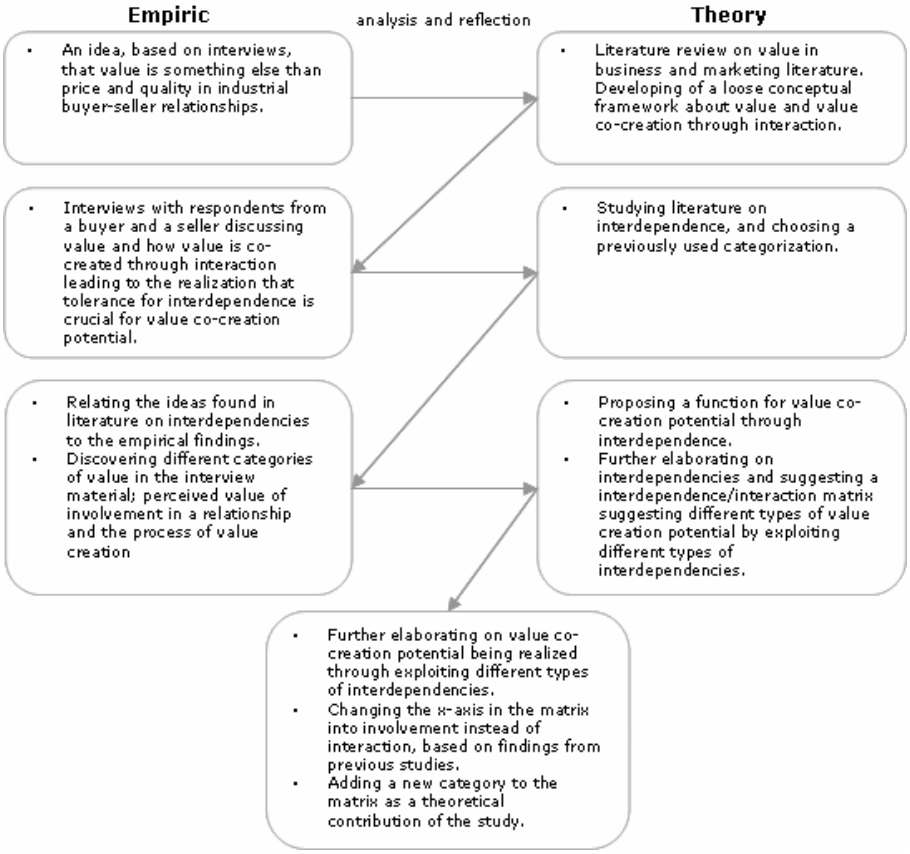

Figure 2.3: The Abductive Spiral (adopted from Schauman, 2003)

The study is an abductive study where the researcher is going back and forth between theory and empirical evidence as the research process evolves. The study does not qualify as a pure induction or as a pure deduction as there certainly was a pre-understanding before the gathering of the empirical material started, but on the other hand, there was no pre-determined hypotheses or rigid idea that was tested in the empirical study. Rather the qualitative interviews were semi-structured, meaning that the interviewer led the interviewee to tell his or her "story" (perception) of the relationship; as the interview went on the discussion was led into areas of discussion in order to understand how value was perceived and how the parties in the relationship perceived that value was co-created. Each

interview ended up being different and unique in its nature. The outcome was highly dependent on the organizational position and the work experience of the interviewee. However, each interview focused on discussing the relationship with a particular business partner (the buyer or the seller) and on how value is created through interaction in the relationship.

Gummesson (2001) talks about *"interactive research",* something that describes the research process applied for this study quite well. In interactive research theory generation and testing are intertwined instead of separate stages on their own. In interactive research we go *"from pre-understanding to understanding to a new level of understanding"* (Ibid, p 40). This type of overlapping of data gathering and analysis can be considered especially beneficial in case studies where the aim is to discover and reveal as much as possible, because the overlapping allows for flexibility and adjustment during the research process. New insights gained from interviews can be further elaborated on in subsequent interviews in order to be able to present an 'informed story'. An approach that is considered legitimate in case studies where in depth understanding is crucial (Eisenhardt 1989).

The following figure illustrated the research process applied in the study.

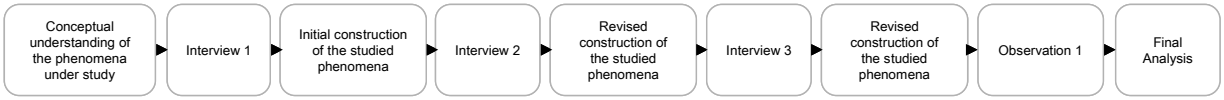

Figure 2.4: The qualitative research process applied in the study

2.3 About qualitative research

The study represents a qualitative study, and should therefore be seen as an attempt to "solve a mystery" to use Alasuutari´s (1995) expression, not as a scientific experiment in search of an objective outcome.

Qualitative research is often characterized by the use of multiple methods, which is often referred to as triangulation. It is important to note, however, that in qualitative research triangulation is not a tool or strategy for validation, but an alternative to validation (Denzin 1989a, 1989b, p. 244, Fielding & Fielding 1986, p. 33, Flick 1992, p 194). A misconception often associated with qualitative research is that it does not validate theory. According to Corbin and Strauss (1998) some qualitative studies do and others do not in the sense of testing as is done in quantitative research.

There are a number of different methods to be used in qualitative research. Silverman (1993) distinguishes between four major methods used in qualitative research: observation, analysis of texts and documents, interviews, and recording and transcribing. The logic behind using multiple methods is to secure an in-depth understanding of the phenomenon in question, not to reach an objective reality, since such a reality cannot be captured. Many case studies combine interviewing and observation, as has been done in this study.

> *"Qualitative research is a process of comparing concepts and their relationships against data during the research act to determine how well they stand up to such scrutiny" (Corbin & Strauss 1998, p 24).*

Qualitative analysis requires a certain kind of absoluteness, which is different from quantitative analysis. In qualitative analysis the argumentation cannot be built around how individual respondents´ single responses vary in relation to a parameter or variable, or the statistical relation of these with other variables. In qualitative analysis all relevant observations should be taken into account and should be clarified and analyzed, so that they are not in contradiction with the interpretation of the studied phenomenon. In qualitative analysis, statistical probability does not qualify as a clue in "solving the mystery". Qualitative studies seldom include a sufficient number of qualitative interviews that differences between individual responses would even be statistically relevant. In qualitative analysis a large number of units studied and statistical argumentation are not needed or even possible (Alasuutari, 1995, p 38).

According to Alasuutari (1995) the "analysis phase" of a qualitative research process has two distinct steps: the simplification (alt. reduction) of observations and the solving of the mystery. In practice these two steps are often intertwined and the distinction is only analytical. The first step, simplification of observations, can be viewed as two sub-steps or parts. First of all, the data are always examined only from one certain theoretical and methodological viewpoint. When the data are analyzed, attention is paid only to what is relevant from the chosen theoretical stance. In this way what is generated is a number of "raw observations". The second step is to combine the raw observations by looking for a common characteristic or denominator or by formulating a rule, which applies to the entire material. The aim is to reduce the number of observations in order to solve the mystery. The second step in the research process is the solving of the mystery. This means that the different clues and indicators that have been generated from the observations, about the studied phenomena, are interpreted (Ibid.).

This study can be characterized as an idiographic study (as opposed to a nomothetic study) (Alasuutari 1995, p 48). In other words the informants tell their own story of the studied phenomenon from their own perspective and viewpoint. This in turn means that the

phase of simplifying and combining observations gets less important in the research process, while the solving of the mystery gets more accentuated. This is because the aim is not to compare the stories of different informants and find common characteristics, but rather to create the entire story or whole picture of the phenomenon, which in this case is a process, by using different respondents´ stories about it. Evidently, there is some overlap between the sources; some of the interviewees talk about the same things or events, but still they shed light on the process from different angles. However, an ideographic study is a type of study where different informants give bits and pieces of information, which can be more or less relevant, about the studied phenomenon (Ibid).

Moreover, like most qualitative case studies the study aims at "local explication". This means that the study is an in-depth description and analysis of one single phenomenon only in one specific context and the findings do not stand up to generalization as such. However, the aim is to discuss the findings of the study in relation to the existing theoretical frame of reference and discuss which more general conclusions can be made out of this single case (Alasuutari, 1995, p 264).

2.4 Research method: A qualitative case study

The case study method is said to be suitable for research where the aim is to recognize complexity and ambiguity (Gummesson, 2001). Yin (1983, 1994) defines case study as an empirical research activity that, by using versatile data gathered in several different ways, examines a specific present-day event or action in a limited environment. The objective of this method is to do intensive research on a specific object, usually a social object such as an individual person, a group, an institute, or a community. As an intensive method it makes it possible to find out essential factors, processes, and relationships, on which other methods can focus afterwards (http://www.metodix.com/showres.dll/en/enindex).

In case studies the research questions are often of "how do?" –character instead of "how should?", because case-study research is concerned with describing real-life phenomena, rather than with developing normative statements (Perry 1998). This study represents a single case study where the case is one relationship between a buyer and a seller. What is characteristic of a case study, as opposed to several other research designs, is the idiographic viewpoint, meaning that the researcher is interested in highlighting unique characteristics of a specific case (Bryman, 2002, p 66).

According to Yin (1994) single case study can be considered suitable in situations where the case is a critical or rare event, or when the case reveals something new that previously has not been accessible for scientific research. In the case of this particular study,

the rationale for using the single case study design is mostly the fact that I as a researcher have good access to the phenomenon; that is an in-depth analysis is possible. Another reason for a single case is that the phenomenon has not been researched in this way before and therefore focusing on one case with an exploratory aim can give rise to many interesting topics for future research. A third reason is the proximity of the researcher to the case and the relevant questions. The experience that I have gained through years of work in the area of studying related matters gives a proximity that allows an in-depth approach. Such closeness enables the researcher to see things that lie under the surface and reveal interesting things that might not be seen if the focus were not in-depth. This covers the issue of studying something that has not been accessible to scientific research before. A case study strategy is particularly suitable for research both where "why" or "how" questions are asked about a contemporary phenomenon and where the researcher has no or little control over the events (Yin, 199, p. 9).

> *"A case study is an empirical inquiry that investigates contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin, 1994, p 13).*

As a research strategy the case study is an all-encompassing method where the design incorporates specific approaches to data collection and analysis. Yin (1994) goes further in defining the case study inquiry saying that it copes with situations where there are more interesting variables than data points and relies on several sources of evidence and benefits from prior development of theoretical positions to guide data collection and analysis" (Ibid, p 13).

Along the lines of the constructivist paradigm, this study represents a hermeneutical study, based on empirical data in the form of a case study. As a method, the case study method often relies on interviews, observations, and document analysis (Denzin and Lincoln, 1998, p 29). The main empirical material gathered for this study is 24 qualitative, in-depth interviews with informants from two organizations. In addition to the interviews I have used observation in order to gain proximity to the phenomenon under study. The pre-understanding of the business and the relationships between buyers and sellers in this particular business that has been gained before starting the actual study is also of vital importance.

This case study should be viewed as an exploratory case study, since there is no knowledge base rich enough to have an exact conceptual framework or understanding of the phenomenon prior to gathering the empirical data. Nevertheless, a researcher involved in an exploratory case study should according to Yin (1994) have a clear idea of what is studied,

the purpose of why it is studied and the criteria by which the exploration will be judged, before the data are gathered (p. 29).

The case for the study has been selected together with the initiator SR1&2 from the supplier organization. When choosing the particular dyad to study, the main criteria were to look for a case where the phenomenon (value co-creation) would most likely be found. The logic was that this would make the study as rich and interesting as possible - a selection strategy that is supported in case study literature. *"The underlying principle that is common to all case selection strategies is selecting information-rich cases, that is cases worthy of in-depth study"* (Perry 1998, originally in Patton, 1980, p. 181). In the case of the focal buyer and seller there is a stated interest from both parties to develop business interaction into what is referred to as a partnership based on the logic that both parties will gain from closer cooperation.

> *"The reason for choosing this particular relationship for the study is quite clear. It is because, according to my opinion, we have in this case, the deepest understanding of what a relationship is… or what a partnership is. And we have on the other side of the fence, at the Buyer Mr. BR9, who works for this with all of his heart…and we have worked on this for a long time… the interest is mutual" (Interview: Seller 1).*

Another comment associated with this specific case, from the president for service at the Seller illustrates why this particular case is a good case for the study of a partnership and value co-creation. He said that this relationship might not be the most representative case for a typical business-to-business relationship because there are so many personal relationships between people in the involved companies, starting from the 1970's. The fact that there are so many personal relationships leads to the design of more tailor-made solutions for the customer. At least that there is the chance for a tailor-made solution because of the good contact with the people, in a way the supplier gets integrated in the operational business of the customer (Interview: Seller 9).

The question of access is of great relevance for a researcher. In order to get access, the research should preferably contribute something to the investigated companies. In the case of the focal seller and buyer there is a stated interest in studying value co-creation and how the two companies might learn and understand from this study in order to develop their partnership. The study was initiated by the Seller representing the supplier side of the dyad while the idea of a partnership between the companies was initiated by the customer.

2.4.1 The research process

The research process started in 1997 with a series of customer satisfaction interviews with industrial buyers in the ship building industry in a number of countries in Europe, Asia and the US. This is what is here referred to as the pre-study. The pre-study provided the needed understanding of the marine business, and the different needs and concerns of the actors in buyer-seller relationships in this specific context.

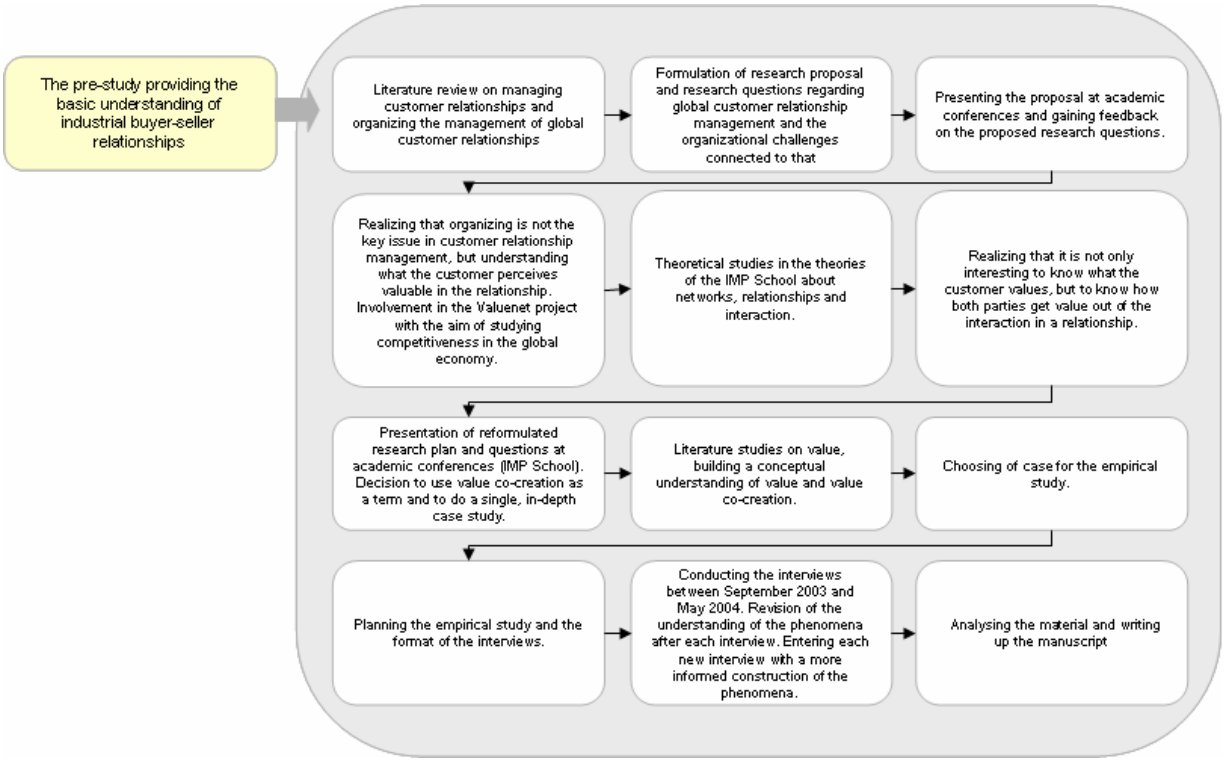

Figure 2.5: The Research Process

The significance of the pre-study

The research process has been a journey that started in February 1997 with a customer satisfaction survey for the Seller in South Korea. This was the first survey of what later became a series of surveys, totaling some 100 interviews with customers in the shipping and ship-building industry. In the process of interviewing customers, discussing the performance of the supplier and what made the customer satisfied or dissatisfied with the supplier, a number of interesting and intriguing issues started to emerge from the interview data. I

started paying attention to issues relating to inconsistency between rational argumentation and provable facts on one hand, and the actual feeling or atmosphere of the relationship on the other. Sometimes there had been considerable problems with a delivery or a product, but still the customer was quite satisfied. At other times there seemed to be no way for the supplier to make the customer happy: no matter how well they performed technically, the customer would complain. It seemed as if people, irrespective of whether they acted on behalf of a company in a specific role, often based their opinions much more on intuition and feelings than on rational, logically reasoned facts.

The working experience of carrying out the above-mentioned interviews awakened my interest in relationships and, more specifically, in relationships between suppliers and customers on industrial markets. In such a context people act on behalf of a company, but still put a lot of themselves into the formalized relationship. This usually happens because the relationships tend to be long term in nature. Actually it seems that the people involved start being more and more personally involved in their business relationships. Their business partners become their friends over the years, and their business life and personal life start to intertwine. Why it is of relevance for the study to mention this is that I personally, with the experience I have, feel that people and personal relationships have a great impact on business relationships. It is important that this is said because this conviction has certainly guided my research process and the things I tend to pay attention to when I act as a researcher. This also influences my choices of case for the study and the things I choose to discuss in my interviews.

The fact that business relationships seem to a great extent to rely on personal relationships and that the smoothness of business interaction often depends on the individuals involved is obviously a great risk for the company in question. As a consequence of realizing this, I started to take interest in organizational issues – how the management of important customer relationships should be organized so that the above-mentioned risk would be minimized. The idea was that if there were standardized procedures and management models for the management of such customer relationships, the success and continuation of them would be less dependent on single individuals and their relationships. At this point the BIG question seemed to be how companies should organise their customer relationship management so that it would be less dependent on individuals and less of a risk for the company. This is where I started the actual Ph.D study. Initially the focus of interest was on organizational issues, but as I got familiar with the thoughts of the IMP school and received comments on my proposal, it gradually became evident that I should do something that would be in-depth and exploratory, as I have good access to a company with a number of interesting relationships to study. Gradually the decision to

conduct an exploratory study – to focus on the abstract phenomenon of "value" and further on "value co-creation through interaction" was clarified.

Building of a conceptual understanding

During the stage of building up the conceptual understanding of value and value co-creation, it became clear that "value" has been studied quite extensively within marketing, but that the concept has been used quite narrowly. Most often "value" has been directly connected with money. I became increasingly convinced that there is more to "value" than money, and that this is in fact what I have been seeing and observing during my talks with customers and suppliers. Thus the challenge was to design a study where I could reveal some of the more interesting aspects of value.

Data gathering

The data were gathered between September 2003 and May 2004. The aim of the interviews was to discuss the relationship between the buyer and the seller, the interaction that had been taking place previously and the status of the relationship at that time. Moreover the interviews concentrated on discussing perceptions of value and how value is co-created through interaction. In addition to the interviews I took part in meetings between the buyer and the seller, one quarterly meeting at the Seller's local US office and two Partnership Seminars. During these meetings I took notes and made observations, both of which should be regarded as important ingredients of the empirical data for the study.

Each interview has given a different view and picture of the relationship. Nevertheless, each interview has contributed to a more holistic understanding of the relationship - each interview should be seen as a piece of the puzzle contributing a more informed construction of the phenomenon under study.

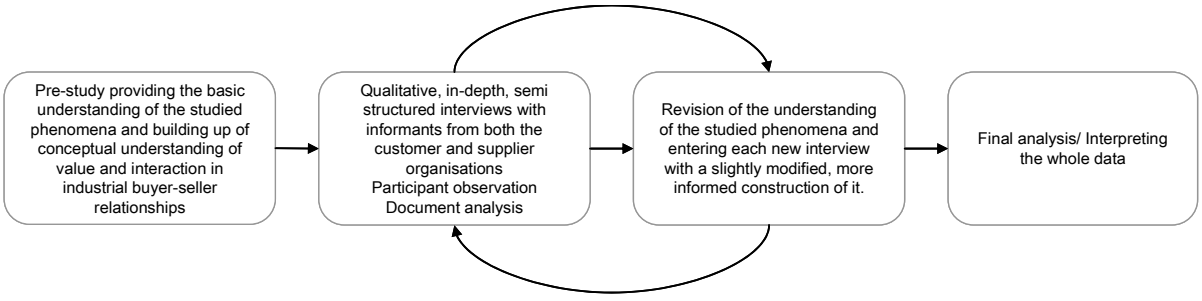

Figure 2.6: The data gathering process

The analysis of the material was an ongoing intuitive process during the course of the interviewing and observing over a time period of 9 months. Each new interview was unique and different due to the fact that I was able to ask more sophisticated questions as the research process evolved and my understanding of the phenomenon increased.

Interviews

Most of the empirical data for the study were collected through individual, exploratory interviews (Kvale 1997) with persons from both the seller organization and the buyer organization. The initial persons to be interviewed were selected together with the initiatior of the project from the supplier side. However, as the interview process proceeded new relevant people to interview were identified. By the end, the initial number of interviews that was supposed to be 10-12 interviews had increased to a total of 24 interviews. At this point all the relevant informants acting in the relationship between the buyer and the seller had been interviewed.

The interviews lasted between 45 minutes and an hour each. All the interviews were tape-recorded and were transcribed. The interviews took their form as the interview proceeded. What was discussed mainly depended on the interviewee's work experience, background, position in the organization and the things that he or she found relevant to talk about in relation to value co-creation with the counterpart in question. The idea was to lead the interviewee to discuss the relationship with the counterpart - various events that had occurred during years of business and personal interaction with the counterpart. By getting the respondent to describe previous involvement, present interaction and possible future outlooks for value creation in the relationship, the interviews have all contributed to describing the development from traditional buying-selling type of business interaction into something that today is referred to as a partnership between the two companies and to discuss what is the value that is created in the relationship.

Interview design

According to Alasuutari (1995) interview design and technique should be chosen explicitly according to the studied case. The degree of structure of the interview can vary greatly according to the specific need of the specific case. Following this logic, the interviews were modified during the course of the research process, with the aim of getting a more holistic understanding of the phenomenon in question.

Each interview started by asking about the respondent's position in the organisation. The respondent was then asked to describe his or her work after which the discussion was

gradually led into describing the interaction with the focal counterpart. As the interaction interface was established the discussion on the relationship and the value created in it could begin.

Before the interviewing started there was an initial conceptual understanding of value and value co-creation. The conceptal understanding had been gained through literature studies in order to serve as a guide in the interviews. The conceptual understanding of different kinds of value that can be assumed to be discussed in the context of buyer-seller relations is summarized in the matrix below.

Different Levels of Analysis / Different "Types" of Value	Company Level	Business Unit Level	Actor Level
Competence related Value			
Reputation related Value (brand, reference)			
Value related to long term security			
Direct monetary Value			
Social Value			
Value related to logistics or organisational architecture			
Other types of Value			

Figure 2.7: A matrix for identifying different kinds of value

In practice the matrix was of little use in the actual interview situation. A matrix like this can be useful as a tool to categorize different types of value, but it does not capture the dynamics of value or explore new ways of looking at how value is co-created through interaction. The matrix only came to served as a guide in the back of my head during the interviews on possible topics to go into if the discussion would not "find its own way". The matrix was never shown during the interviews. However, all of the above types of value were discussed or touched upon in some way during the course of the 24 interviews, as they were brought up by the interviewees in the discussions.

Analysing the data

Academic research should start with a "general analytic strategy" to establish what to analyze and why. In this study a descriptive approach has been applied, where the technique of analyzing chronological events has been used to describe the relationship over a time period of 30 years. This technique permits the investigator to trace causal events over time and to cover different types of variables, not only one single dependent or independent variable (Yin, 1994).

The ideas presented by Gummesson (2001) on analysis and interpretation in marketing research are suitable for a description of an important aspect that has been present during the process of analyzing this case. He argues that whenever possible, the analysis of a case should be explicitly systematic; however, when studying complex and ambiguous phenomena, like the ones that are studied in marketing often are, intuition plays a vital part and is in fact required *"as it often is impossible to know exactly how to process data and arrive at conclusions"* (ibid, p 33).

Intuition is normally considered as something based on emotions rather than on rational reasoning, and therefore something that does not belong to research. However, intuition has its roots way back in history and is defined by philosophers as *"complete knowledge of reality"*. Intuition is about the ability to draw conclusions quickly and to get an instant perception of logical connections (Matti, 1999, pp 5-7). Gummesson defines intuition as: *"an elaborate integration of huge amounts of data, in a good sense subjectively processed in a nanosecond"* (ibid, p 34). The obvious problem with relying on intuition is external control - how to argue for reliability and credibility? This has to be done by providing a rich description and by discussing alternative ways of interpreting. In the end it boils down to how well the researcher is able to tell a believable story, a story where issues related to critical choices along the way, guiding values, epistemology, ontology etc. are addressed in a proper way. How well the researcher is able to reveal and communicate complexity, and unfold a story over time, as well as how well the researcher manages to involve him or herself in the work. To put it another way "what we observe is not nature itself, but nature exposed to our method of questioning" (Gummesson 2001, originally quoted in Capra, 1997, p 40).

Doing case-study research in the context of business networks is said to be an appropriate research strategy since it allows for catching the complexities and dynamics of business markets. Halinen and Törnroos (1994) have identified four key challenges in case-based research on business networks, challenges that have been recognized during this research process and which will be elucidated below. The challenges that they identified

are: setting the boundaries of the network, mastering complexity, understanding the role of time and process, and making case comparisons (p 12).
For this study where the object of study is a buyer-seller dyad, the first challenge is to take care of the specific focus of the research and the research questions associated with the choice of scope. Mastering complexity is surely a challenge for any kind of research in the field of social sciences, especially when examining a social phenomenon in its real life context. In this study complexity is dealt with by attempting to provide a thorough description, a full story of the reality, as I as a researcher have perceived it. Understanding the role of time and process has been one of the main challenges in the process. The core arguments in the study are that value is dynamic, that value is something that changes over time, that value is context and actor dependent, and that it is subjective. These things given, the role of past, present and future for value and value co-creation are of core importance throughout the whole study. The capturing of these has been done throughout telling the story, i.e. describing and analysing the case of the focal dyad. First of all the description of the early development of the relationship and later the development of their relationship and more specifically in digging deeper into the benefits and sacrifices of being involved in a high-involvement relationship.

Throughout the story there is an attempt to highlight events and activities on individual, firm, network and industry level to understand how things have evolved over time and in this way to build a coherent story that supports the conclusions made at the end. An obvious risk in doing case-study research is to be "overwhelmed by the volume of data and lose sight of the most important dimensions and issues" (Halinen & Törnroos 2004, p 3). This obviously has to do with the researcher's skills and analytical capacity, the quality of which is to be judged by the audience of the study.

In addition to studying the process of how the relationship has evolved and developed, the focus of the study is to identify what is perceived to be the value that is created in the relationship. Consequently the interviews focused on discussing each individual's personal process within the relationship and each individual's perception of value and value co-creation. The interviews were transcribed and analysed, applying thematic analysis into different categories of perceived value i.e. different perceptions of value that the respondents brought up during the discussion.

2.4.2 The role of time and context

The issue of "time" is one of the things highlighted by Halinen and Törnroos (2004) as a challenge in studying business networks. The role of time is crucial for this study and will therefore be discussed below. The authors argue: "networks are changing in relation to the

value that they create and the problems that they aim at solving over time" (Ibid. p 4). In the case of studying value creation in one, single buyer-seller dyad, the role of time is crucial in understanding the dynamics of value – how what is considered value is changing over time, depending on the context and the actors involved. To study a business relationship that has been going on over 30 years can be said to be "process research". According to Van de Ven (1992) "process research investigates a sequence of events or activities that describe how things change over time" (p 170).

Halinen and Törnroos (1995) elaborate further on the relevance of time in case studies and introduce the concept of "relational time". The concept encompasses the past, present, and future dimensions of time as well as the importance of the context in which it is studied.

Especially Pettigrew (1997) has emphasized the role of the context for the analysis of the case over time, to find the underlying mechanisms that shape the process. Pettigrew (1997) talks about "a sequence of individual and collective events, actions, and activities unfolding over time in context" (p 338). He sees the context as the structures and processes where the actors (individuals) help shape the process through their subjective interpretations of what they perceive, learn, and remember. Further he argues that the context is involved in producing action, that the context can be mobilized by key actors as they seek strategic outcomes important to them (Pettigrew 1985, Pettigrew et al. 1992), which leads to the following topic for discussion, namely the relevance of the actors and their role in interorganisational arrangements.

A framework for a processual analysis of the buyer-seller dyad

Building on the ideas of Pettigrew, Van de Ven, and Halinen & Törnroos that have been presented above, the following framework for analysing the buyer-seller dyad over time is suggested for this study. The model is adopted from Halinen and Törnroos (2004) and only slightly modified to fit the purpose of this specific study.

Thus, the case description will be presented and discussed from the point of view of the three time dimensions: past, present, and future as these are considered to be connected to each other. It is vital to recognize the "past loadedness" as well as the "future loadedness" of the actors in the network. The past loadedness is related with how the actors are guided by their past and what pasts they are connected with, whereas future loadedness is related with what they want to be and become (Halinen & Törnroos 2004, p 7)

The case will also be examined from the levels of individuals, the business relationship, and the environment. These different aspects will be considered during the description whenever they have relevance for maintaining the connecting thought of the story.

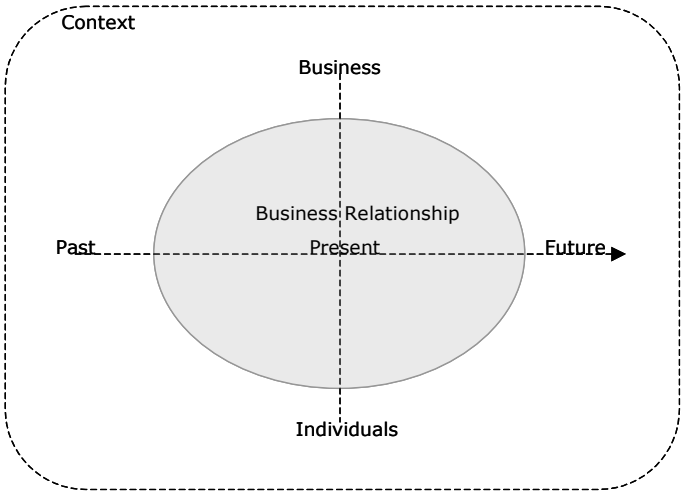

Figure 2.8: A framework for the processual analysis of the focal buyer-seller dyad (adopted from Halinen and Törnroos 2004)

2.4.3 Identification of critical events during the process

According to Ford (2002) the study of a business relationship involves two levels i.e. the overall relationship itself and the individual episodes of which the relationship comprise. To be able to grasp the complexity of a buyer-seller relationship one should analyze both individual episodes and the overall relationship, and also include the analysis of the interaction between the two levels of analysis. Throughout the "story" that I will be telling when describing the empirical case, I will go through different episodes and consistently make an effort to relate them to the overall relationship as the story unfolds.

Network processes are often discontinuous due to different types of events that mark or trigger important transition periods either for the evolution or dissolution of networks (Halinen and Törnroos 2004). Events are happenings related to exchange processes, specific interaction episodes, and phenomena in the macro environment which are decisive for the relationship and function either as driving or checking forces for the development of the relationship. Events can be called "critical" for a specific relationship if they affect the relationship directly (Liljegren 1998, Halinen 1994).

Another term that is close to the "critical event " -notion but that should not be confused with the one used here is "critical incident". The term "critical incident" has been used in studies on service quality to refer to "specific interactions between customers and the service firm's employees that are especially satisfying or dissatisfying from the customer's point of view" (Holmlund, 1997, p 82).

Critical events during the process of the development of the relationship between the interacting companies from the early 1970's until 2004 will be highlighted and discussed during the telling of the story, events that are considered important in the process of creating a partnership and in the value co-creation discussion.

2.4.4 Thematic analysis

In the analysis the quest for value was in focus. I use thematic analysis (Eskola & Suoranta 1998) of the interviews in order to categorise and identify what was perceived as value in the relationship, focusing on the benefits and sacrifices perceived by the interviewees. Value was categorized into remarks on the value of buyer-seller partnerships in general, perceived value of involvement in the focal relationship, and the value co-created in the relationship. Value co-creation was further analysed according to the different value creating processes presented in theoretical framework.

2.5 A presentation of the interviewees

I conducted a total of 24 interviews for the study, 15 interviews at the Buyer and 9 at the Seller. Mr SR1&2, who was the initiator of the study, chose the initial interviewees. Additional interviewees were identified during the course of the interviews, until a state of saturation was achieved. The interviews and the quotes that have been used in the text are numbered in order to secure the privacy of the interviewees is secured. The interviews have been carried out in four different languages, according to the preference of the interviewee. Consequently there are quotes throughout the text that are translated into English. The organisational positions of the respondents of each interview are found in Appendix 1.

2.6 Critical remarks

Several different perspectives on carrying out a study on a relationship and value co-creation would have been possible. Qualitative methods that could have been applied are for instance narrative analysis, discourse analysis or cultural analysis, to name a few. I have chosen a single, exploratory case study because I have gained good access and proximity to the studied phenomena, which gives the opportunity to interpret and gain understanding. The fact that the study rests on pre understanding that has been gained through over 100

interviews and on an idea of what is interesting to study also supports the single-case approach.

A criticism of this choice could be that I should have included several cases in order to be able to compare. However, in case-study research the use of only one case is defended by several authors. According to Yin (1994) single-case study can be considered suitable in situations where the case is a critical or rare event, or when the case reveals something new that previously has not been accessible for scientific research. In the case of this particular study, the rationale for using the single-case study design is mostly that I have good access to the phenomenon, which means that an in-depth analysis can be made.

> *"The main question in case-study research is the quality of the analysis rather than the recruitment of the sample or the format of the interview"* (in Silverman, 1993, p 22, originally from Mitchell, 1983)

According to Gummesson (2001) it is not possible to set a general rule for how many cases should be studied in order to be able to draw conclusions. It can be anything from one to several hundred. Everything depends on the situation and the purpose of the study (Ibid, p 35).

Considering the constraints of the research, what should be mentioned is that the study focuses on a process over 30 years, during which most of the interaction that is discussed took place in the past. It would have been ideal to be able to follow the process over these 30 years. However, the study was carried out during a period of 9 months, from September 2003 to May 2004, and relies heavily on the respondents´ stories of events that have taken place in the past (historical reconstruction). As an observer I have been able to do my observations only during a small fraction of the studied process; for the rest of the process I will have to rely on/build my understanding upon my respondents´ perceptions of what has happened in the past. The creativity and skills of the researcher can be seen as constraints to any research. The quality of the analysis is only as good as the researcher makes it and the design of the study is only as good as the creativity of the researcher allows it to be.

2.7 Summary

The current study is an exploratory, processual, single-case study, relying on a constructivist approach. The main theoretical frame is brought from the IMP appraoch. The research process is characterized by an abductive approach, relying on pre-understanding, theory,

interviewing, observing, reading, reflecting, discussing, theory again, and reflecting again, and finally on telling the story in a way that communicates the message to the public.

Relying on just one case might be seen as a serious shortcoming of the study. However, considering the aim of the study and the conditions explicated above, the single-case approach can be justified.

3. A CONCEPTUAL EXPLORATION INTO VALUE

The chapter on value begins with a short overview of the historical roots of the concept and goes further into discussing how the concept has been used within different schools of thought in business studies, going more specifically into the field of industrial marketing. The chapter ends with a definition of value that is used in the study with concluding remarks.

3.1 Why study value?

The overriding motive for this study is to explore value in the context of industrial buyer-seller relationships and moreover to explore how value is created in such a relationship. The value concept has been used in business studies within several different schools of thought. There is no universal definition of value, but several different conceptualizations and interpretations of the phenomenon - conceptualizations that depend on the context and purpose of study.[3]

As already mentioned in the introduction, the study of an intangible phenomenon such as value is difficult and complicated in many ways. What makes the study of value difficult is the relativity of the phenomenon. Value is defined and understood differently depending on who does the assessment, when it is done, under which circumstances and for what purpose.

This study focuses on understanding how value is used in industrial marketing in the context of industrial buyer-seller relationships. The aim is to find out how the value concept has been used theoretically and to explore empirically what is perceived to be the value created in a focal buyer-seller relationship with the aim of increasing the understanding of this complex intangible.

3.2 The history of value in business studies

The traditional view on value in business has its roots in industrial assembly lines. Here the concept is understood as value that can be calculated with a single metric, i.e. the monetary

[3] What deserves to be pointed out is that in this study the understanding of "value" as "values" in the meaning of ethical and moral constructs are not considered. These highly interesting topics are excluded simply because this study has a different focus.

unit. Going even further back in history, value got its measurable connotation in the 13th century when it was used to mean what something was worth when traded or exchanged for something. In the mid 16th century value was directly associated with a measurable unit which by the 17th century came to be known as the price for something. In the 18th century the idea of value as something subjective was introduced and in the 19th century the notion of value being something based on personal judgment was accepted (Ramirez 1999, p. 50).

The "value" concept is widely used in marketing literature. Most often it is understood to imply economic gain as through Porter's classical definition: "The amount buyers are willing to pay for what a firm provides them" (Porter 1985). However, there are competing interpretations to this narrow view, which date back to the industrial era. Monetary benefit is obviously the "raison d´être" for actors in business, but when exploring the value concept in the context of industrial buyer-seller relations there is more to it than the direct monetary aspects. In 1985 when Porter stated his definition the dominant buyer-seller paradigm was different to that of today. There were buying centers with the task of buying as efficiently as possible. The relationship with the supplier was adversarial. Today companies act in networks of relationships where the interaction between buyer and seller is increasingly characterized by partnership and cooperation (Kothandaraman & Wilson 2001, p. 380).

3.3 The use of the value concept in business studies

In business studies several different schools of thought have used the value construct. Porter uses the value chain framework, where the economic implications of different activities are studied at the firm level (Porter 1985). Schumpeter discussed value creation through technological change and innovation. This view sees value as being created through the introduction of new goods or production methods, creation of new markets, discovering of new supply sources, and reorganization (Schumpeter 1934). The Resource Based View of the Firm (RBV) looks at the resources possessed by the firm and argues that a firm's resources only are valuable if they can reduce costs or increase revenues compared to the situation where the firm would not possess these resources (Barney 1997). In studies on Strategic Networks the value aspect has been considered in several different ways. Granovetter (1973), Freeman (1979), and Gulati, Nohria and Zaher (2000) have focused on the implications of a network structure for value creation. They have used terms such as network density and centrality. Lorenzoni and Lipparini (1999) have looked at governance mechanisms for value creation. Gulati (1999, 2000) has studied the importance of resources and capabilities for value creation. He has also looked at value creation through access to valuable information, markets and technologies, and enhanced transaction efficiency and

improved coordination between firms. Katz and Shapiro (1985) and Shapiro and Varian (1999) argue that networks offer value in the form of shared risk and economies of scale and scope. Dyer and Singh (1998), Dyer and Noboeka (2000), and Anand and Kanna (2000) have studied aspects related to networks and the possibility for knowledge sharing and learning (Amit and Zott 2001). Möller and Svahn (2003) discuss intentionally created strategic business networks and suggest a value-system view for describing the differences between various nets.

3.4 The use of value in industrial marketing literature

Value in the context of buyer-seller relationships can be studied from a number of different perspectives. One possibility is to study the value of a single supplier offering to a customer. Alternatively one can choose to study the total value of a relationship for the buyer or the seller. Another possibility is to focus on the value of a customer for the supplier or vice versa. Yet another possibility is to focus on the value created in in a dyad or a wider network of relationships.

It is important to distinguish between value (i.e. perceived value) and value creation. Perceived value is a subjective assessment of the trade-off between benefits and sacrifices at a given point in time in a specific context. Value creation, on the other hand, is the process through which the buyer and seller make use of each other's resources with the aim of creating value.

In the process of trying to sort out a concept or phenomenon it is useful to establish different levels of analysis. Different analysis levels provide different views and perspectives on the studied phenomenon. Möller and Halinen (1999) propose four different levels of managing business relationships and networks, namely industries, nets, relationship portfolios, and single exchange relationships. The categorization provides different levels and views on studying value within industrial marketing. Value needs its own definition on the different levels in order to make it "tangible" in the specific context of study. Building upon this categorization Möller and Törrönen (2003) suggest a categorization of value creation into four levels. The suggested categories are transaction value, generative value, value creation at the portfolio level and value creation at a network level.

The research object in this study is one buyer-seller dyad, one exchange relationship. This limitation sets the level of analysis and consequently impacts upon the formulation of value, for the specific purpose of the study.

3.4.1 Overview of the use of the value concept in marketing

Wroe Alderson (1957) has been one of the early scholars in developing marketing theory. Alderson was the one who introduced the idea of marketing being the process of matching heterogeneous demand and supply through exchange. Exchange became thus one of the central themes of marketing. The way Alderson defined value in marketing in the fifties is:

> *"...marketing is, in fact, the source of all ultimate value in use. Value can be created through exchange even when restricted to products as they occur in nature, without being subject to any manufacturing processes" (Alderson 1957, p 198).*

The Aldersonian view on value in marketing being created in the process of exchange gives support to the idea brought forth in this study, that value cannot be viewed as a static thing. Value is dynamic; it is created through interaction through a process of exchange. Now let us turn to some of the more recent writings about value within marketing.

Walter el al. (2001) are studying value from the supplier's perspective by using "functions of a customer relationship" as a way to categorize how the supplier perceives value. They talk about direct and indirect functions and mention that a third type of functions, namely social functions, could be added to make the picture more complete. By direct functions of a customer relationship they mean: the profit function, the volume function, and the safeguard function. Indirect functions are: the innovation function, the market function, the scout function, and the access function. They argue that the "supplier-perceived value" consists of the above-mentioned functions of a customer relationship (p 369).

Wilson et al. (1994, 1995) suggest that value can be understood as competence, market position, and social rewards (Wilson et al., 1994, 1995, Biong et al. 1997).

Ulaga (2001) uses the term "customer value" and has three different perspectives on the concept; the "buyer perspective", "the supplier perspective", and "the buyer-seller perspective". The buyer perspective deals with issues such as how the supplier can create offerings that are of superior value to the customer and thus keep the business in increasingly competitive markets. The supplier perspective looks at customers as key assets of the firm. The buyer-seller perspective is about how buyers and sellers can create value jointly through relationships, partnering, and alliances (p 316).

Dyer and Singh (1998) discuss the concept "relational rent", meaning the value that the parties can get out of a relationship. They argue that effective governance of a relationship can generate relational rents by either lowering transaction costs or providing incentives for

value-creation initiatives such as investing in relation-specific assets, sharing knowledge, and combining complementary strategic resources (Dyer and Singh, 1998).
Normann and Ramirez (1993a, 1994) have termed the link between the customer and the supplier as "offerings". The offering is of value if it provides "relieving value" or "enabling value". By relieving value is understood the labor saving value that the offering provides, while enabling value is everything that helps the other party to work more efficiently, effectively, easily, safely, and elegantly. Offerings consist of five elements: goods, services, risk sharing and risk taking, access to or use of systems or infrastructure, and information.

Dwyer et al. (1987) building on the ideas of Levitt (1983) argue that buyer-seller relationships involve analogous benefits and costs to the ones that can be identified in a marriage between a husband and wife. The benefits are reduced uncertainty and managed dependence (Spekman et al. 1985), exchange efficiency, social satisfactions, and gains as a result of effective communication and collaboration.

In summary it can be said that conceptualizations of value seem to be divided into two broad categories. On one hand there is what could be called *substantial value*[4] dealing with reduced costs, increased revenues, enhanced transaction efficiency, improved coordination, profit, volume, and economies of scale and scope. On the other hand there is a more *cognitive type of value* dealing with creating new markets, new products and services, with discovery and innovation, learning and sharing of knowledge, risk sharing, competence, market position and social rewards.

In a sense these two different broad categories seem to be dealing with efficiency on one hand and with exploitation of each other's resources on the other, to use the Håkansson and Prenkert (2004) conceptualization of value creation[5]. Building on the concept of exchange (Alderson 1957) in marketing Håkansson and Prekert present a framework for viewing value creation in business exchange by distinguishing between two separate value-creating processes within the activity of business exchange.

The two processes, labeled *exchange value* and *use value,* are closely related but apply different logics and different contexts. Exchange value deals with the efficiency of the exchange between the parties, while use value deals with how effectively the parties use each other's resources. Efficiency is dyadic, based on exchange value, while effectiveness is seen as "contextual and network based on use value". They conclude that: "use value cannot be achieved without exchange value" (Ibid. p 93). Möller and Törrönen (2003) are also

[4] The notion of substantial and cognitive value has been brought forth orally by Mr Stefanos Mouzas at the ISBM Conference at Harvard Business School in August 2004. No written reference.
[5] Value creation is defined as: "The process by which the capabilities of the partners are combined so that the competitive advantage of either the hybrid or one or more of the partners is improved." (Borys & Jemison 1989, p. 241).

discussing efficiency on one hand and effectiveness on the other in their conceptualization of supplier's value creation potential.
The discussion on efficiency and effectiveness will be further discussed in the chapter on theoretical framework of the study (see chapter 4). .

3.4.2 Value and price

The most common association with the word value in business studies is money and in the discussion on a buyer and a seller it often boils down to a discussion on price. Although the focus in this study is not specifically on direct monetary value or price, the value and price discussion deserves some attention. The most active authors on value and price within the IMP approach are Anderson (2004) and Anderson and Narus (1998, 1999, 2004) who look at price and value, and the customer incentive to buy. Gadde et al. (2002) provide another interesting angle on the price issue where price is viewed as an empirical phenomenon.

Anderson and Narus (1998, 1999) discuss the value of offerings provided by a supplier to a customer. In the Anderson and Narus conceptualization of customer value the offering is said to have two elemental characteristics: *value* and *price*. They argue that value is the expression in monetary terms of what the customer firm receives in exchange for the price it pays for a market offering. The difference between value and price is the "customer incentive to purchase". Lowering the price does not change the value that the product provides, but it changes the customer's incentive to purchase the offering. Value is here expressed in monetary terms. Benefits are net benefits, where any costs a customer incurs in obtaining the benefits are included, except the purchase price.

- Benefits – Costs = Net benefits (value is the worth in monetary units of net benefits)
- Price = Purchase price
- Value – Price = Incentive to buy

Anderson et al. stress the importance of the supplier being aware of how much the production of this value to the customer actually costs to provide. What is interesting in this conceptualization is that price is not included in the assessment of value and that the offering is something that only the supplier produces for the customer. An opposite view is argued for in this study where price is seen as a benefit or sacrifice and thus part of the assessment of value and where value is seen as something that is created through interaction by two active parties in the relationship. Concerning the perception of value in a buyer-seller relationship it is difficult to see how price could be separated from perceived value. In

industrial relationships the price can be seen as either a benefit or a sacrifice or both, depending on its accuracy and justifiability.

3.4.3 Conceptualizing price

The classical economic definition of price is where the supply and demand curves meet and exchange takes place. In industrial marketing price is most often seen as a quantification of value. What is common for most of the literature on price is that it is based on an assumption of arm's length relationships between buyer and seller. When looking at high-involvement relationships such as a partnership, the idea of value and pricing principles are different. The traditional cost-plus principle, which is the most common pricing principle for industrial goods, might not be the most relevant[6] (Noble & Gruca 1999). According to Håkansson and Gadde (2002) one obvious reason for a relationship is that it should result in cost reduction due to coordination. The argument is that value is synonymous with cost reduction within a dyadic relationship, when looking at single transactions. Collaboration with suppliers is a mechanism for cost reduction for the customer firm, which by implication, impact upon pricing. However, value in long-term buyer-seller relationships can be seen as more than a question of cost reduction (Ibid.).

While research reports that cost-plus pricing is the most commonly used pricing logic, the argument often cited is that price should be based on value and demand. According to Kortge and Okonkwo (1993) a supplier should assess the value of a product for the customer and charge a price that is based on customer perceived value. Shippley and Jobber (2001) present a six-stage process for strategic price setting in the industrial context, based on cost, demand, and competitor prices. Ford et al. (1998) take a relational perspective to pricing and argue that price should reflect the investments and adaptations made by the actors in the relationship.

Price as an aspect of cost and revenue in the exchange process

Gadde et al. (2002) discuss price as an empirical phenomenon. They conclude that "price is only one aspect of a complex pattern of primary and secondary cost and revenue patterns in the exchange process among buyers and sellers in industrial markets" (p 16). This

[6] Cost-plus means a unit cost, including direct and indirect costs, plus a percentage mark-up (Noble & Gruca 1999)

argumentation alters the traditional notion of buyers always preferring low prices and sellers preferring high prices. The starting point in their argumentation is that companies do not exist for themselves, but they exist to serve others. Business is about exchange and therefore "business economics is primarily related to revenues and costs of exchange" (Ibid, p 9). The process of exchange consists of transactions between the buyer and the seller. Transactions involve both primary and secondary costs and primary and secondary revenues for both the buyer and the seller.

The primary revenues for the seller relate to the price paid by the customer and the secondary revenues appear in the form of increased revenues or decreased costs. Primary costs are costs for production, distribution, and relationship handling. The secondary costs are increased costs in other relationships or in internal operations. As illustrated by the above discussion price is a crucial element in economic exchange. However, the price in a single transaction cannot reflect the total economic conditions of buyer and seller. Price only represents a part of the primary costs for the buyer and primary revenue for the seller; several other costs and revenues are also affected. In the same way as it is impossible to consider all the benefits and sacrifices of a relationship, it is impossible to evaluate all the potential costs and revenues of a transaction. What will be considered and taken into account depends on the subjective perceptions of the actors involved. The actors evaluate the situation by using a chosen logic.

Price is only one aspect of the economic outcome of a business relationship. The main issue is how price is related to other cost and revenue components. How price is seen depend on the economic models i.e. the logic used. As industrial buyer seller relationships are characterized by interaction over time, the offering and the process of exchange develops. This means that the logic for pricing also changes. *"Pricing becomes an interactive matter"* (Gadde et al. 2002, p 14). The change that happens in the relationship as the exchange process evolves requires that both buyer and seller jointly evaluate costs and revenues of different alternatives. *"In this way price and pricing are inherent dimensions of exchange rather than something decided by the seller"* (Ibid, p 14). Through exchange over time the cost and revenue structures and how they are perceived are affected. When a buyer perceives its primary revenues in new ways by reconsidering the value of what suppliers can offer, the buyer changes the perceptions also of primary costs and secondary effects.

3.5 Relationship benefits and costs

Gadde and Snehota (2000) discuss supplier relationships. They argue that although the economic consequences of making use of supplier relationships are difficult to assess and

the value of the asset is context dependent, supplier relationships are one of the most important assets of a company. The value of a relationship cannot only be judged by its product or service content. Some relationships are valuable because of the volume of business that they represent. Other relationships are valuable because of the future potential that they represent, in the form of technical development and product quality and performance. Gadde and Snehota discuss benefits and costs of supplier relationships. Costs are direct procurement costs, transaction costs, relationship handling costs, and supply handling costs. Benefits in turn are divided into cost benefits and revenue benefits. The degree of involvement in a relationship should correlate with the consequent positive trade-off between relationship costs and benefits. This means that pursuing a high-involvement relationship with a supplier is sensible only if the benefits of the involvement outweigh the costs.

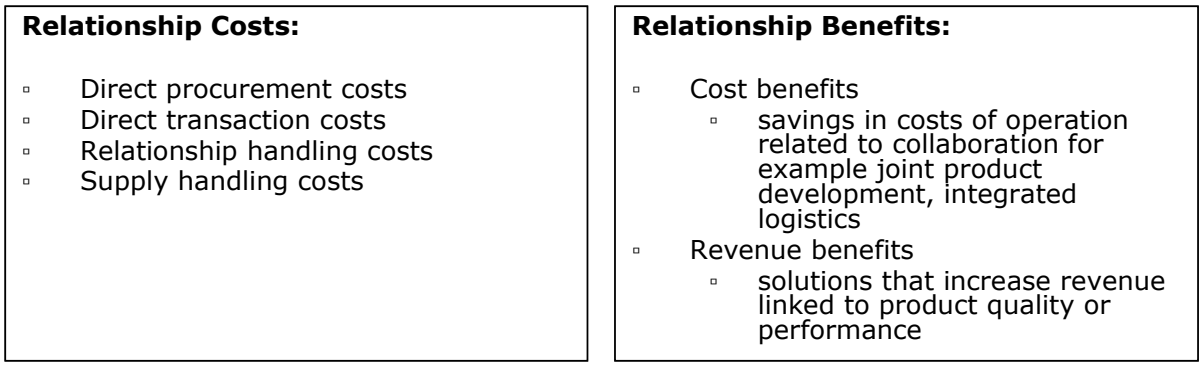

Figure 3.1: Relationship costs and benefits from a relationship with a supplier (Gadde & Snehota 2000, p 308)

3.5.1 Value as the trade-off between benefits and sacrifices

Flint et al. (1997) and Biong et al. (1997) provide a basic definition of value, which can be used on a relationship level. The definition does not include the idea of monetary value. According to this definition value can be regarded as "a trade-off between benefits and sacrifices" (Walter et al. 2001, p. 366). This definition does not include the idea of value being a measurable unit such as money, but gives room for the thought that value can be seen as a subjective perception of what has been gained when compared to what has been given away or sacrificed. De Chernatory et al. (2000) provide another definition that is along the lines of the one presented above, namely that value in business marketing should be seen as the perceived trade off between total benefits obtained and total sacrifices incurred.

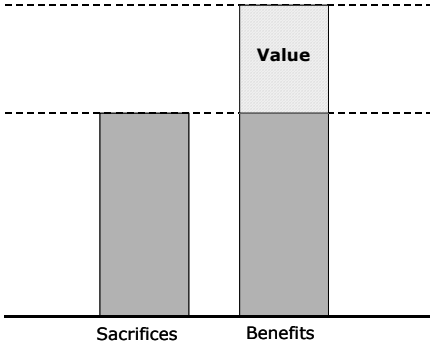

Figure 3.2: Value as the difference between sacrifices and benefits

What is perceived to be the value gained from the relationship can be seen as the trade-off between benefits and sacrifices in long-term business-to-business relationships. The definition includes the idea of value being a perception of what has been gained when weighted towards what has been given away or sacrificed – something subjective, meaning that there is no value if it isn't value for someone. This definition is used in this study, where value is seen as a dynamic and interactive phenomenon - meaning that value is changing over time and perceived differently depending on the context.

The phenomenon is dynamic – value is not constant but changes over time. The creation of value at a given moment depends on what has happened before. In the same way it can be said that present value creation re-shapes history; it gives new meaning to events that have happened before. Occurrences might be interpreted in new and different ways. Value is context and actor dependent – what one considers value depends on where this judgment is made, and by whom. Value can also be analyzed on different levels i.e. the individual level, the business unit level, the company level, the group level, or even the network level. Nevertheless, value is used as a concept in this study with the argument that value has a commonly understood meaning – that something may have a certain value.

What is interesting in the Anderson and Narus conceptualization on value and price is that price is not included in the assessment of value. This might be a sensible distinction when considering single offerings. However, concerning perceived value in buyer-seller relationships, it is difficult to see how price could be separated from the perception of value. In the context of this study I argue that price is one of the ingredients of how value is perceived in the context of the relationship. In this study I suggest that price should be seen as a part of benefits and sacrifices. A similar conceptualization can be found in literature on total cost of ownership and total value of ownership (Ellram 1995, Wouters et al. 2004). In this study price should be seen either as a benefit or a sacrifice, depending on the perception of its accuracy and justifiability in a specific situation. The following underlying logic for understanding perceived value is applied:

Perceived benefits (including price) – Perceived sacrifices (including price) = Perceived value

From the above argumentation it is evident that the same logic that applies in pricing a single offering is not directly applicable when discussing value in the context of a business relationship. What is perceived to be the value gained from the relationship can be seen as the trade-off between benefits and sacrifices in long-term business-to-business relationships.

The below figure below provides a framework for an assessment of value where time and context are taken into consideration as well as the subject (individual or individuals) making the assessment of the benefits and sacrifices, using a chosen logic. The figure builds upon the framework for a processual analysis proposed by Halinen and Törnroos (1995, 2004).

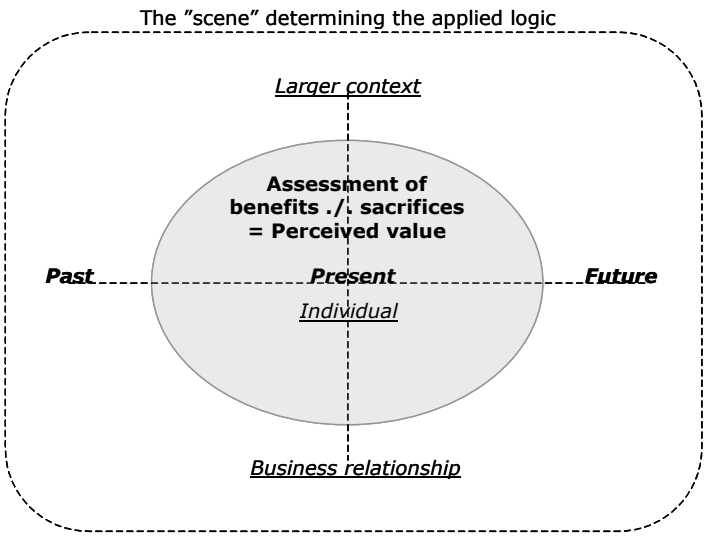

Figure 3.3: A framework for assessing perceived value in a buyer-seller relationship

3.6 Summarizing the use of value

The table below is a partial summarization of how value has been used within different schools of thought in business studies.

Theory	Authors	Description
Value creation through technological change and innovation	Schumpeter, 1934	Identifies several sources of value creation i.e. introduction of new goods or production methods, creation of new markets, discovering of new supply sources, and reorganization of

		industries. Innovation is the source of value creation.
The Value-Chain Framework	Porter, 1985	Deals with value creation at the firm level. Identifies activities and studies the economic implications of the different activities
The Resource Based View (RBV) of the Firm	Schumpeter, 1934 Penrose, 1959 Wernerfelt, 1984 Barney, 1991 Peteraf, 1993 Amit & Schoemaker 1993	The underlying logic of this view is that a firm's resources and capabilities are valuable only if they reduce a firm's costs or increase its revenues compared to what would have been the case if the firm did not possess those resources.
Transaction Cost Economics	Coase, 1937 Williamson, 1975, -79, -83	Deals with the question why firms internalize transactions that otherwise might be conducted through market transactions. Identifies transaction efficiency as a major source of value, as enhanced efficiency reduces costs. It suggests that value creation can derive from the attenuation of uncertainty, complexity, information asymmetry, and small-numbers bargaining conditions. Reputation, trust, and transactional experience can lower the cost of idiosyncratic exchanges between firms.
Resource Dependence	Pfeffer & Salancik, 1978	Sees organizations as active in adapting to their environment in order to get access to resources.
Strategic Networks	Gulati, Nohria, Zaheer, 2000 Freeman, 1979 Granovetter, 1973	Focuses on the implications of network structure for value creation.
	Lorenzoni & Lipparini, 1999	Looks at governance mechanisms such as trust for value creation.
	Gulati, 1999	Looks at the importance of resources and capabilities of suppliers and customers for value creation.
	Gulati, et al. 2000	Strategic networks creating value through access to information, markets, and technologies. Enhanced transaction efficiency, reduced asymmetries of information, and improved coordination between the firms involved in an alliance
	Katz & Shapiro, 1985 Shapiro & Varian, 1999	Networks offer the potential to share risk, generate economies of scale and scope.
	Anand & Khanna, 2000 Dyer & Noboeka, 2000 Dyer & Singh, 1998	Networks offer the possibility for knowledge sharing and can facilitate learning.
	Kogut, 2000	Shortened time to market.
	Möller & Svahn , 2003	Discuss intentionally created strategic business networks and suggest a value-system view for describing the differences between various nets.
	Parolini, 1999	Discuss the relativity of value in the context of complex "value creating systems".
Marketing theory	Alderson, 1957	Value creation through exchange.
Business Marketing	Wilson et al., 1994, 1995	Suggests that value can be understood as competence, market position, and social rewards.
	Spekman et al., 1985	Benefits of relational exchange being reduced uncertainty and managed dependence

	Dwyer et al., 1987	Benefits of buyer-seller relations in achieving goals as a result of effective communication and collaboration
	Anderson & Narus, 1998, 1999, 2004	Conceptualizes customer value by discussing value and price of offerings provided by suppliers to customers.
	Snehota, 1990	Value as the realization of the potential services in resources through business exchange.
	Gadde & Snehota, 2000	Discusses benefits and costs of supplier relationships where costs are; direct procurement costs, transaction costs, relationship handling costs, and supply handling costs. Benefits in turn are divided into cost benefits and revenue benefits.
	De Chernatory et al., 2000	Value as a trade off between total benefits and sacrifices
	Walter el al., 2001	Discusses functions of a customer relationship; direct functions: profit function, the volume function and the safeguard function. Indirect functions: the innovation function, the market function, the scout function and the access function. Supplier-perceived value consists of functions of a customer relationship
	Ulaga, 2001	Discusses customer value by using three different perspectives: the "buyer perspective", "the supplier perspective" and "the buyer-seller perspective".
	Gadde et al., 2002	Discusses price as an aspect of cost and revenue in the exchange process
	Selnes & Johnson, 2004	Presents a typology for value creation in an exchange relationship by using parity value, differentiated value and customized value.
	Håkansson & Prenkert, 2004	Distinguishes between exchange value and use value.

Table 3.1: Summary of conceptualizations of value

Given the above literature review on value and the summarization above it can clearly be seen that value can be thought of in a number of different ways, depending on the context. As mentioned earlier value is relative and should be treated as such. In this study, which is an exploratory case study, the stated aim is to review how value has been used theoretically and to explore empirically how it is perceived in a buyer-seller dyad. For this purpose I believe that a loose conceptual framework is the most suitable for this study. A loose framework will give room for the empirical material to speak. In this way exploration will be possible instead of being locked in a rigid pre-understanding of what could be perceived as value in this particular context.

3.7 Summary

The assessment of value is difficult and complex in many ways. Partly due to different levels of analysis, different perspectives on the phenomenon and due to the difficulty in identifying both monetary and non-monetary benefits and sacrifices (Möller & Törrönen 2003).

Given the argumentation in the sections above the following definition on value is suggested for this study: Value is an assessment of the benefits and sacrifices of being involved in a particular activity, a subjective assessment that is time and context dependent and relying on a specifically chosen logic applied for the focal situation.

There is a distinction between *value of* something and *value in.* The *value of* something (here a business relationship) deals with an assessment on of the benefits and sacrifices of being involved in a business relationship. The assessment of the trade off between benefits and sacrifices is made at a single point in time, based on past experience, future expectations and present situation.

Whereas the *value in* a business relationship deals with what can be done, i.e. value creation. What can be achieved when the decision of entering and pursuing a certain relationship has been made? Consequently the positive *value of* assessment can be seen as a prerequisite for *value* creation *in* a business relationship.

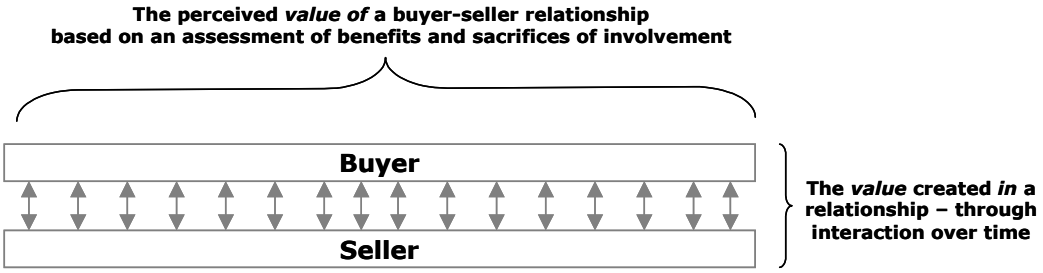

Figure 3.4: Illustration of the two different perspectives of value; value of and value in

In this study both the 'value of' and 'value in' aspects of value will be dealt with in the following chapters. In the next chapter where theoretical framework is presented there will be a discussion of the strategic decision taken by company management of whether to pursue a relational strategy with a partner or not. The implications of such a decision will be discussed, specifically focusing on the implications for the potential for creating value. The empirical chapters presenting the studied case, leads the discussion both into why a high-

involvement strategy is applied between two companies and into the actual value creation in that relationship i.e. the question of *value in* a relationship - what can be achieved by being involved in a business relationship.

4. A RELATIONAL APPROACH TO VALUE CREATION

Building up a suitable theoretical framework - the proper basic assumptions for a study - is vital for the success of any research endeavor. Due to the specific initial interest that I had in finding out what is valued in a buyer-seller relationship, and due to my background in industrial buyer-seller relationships, as well as the pre-understanding and the access that I had to certain industrial companies, the logical starting point for finding a theoretical framework for my study was the literature on industrial marketing and buyer-seller relationships.

As I started reading about industrial markets and how companies on industrial markets behave, I found the studies and the literature created within the IMP Group particularly relevant, and corresponding to what I had seen in industry. The ideas that triggered my interest in the IMP literature was the notion of business relationships on industrial markets being long-term, and being characterized by two active parties interacting over time in order to create a desired output. I also found the notion of companies not striving to maximize in each transaction, but instead to work for the long-term through relationships on industrial markets an appealing thought.

As the plan for my study developed I got more involved in the IMP literature and started participating in conferences and workshops inspired by IMP. The research process led me into the world of relationships and networks and gradually became the basis of my theoretical understanding of industrial marketing. Consequently theoretical framework i.e. the basic assumptions that my study relies on are brought from the IMP tradition. This can be seen both as a limitation and as an opportunity. The opportunity is that I can do a focused study and make a theoretical contribution to a specific theoretical school of thought. The obvious limitation is that I might not contribute to alternative schools of thought within business marketing.

The theoretical chapter starts out with laying the groundwork, explaining the basic underlying ideas of the open systems view on organizations, inter-organizational studies, and theory of resource dependency; this is followed by focusing on the IMP literature and more specifically Interaction Approach. Thereafter I introduce the concept of value co-creation and provide the conceptual arguments for its use in the context of studying industrial buyer-seller relationships. Next I turn to discussing interdependence and how interdependence correlates with value co-creation potential. After, I go further into discussing different types of interdependence and different types of value creating processes, and how different types of relationships (activity systems) apply different types of value creating processes by exploiting different types of interdependencies in order to co-create value in the form of increased efficiency or more effective use of resources.

4.1 Theoretical positioning of the research

The theoretical ideas of industrial marketing have their roots in inter–organizational theories, as inter-organizational theory focuses on activities and processes that go on between organizations. I start theoretical discussion by providing some of the most basic assumptions of inter-organizational theory, in order to set the scene for my later argumentation.

4.1.1 Inter-organizational theory

In the 1960´s theoretical models of organizations underwent a considerable change from viewing organizations as closed systems - focusing on internal matters - to viewing organizations as open systems recognizing the importance of processes external to the organization (Scott 1992, p 100). In contemporary literature on organizations it is commonly recognized that organizations are in constant interaction with external actors and that it is through interaction that organizations acquire raw materials, hire employees, secure capital, obtain knowledge, and get access to buildings, facilities, and equipment (Hatch, 1997).

In inter-organizational theory, "the organization is seen as part of a group of interacting units" (Ford 1990, p. 8). According to inter-organizational theory the organization is seen as dependent on other organizations. The way in which the organization answers to dependency is by establishing relationships with partners through interacting with them. Ford categorizes literature on inter-organizational issues into three different categories: organization based studies, studies based on several organizations, and studies of the organization in a societal context (Ford 1990).

In what is labeled "organization based studies" the organization is viewed as being dependent on its environment for obtaining access to certain inputs, while at the same time seeking to manipulate and control parts of its environment. Consequently the characteristics of the environment influence the shape of the internal organization structure. (Dill 1958, Burns & Stalker 1961, Thompson 1967, Emery & Trist 1968, Aiken & Hage 1968, Hall 1972). The current viewpoint in marketing called the "organizational system perspective" shares this perspective and assumes that buyers are passive and only react to the stimuli of the seller by buying or not buying (Kotler & Levy 1969, Ford 2002).

According to Scott (1992) who builds on the ideas of Galbraith (1973) and Lawrence and Lorsch (1967) organizations are seen as open rational systems. A school that has been growing out of the systems school is the contingency theory according to which there is no

best way to organize, any way of organizing is not equally effective and that the best way to organize depends on the nature of the environment to which the organization relates (Lawrence & Lorsch 1967, Scott 1992, p 88-89). According to the contingency theory organizations face different opportunities and demands from the environment, and organizations make structural adaptations to these external demands in order to stay efficient. Such demands can for instance be changes in market conditions. This view focuses on structure and performance and belongs to the rational systems argument (Scott, 1992, p 106). Developing strategies for customer or supplier relationships can be seen as examples of such phenomena. Customers or suppliers may have demands that the company strives to adapt to, if it is considered an effort that will pay off. The more varying the environment facing the organization is, the more complex the adaptations within the organization most likely will be. This brings with it an increasing challenge of coordinating the activities so that the organization can perform effectively.

In the studies based on several organizations the *"organization is seen as part of a group of interacting units"* (Ford, 1990, p 8). The interaction model that has been developed by the IMP Group stems from this group of studies. Here the organization is also seen as dependent on other organizations. The way in which the organization answers to this dependency is by establishing relationships with partners through interaction. These studies follow the logic of dependence between organizations described above, but focus on the process of interaction and reciprocal adaptations of both interacting parties[7], something that I return to in the sections below.

4.1.2 The theory of resource dependency

Pfeffer and Salancik (1978) have contributed most comprehensively to the development of theory of resource dependency, which is strongly rooted in the open systems framework. According to the open systems framework:

> *"One can not understand the structure or behavior of an organization without understanding the context within which it operates. No organization is self sufficient;*

[7] It deserves to be mentioned that new institutional economic theory has been influential in the development of theories of relationships and networks by the IMP Group. According to new institutional theory there are two ways of organizing successive tasks in the value chain; market or hierarchy. In some instances it is worthwhile internalizing transactions (=hierarchy), while under other circumstances it can be more reasonable to keep the transactions outside the organization, in the market. The particular environmental circumstances prevailing and the nature of the interacting parties determine the best mode of operating. In some cases the hierarchy model is more viable, while in other cases low transaction costs can speak for the market alternative. For a more thorough discussion see Williamson (1975).

all must engage in exchanges with the environment as a condition of their survival" (Scott 1992, p 114).

According to the resource dependency theory, organizations can increase their chances of survival by taking actions in order to adapt to the environment. Because no organization can exist without exchanges with other organizations different situations of organizational dependency occur. The extent to which an organization is dependent on another organization determines the power/dependence relationship. The resource dependency theory depicts the organization as active, not passive, in shaping its own prerequisites for survival and success. The organization is dependent on suppliers and customers but the organization chooses which relationships to enter into and which rules and terms to adapt. According to Aldrich and Pfeffer (1976) the resource dependence model sees:

"The organization as capable of changing, as well as responding to, the environment. Administrators manage their environments as well as their organizations, and the former activity may be as important, or even more important, than the latter" (Aldrich & Pfeffer 1976, p. 83).

The logic of the open systems view and theory of resource dependency both serve as main theoretical building blocks for the IMP view on business relationships and networks. Companies are seen as open systems, influenced by actors in the environment and dependent on resources provided by other organizations. Consequently it makes sense for companies to interact in order to get access to and to make use of these external resources. Connecting this reasoning with Alderson's (1957) reasoning about marketing being about creating value by connecting heterogeneous supply and demand through a process of exchange gives the main basic theoretical assumptions for the study:

- Companies are dependent on their environment for their survival
- Companies cope with this dependency through establishing relationships (through interaction)
- Companies interact with others in order to get access to resources
- Companies create value by connecting heterogeneous resources through a process of exchange

4.2 The IMP view on relationships and networks

As already mentioned this study mainly relies on the work of the IMP group, a research tradition focusing on relationships and networks on industrial markets, developed in Europe since the 1970´s. The *interaction approach*, which is one of the early models, provides the conceptual understanding of a single relationship, a dyad, which is the unit of analysis in the empirical, case study of thesis. [8]

According to Håkansson and Snehota (1995) industrial buyer-seller relationships are characterized by ongoing processes and interdependence between companies. Activities and resources of the two involved companies are interlocked and together they produce something that one company could not achieve alone. This is why interaction between companies in industrial markets is seen as relationships. According to the IMP view the reason for companies to choose to get involved in a relationship instead of "shopping around" is the conviction that being involved in a long-term relationship is a more fruitful way of organizing business activities, and that there is more to gain from this way of conducting business than there is from changing partner for each transaction. The benefits are associated with economies of cooperation and a long-term focus. Industrial buyer-seller relationships often involve complex offerings with great information and know-how content; a relational strategy is often seen as a means to cope with a situation of dependency (Ibid.)

4.2.1 The interaction approach

The *interaction approach* (or interaction model) is one of the early models developed by the IMP Group. The model is a result of the development from the 1960´s open systems view on organizations and the development in industrial marketing in the 1970´s, where industrial marketing became to be seen not just as one sided i.e. the action of one party and reaction of the other, but that both parties (buyer and seller) were active parties in the marketing situation. Influential articles fostering this alternative trend in economic theory and initiating the development of industrial marketing were Håkansson, Johanson and Wootz in Europe in 1976 and Bonoma, Salzman and Johston in the USA in 1977.

The trigger for starting the development of the interaction model is said to be that the existing theoretical models in marketing at the time did not seem to correspond to what was

[8] One of the main objectives of the study is to identify value co-created through interaction, the value created always affect the larger network, not just the focal dyad. For this reason the understanding of the interconnectedness of business relationships is crucial.

discovered through empirical studies. The models fell short of the understanding of purchases being short episodes in the larger context of a relationship. When discussing business relationships, the starting point most often is the questioning of the notion of a single transaction. The argument is that such a thing very seldom is seen to exist. According to Macneil (1980) a transaction is manifested by money on one side, and a commodity on the other side, without considering any relational elements. Macneil, whose background is in contract law, discusses transactions and relational contracts. The most important difference between discrete transactions and relations is that relational exchange happens over time; each transaction is related to its history and future. He concludes that even the simplest form of discrete exchange involves a social element and that "some elements of relationship underlie all transactions" even in the contract law sense. Dwyer et al. (1987) have also identified problems in the notion of *a discrete transaction* and argue that the idea of such a thing is an idealized fiction, that relational dimensions must not be overlooked.

The interaction approach takes the *relationship* as its unit of analysis, rather than single transactions. It relies on the assumption that most business purchases are not individual events and cannot be understood if they are examined alone. Business purchases are not the action of one party and reaction (or not) of the other, and that what characterizes business purchases is that they involve two active parties interacting with each other (Håkansson 1982, Ford 2002, p. 4).

The interaction model is drawn from ideas in inter-organizational theory, new institutional economic theory, and marketing literature. The interaction model serves as a firm theoretical starting point for the conceptual discussion in this study, because it establishes some of the inherent characteristics of buyer-seller relationships and thus provides relevant conceptual building blocks.

The basic assumptions of the interaction approach are the following:

- "Buyer and seller are active participants in the market."
- "The relationship between buyer and seller are frequently long term, close, and involve a complex pattern of interaction between and within each company."
- "The links between buyer and seller often become institutionalized into a set of roles that each party expects the other to perform".
- "Close relationships are often considered in the context of continuous raw material or components supply. The importance of previous purchases, mutual evaluation, and the associated relationship between the companies in the case of infrequently purchased products is emphasized." (Ford 1990, p 11)

The focus and unit of analysis of the interaction model is a dyad, two companies, a buyer and a seller. The model includes four groups of variables that influence the interaction between buyer and seller. These are variables describing the parties involved, the elements and process of interaction, the environment where interaction takes place, and the atmosphere influencing the interaction (Ibid.).

In the more recent works of IMP group, the interaction approach has been extended to take into consideration the larger network in which a dyad is situated (Anderson et al. 1994). This development in theory of relationships and networks is called the industrial network approach. Although the focus of the network approach is a larger network, instead of a single dyad, interaction is still one of the core concepts. Interaction is here understood as being directed towards clearly identified counterparts, and the interaction is assumed to result in different strata, affecting social, economic, and technical features (Håkansson & Waluszewski 2003).

In the network view long lasting exchange relationships are seen as something that characterizes business life; interaction is seen to take place within exchange relationships. Interaction is seen as a fundamental part of development: without interaction nothing is achieved; with little interaction something can be achieved; and with a lot of interaction, even great things can be created (Ibid.).

> *"It is through interaction a resource is confronted with other resources and through this process is given some specific characteristics. Every resource item, whether a production facility, a single machine or a business unit, is uninteresting in itself, it is only when the resource is used, or when it is related to some other resources, an economic value is gained" (Håkansson & Waluszewski 2003, p 15).*

The conceptual discussion above about organizations as open systems adapting to their environment, and relationships as means to cope with resource dependency, and two active parties acting in business relationships, lays the basic theoretical assumptions of the study. I now relate these basic assumptions to the core concepts for the study, namely perceived value and value creation. In the following sections I discuss the notion of value creation in buyer-seller dyads and suggest a new concept, namely the concept of value co-creation, to be a more suitable concept in a buyer-seller relationship context.

4.3 From value to value co-creation

As indicated before the value concept traditionally has had a somewhat narrow interpretation in business studies. Most often it is used to imply direct monetary value, such

as profit or margin (Ghosh & John 1999), or something that the customer expects to get. The emphasis has traditionally been on value for the customer - how the supplier can create "superior value" for its customers in order to stay competitive. However, recently there has also been an interest in how and what kind of value is created for the supplier (Walter, et al. 2001, Ramirez 1999). There is a great amount of literature on networks and how companies should create partnerships with partners (other suppliers) that complement their offering. By joining forces they can offer the customer something of superior value when compared with competitors on the market, resulting in increased chances to keep the business. These kinds of networks of partnerships have been referred to by several different names by different scholars. They have been called supply chains, market networks, value chains, value nets, or value creating networks (Kothandaraman & Wilson 2001, p 384). What most of these have in common is that they focus on suppliers joining forces to offer the customer something. The view that is taken in this study where relationships with customers are the ones where value is co-created is somewhat different and has not received as much attention yet.

The basic underlying assumptions in the interaction approach and industrial network theory are that relationships exist and that there is more than one active party in a relationship. Relationships are defined as mutually oriented interaction between two reciprocally committed parties. What characterizes a relationship is there it is a process over time and that there is interdependence between the involved companies. By joining activities and resources the companies can produce something together that one company could not achieve alone (Håkansson & Snehota 1995, Håkansson 2002).

From the logic of two active parties interacting in order to create something it follows that when applying the interaction approach on a buyer-seller dyad, there is a relationship where two parties are active. When discussing value creation in such a context it is then reasonable to assume that there are two parties actively involved in creating value through interacting in the relationship. There is not just one party creating value and the other consuming it, but two active parties *co-creating value*.

Ramirez (1999) has started this discussion on value creation and provides an alternative view on value to the pure industrial view. He introduced the idea of "value co-production". In this alternative view the parties in a business relation are engaged in mutual value creation and re-creation (p. 50). Also Ulaga (2001) has acknowledged the thought of value being produced jointly by the parties in a business relationship. Ramirez (1999) sees the role of the customer to be one of the main differences between the two schools. In industrial value creation, customers are seen as "destroying the value which producers had created for them", while in the alternative view customers are actively co-creating and re-creating value both with their suppliers and their own customers (p. 51). Basically the same idea can be found in the business to consumer literature, where Prahalad et al. (2004) in a

recent book discuss how creating value together with consumers is the way to compete in the future. The authors use the same concept namely value co-creation and discuss how companies interact with consumers and co-create value through a dialogue with consumers.

Applying the IMP logic of two active parties in a relationship it is reasonable to assume that when the focus of study is dyadic business relations with a buyer and a seller, both parties actively create value through interaction in the relationship. This makes it justifiable to use the concept of value co-creation and by this understand the aspects that the parties perceive to be of value, and which are created jointly through interaction in a business context.

One core concept of the study, namely value co-creation, has now been defined and the conceptual argumentation has been provided. In the following I turn to discuss and define the other main concept, namely interdependence.

4.4 Interdependence

> *"Managing within relationships is about coping with interdependencies". (Gadde & Snehota 2000, p 316)*

The industrial network model (Håkansson 1987) is one of the general theoretical foundations of the IMP school, focusing on the interdependencies among activities, later further developed into encompassing connections between actors, activities, and resources. When companies do business with each other over time i.e. interact, they tend to start to make adaptations in order to make interaction and the exchange more efficient and smooth. Adaptations can be of several kinds; they can be related to products, organizing, facilities, routines, and technology just to name a few. As adaptations are made both the offering and the relationship become increasingly complex and specialized. Worth emphasizing is that it is not only the offering itself that becomes more specialized, but it is the "business exchange activity" (Håkansson and Prenkert, 2003) or "exchange system" (Bagozzi, 1974, p 78). This creates interdependence between the companies, meaning that the activities of one increasingly affect and are affected by actions of the other. Alongside with interdependence, due to the complexity and adaptations made by both companies, a certain degree of dependence on each other is also built up between the companies. The definition of dependence is:

> *"Dependence can be defined as the product of the importance of a given input or output to the organization and the extent to which it is controlled by relatively few organizations" (Pfeffer & Salancik 1978, p. 51).*

A situation of dependence exists when there are only one or a few available actors on the market who can provide the needed resource. Dependence implies that one party is in a weaker position in relation to another party who is in a more powerful position (Emerson 1962).

Business relationships are usually long-term; interaction goes on for long periods of time and adaptations are made on both sides of the dyad. As a consequence of interaction over time the relationship and the offering become increasingly complex and customized. Gradually this leads to a situation where there simply are not many other alternatives on the market that could offer the same type of resource exchange, due to the specific adaptations made in the focal relationships and to the degree of tailor-madeness that the adaptations imply. Consequently this creates a situation of a certain degree of dependence, associated with limited alternatives and high switching costs.

In industrial relations the process of exchange is often a complex system that involves a fair share of know-how and expertise. The offering is often a result, a product of many years of cooperation and mutual adjustments. Both parties have taken a risk by getting involved with the other party to the extent that adaptations such as design modifications and organizational arrangements have been made to support the relationship.

Dyer and Singh (1998) express a word of caution about specializing. They argue that there is always a risk involved in specializing. Specializing means that the resource becomes less valuable to alternative uses and should be identified as a potential risk from the perspective of a single company. This is obviously something that companies need to consider in the assessment of the benefits and sacrifices of involvement in, and the adaptations made for, a particular business relationship. According to the senior vice president for marine operations at the Seller the issue of dependence is one of the key issues when discussing high-involvement relationships with customers (Interview: Seller 7). There is always a risk in getting heavily involved with one partner. How can you be sure that you do not miss out on something else that is happening in the market? How do you preserve the balance of not seeming to be favoring a certain customer in the eyes of other customers? Obviously there is no straightforward or easy answer to this question; the assessments of the benefits and sacrifices that are involved in getting “involved” and making adaptations have to be made with care for each specific case.

4.4.1 A distinction between dependence and interdependence

It is important to make a distinction between the concepts dependence and interdependence. They are interrelated, but not synonymous. Interdependence is here used as Pfeffer and Salancik (1978) defined the concept in theory of resource dependence. Interdependence is

not simply mutual dependence between two companies, but can be explained through more than one causal relation.

> *"Any event that depends on more than a single causal agent is an outcome based on interdependent agent. (...) Interdependence exists whenever one actor does not entirely control all of the conditions necessary for the achievement of an action or for obtaining the outcome desired from the action" (Ibid. p. 40).*

The opposite of interdependence is independence. In economic theory dependence is traditionally regarded as something negative, inhibiting market forces to act in the most efficient manner - companies should optimize and preserve bargaining power by being independent. An independent actor tries to optimize every transaction, and by definition would not get involved in a long-term relationship.

However, in the context of long-term industrial buyer-seller relationships both dependence and interdependence are given, and can be regarded as constructive forces. Both dependence and interdependence can be the triggers for creating something together and motivate the interacting parties to cooperate and solve problems. In the IMP network view, interaction and the interdependence that is created as a consequence of that are seen as a prerequisite for development to take place (Håkansson & Waluszewski 2002). This argumentation suggests that in a situation of independent actors there is no value co-creation potential.

The above reasoning leads to the following conclusion: when two companies possess heterogeneous resources it makes sense to interact in order to create something together, provided that the companies can make use of each other's resources in a meaningful way. Making use of each other's resources requires interaction, which over time creates both a certain degree of dependence and interdependence.

The interaction between the parties can be said to be worthwhile if the parties feel that the perceived benefits from the interaction are greater than perceived sacrifices. This leads to the assessment of perceived value of being involved in a particular relationship; thus a positive assessment of perceived value can be seen as an antecedent for a relationship.

Adding the factor of interdependence to the equation, namely that both parties are needed in order to perceive any benefits and sacrifices, there is a potential for value co-creation. Thus, if there is interdependence the potential for value co-creation exists. With increased interdependence the potential for value co-creation increases. If there is not interdependence both parties can create value for themselves, independently; however in order for co-creation potential to exist interdependence is a prerequisite. The figure below is an illustration of the relation between interaction, interdependence, and value co-creation potential.

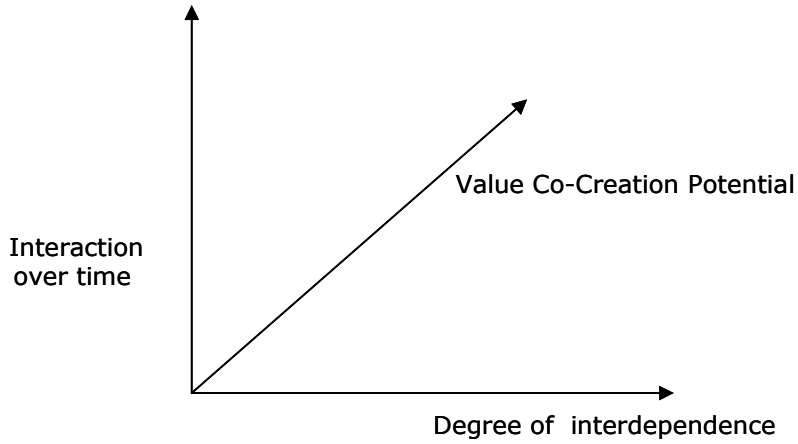

Figure 4.1: A theoretical conceptualization of the relation between degrees of interdependence, interaction over time and value co-creation potential

The figure illustrates that the potential for value co-creation increases with increased degree of interdependence and interaction over time. The illustration is purely theoretical, and serves as a simplification in order to demonstrate a trend rather than something absolute. The aim with the figure is not to suggest that such linearity in the relation between interdependence, interaction and value co-creation potential could be found in the empirical world.

4.5 Value co-creation through interdependence

Interdependence is a characteristic of long-term business relationships. The argument here is that interdependence is inherent in business relationships and can be a constructive force if the potential that lies in interdependence is exploited in a meaningful manner. Exploiting interdependence means realizing the potential that there is in cooperating and doing things jointly by utilizing each other's resources.

The overall conclusion of the conceptual discussion so far is: there exists potential for value co-creation if perceived benefits (B_t) outweigh perceived sacrifices (S_t) during the duration of the relationship for both parties involved, and if there is interdependence (i) between the parties. This logic can be modeled by using the mathematical function presented below. The simple logic is that with increased interdependence the potential for value co-creation increases. In the function the constant value for i is 1; if interdependence is more than 1 value co-creation potential exists; if i is less than 1 (independence), there exists less value co-creation potential.

$$\text{Value Co-Creation Potential} = \sum_{t=1}^{n} (B_t - S_t)\, i^t$$

t = the duration of the relationship
B = perceived benefits for both parties involved
S = perceived sacrifices for both parties involved
i = interaction mode (1 = constant)
i < 1 = independence
i = 1 = neutral
i > 1 = interdependence

The formula is not intended to be used as a mathematical function, but as an abstract conceptual model for demonstrating a logic of how degrees of interdependence relate to the potential for value co-creation. The basic message is that with increased interdependence the potential for value co-creation increases. How the potential is exploited and realized is a whole other story.

There obviously is no simple formula for how the cooperation and interaction between the parties should be carried out in practice, in order to co-create value, since it boils down to social process of interaction between people. However, if the conditions of the presented function prevail (benefits are greater than sacrifices and there is interdependence between the parties), the realization of the potential for value co-creation rests on how the potential is used; in other words, what the interacting parties make out of the relationship through interaction and utilization of each others´ resources. The outcome of interaction depend on how the potential for value co-creation is appraised in each company, how the potential is used - how resources are allocated and what priority the relationship gets from the management of the involved companies. The value co-creation potential is realized through processes of value co-creation. In the following I elaborate further on interdependence and value co-creation.

4.5.1 Types of interdependencies and value creating processes

The process of value creation is defined as: *"the process by which the capabilities of the partners are combined so that the competitive advantage of either the hybrid or one or more of the partners are improved"* (Borys & Jemison 1989, p 241). The definition supports the assumption that value creation is a joint effort – that value creation is something that none of the parties could do alone. As argued above, this results in interdependence between companies – interdependence that is a prerequisite for value co-creation potential. Different types of interdependencies influence value creation possibilities - each type of interdependence represents different value creation opportunities (Håkansson & Persson 2004).

In a conceptual exploration of the concept of *exchange* in marketing Håkansson and Prenkert (2004) argue that *"it is through exchange that the potential services of resources are released and value arises"* (Ibid. p 91). Value arises from the realization of the potential services that lies in the resources - the process of realizing the potential is dependent on the context where exchange occurs (Snehota 1990).

Different categorizations of interdependence can be found in literature. Borys and Jemison (1989) use Thompson's (1967) typology of technological interdependence for categorizing interdependence when they discuss the management of strategic alliances.

Three types of interdependence:

- Sequential (or serial) interdependence
- Pooled interdependence
- Reciprocal interdependence

Sequential interdependence implies that one partner gives to another (Borys & Jemison 1989). The output of one activity is the input of another. The rationale for sequential interdependence is that economies of integration can be gained. These can be associated with technology or administration, and have a positive impact on costs as well as increased services in relation to a specific counterpart. The logic of a supply chain lies in exploiting sequential interdependencies (Thompson 1967, Håkansson & Persson 2004).

Pooled interdependence implies that the alliance provides a pool of resources and that the parties both draw from this pool of resources (Borys & Jemison 1989). The parties are either related to a third activity or share a common resource and together they form a technological or managerial system. The efficient exploitation of this type of

interdependence is associated with economies of scale or scope (Håkansson & Persson 2004).

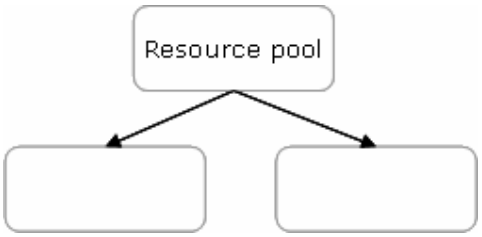

Figure 4.2: Pooled interdependence

Reciprocal interdependence is defined as: *"mutual exchange of inputs and outputs between two parties"* (Håkansson & Persson 2004, p 6). The parties exchange outputs and there is a need to learn from each other. Consequently, a hybrid characterized by reciprocal interdependence requires a wider fit between the operations of the involved organizations than hybrids characterized by other types of interdependence (Borys & Jemison 1989). In a study of five different companies Håkansson and Persson (2004) found that the benefits of reciprocal interdependence were associated with either improved problem solving capabilities or the securing of a more effective use of resources (Ibid.).

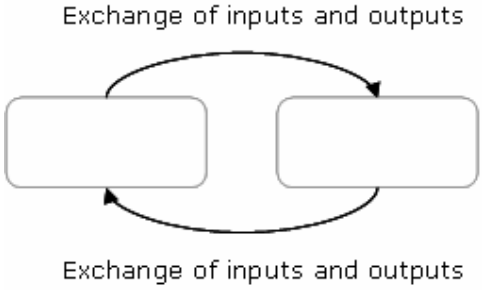

Figure 4.3: Reciprocal interdependence

The fit between the operations of the two involved organizations is something that cannot be anticipated or designed in advance; it is something that evolves over time through interaction between the parties (Borys & Jemison 1989, p 241). Therefore it is difficult to estimate beforehand the outcome of the realization of the value co-creation potential.

One of the conclusions of the Håkansson and Persson (2004) study is that different outcomes can be achieved through exploiting different types of interdependencies, namely economies of integration, economies of scale and scope, and economies of innovation.

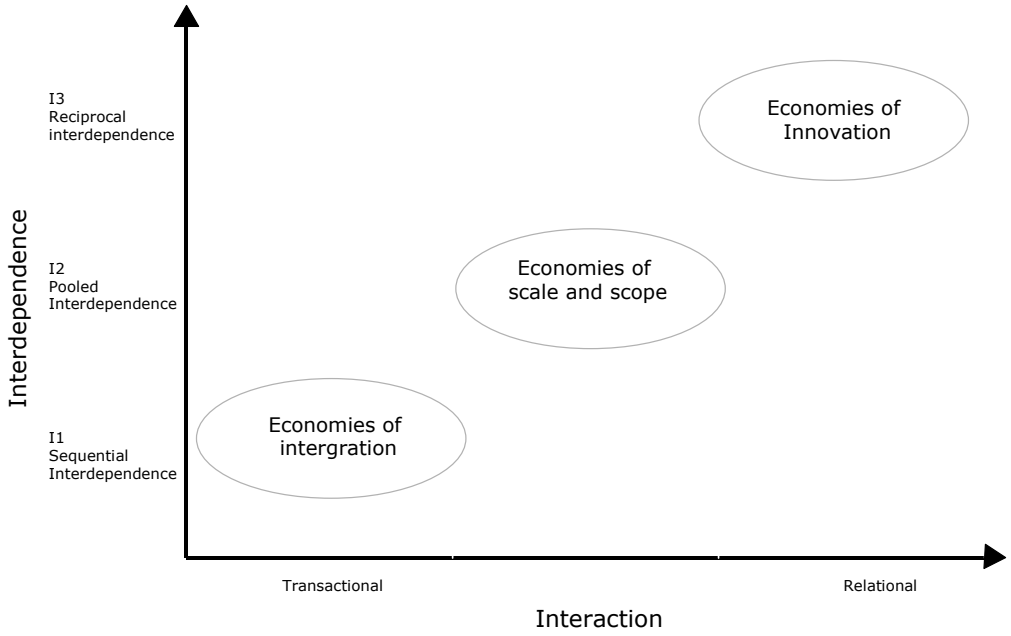

Figure 4.4: Different outcomes of exploiting different types of interdependencies

Economies of integration can be achieved through exploiting sequential interdependencies. The successful exploitation of pooled interdependencies can lead to economies of scale and scope, while the exploitation of reciprocal interdependencies leads to economies of innovation. Exploiting reciprocal interdependencies means *"to pursue the economies of adaptability and change. In other words, it concerns being innovative, agile and responsive to change"* (Ibid. p 14). The figure above seeks to illustrate how the exploitation of different types of interdependencies offers different opportunities for economizing. In the grid I suggest interaction represents the x-axis, leaning on one of the main arguments in the study where business relationships are characterized by interaction over time, leading to increased interdependence through which cooperation is possible, implying a relational type of interaction as opposed to a transactional mode of interaction.

Different value creating processes in business exchange

In theoretical framework for analyzing alliances provided by Borys and Jemison (1989), the authors propose the following research propositions with regard to value creation concerning supplier arrangements:

"The performance of supplier arrangements is determined primarily by its ability to create and manage reciprocal interdependencies between supplier and buyer"

"In hybrids in which the value creation process is poorly understood, partner managers have different assumptions about and understanding of the hybrid's production process, thus interfering with effective cooperation"
(Borys & Jemison 1989, pp 239-240)

The above propositions direct the focus of interest towards understanding what the "management of reciprocal interdependencies" implies, and in order to understand that, towards exploring the production processes of different types of hybrids i.e. different value creating processes. The Håkansson & Prenkert (2004) framework for categorizing activity systems and their outcomes, involving two different types of value creating processes, offers a suitable framework for understanding how different activity systems achieve either efficiency or effectiveness by applying different types of value creating processes.

Håkansson & Prenkert (2004) discuss different ways of "closing" exchange activity systems[9] and the consequences of the different ways of closing the system for the outcome of the activities. They suggest that different activity systems imply different value creating processes. "Closing" an activity system simply means that an open system is closed i.e. the mode of the activity system is decided upon, depending on the specific purpose of the relationship and the nature of the activities involved and the object of exchange.

They suggest four types of activity systems, namely: the buying/selling system, the producing/using system, the cooperation system, and the networking activity system. The outcome of the two first types of activity systems, namely the buying/selling and the producing/using system, is argued to be efficiency in the process of exchange. The outcome of the two latter activity systems, cooperation and network–activity systems is argued to be effectiveness in making use of each other's resources. This argumentation suggests that business exchange involves two different types of value creating processes i.e. the *exchange value creating process* with the aim of achieving efficency in the exchange process, and the *use value creating process*, which has to do with the effectiveness of making use of each other's resources.

[9] Håkansson and Prenkert (2004) use the concepts of business exchange (from Bagozzi, 1974, p 78) and the activity systems model presented by Engeström (1987, p 78) and from these form their conceptual framework for closing exchange processes between companies into business exchange activity systems in order to create value (Håkansson, et al. 2004, pp 75-97).

4.5.2 Summing up the conceptual discussion on co-creation of value

The reason why parties cooperate is that they are dependent on each other's resources and the resources can only by utilized through cooperation (Håkansson & Prenkert 2004).
The assumption of resource heterogeneity[10] and possession of heterogeneous resources is one of the cornerstones of the argumentation on interaction in the network view. As companies possess heterogeneous resources it makes a difference with whom you interact and how you interact. Interacting with the partner with the resources that are most valuable and doing it in the most sensible way makes sense. No single resource is of any value if you cannot make use of it. So, interacting with the partner right partner and being able to use the partners´ resources in a meaningful way becomes key.

The above reasoning leads to the following conclusion: when two companies possess heterogeneous resources it makes sense to interact in order to create something together, provided that the companies can make use of each other's resources in a meaningful way. The choice of value creating process for a specific relationship depends on the closure of the activity system i.e. whether it is a buying/selling, producing/using, cooperative or networking activity system. Each activity system implies different logics for value creation. Value is created by exploiting different types of interdependencies in order to achieve either a) efficiency in the exchange or b) a more effective use of each other's resources. The figure below illustrates the above reasoning. The positive trade off between benefits and sacrifices of involvement is argued to be a prerequisite for value co-creation potential in this study, something that is also illustrated in the figure below.

[10] Alderson (1957) originally brought forth the notion of marketing bringing together heterogeneous supply and heterogeneous demand. Thereafter this idea has been a basic assumption in a number of studies within industrial marketing (Liljegren 1988, Hägg & Johanson (1982), Richardson (1972), Williamson (1973, 1975, 1980). The discussion on resource heterogeneity is one of theoretical building blocks of the IMP view on relationships and networks.

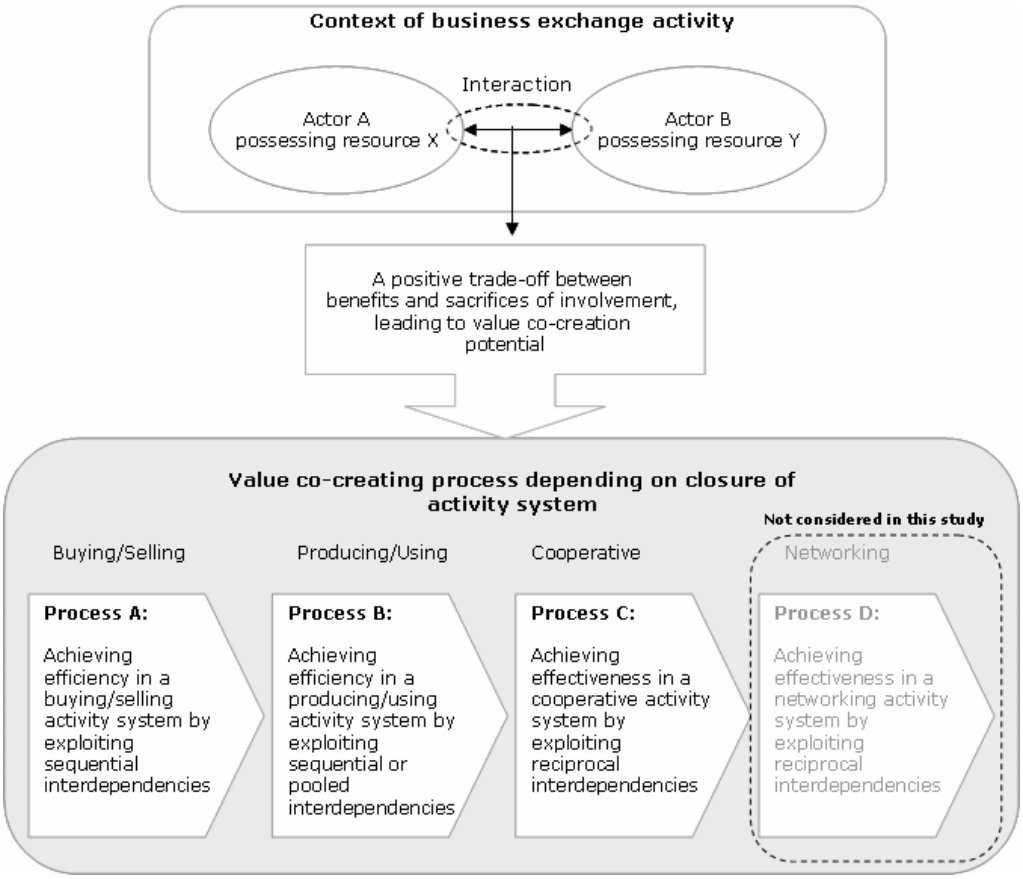

Figure 4.5: Different value creating processes through exploiting different types of interdependencies to achieve efficiency or effectiveness

Now let us turn to what literature says about different types of cooperative activity systems – what can be gained through cooperative alliances between companies.

4.6 Strategic alliances as cooperative activity systems

Relating back to the discussion at the beginning of the chapter where companies are seen as open systems it is argued that companies are influenced and affected by companies in the environment. At the heart of inter-organizational theory is the idea that organizations are not independent actors, but that organizations are in constant interaction with other organizations. According to theory of resource dependency companies create relationships in order to access and make use of resources possessed by others. By interacting with others, organizations can get access to and benefit from the resources possessed by others, outside the boundaries of the single organization as has been put forward originally by

theories on resource dependencies (Pfeffer & Nowak 1976, Pfeffer & Salancick 1978) and later by a vast amount of literature on business relationships and networks produced by the IMP group. In the IMP literature on relationships and the literature on strategic alliances companies are seen to be engaged in long-term relationships in order to take advantage of gains associated with cooperation, here referred to as value co-creation.

In the conceptual discussion it was established that companies create relationships with partners in order to get access to resources possessed by others if the outcome of the assessment of the trade-off between benefits of involvement and sacrifices of involvement is positive. In the focal case the companies explicitly state that their business relationship is a partnership. Therefore there is in the next sections a brief review of what both strategic management literature and marketing literature says about alliances between companies. Taking the strategic management perspective on relationships it is argued that companies establish alliances with partners in order to achieve something that cannot be achieved alone, supporting the ideas presented in industrial marketing about business relationships. A broad definition of an alliance is:

> *"Collaborative efforts between companies in which they pool their resources in an effort to achieve mutually compatible goals that they could not achieve easily alone (Lambe et al. 2002, p 141).*

Alliances are claimed to be established in order to solve a problem that one of the parties could not do alone (Borys & Jemison 1989). One of the most obvious reasons of entering alliances is the lack of certain capabilities (i.e. resources) for being successful (Das & Teng 2000, Day 1995, Hunt 1997). By cooperating and joining resources something more can be achieved than a single company could do alone (Dyer & Singh 1998).

Cooperative relationships between companies are regarded as "alternative forms" of governance between markets and hierarchies (Ring & Van de Ven 1992, Ghosh & John 1999) or hybrid organizational arrangements (Borys & Jemison 1989). Usually cooperative relationships are referred to as strategic alliances and can take different forms (Anand & Khanna 2000, Lambe et al. 2002, Vyas et al. 1995, Anderson & Narus 1990, Dubois & Gadde 2000, Gadde & Snehota 2000). Examples of alliances are: manufacturer-supplier partnerships, strategic purchasing arrangements, joint ventures, outsourcing, technology licensing agreements, and different forms of R&D consortia (Lambe et al. 2002, Morgan & Hunt 1994, Varadarajan & Cunningham 1995).

Borys and Jemison (1989) discuss four different types of strategic alliances, namely mergers and acquisitions, joint ventures, licensing agreements, and supplier arrangements. They collect all these inter-organizational arrangements under the umbrella of "hybrid organizational arrangements". The organizational phenomenon of a hybrid is defined as:

"*organizational arrangements that use resources and/or governance structures from more than one existing organization"* (p. 235).

The rationale for hybrids is that they are a way to gain advantages and get rid of the disadvantages of conventional organizational forms by drawing upon the capabilities of several organizations. The advantages can be associated with resource dependencies, transaction cost considerations, access to capital, access to technologies, or new markets. The case companies for this study – 'the Seller' and 'the Buyer' – refer to their relationships as a partnership. Let us now turn to see what literature says about partnerships and then move forward to start exploring the empirical case.

4.6.1 The buyer-seller partnership

The Borys and Jemison (1989) framework for analyzing strategic alliances as "hybrid organizational arrangements" offers insight into the management of interdependencies, and consequently different value creating processes. The case companies for the research, the Seller and the Buyer, declare that the relationship between the companies is a partnership, and therefore the partnership is here discussed as a form of cooperative relationship strategy.

The buyer-seller partnership is one type of (strategic) alliance between two organizations. Companies tend to enter into high-involvement relationships if it is perceived that there is something to gain in working more closely together. A customer taking a high-involvement approach to a relationship does not try to optimize the price in each single transaction. Instead, it aims at improving its operations in the long term by using its supplier's resources more effectively. In the same way a supplier that takes this approach, does not seek to maximize price and minimize effort, but instead work for improving both its own and the customers' business for the long term. This involves attempts to reduce the total costs of the relationship by effective adaptations done by both companies as well as innovating and developing new solutions together. Worthwhile noting is, however, that high-involvement approaches to relationships always are resource demanding (Ford, et al. 2003).

The assessment of possible benefits and sacrifices of involvement in any relationship cannot be made in advance. The assessment is made along the process of pursuing a relationship through interaction. A partnership is usually something that is created through interaction over time, building up trust and commitment between the involved parties (Anderson & Narus 1990). In the IMP literature relationships are seen as a company's most important assets, because without them it cannot gain access to the resources of others, acquire the supplies that it needs, or solve its problems and thus generate revenue.

Relationships are social entities where the possible benefits very much depend on the involvement of the two parties and the degree to which they are prepared to actively react, adapt, learn, and invest. Relationships are in many ways the assets that bind together all of the other assets of a company and convert them into something of economic value (Ford et al. 2003).

There are studies on how relationships evolve through different stages (e.g. Ford 1980) or steps from being more transactional into being increasingly relational. A relationship develops from interaction between individual actors, to co-ordination of the activities of the two companies, to adaptations of resources of the two companies. The degree of involvement is not a unilateral choice by either of the companies, but something that emerges through the interaction between them. A supplier may wish to have a high involvement relationship with a customer, but high involvement will only develop if that customer also wishes it to and the interaction between the companies leads to it (Ibid.).

Dwyer et al. (1987) suggest a five-step process framework for analyzing how discrete transactions might progress into something more durable. They argue that relationships evolve through five phases: awareness, exploration, expansion, commitment, and dissolution. The arguments for choosing to pursue a relational strategy (relational exchange) are manifold. According to Day and Wensley (1983) relational strategy can be seen to pay off in creating competitive advantage if it contributes to product differentiation, which creates a switching barrier for the customer. Jackson (1985) also discusses high switching costs as motivator for the buyer to maintain a "quality relationship" with the supplier.

Levitt (1983) uses marriage between husband and wife as an analogy when discussing relational exchange arguing that research shows that attraction and interdependence between husband and wife provides a good framework for describing how buyer-seller relationships evolve. The argument is that buyer-seller relationships involve analogous benefits and costs to a marriage. The benefits are reduced uncertainty and managed dependence (Spekman et al. (1985), exchange efficiency and social satisfactions - gains as a result of effective communication and collaboration (Dwyer et al. 1987).

What makes a relationship a partnership?

"... I would not like to call it a "way of doing", but instead a "certain philosophy". It is more like a religion. There are more similarities between religion and…you can not take this partnership and apply it directly to another relationship, now it has to build on mutual trust and it has to be based upon… one often hears talking about win-win, but people do not seem to understand what it means. They calculate money, but there are so many other things that you can gain than money." (Interview: Seller 2)

There is no simple or universal definition on what makes a relationship a partnership. Gadde and Snehota (2000) argue that "closeness" is commonly associated with partnerships, while Ford et al. (1998) takes this further by saying that "degree of integration" has to be considered in order to understand closeness. According to Gadde and Snehota (2000) none of these vague terms offer much help in understanding what a partnership is and therefore *involvement* is proposed as a relevant concept. Consequently a commonly used synonym in the IMP literature for partnership is high-involvement relationship, implying that involvement is a crucial element in a partnership. A distinction between three dimensions of involvement is proposed: coordination of activities, adaptations of resources, and interaction among individuals. These are labeled: activity links, resource ties, and actor bonds using the Håkansson and Snehota 1995 conceptualization. An integrated delivery system is an example of a coordinated activity, while a jointly developed product or process is an example of a resource tie. Interaction between individuals can be either more or less intense. If the interaction is close, the choices become more interdependent, which is said to affect both commitment and trust, which in turn impacts upon coordination and adaptations (Gadde & Snehota 2000).

4.6.2 The potential benefits of high involvement

The potential that lies in relationships is to achieve efficiency, to achieve innovation to influence others, both immediately in the relationship and in the wider network where a dyad is embedded. Relationships are assets and it is vital to examine and manage them at least as carefully as other tangible physical assets. However, relationships also involve costs: costs of investment, costs of disruption, loss of control, and possible negative affects on other relationships. Therefore it is important that managers regard their relationships as the unit of analysis in their activities, rather than simply concentrating on sales, offerings, territories, or operations.

The benefits of a high-involvement relationship are associated with effective communication and flow of information, increased predictability, reduced problems of misunderstanding and a chance for both companies to cope with their uncertainties, enhanced efficiency of the two companies combined operations and activities and a "division of labor" between them, based on their respective abilities and resource investment. Once achieved, a high-involvement relationship implies a certain degree of interdependence, which may be the source of considerable future business between them.

The benefits associated with high-involvement relationships can be summarized as follows:

- Access to both technical and commercial skills
- Lower operational costs
- Reduced development expenses for both companies
- Improved material flow for both companies
- Quicker and more cost efficient problem solving
- Reduced administration costs
- Learning, which can be applied in other relationships
- Access to other parts of the network

(Ford et al. 2003, pp 91-101)

Based on the above discussion on involvement I revise the figure on exploiting different types of interdependencies presented earlier, by exchanging the x-axis from interaction into involvement. The illustration suggests that more involvement is required in achieving economies of innovation than in the case of economies of integration. The argument is not that economies of integration would be possible to achieve with low involvement, but that the degree of involvement required for that is likely to be less than in the other two types of economizing suggested. Further the question most likely is not simply about different degrees of involvement (less–more), but also about different types of involvement, the rationale being that different types of involvement ameliorate the achieving of different outcomes. Economies of integration can likely be achieved by being rational and systematic, while economies of innovation will more likely be achieved through being adept and inventive.

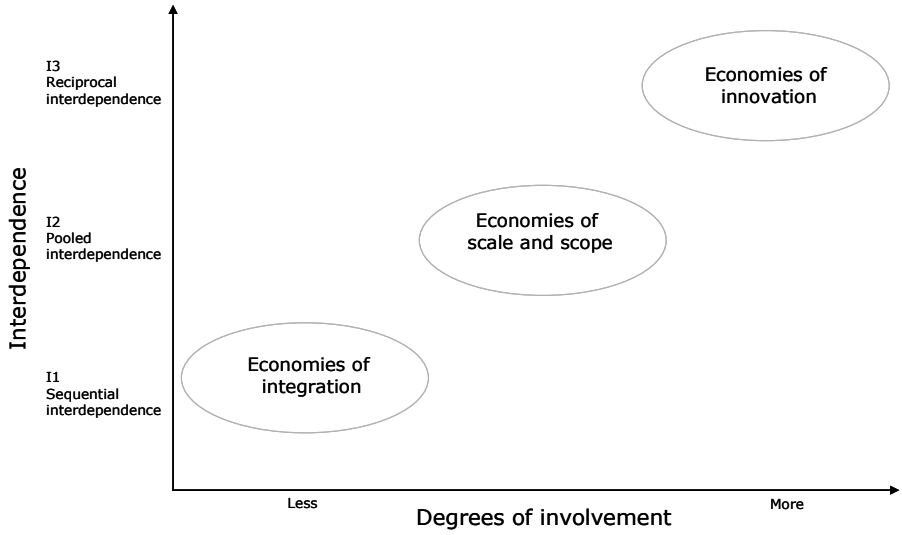

Figure 4.6: A revised illustration of the different outcomes as a consequence of exploiting different types of interdependencies

The question of win-win in partnerships

Vesalainen (2004) has studied partnerships and developed a partnership monitor framework for analyzing partnerships between companies. The monitor positions them on a scale between pure market transaction (zero sum game) and maximal partnership (win-win). He argues that a partnership is not a "yes" or "no" type of question, but rather a question of "to what extent". One of the most difficult issues to handle regarding partnerships is the question of win-win where both parties gain, in contrast to the notion of a zero-sum game, where one of the parties wins at the cost of the other. The prerequisite for a win-win situation is that the cooperation generates something to share between the parties. In a true partnership the parties agree on the value created, and they are both aware of the process involved, plus the value is shared in a fair manner between the parties.

Further Vesalainen concludes that what is complex about assessing value is that value does not only relate to costs, but to volume, reference value, learning, innovations etc. as has been recognized in previous studies and discussed earlier in the section on value. He also discusses the impact of time in the development of a partnership - how long can one party invest in the partnership and wait for the payback? There is no flawless system for calculating the benefits, which leads to a situation where one deals with issues related to evaluation. If the basis for evaluating the benefits differs between the parties, there is an obvious risk for conflict. Therefore it is vital to communicate and discuss the perceptions of benefits and the sharing of it, between the parties, in order to create and sustain a partnership. The more articulated and structured the handling of issues related to benefits and the sharing of the value, the better the chances for a fruitful partnership (Ibid.).

4.6.3 The costs of a high-involvement relationship

"High-involvement relationships are costly because coordination, adaptations and interaction entail costs" (Gadde & Snehota 2000, p 310). The logic for a high-involvement relationship is a) to benefit from *cost benefits* i.e. reduced costs in production and material flows, improved flexibility and service levels or b) to benefit from *revenue benefits*, by taking advantage of supplier skills and capability to improve quality of product. "Increased involvement makes sense only when the consequently increased relationship costs are more than offset by relationship benefits" (Ibid p 310). A partnership is said to be an appropriate relationships strategy when the business volume between the parties is considerable, when the relationship is long-term and stable, and when the supplier is the single source for the specific resource (Ibid.).

The senior vice president for marine operations at the Seller the issue of dependence is one of the key issues when discussing high-involvement relationships with customers. There is always a risk in getting heavily involved with one partner. How can you be sure that you do not miss out on something else that is happening in the market? How do you preserve the balance of not seeming to be favoring a certain customer in the eyes of other customers? There is a certain risk involved in specializing because specializing means that the resource becomes less valuable to alternative uses, which is why dependence can be viewed as a risk from a single company's perspective (Dyer and Singh, 1998). The assessments of the benefits and sacrifices that are involved in a cooperative relationship with one partner have to be made for each specific case.

4.7 Summary

In summary it can be said that value co-creation in a buyer-seller relationship can be achieved if there is interdependence between the companies. If there is interdependence and there is a positive trade-off between the benefits of involvement and sacrifices for involvement, there exists value co-creation potential. The potential is realized through exploiting interdependencies in order to create exchange value or use value. Value co-creation implies a high-involvement relationship. A partnership is a type of alliance, which requires high-involvement. This reasoning is summarized in the figure below.

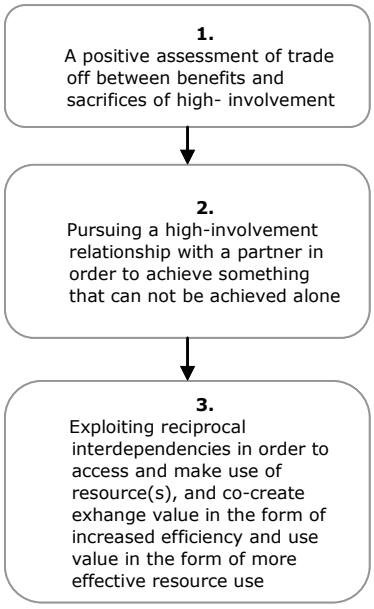

Figure 4.7: Summary of the conceptual discussion on value co-creation through exploitation of interdependencies

The following chapter, number five, is the first of the two chapters that describe the empirical case of the study. Chapter 5 contains a description of the studied industry, the companies involved and the specific carachteristics of the focal dyad in the marine industry.

5. A DESCRIPTION OF A BUYER-SELLER DYAD IN THE MARINE INDUSTRY

The following chapter is a description of a buyer-seller dyad in the marine industry. The seller is a diesel engine supplier for ships and power plants world-wide. The buyer is a cruise ship owner and operator. In order to maintain the confidentiality of the companies and the people involved in the study, the company names are replaced with "the Buyer" and "the Seller" throughout the text, when referring to people the reference is buyer representative 1, 2, 3 (BR1, BR2), and seller representative (SR1, SR2…) consequently. The numbering of the respondents follows the order of the interviews (see Appendix 1) so that BR1 is the respondent to buyer interview 1 and so forth. When a person is not a respondent his/her name has been replaced with NN.

The chapter starts with a description of the context where the two parties are operating i.e. the world ship building industry, the cruise industry, and the marine diesel industry, followed by a detailed description of the focal dyad, a description of the interface between the companies.

5.1 The context

The shipbuilding industry is said to be a conservative industry, a business with an annual growth of only 2-3 % globally. The main players on the market are shipping companies that operate ships and shipyards that build ships. The business is volatile, characterized by business cycles, waves of building specific ship types (e.g., tankers, cruise ships, container ships). The waves depend on general world economic cycles, on speculation within the different industry sectors, and on transport demand. Due to the volatility of the market it is vital for suppliers in the industry to be able to predict the current wave, in order to have the right products and the right kinds of engineering in place at any given time. For the companies that are not able to catch the wave, growth figures will be likely to remain below 3 %, even on the negative side, while a company that is successful in predicting a wave is likely to reach higher growth figures than the general industry growth.

There has been a container ship wave going on during the last years that is still continuing (2003-04). This has to do with the great amount of production of goods in China and other parts of Asia that are transported to other parts of the world. One prediction for this wave is ships for transporting gas due to the increasing focus on environmental issues in energy production. After the gas ship wave there might be a cruise ship wave in turn; this all depends on the general world economy. Currently there is a disadvantage for building cruise ships in Europe due to the strong euro and weak dollar.

The world cruise industry is dominated by a few big players: Carnival Plc., Royal Caribbean Cruises Ltd, and Star Cruises. The industry in itself is quite young and in great expansion. At present only 3 % of American tourists are taking cruise vacations. Obviously there is still a large market for the cruise companies to conquer.

The marine power market is dominated by a few big players: MAN, Wärtsilä, Caterpillar (MaK) and General Electric. The focal Seller of this study is considered the premium brand on the market representing the highest quality and price. (Interviews: Seller 1, 2, 7, Buyer 9).

5.1.1 The actors and the setup in a ship building and operating context

The classical market relation, or the "*classical dyad*", illustrates the most basic market relation, where there is a buyer and a seller that interact on a market (Gummesson 1995). In the ship building context the basic setup of actors is a triad instead of a dyad. The triad consists of a ship owner, a shipyard, and a focal equipment supplier.

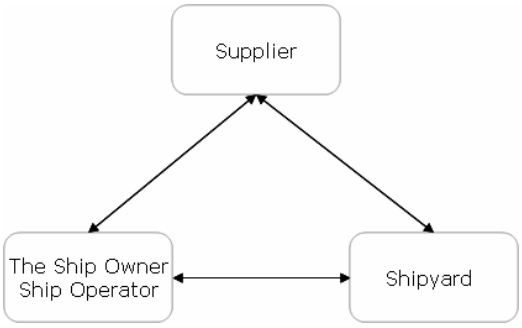

Figure 5.1: The triad in a shipbuilding project

The ship owner or operator, in this case the Buyer, is the company that operates ships in order to create business and profit. The owner builds ships by ordering a ship from a shipyard. Most cruise ships in the world are built in Europe, due to the accumulated knowledge and skills of the European yards in carrying out cruise ship projects. Building a ship takes about 2 years, during which time the ship owner is engaged in intense interaction with the shipyard. The actual project is preceded by an intense period of months even years of planning, designing, bidding, and negotiating. However, what is relevant in this context is that the ship owner only has a relatively short, intense period of interaction with the yard

during a new building project.[11] After the ship has been delivered and the warranty period (usually 1 year) from the yard is over, the ship owner operates the ship and deals with all the equipment that is installed on board for over 20 years. This puts the cruise ship owner in a situation of having approximately 3000 different counterparts to interact with while operating a cruise ship.

When the ship owner starts planning a new building project there are a number of major issues to be solved. Among which the choosing of suppliers for major equipment installed on board is one. For a cruise ship the most important equipment are air conditioning, power supply, toilets, and galley equipment. Most often the ship owner has a preference for suppliers of major equipment, usually based on previous good record and associated with striving for economies of scale. The shipyard suggests the preferred suppliers for major equipment to the ship owner. However, sometimes the owner insists on a certain supplier and trades off having a specific supplier to a higher price, while there might be cases where the owner settles for what the yard suggests as its standard to a standard price. The latter case might be seen in projects involving more simple ship types, like standard container ships. In the case of a complex ship like a cruise ship, the decision about major suppliers is hardly ever likely to be a "standard" one.

A shipyard is in the business of building ships at a profit. The shipyard makes money on the difference between the cost of the installed equipment plus the cost for work and the price that it gets for the ship from the customer. The economic logic for the yard is to buy equipment at minimum price, construct the ship as cost efficiently as possible, and to sell the whole package at a maximum price. The shipyard offers a ship to the owner at a set price, according to a specified makers list. The makers list specifies the suppliers for major equipment at a set price. The shipyard can economize by offering standard ship designs and achieve both economies of scale and specialization by collaborating with sub-suppliers. In its simplest form the logic and main interest for the shipyard is cost reduction - shipyards are cost conscious, concentrating on cutting costs in order to maximize profit.

However, it should be mentioned that there is an ongoing trend where shipyards are increasingly starting to think along the lines of long-term customer relationships and about the benefits of collaboration with both suppliers and customers.

The figure below illustrates the actors in a ship-building project and their roles and goals in the context of a ship-building project.

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[11] What deserves mentioning is that ship owners increasingly do engage in long-term relationships also with shipyards. This is due to economies of scale associated with ordering series of ships and the accumulated skills of the shipyards, which enable joint planning, design, and product development.

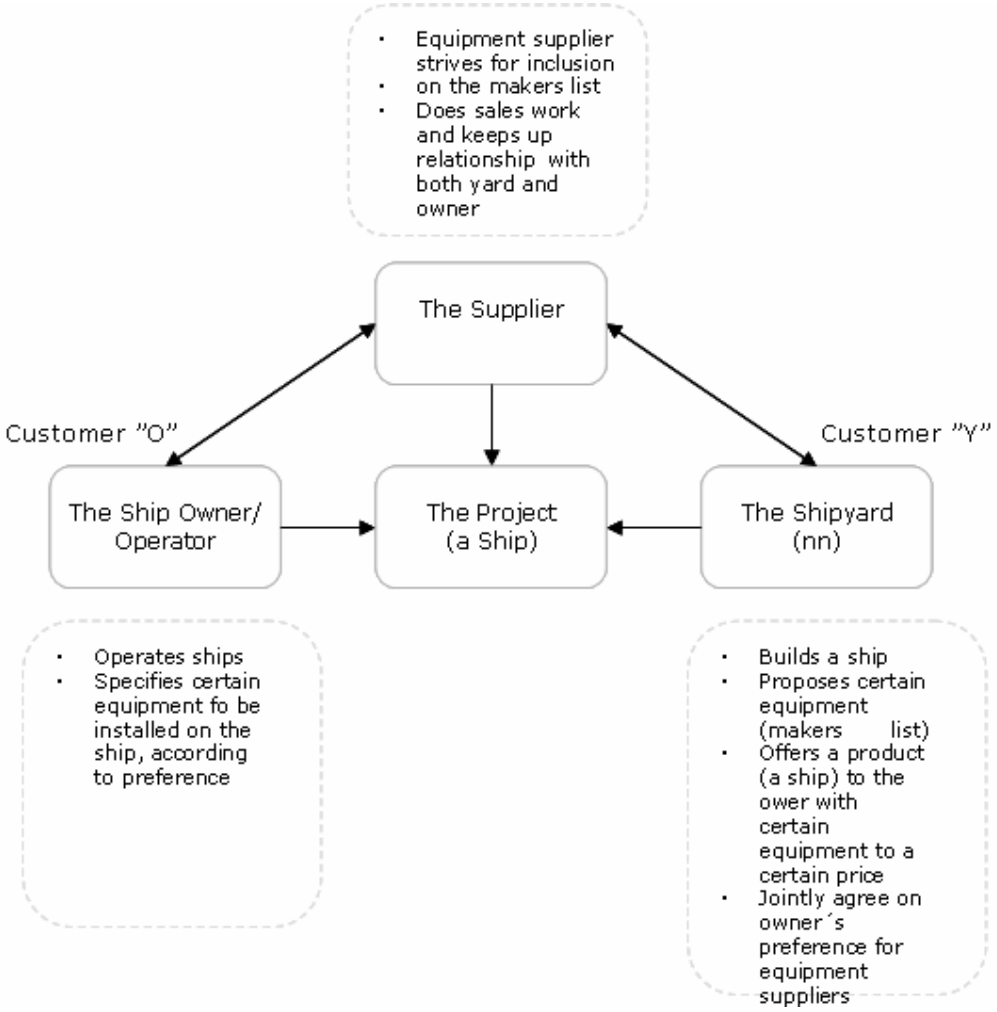

Figure 5.2: The actors and the setup in the shipbuilding context

The shipyard is the construction site for the ship on which the diesel engines in this case are installed. The shipyard makes constant efforts in marketing and selling its services to ship owners around the world. For each new project the owner chooses with great care the shipyard that is going to get the new building project.

What makes the setup challenging and interesting for an equipment supplier, in this case for the Seller, is that the supplier works with two customers that have different needs. The Seller faces a market with two main customer segments that both require a different approach when it comes to sales, project work, and relationship management. On one hand there is the ship owner or operator who has a long-term focus and who is concerned about operational efficiency in the long run; and on the other hand there is the shipyard that constructs the ship and wants to make a profit on sales while maintaining a good relationship in anticipation of new projects. For the Seller this obviously poses a challenge with regard to relationship management. The challenge is manifold; balancing between the

interests of the yards and owners requires people who have the skills and experience of a delicate situation in a business that is said to be conservative, traditional, and small in the sense that "everybody knows everybody". To be an equipment supplier for the ship building industry means that one aims to continue business through repeated purchases. The goal for the Seller is to stay in business by doing a good job and thus by being considered for the next new building. The world is a small marketplace in this industry and the importance of building up good relations and sustaining them is vital for continued business. The customer base is limited and therefore the impact of reputation on the market is very important; word of mouth spreads fast in the inner circle.

The economic logic for the Seller when selling engines to a ship is that the engines themselves are sold on a very competitive market, while the anticipated future business of providing service work and selling spare parts is a more sustainable business. Therefore the Seller increasingly focuses on the end-customer, the ship operator at an early stage of the process. By offering an interesting package for service and maintenance of the engines during the lifetime of the ship, the Seller is likely to attract the interest of the ship owner.

The question, whether it is the yard or the owner who makes the decision about equipment, seems to vary case-by-case. For certain companies it is quite clear that the ship owner has a strong preference and will decide upon main equipment suppliers, whereas in other cases the shipyard has more influence. Consequently, equipment suppliers have to be aware of the situation for each new project in order to design the suitable sales tactics. In practice this seems to be common knowledge within the industry – something that "everybody who has been around for a while knows".

Recently there have been signs of attempts to gather all three parties of the triad around the same table to cooperate in designing the optimal solution for a cruise ship, a matter where the Buyer has been a forerunner. The logic being that by cooperating and solving things jointly at an early stage of the project, bringing everybody's accumulated specialized knowledge to the table, there would be objectives to be achieved that nobody could do alone (interviews).

The focal dyad

The focal dyad for this study is the relationship between the Seller, the diesel engine supplier, and the Buyer, the cruise ship owner. Even though the shipyard is an important actor and the relationship with the yard is crucial for both equipment supplier and ship owner, the yard will be left outside of the focus of this study. This is because the study focuses on the development of the partnership between the Buyer and the Seller. Including the shipyard would make an interesting study, but one with a different focus.

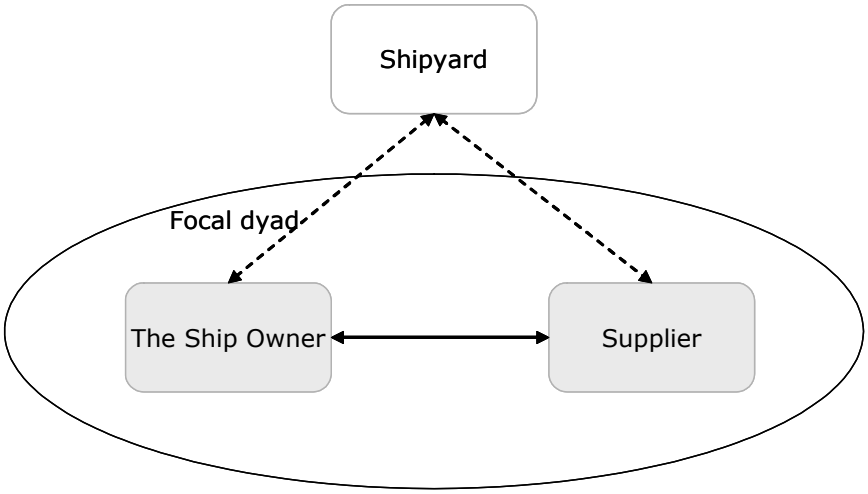

Figure 5.3: The focal dyad of the study

The sales phase

The interaction between the ship owner and the supplier starts in the sales phase. The duration of the sales phase can be everything from months to years, depending on the case. The sales phase is when the Seller discusses with both the shipyard and the ship owner, in order to be accepted as an option on the makers list. The discussions with the yard are mainly about scope of supply, technical & design features, the price of the engines, and issues related to delivery. The discussion with the ship owner, on the other hand, is dominated by total life time cost, after sales service support, availability of world-wide service, reliability, fuel costs, environmental issues etc.

The project phase

The next phase is the project phase – the phase when the ship is built at the yard. The project phase normally takes about two years, during which the Seller cooperates with the shipyard on technical and design matters as well as issues related to delivery and installation of the engines.

The warranty period

When the ship has been delivered, the yard has a warranty period towards the owner. The warranty period usually lasts one year. During this time, the yard handles the communication with the owner and is responsible for all matters. When the warranty period

has expired the ship owner deals directly with all the different suppliers instead of going through the yard.

The after-sales/operations phase

The operations phase (or after-sales phase, as it normally is called among the equipment suppliers) is a phase that normally lasts from 20-25 years in the case of ships. The length of this period depends on how long the ship is in traffic or how long the owner has it in its possession. This is the phase when the ship is in traffic preferably every day and generates as much revenue as possible. This means that the ship has to be run as cost efficiently as possible. This is when the Seller helps the Buyer to maintain, service, and monitor the operations of the fleet so that it can be run as safely, reliably, and cost efficiently as possible.

The life cycle of a ship, the process from the new-building project to operations is illustrated by the figure below.

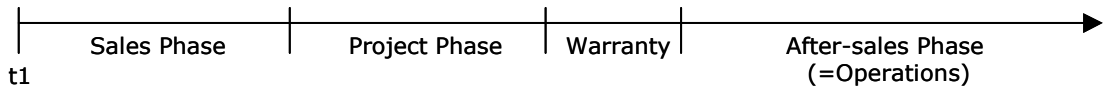

Figure 5.4: The major phases of the "Ship" project

In the case of the Buyer and the Seller, the business relationship is in all of the above-mentioned phases simultaneously. As the Buyer has a number of ships of different age and new ships constantly under construction, the relationship is in the sales, project, warranty, and operational phases at the same time. This causes a situation that demands a great amount of involvement and communication between people from different parts and levels of both organizations at all times.

A tailor –made customer ionterface

Due to the great amount of communication and coordination between the Seller and the Buyer, and to the facts that the Buyer is considered a strategically important customer for the Seller, and that there has been a decision to develop a partnership between the companies, the Seller has tailor-made its organization towards the Buyer in order to improve and smoothen the handling of the relationship with the customer.

In normal cases the Seller has different organizational units taking care of sales work and after sales work towards the customer. This arrangement often causes disruption in the relationship. The customer has to deal with different parts of the Seller organization in the middle of what for them is one project. However, in the case of the Buyer the arrangement is different. The same people take care of all the Buyer–related matters regardless of phase of the process in order to serve the customer better.

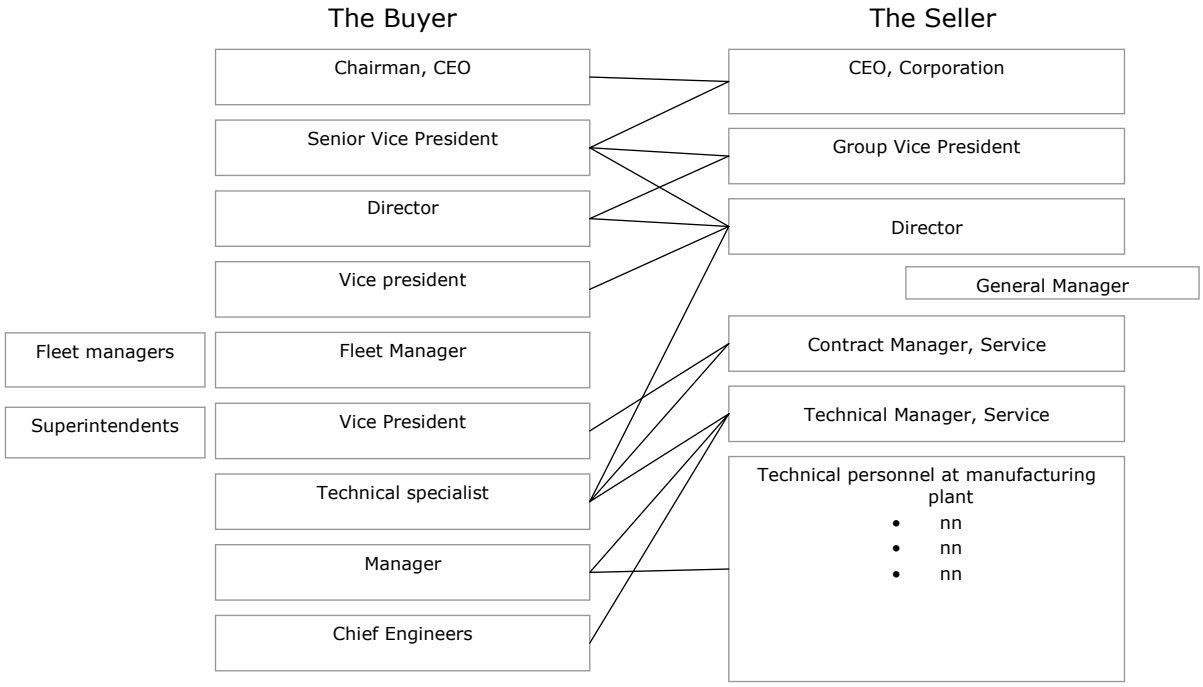

Figure 5.5: Interaction pattern and individuals during fall 2003

The tailor-made organization consists of Mr SR1&2, who is the main person responsible for the management and development of the relationship. Mr SR1&2 works with his the Buyer team that consists of Mr SR5, who is the technical manager and Ms SR4, who takes care of contractual and administrative matters. This core team of three people mainly handles the interface towards the Buyer and communicates with the rest of the Seller organization on the Buyer –related matters. In organizational literature this kind of arrangement is often referred to as a key-account organization where Mr SR1&2 would be the account manager who together with Mr SR5 and Ms SR4 would constitute the Buyer account team.

The Buyer is currently taking action to create a similar type of constellation on its side. Mr BR9, who is president of both marine and hotel operations at the Buyer, has been the visionary for the partnership. Together with Mr SR1&2 at the Seller he started the development of the relationship already in 1997.

At the beginning of 2004, right in the middle of this research project, Mr BR9 appointed Mr BR15 to take care of the partnership development project. Mr BR15 in turn has appointed Mr BR11 to be in charge of the development of the relationship with the Seller in the future. On the Seller's side the service manager has also become more involved in the partnership during 2003-04 and is increasingly involved in communicating with Mr BR11 at the Buyer.

The figure below illustrates the interaction interface between the companies during spring 2004.

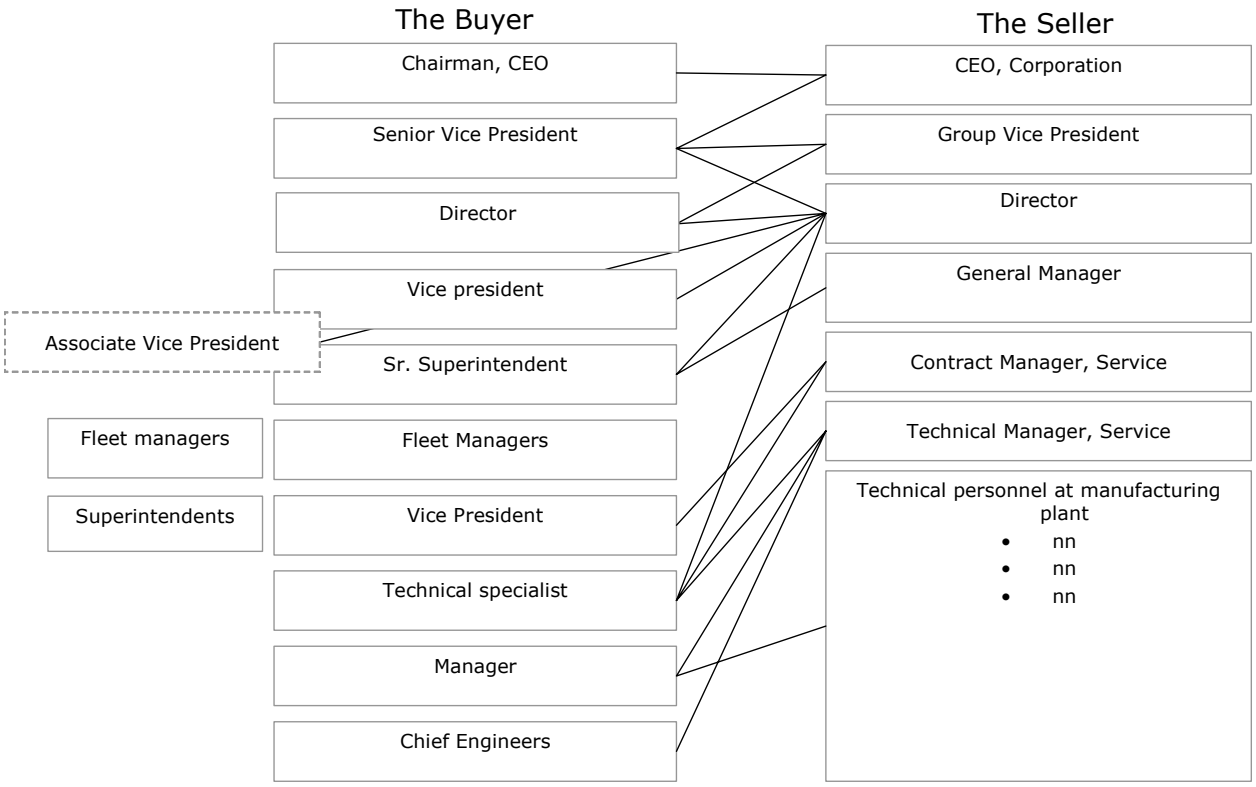

Figure 5.6: Interaction pattern and individuals during spring 2004

Of the people listed on the Buyer side there are three persons who have previously worked for the Seller, namely Mr BR1, Mr BR4, and Mr BR12. This is a factor that has been important in the development of the relationships and that will be discussed later in the text.

5.2 The companies: the Seller and the Buyer

The Seller is one of a total number of 3000-3500 suppliers to a cruise ship. Regarding importance, both strategic importance of the product and the investment the Seller is among

the top 10 suppliers for the cruise customer. To date the Buyer has operated a number of cruise ships all over the world, of which part are powered by the Seller's engines, a total of some 70-80 engines. The Buyer considered itself as a forerunner in all of its undertakings. Choosing the Seller as its main supplier for ship power supply is in line with the company's overall image as the Seller is commonly known to be the "Rolls Royce" of the ship power market.

> *"The Seller is in fact the best engine that money can buy; there actually is no other engine that is even comparable. The Seller is simply the best engine." (Interview: Buyer 4)*

The top priority for the Buyer when operating cruise ships is safety and reliability; the diesel engines play a vital part in delivering this promise to the Buyer's customers. The Buyer´s main business is tourism – to create dream vacations for tourists. The most important concern for the company is that the fleet operates as safely and reliable as possible. An engine breakdown resulting in a day at a harbor, or inadequate electricity supply on board the ship, can be a great safety risk and an economic disaster for the company. The Buyer aims to "deliver the most outstanding vacation experience" whereas the Seller "offers the most effective solutions to all marine power and propulsion needs".

The management at the Buyer states that the core of all operations is total guest satisfaction. The foundation that the company stands on is safety and compliance and they have a high integrity. Personal and professional integrity are present in all undertakings and the company focuses on employee satisfaction. The main objective in all operations is shareholder value i.e. financial performance (Company presentation by Mr BR9 at partnership seminar 1, Jan. 2004).

The management at the Seller states that the company vision is to provide competitive, reliable and environmentally sound solutions on ship power and distributed power generation markets. The worldwide network of the Seller employees translates and delivers the solutions to the market. Customer satisfaction is an underlying goal in all undertakings. The mission is to improve the performance and profitability of the customers' business by providing reliable and cost effective total marine power solutions while fully respecting environmental demands. The next steps in the ship power supply strategy are to become a solutions provider, to focus on services and know-how management, and to retain the environmental leadership and total lifetime cost leadership. (Company presentation by Mr SR7 at partnership seminar 2, May 2004).

5.3 Summary

This chapter was a brief overview of the context where the focal dyad of the study is situatied. The chapter gave an overview of the market where the companies operate and the specific industry catachteristics of the marine industry. The interface between the two companies was also presented.

The following chapter is devoted to a detailed description of the relationship between the two companies over time. The emphasis will be less on facts and figures in order to maintain anonymity of the companies, and more on an understanding of the relationship between the companies, how the relationship has developed over time, understanding critical events, and the challenges that the companies face both in their own operations and interaction with each other, the resources that they possess, lack and need, and consequently on why it is interesting for them to cooperate with each other.

6. THE DEVELOPMENT OF THE RELATIONSHIP BETWEEN THE BUYER AND THE SELLER

The relationship between the Seller and the Buyer has lasted for some 30 years. Since 1999 the relationship between the companies has been governed by a *cooperation agreement* and the involved parties refer to their relationship as a *partnership.*

The following chapter will lead the reader through a journey of developing a partnership between a buyer and a seller in the marine industry. The chapter starts with a short general overview of the development of the relationship.

This is followed by more detailed descriptions of the different phases of the relationship, starting with 1970-1990 describing the more traditional buying-selling years of the relationship. Further into the pre-partnership years of the 1990's when events started moving towards increased cooperation before the first cooperation agreement in 1999.

After that describing the years during the first five–year cooperation agreement. More specifically 2003 when the discussions about a renewed cooperation agreement started and 2004 when there was intensive work done in both organizations to get the partnership working better for the next five year period.

The analysis of the birth of the partnership i.e. the process of the development of the buyer-seller relationship is carried out by using a slightly modified version of the framework for a processual analysis of a buyer-seller dyads suggested by Halinen and Törnroos (2004).

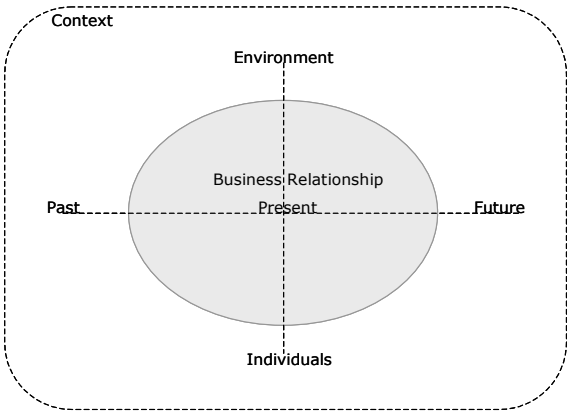

Figure 6.1: A framework for the processual analysis of the focal buyer-seller dyad (adopted from Halinen and Törnroos 2004)

The above framework can be seen to suit the purposes of this study because the focus of analysis is the development of the "way of doing business" or the "business activity system"

(Håkansson & Prenkert 2004) between the buyer and the seller from a more transactional mode to a partnership, using the Håkansson and Prenkert vocabulary; from a producing/using and buying/selling activity system, to a cooperative activity system, with special focus on value co-creation. Value is here seen as a dynamic phenomenon, something relative, context and actor dependent. The analysis over time enables the capturing of dynamics i.e. how things have evolved over time and how events in the past affect the present moment, how future expectations shape the present and how the present colors how we interpret the past. The different levels - individual, business relationship, and environment - enable an analytical discussion on how these three levels are intertwined and all affect each other and how the perception of value relates to the different levels.

The underlying idea of a partnership between two companies is that there is something to gain from cooperating in the long run by pursuing a high-involvement strategy, instead of working short sightedly to optimize each transaction. The logic is that the parties need each other's resources, and high-involvement is seen to be the best way to make use of the resources i.e. the trade off between benefits and sacrifices of involvement is positive. The aspects that are included in the benefit-sacrifice function depend on time, context, and actor, the demonstration of which is my aim throughout the analysis of the empirical case.

6.1 A general overview of the relationship

The Buyer currently has a fair amount of vessels operating with the Seller engines. Since 2000 the relationship has been governed by a cooperation agreement that contains commitments and obligations for both parties related to transactions, maintenance planning, reliability, and operational issues.

At the outset, when the Buyer company was founded in the late sixties it was owned by three shipping companies. The interaction between the buyer and the seller mainly took place between the Buyer and the Seller in Europe. In the 70's and 80's the business between the two companies could be characterized as a more traditional buying-selling –type of transactional activity. The Seller was supplying engines to the shipyard where the Buyer´s ships were built.

It was only in 1993 that the first service agreement between the two companies was signed. According to the service agreement the Seller was to take care of service and maintenance of the engines during the operating of the vessel, after the initial engine delivery to the shipyard. This was a general industry trend in the 1990´s, namely to take care of the power supply, from delivering the engine to maintaining it and servicing it throughout the lifetime of the ship. This commitment is still strongly emphasized in the Seller's vision.

In 1997 when Mr BR9 got the position of managing operations at the Buyer, the company was struggling with high operating costs and was trying to find ways to lower them. This is when the first discussions of a widened and deepened cooperation between the two companies were initiated by the customer. The two companies tried to find a way to take care of the service and maintenance of the Buyer´s fleet within the frames of a service agreement. However, the discussions did not turn out satisfactorily from either party's view. As a result of this the Buyer made the decision to start building up its own service and maintenance organization in-house, which meant a loss of business for the Seller service organization in the US.

In 2000 a partnership agreement between the Seller and the Buyer was signed. Mr BR9 at the Buyer initially took the initiative to the agreement at a time when he had recently been appointed manager of operations at the Buyer. By coincidence it so happened that at the same time the Buyer was experiencing several problems with engines and even some engine breakdowns. According to Mr BR9 himself he felt helpless and desperately needed someone, a reliable partner with whom to share his concern and responsibility. This was one of the triggers for the initiative to start discussing a partnership between the two companies. A period referred to as the "interesting epoch" between the companies started in 1997, when Mr BR9 and Mr SR1&2 started interacting in the relationship. These two men had a shared vision of what a partnership was and what they wanted such a partnership to achieve. Still today, these two men are the main drivers of the partnership between the two companies.

In the 1980´s and 1990´s, Mr BR9 had been working for a Scandinavian shipping company. During his time as manager of operations at this company, he had done business with the Seller. Among other things, he was the first customer for the Seller XX-type engine for an installation at NN in the 1980´s. According to Mr BR9 the relationship with the Seller during these times was very good. Interaction and communication were informal and smooth. Most issues were solved at joint informal sauna sessions. Thus the relationship between Mr BR9 and the Seller has been built up during several years of interaction in the past.

In the following sections I present a more detailed and thorough description of the development of the relationship from a more transactional –type of business interaction to what presently, 30 years later, is referred to as a partnership.

6.2 The early years of the business relationship 1970- 1990

The business relationship between the two companies started in the late sixties. In the beginning of the 70's the first ship was built at the Seller shipyard. The ship was launched in the fall of 1970 and was the first of a series of three ships. The rest of the series were built during 1970-1972. The next ship was launched in 1982, some 10 years after the first series of ships. In the mid 1980's there was a break in the new building projects, as the Buyer ordered three ships at a shipyard in France. This foreign order was because the company wanted to get experience from other shipyards. At the time the French shipyard, Chantiers de l'Atlantique, was keen to get into the cruise ship segment and was willing to offer a lower price to get the deal. The Seller was not able to compete with the price so the ships got Pielstick main engines and the Seller auxiliary engines. Already at that time the Seller was not among the least expensive alternatives on the market.

> *"Internally we tended to say that they (the Buyer) never dared to go into a meeting with the Seller, because it always cost them 100 000 dollars to go to a meeting. There were always new, extra costs coming up" (Interview: Seller 8).*

In 1988 the Buyer became an American company as a consequence of events that occurred when one of the owners wanted to sell his share of the company. When his wish to sell became public, one of the other owners also wanted to get out. This owner was a company that had already moved out of the country to have its head quarters in London and concentrated on tankers and ships for transporting gas. Consequently Mr NN was left alone; he had one month to come up with the money to be able to buy the shares of the two owners who wanted to sell their shares of the company. A major competitor had placed an offer for the shares, but Mr NN did not want to give the company into the hands of the competition; finally he was able to find investors in America. An American family invested in the company and brought in the needed capital. This is how the Buyer became partly American. Later the majority of the ownership has shifted to American hands.

Before the company became American in 1988 the relationship between the Seller and the Buyer was said to be very good and informal. It was said that during those times the people from the Buyer often came to the Seller's production site where they had informal get togethers in a relaxed atmosphere. Today the Buyer is said to be a typical American customer, demanding and professional.

> *"At the time we had very good contacts with them… we went in and out in their headoffice as if it were our own house" (Interview: Seller 8).*

The relationship between the companies continued well even after the alterations in ownership of the Buyer. Especially Mr NN, one of the two founding brothers has been important in the relationship.

The beginning of the relationship in the 1970's was said to be very good. Later, in the 1980's the Seller made some mistakes that lead to a groove in the relationship during 1987-89. Difficulties had to do with disruption of good, established personal relationships between people at the two companies.

During 1988-89 when the Seller organization underwent a change in top management and there was also a change in how the company was organized. As a consequence one of the production sites got to have its own sales organization for the XX-type engine. Already at this time Mr SR1&2 established a good contact with the Buyer. This is when the Seller got the deal for main engines on the next Class, and later the following Class of vessels.

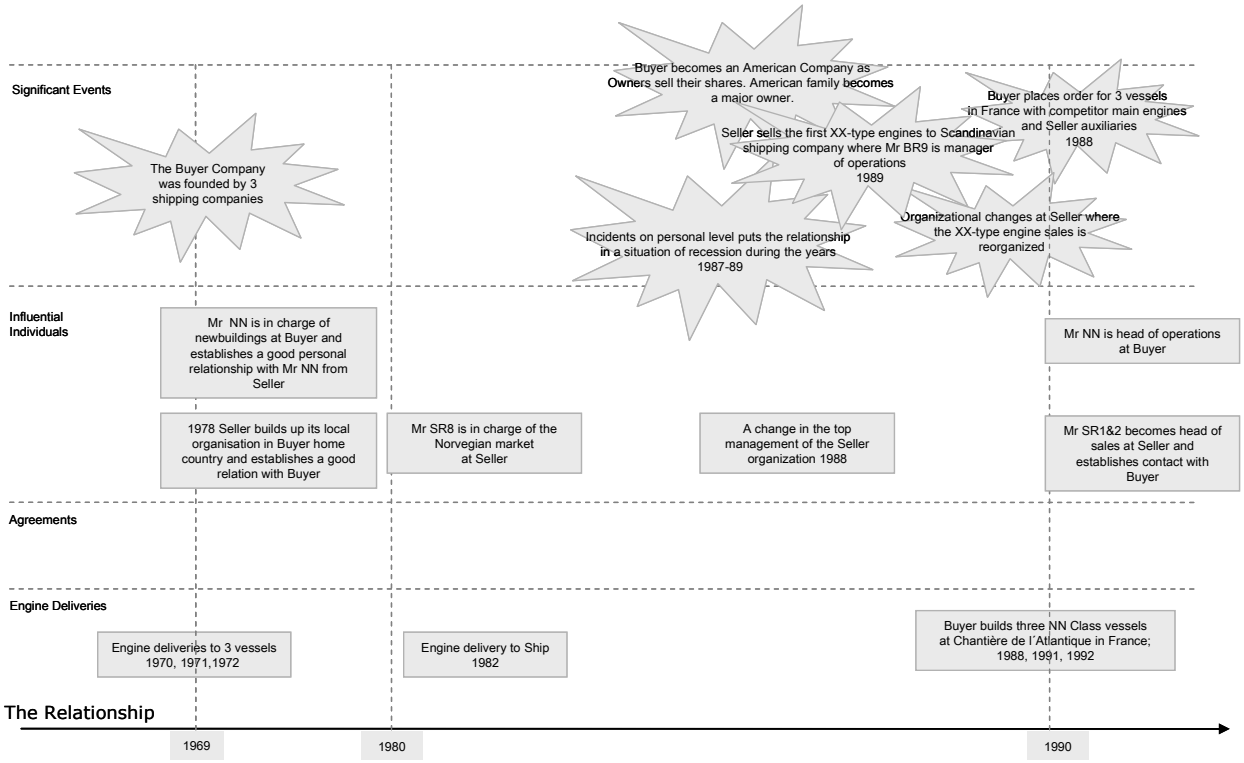

Figure 6.2: An illustration of the development of the relationship from 1969 to the early 1990's

What deserves emphasizing is that in the 1980's Mr BR9 worked for a Scandinavian shipping company, trafficking cruise ships mainly in the Baltic Sea. During his time as technical manager at his previous employer he was the first customer for the first the Seller XX-type engines that were installed on two of the company's ships. Later, in the 1990's he moved from this company to work for the Buyer.

"It is BR1&2 and BR9 also that … you see, it (the relationship) goes back to times in Scandinavia. Back then it was done… as they both say, back then contracts were made over vodka and sauna". (Interview: Buyer 15)

6.3 The pre-partnership years of the 1990's

Mr SR1&2 was appointed responsible for the Seller Marine sales on the US market in 1991. Two years later the first service agreement between the companies saw daylight. The agreement was a service agreement for the NN Class vessels, an agreement where the Seller took responsibility for delivering spare parts, service, and maintenance work for the engines. It was an agreement that marked the direction towards wider cooperation between the companies.

In 1994 the Buyer ordered two ships with competing engines. The Seller lost the main engine competition to a competitor. In 1995 and 1997 the Buyer built two NN Class vessels in France with the Seller main engines. In 1996 the Buyer returned to the Nordics to build the next Class vessels. Two years later, in 1998 the first of a series of five ships was launched.

According to Mr SR1&2 the interesting period (referred to as the interesting epoch) in the development of the relationship between the companies started in 1997 when Mr BR9 took over management of marine operations at the Buyer and Mr SR1&2 and Mr BR9 started envisaging and discussing a partnership. Mr BR9 initiated the discussions about the partnership with the aim of operating the Buyer fleet as efficiently and safely as possible. He wanted to develop the relationship between the Seller and the Buyer into something unique, something that would serve as a benchmark for the rest of the industry. In 1997 and 1998 the Buyer experienced three breakdowns on engines, incidents that lead to high costs. These incidents were a catastrophe for Mr BR9 in his new position and can be seen as triggers for the development of a partnership with a trusted partner. Mr BR9 believed that by working together and cooperating both companies could win in the long run.

" Yes, he was quite helpless... He was in trouble and he needed help, he turned to us for help, but did not get any (...) The question at the time was like throwing a life-buoy to someone who is about to drown and is struggling to keep his face above the surface of the water. (Interview: Seller 2)

During his time at his previous employer in Scandinavia Mr BR9 felt that cooperation and communication was smooth with the Seller, that they had an understanding, and were able to agree on things and create things together. Later his aim was to create a similar type of relationship and an atmosphere of cooperation between the focal Buyer and Seller.

"He (BR9) often talks about the unofficial relationship that the Seller had with them during his time at his previous company. Previously he was in charge of technical operations at another shipping company, their technical manager. He says to me: why can you not get this to work like it did in back in the old days? Back in those days we took the chief engineers and his technical staff out to the woods, we had sauna and drinks and told stories and went through all the problems and solved them ... in fact in the same way, but without the formal commitment, but between two local groups of people. I mean we had the same language and the same background and we were few enough that we could fit into a sauna together. And this worked well... and I think that... what BR9 experienced during the timesin the past is what he aims at in the case of the Buyer, but it has to be done in a different way. (Interview: Seller 2)

During these times the Buyer and the Seller started discussing different ways of dealing with the needs of the Buyer, how the Seller could help the Buyer to create a safe and reliable fleet in an economically defendable way. People from both marine and service management at the Seller traveled to see Mr BR9 in order to work out an understanding. However, the parties were not able to come to an agreement on how service work was to be carried out and at what price. As a consequence the Buyer made the decision in 1997 to start building up its own service organization and take care of service work in-house.

6.3.1 The the Buyer riding crew

The years before the first cooperation agreement were turbulent for both companies and for the interaction between them. In 1997 the Buyer decided to set up their own, in-house service and maintenance crew due to failed negotiations of a service and maintenance agreement with the Seller. The setting up of an in-house crew for service and maintenance (will be referred to as riding crew) was a measure taken in order to cut operational costs both by lowering the cost for service work and by increasing the level of quality and reliability. At the end of 1998 the Buyer recruited Mr BR4 from the Seller to manage the riding crew. Mr BR4 had worked in service for the Seller in the US for 10 years.

" I can very well recall when BR9 said that he is going to set up his own riding crew if we are not able to support him. As we were not able to support him, he went ahead and set up a riding crew. This was in the year 1997 ... yes, exactly in 1997. Due to the fact that they did not get the needed help, to the cost that they wanted from us. BR9 concluded that it is better and cheaper for him to pay xx dollars per hour to his own people than to pay yy dollars to us. First he bought Mr BR4 from us and then he started to recruit Philippinos." (Interview: Seller 2)

"Frustration was a big element in the decision by BR9 BR9 in 1998 to set up his own riding crew. The conflict was money… We wanted money to have one person there on site within the frame of a maintenance agreement. We wanted to manage those people within the agreement. What he wanted was to have our people, on our payroll but he wanted to manage them. So this is where it jammed. " (Interview: Seller 9)

The Buyer's aim was to find a way to run its fleet as reliably and economically as possible. The Buyer had calculated that it was cheaper to have an in-house service engineer intead of buying the service from an outside supplier. Mr BR9 also believed that the service engineers would be more committed to their work if they were employed by the Buyer and thereby would perform better and do a more thorough job, which would add to safety and reliability of the fleet.

"I want to run this economically. I have the possibility to have dedicated staff, which is fairly cheap and very loyal and highly efficient. We have over 100 such engines overall. We operate xx amount of ships altogether with our other brand. So there are economies of scale involved also. I am not interested in buying man-hours from the Seller. Why would I have a local person and pay x, x, x dollars an hour, when I can get a person from the Philippines, who does the same job for y to y dollars per hour? A person who is much more dedicated and much more focused on his job. A person who looks forward to working for us for the long run and who is content with his existence here, who works and technically very skilled. While the guy from Ft. Lauderdale comes and is in a hurry to get back home…." (Interview: Buyer 9)

The Buyer stresses that the Seller was given the opportunity to do the riding crew for the Buyer, but that they did not consider it as their business at the time.

"They were offered to do the riding crew themselves. This was a discussion with SR1&2, he was there and is aware of it, but the Seller declined. I have to admit that at this point we squeezed a little - that they would have to go to the third world to get staff. They cannot compete with engineers from Europe. That is the problem. Who can afford to pay for that? Plus they said that this was not their business. But there are people at the Seller who never understood this and think that we betrayed them". (Interview: Buyer 15)

The setting up of an in-house riding crew diminished the Buyer's account at the Seller considerably. This was not well received by all people in the Seller organization because it cut off a part of the Seller's business. The selling of man-hours is not the greatest source of revenue for the Seller; the greatest part of the business and profit is made out of spare parts sales. However, service work still constitutes a considerable part of the business of the Seller service organization.

With some years of experience with the riding crew, the Buyer finds the setting up of the crew successful. The company has been able to cut operational considerably. Today the riding crew consists of over 200 people performing different types of service. Out of the total 200 people, 27 are dedicated to diesel engines. The Seller provides training for the Buyer riding crew engineers and supervision in complicated, technically demanding service jobs.

> *"...we can do most of the work as long as we have the information and up-date and service letters and bulletins and spare parts notices and all that stuff... so we can do exactly the same as if the Seller would do it." (Interview: Buyer 4)*

The riding crew has become an accepted fact at the Seller – a fact that the Seller has learned to live with over the years, an incident that has forced the Seller to re-think what they offer to the customer. The Buyer is no longer interested in buying man-hours from the Seller. What the customer requests is training and technical information, both pro-active information about problems and general information regarding up-dates etc. What they demand is a more "intelligent" offering from the Seller, an offering that is more elaborate, more sophisticated, an offering including a greater share of know-how and expertise than before.

During the turbulent years 1997-98 when the Buyer was experiencing trouble with the engines, Mr BR9 asked for a person from the Seller to take care of communication between the companies. He demanded that the Seller send a person to the Buyer to coordinate operations someone with the skills and ability to make sense of all issues. As a consequence Mr BR1 from the Seller service was first leased to the Buyer for a shorter period and later recruited by the Buyer. Mr BR1 is today an important link in the communication between the companies, largely due to his technical skills but also due to his familiarity with working with both the Seller and the Buyer organizations.

6.3.2 The riding crew as a trigger for developing the offering

The establishment of the Buyer riding crew can be seen as a critical event in the development of the relationship between the companies. On one hand it is a manifestation of a failure in cooperation, a failure in using each other's resources in a meaningful way, and a failure in negotiations between parties. On the other hand, when assessing the situation at the present moment - which is in the future of the moment when the decision of building up the riding crew was taken – the event can be seen as something that has shaped the partnership and developed the partnership in a certain direction. Due to the shortfall of service business that the establishment of the riding crew implied for the Seller, the company was forced to re-think the offering towards the customer. This forced the Seller to be open minded, open for new ways of thinking about earnings logic - to develop and move to the next level of serving the customer and managing the relationship. The establishment of the riding crew can be seen to have served as an eye-opener for the Seller management. The incident put this particular customer in focus at a specific, critical time, which resulted in the realization of the criticality of this particular customer relationship for the Seller.

During the last five years the Seller has started to buld up its own service organization in order to build up capability and to widen the service scope. The Seller emphasizes a vision of being a solutions provider, taking care of a wider scope of customer needs. The service is not limited to the engine room, but is available for any service undertaking. At present the Seller has several service units on four continents. The vice president for service at the Seller sees that the customers' business seldom is to produce power - the customer is in his own business focusing on something else - and power production is a matter of low interest. Therefore the Seller offers to take care of running the power plant and provide the needed power to the customer.

> *"It is not the customers' business to run diesel engines, it is something else. But they also need electricity for which they pay a price per kilowatt. What is acting as a break in the shipping business is that they have to have crew on board. A crew that has to be certified and have know-how and… this leads to the ship owners thinking that once we have the people on-board they might as well do something, do the maintenance at the same time." (Interview: Seller 9)*

It can be said that the strategic visions of the Seller and the Buyer are somewhat contradictory. On one hand there is the supplier that wants to provide total solutions by taking care of all matters related to operation and service for the customer, while on the other hand there is a customer who asks for turnkey services, but at the same time chooses to do service in-house. Although the Seller has taken measures to widen the scope of the

offering, the Buyer still sees the Seller as being overly product focused and calls for increased customization according to the customer's needs.

> *"... I think that the Seller is presently focusing to a great extent on what it costs to manufacture an engine in the short term and transport it from one location to another... and they are in a business to create power. Which is part of... they should sell power; they should see this turnkey service, total service in a whole new way. And they should customize it for the different needs that customers have. What suits us doesn't necessarily suit someone else." (Interview: Buyer 9)*

The described situation can be seen to be leading to a situation of mismatch between company goals and is a challenge for developing a partnership between the companies. The challenge is to find common goals for the partnership and identify the areas in which value can be co-created through cooperation.

This situation can be seen as an opportunity for the Seller to develop its business in new directions. If the customer is not willing to pay for what is offered, it is necessary to start thinking of new offerings and new logics for earning. This is a chance to let the organization learn and to elevate the business into a new level, perhaps a more sophisticated one. The Buyer is a demanding customer that is asking for a more "intelligent" offering - something that supports its current business situation - a situation that is different from what has been in the past.

The relationship between the Buyer and the Seller's service organization was said to be hurt by the riding crew episode. People working in the Seller service organization felt that the Buyer had taken away their business. In my interviews the Seller management still said that they were struggling to convince the rest of the organization that the riding crew is a fact of life and that the Seller has to learn to accept and make the best of the situation.

> *"For service this was maybe a dramatic... and still is a dramatic event. They still think that the riding crew takes away business from us,(...). And there was a mutual understanding in the way that BR9 said to the Seller that if we can't provide the service that he wants he would do it himself. He would hire people from us who know the engine technically, that is no problem, and then he would recruit crew for xx-xx dollars per hour. When I presented this for the management for service, they concluded that this is not a business where we want to be... so that's fine and dandy! One cannot force anyone to buy something that they do not want to buy. This all meant that we were not able to deliver the product that he wanted to purchase. We said that it is not our business... and it was fine with that." (Interview: Seller 1)*

Although the Buyer has a riding crew, they still need support for the riding crew from the Seller. They expect the Seller to provide training for the crew and supervision of demanding jobs. The Seller does provide it, but somewhat reluctantly.

> *"And our task is to train the riding crew so that they will be able to take care of the job… and we do it…" (Interview: Seller 1)*

The riding crew episode can be seen as a failure for the partnership, and a failure in negotiating and making use of each other's resources in an optimal way. However, there is also another side to this matter, when looking at it in retrospect; for one it has forced the Seller to reassess their offering, and for another it gave the Buyer customer relationship the attention of the Seller management, attention that enabled the Seller to mobilize resources and take action in order not to lose the whole customer relationship. In other words, a conflict in the relationship has had positive effects, when assessing the situation in retrospect. The positive effect of conflict in buyer-seller relationships has been recognized in previous empirical studies (Anderson & Narus 1990, Dwyer et al.1987).

> *"Yes, well there are still people who fight this, they think that we should try to sell man-hours… this is our business. BR9 does not want this to be our business, he wants our business to be to support the Buyer in all possible ways in order for the engines to do well, condition-based maintenance, communicate about breakdowns we have had etc. There are a number of other products that we can sell." (Interview: Seller 2)*

> *"So we could take from the Seller, take SR5 and a couple of other guys, grab them and do it ourselves. That is basically what we did with Mr BR4 and Mr BR1 and Mr BR12. We took away three and did it ourselves. So it is from such a concept it started (the riding crew) … and there is no chance they will get it back from us anymore, this is ours…" (Interview: Buyer15)*

6.3.3 The Seller loses a major deal to competitor

In 1999 the Buyer started building the NN Class vessels. The Seller lost the main engine deal to a competitor as the Buyer chose to install gas turbines on the vessels. The decision to choose competing gas turbines was to a large extent a decision based on environmental considerations. Gas turbines were at the time seen as the new, promising environmentally friendly alternative. This was a big loss for the Seller, but at the same time an incident that spurred the development and launching of the Seller's new environmentally sound engine technology.

When the Seller realized that they had lost the deal they started an aggressive effort to get into the next new building for a competing cruise line. The new environmentally sound [12] technology was not yet launched, but still under development. However, in this situation the Seller management worked fast, was able to make decisions fast and took the chance to offer the new technology to another customer.

This is a crucial event that at first sight seemed like a huge loss for the Seller and the relationship but later can be seen as something positive. The deal was by no means a little one, but involved a series of 8 cruise ships, so obviously it was seen as a considerable loss after months of intensive sales work. The critical factor at the time seemed to be that the competitor offered a more environmentally friendly technology based on gas turbines than the conventional diesel engine technology. The Buyer is constantly striving to be a forerunner in all operations. Environmental concerns are on the top of the agenda for any cruise line, cruise lines being frequently targeted by environment activist groups. Part of the Buyer's philosophy is to be responsible, even about the environment and therefore the choice to try a more environmentally friendly alternative seemed optimal at the time. The Buyer was the first cruise line to adopt this new technology. In general companies are reluctant to being the first ones to try out a new technology – the risks involved in being a guinea pig can be high.

The loss of this major deal triggered a series of events within the Seller organization. These management decisions enabled the Seller to launch their new enviro-engine, based on common rail technology very fast in order to win the next deal with the Buyer's competitor Carnival Cruises. This chain of events involved risky and bold decisions, but in fact led to a new deal. The launching of common rail would probably not have got as much attention, had the Seller won the Millennium deal with the Buyer.

With some experience from the gas turbines the operations with the turbines has not been only positive. There have been problems - something that has worked in favor of the Seller and the traditional diesel power generation.

6.4 The first cooperation agreement 1999-2004

As a result of the described developments during the late 1990's the Buyer and the Seller were facing a situation where they had to re-think and negotiate the logic of their way of working together; this lead to the signing of the first cooperation agreement in the year 2000. As mentioned earlier the discussions about a partnership started already in 1997 but

[12] The Seller has developed a new environmentally friendly technology which enables the running of the diesel engines practically without exhausting any visible smoke

the first cooperation agreement, which marked the beginning of the partnership, was signed in the spring of 2000. Due to technicalities the agreement applied retroactively from 1999.

> *"The idea is that all new ships that come out with our engines automatically fall into this agreement, it is an agreement that encompasses all their vessels, which is different from former agreements when every ship had its own agreement, a service agreement for delivery of parts and labor. Now we try to avoid price discussions altogether. It won't happen, but in the long run it is maybe possible. " (Interview: Seller 1)*

The basic components of the cooperation agreement concerning obligations from both parties can be summarized as follows:

From the point of view of the Seller:

- Provide the Buyer preferred customer status (organization tailored for customer)
- Provide one designated person for the Buyer for technical matters
- Offer discounts on spare parts
- Provide the Buyer with pro-active technical information
- Offer Condition Based Maintenance Program

From the point of view of the Buyer:

- Buy spare parts from the Seller
- Pay a knowledge fee in order to get technical information
- Act as test lab for the Seller
- Follow the Seller's recommendations

The rationale for a partnership from the Buyer's point of view is that this is the most economically efficient way of working in the long run. A pro-active approach is believed to add to the reliability of the fleet and to the comfort of *"a good night's sleep"*. It is believed that it is more economical to act pro-actively and avoid breakdowns or damage, than to be reactive when the damage occurs. Mr BR9 took over a situation with several breakdowns from his predecessor; now his aim is to have a reliable fleet and he needs the Seller's help to achieve this.

> *"...cost of conformance is low, that you see to it that your engines are doing ok. You service them when they should be serviced; if you suspect that a bolt is going to break you change it. It will cost you some money but you change it. It can also be about bigger things that you have to change. This is what we do constantly at the Buyer, if*

we have a new development in the product we change it at the Buyer. It can cost money, sometimes big money, several hundreds of thousands or millions for the entire fleet. This is cost of conformance. But cost of non conformance, where the ship would stop for a week, will cost x million and this can be only due to some small bolt or pump that would cost x thousand. Now there also is an in-built security in the amount of engines at the Buyer. They have been forerunners in installing one extra engine…" (Interview: Seller 1)

6.4.1 The knowledge fee

Part of the cooperation agreement was a *knowledge fee*. This fee was based upon an estimate of the amount of engine condition reports and technical information that the Seller was supposed to deliver to the Buyer.

"The knowledge fee is a combination of information, there is an element which is data analysis. Which today is linked to MMS, or in other words was the foundation for MMS. The first phase of the knowledge fee was that the Buyer sends data files, millions of data files and that there is someone at the Seller who analyses the data and makes recommendations. The next stage was MMS, the first you can call manual MMS. Now we are in the phase of on-line MMS. But the product "knowledge" is… manifests itself in that there is a person who analyses the operation on the ship and produces a piece of paper with recommendations for highest possible availability, that none of the engines stop, at the lowest possible cost." (Interview: Seller 9)

After the signing of the agreement, and establishment of the knowledge fee, expectations were high at the Buyer. They wanted have condition reports and pro-active information on technical matters. However, the Seller was at this point unable to meet up to the expectations and submit the agreed information; as a consequence Mr BR9 cancelled the knowledge fee part of the agreement in August 2000.

"…our goal has been to establish a reliability based maintenance program on the ships and that we would have a relationship with the Seller that would build upon exchange of experiences and we would buy expertise from them on which we would base… and spare parts, expertise based upon which we can do service work in-house with our own manpower and do it as efficiently as possible." (Interview: Buyer 9)

The knowledge fee part of the cooperation agreement was resumed in the fall of 2002 when the Seller started to live up to the knowledge part of the agreement again.

6.4.2 The customer interface

Before 2000 and the first cooperation agreement the Seller organization had been working "normally" with, the Buyer, as with towards any other customer. This means that they had a separate marine and service organization, implying that there were two different organizational units within the Seller dealing with the same customer. The marine organization takes care of matters related to sales, and the service organization handles service and after-sales matters.

In the case of the focal Buyer and Seller this caused difficulties in handling a complex interface between the parties[13], which was something that the Buyer found difficult to work with. They demanded an interface that was smoother and simpler to deal with, one contact through which they could handle all their dealings with the Seller. They even stated explicitly whom they wanted to be their point of contact.

> *"An additional remark to the marine/service division is that we were... Service in the US wanted to be independent. They had their own ideas on how to take care of the customers while technology and service in Finland had strong bonds and traditions with this particular customer, a situation that led to one mistake after the other." (Interview: Seller 1)*

As a result of the number of incidents the handling of the customer interface was re-organized. In December, 2000 the presidents of marine and service at the Seller agreed that Mr SR1&2 was responsible for both marine and service sales for the Buyer, something that was unheard of within the Seller organization before.

The fact that Mr SR1&2 was given the mandate to manage the relationship with the Buyer on behalf of the Seller Corporation, regardless of business area, can be seen as a milestone in the development of the partnership. The role of Mr SR7, vice president of the marine business area and Mr SR9 vice president of service at the Seller has been important in the course of events. They saw the criticality of the situation in the late 1990's and made the needed organizational adjustments and gave Mr SR1&2 the mandate to start managing the relationship regardless of business area. This can be seen as a manifestation of organizational flexibility - to delegate responsibility and allocate resources in unconventional ways. Much due to Mr SR1&2's personal dedication to the partnership - and

[13] A matrix organisation where there are different organisational units handling different phases of the customer life cycle interface means disruptions in the relationship from the customer's viewpoint. This is a commonly applied organizational structure in industrial organizations, a form that poses challenges for optimal customer relationship management.

to serving the customers - the partnership was discussed further and taken to its second five-year period.

6.4.3 The next level program for optimizing operations at the Buyer

In 2002 the Buyer launched a "operational efficiency program" within the organization that they called "Next Level". The aim of next level was to obtain xx million dollars annual savings by taking operations into the next level, meaning integrating hotel and marine operations, improving communication between the ships and shore, and increasing efficiency in all operations. Initially the next level had nothing to do with the partnership, but Mr BR9, who has always been a spokesman for the partnership idea, envisaged that the partnership was a way to get to the "next level" with key suppliers, that this was a means to achieve cost savings in the long run. Therefore he did not want to give up on the partnership strategy with the Seller despite the problems that there had been between the companies during the period of the first cooperation agreement.

> *"If we go into the supplier side that you wanted to discuss, one can say that the only thing that involved purchasing and supply chain was that contracts were to be cut and by this way xx million would be gained from that side through squeezing the suppliers. This had nothing to do with partnership but was purely about bottom line. Partnership has in general not been… It was before next level. BR9 has been a spokesperson for partnerships as long as I have known him…." (Interview: Buyer 15)*

What I was able to recognize during the research process was that there was an obvious conflict of interest between the communicated goals of the next level and the goals of the partnership. The conflict was obvious regarding procurement because the people involved in sourcing and purchasing of parts were asked to save money by squeezing their supplier contracts on one hand, while on the other hand they were asked to pursue a completely different strategy with the Seller. The obvious initial goal for the purchasing people negotiating with the Seller was to renegotiate terms of spare parts pricing in order to lower prices, while the spirit of the cooperation agreement was that spare parts pricing should be dependent on the economizing (optimizing) that would be achieved by planning together i.e. sharing the savings achieved through joint planning. This issue was clearly something that the Seller perceived as an obstacle for the partnership, and something that the Buyer had to take care of by clearly communicating the vision of the partnership and the spirit of the cooperation agreement throughout the organization. What deserves mentioning in this instance is that new people were recruited into procurement at the Buyer at the beginning of 2004. These people had no previous experience of the Seller and no understanding of what

the partnership in this context meant, and therefore needed time to accept the idea of the partnership and adopt different strategies with different suppliers.

6.5 On the verge of cooperation agreement II in 2003-04

> *"So they initially started with this contract five years ago (1999) and it has been one hell of a mess, we have not come anywhere in five years. It is as bad as it was… (Interview: Buyer15)*

When the continuation of the cooperation agreement became a topic for discussion in the fall of 2003, the situation and motivation for continuing the partnership was different from that in the late 1990's. During the years of the first cooperation agreement the Buyer had managed to cut operational costs considerably, the Seller had inadequately communicated technical problems, the Seller spare parts were perceived to be expensive, which led to the Buyer breaking their part of the agreement regarding spare parts, and there was a general air of lack of trust and respect between the parties. The Buyer felt that the Seller did not understand its business and that the cultures of the two companies were so different that it was hard to find common ground to stand on. The Seller also lost the big NN Class deal to a competitor in 2000. At the time the outlook for the continuation of the cooperation agreement and the pursuing of the partnership did not look promising.

> *"Regarding technical information and development, the partnership is lagging behind big time, and there are several reasons for it. However, I believe that the biggest reason is that the cultures between the Seller and the Buyer are so different, so far away from each other. I do not know the Seller culture, but I have seen from the instances when we have experienced trouble, they have not been willing to discuss the problems, they have acted as if the problems did not exist. They have not been willing to discuss and come up with solutions... and they have not been willing to give... If we can not manage to change this culture, then there is no use talking about a partnership." (Interview: Buyer 8)*

In the fall of 2003, when there was approximately 6 months left of the first five year agreement, there were a number of critical issues on the table. This was the time when the two organizations were to start discussing whether they would carry on the work within the frames of a partnership. The fall of 2003 is also when this research project on value co-creation was started and marks the beginning of the gathering of the empirical material for the study.

Mr BR9, who had been the proponent of the partnership from the beginning, was critical of the continuation of the cooperation agreement at the time.

”This is the most problematic agreement that we have with anyone. It is not self-going it is constantly under discussion. When there is a crisis, the Seller is always there and works well for us, but otherwise (…) this is... most problematic” (Interview: Buyer 9)

At this specific time there was especially one hot topic that stood out as harmful for the cooperation. There had been an oversight by the Seller in revealing pro-active information about a technical problem. The aim had been that the Buyer could take pro-active measures in order to avoid damage.

There was a reluctance to live up to the spirit of the cooperation agreement in both organizations. On the Buyer side mainly this is because they felt that the Seller did not completely succeed in living up to promises of communicating about problems but were sometimes felt to only be selling spare parts to a high price. And on the Seller side because some people still felt as if the Buyer had betrayed them because they set up their own riding crew and because there had been incidents when the Buyer did not live up to their part of the agreement regarding spare parts.

“... I have a lot of people knocking on my door each week asking why we buy the parts from the Seller, why we don’t buy from Male directly, the pistons and this from there and there... Why are we losing all this money?” (Interview: Buyer 9)

However the initiators and visionaries of the partnership, Mr BR9 and Mr SR1&2, did not want to give up on the partnership, but wanted to do their best to get the cooperation agreement revised and renewed because they believed that there were things to be gained in a partnership in the long run.

“I have said that this is because I do not want to be alone out there. I want to have a Seller that supports us and tells us. But when they don’t do it ... when they do not communicate openly about their issues, why would we then carry this on? I have a little bit of a hard time answering that. Indeed, what is the value for me?” (Interview: Buyer 9)

Mr BR9 is known for being a spokesperson for the partnership idea. The quote below describes his view:

“It builds upon, first of all an understanding of others, about the counterparts’ needs and culture and it builds upon trust and respect to a great extent. It also builds upon openness, an extreme openness, and a genuine understanding that what we are doing here is the right thing and that the result of it will be right. Openness I believe is extremely important, where there is no attempt to hide things, but that everything, in principle, is put on the table. That there is a respect for the fact that also the counterpart (talks about shipyard) has limitations (...) There should also be a long

term interest, with the aim of doing more than just the project that is currently on the table, an understanding that this is about more then just building one ship. We are here to build cooperation that will last for not just one, two or three years, but will last for a long time. The rest depends very much on the right chemistry, that the chemistry functions - that we have the right people in charge, people with a strong vision. The right leaders, with a strong vision, who drive it in the right direction and see to it that we stay focused on it". (Interview: Buyer 9)

On the Seller side Mr SR1&2, who is the spokesperson and visionary person as well as missionary of the partnership, talks about the co-developing of new ideas and learning together in a partnership and the importance of mutual trust.

"...I would not like to call it (partnership) a "certain way of doing" but instead talk about a certain philosophy. It is more like religion. There are more similarities with religion and ... there is no way one can take this and apply it on another relationship, no it has to build upon mutual trust and it has to build upon... one often hears talks about win-win, but people do not seem to understand what it means. They count money, but there are so many other things you can win other than money, like developing something…". (Interview: Seller 1)

6.6 Expectations from the partnership

When the discussions about a renewal of the cooperation agreement started the expectations from the partnership were stated explicitly:

Buyer's expectations from the partnership:

- A partner who supplies reliable systems solutions
- A partner who is easy to deal and do business with
- A partner who helps the Buyer in the long run

The more specific aims are to:

- Buy training, know-how, and spare parts, not man-hours
- Create a culture of openness and a spirit of developing together
- Rationalize spare parts ordering, delivering, and handling
- Have critical spare parts available on shore
- Have access to know-how when it is needed
- Receive good training of the Buyer people

- Optimize operations i.e. fuel optimization
- Get technical information and expertise
- Carry out product development that can improve both the Buyer's and the Seller's products

Seller´s expectations from the relationship are to:

- Offer the Buyer possibilities to create value for themselves
- Learn with the Buyer how to develop a partnership
- Make partnership a "way of living"
- Take overall care of the running of the power plant providing high operational reliability and transaction efficiency
- Provide supervision
- Provide technical support
- Provide relevant information
- Provide parts and service

6.7 Issues in the relationship in the fall of 2003

The aim of the research on value co-creation that was initiated in the fall of 2003 was to determine what the parties perceived as being the value that could be created together within the frames of the partnership - which aspects were working well, which aspects caused trouble as well as identifying what could be improved.

The findings from the interviews were presented at the first partnership seminar that was held in January 2004. At the seminar the future of the cooperation agreement was on the agenda. Later in May, there was a follow-up seminar. The partnership seminars have been considered fruitful and consequently there has now been a decision to organize partnership seminars twice a year in the future.

The issues identified in the interviews for the study fall into three different categories. There were issues related to the operational–level of the activities, issues on the management-level of the two companies as well as issues identified within each organization. The comments in the different categories are of different nature and will therefore be discussed separately in the sections below.

6.7.1 Comments: Buyer Management

A strong message from the Buyer management was that the cultures of the two organizations are different and that this difference in mindset makes it difficult to work together. It was said that the Seller does not have an understanding of the business that the Buyer operates in, that they do not quite understand the concerns that a cruise company has with 60 000 passengers onboard the ships each night– people that the Buyer is responsible for and still the management have to be able to get a good night's sleep.

It was also said that the overall business visions of the two companies are different, the Seller sells mechanical parts and the Buyer is in the business of creating vacation experiences for tourists. The Buyer management felt that being in the United States poses even more pressure and personal responsibility on management, something that the Seller has not quite understood.

> *"We sell a vacation experience to two and a half million Americans. We talk about their vacation, their vacation culture. So we (Buyer and Seller) are two extreme opposites" (Interview: Buyer 9).*

It was also stated that there is a lack of trust and respect between the two companies, resulting in lack of open dialogue.

> *"… if I were to mention one thing that this cooperation fails on, that is trust and respect, lack of trust and respect. I think that it is there. There is no trust and respect and it goes quite deep… it is not a question about me. I have wanted to do this work and I am a little patriotic in this case. I think that a product of this particular origin , that this should work, and it did in the company where I worked previously, this worked automatically without anything…We have done a lot to make this work, but now I see it as a big challenge. And quite a few of my colleagues, as late as yesterday someone asked me why we don't terminate this, that this is hopeless. Why should we keep doing this with the Seller? That it is just a waste of energy to try to work closer". (Interview: Buyer 9)*

Another aspect that the Buyer management saw as a problem was that there was little pro-activity in the Seller's communication, especially in the case of technical problems. In general it was felt that this all boils down to the problem of the Seller not having a long-term focus in their operations, that they do not realize that the things that the Buyer are asking and hoping for are all related to a relationship for the long-term.

The positive comments from the Buyer management were first of all that the Seller has the best product on the market and that this is the main reason for using the Seller diesel.

They also commented that the personnel at the Seller in the local US office are very skilled and responsive, and that the communication and interaction with SR1&2 and the local people are good.

It was also said that the Seller takes care of handling of spare parts in a satisfactory manner. Moreover that reaction and response time from the Seller in critical situations is excellent. As a result of the cooperation the general level of safety and reliability of operations at the Buyer was said to have improved.

> *" Yes, about the positive... if starting with the positive things, I believe that reliability in operations is much higher, our economy when it comes to costs for repairs. The costs for repairs have diminished by 50 % if not more. So we have been able cut those, and we have excellent response from the Seller when it comes to fire fighting. When there is a fire there is always an excellent performance from them, so that I personally think is positive. (...) I am sure there are still things that could be done when it comes to economizing operations. I believe when it comes to maintenance and costs for repairs, I think they are on a reasonable level." (Interview: Buyer 9)*

6.7.2 Comments: Seller management

Much like the Buyer management the Seller management saw the lack of an adequate level of trust between the companies as the biggest obstacle for a true partnership. The Seller management also said that it was sometimes unfair of the Buyer to ask for openness about everything, because they did not see how this would benefit the Seller - it was difficult to see what the Seller would get in return for this openness.

On the positive side of the comments it was said that the Buyer is a prestigious company with a good reputation and therefore a good reference in the industry. The Buyer was also said to be a demanding customer that forces the Seller to develop own products, services, and concepts. The Buyer was also considered fair in doing business – "when something goes wrong they say it and when something goes well, they also let you know".

6.7.3 Comments: Buyer operational level

On the operational level the availability of spare parts from the Seller was seen as satisfactory. However, it was also said that there would be room for improvement, that some of the most critical parts should always be in stock and thereby easily available in case of an emergency.

It was said that coordination in matters related to purchasing did not work. The ordering of spare parts and handling of administrative matters was not seen to work due to lack of established channels for communication in purchasing related matters.

It was also said that the bridge between the shipyard (for warranty issues) and the Seller does not always work as smoothly as it should, that the communication between the people at the shipyard and the Seller service should be improved.

On the positive side of comments it was said that collaborating with the local office and SR1&2 is working well, that the local contact persons are responsive and easy to deal with although they were not seen to always have the full support and understanding from their own organization. Having a dedicated technical person always available was said to be great. The informal-type relations that have been created through different kinds of informal events were said to make interaction and communication easy. The Seller was also given positive remarks for its fast and accurate response in urgent situations.

6.7.4 Comments: Seller operational level

On the Seller operational level it was said that the roles and responsibilities towards the Seller and the spirit of the cooperation agreement were not clear to all within the Buyer. It was said that there should be a person dedicated to coordinating and developing the partnership with the Seller.

The accounting and ordering systems at the Buyer were said to cause much trouble, creating considerable unnecessary delay in spare parts handling and paying of bills.

With regard to the Buyer riding crew it was said that they sometimes take the Seller initiatives defensively, that they fail to see when there is something that the Seller should do, that it is not always optimal to do everything in-house. A suggestion for improvement was that the service and technical reports done by the riding crew would be made available for the Seller on the portal in order to facilitate optimal planning of overhauls.

It was said that the communication with Mr BR1 at the Buyer is easy and that his role as a contact person is important.

It was also said that working with a demanding customer is a challenge in the positive sense and that the Buyer provides an excellent opportunity to jointly test and develop new concepts and technologies.

6.7.5 Comments on internal issues

At the Buyer it was said that the local the Seller people are good and responsive, but that they sometimes have difficulties in communicating within their own organization. Even though the local people and Mr SR1&2 work according to the spirit of the cooperation agreement, the rest of the organization sometimes fails to live up to it, making it impossible for the Buyer team to fulfill its obligations.

At the Seller it was said that not everybody working in day-to-day operations in the Buyer organization have accepted the spirit of the cooperation agreement, resulting in violations of the agreed terms. This is felt to be due to management failing in communicating clearly the spirit and the implications of the cooperation agreement throughout the organization.

In summary it can be said that the message from both organizations was that the counterpart did not live up to the agreement 100 % and that this mostly was due to problems in internal communication.

6.8 Summing up the status of the partnership in January 2004

In January 2004 a partnership seminar between the Seller and the Buyer was organized by the Buyer. The idea was to invite everybody who is involved in the interaction between the two companies. This partnership seminar was a last attempt by the founding fathers of the partnership idea, Mr BR9 and Mr SR1&2, to make the partnership work. They still believed in their vision and did not want to give up on it, although there was resistance and suspiciousness towards the partnership in both organizations. At the time of the first partnership seminar Mr BR15 from the Buyer had been appointed by Mr BR9 to take charge of developing the partnership with the Seller. Thus there was a dedicated resource from the Buyer assigned for the job.

The purpose of the first partnership seminar was to discuss how the partnership could be taken to the next level. The goal was to foster trust and respect, to formulate a joint vision for the partnership, and to encourage open communication and create functional channels of communication. The key benefits for the participants of the seminar were first of all to solve current conflicts face-to-face, and more generally to learn to understand the idea of the partnership.

At this time it was obvious that there were a number of unresolved issues between the companies and that both companies had failed in some ways to live up to the cooperation agreement. The Seller had communicated inadequately about technical problems and the

Buyer had had problems to pay its invoices in time etc. Generally there was a certain air of suspiciousness and a general lack of trust and respect between the companies. It was not clear to everybody on all levels of the organizations why it would be beneficial or worthwhile to continue working within the frames of the cooperation agreement.

The partnership seminar, which was facilitated by an external consultant, lasted for two days. During the two days people from both organizations worked together in solving joint problems and in envisaging the future. The outcome of the seminar was an extensive list of action items, a formulated vision for the partnership, and an agreement that there would be a follow-up seminar in May the same year.

6.8.1 Gifts and needs

Part of the program at the seminar was an exercise where the two organizations were to formulate five distinct needs that they have of each other and five gifts that they would like to give the other company. This exercise proved to be both fun and productive. The atmosphere at the seminar and the spirit of solving problems together improved considerably after this exercise. The idea of giving and receiving was very odd in such a business context, but fit very well into the basic idea of the partnership.

The Seller's gifts to the Buyer were to organize a technical seminar for riding crew, to send team to the Buyer in order to understand their business and vision, to review MMS reports together with the Buyer, to provide systems review for new buildings before contract with the shipyard, and to provide a technical hot-line for the riding crew. The needs that the Seller had from the Buyer were that the Buyer would commit to the cooperation agreement, that the Buyer would define communication partners for the Seller within the riding crew, that the Buyer would pay their invoices on time, that the Buyer would tell the Seller when information is not trusted, and finally that the Buyer would send a core team to the Seller in order to understand its way of working.

The Buyer's gifts to the Seller were to provide an organization chart and a responsibility matrix to explain who is in charge of what, to commit to the agreement regarding spare parts and outside work, to provide one contact for the Seller in matters related to purchasing, to provide a clear definition of the Buyer maintenance team purpose and business philosophy, and finally to promise that the technical information that the Seller shares to the Buyer will be used properly.

The Buyer's needs from the Seller were that the Seller would understand the Buyer's vision and their responsibilities for the guests, that the Seller would provide immediate and all encompassing technical information, that the Seller would ensure that there will be competent technical support for the Seller XX-type engine even after its manufacturing

changes, and that the Seller would make sure that the Seller's invoices match the Buyer's purchase orders.

The lists of gifts and needs were served as the basis for the explicit actions that were identified to be taken after the seminar and which would be followed-up at a second partnership seminar in May.

6.8.2 The partnership vision

At the seminar one of the aims was to formulate a vision for the partnership. The group was divided into smaller groups and each group was to formulate a suggestion for a joint vision for the partnership. Each group came up with a vision statement, which later was refined by a smaller task force and later communicated for revision to the entire group. The final, agreed vision statement for the partnership ended up as follows:

> *"We value the relationship between the Buyer and the Seller as much as we value our professional expertise. This relationship, based on win-win, will serve as the benchmark for the industry. The communication is open, honest, and based on mutual trust and respect. We are a learning partnership, continuously developing our co-value creation and working relationship".*

6.8.3 Actions to be taken for the partnership

After the intense two days of working together in order to solve issues and develop the partnership, a list of action items for developing the partnership were identified. The actions are listed in the boxes below in the order that they were discussed and documented at the seminar.

Actions (Jan 2004):

- That Seller would arrange a technical seminar for Buyer maintenance team.
- That Seller would send a core team to Buyer to understand their business and vision.
- That MMS reports would be reviewed together to reduce costs and to avoid failure.
- That Seller and Buyer would take actions together in order to improve system design for new buildings.
- That Seller would provide a hotline for the maintenance team for questions related to technical matters.
- That both parties would commit to the cooperation agreement, since involvement is not enough.
- That Seller would define communication partners for the maintenance team within the Seller organization.
- That Buyer would review payment procedures to ensure more timely payments.
- That Buyer would tell Seller when information is not trusted and delegated upwards in the Buyer organization.
- That Buyer would send a core group to Seller to learn about Seller's way of working.
- That Buyer would provide Seller with the Buyerorganizational chart and responsibility matrix for distribution throughout the organization.
- That Buyer would commit to the agreement regarding parts purchasee and service work.
- That Buyer would provide a single point of contact for purchasing in charge of the communication and the purchasing process.
- That Buyer would provide Seller with a clear definition on Buyer maintenance team purpose and business philosophy.
- That Buyer promises that technical information given to Buyer will not be used properly.
- That Seller would understand Buyer's vision and understand that the "product" that they deliver includes a responsibility toward the guest.
- That Seller would improve the information flow, especially regarding technical issues, to Buyer.
- That Seller would ensure that there would be competent technical support for the W46.
- That Seller would ensure that documentation related to purchasing and invoicing would match.
- That both companies would clarify the roles and intentions with regard to Buyer's maintenance team.
- To set up a portal pop-up notification of technical updates both at Buyer and Seller.
- That all the partnership management meetings would be held out of office at a location where people could get away from day-to-day matters and concentrate on the partnership.

Figure 6.3: List of actions from the first partnership seminar

As a result of the discussions at the partnership seminar a number of smaller forums were established in order to solve issues on different organizational levels. The total number of meetings during a year amounting to approximately 42 official meetings, involving everything from just a few people to a total of 15-20 people. Added to this is all the day-to-day communication that is going on between individuals in each organization. An obvious reaction from viewing the amount of meetings and interaction displayed like this is that a partnership certainly is resource demanding and that the pay-offs should be expected on a longer term. There are no quick wins; it takes time, effort, and involvement of the people to make a partnership work, especially in the initial stages of forming the cooperation.

6.9 The status of the partnership at the follow-up seminar in May 2004

When the same group of people gathered together in the four months later, it was obvious for an outside observer that the spirit of the group was better and much more cooperative than it had been during the first partnership seminar. People had been working on joint issues during the spring and this was the time to see what the results. On the agenda for this meeting was to communicate the Seller's mission and vision to the Buyer, to present a communication map for the interaction between the companies, to present the business philosophy of the Buyer maintenance team (riding crew), to review the results of a CPR

survey[14] that the Seller had conducted to investigate the status of the relationship, to provide a presentation of the technical support for the XX-type engine to the Buyer, and to discuss further development items as well as the future of the cooperation agreement.

6.9.1 Seller's vision and mission

The president of the marine business at the Seller, started the seminar by presenting the Seller's vision. He pointed out the differences between cruise owners and other ship owners, where different customer preferences and values result in different strategies and actions from the Seller. A large portion of new building purchases in other ship segments are more speculative and do not emphasize operational costs and reliability aspects in the same manner as cruise new buildings. He stated that the Seller's business is to provide the most competitive, reliable, and environmentally sound solutions to ship power and distributed power generation markets through the worldwide network of professional the Seller people. The importance of customer satisfaction was also stressed. The mission is to improve the performance and profitability of the customers' business by providing reliable and cost-effective total marine power solutions while fully respecting environmental demands. The Seller has traditionally been an internally driven organization i.e. *"We sell what we make"*. In the future the company wants to focus on being a market-focused organization, focusing on customer benefits. There should be a disciplined choice of which benefits to provide and which to withhold. By understanding customer needs, benefits and its own capabilities, the Seller wants to be a market-focused organization that is also able to choose which benefits not to provide. (Presentation at partnership seminar, SR7, 24.5.2004).

6.9.2 Follow up on agreed items from the last partnership seminar

The status of the action items was reviewed. A number of the items on the list had been completed. The updated list was to be distributed after the seminar. There was discussion of the items that had not yet been completed and actions planned in order to complete them.

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[14] CPR uses a questionnaire where the respondents rate about 15 statements on a scale from 1 to 10. CPR has been in use in the Seller to track customer perception of the Seller's performance as well as Seller's self-evaluation during the different phases of a customer relationship. For the focal relationship purpose the tool has been adapted to measure the values, the Vision statement, and also to measure the perceived performance of both the Buyer and the Seller, which means that there are about 30 statements. The responses are processed by an independent research institute who prepares the report.

The planned meetings had not materialized; so another process was established temporarily, and the date for the first meeting was set. The issues related to payments by the Buyer had not been completed because there were still a number of pending items. As a quick fix it was agreed that a temporary process would be established. However, it was said that there has to be some way of working in emergency situations where parts have to be shipped although the needed documentation is not in place. A process for such emergency situations was also created. The Buyer informed that they would have a new service request system by the end of the year, which will eliminate the problem with matching numbers.

There was also a discussion about minimum, maximum, and re-order levels for spare parts. It was agreed that the levels would be inserted in the service and maintenance system at the Buyer and reported monthly and moreover that the Seller would undertake to revise the lists for different ships.

The inventory of parts onboard ships was discussed in conjunction with the ordering procedures. There was a discussion on the best way to take care of inventory, storage, and servicing of parts. The present problems were that part inventory was insufficient, which resulted in emergency orders and obsolete parts on the other hand. The value of the inventory was suspected to be high compared with true requirement. Different options were discussed and it was decided that the Seller would draft a plan on inventory management.

The communication between the maintenance team and the rest of the Buyer organization and the Seller was still said to be bad. The maintenance team still did not know whom to communicate with. The need for information and training for the maintenance team people was identified. A technical seminar was planned and scheduled.

It was decided that preparations for the extension of the MMS implementation would be made for extending the MMS for ships with the Seller engines. It was also agreed that the Buyer and the Seller would jointly develop a tool for analyzing, and follow-up of engine performance.

The appendices to the agreement were to be updated to reflect the present situation. A renewed proposal was agreed to be prepared by Mr SR1&2 and sent to Mr BR15. It was also agreed that partnership seminars would be held twice a year, complemented with additional scheduled meetings. The following partnership seminar was scheduled. A new action list was prepared as a result of the second partnership seminar. The agreed actions are listed in the boxes below.

Actions (May 2004):

- That Seller would arrange a technical seminar for Buyer maintenance team on knowledge issues.
- That Seller would send core team to Buyer to understand its business and vision.
- That MMS reports would be reviewed together to reduce costs and to avoid failure.
- That Seller and Buyer would take actions together in order to improve system design for new buildings.
- That payment procedures would be reviewed by Buyer.
- That temporary processes for processing orders and invoices would be established.
- That inventory management would be evaluated, and that Seller would prepare a proposal for inventory management.
- That persons from both organization would jointly make a proposal for annual ordering of consumable parts.
- That Seller would improve the information flow, especially regarding technical issues, to Buyer.
- That there would be a comparison test for the best location for the overhaul of parts for scheduled overhaul.
- That Seller would prepare a proposal for the extension of the MMS for ships with Seller engines.
- That Seller and Buyer would jointly evaluate the performance of the engines.

Figure 6.4: List of actions from the second partnership seminar

The second partnership seminar can be considered a victory for the partnership. Not only was there a decision to extend the cooperation agreement for the next five years, but the air of cooperation had also been improved considerably from the first partnership seminar in January. It was evident that people were more focused on solving problems and looking for answers than on accusing and looking for scapegoats the discussion was leaning toward the direction of discussing how value could be created by looking for new ways of doing and developing things together.

6.10 The impact of influential individuals for the development of the partnership

> *"Personally I believe that business… relationships are by no means impersonal, mechanical or monetary relationships, but it is… it is all about relationships… and that is people." (Interview: Seller 6)*

There is no question about Mr BR9's and Mr SR1&2's impact on the development of the relationship. Mr BR9's role has been of paramount importance as he is the one who initiated the talks about a partnership due to his previous good record with the Seller, and his vision of what can be gained through cooperation. He is the one who has not lost faith in the partnership, and who has persistently worked for developing the partnership despite the problems along the way. Mr BR9 personally believes in the partnership idea and constantly works for creating partnership –type of relationships with other major suppliers as well as shipyards.

On the other side of the dyad there is Mr SR1&2, who has acted as visionary and missionary (to use his own words) for the partnership both within his own organization and in his constant interaction with the Buyer.

"But both BR9 and I realize that we have a battle within our own organizations to get people to understand what this means… or what we are looking for. We are a little like two preachers!" (Interview: Seller 1)

Mr SR1&2 was given the possibility to assign the right resources for his team and to coordinate all activities towards the Buyer, giving him the opportunity to assign a good working team. The role of the dedicated technical manager who was assigned to take care of the Buyer has proved to be a key success factor in the relationship. Mr SR5 was given positive remarks throughout the Buyer organization. His attitude and service mindedness together with his technical skills made him a key resource in the partnership.

"Well, we have a contact person that we can call anytime. What I like is that if we have a problem on a certain ship, all our superintendents know that ok, let's call SR5." (Interview: Buyer 1)

I have found the importance of individuals with a strong vision and faith in the partnership idea as a finding from the study. When I look at it now, in retrospect, it is quite natural that strong personal commitment is crucial at the beginning of the relationship, and before entering a high-involvement relationship because nobody can know in advance what the outcome of the involvement in the relationships will be. There is a certain risk in getting heavily involved with a partner because the pay-off cannot be assessed in advance as value is created in the process of "acting out" the relationship.

"We do not know whether the partnership is profitable or not. We have started making efforts to calculate it, but the revenues and costs are incurred from different directions and we do not have a system elegant enough to be able to get it by pushing a button. However, what is important and what I think that also Mr BR9 is thinking about is that one believes in it." (Interview: Seller 2)

6.10.1 Former the Seller employees at the Buyer ameliorating communication and interaction

The importance of meaningful communication - both the smoothness of the communication process and the quality of what is communicated - is often emphasized in the context of business interaction between people (Dwyer et al. 1987, Anderson & Narus 1990). The communication between the two companies was said to be fairly good, mainly due to the fact that people interacting in the partnership had good relationships, even at a personal level. Many of them had a long working history together within the industry and there are people currently working within the Buyer organization that had previously worked for the

Seller. At present there are three people who actively interact in the partnership that previously worked for the Seller. These are Mr BR1, Mr BR4, and Mr BR12.

Mr BR1 was initially leased to the Buyer in order to facilitate communication and coordinate matters between the companies in 1998. He was later, in 1999 recruited by the Buyer. He has been a positive force in developing the partnership and is still today a key person in the interaction between the companies regarding technical matters. He knows both organizations' ways of working, he knows people, and he is technically highly skilled.
Mr BR4 was recruited from the Seller in conjunction with setting up the riding crew at the Buyer. He still today manages the operation of the riding crew and communicates with the Seller on matters related to training, new up-dates, supervision of work, and so on.

Mr BR12 works out of the Buyer London office and is responsible for managing new building projects and the new building program. He has a long work history in the Seller organization. During his years at the Seller he worked within the service business area and was manager of the service business at one of the Seller's production sites, and member of the board of management. His area of responsibility was service for the XX-type engine, which is the engine that the Buyer has in its fleet. He had the chance to follow the first years of the XX-type engine. He got in contact with Mr BR9 already at these times and even more in the mid 1990's when the Seller sold engines to the Buyer NN Class vessels that were built in France. He prepared the deal together with Mr SR1&2.

In 1998 he moved over to work for the Buyer. This move was a natural step in his career and did not involve any drama, according to him. He feels that the fact that people have been working within the Seller ameliorates communication between the firms.

> *"Yes, it does impact, I mean this is interaction between people, and it is obvious that if people have background knowledge… you are able to speak the same language much easier when you know the firm that you are dealing with, sort of from the inside." (Interview: Buyer 12)*

It is no coincidence that there are several people from the Seller working within the Buyer. It has been a conscious choice on the Buyer's side to strengthen their in-house engine skills and knowledge by recruiting people with the right profile. Mr BR9's history in the industry and his background from working with the Seller during his times at a Scandinavian shipping company have enabled him to see what resources are needed and to see what the Buyer needs in order to optimize their situation – not being too dependent on an outside partner but having some of the know-how in house.

> *"Yes. Surely BR9 is a key person in everything that he touches because it is his style to take things into a certain direction. I could say when looking at the colleagues who have switched from the Seller to the Buyer that we all bring in engine skills and know-*

how by which the Buyer has been able to strengthen the organization technically." (Interview: Buyer 12)

6.10.2 The importance of personal relationships

The importance of good, working personal relationships has been a common subject area in the interviews, brought up by the interviewees – how much easier it is to do business if relationships work.

"I would say that things fall into place only if one has working personal relationships. Nobody would buy anything from anyone who one hates, or buy anything important from someone who one doesn't trust, someone who one doesn't know." (Interview: Seller 1)

Personal relationships were seen as a prerequisite for creating monetary value.

"It (good personal relationship) is a prerequisite for creating monetary value… a prerequisite it is. I would say that bonds and trusting is much in relation to the value of what you are buying. Trustworthiness… the higher the value is, the more durable the bonds have to be. If you go to the market to buy fish, you might buy it from someone who doesn't look that tidy or who is a bit drunk. In general you don't… your criteria are not that high, as long as it looks like a normal human being that doesn't have six arms and four legs. It is related to the risk-taking when you buy, the value it has for you." (Interview: Seller 1)

6.10.3 The sharing of a common cultural background

The fact that many of the people interacting in the interface between the two companies share a common cultural background is also of importance for smoothness of communication and interaction. There will be no lengthy discussion here on culture and its impact on interaction, but the impact of sharing a common culture and the difficulties of intercultural communication has been brought up in previous studies.

Six persons out of the 12, who are listed in the figure in Chapter 4 depicting the customer interface on the Buyer's side, share the same nationality, as well as four out of the six listed on the Seller side. It should also be noted that Mr BR9 and Mr SR1&2 share the same cultural background of belonging to a linguistic and cultural minority in their own country

[15]- a factor that should not be neglected as a positive force for the development of the partnership.

> *"Yes, I think that it is so more general also that sharing a common cultural background for instance within the Buyer sets its marks in the sense that many things are discussed in their mother tongue, quite often so. At the shipyard for instance, and by coincidence also at the shipyard in Germany the project management shares the common cultural background. It is actually by chance, but even in Germany the project management is from the same country and we naturally speak our own language. As such, related to the Seller, it is possible and probably is so that BR9 and SR1&2 have sort of kept this alive and tried to develop it into a certain direction." (Interview: Buyer 12)*

6.11 Summary

> *"You can have a vision and a concept, maybe the two big guys on the top have a vision and a concept, but it's like a plan taking roots, it takes time to funnel all the way out to the organization and they'll be people in the organization that will never like it, will never understand it, and don't want any part of it. As long as you get top management and most of the people in the organization working in a positive way, then those three or four, five, difficult people, it's going to get to the point 'either you do it or you're out." (Interview: Seller 4)*

This chapter has described the development of the relationship between the Seller and the Buyer from the beginning of the 1970's until 2004. The story told is an illustration of a buyer-seller relationship that has developed from a producing-using; more transactional–type of buyer-seller relation into what today is referred to as a partnership.

Although the importance of Mr BR9 cannot be over emphasized, events in the environment have also played a part in the partnership. When Mr BR9 was appointed manager of marine operations at the Buyer he faced a situation with several severe incidents with the engines - events that he had no power upon, but that for their part acted as triggers for the development of the partnership. At the time of taking over marine operations Mr BR9's goal was to lower operational costs at the Buyer. He saw the development of a partnership with the major engine supplier as a strategy by which these goals could be achieved. Consequently he initiated discussions about a cooperation agreement with the Seller.

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[15] There is a six percent linguistic minority of the population in the country of origin of the referred people, this minority has a distinct culture that differs slightly from the national one.

In summary the two most obvious triggers from the Buyer's side to initiate the partnership were to cope with a situation of dependence – to have a trusted partner with whom to share responsibility. And to lower total operational costs in the long run.
Along the way there have been incidents and actions taken by the parties that have not been directly positive for the development of a cooperative way of working. The Buyer has set up their own riding crew and they have chosen other suppliers than the Seller for new buildings. The Seller has in turn not bee able to meet up to the customers demand on a service agreement in the late 1990's and has not always been completely successful in being pro-active in communicating technical problems to the Buyer. Still the partnership has been moving forward and after the second partnership seminar in May 2004 the parties decided to extend the cooperation agreement for the next five years.

An interesting point worth noting is that the Seller recently has been nominated an award for "best supplier" by the Buyer. Also during the research process of carrying out interviews and discussions at the Buyer, the Seller partnership was often mentioned as an example of how things ought to work with a supplier, indications of how well it works - that this partnership is showing the direction for developing relationships with other important suppliers. This would imply that the partnership was not perceived to be working as bad as some of the interviewees presented it. However, at this instance I must make a comment on the researcher's impact on the situation; it is obvious that a study such as the one that I was conducting, and the interview situation, can be seen as good opportunities to raise one's voice in order to communicate something and get a message across to the other party.

The road towards a partnership between the Seller and the Buyer has been long and eventful. The process has been characterized by a strong vision in the partnership idea by management, on one hand, and on several episodes that could be seen as destructive for the partnership, on the other hand. In a sense one might be tempted to question the whole existence of a partnership between the companies – are there enough motives to support the partnership strategy in this particular relationship? In a sense this is all about choice of perspective and defining what kind of partnership is intended in this specific context. It is clear that the vision of the Seller of being a total-solutions -provider is not supported by the Buyer's vision of optimizing the operations of the whole fleet in the long run by doing all the service work in-house. The challenge is to seek for and find the critical interdependencies for value co-creation and to exploit these interdependencies.
Obviously the partnership between the two companies is seeking its form - from being just an ordinary link in a traditional supply chain, into being something that could be called a value co-creating partnership. Where there is room for innovating, testing, and developing new solutions together, and coming up with new ideas that can be utilized by both companies more widely, even in other relationships. Given the long history of this particular

relationship and the people interacting in the partnership something has been created that could be called a *possibility space*. This is a certain slack, a space created by a shared history resulting in trust and commitment, and a positive outlook for the future.

Alhough conflict and the effect of conflicts, on the development of the relationship were not the focus of this study it seemed strikingly clear from the case that conflicts can be a positive force for the relationship. Therefore I would like to devote a few words to the notion of constructive effect of conflict. Gadde and Snehota (2000) argue that as companies get more involved with each other they get more interdependent. With greater interdependence the possibility of conflicts of interest gets more likely. However, conflicts are not seen only as negative; instead, conflict can be seen as a prerequisite for innovation and creative development. There have been instances in the relationship between the Seller and the Buyer where the parties have failed to exploit the potential that lies in interdependence – episodes where the potential for value co-creation was lost for the moment, but can in retrospect be seen as constructive forces in the development of the relationship.

When the Buyer took the decision to start building up its own riding crew for service and maintenance the Seller lost a considerable part of its business in the US. The incident illustrates how the chance for value co-creation was lost because the parties could not find a way to exploit each other's resources effectively. The Seller was not willing to offer what the customer wanted, and the Buyer was not willing to accept what the Seller's offering. However, in retrospect the riding crew incident has been a force that has pushed the Seller to develop the offering and can be seen as constructive in a longer perspective.

> *"Frustration was a big element in the decision in 1998 when the Buyer created their own riding crew. The conflict was between… it was money that we discussed. We wanted a certain amount for keeping a person there and this we wanted to include into a maintenance agreement. (…) So this is where the conflict came from". (Interview: Seller 9)*

Another episode were the constructive force of a failure in the relationship could be seen as a constructive force is when the Buyer chose to install gas turbines, provided by a competitor, on their ships at the end of the 1990's. At this time, although they already had a long history of using the Seller diesels, they wanted to try out the new gas turbine technology, which at the time was new in the industry and supposed to be more environmentally friendly. Simultaneously the Seller was still developing their environmentally friendly engine and had not yet released its new technology - a technology that they managed to release only days after they lost the Buyer deal to competing gas turbines.

The figures below summarise the development of the partnership with arrows and circles demonstrating the connectedness and causality of events.

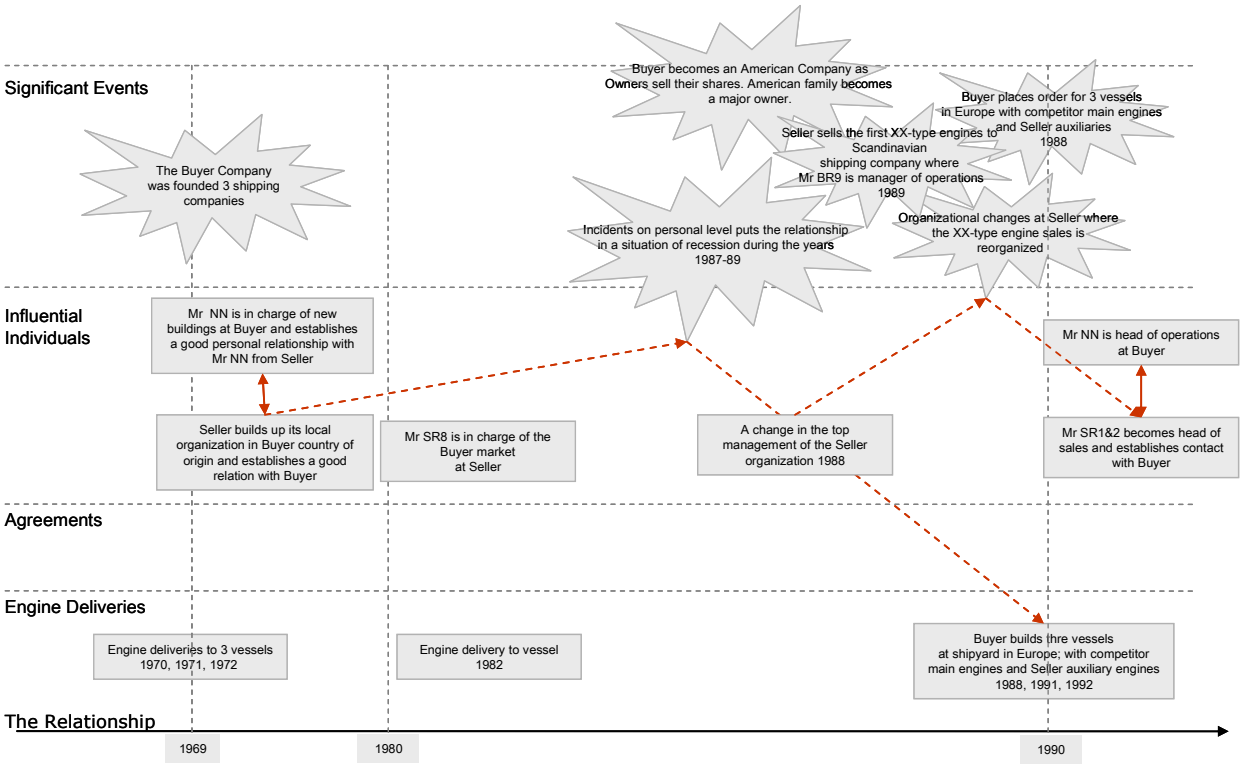

Figure 6.5: Development of the relationship from 1969 to the 1990's

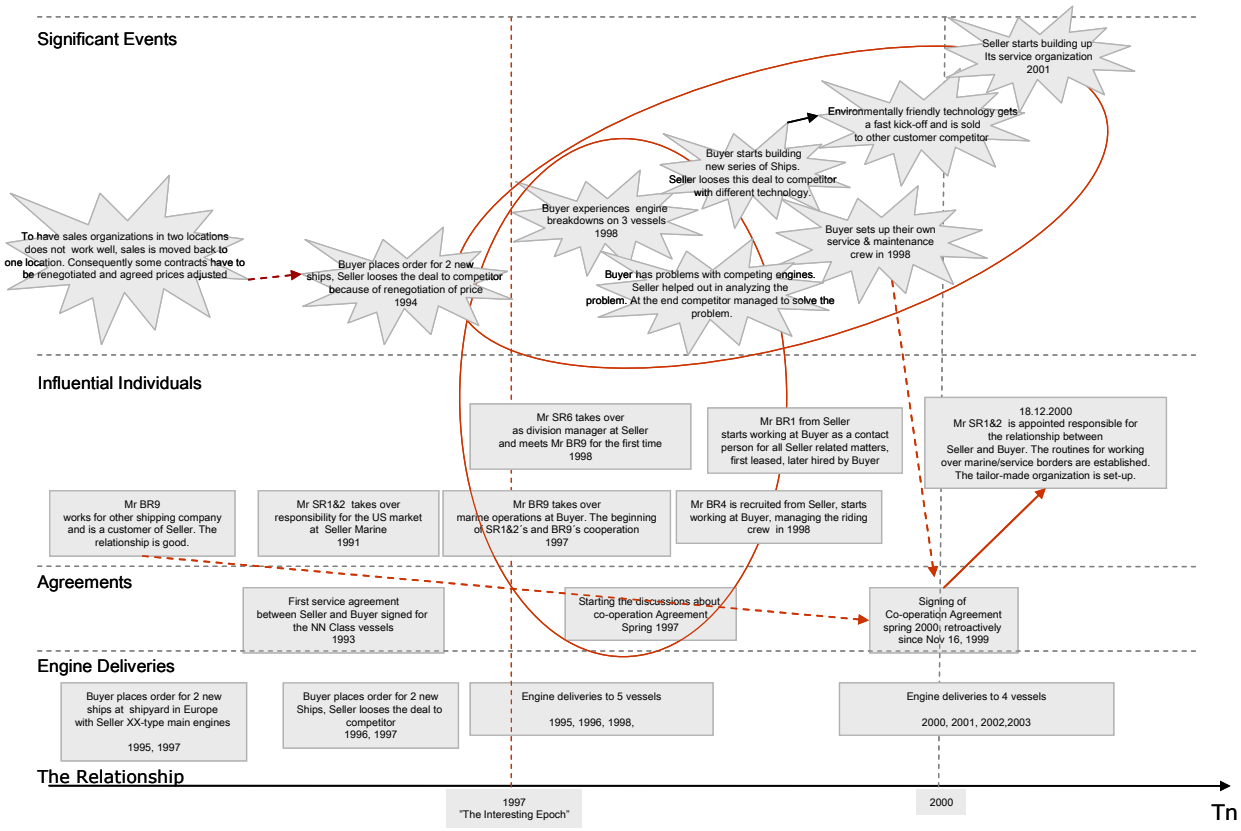

Figure 6.6: Development of the relationship from the beginning of the 1990's to 2004

The focus of the next chapter is on analyzing value co-creation in the partnership. What are the benefits and sacrifices perceived by the parties interacting in the partnership? What is the dynamic of value co-creation? What is the motivation for keeping up the partnership? And what we can learn from this case that could be used for more general purposes?

7. ANALYSING VALUE CO-CREATION IN THE FOCAL CASE

This chapter contains the analysis of the perceived value of the partnership i.e. the benefits and the sacrifices perceived by the parties. This is followed by a discussion on value co-creation, and interdependence as a prerequisite for value co-creation potential. After this there is further elaboration first on value co-creation potential, and thereafter on the realization of the potential for value co-creation through exploiting interdependencies. The chapter ends with a summary of the main findings of the analysis. A further discussion on the results is presented in the last chapter on Discussion and Conclusions.

I start by discussing perceived value of involvement in a relationship by presenting the benefits and sacrifices that the parties perceive in the relationship. After that I continue by discussing the phenomenon of interdependence as a prerequisite for value co-creation potential, and finally I discuss how the potential is realized through different processes of value co-creation. Here I use value co-creation initiatives taken in the partnership during the last year and relate them to efficiency and effectiveness.

The figure below illustrates the structure of the analysis chapter.

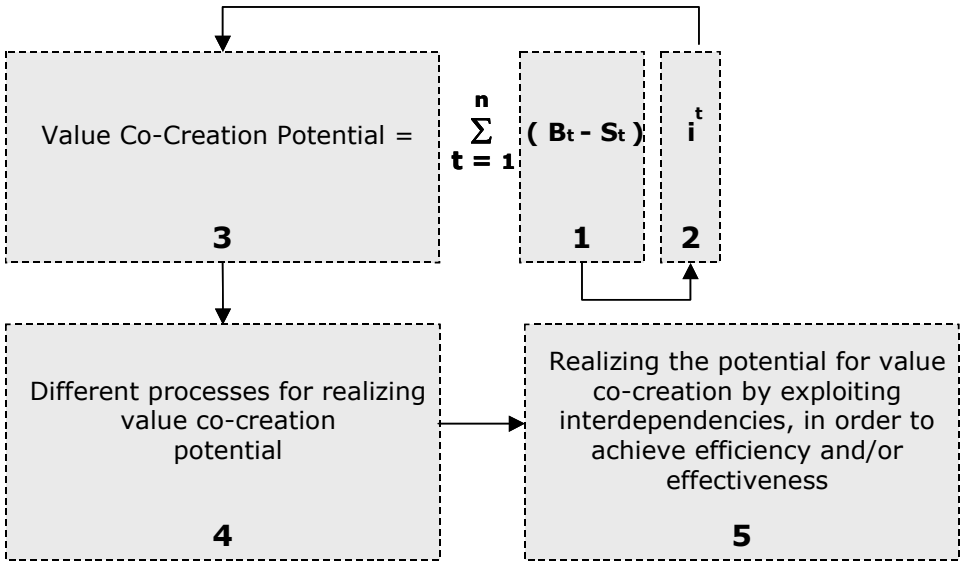

Figure 7.1: The structure of the analysis

The section below starts with box 1 as illustrated in the figure above, i.e. the discussion on benefits and sacrifices of involvement.

7.1 Perceived value as a prerequisite for high-involvement

The positive assessment of benefits and sacrifices of involvement leads to perceived value of the involvement in a relationship; the positive trade-off between benefits and sacrifices is argued to be a prerequisite for pursuing a relationship and consequently also a prerequisite for value co-creation potential.

In the following I present and discuss the benefits and sacrifices found in the interviews with people from the Seller and the Buyer. The reason why I emphasize the difference between *perceived value* of the relationship and *value co-creation* in the relationship is that I found that they are different. Perceived value of a relationship is an ex ante assessment made before the actual potential has been realized. The perception of the trade-off is largely intuitive, not fact-based, surely more like a general assessment of this being the right thing to do. This has to do with the fact that the outcome of involvement is hard to predict in advance since the value is created in the process of pursuing the relationship. The assessment of perceived value is dependent on who is making the assessment. The value of the partnership in this case is perceived differently by people involved for instance in procurement, who are concerned about pricing, delivery, and discounts, and people in top management who are concerned about total operational efficiency, safety, and reliability.

Value co-creation in the relationship is the actual day-to-day activities that are carried out within the frames of the relationship. This is the process by which resources are combined through exchange through interaction and mutual activity, processes that aim for increased efficiency or more effective use of resources.

7.1.1 Value perceived by the Buyer

The 15 interviews with people from the Buyer organization revealed a number of issues that were perceived as benefits and sacrifices associated with the partnership with the Seller. The benefits and sacrifices summarized in the figure below are discussed in the following sections.

Benefits: Buyer

- A reliable fleet (pro active and condition based maintenance)
- Risk sharing
- Openness in communication
  - Access to technical information
- Increased cost efficiency in operations
  - efficency in spare parts handling
  - smooth routines
  - logistics
  - administration
  - fuel economies
  - ”tailor made” service
- Joint business development

Sacrifices: Buyer

- Price paid
- Commitment to the Seller on specified items
- Technological dependence
- The risk of missing out on something provided by others

Figure 7.2: Benefits and sacrifices perceived by the Buyer in 2003-04

From the above boxes, where the benefits and sacrifices of the relationship are presented, it becomes obvious that it is not possible to measure exactly the value of each of the aspects or the trade-off between them. Therefore I argue that the trade-off assessment is highly relative and intuitive, based upon management perception of the value of involvement in a particular relationship at a give time in a specific situation.

As has been pointed out earlier, the perception of benefits and sacrifices is also actor dependent - it differs according to whom one asks. When discussing perceived value with the people involved in procurement they measure the success of the partnership in terms of how well the company has been able to benefit from discounts on spare parts, while the technical people are concerned about the co-development of more fuel-efficient technologies. The point is that there obviously are shortcomings to any effort to try to represent or reconstruct a real-life phenomenon. However, as mentioned earlier this is one construction of the reality, as I as a researcher have perceived it. Thus, my attempt is to make a collected representation of the benefits and sacrifices involved in the partnership based on the interviews. I start by discussing the benefits and thereafter move on to discuss the sacrifices.

A reliable fleet

The Buyer’s main concern as a cruise ship operator is safety and reliability in operations. Part of having a reliable fleet is having partners who bring their resources and specialized expertise to the table. The Buyer believes that by cooperating with the Seller increased reliability can be achieved. A practical example of what has been developed together in order to increase reliability is the MMS concept.

”We are in the process of developing the system where instead of just blindly changing parts, we measure and test whether there is a need to change it without taking it out and change it when there is an actual need to do it. A more intelligent system, but it requires some development when there are 20 ships involved, in this case it has to be developed systematically so that it works. There is potential in this. Some people might have a different opinion, but in the case of this size of firm there certainly is potential in this”. (Interview: Buyer 1)

Risk sharing

A motivation for the Buyer to work with partners whom they trust is the risk sharing is possible. Mr BR9 repeated several times that he personally is comfortable when he knows that someone is sharing responsibility with him, that he has responsibility of the safety of 60,000 passengers each day, and still has to be able to sleep well at night. In the case of an emergency he needs to know that the Seller is there to support him.

Openness in communication

Partly connected to both cost avoidance and overall operational efficiency is the openness in communication that the Buyer asks for, and perceive to get through a partnership. As a part of the cooperation agreement they want to get access to critical technical information about difficulties and damage that the Seller has experienced on other ships anywhere in the world, in order to be pro-active and avoid damage on their own fleet.

”Such a thing like when there is a problem occurring in some other part of the world with engines that we have. Something that one is not certain about, and don’t quite know what the problem is, but we would very much like to have that information even when it is not solid. An informal email from the Seller to us where they say: ”hey this is what we have seen on this or that power plant”. Wherever in the world it is. We do not know what it is, but this is for your information.” (Interview: Buyer 7)

Operational efficiency

The diesel engines, which are the main object of the exchange between the Buyer and the Seller, are the power source for an entire cruise ship, and therefore the operating of the engines is one of the biggest costs for a cruise ship operator. Evidently the main benefit that the Buyer expects to get out of the relationship with the Seller is related to operational

efficiency. Efficiency is related to a number of activities, namely condition-based maintenance and optimization of component lifetime, fleet-wide standardization of procedures, improved fuel economies and optimizing procurement, and logistics.

Regarding changing of components, the Buyer wants to optimize component lifetime and create a system through which they would not change components according to prescribed specifications by the supplier according to running hours, but instead switch to a system where they would assess the need for changing a certain part and only change it when there is an actual need. In order to do this they need the specific know-how possessed by the Seller to be able to determine the critical balance between level of deterioration and reliability of the component. The condition-based maintenance program is an effort in this direction.

> *"We are in the process of developing the system where instead of just blindly changing parts, we measure and test whether there is a need to change it. We do it without taking the part out and change it only when there is an actual need for it. A more intelligent system, but it requires some development when there are 20 ships involved, in this case it has to be developed systematically and so that it works. There is potential in this. Some people might have a different opinion, but in the case of this size of firm there certainly is potential in this". (Interview: Buyer 1)*

Cost avoidance is believed to be a factor affecting operational efficiency. It is believed that by working for the long term with a trusted partner unnecessary costs can be avoided.

> *"And one of the things I've talked a lot to my boss about and he's supportive of it, and is something that I am trying to do across our team, is, even though, ultimately, as a company, you know, I have to add value to the company, how much money did I make the company today? Ultimately, that's the question, but much of my job, whether it's working with the Seller or anybody else, is cost avoidance. And again, that's hard to qualify because I didn't bring you a dollar or savings but I just did something that prevented the cause…something that prevented the cause, or the ship not to get a part that was critical to their operation. And so to me, we need to capture that positive thing. And we do a lot of cost avoidance." (Interview: Buyer 14)*

One of the most obvious benefits in the area of operational efficiency that can be gained from a partnership with a supplier is to find more efficient ways of taking care of logistics. The dealing with spare parts is the biggest day-to-day activity between the companies and the Buyer considers that a benefit of the partnership is that there are efficiencies to be gained for both parties concerning more efficient handling of spare parts.

> *"It is clear that if we can avoid having a certain spare part on board the ship we can save a lot of money. We have some millions of dollars in spares on board the ships,*

and that is insane. We must be able to achieve greater efficiency, but in order for this to happen we have to have suppliers that understand this and who understand us (Interview: Buyer 8)

Joint business development

"Basically my view on partnership is that partnership is good. I believe that suppliers, major suppliers always can contribute a lot to us, and improve our product considerably. So I strongly believe in this. " (Interview: Buyer 8)

The Buyer considers that there are several opportunities to develop both organizations' businesses. An example that was brought up was the development of more fuel-efficient technologies. By cooperating and developing this together, and by using the Buyer as a test lab both could benefit.

Another area where both organizations work is environmental issues. It is believed that there are even more opportunities to come within this area in the future. Currently there is said to be a dialogue between the companies on environmental issues. As mentioned earlier, the MMS concept is a product of cooperation between the Buyer and the Seller, and there are plans to widen the scope of the MMS on the Buyer's fleet. There are also talks about developing techniques for assessing actual deterioration of parts and widening the scope of the Seller's involvement in spare parts and inventory handling, something that I return to later in this chapter.

Price paid

To pay a price is a sacrifice that every customer has to make. However, there are differences in degree of the sacrifice: if the price is seen perceived to be high, the sacrifice is most likely perceived as big. On the other hand, if the price is perceived to be low i.e. a good price, the sacrifice is less severe. In the value co-creation framework price can be viewed either as a benefit or a sacrifice – something co-created - leading to a different, separate discussion that I return to later in this chapter.

Exclusive commitment to the Seller on specified items

A sacrifice that the Buyer perceives in the relationship with the Seller is that they are, according to the cooperation agreement, committed to grant exclusivity to the Seller regarding the buying certain specified items. This prevents the Buyer from economizing by applying strategic sourcing and bargaining with different suppliers. This is a sacrifice that

can be seen as inherent in a long-term partnership strategy with any counterpart, with the logic of economizing in the long run instead of optimizing each transaction.

Technological dependence

The Buyer has a great number of the Seller engines installed on their ships; this creates a situation of a certain degree of dependence. The Buyer is dependent on the Seller´s support in maintaining and operating the fleet and developing fleet operations into greater efficiency. However, having a big number of the Seller engines provides opportunities for economizing in different ways if the dependence is managed and exploited in an optimal manner.

The risk of missing out on something provided by others

A sacrifice involved in commitment to one counterpart is that one might miss out on something that is provided by others. This is one of the inherent characteristics of commitment and a part of the trade-off assessment. In the case of the Buyer it has to be emphasized though, that the Seller is by no means the only source for ship power supply for the Buyer.

7.1.2 Value perceived by the Seller

The nine interviews with people from the Seller organization revealed a number of issues that were perceived as benefits and sacrifices associated with the partnership with the Buyer. The benefits and sacrifices summarized in the figure below are discussed in the following sections.

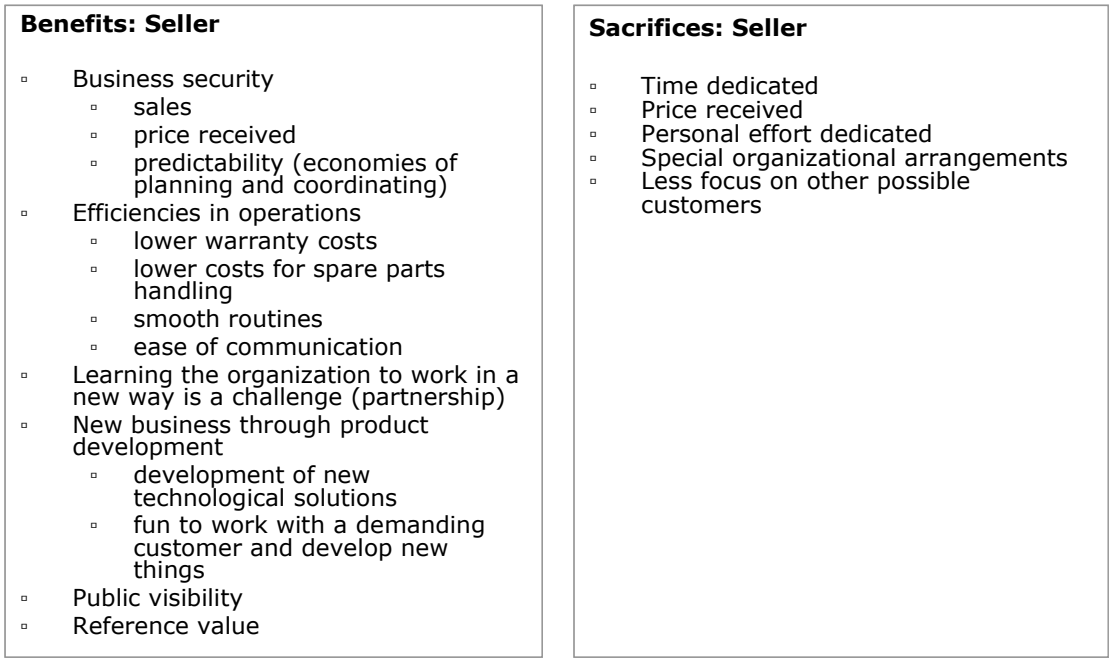

Figure 7.3: Benefits and sacrifices perceived by the Seller in 2003-04

As can be seen, the lists contain a number of varying issues. To make a judgment of the trade-off between the benefits and sacrifices is by no means simple or easily convertible into numerical facts. The judgment of a trade-off requires an actor with the capability to make a judgment based on an applied logic complemented with intuition. It is impossible to assign exact numerical values to the benefits and sacrifices since they are all complex in themselves. The judgment of a trade-off is a subjective perception at a given time in a specific context.

This study shows that the decision of whether to pursue a specific relationship strategy with a particular counterpart is a management decision – management assesses the perceived value of the relationship and allocates the needed resources for managing the specific relationship. This decision is based on a factual assessment of the current situation regarding resources and the lack of them, on previous experience, and future expectations. All these factors contribute to a decision involving tacit knowledge, some intuition, and a feeling of this being the right thing to do.

Now I turn to reviewing the benefits and sacrifices of the partnership as perceived by people in the Seller organization.

Business security

From the supplier's perspective, certainly one of the most obvious benefits from a customer relationship is the price that is gained in exchange for an offering. A perceived benefit by the Seller that is associated with the long-term, high-involvement relationship with the Buyer is that it offers a certain degree of business security - security that is associated with approximate predictability of sales and economies of planning.

Efficiencies in operations

A benefit associated with high-involvement, as a result of coordination, is efficiencies in operations. These can take the form of lower warranty costs, lower costs of spare parts handling, and smoother administrative routines. Savings in warranty costs are gained because the engines are taken care of in a good manner, and efficiencies in spare parts handling are gained through joint planning and forecasting that enable smarter inventory handling and logistics arrangements. Efficiencies gained from smoother routines are associated with pricing, payment, order processing etc. Smooth communication can also be seen as associated with efficient operations.

> *"Yes, there are two types of value the way I look at it. One is monetary value, which you can calculate directly into money: that we have lower costs for taking care of spare parts deliveries or lower warranty costs because we take better care of the engines, we do it together with them. Those are things that can be measured in money."(Interview: Seller 1)*

Learning to work in a new way

I think that one of the benefits expressed by the Seller management that they associate with the Buyer partnership is quite interesting. It was said that the Seller organization learns to work in a new way through working with a demanding customer such as the Buyer.

> *"But where I see the bigger value - because I believe in this idea, is that you can learn your own organization a way of operating (functioning) that you believe is better and more profitable and brings more value to the customer. Because if we can not create value for the customer, why would he pay one penny more to us, if we can not offer him anything? This is what is most interesting for us, to learn from this cooperation.*

We learn their way of handling things and we learn to cooperate." (Interview: Seller 1)

New business through product development

Both the Buyer and the Seller have expressed the possibility creating new business and developing products and ideas together as a benefit of the partnership. One practical example of such a joint product development effort is Machinery Management System (MMS). MMS is a service product offered by the Seller, which has been jointly developed with customers. The idea of MMS is that the Seller monitors the engines from the Seller factory in Vaasa through electronic transmission of engine data from the ship. The aim for the MMS is to monitor engines and do maintenance according to actual conditions. The Seller's aim is to "tie up" customers to the system, monitor the engines, and plan and execute the maintenance work when it is most suitable and causes the least interruption in the customer's operations. This service product is sold at a fixed price, which should allow for more accurate planning and allocating of resources by the customer.

"... the MMS concept is on its way, the condition based maintenance concept that we have introduced recently. We will have some two hundred engines tied up to it during this year. One of the first ones to have it installed was one of the Buyer's ships, the NN I believe it is. The first systems have technically been co-developed with the customers, of which the Buyer is one... (Interview: Seller 9)

Another device that has bee co-developed with the customer is a safety box on the engines to protect people from touching and getting burned on hot spots on the engine.

"...we have developed safety boxes on the engines in order to cover hot spots. If you look at an engine with an infrared- or heat-sensitive camera, you can clearly see that there are certain areas, which are not covered, that get red hot, or rise above a certain temperature. And there are IMO regulations regarding certain temperature limits for different engines…because it is a safety risk. There we have managed quite well with our development..." (Interview: Seller 1)

Flexible hoses are an example of another product that has been co-developed with the customer.

"There have also been flexible hoses that we have developed, and the Buyer has helped us to get approval from them with the classification society, which is known for being… As one starts thinking about it, there are actually a number of things where we have been pushed to development, also technically." (Interview: Seller 1)

Public visibility and reference value

The Seller perceives the Buyer as being a good reference when working within the shipping industry. It is advantageous for the Seller to be associated with the cruise industry because of the "glamour" and visibility of the industry. Another side to the matter it is that several different environment activist groups carefully watch upon the cruise industry. This is why the cruise companies stress the importance of environmental considerations, which gives the Buyer an incentive to develop more environmentally friendly technologies, which in turn forces the Seller to develop its products.

> *"I think the cruise industry, as a whole is a very important industry for the Seller to stay on top of. First of all, I can tell you from working with other types of ship owners and with power plants. The thing about the cruise industry is they have a lot of money.(…) There's a good cash flow. There's a tremendous market. There's tremendous potential for growth…. Whereas the cruise lines have a different philosophy. Their interest is to spend the money on keeping their equipment running for the maximum amount. They're not afraid, they're not only worried about production, but they are worried about production capability. Because if you're only worried about production, you just keep the engines running as much as possible, do as little maintenance as possible until… but you can see in the cruise industry as a whole because of the reliability factor, you have people's lives at stake." (Interview: Seller 4).*

> *"... it is a prestigious shipping company, there is no question about that. It is quite nice to show pictures of the Buyer's ship in presentations and talk about references. I did that both in Chile and Brazil last week when I presented the Seller. I demonstrated what the biggest power plant in Manaus has in common with the world's largest cruise ship. And that is quite flashy, so it is clearly a benefit in positioning ourselves on the market, something that we gladly hold on to." (Interview: Seller 6)*

Time and effort dedicated – less time for other customers

As has been stated before, based on empirical studies high-involvement relationships are resource demanding. It takes time and resources to communicate, coordinate, and innovate i.e. to be *involved*. One of the sacrifices, perceived by the Seller, made for the Buyer relationship is the time and effort dedicated to the relationship. This is connected to the last point in the list of sacrifices, namely "having less time for other customers". It is clear that the time spent with one customer is less time spent with another customer.

Price received

The price received can be seen both as a benefit and a sacrifice, as said before. If the prices are perceived to be low, the sacrifice is big, while a good price received is a benefit. When the price received is stated a sacrifice has to do with the fact that the Seller grants discounts on spare parts to the Buyer according to the agreement. This means that they do not get the maximum price, but instead they get business security. Price as a sacrifice is also connected to the fact that the engines themselves are initially sold at a competitive price in order to get the future after-sales business.

Special organizational arrangements

A sacrifice that the Seller has had to make for the partnerships is doing some special organizational arrangements. The Seller has appointed one technical manager especially dedicated for the Buyer situated close by at the local office a contract manager, and a "key account" manager who takes care of both sales and service related matters, especially assigned for such arrangements. These arrangements are especially made for the Buyer and constitute exceptions from the norm within the Seller organizational structure – exceptions that create needs for modifications in routines and procedures, and that require acceptance from the rest of the organization.

7.2 Summing up: perceived value of the partnership

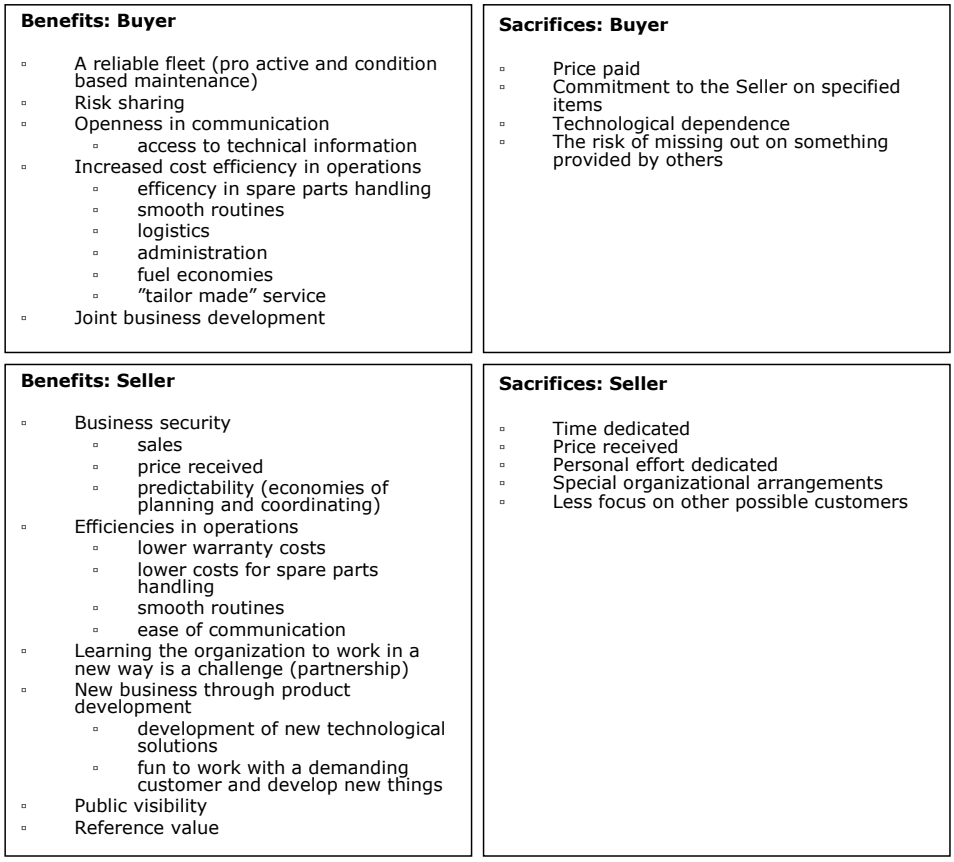

Figure 7.4: Summary of benefits and sacrifices

Summing up the discussion on benefits and sacrifices perceived by the parites in the partnership it can be said that there are a number of different issues raised. These issues are not convertible into numerical form and consequently not “measurable” in that sense. What is perceived as benefit and sacrifice varies depending on who makes the statement – people on different levels in the organizations with different objectives and responsibilities see the opportunities and threats of the partnership in different ways. People involved in purchasing are interested in maximum discount percentage received while management is interested in optimization of operations with a wider focus. However, there are some general observations that can be made.

For the Buyer the partnership is about operating their fleet safely, reliably, and cost efficiently. They aim at being the best in all their undertakings, which to a great extent involves fleet operations. In order to be “number one” the Buyer need partners who can bring the best, specialized know-how and competence to the table in their respective specialized areas. Although the Buyer perceives that there are sacrifices related to the

partnership with the Seller, the assessment of the trade-off seems to be positive, since they are continuing the partnership and pursuing the work of developing it further.

The Buyer is interested in continuing the work within the frames of a partnership that they have actively been creating and shaping - a partnership that does not encompass service from the Seller, but instead other resources that the Seller possesses. The resources that the Buyer need are related to optimal operations of the fleet i.e. special technical skills and know-how. They also need the Seller's resources in the form of spare parts, both the physical parts and the knowledge that the Seller possesses about the parts in relation to the Buyer's fleet. Also the infrastructure that the Seller has in place for repairing, handling, and delivering parts worldwide can be utilized as a shared resource, a possibility that the parties started to investigate at the second partnership seminar.

Considering the partnership from the Seller's side, the general observations that can be made about the benefit-sacrifice assessment are that: for the Seller the most obvious reasons for pursuing a partnership are securing of future business, learning new ways of working both technically and organizationally, and being "the supplier" for the cruise industry. There seems to be a strong emphasis on the benefit of learning in the partnership. It is seen as positive that the Seller is being forced to learn, develop, and adapt to the Buyer's needs. The Buyer is a forerunner in the market and is considered a demanding customer; therefore it is both useful and advantageous for the Seller to be associated with a prestigious company as the Buyer. The cruise industry is an expanding industry with a considerable potential for future business.

The assessment of the benefits and sacrifices of involvement with a certain partner is an assessment that has to be made in order for a relationship to exist and be able to develop. This assessment has to be made by someone, and in the case of industrial companies the company management are the most likely persons to make the strategic decision on whether to enter and pursue a high-involvement relationship or not. The managers obviously do not possess all the information that would be needed to make a perfectly informed decision, but in addition to facts and previous experience have to rely on imperfect information, tacit knowledge, and some degree of intuition. This can be compared to an investment decision or a decision to commit to a marriage – an investment decision as well as a decision to get married is always based on imperfect information, together with a fair share of positive faith in the future. This suggests that there has to be a strong belief in the future outcomes of the partnership - a belief that is often based to a great extent on other things than pure facts and figures.

I would like to return to the discussion on *value* and *price* for a moment, because value is quite often seen as the price or the money that one of the parties receives. In the following section I discuss price as both a benefit and a sacrifice and conclude with some remarks on

how I consider/think that value can be co-created in the context of long-term business relationships.

7.2.1 Price as a benefit and a sacrifice: the co-creation of price

When I was discussing pricing of the offering with the senior vice president for service at the Seller and wanted him to reflect on the connection of price and value, he started out by explaining that pricing is based on accurate data, running hours and costs, and other considerations, but he then concluded that the pricing of availability or security is more complicated. According to the interviewee there are customers that are not that interested in discussing price as long as they can be sure that they get safety and reliability. The following quote illustrates this point. Here price is related to avoiding damage, and safety and reliability are emphasized. Price is merely seen as an administrative matter.

> *"Well… we do it like engineer. We do have a lot of experience of our machinery as a basis to stand on. We know the engines and how much it costs to run such and such an engine. We have masses of data on that. So that is a cost that we can define very exactly really. Then when it comes to increasing the availability level, which links directly into operational security. (…) It is very difficult to set a price on availability or security or such like. What is the value? I once had a discussion with a ship owner in Norway who operates chemical tankers. They said that for them availability and reliability are major concerns. (…) So, value obviously for such a company - there is no question about it - it is safety and reliability that counts. There is very little discussion about price there, competence is highly valued… " (Interview: Seller 9)*

Below are two quotes from the customer side. Both quotes are extracts from the interview with the president of marine operations at the Buyer. Here he talks about how the value and pricing mechanism works. He emphasizes that low price is not the Buyer's only interest, but that support and shared responsibility are highly valued. The second quote illustrates that working together more intelligently can cut costs and that this will affect the money exchange between the two companies.

> *"And we understand... we understand very well that the supplier also has to earn money in order to survive and live. That is something that we understand perfectly! (…) I have a number of people knocking at my door offering their parts at a less expensive price wondering why I keep buying form the Seller. I might as well buy the pistons directly from NN for instance. Why are we losing all this money on expensive parts? I have said that this is because I do not want to be left out there alone. I want to have a Seller that supports me and communicates openly" (Interview: Buyer 9)*

In the light of this, one could say that the "incentive to buy" as proposed by Anderson and Narus (1998) in long-term relationships cannot be seen purely as the difference between value and price, at least not in this case. Rather the incentive is dependent on the logic used for assessing benefits and sacrifices. In the empirical case presented the assurance of avoiding incurring damage, and thereby great costs, was high on the priority scale. The partner, who manages to convince the buyer of being able to take care of him in the long run i.e. share risk and help out in avoiding damage and improve life-cycle cost, is likely to be the chosen partner. In the case presented price was treated merely as a technical, administrative tool for the resource exchange.

In most industrial buyer-seller relationships, pricing should be viewed as an interactive phenomenon. It is not the task of the seller to set a price and expect the buyer to pay the amount. As companies are involved in interaction over time and there is interdependence between the parties, price becomes an issue of co-creation. An illustrative example of this is that the case between the focal buyer and seller where the price on spare parts is dependent on how much in advance the part is ordered. If the part is ordered well in advance there is a discount compared to if the part is needed fast. By ordering well in advance the Seller can plan better and economize on spare parts. The advantage that is gained is shared with the customer by providing discounts. Another example is when the supplier can cut its marketing costs and the buyer can share its R&D costs by being committed to a long-term relationship. This leads to cost savings for both parties and consequently affect the price.

In the value co-creation framework price is included either as a benefit or a sacrifice, or as both. Price paid or price received is only one aspect of the perceived benefits and sacrifices in a business relationship. It is not the seller alone who sets the price but both buyer and seller who together make decisions that affect the costs and revenues for both parties.

Value in a long-term business-to-business, buyer-seller relationship cannot be said to be only about cost reduction as might be the case regarding transactions. Value in a relationship context is a complex trade-off between issues that are perceived either as sacrifices or benefits. In the same way the pricing issue should be viewed as an interactive issue and something that is based on a subjective assessment of cost and revenue, based on an economic logic applied. If safety and reliability are the most important considerations for the customer, then the customer is most likely willing to pay a higher price for the fact that there is a highly skilled person monitoring the performance of the equipment than would be the case if the issues at stake were of lesser criticality. Moreover value cannot be seen only to be related to cost reduction or price in a long-term business-to-business relationship. The empirical case reveals that value can be related to public visibility and fostering a positive

image and also to teaching an organization to work in a new way or to coming up with new innovative solutions together. All of these at the end serve the same purpose of improving the operations of the parties involved.

In the following section I turn to discuss what can be done after the decision to pursue a high-involvement relationship has been made – what are the prerequisites for value co-creation potential?

7.3 Interdependence as a prerequisite for value co-creation potential

At the beginning of the research process as I was exploring the phenomenon of value, I realized quite soon that there had to be some kind of glue between the companies that would keep them together, an incentive to work together. One of the most obvious glues that can be found in the IMP literature is the notion of heterogeneous resources; when companies possess heterogeneous resources it makes sense to interact in order to access and be able to utilize each other's resources. This proved to be one of the most important theoretical starting points for my argumentation. However, I still felt that I needed a variable that would be the dynamic variable in my mental model about value co-creation. As I discussed my research with colleagues and professors and presented it to audiences both within academia and business, the issue of dependence started popping up. Especially business managers brought up dependence as something that was seen as a risk and that had to be managed in partnerships. They were applying the traditional economic logic of independent actors acting opportunistically in the market on a long-term, high-involvement relationship, which obviously was completely beside the point.

> *"An organization does not work that way (win-win)… an organization is cynical. A business organization like ours is suspiscious and cynical, and always assumes a zero-sum-game. I think that one has to accept that as a starting point.." (Interview: Seller 6)*

Another reoccurring reaction I got when I talked about partnerships was the suspicious reaction – people were suspicious about the idea of a partnership because they thought that it had something to do with charity or giving things away for free. Somehow the word partnership was associated with friendship, as if there was no economic logic involved.
I started realizing that there was something wrong with this. If managers were afraid of dependence and did not realize the basic logic of long-term business relationships, there would be severe difficulties in developing partnerships. One inherent characteristic of a partnership is that it includes long-term commitment, which over time creates degrees of

dependence. If managers were not able to see that it was precisely the dependence factor - which they are most afraid of - that might be the key to value co-creation potential, there would be no way to realize that potential in the first place. Thus, my mission became to find arguments to demonstrate that both dependence and interdependence are inherent parts of the underlying logic of buyer-seller partnerships.

My intention became to explore value co-creation – how both companies could achieve something by working together in a partnership. I started reading about dependence and interdependence and realized that dependence actually deals with power and limited alternatives, which was not my focus, while interdependence deals with a situation where the activities of two parties are causally related to each other. This was the variable I was looking for and therefore I chose to use the concept of interdependence as the dynamic variable in my function on value co-creation potential. By including interdependence I demonstrate that interdependence is a prerequisite for value co-creation potential. If there is more interdependence, there is more potential, and vice versa.

Interdependence provides a chance for value co-creation if it is managed and exploited in a fruitful manner. Companies seek to manage interdependence with different governance mechanisms, such as different types of formal and informal agreements. The case of the focal partnership is an example of a situation where interdependence is managed through a cooperation agreement. Instead of avoiding being interdependent, the parties strive to use the potential inherent in interdependence in order to co-create value. Being able to exploit the potential that lies in a relationship with a partner requires that the parties get closely involved. A prerequisite for involvement is intense interpersonal interaction and coordination of activities as well as mutual adaptations. These all entail costs for the involved companies, which is why I would like to stress that a high-involvement approach is not always the most feasible one, and should not be regarded as the best relationship strategy per se. The assessment of the benefits and sacrifices of involvement should be made separately for each specific case.

The decision to pursue a partnership believing that there are things to be achieved by cooperating and being involved does not tell anything about what actually is achieved together. This is what I now turn to discuss, i.e. how the potential for value co-creation is realized through processes of value co-creation.

7.4 Realizing value co-creation potential through processes of value co-creation

So far I have established, in this case, that a positive trade-off between benefits and sacrifices of involvement is a prerequisite for a relationship to exist. There also has to be interdependence between the parties in order for value co-creation potential to exist. This leads to the next turn in the argumentation i.e. realization of the potential through processes of value co-creation.

As I suggested in theoretical argumentation earlier, I take the starting point from the Håkansson & Prenkert (2004) conceptualization of types of activity systems involving different value-creating processes with different outcomes i.e. that a certain type of activity system aims at efficiency while another type aims at effectiveness in resource use. In this framework four basic types of business exchange activity systems are presented: buying/selling, producing/using, cooperation, and networking (Ibid. p 91). A partnership falls into the category of a *cooperation activity system*. The outcome of this type of activity system is argued to be more effective use of resources, ultimately aiming at effectiveness in resource use.

The authors argue that there are two different value-creating processes involved in business exchange: the process for creating exchange value and the process for creating use value. Exchange value has to do with how *efficiently* the transaction or resource exchange is carried out, and use value has to do how well the parties make use of each other's resources i.e. the *effectiveness* of their exchange (p. 93). This is illustrated in the figure below.

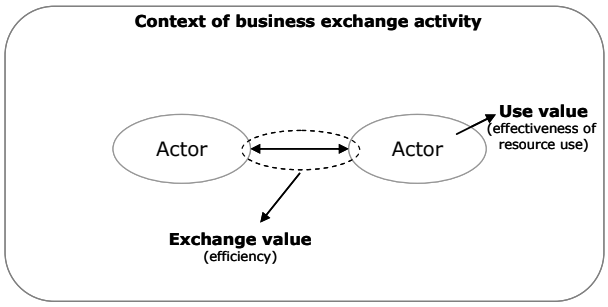

Figure 7.5: Exchange value and use value

According to this framework the focal partnership – being a cooperation activity system - should focus on a *use value creating process* in order to achieve effectiveness in the use of resources.

In the following I present what I call "value co-creation initiatives" taken in the partnership. The "initiatives" are concrete, practical initiatives that have been worked out by the two parties jointly at the partnership seminars, concrete activities decided by the two parties that are to be carried out.

First I present the initiatives as they arose at the seminars. Next I categorize them into categories depending on whether they are related to efficiency, effectiveness, or none of the two. Thereafter I relate these to interdependence and take the argument further by proposing that the logic of buyer-seller partnerships is to consciously manage interdependencies in order to achieve economies of exploiting and creating new interdependencies.

7.4.1 Value co-creation initiatives taken in the partnership

The fact that there is value co-creation potential in a relationship says nothing about the actual process of value co-creation in a relationship i.e. how the potential is realized. In order to understand how the involved companies have attempted to realize the potential I present the concrete initiatives that have been taken in order to co-create value. These initiatives are products of two partnership seminars held involving people from both organizations in 2004, the first in January, and the second in May.

The boxes below list the initiatives taken as they were raised at the two partnership seminars.

Value co-creation initiatives January 2004:

- That Seller would arrange a technical seminar for Buyer maintenance team.
- That Seller would send a core team to Buyer to understand their business and vision.
- That Seller would review the MMS reports together with Buyer to reduce costs and to avoid failure
- That Seller and Buyer would take actions in order to improve system design for new buildings.
- That Seller would provide a hotline for the maintenance team for questions related to technical matters.
- That both parties would commit to the cooperation agreement, since involvement is not enough.
- That Seller would define communication partners for the maintenance team within the Seller organization.
- That Buyer would pay their invoices on time
- That Buyer would tell Seller when information is not trusted and delegated upwards in the Buyer organization
- That Buyer would send a core group to Seller in Ft Lauderdale to learn about Seller's way of working.
- That Buyer would provide Seller with an organizational chart and responsibility matrix for distribution throughout the organization
- That Buyer would commit to the agreement regarding parts purchase and service work.
- That Buyer would provide a single point of contact for purchasing in charge of the communication and the purchasing process.
- That Buyer would provide Seller with a clear definition on Buyer maintenance team purpose and business philosophy.
- That Buyer promises that technical information given to Buyer will not be used against Seller.
- That Seller would understand what Buyer's vision is and understand that the "product" that they deliver includes a responsibility toward the guest.
- That Seller would improve information flow towards Buyer, especially regarding technical information.
- That Seller would ensure that there would be competent technical support for the XX-type engine even after the factory in NN (specific location) has been closed.
- That Seller would ensure that their invoices match Buyer's purchase order.
- That both companies would clarify the roles and intentions in regard to Buyer's maintenance team.
- To set up a portal pop-up notification of technical updates both on at Buyer and Seller.
- That all the partnership management meetings would be held out of office at a location where people could get away from day-to-day matters and concentrate on the partnership.

Figure 7.6: Value co-creation initiatives, January 2004

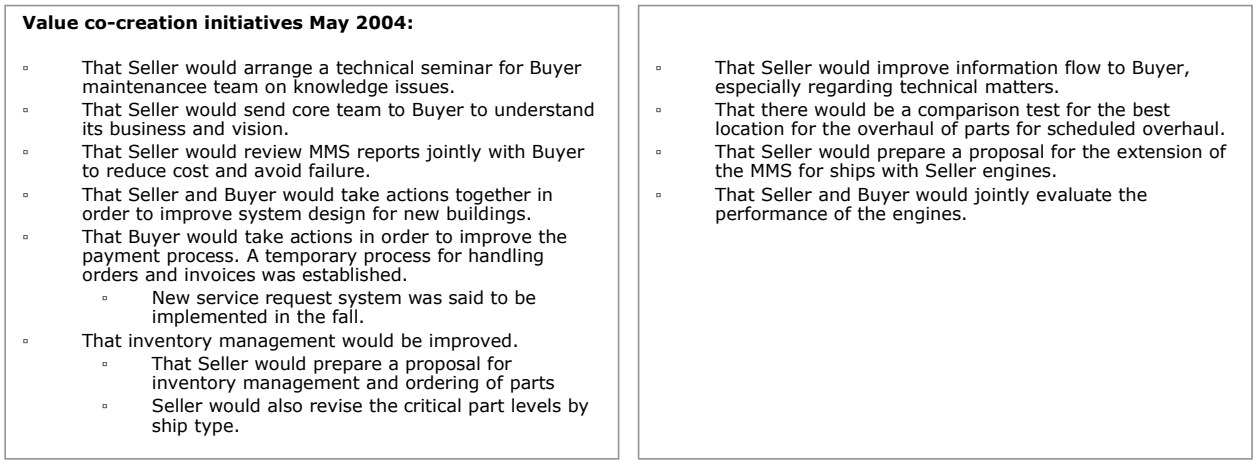

Figure 7.7: Value co-creation initiatives, May 2004

What can be said in general about the initiatives taken in January and May is that they partly overlap because some of the items from the first seminar were still processes at the second seminar. What more can be said is that the initiatives taken in January to a great extent concern issues aiming at efficiency, while the initiatives taken in May concern the effective use of resources. This could be seen as an indication of a development process - that the relationship has developed over time and reached a new stage (Dwyer et al. 1987). Alternatively it can be seen as a shift from being a producing-using activity system into being more like a cooperative activity system (Håkansson & Prenkert 2004).

In the following sections I briefly discuss the initiatives listed above. In order to create some order in the discussion I categorize them into: issues dealing with technical matters, communication, and spare parts & maintenance, respectively.

Technical issues

The value co-creation initiatives taken regarding technical issues were related to the organizing of technical seminars for the riding crew in order to increase their skills level, and to share service reports on the Internet portal in order to improve transfer of information on technical matters.

An initiative was also to organize performance-related seminars where engine performance and possibilities to develop technologies that would lead to improved fuel economies were to be discussed and developed. When it comes to optimizing fuel consumption, the Buyer needs the Seller's technical know-how and expertise while the Seller needs a live test lab to develop its expertise in fuel economies. This represents an obvious resource-sharing opportunity where the Buyer provides a real life test lab for thte

Seller's products and concepts, and the Buyer helps the Seller in improving and developing the offering.

There was also a decision made that the parties would review engine conditions reports together to ensure that the right service and maintenance measures would be taken.

> *"…we decided together with both companies to put in on the portal all the service reports and technical reports, so if SR5 ever wanted to see when was the last overhaul done on one of the ships, he could go in and see BR4's riding crew's report with the measurement records and everything, which is very really critical for us to help them plan their maintenance, cause you can see, you can trend the ware on the components, we can help them plan for their next year's overhaul."*
> *(Interview: Seller 4)*

A hot line for the Buyer maintenance team technical questions was set up in order to ensure fast response on urgent matters. There was also a decision taken that the Seller and the Buyer would review systems design for new buildings together in the future. This would be done in order to ensure that the best expertise would be used when assessing the design of the sections of the ship that are related to the diesel engines.

There was a decision made that the possibility of using the Seller shop-conditioned parts for scheduled overhaul would be investigated. The aim was to be able to make an informed decision on whether to use only high quality standard components overhauled by the Seller in the future.

With regard to engine maintenance the Buyer has been participating in developing the Seller's automated condition based maintenance (MMS) concept. The MMS implies that the Seller monitors the engines on the vessels from the engine manufacturing plant and makes recommendations according to real time data. The aim of MMS is to increase safety and reliability, increase overhaul intervals, and make efficient use of parts based on condition. It was decided that the possibility for introducing MMS to all the ships with the Seller engines be investigated. There was also a decision to start developing a tool for analyzing downtime for the engines in order to be able to assess the benefits of MMS. From the Buyer's point of view the MMS implies a sharing of risk with the Seller – the Seller takes on some of the responsibility of securing that the engines run without problems.

Issues related to communication

Clear definitions of roles and responsibilities were defined in order to improve communication and increase understanding between the two organizations. A quarterly meeting for the Seller and the Buyer maintenance team with a standard agenda was

institutionalized. Mission and vision seminars were planned in order to communicate the philosophies of the two organizations to each other. Defined communication partners were appointed and it was decided that communication charts be distributed within both organizations in order to avoid lack of and miscommunication. The Seller agreed to provide immediately all encompassing technical information to the Buyer according to agreed communication channels, and the Buyer committed not to use that technical information against the Seller.

Spare part and maintenance-related issues

The main areas for achieving operational efficiency in operating the Buyer's fleet are: fuel economies, service and maintenance, parts purchase, and logistics. There is only so much the Buyer can do about optimizing any of these by themselves, but with cooperation with the Seller there are a number of things that could be achieved.

> *"For instance, we have the current contract with the Seller where we get a certain discount percentage depending on lead time, the difference is x %. And considering the amount of business we do with the major suppliers like the Seller, that's a lot of money. So, by working with my internal buyers, and ship ambassadors, by working with the crew, by communicating with BR1 and them, that we need to do better planning, or we need to have some kind of agreement where the Seller manages the spares, or that we do it in a warehouse ourselves, and advising them that we are losing money, because we're not doing good planning. That is a cost avoidance. (Interview: Buyer14)*

Regarding spare parts-, and maintenance-related issues there were initiatives taken for making spare parts ordering, processing, delivery, and payment smoother and on time. The Buyer made a commitment to restrict the buying of parts and service from third parties, as has been stated in the cooperation agreement. It was agreed that the Seller would review the lists of critical spare part levels, so that only the relevant parts would be carried on board the ships. There was a decision that the minimum, maximum and re-order levels would be systematized and reported monthly. The Seller undertook to prepare a plan for how they could take care of managing inventory onboard ships, as well as to investigate the procedures for annual ordering for consumable parts.

In the area of logistics and purchasing of parts there have been several initiatives undertaken in order to reduce costs for administration and smoothen routines. The Seller has provided the Buyer with a price list for spare parts. The parts list saves both time and administrative work by avoiding the sending of requests for quotes, and quotes back and

forth between the companies. This has contributed to speeding up the acquisition of spare parts considerably. The cooperation agreement includes different discount percentages depending on when a spare parts order is made and when it is supposed to be delivered. By planning ahead the Buyer can get a discount and the Seller can economize by having less parts in stock and planning better. Joint spare parts inventory handling is connected with joint planning of maintenance and service. By joining forces and planning together both parties can work smarter - something that neither of the parties could achieve on its own. There are discussions underway regarding the storage of spare parts. It is expensive for the Buyer to carry a load of expensive parts at sea on each ship. The parties are now investigating the possibilities for the Seller to start keeping some of the stock and delivering it when needed. Some of the parts are re-used and in this way the Seller could service the parts while in its warehouse and deliver the overhauled parts to the ships - yet another example of greater interdependence and possibility for value co-creation.

> *..."On identifying critical parts for consumables and spares and developing a new process for long lead ordering. So we're not caught short with the parts not available. A new process for ordering parts and maintaining an adequate stock level of critical parts and consumables. Use their resources, use what they have because ultimately, that's going to make the cost go down and, which is my job, is to try to figure out how we can keep the cost down but yet be a win-win for both sides. And I think we hit on it today, I was kind of happy." (Interview: Buyer 14)*

The invoicing of spare parts is another current issue. The parties are discussing a new logic for quarterly invoicing as a way to save costs for both parties.

7.4.2 A categorization of the initiatives taken

In the figure below I categorize the initiatives according to their aimed outcome. The two types of outcome that are suggested in the applied framework are: efficiency in exchange and effective use of resources. Some of the initiatives did not seem to fit in any of the two categories and therefore I established a third category, which I call "enabling initiatives". The reason for calling the category "enabling initiatives" is that they all aim at enforcing the partnership spirit – the atmosphere of cooperation. In a sense they can be seen as serving as expressions of goodwill since they include ingredients such as "promising", "ensuring", "committing", "trusting", and "understanding".

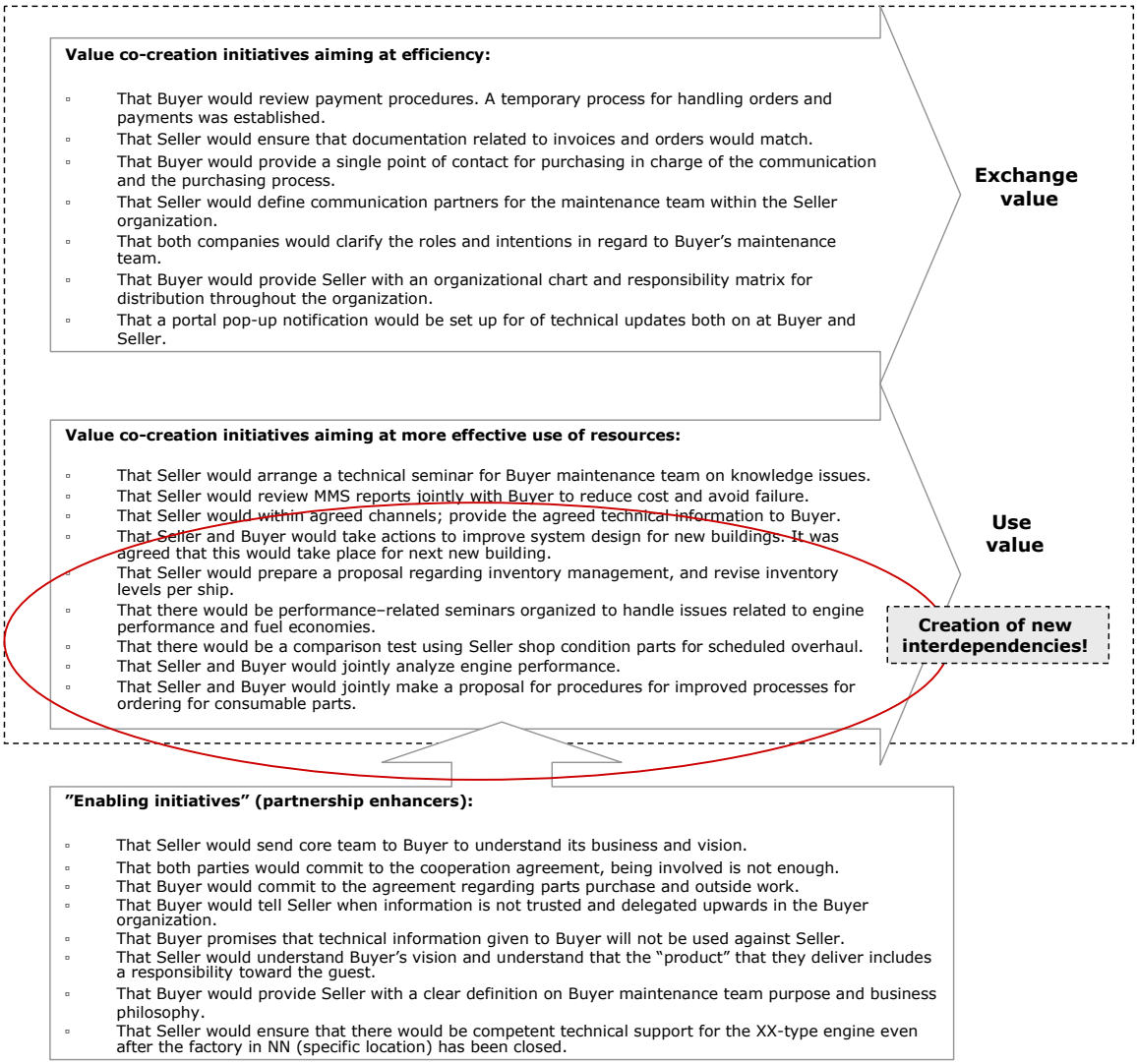

Figure 7.8: Value co-creation initiatives aiming at use value, exchange value and enhancing the atmosphere of the partnership, future directed initiatives circled.

According to the Håkansson & Prenkert (2004) division into different types of activity systems, this partnership is a cooperative activity system; consequently the outcome should be use value i.e. involving the process of utilizing each other's resources more effectively. In the focal case, the outcome was not as clear-cut or as evident as the conceptualization suggests. This partnership, although being a cooperation activity system, involves processes aiming at both efficiency and effectiveness, as well as processes for enabling these outcomes.

What I found even more interesting when doing the categorizations was that there are several initiatives, connected with more effective use of resources that are directed towards the future, and consequently aimed at creating new interdependencies between the companies.

This finding suggests that the creation of new interdependencies is an outcome of the activities carried out in the partnership. The initiatives aim at creating new interdependencies between the two companies through increasing the Seller's business activities at the Buyer with the ultimate goal of optimizing the running of the Buyer's fleet. The initiatives involve the connecting of the two companies' resources and creating new business opportunities for the Seller. New business undertakings in the form of controlling the Buyer's parts inventory and setting the most optimal standards for min, max and re-order levels of parts, conditioning the Buyer's parts at the Seller workshop, analyzing downtime together in order to be able to assess the effects of MMS, and being able to further develop the concept. Making efforts to optimize engine performance and develop more fuel-efficient technologies would imply product development for the Seller and increased operational efficiency for the Buyer. And finally investigating the possibilities for annual ordering of parts would enable economizing as a result of long-term planning of parts purchase, warehousing, and logistics arrangements.

In the figure below I make an attempt to incorporate the notion of exploiting and creating new interdependencies to my previous matrix where interdependence and involvement affect different types of possibilities of economizing. I suggest a widening of the matrix by adding the possibility for economizing through exploiting and creating new interdependencies in a high-involvement relationship between buyer and seller.

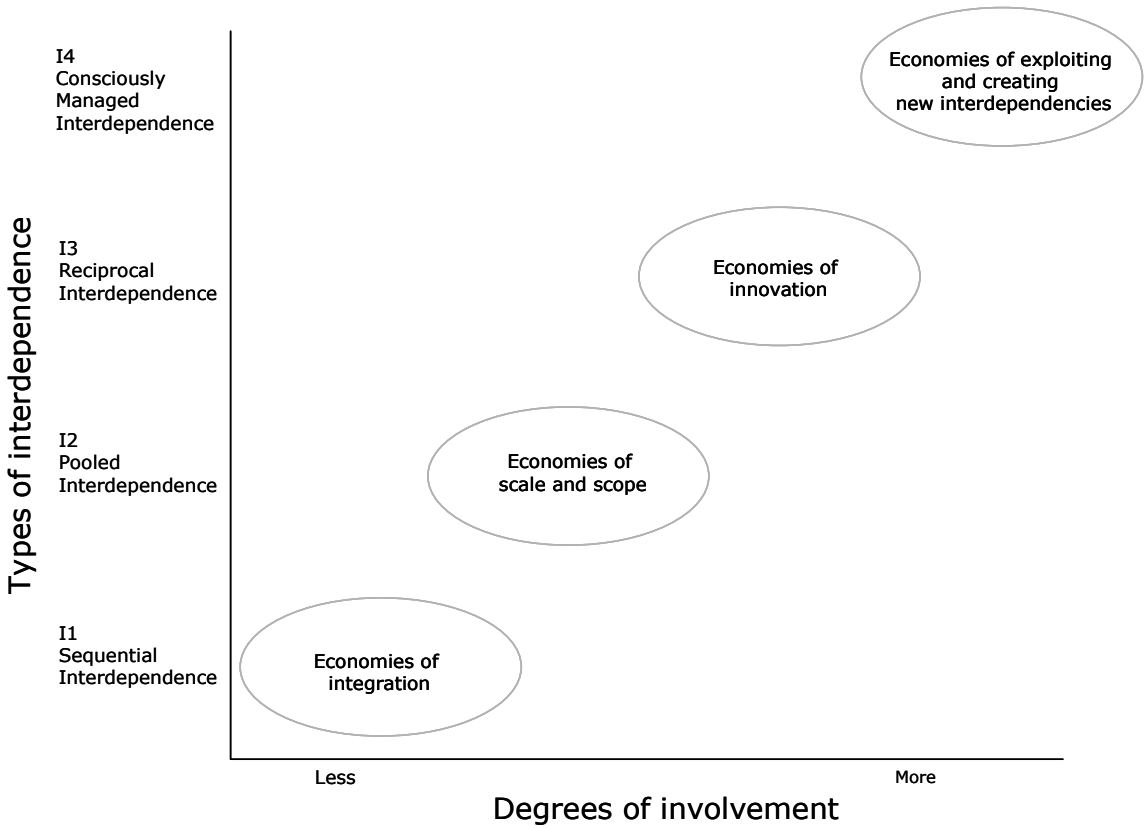

Figure 7.9: An illustration of the relation between interdependence, involvement, and types of economizing

7.5 The future of the partnership

Considering the future of the partnership it seems to be brighter than was the situation in the fall of 2003 when the discussions about a possible extension of the cooperation agreement were initiated. The overall feeling and atmosphere at the first seminar in January 2004 was overshadowed by suspiciousness and lack of commitment, while the spirit and commitment improved considerably by the second seminar in May.

From the Buyer's side there have been concrete measures taken for continuing the work with the Seller. They have assigned Mr BR11 to be in charge of taking the partnership further. He is a person with a strong technical background, which would imply that the Buyer's future expectations focus on technical matters. This would indicate that the Buyer aims at focusing on technical development together with the Seller.

> *"There I hope that BR11, who has the technical know-how… can take us up on a completely new level." (Interview: Buyer 15)*

The Buyer sees that the interest for the Seller should be that they are safe in the cruise industry and can gain benefits of volume. The Buyer recognizes that the loss of the riding crew is a sore point for the Seller, but that there is still potential that can be exploited in working together. An example of a new business opportunity for the Seller could be the keeping up of the Buyer's spare parts inventory and service off board. The alternative is that the Buyer sets up its own warehouse and keeps all their parts stored off board, something that is still under discussion. Overall the Buyer is interested in looking at the total life-cycle cost for operating their fleet and cooperating with the Seller in order to optimize operations in the long-run, without compromising safety and reliability.

> *"And I believe as a matter of fact, that there is another issue, which is what I am aiming at… we probably waste a considerable amount of energy - and if we worked together with the Seller in a purposeful manner, we would be looking at the whole life-cycle cost - then it would not be only about maintenance, but fuel costs would be included. Our fuel costs are xx million dollars per year, and if we could take this down by a couple of percent by working better together that would be added value and that could be seen as supporting our agreement. This is the way we look at it." (Interview: Buyer 9)*

The way the Seller management discussed the partnership was with some reservations; it was not crystal clear and obvious how the partnership with the Buyer would benefit the Seller. Mostly this had to do with the fact that the Seller had not systematically identified and analyzed the different benefits and sacrifices involved. An observation during the research process was that the Seller management got increasingly involved and started seeing the opportunities that there are in the partnership when it focused on the right things.

The problem with the word partnership seems to be that people associate it with some kind of non-utilitarian, charity and friendship–type of activity, and seem to feel compelled to make the argument that *" business is always about money*", and fail to realize that the partnership is exactly about that - making money and profit, only with a slightly different logic.

> *"Yes, this (partnership versus maximizing in each transaction) is a little double sided... because on one hand…it is clear that much of it has to do with pure business, MONEY. He (Mr BR9) naturally strives to get costs down and it is his job. And at the end of the day that is what drives the partnership into different directions." (Interview: Seller 9)*

Obviously a partnership should not be seen as anything but pure business. A partnership is one relationship management strategy – a strategy among others - with the ultimate aim of doing profitable business. The logic of a partnership is that working together, cooperating,

being interdependent and creating and exploiting interdependencies with a business partner is a means to do profitable business in the long run. If this is not the case, the partnership cannot be seen as the optimal strategy for that particular relationship.

7.6 Concluding comments

Currently the Buyer is operating xx number of ships that are powered by the Seller diesel engines, and there is more to come in the future. The Buyer has chosen the Seller as engine supplier because the Seller is said to have the most reliable product on the market. The Buyer also has other engine makes in their fleet but the Seller is said to be the most important. Safety and reliability are number one concerns for the Buyer and therefore the Seller has been the preferred choice of supplier. The Buyer has operated a ship for some 20 to 25 years, which means that the Buyer has been "living" with the engines every day for a long time. By definition this situation creates a certain degree of dependence between the two organizations. The Buyer has been "stuck" with the engines for 20-25 years, and live with a number of the Seller engines every day. This makes them an important customer and source of revenue for the Seller, both regarding new sales opportunities and after sales business.

Looking at the power/dependence relation between the two companies it can be said that both companies are to some extent dependent on each other. This quite obviously gives a somewhat safe position for the Seller although the Buyer does have other engines than the Seller's in their fleet. Regarding volume, the Buyer is not the biggest or most important customer for the Seller. However, the company is a great reference for the Seller and acts as a partner in developing new technology and testing new concepts. The volume of spare parts sales should not be underestimated either; the Buyer is a good customer for the Seller local service office. They do purchase a considerable amount of spare parts even though they do not buy service work from the Seller, which they have chosen to do in-house.
Cooperation between the two companies can be described as frequent and fruitful. There are several development projects going on between the companies. The Buyer provides a real life test lab for the Seller's products and concepts, and the Buyer continually helps the Seller develop and improve its offering. The partnership agreement is based on the idea of increased cooperation between the companies.

At the time of the initial discussions about the partnership there existed a certain degree of dependence between the Buyer and the Seller due to the fact that the Buyer had the Seller engines installed on board their ships. There was no reasonable way they could get out of the technological dependence on the Seller. Therefore the Buyer made the

decision to pursue a collaborative strategy with the Seller in order to make the best out of the situation. The decisions made in the past of installing the Seller engines on the vessels impacted on the present situation of dependence between the parties.

By taking the future aspect into the discussion it is obvious that by adding on to the Seller engine park and getting more involved with each other, both the Buyer and the Seller get more interdependent. As interdependence increases the possibilities of exploiting the value co-creation potential and economizing also increase. As the parties interact more, do more business and involve more of each other's resources, interdependence is created. This interdependence creates potential for value co-creation.

Regarding business volume, the Buyer is not the most important customer for the Seller. There are cruise customers that are more important volume-wise. This is why some people in the Seller organizations do not quite understand why they put in so much work on the Buyer and put up with so much with them. Some people feel that there are more important customers to work on. However, there is a strong commitment from key people in the management of the two companies who have a strong vision about the partnership and want to develop it further. Their commitment and vision is based upon a long experience in doing business in the marine industry as well as a history of working together and trusting in each other's capabilities. Not everybody, on the operational levels in the organizations, see the total benefits of the partnership as clearly as management does.

> *The cooperation agreement means that we work closely together with the Buyer to help them plan their maintenances and schedule their maintenance and make sure that they're getting the optimal discount. And part of the cooperation agreement is also the technical support, which, that's not really as miserable as the discount part of the agreement but there's a big value to the technical support and SR5's role." (Interview: Seller 4)*

> *"There are two key performance indicators that BR1 and I have identified to measure whether or not the cooperation agreement is a success. One of them for the customer side is they getting the maximum discount. Are they taking advantage of the discount structure, from our side is: "Are we getting paid in timely fashion." (Interview: Seller 4)*

Obviously the communication and getting people committed to the idea of the partnership is a challenge for its future success – to get people on all levels in the organization to see the relationship as a totality instead of optimizing a small portion of it.

7.7 Summary

In summary it can be said that the study did not result in a universal definition on value, but instead an increased understanding of the logic of value co-creation in the buyer-seller context and a function for demonstrating how interdependence can be seen to be related to value co-creation potential.

As a result of the analysis of the focal case I propose that the logic for buyer-seller partnerships can be seen as the creation and exploitation of interdependencies. When a buyer and a seller have chosen a high-involvement strategy in their relationship, in this case a partnership, the parties have made an assessment that it is worthwhile to cooperate and get highly involved in order to achieve something that neither of the parties could achieve alone. When such a situation is attained, usually as a result of interaction over time, there is room for creation of new interdependencies as well as efficient exploitation of the interdependencies that exist between the two companies. There is a possibility space created, there is "slack" in the relationship, which enables the parties to widen their view of what can be achieved together. Consequently there is a possibility to create new interdependencies and exploit them, with the aim of creating both use value in the form of more effective use of each other's resources, and exchange value i.e. increased efficiency in the exchange activities between the organizations. In the presented case, I was able to find both attempts to create use and exchange value, although this is seen as a cooperative activity system. This finding suggests that the categorization of different activity systems, and their different aimed outcomes should be seen as indicative, and that reality once more has proved to be more complicated (and interesting) than theoretical generalizations.

The question about what kind of interdependencies should be created and what the most critical interdependencies are is interesting. Obviously there is no general or universal answer to that. The importance and criticality of interdependencies is context dependent, depending on what the object of exchange between the parties is and what the objectives of the relationship are. In the focal buyer-seller relationship the emphasis seems to be shifting from being about exchange of a product accompanied with service towards being increasingly about developing new technological solutions together, with the aim of achieving operational efficiency for the Buyer and developing and improving the Seller product.

The next, and last chapter of thesis contains a final discussion and conclusions from the study. I return to the initial aim of the study and the specific research questions and discuss how I have managed to fulfill the aim and answer the research questions. I also discuss the contributions of the study for both theory and practice as well as research

methodology. I will also direct some criticisms towards the study and at the end propose avenues for future research.

8. CONCLUSIONS AND IMPLICATIONS

In the following, last chapter of the study I summarize briefly the process of the study and the main findings. I go back to the initial aim of the study and the research questions, and I reflect upon how I have succeeded in fulfilling the aim and answering the research questions. I also discuss the contributions of the study regarding both theory and practice, as well as research methodology. At the end of the chapter I suggest some topics for future research, direct some critical remarks at my own work, and end with some concluding remarks.

8.1 A recapitulation

The whole study started out as a result of my own curiosity about value in industrial buyer-seller relationships, a curiosity that had been awakened during my work as a research assistant and as a management consultant. I had seen that value is relative and ambiguous, and I wanted to explore what the motivations are for buyers and sellers on industrial markets to engage in long-term relationships, and what the value is that the parties perceive to get out of high-involvement relationships. During my career I had been working together with the Seller both as a research assistant carrying out customer satisfaction research and as a consultant, involved in a key account management project; as a result, the marine business had become familiar to me. When I started my doctoral research project, a natural choice for a case study was the Seller. Together with Mr SR1&2 from the Seller, I decided to choose the relationship where the Seller had come farthest in developing a high-involvement relationship, so the empirical case study ended up being the relationship between the focal Seller and the Buyer presented in the study.

The relationship between the companies has lasted since the beginning of the 1970's until the present moment. Until the 1990's the relationship was characterized by a more traditional transactional–type of business, although it had already from the beginning some important relational ingredients. It was only in the mid 1990's that the talks about a partnership were initiated. The initial talks about a partnership started in 1997 when the Buyer experienced great difficulties with their engines and incurred great costs. The objective for the Buyer at that time was to optimize operations and to reduce operational costs. One strategy for achieving operational efficiency was to start discussing increased cooperation with one of the most important suppliers, the Seller. The main reasons for initiating the talks about a partnership were a situation of dependence and a strong management vision of the benefits of working together with partners in the long run. The Buyer can be seen to have been to some extent dependent on the Seller already at that time, since they had the Seller engines in their fleet – engines that they would be "stuck" with for

years to come. Consequently the partnership cannot be seen purely as the result of interaction - as is suggested in a number of studies of how relationships develop – but the relationship per se was a means of coping with a situation of dependence.

The parties have chosen to develop a partnership type of relation in order to make the most of the situation – a situation where interaction and involvement have created interdependencies between the parties. The argument in the study is that interdependence is a prerequisite for value co-creation, and that as the tolerance for interdependence increases so does the potential for value co-creation. In other words, the higher the degree of interdependence, the greater the possibilities for creating value together in the relationship; conversely the greater the independence of the parties, the lesser the potential for value co-creation. From this reasoning it is argued that interdependence should be seen as a resource, something positive, a trigger for value co-creation potential. This is demonstrated by a function presented in the study – a function that demonstrates a logic that has gradually evolved during the research process, where interdependence is the dynamic variable for value co-creation potential.

Previous studies suggest that long-term, cooperative relationships between companies, such as alliances and partnerships are characterized by high-involvement, and that involvement would be a suitable concept to be used in the study of alliances between companies. Therefore I brought in the concept of involvement, as a replacement of interaction, as a more suitable and descriptive concept to be used in the context of a buyer-seller partnership.

Different types of interdependencies have been identified in previous studies. I have used the Thompson (1967) categorization in the study, which categorizes interdependencies into sequential, pooled, and reciprocal interdependencies. The same categorization has been used by Borys and Jemison (1989) in developing a theory of hybrid organizational arrangements and by Håkansson and Persson (2004) in a conceptualization of different types of interdependencies and their consequences for supply chain management. By using the findings of these studies and by analyzing the case, some conclusions about the connections between interdependence, involvement, and value co-creation can be made, as illustrated in the figure below.

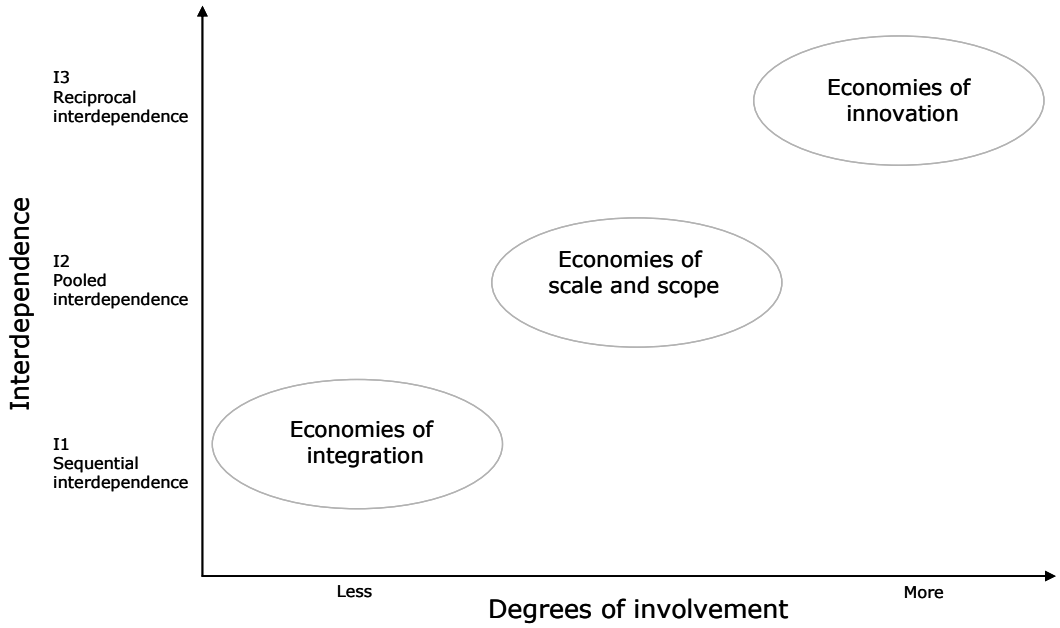

Figure 8.1: Interdependence, involvement and different types of economizing

The logic of the figure is that the type of interdependence between the companies and the degree of involvement makes different types of economizing possible. In a relationship with high involvement and reciprocal interdependence, the economic logic achieves economies of innovation. Here mutual learning, exploring, and adapting are central (Håkansson & Persson 2004). Long-term business relationships are characterized by reciprocal interdependence and the management of interdependence is the key for economies of innovation. Carefully and consciously managed, reciprocal interdependence should be seen as a resource, a key for new innovations.

The empirical study indicates that this argumentation could be taken further by expanding the initially suggested matrix with high-involvement (partnership) on the x-axis, and created and consciously managed interdependencies on the y-axis. This would create new space in the matrix, a space for economies of exploiting and creating new interdependencies. The logic is that new interdependencies are consciously created and exploited with the aim of achieving both efficiency in exchange, and more effective use of resources. What I found in the case was that although the buyer-seller partnership is a cooperation activity system - and consequently should be concerned with creating use value - there were a number of activities going on between the companies aiming at creating exchange value.

I was able to identify exchange value-creating initiatives on the operational level, in procurement and logistics, while people involved in technical development and management focused on use value-creating initiatives. This finding would suggest that

different types of economizing through exploiting different types of interdependencies are not mutually exclusive, but can be prevalent at the same time in the same relationship.

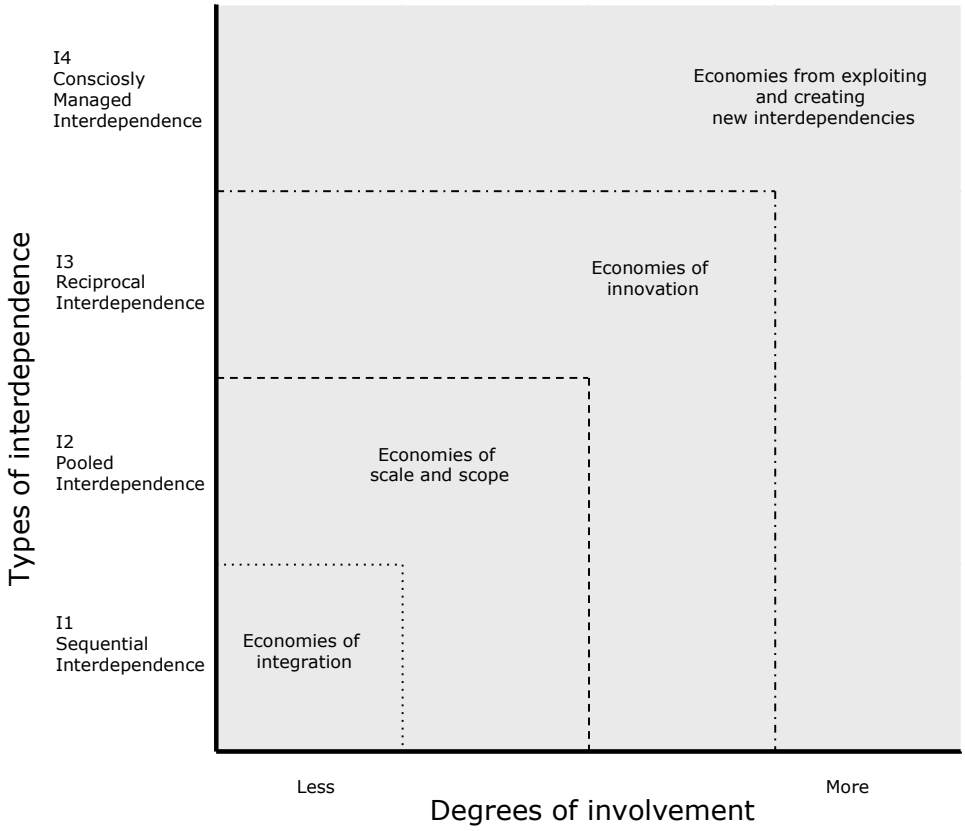

Figure 8.2: A model for analyzing interdependence, involvement, and different types of economizing

What I suggest is an extension of the interaction/interdependence model previously presented. In this extended version, high-involvement as a mode of interacting and consciously managed interdependencies are suggested as enablers for economies of exploiting and creating new interdependencies. This revised figure also depicts that the "conditions" are not mutally exclusive, but are most likely, most often intertwined in practice.

When the potential exists it is the management of the potential that is crucial. What is the management of interdependence - the way in which interdependence is maximally exploited? The key issue is managing interdependence in a way that benefits both parties. The word 'exploited' should here be understood in a positive sense, signifying making best use of.

Exploitation means to be doing the right things. Doing the right things is a process, constantly evolving, a continuous process of assessing benefits and sacrifices of each new initiative taken in the relationship. The judgment of the trade-off between benefits and sacrifices can be done only at a give moment; however it is based on previous interaction and events (i.e. history of the relationship). The slack mentioned by Borys and Jemison (1989) could be seen as the room or space provided by management to the individuals acting in the relationship where the mutual understanding of a partnership, including trust and commitment, act as the governance mechanism, setting the scene for the interaction.

The figure below is an illustration that summarizes the recapitulation of the study.

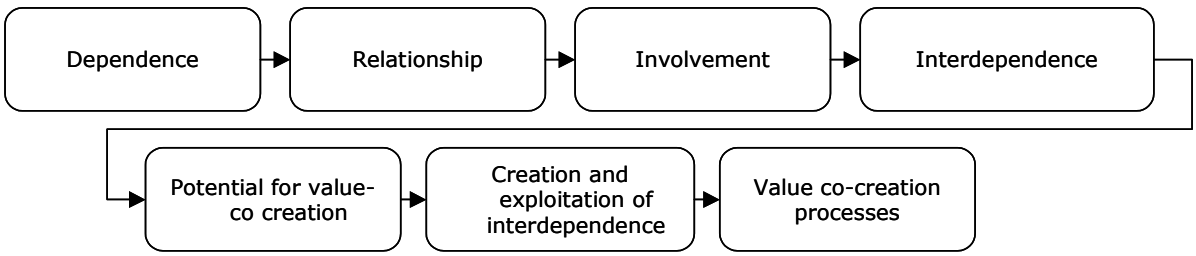

Figure 8.3: A simplistic reconstruction of the process

The figure illustrates the main thread of the study from dependence as a trigger for the relationship, and how involvement creates interdependence, which is the key for value co-creation potential and that the creation and exploitation of interdependencies is the means to realize the value co-creation potential.

8.2 The outcome of the study related to the aim and the research questions

The general objective of this study as stated in the beginning was to explore the development of a buyer-seller relationship from what was believed to be a traditional buying-selling –type of business relationship to a partnership. The focus was on why and how the relationship was developed into a partnership and how value was co-created by the parties through business interaction. The overall purpose is to explore the phenomenon of value co-creation - how value was co-created in a buyer-seller partnership, how such a partnership had emerged, and what the prerequisites for value co-creation were. The specific research questions as stated in the beginning were:

Question 1: How is the value concept used theoretically in business marketing?

Question 2: How has the focal dyadic relationship developed over time? What is the current status of the relationship?

Question 3: How do the parties in the focal dyadic relationship perceive value?

Question 4: How is value co-created (through interaction) in the focal dyad?

Question 5: What are theoretical and practical implications of understanding the dynamics of value co-creation between a buyer and a seller in business markets?

In the following I reflect upon the overall aim and the specific research questions separately.

The overall aim of the study

The overall aim was to explore the development of the relationship from a typical buying-selling or perhaps even producing-using –type of relationship to a relational–type of businesss relationship; "why" and "how" the relationship had developed into a partnership. I have described the development of the relationship in chapter five and analyzed it in chapter six by discussing time, context, and actors in the process. As a conclusion of the development I argue that the partnership is a result of successful business interaction over time, technological dependence, possession of mutually complementary heterogeneous resources, a positive trade-off between benefits and sacrifices of involvement, personal relationships, and individuals with a strong vision in the partnership. The path towards a partnership has not been problem free; there have been conflicts between the parties along the way. However, the conflicts can be seen to have had positive effects on the development of the partnership when analyzing them in retrospect.

How is the value concept used theoretically in business marketing?

In Chapter three, I presented a literature review on value – the roots of the concept and how it has been used in business marketing. The conclusion was that value has been studied extensively, but the ultimate conclusion is that value is relative and that there is no universal definition of value. Value has to be defined and assessed for each specific context and situation. The definition that I chose to use in the study ended up being the simplest one found in the literature, namely that value is the trade-off between benefits and sacrifices.

How has the focal dyadic relationship within shipbuilding industry developed over time? What is the current status of the relationship?

In Chapters five and six, I have described and analyzed the development of the relationship and its current status. The description revealed a complex development process that was affected by the business exchange in itself, by the individuals involved, by events outside the relationship as well as events taking place within the relationship. The importance of a strong management vision and commitment in developing the partnership was identified as an important factor in the process.

How is value co-created (through interaction) in the focal dyad?

Value is co-created through involvement by both parties in value co-creating processes, processes with the aim of achieving efficiency in exchange and more effective use of each other's resources. Accepting interdependence as a prerequisite for value co-creation potential is vital. The realization of the potential is done through exploiting interdependencies through value co-creation processes – processes aiming at creating both use- and exchange value.

What are theoretical and practical implications of understanding the dynamics of value co-creation between a buyer and a seller in business markets?

The theoretical implications are: first of all that value is dynamic and cannot be universally defined, that there are different perspectives on value, and that each perspective requires a different definition. Other implications are that value co-creation is a suitable concept to be used in a buyer-seller context, that the degree of interdependence correlates with value co-creation potential, and that the potential is realized through different processes, and that processes for creating both use- and exchange value can be found in one cooperative activity system.

8.3 Summary of main findings

In summary the main findings of the study are that there seems to be is no universal definition of value in the context of industrial relationships, but a notion that it is context-, time-, and actor dependent. Value co-creation is a suitable concept in the context of buyer-seller relationships. The evolution of a relationship from a transactional to a partnership is long and eventful - a process where the outcome is impossible to estimate in advance. The process is filled with different types of events and also conflicts, which as a matter of fact can be seen as constructive forces in relationship development. The perceived value of a relationship is an antecedent to pursuing a high-involvement strategy; once a partnership

exists, the value co-creation potential is realizable through exploiting interdependencies. Those interdependencies are the trigger for value co-creation potential. The value co-creation potential is realized though different processes of value co-creation either to achieve efficiency in exchange or effective use of resources. The logic of buyer-seller partnerships is to create and exploit interdependencies in order to create both efficiency and effective use of resources.

8.3.1 Contributions of the study

The contributions of the study can be divided into theoretical contribution, empirical contribution, and methodological contribution. I present each of the different contributions in brief in the sections below.

Theoretical contribution

Applying traditional economic theories on marketing, the marketer is seen as the active party who tries to get the customers to buy. However the IMP school proposes that we re-think marketing and open up our eyes to a different way of seeing markets as interacting companies that create value together through interacting with each other. Penrose as early as 1959 argued that the outcome of exchange activity is dependent on how the resources of companies are activated. The IMP interpretation of this is that the core of marketing consequently is about creating combinations of resources to create the desired outcome (Håkansson et al. 2004). This study contributes to the IMP view on relationships and networks on industrial markets and supports the assumption of relationships being long-term and carachterized by two active parties. The study also contributes to IMP theory by demonstrating a case where the relationship has developed from a buying-selleing or producing-using type of business interaction to a relationship where the parties are interacting and creating interdependencies in order to achieve more than one party could do alone.

The case presented in this study demonstrates how two interacting parties have developed a partnership and through this process of becoming partners created a possibility space, where value co-creation can take place. Value co-creation occurs only when the situational factors are right, when the parties tolerate and accept interdependence so that joint problem solving and innovating become possible. Only placing problems on the table and being open about possibilities enables value co-creation potential to be realized.

Empirical contribution

The empirical contribution of the study can be summarized in three main points. First of all the understanding of the logic of buyer-seller partnerships - that it is pure business where both parties should gain by working together in the long-run, that partnerships have nothing to do with charity or giving something for free. This notion suggests the opening up of a discussion for an economic logic, one that does not imply optimization in each transaction, but a more long-term focus where interdependence is a constructive force, and that being interdependent is a prerequisite for the existence of potential to co-create value.

The second point is that a high-involvement relationship is resource demanding, and that the pay-offs are often realized after a certain period of time, i.e. there are not quick wins to be expected. The value is created during the process and the risk of involvement lies in the fact that it is difficult to predict in advance what the outcome of involvement will be. Managers have to rely on imperfect information and a certain degree of intuition in making the strategic decision of whether to enter a high-involvement relationship with a partner or not.

The third point is that strong management commitment and vision for the relationship are needed. People working on different levels in the organization most likely do not see the relationship as one big entity, but look at their own activities and try to optimize them. Therefore the role of management in communicating the objectives and the vision of the relationship is vital for its success. If management fails in communicating the overriding goals, there will most likely be sub-optimization on different levels, which can be harmful for the overall development and success of the high-involvement relationship in the long run.

Managerial implications

It is here argued that the exploiting of interdependence is the key to access resources and to potential value co-creation. Being able to do this requires a new managerial mindset of the management of companies involved in long-term industrial buyer-seller relationships – to be able to think of interdependence, as a resource is a major challenge. This is especially the case in industrial organizations with a strong product focus - delivering the technically outstanding product - rather than focusing on thinking on value creation for the long term. The main managerial implication from the study is that there is a need for a change in mindset from independence and zero sum game, to interdependence and win-win. An obvious question that comes to mind from the arguments presented is: if the benefits of

partnering and cooperating are so obvious why are not all companies in partnership and cooperating? According to Prahalad (2004) the fundamental reason is that

> *"Collaboration is not natural, exercising autonomy is. Collaboration requires two or more units to work together. In most cases, the frictional costs outweigh the obvious benefits" (Prahalad & Ramsawamy 2004, p 199).*

A major challenge for management is to communicate throughout the organization the spirit of working in a collaborative manner. The process of involving people and making them believe in a different way of working takes time and effort, to turn people's heads around from optimizing their own results to aiming at increasing the total value co-created through interaction in the relationship. It also takes new ways of thinking about compensation and motivation. If the maximization of the total value created in the relationship were be the aim instead of each unit optimizing its own result, there might be a chance to start seeing a whole new logic and a range of opportunities.

> *"Both BR9 and I realize that we have a struggle within our own organizations to get the people to understand what this means… or what our aim is (the partnership). We are a little like two preachers!" (Interview: Seller 1)*

Methodological contribution

The presented study has been an exploratory case study, relying on qualitative data in the form of interviews and observations. The research process has been abductive, i.e. a combination of induction and deduction. The contribution to research methodology in the field of business marketing and case study research is that the study represents an example of how research can be presented as an iterative learning process, where the role of the researcher is central, and where the result of the study is a subjective construction of a real life phenomenon. In this case the construction took the form of a story with the aim of increasing the understanding of a social phenomenon and suggesting some generalizations to be made based on it.

I also argue that the study is subjectivist, where the researcher is involved and gets increasingly involved during the research process and that the values and views of the researcher affect the study. Reflecting upon my own involvement in the research, I have from the very beginning been interested in the phenomenon of value and believed that it is complex and dynamic. Therefore I have deliberately taken the path of dealing with it as something complex and not made any attempt to overlook that. During the process I have also had to revise some of my initial ideas. At the beginning I believed that a partnership

had something to do with goodwill and giving something away, and that social relationships and friendship were crucial, even vital for business success. However, I have learned from this study that a partnership is nothing but a question of making money, but with its own logic. Moreover, social relations and friendship can ameliorate the process, but have little to do with the actual activities carried out in the business exchange. I deliberately chose to use the word ***exploit*** in my heading and in the text to demonstrate that the "soft" issues that are commonly associated with partnerships have little to do with the business decisions taken, although personal relationships are a vital ingredient in the success of a partnership.

8.4 Suggestions for future research

Interdependence has turned out to be one of the central concepts of the study, the notion of interdependencies as being the force for triggering progress in a relationship. A promising avenue for future research would be to carry out case studies and identify interdependencies, find new ways of categorizing, find new types of interdependencies, and to identify critical interdependencies for different desired outputs.

8.5 Critical remarks

At the end of a long research process it is difficult to be critical of one's own work since I have tried to do my best all along the process. However, I do recognize that there are things that I could have done differently and that there is always room for improvements. Having only one case as well as the relatively small number of interviews can be seen as a shortcoming. I could have chosen to compare cases and have more interviews. This would have been a different strategy and a different focus. I also could have studied a triad, including the shipyard in the study. However, this again would have widened the scope and given less room for focusing. I could have analyzed the process of development of the relationship, stopped there, and theorized around the process over time. However, as I was in the process I felt that I wanted to go further. This might have been a choice that made the study somewhat shallow, moving from studying a process into digging deeper into one particular phenomenon in the process.

I could have chosen to make a computer-aided analysis of my interviews by coding and categorizing the material in a more systematic way. However, I do have a lot of experience of this type of research and felt that I did not want the software to start directing my work. I felt that the number of 24 interviews was manageable without the help of technology. The

process of analyzing the material started after the first interview and went on as the number of interviews increased. The analysis got more refined and developed during the process of carrying out the interviews, and therefore systematic coding would have been difficult to do so that it would have supported the research process instead of starting to limit creativity.

8.6 Concluding remarks

I would like to conclude by saying that I feel that NOW would be the moment to start the research project all over again. It is only now that I understand something about value and the logic of buyer-seller partnerships and the role of interdependence for value co-creation potential. After the research process that I have gone through I am now equipped to start discussing the issues that I have raised in the study on a completely different level. This being the case, perhaps one could say that the research process has been successful and that there is still a lot of research to be done in this area.

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Interviews:

Interview: Buyer 1
Interview: Buyer 2
Interview: Buyer 3
Interview: Buyer 4
Interview: Buyer 5
Interview: Buyer 6
Interview: Buyer 7
Interview: Buyer 8
Interview: Buyer 9
Interview: Buyer 10
Interview: Buyer 11
Interview: Buyer 12
Interview: Buyer 13
Interview: Buyer 14
Interview: Buyer 15
Interview: Seller 1
Interview: Seller 2
Interview: Seller 3
Interview: Seller 4
Interview: Seller 5
Interview: Seller 6
Interview: Seller 7
Interview: Seller 8
Interview: Seller 9

APPENDIX 1

The Buyer interviews and positions of interviewees

Buyer 1: Technical specialist
Buyer 2: Manager
Buyer 3: Superintendent, Technical
Buyer 4: Manager
Buyer 5: Director
Buyer 6: Superintendent
Buyer 7: Fleet Manager
Buyer 8: Vice President
Buyer 9: Senior Vice President
Buyer 10: Vice President
Buyer 11: Sr. Superintendent
Buyer 12: Director
Buyer 13: Director
Buyer 14: Commodity specialist
Buyer 15: Associate Vice President

The Seller interviews and positions of interviewees:

Seller 1: Director
Seller 2: Director
Seller 3: Sr. Vice President
Seller 4: Technical Manager, Service
Seller 5: Contract Manager, Service
Seller 6: CEO, The Seller Corporation
Seller 7: Group Vice President
Seller 8: Vice President
Seller 9: Group Vice President