

Anikó Bódi-Schubert:

**The conceptual model of success in buyer-supplier
relationships**

CORVINUS University of Budapest
Business Administration Doctoral Programme

Supervisor: Andrea Gelei

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relationships**

Ph.D. dissertation

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Table of Content

List of Tables	5
List of Figures	6
Acknowledgements	7
1. Research questions and the structure of the dissertation	8
1.1. Research questions	8
1.2. Structure of the dissertation	10
2. The buyer-supplier relationship	11
2.1. Business-to-business relationships – the IMP Group’s approach.....	11
2.2. Other theories of business relationship and cooperation	15
2.3. Synthesis of the approaches and the development of relationships	18
2.5. Analyses of buyer-supplier relationship structure	25
3. Literature review of success in business relationships, basic ideas	29
3.1. Introduction of the results of the literature review about success in business relationships.....	29
3.2. Introduction of further basic ideas	37
3.2.1. Organizational capabilities and the resource-based theory.....	37
3.2.2. The firm evolutionist theory	41
4. Management tools of buyer-supplier relationships	42
4.1. Management style and cooperation in buyer-supplier relationships.....	43
4.2. The role of power in buyer-supplier relationships	44
4.3. The role of trust in business relationships	48
5. The theoretical framework of my research	51
5.1. Propositions – expectations about the research results	53
6. Research method and process	55
6.1. The grounded theory	57
6.2. Coding	59
6.3. The case study method	62
6.4. Applied data collection techniques in my research.....	63
6.4.1. Critical incidents, as special data collection methods	66
6.4.1.1. The introduction of critical incidents technique and its advantages.....	66
6.4.1.2. Applicability of the critical incidents technique in data collection	69
6.5. Sampling and selecting cases.....	71
6.6. Aspects of the verification	75
7. Research results	78
7.1. The Hungarian petcare industry	78
7.2. Case ”A” – “the overestimated opportunity”	80

7.2.1. The beginning.....	81
7.2.2. The promising continuation and the turnaround	83
7.2.3. Potential causes of the failure	87
7.2.4. Summary evaluation of success in relationships.....	91
7.2.4.1. Critical incidents and relationship success goals in relationship “A”	91
7.2.4.2. Results of the grounded theory.....	95
7.3. Case “B” – ”the long-term matching”	102
7.3.1. The beginning of the relationship.....	103
7.3.2. Initial impacts of the supplier’s new value strategy	105
7.3.3. The deepening relationship	107
7.3.4. Understanding of success in this relationship	112
7.3.4.1. Critical incidents and related relationship success goals of relationship “B”	112
7.3.4.2. Results of the grounded theory.....	116
7.4. Expert interviews – fine-tuning of the results of the case studies.....	123
7.4.1. The beginning of relationships – understanding of success from transactions to episodes	124
7.4.2. Success and growth	126
7.4.3. Capabilities and conditions for the success of relationships.....	128
8. Synthesis of the research results and the conceptual model of success..	131
8.1. The conceptual model of success in buyer-supplier relationships.....	132
8.2. Evaluation of the propositions of the research results.....	136
8.3. Applying the conceptual model to the analyzed cases	139
8.4. Further research directions, messages	142
References	145
Annex	154
1/A. Coding results of supplier’s success goals in Case A.....	154
1/B. Coding results of buyer’s success goals in Case A	155
2/A. The coding results of supplier’s success goals in Case B.....	156
2/B. The coding results of buyer’s success goals in Case B	157
Structure of the interviews.....	158

List of Tables

1. Table: Discrete and relational transactions	17
2. Table: Identification of success factors in management publications.....	36
3. Table: The arm's length and collaborative management styles	44
4. Table: Applicable techniques at case study researches	63
5. Table: The buyers of the case studies and their accentuated parameters	72
6. Table: Interviews in Case „A”	72
7. Table: Interviews in Case “B”	73
8. Table: Participants of the expert interviews	73
9. Table: The goal structure of relationship “A”	93
10. Table: The goal structure of relationship “B”	113

List of Figures

1. Figure: The idea of exchange	12
2. Figure: The idea of interaction	13
3. Figure: The systematization of the approach of business relationships	19
4. Figure: The development of buyer-supplier relationships in business markets	21
5. Figure: The Interaction Approach	25
6. Figure: Interpretation of business and relationship success- illustration ...	32
7. Figure: The structure of a potential relationship success goal	35
8. Figure: Dynamic capabilities and organizational knowledge	39
9. Figure: Well and limited adaptable variables of complementary cooperation	40
10. Figure: Possible outcomes for buyers and suppliers in a relationship	47
11. Figure: Interpersonal and interorganizational trust	50
12. Figure: Theoretical framework of the research	52
13. Figure: The application of the grounded theory, theory-building process	59
14. Figure: Critical incidents in a relational context	67
15. Figure. The approach of relationship success with the help of critical incidents.....	69
16. Figure: A The research process	75
17. Figure: Critical incidents and related success goals in relationship “A”	90-91
18. Figure: Critical incidents and related success goals in relationship “B”	110-111
19. Figure: The role and meaning of success in business relationships	131
20. Figure: The actualization of the conceptual model for the case studies ...	136

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1. Research questions and the structure of the dissertation

During my university and doctoral studies, I have been continuously dealing with research on the buyer-supplier relationship. During this research, I was always thinking of what makes these relationships function well? What can be the reason that business partners cooperate with certain buyers/suppliers, while they unwilling to deal with other partners or try to minimize cooperation with them? What is the secret of success in a well-performing relationship? What does success mean for the cooperating business partners, and how can the success of a relationship appear in practice? When and why can a relationship be identified as successful at all, and how can success be – as a focal phenomenon of our everyday life – understood in the context of a buyer-supplier relationship?

1.1. Research questions

This work focuses on definitely **exploratory research**, which **aims to create a conceptual framework of the meaning and role of success in the operation and development of buyer-supplier relationships**. Related to this, a further research point is to analyze the time dimension of success: how success changes and develops over time. The basic elements of my research are relationships^[1] between supplier and buyer business partners, so my empirical study will focus on these dyads.

In my opinion, this kind of research on B2B relationships is highly important for two main reasons. First is that analyses of business relationships, especially buyer-supplier relationships are important not only from the point of the general understanding of the structure of relationships, but because these dyads are essential elements of the network economy. A deeper understanding and structural grasp of each business network can be achieved with an understanding of the “contained” relationships. In order to be able to carry out detailed analyses of a network, it is necessary to have precise, valid information about its contained relationships (Gelei 2009).

^[1] For practical reasons, the expressions B2B relationships, business relationship, dyadic relationship, buyer-supplier relationship and relationship will be applied as synonyms in this dissertation.

Furthermore, the results of this research can provide guidelines for researchers and businesspeople to analyse, support and evaluate business decisions and to develop and assess the relationship portfolio of a company.

From a theoretical point of view, the core research problem can be defined by answering the following research questions:

0. Can business success and relationship success be understood as a substantive phenomenon in buyer-supplier relationships?

Confirmation of this statement – based on the literature review part – can be seen as a prerequisite for examination of the research question. According to this statement, the idea of success in business relationships can be separated into two major parts: business success, which is measurable by financial indicators and understood mostly at the autonomous company level, and relationship success, which is measurable by soft performance indicators and understood as the fulfilment of the partners' common goals and joint performance. My dissertation focuses on analysing the structure of relationship success and the interrelation of business and relationship success goals.

1. How can success be understood in the context of buyer-supplier relationships?

The aim of this research question is to define the idea of success in buyer-supplier relationships and to understand how the cooperating parties define and describe the idea. How can the content of this phenomenon be grasped in certain relationships? Furthermore, what are the prerequisites for achieving success and what are the consequences of being successful or unsuccessful?

2. What is the role of success in buyer-supplier relationships, and how does it change over time?

In order to provide a complex approach to success in business relationships, it is necessary to analyze the role of success in the functioning of the relationships. What is the exact meaning of success – as an abstract idea – in a business relationship, and how does it affect the operation of the relationship? Can the assumption – arrived at on the

basis of joint analysis of the result of literature reviews – be justified that success appears in different forms at each development stage of the relationship?

3. How does success influence the development of relationships?

In relation to the previous research question, it is very important to analyze how success can support the development of relationships. Can it be confirmed that success supports development, while a lack of success can cause disruptions in relationship development?

My research questions can be considered as both practically and theoretically-oriented, because deep empirical analyses of business processes and theoretical abstraction based on the empirical experiences are also necessary to answer them.

In order to provide adequate answers to the research questions, it is important to establish a theoretical framework applying a broad review of the literature, because my research questions can also raise definition problems in certain cases. Accordingly, the initial phase of the dissertation will focus on providing a clear interpretation of the key concepts which are needed to clarify the following questions:

- What is the meaning of the central expression in the dissertation, the “buyer-supplier relationship”? How can the context of a relationship be described?
- How does earlier research interpret success in the business context?
- How can relationship quality and relationship value be defined and in what sense do these concepts differ from relationship success?
- What are the most important management tools of buyer-supplier relationships which influence the formulation and achievement of success goals?

1.2. Structure of the dissertation

The focus of my dissertation is to study how success can be interpreted in buyer-supplier relationships. After the introductory chapter, I provide a review of the relevant literature on the two core ideas in two separate chapters: buyer-supplier relationships and success in business relationships. In the third chapter, I also introduce the basic ideas of case studies which mostly derive from firm theories, such as capabilities or path-dependency. The fourth chapter discusses the most important relationship

management tools (such as power, trust, management style), which can play a significant role in the context of buyer-supplier relationships and their forms of success. The conceptual framework of the research and my propositions about the potential research findings are introduced in the fifth chapter. The applied research method and process is discussed in the sixth chapter, and the research findings are interpreted in the seventh chapter. My research is certainly explorative in nature, and its objective is to understand the meaning of success, which can bear significant importance from the perspective of interfirm cooperation. In answering my research questions, I applied the qualitative case study and grounded theory methods. In the data collection phase, I focused on identifying and collecting critical incidents in the relationships which were analyzed. The final chapter summarizes the research findings, emphasizes the relevant management conclusions and presents the conceptual model of success constructed on the basis of the research findings.

2. The buyer-supplier relationship

As mentioned earlier, the basic element of this analysis is the buyer-supplier relationship. In order to establish the theoretical principles of the dissertation, this chapter introduces the definitions, interpretations and development processes of buyer-supplier and business-to-business relationships in general, and within this framework the definition of the meaning of the expression “relationship”. After presenting several definitions of business relationships, two key concepts – namely relationship value and relationship quality – are discussed, as they have key importance in clarifying the concept of success.

2.1. Business-to-business relationships – the IMP Group’s approach

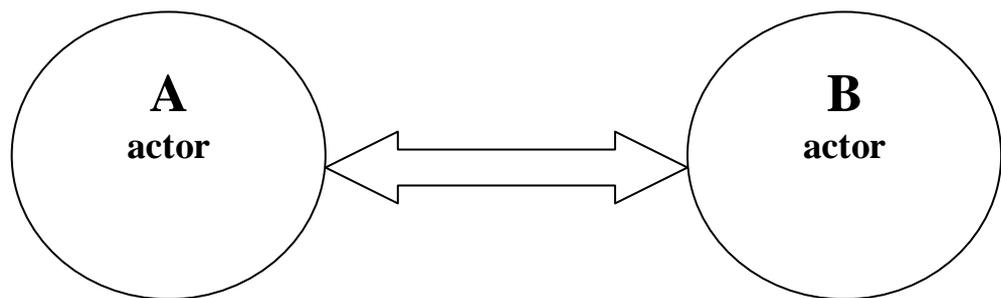
Although several research papers have been published on the field of buyer-supplier cooperation and relationships, a precise definition of a relationship is only found in a limited number of publications. Most authors consider the interpretation of relationships as obvious and thus apply only implicit descriptions, such as value-creating cooperation between companies (Ellram and Hendrick 1996; Dyer 1997; Bensaou 1999; Cox 2001 and 2004). To establish a clear concept of relationships, this subsection introduces the

relationship concept of the Industrial Marketing and Purchasing Group (hereinafter IMP).

In the IMP approach, the description of relationships between companies originated from the definitions of buyer-supplier relationships. IMP researchers – Anderson and Narus (1990: p. 98) apply the following definition for relationships between companies: “similar or complementary coordinated actions taken by firms in interdependent relationships to achieve mutual outcomes or singular outcomes with expected reciprocation over time”.

To understand the complex content of buyer-supplier relationships, it is important to interpret how a relationship comes into existence. The **exchange** or **transaction**¹ can be identified as the starting point of a relationship. Ford et al. (2007: p. 7) define exchange “as a transfer between actors of unchanging entities: products, services or money.” Exchange can be conceptualized as a mechanism that brings the actors together for the time of the transfer, but the connection is limited in terms of both time and context. The exchange mechanism is based on both actors’ needs, but can be managed without any significant intervention between them or adaptation to each other. The idea of exchange is illustrated in Figure 1.

Figure 1. The idea of exchange



Source: Ford et al. (2008, p. 8.)

Håkansson (1982) identifies repeated series of several discrete exchanges with different focuses as **episodes**.² These episodes can be divided into four elements. Similar to the

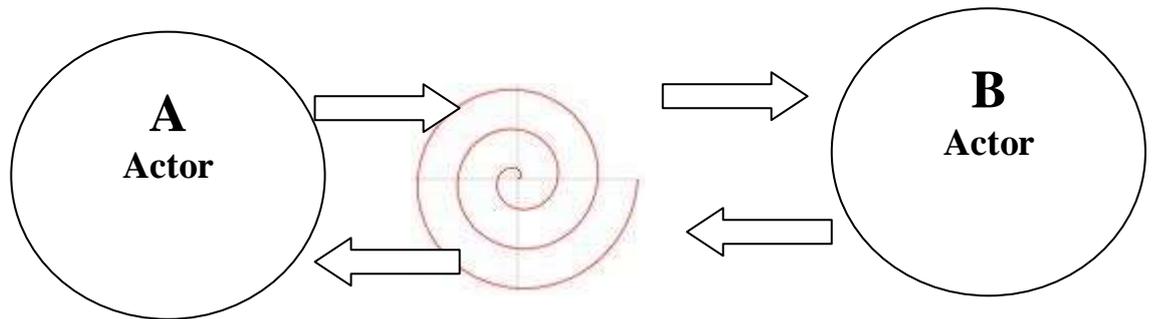
¹ Some authors mention it as exchange-transactions, see Kapás (2002) and Bárdos (2004).

² The transaction cost theory defines these episodes as transactions, see Williamson (1975, 1979).

transactions above, a major element of these episodes is the *product or service exchange*, the characteristics of which are determined by the customers' needs and the complexity of the product or service. The *information exchange* related to the products or services contain formal and informal, interpersonal and interorganizational elements and can be well structured or poorly structured. The product or service exchange is usually followed by a *financial exchange*; its forms and conditions can be the uncertain point of the episode in many cases. Along with the above, episodes usually contain *social exchange*, which plays an important role in reducing uncertainty and can cover elements such as the cultural attitudes and mutual trust of the parties, and attempts to develop such trust. The social exchange elements are principally the softest and most difficult to describe elements of relationships. Individual or mutual **actions** are embedded in the interorganizational episodes and transactions (Holmund 2004); these can materialize in the form of discussions on operational details, set-up and fulfilment of orders, deliveries or even phone calls. Hence, actions contain the independent activities of each parties, and the continuous interconnections of the actions incorporate the episode itself.

Interaction is also related to episodes, as it is created through a series of episodes between actors and develops into a structure between two parties over time, which is created by both counterparts, but none of them can fully control and govern the structure (Ford et al. 2008). Figure 2 illustrates the idea of interaction. As shown, interaction can be interpreted as a set of complex, substantive processes, which is generated by the actors, but grows above them and can be managed by the counterparts' joint and mutual intentions. According to Blois (1972), interaction processes between companies can be so significant that interactions will take on quasi-organizational features and as a next step interactions will become institutionalized, resulting in the existence of a relationship. The interorganizational actions and reactions in the interaction can be as significant as the original action (Mandják 2005). Summarizing the above, interaction can be understood as a substantive combination of interorganizational processes. These processes are developed from institutionalization of the consciously managed and interconnected processes of the counterparts and lead to a stable relationship between them.

Figure 2. The idea of interaction



Source: Ford et al. (2008, p. 9.)

According to the approach of IMP researchers (Håkansson 1982; Ford et al. 1986), the series of repetitive episodes evolves into the *interaction process*, which results in the *routinization* of episodes. The episodes will be the part of interorganizational routines which support further institutionalization of the interaction processes. This routinization helps parties to reduce the personal and organizational distances between them and can result in clear expectation about the counterparts' roles and responsibilities. Over a period of time these expectations and processes become *institutionalized*, and mutual *adaptation* of them also takes place. Transaction costs decline, and *bonds* arise and strengthen between the parties, which grow to be *interconnected* with each other.

Based on the above routines and interaction processes, a long-term **relationship** evolves. The relationship indicates higher interconnectedness than interaction in respect of the following three parameters (based on Holmund 2004):

1. *Future-oriented time dimension*, it has “history”, as past experiences are embedded into routines. But it is definitely future-oriented and goes “forward”;
2. *Completely institutionalized*, as it has solid routines, its processes can be described by a high level of formalization;
3. *High-level mutual adaptation* develops in the processes in the course of the actors' interactions.

Håkansson and his co-authors apply the so-called **A-R-A Model** to introduce the essential elements of buyer-supplier relationships (Håkansson and Johansson 1992; Håkansson and Snehota 1995). Based on this, the contents of a relationship can be

expressed by three **layers: Actor Bonds, Resource Ties and Activity Links** between parties (Håkansson and Snehota 1995).

The *actor layer* interprets the interpersonal relations between the individual members of the relationship: it summarizes the attitudes, feelings and social norms influencing the level of trust and mutual commitment of the parties. The *activity layer* expresses the existence and materialization of the level of integration and joint coordination of processes. Activities between counterparts (such as distribution, demand management, deliveries, document and information flow) can be integrated at different levels and thus the linkages generated by the activities can also be more or less tight. The *resources layer* expresses the adaptation level of the parties' resources; it contains tangible and intangible elements. The resource ties built up between the parties by the continuous confrontation and adaptation of their own resources results in mutual resources. These mutual resources can tighten the linkage between them (Ford et al. 2008).

These layers are not independent and significant interplay can be identified between them. Activities can support or even hamper the adaptation process of resources; resources can limit or favour the coordination and integration of the activities and actors can open up or postpone the development of new joint resources or activity coordination. These layers go beyond the existing relationship, as they develop the linkages of the relationship towards other ones, and so they can be identified as the building materials of a broader network (Ford et al. 2008). That is why Mandják (2005) defines the relationship as a special intertwining of actors, activities, and resources.

2.2. Other theories of business relationship and cooperation

Besides the IMP Group, there are several other theoretical approaches to interpreting the content of business relationships and cooperation. This subsection focuses on introducing the relational exchange-theory and the capability concept of supply chains. In order to precisely define the idea of relationships, it is important to separate it from the concept of cooperation and partnership. It happens quite often that these expressions are used as synonyms for business relationship, but the content of these three ideas is not exactly the same.

There is also limited number of exact definitions for interorganizational **cooperation**. Several authors define it as jointly coordinated activities between companies, and the level of this coordination can be different from case to case (Andaleeb 1995, Tietz 1993). Agárdi (2005) defines cooperation as a collective phenomenon of joint activities between two or more companies and describes it as follows:

- It is based on interorganizational agreements, but not necessarily in a contractual form; it mostly appears in the form of frequently repeated transactions (episodes).
- It exists among independent partners.
- Joint utilization of resources and mutual respect of the interests of the participants.

Short-term and long-term orientation, the coordination level of joint activities and the difference in value-creating activity define the basic characteristics of cooperative transactions between companies in Macneil's (1980) relational exchange-theory.³ Deriving from this, Dwyer et al. (1987) identify *two basic types of the interorganizational transactions: discrete transactions and relational transactions*. Discrete transactions are one-offs: they can be described with limited communication and narrow content. Relational transactions are embedded in the context of previous and future joint actions, and common future-oriented planning and mutual trust appear in them (Agárdi 2005). Table 1 compares the major characteristics of discrete and relational transactions.

³ Macneil (1980) is the founder of the relational exchange-theory. Its central element is that social diversity, generally accepted and applied norms and future-orientation should be taken into account in exchanges, unlike the classical contract law theory.

Table 1. Discrete and relational transactions

Conceptual element	Discrete transaction	Relational transaction
<i>Timing</i>	Short-term transaction that ends upon fulfilment of the contract obligation	Long-term, future-oriented transaction that reflects on ongoing processes
<i>Number of parties</i>	Two parties	More than two parties can be involved (it leads to networks)
<i>Specificity and content of transactions</i>	Simple, standardized obligations; based on norms and customs	Detailed and customized obligations, their content based on promises, customs and law made in the relation
<i>Expectations</i>	Conflict of interest apply, limited future is anticipated	Limited number of conflicts, anticipated ones are counterbalanced by trust and efforts at unity
<i>Personal relations</i>	Minimal personal contacts, routine communication	Important personal contacts, formal and informal communication, non-economic satisfaction is realized
<i>Contractual solidarity</i>	High importance of self-interest, general social norms and rules are followed	Increased emphasis on self-regulation, internal adjustments
<i>Transferability of rights and obligations</i>	Complete transferability, it does not matter who fulfils the obligations	Limited transferability, exchange is dependent on the identity of the parties
<i>Cooperation level</i>	Typically no joint efforts	Significant joint efforts related to both performance and planning over time
<i>Planning mechanism</i>	Primary focus on the substance of exchange, no future is anticipated	Significant focus on the process of exchange, detailed planning for the future exchange within new environment and changing goals
<i>Measurement and specificity</i>	Performance is obvious, limited attention to measurement of specifications	Detailed measuring, quantifying all aspects of performance, including future benefits
<i>Power (ability to influence other parties)</i>	Power is an issue only in case of a default under the contract	Increased interdependence, increases the application of power
<i>Share of benefits and burdens</i>	Sharp division of benefits and burdens, exclusive allocation to parties	Shared benefits and burdens, they can not be allocated sharply to one party

Source: Dwyer et al. (1987: p. 13) and Macneil (1980)

It is worth defining the meaning of **partnership** as well. In my dissertation, I apply the definition of Mohr and Spekman (1994: p. 135) to specify the context of partnership. “Partnerships can afford a firm access to new technologies or markets; the ability to provide a wider range of products/services; economies of scale in joint research and/or production; access to knowledge beyond the firm's boundaries; sharing of risks; and access to complementary skills”. The concept of Ring and Van de Ven (1993) can also be used⁴ to define partnerships. These authors analyzed interfirm relations on the basis of formal legal and informal social-psychology aspects and found that partnerships are the repetitive sequence of negotiation, commitment and execution. They define a partnership as a repetitive sequence of a firm together with another one to make idiosyncratic⁵ investment on a contractual basis (Ring and Van de Ven 1993: p. 5).

Based on the above definitions, it can be concluded that a *partnership requires a mutual strategic fit*, long-term commitment and the existence of partnership-specific investments. Compared to a “simple” relationship, a partnership can be described with a higher level of interdependency and coordination structure; that is why its content is quite close to the definition of transaction in the relational exchange-theory. This kind of approach evaluates a partnership as a very strong, complex and deep cooperation between companies. This viewpoint is really similar to the logic of logistic and supply chain researchers (Bensaou 1999; Cox 2004 a, b; Ellram-Hendrick 1995), although they rarely apply exact definitions.

2.3. Synthesis of the approaches and the development of relationships

Many similarities can be recognized in the definition of “relationship” in the IMP Group approach and the relational exchange-theory. Episodes, as repetitive sequences of transactions, can be understood as discrete transactions. Relational transactions can be interpreted as relationships with high level of interconnection as per the definition of the A-R-A Model. The most important difference between these two theories is that IMP identifies a wide range of interconnection levels as a relationship, and thus IMP assesses less tight interaction processes as a relationship. From the perspective of Macneil (1980) and Dwyer (1987), however, only future-oriented, deep and tight cooperation with a

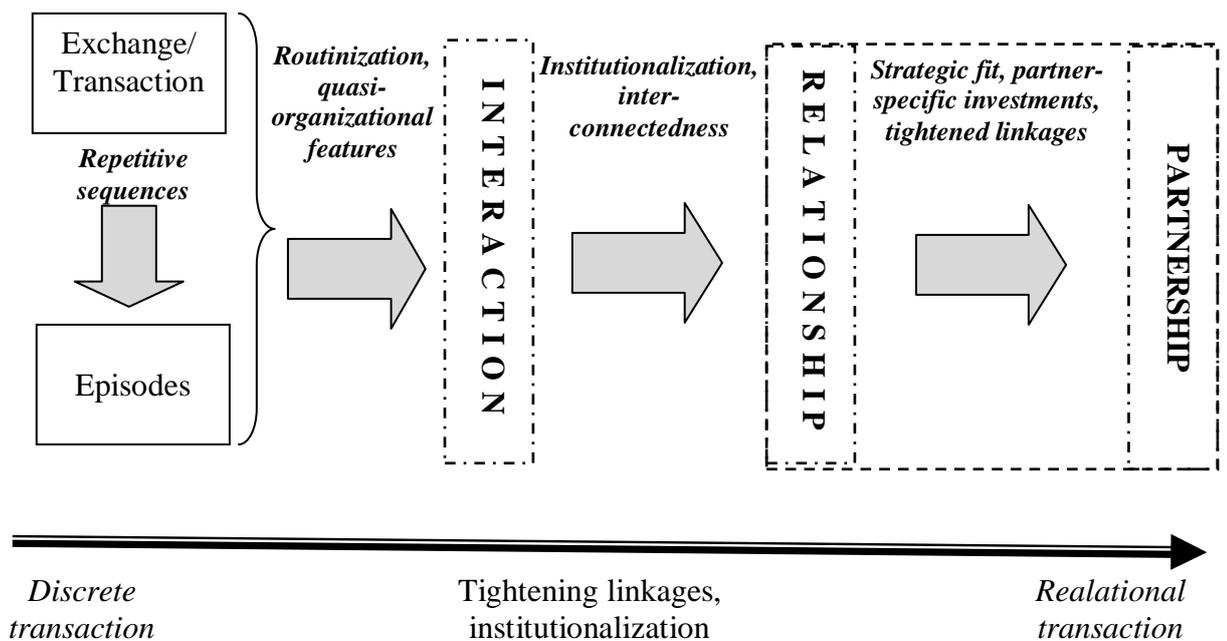
⁴ I classified this definition as a specific aspect of a partnership because of the idiosyncratic investments.

⁵ High level of asset specificity and hardly convertible investment.

long history can be identified as a relationship. The latter approach is closer to the concept of partnership.

The meaning of cooperation is quite close to the IMP Group's concept of interaction, but the coordination and institutionalization level of the cooperation process can be lower than that of the interaction process. Cooperation can already be identified at the episode level as well. A partnership may express a relationship with high level of developed linkages, or it can be interpreted as an intensive relational transaction. Systematization of the presented approach to interorganizational transactions, episodes, interactions, relationships and partnerships is illustrated in Figure 3.

Figure 3. The systematization of the approach of business relationships



The following example serves to demonstrate the development process of the relationship illustrated in Figure 3:

- After a successful tender, one selling and purchasing transaction takes place between the counterparts ~ transaction/exchange level;
- The buyer was satisfied with the quality of the product and service, so the previous transaction is repeated several times. In relation to repetition of the

transaction, certain actions occur between the parties (order set-up, invoicing, discussions between each other's colleagues) ~ episode level;

- During the episodes, positive interpersonal and interorganizational linkages evolve. Parties try to understand each other's operation and customize their cooperation processes: organizing different kind of promotions, making joint efforts to generate higher turnover, simplifying the order set-up and fulfilment processes ~ interaction level;
- Parties prepare customized, long-term framework agreements and deepen their joint relationship management activities (for instance joint demand management: forecasting, category management, customized product range) ~ relationship level;
- The buyer and supplier spend on partner-specific investments. For instance, they apply an EDI system, launch a joint product or organizational development programme and during these activities, they share sensitive information with each other ~ partnership level.

Summarizing the focal motives of the aforementioned approaches, the **content of business relationships can be described as follows:**

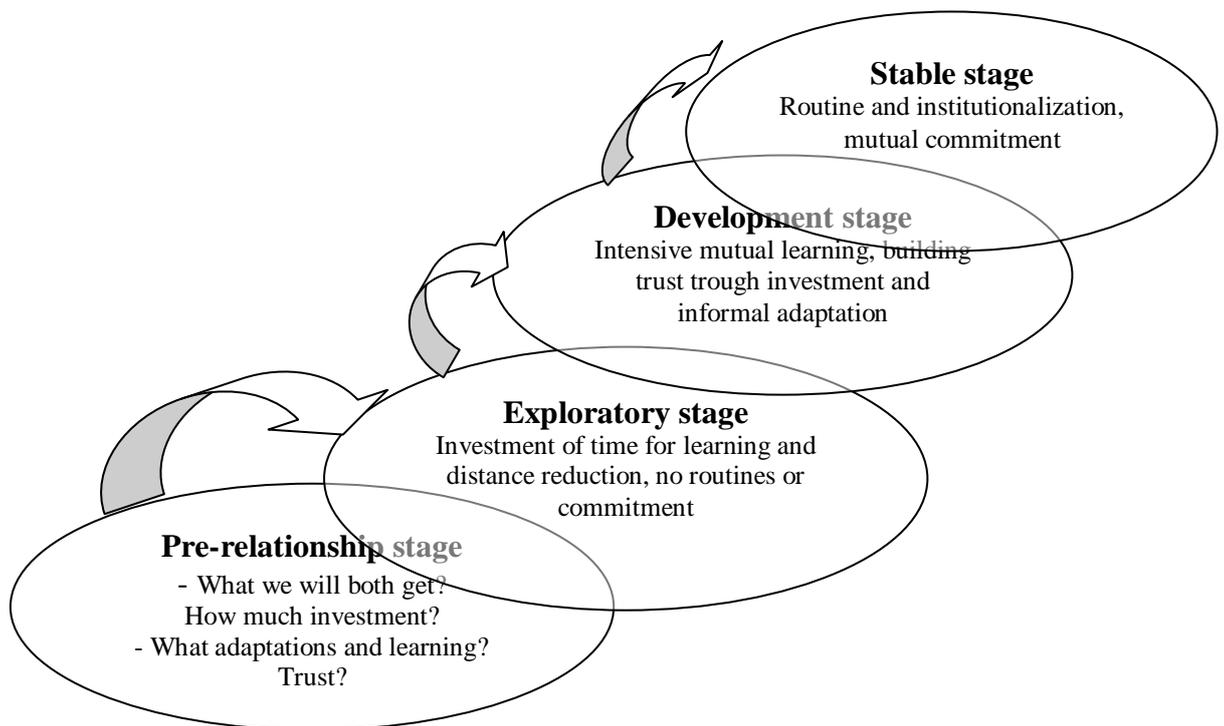
- It is a voluntary, mutual and jointly coordinated activity of two companies;
- Long-term orientation, mutual adaptation and significant interconnectedness between the partners;
- It is driven by the mutually accepted common aims of the partners;
- It results mutual value creation for the counterparts.

Continuing the introduction of the publications of the IMP researchers on the characteristics of relationships, the following section reviews Ford's (1998) theory of the development of relationships.

The evolution model of buyer-supplier relationships in industrial markets and more specifically the *process of establishing and developing relationships* over time have been interpreted and analyzed by Ford (1998). The author identified four development stages in the process, which are the following: 1) pre-relationship stage, 2) early stage, 3) development stage, and 4) stable stage. The model presented by Ford (1998) illustrates the most significant processes in early relationship formation and enhances

the key focuses of each stage which are important from the development point of view. This model is especially used to introduce mutual commitment, even deeper and more efficient joint activities (resource and capability transfer), as a knowledge curve that finally ends up with a stable relationship. The development process is manifested in increasing experience, reduction of uncertainty and distance, growing adaptation and mutual learning. Figure 4 illustrates this development and the focal characters of each stages.

Figure 4. The development of buyer-supplier relationships in industrial markets



Resource: Ford, 1998: p.29.

The common focus of the first three stages is to establish a relationship and continuously ensure all of the conditions that are necessary for development. Ford (1998) describes the *pre-relationship stage* as consisting of high inertia and probing of mutual benefits and costs (e.g. investments, adaptations and learning). In the *exploratory stage*, the experiences are still minimal, characterized by high uncertainty and significant process differences, and both actual and perceived commitment are low. The parties have started to adopt each other's processes, but mostly in the form of investing management time. The *development stage* shows even deeper cooperation: it contains intensive mutual learning, as well as trust creation through adaptations and

investments. This phase is characterized by intensive learning and commitment building through investment and informal adaptations. In the final *stable stage* the relationship has become institutionalized and routines have developed. Some downturns can appear even in the stable stage which can result in reversals in the relationship's development process. On the other hand, relationships can also exist which can be described by continuous, unbroken development (Ford et al. 2007).

2.4. Theories of relationship value and relationship quality

In order to provide a wide spectrum for the understanding of success in buyer-supplier relationships, it is important to discuss the meaning of relationship value and quality, because these concepts are connected to the content of relationship success to a certain extent.

Researchers of customer value usually analyze relationships from two major viewpoints. The first one is the buyer-created net⁶ expedience, perceived by the customer (Parasuraman et al. 1985; Berger et al. 2002). Another important aspect of customer value can be interpreted *as the value of a relationship with a dedicated customer*; it can be understood as the value of the customer. This research direction analyzes the quantitative and non-quantitative benefits deriving from the existing relationship for the buyer and for the customer as well (Mandják et al. 2000, 2002; Liu and Leach 2003; Cox 2004a). This literature review focuses on the latter value-approach.

Palmatier (2008) analyzes customer value from the supplier's viewpoint, identifies three different value-dimensions and creates a hierarchical order. His research partially justified the theoretical model, which identifies *relationship quality*, *contact density* and *decision-making capability* as collective key dimensions of customer value. These three key dimensions summarize the essence of the underlying sub-dimensions and impact the value, success and efficiency of a relationship. The relationship quality dimension covers the sub-dimension of trust, commitment, social norms, perceived value of the relationship and the cost of maintenance. The author states that all of these sub-dimensions are important, but none of them could significantly impact customer value

⁶ Understood as the cost of renounced profit.

on a standalone basis. Contact density expresses the high number of interfirm relational ties, such as the volume of relationship-specific investments and the convertibility level of the connecting resources. Decision-making capability covers the knowledge, capabilities and access to sensitive information, which support the parties to enforce their own interest in taking decisions on the future of relationships and throughout the transactions. These three dimensions significantly affect the customer value and thus the future and importance of the relationship for the supplier.

Relationship value can be identified on different levels; it can appear as *episode, relationship or network value* (Mandják and Durrieu 2000). Episode value expresses the value of a specific transaction that usually appears in the characteristics of the product and service package. Relationship value arises from the repetitive sequence of episodes, and the customer's experiences and future outlook of the relationship are also embedded in it. Other network members take part in the network value-creation process and can positively or negatively affect this value creation.

Mandják et al. (2002) describe relationship value with the following statements:

- Relationship value has three main components: time, economic and non-economic (social) dimensions. In most cases, the social component is non-quantified and the economic one can be expressed in money.
- The value appears as a specific combination of the economic and social components within a set time-scale.
- The three components are interrelated.
- The supplier and buyer can have their own interpretation of value.
- It is dynamic, but does not have any linear time dependence.
- Relationship value is measurable and can play important role in controlling the relationship, if it can be properly expressed.

Mandják and Simon (2007) apply the following value constituents to describe the economic and social components of the relationship:

- profitability,
- broadening relationship portfolio,
- good interpersonal relationships, multi-level communication,

- product satisfaction,
- smooth operation, highly developed routines,
- reliability (mutual trust and computability)
- emanation towards other network relations of the relationship members.

Hetesi and Veres (2004) identify the *counterparts' loyalty* and the *generated profit* from being loyal as the major values of relationships. They analyze loyalty in their model through the logical chain: relationship quality → relationship member's satisfaction → loyalty connection. In their model, the relationship quality dimension is close to Mandják and Simon's (2007) social relationship components (overlapping elements can be identified such as satisfaction with the product/service, smooth processes and high performance). In analyzing the ideas of relationship quality and satisfaction, the authors point out that the assessment of these ideas strongly depends on the parties' preliminary expectations and experiences. Satisfaction can be interpreted as the fulfilment of the relationship member's preliminary expectations.

Researchers define **relationship quality** in different ways, but the majority of the approaches identify the idea with the following concepts, or some combination of them: *level of customer-orientation* (Palmer and Bejou 1994; Dorsch et al. 1998), *conflict resolution* (Kumar 1995; Rauyruen et al. 2005), *trust* (Kumar 1995; Dwyer and Oh 1987; Dorsch et al. 1998; Haynes 2008), *relationship satisfaction* (Henning-Thurau and Klee 1997; Dwyer and Oh 1987; Haynes 2008), *commitment* (Dwyer and Oh 1987; Dorsch et al. 1998; Henning-Thurau and Klee 1997; Haynes 2008) and the *perceived quality of the product and/or service for the customer* (Henning-Thurau and Klee 1997; Parasuraman et al. 1985; Berger et al. 2002). Many publications emphasize that relationship quality significantly determines the customer's loyalty and the realized benefits for the suppliers. According to Rauyruen et al. (2007), it is necessary to differentiate between supply chain-focused quality dimensions such as service level, smooth cooperation processes, and trust on the one hand, and strategic management-focused quality dimensions such as commitment, and level of joint coordination, on the other. In the case of supply chain-focused dimensions, a high level of similarity is needed to achieve a high relationship quality standard, while in the case of strategic management-focused dimensions, complementary components play an important role.

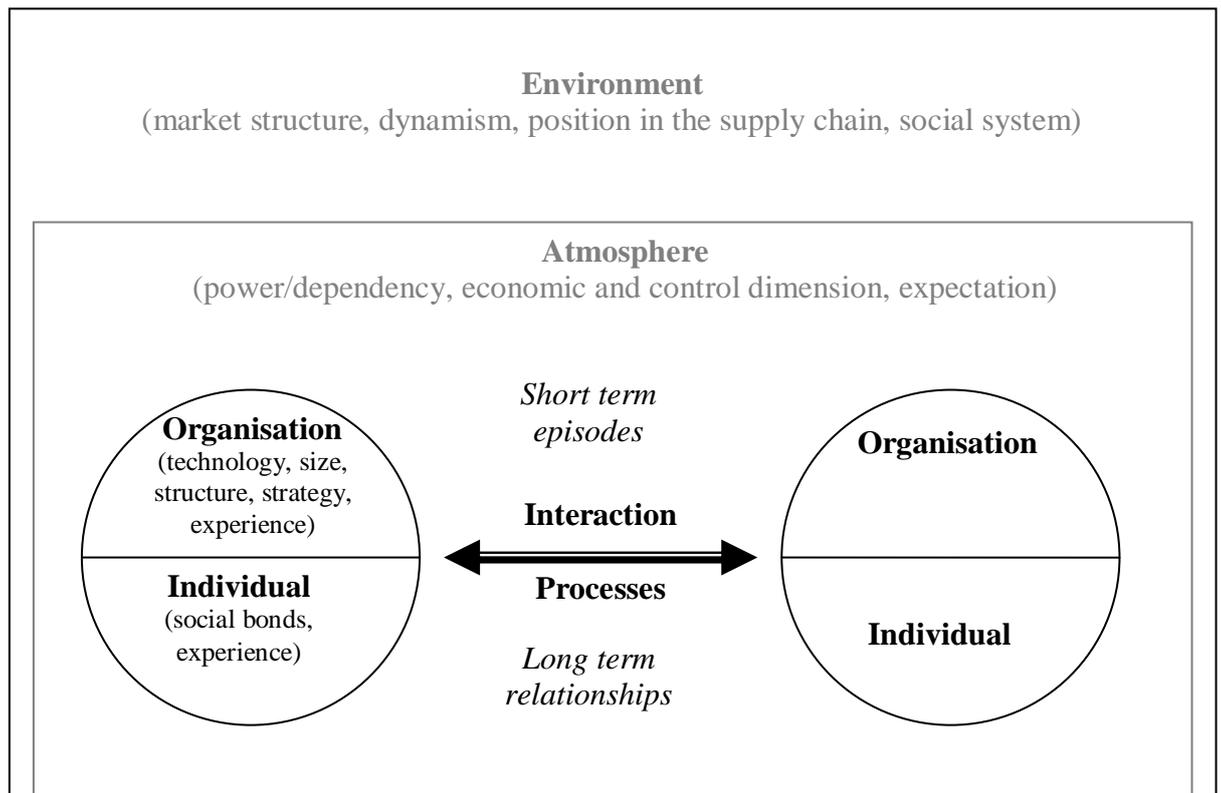
Dimensions of relationship value and correspondence with preliminary expectations can appear in the interpretation of success in the relationship context; furthermore, commitment and satisfaction can also be part of the relationship's success. As a result, from a research perspective, the three concepts are overlapping. This is natural, however, because all ideas have really complex meanings, as all ideas are built up from a mix of certain sub-dimensions. In my opinion, the *most important difference* between relationship success and other concepts is the *mutuality and the role of common aims in the relationship*. Relationship success expresses the fulfilment of the parties' common-set aims – relating to the coordination of the relationship's processes and management tools – and joint performance. In contrast to this, the other two ideas can be understood as static performance indicators, because they evaluate the quality and the value of the relationship based on preliminary expectations.

2.5. Analyses of buyer-supplier relationship structure

This section introduces the IMP Group's Interactive Approach (hereinafter IA) model, which is based on comprehensive international research and provides one of the most complex approaches to buyer-supplier relationships (Håkansson 1982).

In the course of analyzing buyer-supplier relationships, IMP Group focuses on the long term-orientation and dynamics of relationships. The aim of IA is to provide a theoretical framework expressing the dynamics of formation, functioning, development, and maintenance of business relationships, especially buyer-supplier relationships. The basic elements of the IA are the interacting parties (both organizations and individuals); the interactive processes between them; the atmosphere influencing the parties and vice versa; and the surrounding environment. These variables of the IA and the processes among them are shown in Figure 5.

Figure 5. The Interaction Approach



Source: Håkansson (1982: p.32)

The interaction process derives from **episodes** between the parties. As introduced in chapter 2.1, there are four basic types of episodes. The repetitive sequence of episodes creates the interaction process and – following routinization and institutionalization of the process – intensifies the bonds between the partners; finally a long-term oriented **relationship** comes into existence.

The interaction processes are dependent not only on the content of the interaction elements, but also on the **characteristics of the parties**. These characteristics can be connected to both organizations and individuals. Håkansson emphasizes the following main organizational features: (i) *technological complexity*, (ii) *size of organizations*, (iii) *strategy and organizational structure*, (iv) *organizational experience* and (v) *individuals*. *Technological complexity*, convertibility, customization and development possibilities of the product are all important elements of the interaction process. The *size of the interacting organizations* drives power-dependence relations, the level of openness for cooperation, and the flexibility and adaptability of the parties. *Strategy and organizational structure* obviously determine the procedures of exchange. Over the

short term, organizational structures can be considered as the framework for the interactions. Over the long term, these organizational structures may be aligned based on the achievements and *experiences*. *Individuals* – typically the buyer and seller – also play important role in the interaction processes. The knowledge, motivation, norms and culture of each company's representatives are built into the organizational culture, and the experience of their mutual interpersonal relationships can definitely affect the interaction.

Interaction environment is understood as the broader context of embedded relationships. *Market structure*, i.e. number of market players on both the buyer and supplier side and the level of concentration, may significantly affect the operation of relationships and the possibility of replacement. *Degree of dynamism* on both the supplier and buyer market may also have the same impact on relationships. Dynamism means the pace of development, change of market structures, frequency of changes, new entrants and products. The *position of the relationship members in their supply chain* (or network) is another key element of the environment. The *social system* element summarizes the national, regional and/or company-specific customs and attitudes which are built into each company's processes in a non-direct way and influence the behaviour of each party to a great extent.

It is quite difficult to define the encompassing **atmosphere**. It can be considered as *a mix of intervening variables affecting the evolution and characteristics of the interaction process* and – especially over the long run – the *interacting parties* and the established *processes can also influence these intervening variables*. The atmosphere is stabilized by the institutionalized routines and the future-oriented outlook of the parties. Atmosphere is dynamic, however, because technological, market and organizational changes and several years of mutual experience can change its actual status over the long run. The accentuated variables of the atmosphere are: (1) *transaction costs*, (2) *power-dependence situation*, (3) *control* over the resources and (4) *level of connection* between the partners. Håkansson interprets power as an influencing capability, which helps one company influence the decisions of another company without its prior consent or even contradictory to its consent. Power is an important tool for the owner to control the interaction's process and manipulate the cost and benefit allocation among the involved parties. The exact appearance of power strongly depends on the level of

expression by its owner. The IA presumes inverse proportion between connectedness level and transaction costs. According to Håkansson's approach, the more formal and informal bonds⁷ evolve between the partners, the lower the transaction costs of the relationship. These bonds may materialize in a good personal relationship of the buyer and seller, a high level of trust between individuals and organizations or the commitment of the partners in relationships. The ability to control a relationship usually depends on the perceived power by the two parties. Increasing control over each other's processes and operations can reduce the uncertainty associated with the outcome of the decisions and operations of the other parties, and determine the allocation of resources and created benefits. It is important to note that control and the power dependence position is relative and dynamic, as they can be changed by either of the parties during the transactions over the long run.

By creating the Interaction Approach, the IMP Group and Håkansson (1982) provided a very complex and comprehensive framework for short-term and long-term processes and their influencing variables of interfirm relationships. Their early model can be considered as a milestone in relationship marketing research and functions as a starting point for many studies and publications. Although the IA stands for apprehending the dynamism of relationships, it basically provides a static retrospective snapshot-view of the analyzed relationship's structures. In contrast to the cost and operational efficiency focus of the mainstream firm theories, the core elements of the IA are willingness for cooperation, flexible adaptation and the social bonds between the interacting parties. The IA stresses the cooperative and trusting aspect of human nature (Möller and Wilson 1995), and thus the IA's behaviour conception is much more cooperative and adaptive than opportunistic.

Critics consider the aforementioned cooperative and adaptive behaviour of the IA as too standardized. Ford (1998) noted that "all inter-company relationships simultaneously exhibit conflict and cooperation, with guile and self-seeking". The cooperative and confrontational elements will become dominant which better support the parties in being more effective, supposing that they have a clear view of their partner and the business situation. Another critical remark on the IA theory is that the long-term orientation is not always valid for all relationships, as there are many short-term

⁷ The content of these bonds are identified and categorised in Hakanson's A-R-A model dated 1995.

relationships and the arm's length management style also applies short-term (typically yearly or shorter) contracts (Blomqvist 2002).

3. Literature review of success in business relationships, basic ideas

This chapter continues the theoretical grounding of the empirical research. In the first subsection, the results of the literature review of success in business relationships are introduced. After that, there is a review of the basic ideas which are necessary to analyze the case study results and mostly derive from the firm theories.

3.1. Introduction of the results of the literature review about success in business relationships

One of the central focuses in B2B research is to identify those elements, which create success and sustainability in relationships. Although success in relationships has been analyzed in several publications, the majority of them do not apply exact definitions to clarify the idea of success and the meaning of its dimensions. These papers generally use implicit terminologies to express the content of success, such as: *efficiency, fulfilling aims and requirements, sustainability* (Mohr & Spekman 1994; Dyer 1997; Virolainen 1998; Blomqvist 2002). In line with these concepts, the majority of the publications emphasize that the definition and perception of success are always relative and depend on the understanding of the counterparts in the relationship. As such, the same success attributes and dimensions can have different interpretations and evaluations in different relationships.

In order to clearly understand the framework of my dissertation, it is **necessary to differentiate between firm (or business) success and relationship success**. Although the majority of the publications do not provide strict rules for defining the difference, the two ideas can be clearly distinguished based on their content and sense.

Business success can be understood as a measurable output of a company's performance which can be expressed – in most cases – via financial indicators, such as *increasing*

income and profit margin, decreasing costs and also a rising market share, company size and portfolio (Ellram 1995; Humphreys et al. 2001; Chikán-Czakó 2009).

The basic essence of business success is that its variables are always applied only for one company's output; its success dimensions measure the operational efficiency of a company as an individual. Lengyel's (1999) research can confirm this approach to business success. Lengyel questioned⁸ 540 companies in the Hungarian processing industry about business success. Based on his results, the most significant manifestations of business success are: increasing profit, stable liquidity, continuous growth, market and customer-orientated way of thinking as the most supportive firm behaviours to achieve success and a fair attitude with business partners.

Although these elements of business success can be realized in episodes and interactions, the mostly financial success indicators are always analyzed only at the individual company level, as business success is expressed in the business and financial performance of one member of the relationship. In most cases, the aggregate turnover and profit data of relationship members are not evaluated, but these indicators are measured separately, assessing the standalone performance of the parties involved.

In contrast to the above, **relationship success** can be considered as the fulfilment of the relationship members' common aims for the joint management of the relationship's processes and development.

Based on their quantitative research, Mohr and Spekman (1994) defined two main indicators, which express relationship success: dyadic sales and satisfaction. They interpret dyadic sales⁹ as an objective factor: the higher the indicator, the deeper the relationship is. Satisfaction is a so-called emotional factor that summarizes the soft dimensions and plays a pre-requisite role in the development of a relationship.

Ellram (1995) analyzed 80 different buyer-supplier relationships with various levels of intensity and focus and more than 5 years of track record in the USA. Based on the

⁸ It should be noted that Lengyel's research focused on successful companies, and he did not analyze the relationship success of the questioned companies.

⁹ Dyadic sales is defined as the sales volume channelled between the relationship parties.

quantitative results, relationship success can be interpreted as a set of *smooth cooperation, continuous reduction of administration and transaction costs, growing mutual value-creation, limitation of the one-sided dependency on buyer/supplier side, and creation of a balanced power situation*. In order to achieve this relationship success, it is necessary for the cooperating parties to have supportive success factors such as two-way information sharing, top management commitment to relationship development, common aims that can be accepted by all members, sharing examples of success with each other, and each partner should add distinctive value to the relationship.

Continuing with the introduction of the quantitative results, Monczka et al. (1998) analyzed the success-oriented parameters of buyer-supplier relationships. Based on their results, relationship success can be identified with the following attributes: mutual operating cost reduction, efficient joint research and development activity, increasing customer service level, and smooth communication activity. In their interpretation, they highlight the following success factors as key elements in supporting buyer and supplier companies to achieve relationship success: mutual trust and commitment, solution-orientated problem solving, effective information sharing among and inside different organizational levels.

Analyzing B2B relationships, Wimmer (2004) emphasizes the measurable performance elements that can promote relationship development and members' mutual satisfaction. These kinds of elements include the high quality standard of products; attractive price/value ratios, decreasing lead time and increasing level of customer service, and satisfactory complaint management. In this concept, good performance – e.g. mutual satisfaction and smooth development – can be considered as the variable of relationship success.

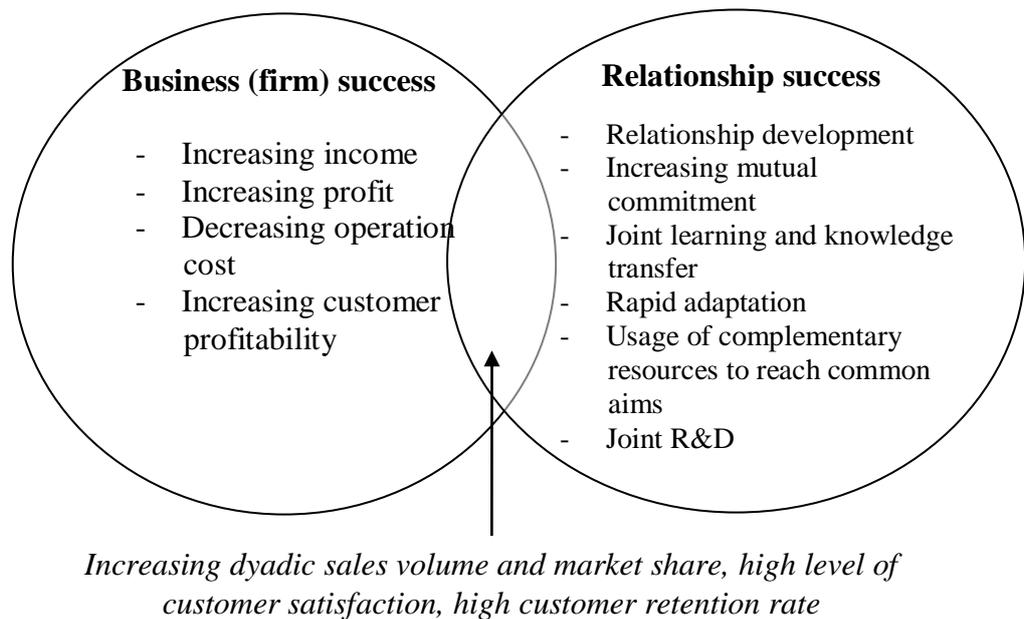
Hoffmann and Schlosser (2001) questioned 164 Austrian companies as to when they considered their cooperation with their business partners as successful. Similar to Ellram (1995) and Monczka (1998), one of the major outcomes of their research was that it is necessary to differentiate between success variables and those factors that can support the achievement of success. These authors concentrated on strategic alliances and found out that rapid mutual adjustment, intensive knowledge transfer, efficient

usage of the partners' different resources and capabilities, establishment and acceptance of common strategic aims could be the most important manifestations of relationship success. Heunks's (1998) research on small and medium-sized companies' partnerships arrived at the same conclusion as above. Deep relationships support the companies' innovation competencies, and based on the creative cooperation new products or organizational solutions can be the outcome of relationship success. Based on Henning-Thurau (2000), relationship success can be expressed by way of customer satisfaction and a high customer retention rate. In his approach, trust and commitment between the counterparts are necessary to achieve success, and the continuous development of the customer's skills can also play an important role.

Summarizing the results of the above literature review, relationship success can be described with the following statements:

- Theoretically, a distinction can be drawn between business success and relationship success. While business success refers to the fulfilment of one company's performance expectations (primarily financial), relationship success expresses the fulfilment of both companies' common aims and mutual expectations about the relationship's processes, and can determine the relationship's future and development. In some cases, business and relationship success can have similar variables, but basically the two ideas have a different focus.
- A hierarchical structure of relationship success also can be observed. It is necessary to differentiate and identify the success goals which express the essence of the relationships and the so-called success factors which can support the achievement of the success goals. As can be seen in the literature, however, this differentiation logic is not perfectly clear in some cases. Success goals can be considered as the relationship members' common expectations about the relationship's performance and development. Success factors can be the drivers of this positive joint performance. Figure 6 interprets the meaning and relation of business and relationship success.

Figure 6. Interpretation of business and relationship success – illustration



Deriving from all the above, **relationship success can be defined** in the following way. *It can be considered as the fulfilment of the relationship members' aims, which were jointly established and accepted by all members and focus on the smooth operation and development of the relationship.* These kinds of success goals are always *relationship-dependent*, and thus in every case, relationship members decide on the acceptance and evaluation of the success aims and rank their priority. It is also important that *all members should accept and follow the common set of relationship aims*, and that these aims should primary focus on the operational parameters and jointly managed assets and processes of the relationship.

Although the success models introduced above provide a wide spectrum of potential definitions and concepts of relationship success, they should be amended from the perspective of relationship development. Based on the results from the literature review, it can be postulated that different success goals can be relevant at different relationship development stages. According to that, one of the major focuses of my empirical research is to identify the relevant relationship success goals at each development stage.

The results of the publications presented above indicate that different relationship success goals play leading roles during the relationship development process. Satisfaction with the customer service level or mutual reliability may play an important

role in the early development stages, but cannot be mentioned as ultimate goals in higher development phases. The logic is the same for joint research and development activity and competence development, as they can be relevant at only higher stages, and not at the episode level. Empirical confirmation or rejection of this assumption is one of the areas of focus in my research.

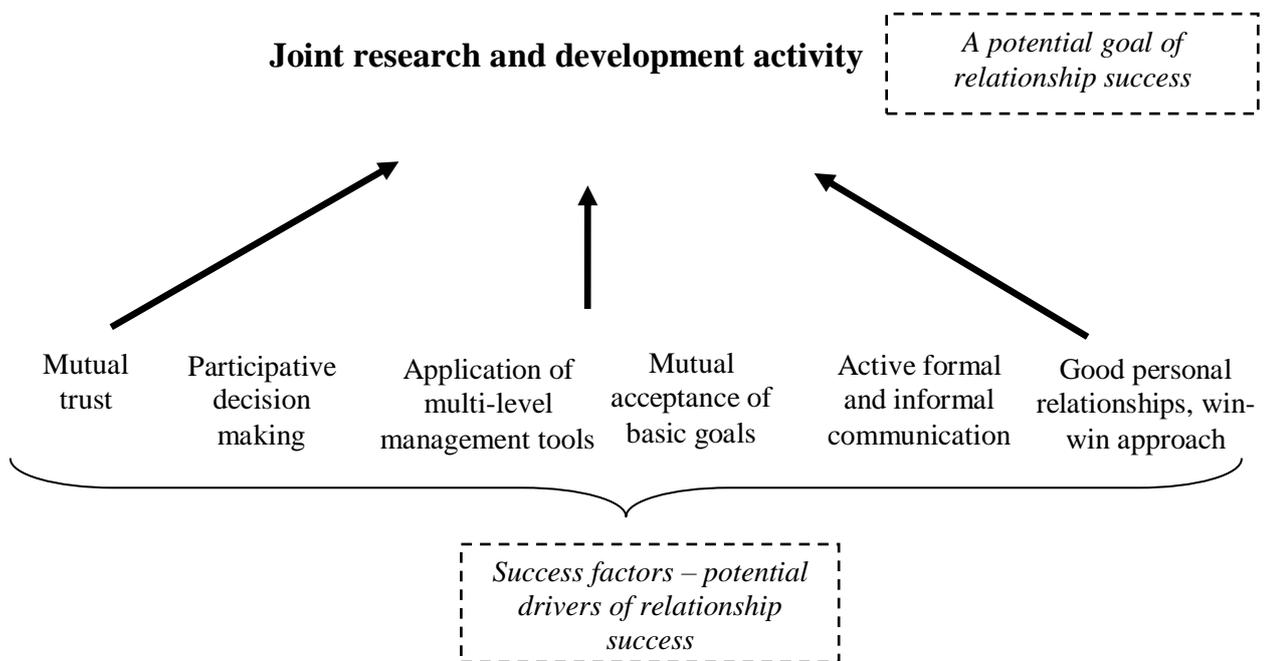
In analyzing business success and relationship success, another important element should be considered: the *time dimension*. Relationship success – as mentioned above – interprets the fulfilment of two partners' common aims, and these aims can vary over time. But in the approach of the above publications – even if it is not expressed explicitly – relationship success can be realized over the long run, because relationship development also takes time. A short-term success approach can be relevant in certain authors' viewpoints, who understand success as business success and not relationship success (Lengyel 1999; Chikán-Czakó 2009). The relations of time dimension and success can depend strongly on the consistency of the relationship partners' aims. If the time dimensions of the different aims are similar, success can be realized continuously, but if they run contrary to each other, it depends on management decisions as to whether short-term or long-term optimization will be attempted.

Summarizing the key messages of the above approaches to success in business relationships, **relationship success can be described with two dominant characteristics**. The first one is the existence of success goals focusing on *the smooth operation and development of the relationship*. The fulfilment of success goals definitely influences the future development of the relationship. The second one is *mutuality* during the process of determining the common goals. Obviously, the existence of prior discussions of success goals – especially financial ones – can also be identified to a certain extent in the case of business success. Mutual acceptance and efforts to achieve them, however, appear only in the case of relationship success.

The **supporting elements and management tools** that contribute to achieving the relationship success goals **are referred to as success factors** in the publications. These success factors can contain several sub-factors, and different combinations of them can be relevant in each relationship. Some examples can be found in the literature presented above: in order to grow committed to other relationship members, there must be trust,

balanced interpersonal relationships among appropriate employees and strong adaptation of cooperation processes (Forrest & Martin 1992; Slowinski et al. 1993; Bruce et al. 1995; Virolainen 1998). Based on the results of the literature review, it is also supposed that the joint product and process development activity requires participative decision-making, application of multi-level management tools, consensus on basic aims, trust and a win-win approach (Forrest & Martin 1992; Kumar 1995; Halinen 1994; Ellram & Hendrick 1995; Mohr & Spekman 1994; Dyer 1997; Tuten and Urban 2001). One possible structure of a potential relationship goal is illustrated in Figure 7 about joint product and process development.

Figure 7. Structure of a potential relationship success goal



Kinnula and Juttunen (2005) collected and systematized success factors and their dimensions in several management publications. Table 2 introduces the results of the literature study they performed, along with Nagy (2007) and other cited authors. The variables mentioned in the table can also be relevant in different phases of relationship development and can influence such development to varying degrees. Additionally, certain success factors can play an important role in the fulfilment of several success goals, and some of these factors can be divided into further sub-factors.

Table 2: Identification of success factors in management publications

Success factor	Dimensions of success factor	References
<i>Business oriented success factors</i>	Future-oriented approach	Ellram & Hendrick (1995), Veludo et al. (2006)
	Satisfactory business results	Tuten & Urban (2001) Mohr & Spekman (1994)
	Increasing sales/procurement volume	Mohr & Spekman (1994)
	Synergy between the business partners' operating processes	Tuten & Urban (2001)
<i>Structural success factors</i>	Consensus on the relationship's basic goals	Forrest & Martin (1992), Slowinski et al. (1993), Bruce et al. (1995), Virolainen (1998)
	Application of multi-level management tools	Virolainen (1998) Zhu & Shu & Lillie (2001)
	Application of participative decision-making tools	Forrest & Martin (1992), Saxton (1997)
	Sharing of relevant information, active formal and informal communication, fair treatment	Forrest & Martin (1992), Halinen (1994), Ellram & Hendrick (1995), Mohr & Spekman (1994), Dyer (1997), Tuten & Urban (2001)
	Similarities across organizational cultures, highly developed adaptation processes	Forrest & Martin (1992), Mohr & Spekman (1994), Saxton (1997), Embleton & Wright (1998)
	Constructive, conflict management techniques	Mohr & Spekman (1994), Kumar (1996), Velundo et al. (2006)
	Openness for recognition and understanding each other's operation, mutual acceptance of the partners' strengths and weaknesses	Slowinski et al. (1993), Ellram & Hendrick (1995), Virolainen (1998)
<i>Relationship-specific norms and characteristics</i>	Trust	Forrest & Martin (1992), Halinen (1994), Mohr & Spekman (1994), Ellram & Hendrick (1995), Kumar (1996), Dyer (1997), Saxton (1997), Virolainen (1998), Tuten & Urban (2001), Velundo et al. (2006)
	Balanced interpersonal relations (both at the top management and employee level)	Forrest & Martin (1992), Halinen (1994), Mohr & Spekman (1994), Ellram & Hendrick (1995), Dyer (1997)
	Win-win approach	Ellram & Hendrick (1995), Kumar (1996), Tuten & Urban (2001), Zhu & Shu & Lillie (2001), Velundo et al. (2006)
	Interdependence	Mohr & Spekman (1994)
	Reliability, good reputation	Dyer (1997), Saxton (1997), Tuten & Urban (2001)
	Flexibility	Velundo et al. (2006)

Source: Based on Kinnula and Juttunen (2005) and Nagy (2007)

The above table illustrates that many authors identify quite similar variables as success factors. Beyond the above elements, the following other variables are also mentioned as success factors in their research: well-defined exit strategies, mutual attraction of created values, fair risk-sharing, impact and influence of the relationship environment (Slowinski et al. 1993; Bruce et al. 1995; Dyer 1997; Saxton 1997; Virolainen, 1998). The table and the literatures indicate that the variables of business and relationship success goals and success factors cannot be always defined in a strict manner. They contain some overlaps, which mostly derive from context dependency, because the relationship environment and atmosphere can impact the goals of the relationship members.

3.2. Introduction of further basic ideas

This chapter introduces the basic ideas that mostly derive from the firm theories and can be indirectly linked to the operation of buyer-supplier relationships. These ideas have significant importance in understanding the results of the empirical research and their conclusions. The resource-based approach of interorganizational cooperation and the evolutionist concept of it play a special role in the applied ideas, and thus this chapter focuses on their introduction.

3.2.1. Organizational capabilities and the resource-based theory

The resource-based theories consider the firm as a set of resources and capabilities, and in their approach the firm-specific capabilities are the basis of firm competitiveness (Chikán 2003). There are two basic views of resource-based theories: the *strategic resource approach*, which focuses on the description of resources and capabilities within the firm, and the *dynamic capability view*, which can be understood as a further developed concept of the first one (Gelei 2006). The dynamic capability view considers the firm as the driver of continuously changing capabilities and transformation processes, and the development and change of resources and capabilities over time are in its focus (Tecee et al. 1997; Huttunen et al. 2001). It is however common that both views focus on providing answers for the following questions (Gelei 2006):

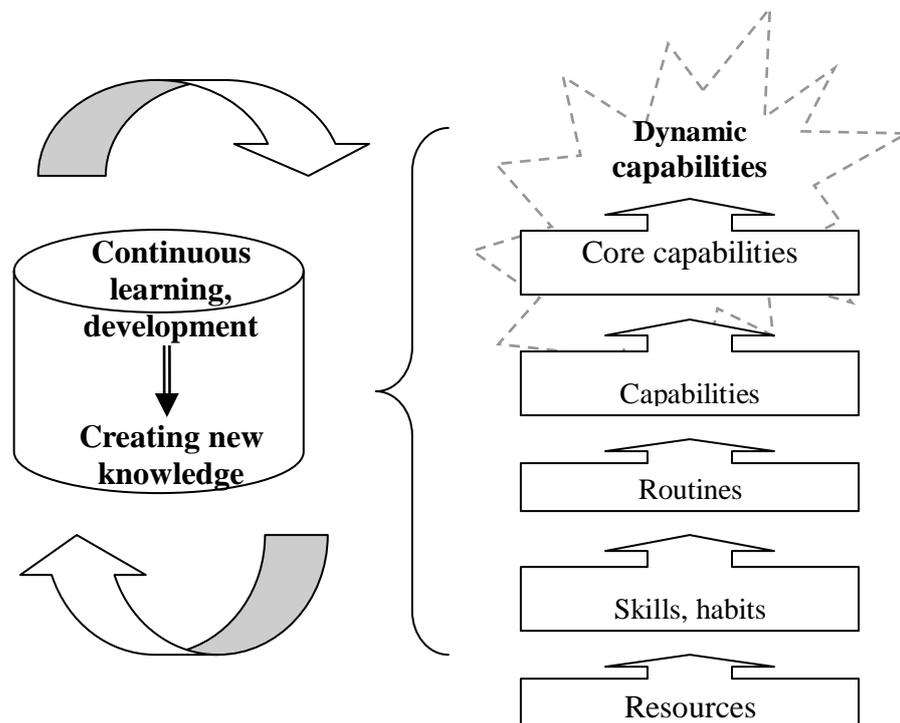
- How can the variables of corporate operations which support the sustainability of competitiveness be described?
- What are the key characteristics of capabilities and resources driving long-term competitiveness?
- How are these capabilities and resources built up, and how can their internal structure be described?

The third independent approach to resource-based theories is the *knowledge-based view*. Two basic types of knowledge are identified. One type is well-defined and easily imitable *explicit* knowledge, and the other is tacit knowledge with a complex, non-definable and hardly or non-imitable structure (Polányi 1994). Tacit knowledge – a form of asset specificity – can be considered as one of the major sources of competitiveness. In this view, the firm is understood as a warehouse of knowledge, and the integrative organizational framework of knowledge (Fransman 1998; Grant 1996). Von Krogh et al. (2000) define the firm as a dynamic organization, which continuously interacts with the environment and other organizations. Based on these interactions, the organization is able to create new knowledge from its existing firm-specific capabilities.

Based on Hamel and Prahalad (1990), Huttunen et al. (2001) define the structure of capabilities within the firm in the following way. The definition is linked to the knowledge-based view of Kyläheiko (2001). *Resources* are inputs without firm-specific components: thus they are not able to differentiate firms from one another and are accessible on the market. Organizational *habits and skills* are built on the resources. They “process and utilize” several groups of resources within the company, and become *routines* over time. Routines transform the habits and skills related to the processing of resources into *sequential activities (episodes)* that can contain some firm-specific components. Huttunen et al. (2001) define *capabilities* as the integration and joint operation of routines. The *core capabilities* are valuable, rare, idiosyncratic, inimitable, and define the principles of corporate activity and thus represent the foundations of competitiveness (Teece et al. 1997). *Dynamic capabilities* are the ability of firms to integrate, build and reconfigure the internal and external competencies/capabilities to rapidly react to the changing environment (Blomqvist 2002). Deriving from the above, core and dynamic capabilities are not necessarily different from each other. Dynamic capabilities represent a sub-set within a firm’s capability set, which ensure the

sustainability of competitiveness. Kyläheiko (2001) links the dynamic capability and the knowledge-based view together. In his approach, skills, routines and capabilities of firms are in continuous development. In this development process, new skills and competencies are built in the organizational knowledge, inspiring further development. According to him, there is a continuous knowledge transfer in the firm's life, and this collected basis of knowledge provides the competitiveness of the firm.

Figure 8. Dynamic capabilities and organizational knowledge



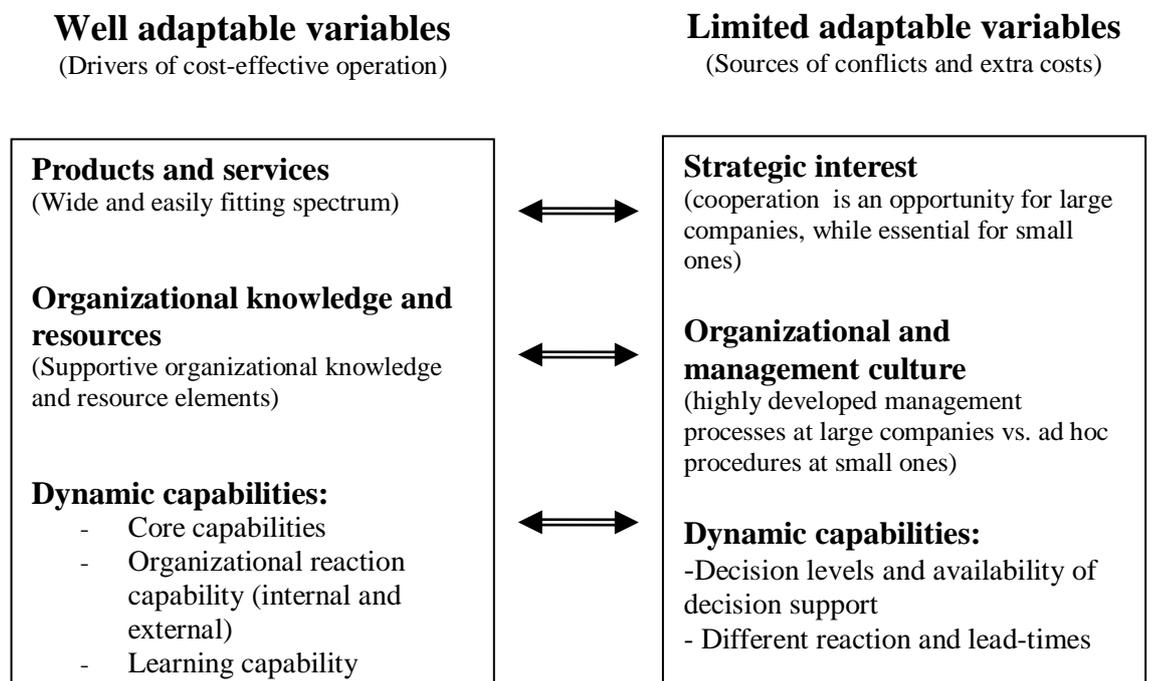
Source: Based on Kyläheiko, 2001

Based on the dynamic capability view, Hamilton (2000) and Blomqvist (2002) state that **interfirm cooperation takes place via complementary capabilities**. In their approach, firms are considered as a set of different capabilities, but in the increasingly uncertain and turbulent business environment none of the firms can create competitive output alone. They mention research and development activity as an example: the complexity and knowledge-intensity of the processes frequently require the joint application of capabilities from several companies. In order to fulfil the common goals, interfirm cooperation takes place via complementary capabilities and resources. As a result of this process, joint capabilities will arise and the boundaries of the firms become less

significant. According to Himmanen (2001), the cooperation of complementary resources can be illustrated with the efficient relationship of large and small firms in the case of development projects. Large companies have enough capital and wide organizational knowledge to initiate innovation activity. Cooperating with small companies with lower organizational burdens and higher flexibility can be appropriate, for instance in prototype-building and testing, and/or during the early manufacturing phases.

Many types of challenges appear during cooperation via complementary capabilities. It can be described with many conflicts deriving from the different organizational size, culture and knowledge, or differences in the focus of core capabilities. The motivation and negative drivers of complementary cooperation were summarized by Blomqvist (2002). This is introduced in Figure 9.

Figure 9. Well and limited adaptable variables of complementary cooperation



Source: Based on Blomqvist (2002: p. 107)

Analyzing the interfirm approach with the application of complementary resources can be important from the point of relationship success as well. The capabilities of the relationship members can play a significant role in the fulfilment of the relationship

success goals. On top of that, the capabilities of the buyer and supplier can also be important during the adaptation processes.

3.2.2. The firm evolutionist theory

From the viewpoint of the evolutionist theory, the firm's knowledge is expressed by routines and capabilities, which are created during the consecutive sequences of the firm's activity. Deriving from the cumulative character of learning, the actual learning capacity of the firm depends on the previously accumulated knowledge (Kiss 2004). The firm evolutionist theory is easily adaptable to the analyses of the development of interfirm relationships, because this theory supposes that the actual form and operation of the firm is influenced by accumulated previous actions and experiences. This relative determinism is called *path dependency*. It states that the previously gained knowledge determines the future opportunities of the firm's activity (Marengo 1992; Foss 1996, cited by Kiss 2004).

Within the framework of the firm evolutionist theory, all firms follow different kinds of trajectories (learning curves), which is why firms have different capabilities; they apply various routines and ultimately differ from each other. Accordingly, the major reason for permanent differences among firms is the heterogeneity of their internal flows and stocks of knowledge. Physical resources can be accessed on the market easily, but imitating the possibilities of firm-specific routines and capabilities are more difficult for competitors (Foss 2000, cited by Kiss 2004).

The path-dependency concept of the firm evolutionist theory can be adequately applied in the context of buyer-supplier relationships, because the accumulated experiences can determine the future of the relationship to a great extent. The episodes and actions gained in the past are built into the actual interaction processes of the relationship and can impact its future outcome. This theoretical approach is close to the relationship development concept of Ford (1998) and Blomqvist (2002). According to their model, relationship development phases are built on each other, and thus the consequences and experiences of the previous phases determine the following stages. In addition, the approach of the firm evolutionist theory definitely appears in the critical incidents

technique as well, because the past of the relationship can play important role in the origin of critical incidents.

Apart from the above firm theories, Barringer and Harrison (2000) identified further approaches – the transaction cost theory, the theory of strategic choices, and the stakeholder and institutional theory – that can provide partial explanations for the existence of interfirm relationships. Following systematization of the explanations for the existence of interfirm relationships, they criticized their own approaches and stated that “none of the theories are holistic; they each explain relationship formation from a narrow point of view” (Barringer and Harrison 2000: p. 395).

The aforementioned critical remark of the authors should be rephrased, because in their own framework both the transaction cost theory and the resources-based view give complete explanations for the existence of interfirm relationships. The difference between their viewpoints provides the essence and the foundation of these approaches. If all of the viewpoints were fully traversable,¹⁰ the consequences of the theories would probably not differ from each other; the actual firm theories would not be so diversified and we would not have the freedom to choose the most adaptable firm theory for our own research.

4. Management tools of buyer-supplier relationships

The following longer chapter will introduce the relationship management tools which can play an important role in influencing the processes of the buyer-supplier relationship and manipulating its atmosphere. As such, these tools can significantly affect the development and success of the relationship in direct or indirect ways. I apply the management tools terminology; because I believe that the development and success of relationships can be influenced with the management of the introduced variables over the medium or long run, despite that these variables – such as power or trust – can also appear as static attitudes over the short term. Persson and Håkansson (2007) also remark that the actual relational situation among relationship members should always be

¹⁰ Kapás (1999), however, claims that there is similarity in some points of the transaction cost approach and the evolutionist theory in her publication entitled “Do we need multi-dimensional firm theories?”.

analyzed dynamically and cannot be considered as a final status. It is confirmed with the idea that all interested parties have the opportunity to align the relationship to their own interests over a long-term horizon.

4.1. Management style and cooperation in buyer-supplier relationships

Analysis of the applied cooperation styles of the members in a buyer-supplier relationship is a key part of management studies. It should be noted that the phrase ‘cooperation’ is commonly applied in the description of processes between buyers and suppliers in the viewpoint of several authors (Ellram and Hendrick 1995; Fearne and Duffy 2004). I feel that it is necessary, however, to differentiate the expression of cooperation at the process and the relationship level, because these two points have different meanings. In my dissertation, I will thus use the phrase cooperation as an interfirm, diversely developed relationship, and will always indicate if the focus is on the process level.

Processes between buyers and suppliers are worthy of analysis, as the adaptability, compatibility and conscious management of these processes can play an important role in the development and success of relationships.

Processes of buyer-supplier relationships can be understood as the existence of jointly managed operative processes and/or common strategic decisions. There are two basic management styles or models for describing the control of relationship processes in business publications: the **arm’s length** and **collaborative** styles. These two models, however, represent the extremes of the management processes. Table 3 details the key points of these management styles. In the case of an arm’s length management style, cooperation of the partners is limited to the minimally required information and physical exchange related to the transactions (price, quantity, quality, deadline of delivery, etc.). Both partners are interested in the fulfilment of their own aims, which are not harmonized with the counterpart’s aims. In the case of a collaborative management style, cooperation evolves into operative process harmonization, partner-specific investments and common goals (Kumar 1996).

Table 3. The arm's length and collaborative management styles

Point of analysis	Arm's length style	Collaborative style
Basic motivation	Profit maximization without any respect	Profit maximization with cooperation
Negotiation strategy	The counterpart is a "rival", it is typical to force the partner and aggressive efforts can appear	The counterpart is a "partner", mutual interdependency, direct or indirect force is avoided
Basis of partner selection	Price in most of the cases, competitive tenders are frequent	Total cost of ownership matters; price is not primary evaluated
Contracting habits	Short-term orientation, terms and conditions are clear and detailed	Long-term orientation, mostly framework agreements are applied and only the most important parameters are defined
Communication	Mostly one-sided	Mostly two-sided
Conflict management	Conflicts are rare, because of the detailed contracts. Should conflicts arise, they are managed legally	Conflicts are rare, because of the mutual openness and the applied value-based partner selection. Conflicts are managed through negotiations

Source: Based on Kumar (1996) and Vörösmarty (2006)

4.2. The role of power in buyer-supplier relationships

It is important to analyze the power situation in buyer-supplier relationships, because this can play a significant role in the stabilization of a mature relationship. Moreover, power definitely affects the creation and development of relationships. The power situation significantly influences the share of costs and benefits of the cooperation, which may also affect the success and development of relationships. It is not obvious that the relationship member investing in the cost of cooperation will realize the same benefits. It is possible that one of the counterparts with a dominant power position will influence the share of cost and benefits in a disadvantageous manner for the other party. This can reduce the motivation of the other party to maintain the relationship. Such situations limit the room for success in relationships.

Research on **power** in supplier-buyer relationships usually focuses on analyses of power situations between the counterparts and the potential power dominances. In this chapter, I will rely strongly on the publications of Andrew Cox to introduce this idea.

According to Lukes (1974), power can be defined as the *ability* of one party to adversely affect the interests of another party. Cox et al. (2005: p. 33) considered – based on Emerson (1962) and Lukes (1974) – that power can appear in three different ways in business relationships, namely as:

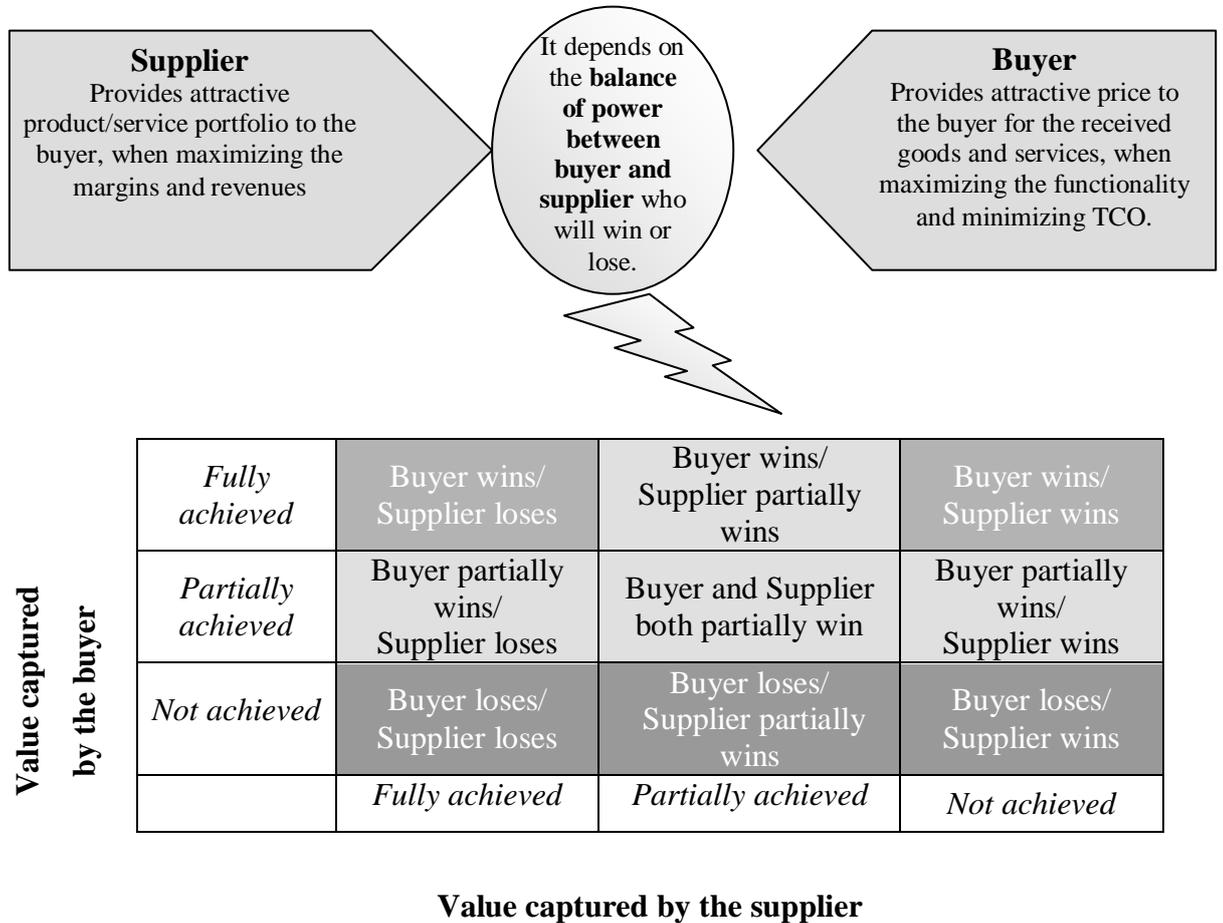
- *an executive tool*, “the relative ability of each party to directly obstruct the other in pursuit of his or her goal”; (by expressing power dominance, the other party is forced to modify or give up his or her original goals);
- *a manipulation tool*, “the relative ability of each party to indirectly obstruct the other through the use of guile” (in many cases the threat is enough for one party to follow the more powerful one);
- *a limitation on accessing information (information asymmetry*, which obstructs the other party in obtaining enough information for decision-making).

It is, however, important to emphasize that *power and dominance are not static phenomena. Power is a continuously changing relation* between relationship members and can strengthen, weaken, and/or reallocate from one party to another.

In order to clearly analyze and interpret the power situation of business relationships, it is *necessary to understand the motivation of dyadic relationship members* (Cox 2004a). In general, the basic motivation of buyer-supplier relationships is profit maximization, as both counterparts intend to maximize their own profit. The supplier wants to sell his goods at a profit, and the buyer wants to pay an affordable price. Cox (2004a) translates the above to mean that buyers and suppliers definitely have opposite goals in relationships. Buyers always try to purchase maximum *value for money* products or services with increasing functionality (quality, performance, on-time delivery, etc.) and limit the total cost of ownership. Suppliers, however, focus on increasing the value from supply and maximising margins, while sometimes reducing the functionality of the sold product or service. Summarizing the results, Cox noted that “**there must be an inevitable tension and conflict in business relationships**” (2004a: p. 413). The outcome of cooperation can never be a perfect, “ideal” win-win or lose-lose situation,

because at least one of the parties should partially achieve its goals. The ideal win situation for the buyer is maximising value for money and minimising the total cost of ownership at the same time. On the other hand, the ideal win situation for the supplier is maximising both the value from supplies and margins. The latter situation, however, inevitably reduces the functionality of the exchanged products or services and increases the total cost of ownership. Despite this conflict, relationship members in real life situations aim to fully achieve their ideal value capture goals. *Power can be the most efficient tool to reach the “ideal” situation.* The dominant party has the opportunity to realize the benefits of the relationship by obstructing the other party’s interests. The higher the dominancy, the higher the probability of using this dominancy to reach the “ideal” win situation that will result in a lose situation for the other party. Of course, balanced power situations also exist, when the outcome is usually quite close to the “ideal” win-win one. Cox et al. (2004a) identified 9 potential outcomes in buyer-supplier relationships, based on the balance of power and realized level of goals. Figure 10 summarizes these outcomes and their main characteristics.

Figure 10. Possible outcomes for buyers and suppliers in a relationship



Source: Cox (2004a; p. 415.)

Cox (2001a) identifies the following *sources of power* on the supplier side: small number of suppliers and many buyers, high supplier replacement costs, shortage of substitute products and/or competitors, ownership, economies of scale production, information asymmetry, high reputation deriving from well-known brands, and market failures (e.g. cartels). Power on the buyer's side can derive from the following sources: small number of buyers and many suppliers, high buyer replacement costs, low concentration level on the supplier's market, diversified supplier-portfolio, and information asymmetry. Even one of the mentioned variables can be enough to be in a dominant situation. The relationship of the parties, the nature of the industry and the environment usually determines whether only one or more variables are needed to become dominant.

The most important **value of Cox's power approach** is that it considers power as a dynamic phenomenon. In his view, power is not a static variable: the contradictory goals of buyers and suppliers create power in relationships. A further result of Cox's interpretation is that he does not consider power as a structural "governing tool", but rather recognizes the applied management styles as significant influencing factors for the expressed form of power in relationships. The drawbacks of this concept are that – aside from the applied management style – it does not analyze what other kinds of variables and how other kinds of management styles – other than the two introduced above – can also influence the expressed form of power in relationships.

4.3. The role of trust in business relationships

Besides power, **trust** is another important factor in buyer-supplier relationships, which can be a key element from the perspective of relationship success as well. This chapter introduces the role of trust in business relationships based on a working paper, prepared with Judit Nagy (Nagy – Schubert 2007).

There is no unified definition of trust in the management literature. The applied viewpoints from the literature can be divided into two basic segments: the faith-based and the risk-based view of trust. These two approaches are not opposite to each other, but they have different focuses. Researchers – such as Kumar (1996) – accept the faith-based view and consider that the basic source of trust is the mutual faith of the partners. The partners mutually believe that they are interested in each others' benefits and do not act opportunistically. This kind of trust approach believes in the reliability and honesty of the partner. Hence, the truster believes that the trustee will keep faith with him and does not act opportunistically.

Doney et al. (1998) understood faith-based trust on two levels:

- trust is a complexity of faith and expectation;
- and an intention that the partners want to fulfil each other's expectation.

On the first level, trust can be related to the faith and expectation of the truster towards the trustee's trustworthiness. On the second level, the trustee intends to fulfil the

truster's previous expectations and acts accordingly. So, trust can be understood as faith in the other party's trustworthiness and an intention to act in line with the truster's faith.

Das-Teng (2004) collected and systematized the definitions of the risk-based views of trust. According to this approach, trust always contains risk to a certain extent. The risk-based view of trust can be defined as follows: "*trust is the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the truster, irrespective of the ability to monitor or control that other party*" (Mayer, Davis, and Schoorman 1995: p. 712).

According to Barney and Hansen (1994), this vulnerability derives from three sources:

- There is adverse selection vulnerability; it takes time and is costly to find and choose the appropriate business partner and evaluate its available resources.
- There is moral hazard vulnerability; it takes time and is costly to evaluate the quality of the methods and assets offered by the partner.
- There is hold-up vulnerability; there are many transaction-specific investments to be executed in advance.

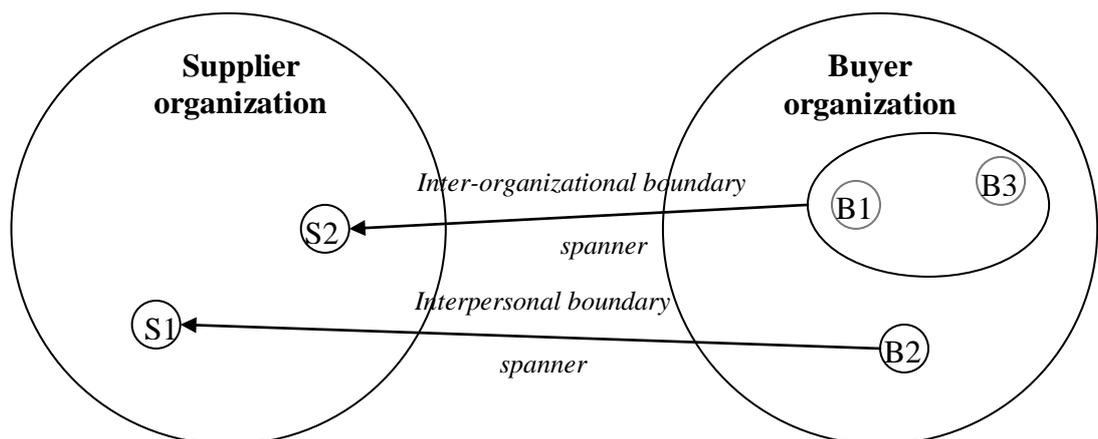
Many authors apply a reverse logic to answer the question why trust is needed. They highlight the disadvantages of relationships without trust. Kumar (1996) states that although opportunistic behaviour might be more advantageous over the short run, trust is necessary in long-term cooperation.

Barney and Hansen (1994) identified three reasons – based on opportunity costs – why trust is more reasonable in business relationships:

1. Bad reputation spreads among market players which might hamper smooth operation (market-based governance).
2. Opportunistic behaviour evidenced in breaching contracts may bear huge costs, because partners have several legal opportunities to enforce the application of the contractual conditions (contract-based governance).
3. There is a social cost of behaving opportunistically; for instance the loss of social legitimacy or the risk of exclusion from social networks.

Several authors emphasize that interorganizational and interpersonal trust are basically not different, because organizations are created by persons, so interorganization trust should contain interpersonal elements (Dibben 2000; Zaheer et al. 1998; Barney and Hansen 1994). Interorganizational and interpersonal trust mutually influence and modify each other. The employees of an organization are influenced by the company's mission, culture and processes, while organizational decisions are affected by the employees' emotions, knowledge and experiences. Zaheer et al. (1998) state that only individuals and groups can trust, but the object of the trust may be an individual, team, organization or even a cluster as well. According to them, interpersonal and interorganizational trust is created parallel in business relationships. It is illustrated in Figure 11.

Figure 11. Interpersonal and interorganizational trust



Forrás: Zaheer et al. (1998 p.142.)

Creed and Miles (1996) stated that ability and dependability are the two distinct sources of trust. They consider that "trust may concern a partner's ability to perform according to agreements (*competence trust*), or his intentions to do so (*goodwill trust*)" (p. 990). According to Das-Teng (2004), not only trust, but the risks of interorganizational interactions can be divided into two groups: they contain relation-specific and performance-specific elements. The relation element can be understood as the lack of commitment, while performance-specific element can appear as unsatisfactory performance by the partner (even in the case of full commitment). These two kinds of risks can be independent from each other, because they derive from different sources.

The first one depends on the partner's commitment and positive intentions, while the second one depends mainly on the ability of the partner.

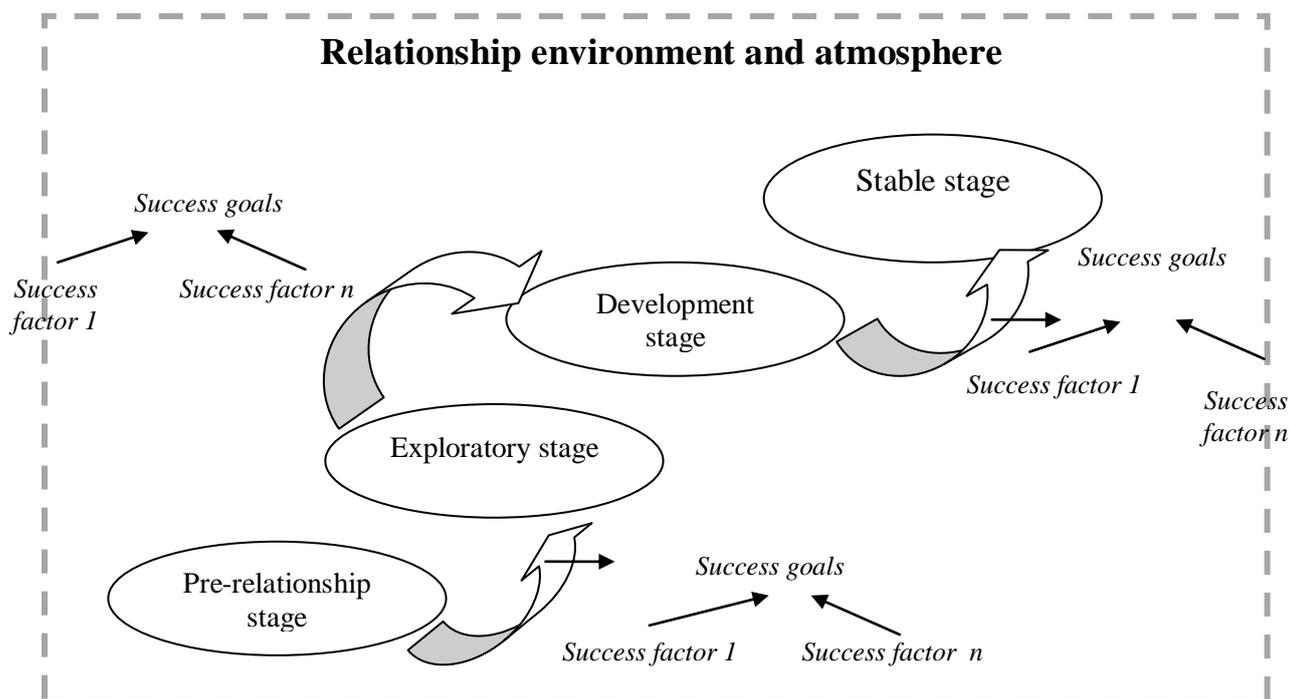
I consider it necessary to introduce trust in detail, because both the literature and the interviews confirmed that trust plays a key role in the success of business relationships. I found the approach of Zaheer et al. (1998) to be highly important, as they differentiated interorganizational and interpersonal trust. This kind of differentiation frequently appeared in my research interviews as well. The consideration of Barney-Hansen (1994) and Das-Teng (2004) to identify the opportunity costs of lack of trust situations was also useful for my research. This approach can provide useful answers as to the kinds of situations in which the presence of trust is rational. Their view may also help to understand the role of trust in reaching the success goals of relationships.

5. The theoretical framework of my research

Based on the above literature review, this chapter interprets my research model, which focuses on the analysis of success in buyer-supplier relationships. The basic aim of my research is to create a conceptual framework, which interprets the meaning of success in the context of business relationships and its role in the operation of relationships. Another important research point is to analyze the change of success over time and content, and to understand the role of success in relationship development.

Analysis of the environmental context of the selected relationship has significant importance, because interorganizational relationships do not exist in an isolated space, as they are embedded into their environment (Håkansson 1982). I apply the framework of the Interaction Approach introduced in Chapter 2 to describe the environment and atmosphere of the selected relationship, as these aspects can affect the appearance of success. Following the introduction of the environment, I analyze my research results on relationship success. The theoretical framework of my research is illustrated by Figure 12.

Figure 12. Theoretical framework of the research



The **environmental context** of buyer-supplier relationship is illustrated by dashed lines, because there is no exact border where the relationship and its environment do not interact with each other. Based on Håkansson's (1982) approach, I consider all the variables as the relationship's environment which affect the development and interaction between relationship members, while these variables cannot be directly influenced by the members. Thus, environment summarizes those capabilities that affect buyer-supplier relationships, but the relationship members cannot control them over the short or medium run. In my point of view, such kinds of environmental variables can be grouped as: *industrial factors*,¹¹ *legal provisions*,¹² and the *social system*.¹³

Similar to the atmosphere element in Håkansson's (1982) IA model, I accept those directly influencing **relationship-specific variables** which are jointly created by the

¹¹ Industrial factors summarize all variables that can influence the behavior of the buyers and suppliers in their own industry (e.g. market size and structure, level of competition and market development potential).

¹² I do not consider the legal provisions as the part of the industrial factors, because legislation can influence the structure in most of the cases: the profitability level or market potential of an industry can be adjusted by applying several entry barriers or other provisions.

¹³ Based on Håkansson (1982), I consider all variables as social ones that derive from the social surrounding and can affect the behaviour and organizational culture of the buyers and suppliers. Such kinds of variables can be as follows: social norms, customs, national traditions that are built into personal and organizational behaviour.

relationship members and can be directly controlled or influenced by them during the interactions. The major difference between environmental and relationship-specific variables is the possibility of influence by the relationship members. While relationship-specific variables can be directly controlled and managed by the partners, environmental ones can be considered as endowments. Thus, I classified the power dependence situation, the management style applied in cooperation processes, trust and the commitment level as relationship-specific variables. The value-creating physical and informational interaction **processes** are embedded in the relational context; they provide the measurable and valuable output of the interaction.

The respective **success goals** (both business and relationship) in a buyer-supplier relationship are linked to the individual competencies of the interested parties and to the interaction process as well. Different success goals and factors are relevant in each relationship development stage. *Critical incidents* as data collecting tools are embedded into the relationship context and probably can provide a proper approximation of the relationship structure at each development stage.

5.1. Propositions – expectations about the research results

Based on the results of the above literature review, I created the following **propositions**, as potential expected answers to the research questions. According to my theoretical concept, my research results can justify the following expectations:

(0) Success appears in the form of business and relationship success goals in buyer-supplier relationships.

My “zero level” expectation about the content of success in business relationships is based on the results of the literature review. According to that, success basically appears in the form of business and relationship success goals. Business success goals interpret the financial and business-related performance variables which can be measured on a standalone company level. Relationship success goals are related to the operational processes and joint management tools of the relationship.

(1) Different business and relationship success goals are relevant at each different development stage of the relationship.

As I indicated in the literature review section, it seems to be logical that different business and relationship success goals may be relevant at each relationship development phase. It will be a key focus of my qualitative research to confirm this theoretical conclusion.

(2) Different success factors support the fulfilment of different relationship success goals, and the importance of each success factor depend on the relationship context.

Based on the theoretical background, it seems probable that several success factors contribute to the fulfilment of different success goals. On the theoretical level, success factors can be grouped several ways, but there might be no clear grouping logic in real-life situations. I suppose that the research results will confirm the assumption that atmosphere and environmental context can strongly influence the importance of success factors. Furthermore, I believe that it is possible to identify certain success factors that may be relevant in fulfilling several success goals (for example trust or collaborative management style).

(3) There must be a connection between relationship development and relationship success: relationship success plays an important role in relationship development, while lack of success may result in disruptions in the relationship.

It seems to be clear that the common decision of the relationship members and the compatibility of the members' future aims are required for the development of the relationship from the transactional level. It is supposed that the relationship can further develop, if the business and relationship success goals of all the members are fulfilled and they mutually consider the relationship as an effective one. Based on research of the literature, it can be concluded that business success and relationship success play an important role in relationship development. Analysis of this assumption also constitutes an important point of my empirical research.

(4) The time dimension of business and relationship success goals at each development stage can be different. In line with the relationship development, the relevance of long-term oriented success goals strengthens.

As the stable stage of a relationship can be reached in just a couple of years, it seems logical to state that the relevancy of long-term oriented relationship success goals (for example, knowledge transfer, joint process development, adaptation) increases during the development. It is supposed that long-term orientation is more intensive at higher development stages for both business and relationship success goals.

(5) Relationships which contain the supporting management tools for mutual commitment and development (as accentuated success factors) have the chance to reach the stable development stage in the early stages already.

Deriving from the theoretical consequences, it is supposed that different time horizons appear in the relationship success goals. It is necessary to “encode” the “long-term efficiency orientation” into the routines and cooperation processes. If partners focus on fulfilling the short-term goals throughout the interactions, it is highly probable that the relationship development will stagnate.

6. Research method and process

This chapter introduces the major characteristics of the applied research method and the research process.

The selection of the appropriate methodology is a key starting point in the research process and usually raises several dilemmas for researchers. According to Glatthorn and Joyner (2005), the selection process is similar to the selection of the right tools from our toolbox if we want to repair something in our house; we choose one tool and replace it with another and so on. As a result, they suggest considering selection of the appropriate research methodology as an interactive process during the research. It is useful if the researcher applies the methodologies in a very flexible way.

Sogurno (2002) advises us to consider the basic purpose of the research. In selecting the appropriate methodology, we should consider the following: the depth level of our

current knowledge, availability of resources (e.g. money, time, etc.), availability of supporting literature, and the so-called knowledge pay-off factor (i.e. which approach will produce more useful knowledge).

Considering the above suggestions, I answer my research questions based on the results of **qualitative research**. I consider the application of explorative research techniques as appropriate, taking into account the following reasons:

1. Although many publications deal with the analysis of the structure and/or processes of interfirm relationships – especially buyer-supplier relationships – there is no universally accepted and applied concept and ideology in this field. It can rather be stated that there are many partially complementary and partially contradictory approaches in the management studies, most of which were introduced in the literature review section. A lack of concise definitions and ideas is also seen in relation to the concept of success in relationships. Deriving from these conceptual uncertainties, a conceptual framework should be built before answering the composed research questions. I will “move” along with the prepared conceptual framework in my research and use it to clarify the meaning of the applied variables, such as relationship, relationships development, success, etc.
2. The majority of the introduced approaches accept the point that the processes and characteristics of interfirm relationships, and success and critical incidents can be analyzed in their specific context (Håkansson 1982; Mohr & Spekman 1994; Möller and Wilson 1995; Edvardsson and Strandvik 2000; Blomqvist 2001; Cox 2004a, b). This context dependency¹⁴ would be valid for the relationship success as well, which would be definitely seen throughout the research process. Context dependency implies problems concerning the generalization and the validity of research results.
3. My research aim is to provide a comprehensive definition for the role of success in business relationships. It also requires the application of complex ideas, such as relationship development, success goals and so on. Understanding these complex ideas can be appropriately facilitated with exploratory research. The basic aim of this research is to understand the idea of success and interpret its role and structure

¹⁴ Probably the lack of well-developed and “clear” definitions and concepts derives from this context dependency.

in the buyer-supplier relationship context, rather than to measure any success goal or factor. In my opinion, it is only worth applying quantitative research once a constant and decisive theoretical structure exists.

As mentioned several times, my research definitely has an exploratory scope. For this reason, two qualitative methodologies are applied: **the grounded theory** and the **case study** method. Parallel application of several kinds of research methods is frequently called *multi-methodology* or *triangulation* in the literature (Jick 1979). This research strategy is based on the approach that the application of parallel methodologies can complement each other and the results obtained provide a more adequate understanding of the phenomenon being analyzed. The advantage of triangulation is that it can increase the researchers' confidence about the relevance and adequacy of their research results, because the different research approaches can result in kinds of observations that would not be possible with the application of only one method. As a result of the above, the application of parallel methods can generate the integration and synthesis of different theories (Buzády 2000).

6.1. The grounded theory

The **grounded theory** is an interpretative theory, which applies the method of *constant comparison* (Glaser-Strauss 1967). In my consideration, application of the grounded theory is suitable, because it aims to create a theory and not to justify an existing hypothesis in a deductive manner. As with several other methodologies, justification is also necessary in the grounded theory, but in this case the hypothesis is the result of the theory-building process and not the starting point. The justification is also embedded into the theory-building process and not done afterwards (Gelencsér 2003).

In the approach of the grounded theory, theory can be understood as the probable links among concepts and concept groups, and these probable links should strengthen during the research process (Corbin-Strauss 1994). The theory is based on the premise that theory at various levels of generality is necessary for the deeper understanding of social – including business – phenomena. According to Strauss (1987: p. 6), the theory “ought to be developed in intimate relationship with data” and it is also important that it be

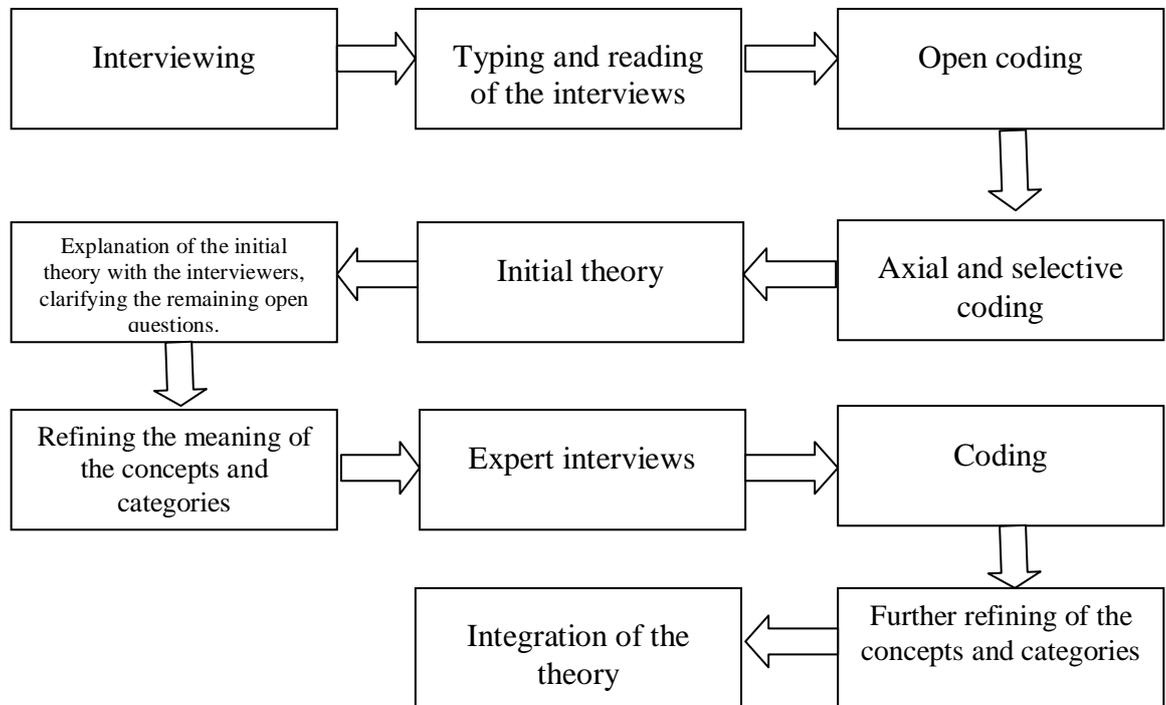
strongly linked to the researched reality. Concluding the above, the grounded theory is a general theory building method – mostly applied in qualitative research – and its essence is systematized data collection and analysis. The theory is rooted from this systematization, and that is why it is considered as grounded. **Researchers of the grounded theory consider theory-building as a process, which evolves during the research, it is embedded in the research process with the constant interaction of data collection and processing.** Thus, a proper theory reflects reality, is able to anticipate future trends and explain current ones, and is relevant for the stakeholders as well. At the same time, its theoretical framework is flexible and easy to fit to the continuously changing reality. It is important to note that the validity and generalization of the theory can only be ensured if the theory preserves its logical and structural integration and does not contains inexplicable gaps (Gelencsér 2003). The integrity of the theory can be secured with its process-handling. This integration can be achieved if the research framework is continuously open to upcoming new concepts and phenomenon (Glaser-Strauss 1967).

The relevant application of the grounded theory in explorative research is confirmed by several researchers. According to Jones (2009), the grounded theory is the appropriate method if we focus on answering the “*hows and whats*” to understand the behaviour of people, social groups and/or firms in our research. This is because the grounded theory is flexible and interpretative enough to support the understanding of the essence of the analyzed processes and the motivation of the actors. Fontana and Frey (2005) state that the openness and the applied diversified coding and conceptualizing solutions can assist researchers in effectively understanding the reality being researched.

The grounded theory has been criticized several times because of its flexibility and subjectivity. Many critics express that this methodology is too impressionistic, provides too much room for the momentary impressions of the researchers, is unsystematic, and its theory is based on improvisation. According to the theory-creator Glaser (1967), some of this criticism is relevant, as subjectivity can not be perfectly filtered out from the research process. After all, he suggests to “let the product legitimize itself” (Glaser 1998: p. 16), because if the conclusions are valid and relevant, it does not matter whether its creation was influenced by certain factors or not. The theory-building in my

research was based on the grounded theory; the major milestones are illustrated in Figure 13.

Figure 13. Application of the grounded theory, theory-building process



6.2. Coding

Coding can be considered as the most important essence of the grounded theory, because the efficiency of the theory depends strongly on the efficiency of the coding. Coding makes it possible to build up the grounded theory by creating concepts and categories from the available data and incidents. The grounded theory identifies three types of coding: open,¹⁵ axial¹⁶ and selective,¹⁷ and suggests their parallel application in the theory-building process (Gelencsér 2003). Based on the above, I applied open coding at the beginning of the coding process and assigned *indicators* (notes) to each sentence and interview phase. After that, I collected these indicators into *concepts* by identifying the logical connection among them. Holton (2010) states that identification

¹⁵ Absolutely “free-style” initial coding; its aim is to assign concepts to the available data, which are mostly temporary. Some of them are changed and some of them are retained or assigned to wider concepts/categories during the coding progress.

¹⁶ The axial coding connects the categories with their dimensions; it analyzes each dimensions of one category.

¹⁷ The selective coding maps the relations among different categories and validates the core categories.

of the logical connections – (i.e. conceptualization) – is as significant as the coding process itself, because these logical connections of the open coding will be the starting points of axial and selective coding.

During the “first round” of open coding, more than one hundred concepts were identified in processing the interviews. Of course, there were many recurring and similar ones among them, and accordingly I attempted to group similar ones into one category during the axial and selective coding phases. Thus, the number of success categories at the relationship development stages significantly reduced. The results of the coding process are presented in Annex 1. The created concepts and categories and the identified logical connections among them generated more and more questions. Accordingly, I repeatedly asked the interview subjects to confirm the correctness of my applied logic and conclusions. After the coding process had been confirmed – or in some cases after reshaping the categories – and the answers of the newer interviews had been built in, I tried to create those kinds of core categories, sub-categories and a category structure that can describe the role and meaning of success in the analyzed cases. Finally, at the end of the coding process, I matched the identified core categories with all research questions and broadened the theoretical structure by putting the connecting concepts into the existing model. The applied conceptualization and logic in the coding process is illustrated with the following example.

By analyzing the success of the relationship, expressions containing the terms like “the products were all right”; “they offered what we needed”; “they provided a great variety of products”; “their petfood had suitable prices” were all allocated under the concept of *good price/value ratio of the products*. The concept of *high service quality* summarizes the sentences and interview parts, which contained the following terms: “the products always arrived on time”; “they delivered on time”; “nothing special occurred during the deliveries”. The concept of *flexibility* includes terms and sentences such as: “we can order directly from the factory depending on our needs”; “we can discuss the order items”; “they tried to adapt”. The expression “products were almost always on stock”; “they usually met the 48-hour delivery deadline” were coded under the concept of *acceptable disposability*. Finally, these four concepts formed the category of *high performance of operational (value-creating) processes*, because in my opinion this designation expresses the high performance level of the supplier during the order-

fulfilment process in the most appropriate way. Those parts of the interviews that referred to the precise settlement of the invoices – for instance “there were no significant outstandings”; “they usually settled the invoices within 30 days” – were assigned to the concept of *on-time buyer payments*. I set up the category of *application of collaborative management style* for the following cases: “they did what they promised”; “they only complained if there was a real problem”; “we tried to solve the problems quickly”; “we tried to act in a way that was acceptable for the other party as well”. Finally, I merged the latter two categories and created the core category of *high performance of operational processes – reliability*, which summarizes the relationship success goals at the pre-relationship stage.

The conceptual integration plays a key role in the validity of the theory. Accordingly, the critical question comes up: when can we consider our coding process as finalized? How can we reach that status, when our theory is seen as an integrated one, and it should not be enlarged with further information or incidents? According to Holton (2010), a theory is saturated if no further properties or dimensions emerge during the constant comparison of categories and concepts, and the “multi-directional” conceptualization and selective coding provide the same results. I felt this kind of saturation point in my coding process when I could state:

- (1) the created categories cannot be merged without the loss of their content;
- (2) there are no outlying categories in the structure of the core-categories;
- (3) the core categories appropriately introduce the content of success goals at each relationship development stage, and they completely describe the analyzed “relationship reality”.

Finally, I revised the completeness of my theory and checked whether any logical connection points or important details are missing and the theory is interpretable by the stakeholder interviewees together with my interviewees.

6.3. The case study method

Along with the grounded theory, application of the **case study method** is an appropriate choice, because it provides the opportunity to thoroughly open up and understand the analyzed context, and based on the processed cases it ensures inductive theory building (Bryman 1992; Yin 1994; Babbie 1995). According to Eisenhardt (1989), the case study method is a typical step-by-step, theory-building research form. It does not aim to test prior hypotheses, but focuses on understanding phenomenon and identifying problems by observing the researched subjects, and draws conclusions from these observations. Although the adaptation of the case study method does not end up in a pure or well-developed theory, it can be one of the most appropriate methods to analyze wrongly structured problems and non-discovered research fields (Eisenhardt, 1989).

The basic aim of the applied case study method in my research was to describe the development process of the analyzed relationships by tackling its dynamics and understanding the major processes at each development phase. The theory-building concerning relationship success will be performed based on the conclusions of the processed cases. Although I will “only” analyze two cases, but it is done on a retrospective basis with quite a long time horizon. It helps to explore the development process of the relationships and to understand the meaning of relationship success at each development stage.

Stake (1995) – cited by Gelei (2002) – identifies three types of case studies:

- *intrinsic case study*: in this case the basic focus is to deeply understand only the analyzed case;
- *instrumental case study*: in this case the basic motivation of the researcher is theory-building and generalization from understanding the processed case;
- *collective case study*: the aim is generalization and it is carried out with the joint processing of several instrumental case studies.

Yin (1994) also identified three different types of case studies, based on their basic aims and research focuses:

- *descriptive case study*, which aims to deeply analyze and introduce the given phenomenon or problem;
- *exploratory case study*, which aims to introduce and explore certain decisions, phenomenon or incidents by analyzing the selected cases;
- *explanatory case study*, which aims to interpret and comment a decision, incident or a problem.

Categorising the case studies in my dissertation into the above groups, **instrumental** and – based on Yin’s typology – **exploratory and explanatory** case studies will basically be applied to analyze my research problems and to answer the research questions.

6.4. Applied data collection techniques in my research

During my research, I applied different kinds of data collection techniques, which supported deeper analysis of the structure of the selected buyer-supplier relationships. Combined application of several data collection techniques is important from the validity point of my research, because the application of various data collection sources may increase the grounding of the research results, and in this regard it may thus also increase their validity in itself as well (Babbie 1995).

Yin (1994) collected and structured the applicable sources of evidences from qualitative research – such as the case study one. This systematization – introduced in Table 4 – also introduces the potential strengths and weaknesses of the applied techniques.

Table 4. Applicable techniques in case study research

Source of evidence	Strengths	Weaknesses
<i>Documents</i>	<ul style="list-style-type: none"> • stable, repeated review • unobtrusive, exist before case study • exact names • broad coverage, extended time span 	<ul style="list-style-type: none"> • difficult retrievability • biased selectivity • reflects author bias • access may be blocked
<i>Archival records</i>	<ul style="list-style-type: none"> • same as documents • precise and quantitative 	<ul style="list-style-type: none"> • same as documents • privacy might inhibit access
<i>Interviews</i>	<ul style="list-style-type: none"> • targeted, focuses on case study topic • insightful, provides perceived causal inferences 	<ul style="list-style-type: none"> • lack of completeness due to poor questions • response bias • incomplete recollection • reflexivity, interviewee expresses what interviewer wants to hear
<i>Direct observation</i>	<ul style="list-style-type: none"> • reality, covers events in real time • contextual, covers event context 	<ul style="list-style-type: none"> • time-consuming • selectivity, might miss facts • reflexivity, observer's presence might cause change • cost, observers need time
<i>Participant observation</i>	<ul style="list-style-type: none"> • same as direct observation • insightful into interpersonal behaviour 	<ul style="list-style-type: none"> • same as direct observation • bias due to investigator's actions
<i>Physical Artifacts</i>	<ul style="list-style-type: none"> • insightful into cultural features and technical operations 	<ul style="list-style-type: none"> • selectivity • availability

Source: Yin (1994: p. 80)

In my dissertation, the following data collection techniques were used from Table 4 in the application of the grounded theory and the case study method.

- Structured and partially structured **interviews** were made with the CEOs, Sales and Procurement managers, their employees, who had important positions at the respective companies in my research. All interviews were recorded and subsequently transcribed. During the interviews, I took notes and wrote down some key words and sentences, so the processing and coding of the interview texts were more focused.
- I studied and analyzed the available formal **documents** and databases at the appropriate companies (contacts, business presentations and reports, etc.).
- Although it can not be understood as a classical data collection technique, a useful experience for me was that I was an employee between 2004 and 2008 at the supplier company. During this period I was able follow the development of the analyzed relationships as a **participative observer**. This job-experience helped me significantly in the retrospective analysis during the interviews. The elapsed two and a half years were also useful from the point that it helped to gain objectivity and eligible “distance” from the analyzed incidents and the interviewed persons.

By preparing for the interviews – in order to structure my questions and ideas about the analyzed topic – I usually created drafts and always updated them so that I could return to the unclear or semi-finished parts and ideas of the previous interviews. In most of the cases I applied the “tactic” that after introducing my research and the aim of the interview, I let the interviewees to talk about his/her own concepts. I only interrupted them when it was necessary to raise another question in order to more deeply clarify the actual topic. Basically, I asked my interviewees to talk about their own opinion on the development of the analyzed relationship. During the discussions, I asked them talk about important incidents, problems, significant capabilities, which resulted in a strong relationship between the companies and the explicit or implicit success of it. The following questioning techniques were applied during my interviews (based on Gelei 2002):

- Analyses of critical incidents – the essence of this technique in introduced in Chapter 6.4.1.;

- Specified, “focused” questions to emphasize and clarify the essence of some exact issues and incidents;
- Proper questions to justify or refute the researcher’s opinion during the interviews;
- Reflecting questions, paraphrases to grasp the underlying ideas and to express active attention.
- Confrontational statements and questions: the expression of an opposite opinion in order to support the interviewees to be able to express their experiences and ideas more precisely.
- Reflective questions to support the self-reflection of the interviewees.

6.4.1. Critical incidents, as special data collection methods

In the data collection and interview periods of the case study and grounded theory methods, I also applied the critical incidents¹⁸ method (Edvardsson and Strandvik 2000; Lynch and O’Toole 2007). Thus, this sub-chapter introduces the focal points of this data collection method and its relevance in case of analyzing success in business relationships.

6.4.1.1. The introduction of critical incidents technique and its advantages

The critical incident technique belongs to the group of semi-quantitative research methods. Its basic aim is to deeply understand relationship processes and the internal and external context of the relationship. The critical incidents technique can be a suitable analytical and data collection tool in exploring the internal and external relational situation of business relationships which would be quite difficult to analyze with so-called traditional research methods. This statement is illustrated with the following example. If we ask the counterparts of an existing relationship to explain the most important expectations that they set up for their partners to ensure the development

¹⁸ In the interests of simplicity, I will use critical incidents, critical cases and events as synonyms in this work.

and operability of the relationship, it can occur that the interviewed persons will consider our questions as too abstract and cannot provide proper, precise answers. Instead we can ask the counterparts to talk about those kinds of problematic events, when they were unsatisfied and disappointed with their partners, and they were about to break off the relationship with them, and what they did to solve the problems. With this “reverse technique” – to understand and analyze the critical incidents – we have a better chance to map the analyzed variables.

Critical incidents are also important, as they can be the drivers of the dynamics of a relationship: they represent those kinds of important aspects and variables, which mostly generate radical positive or negative changes in relationships. *We can state that critical incidents represent the turning points, which ensure the understanding of the dynamics of the relationship.* Thus, we can deeply analyze the development or disruption of relationships and the behavioural changes of the counterparts with the help of these incidents. The critical incidents technique aspires to map the structure and the context of relationships through the detailed analysis of episodes resulting in positive or negative turning points in relationships.

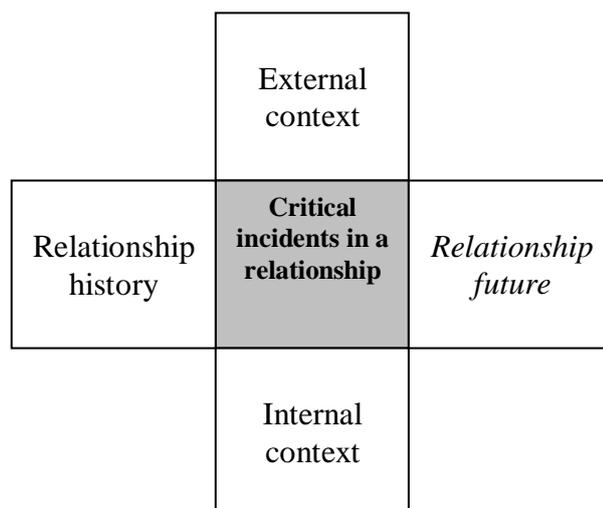
Edvardsson and Strandvik (2000: p. 85) consider critical incidents *”occurring within a relationship as affected by variables of the relationship history and it will affect the relationship future.”* According to their viewpoint, critical incident analysis is to be understood in the “matrix” of the time dimension and the internal and external context of the relationship. Their approach is quite similar to the *path dependency* view of the firm evolutionist theory, which also states that the earlier experiences are embedded into the operation of the organizations and influence their future activity (Marengo 1992; Foss 1996, cited by Kiss 2004).

Based on the opinion of Edvardsson and Strandvik (2000), *critical incidents shift the future of relationships to a direction, which is radically different from the prevailing one.* They mostly appear unexpectedly and are caused by an internal or external event series. According to their viewpoint, critical incidents are **qualitative research tools** which can ensure the understanding of the nature, dynamics and context of relationships from different aspects.

Understanding the previous definition from relationship success point: critical incidents are events that derive from the history of relationships and are embedded into the controlled internal and external context of the relationship; thus, they influence the future of the relationship. *Explicitly, critical incidents are mostly management challenges in the continuum of relationship development, they express the changing characteristics of relationships, and depending on their outcome, they can strengthen, weaken or in extreme circumstances terminate relationships. Summarizing the above, critical incidents are the mix events in the life of relationships that can permanently and significantly influence the future cooperation of the relationship members in an unexpected way.*

Earlier experiences can affect not only the formation of critical incidents, but their assessment and management possibilities as well, because the internal context of relationships can be understood as the result of accumulated routines and processes between the members. Critical incidents can often be resolved in the existing internal context, but it can happen that relationship members need to apply unusual or completely new management tools. The relational context of critical incidents is illustrated in Figure 14.

Figure 14. Critical incidents in a relational context



Source: Edvardsson and Standvik (2000: p. 85.)

6.4.1.2. Applicability of the critical incidents technique in data collection

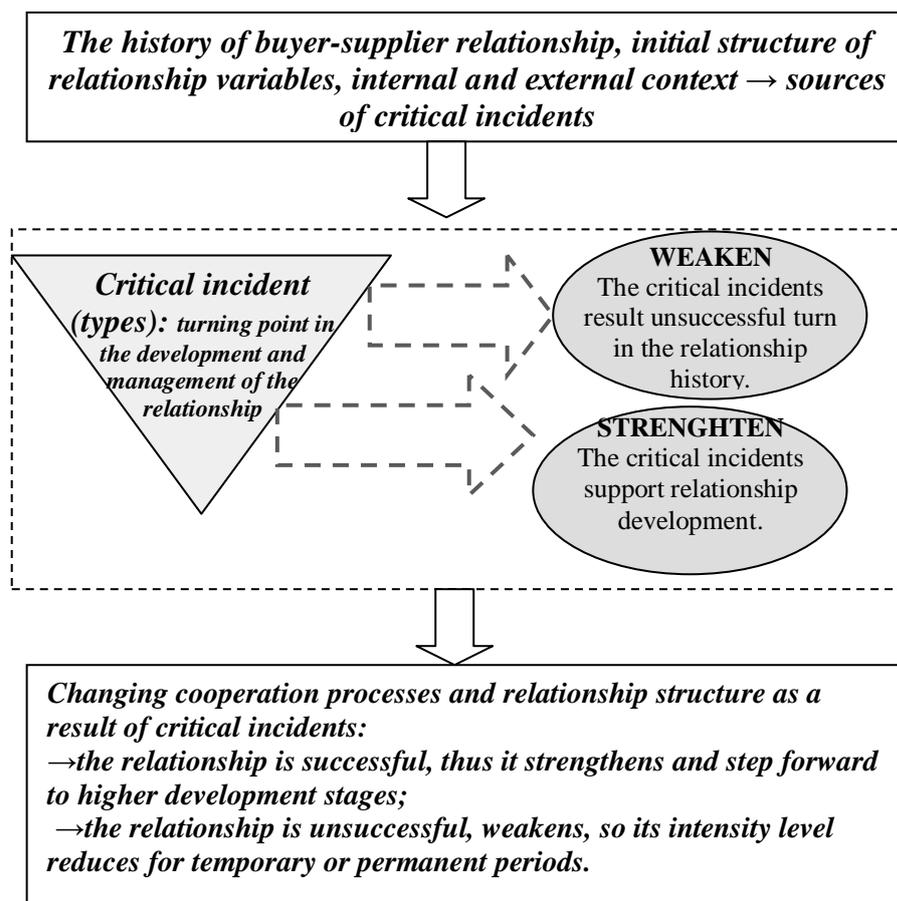
For methodological verification issues, I feel that it is important to clarify a dilemma regarding the applicability of the critical incidents technique. The critical incidents technique is mainly applied in the fields of service management, as a semi-quantitative research tool. In the essence of this method, by analyzing the documented critical incidents during the service process consequences are drawn for the level of services and development possibilities. The interpretation of critical incidents in the buyer-supplier relationship context is, however, quite different from the “original usage” in service management. This is because there are no well-documented incident reports in the history of buyer-supplier relationships that could register the formal and informal transactions or episodes, as available samples for quantitative analysis. Based on this, critical incidents in the buyer-supplier relationship context cannot be understood as one or two (unsuccessful) client transactions. They should rather be understood as those kinds of episodes and events in the life of the relationship, which played an important role in the relationship development – in a positive or a negative direction. As a consequence, in the buyer-supplier relationship context, it is possible and worthwhile to analyze the frequent, typical incident types and infrequent turning points as critical incidents.

With this understanding of the critical incidents techniques in the context of buyer-supplier relationships, application of the technique in data collection (interview-making) seems to be a good choice, because the detailed analysis of typical incident-types and inflexion points at each development stage can show the success goals (or the lack of them), which strongly influence the potential development, stagnation or decline of a relationship. Based on these results, the major motives of relationship success goals and their support factors can be explored with the help of critical incidents and incident types. The critical incident approach to success is also able to interpret the structure of the analyzed relationships from the process levels and determine the relations between relationship development and success.

One drawback of the critical incident method is its retrospective view. It can happen that certain relationship members will “not remember things in the same way and not

remember the same things”, as other members, thus it is quite difficult to draw any conclusions. Furthermore, it also problematic to define the levels and types when episodes become critical, as they can also be subjective, such as the evaluation of the given responses to them. These circumstances can complicate adequate structure-preparation in the research results. I tried to mitigate this subjectivity by applying specific and confrontational questions during the interviews, when I felt inconsistency in the opinion of the relationship members. In certain cases, I confronted the counterparts’ statements in the form of questions, which helped me to clarify the real and commonly accepted background of the analyzed incident. The analysis of buyer-supplier relationship success and its context from the critical incidents technique point is illustrated in Figure 15.

Figure 15. The approach of relationship success with the help of critical incidents



Summarizing the ideas about critical incidents introduced above, we can state that they can appropriately support the analysis of relationship success, because they can *shed*

light on the important contextual elements (or even success factors in some cases), *which played an important role in the success of the respective relationship*. The information and knowledge gained using this method can also help us to interpret the abstract meaning of success. The basic dilemma, however, still exists: namely, that applying the method in buyer-supplier relationship context is different from the “original” approach for service management. Although the subjectivity of the partners, the retrospective view and the different opinion about the criticality level of incidents raises the challenges of the critical incident evaluation, the other data collection and questioning techniques which were applied can help (and actually helped during the interviews) to manage these problems.

6.5. Sampling and selecting cases

In the case of qualitative research, the sampling method does not apply objective, statistical aspects, but relies on theoretical considerations. Qualitative studies usually rely on a deliberate and conscious sampling process, which is continuously changing during the research (Miles and Huberman 1994).

In line with the first paragraph, I also followed both scientific-theoretical and practical viewpoints in selecting the appropriate cases to my case study analysis. The theoretical criteria for case selection were as follows: the analyzed relationship should exist for at least 5 years; it should be continuously changing and developing; some conflicts among relationship members in their history; the selected relationships should be embedded in a dynamically changing environment; and the supplier should consider the buyers as strategic partners either in history or in the present situation.

The practical criteria for case selection were as follows: a supportive attitude to the research from the organizations, because a comprehensive case study can not be carried out with superficial, imperfect information, as qualitative research is practically impossible if the organizations involved do not welcome it.

In order to avoid the distortion effect generated by contextual differences, all of the case study members belongs to the FMCG¹⁹ sector, and within this to the petcare²⁰ industry. The “fixed” point of the case studies is a multinational supplier company, which entered the Hungarian market into 2001 as the supplier. My original idea was to create case studies with three relationships of the supplier with its buyers. Selection of the buyer relationships was undertaken together with the sales director and other members of the sales team of the supplier. We tried to select those relationships, in which several critical incidents had happened in recent years, and these incidents had materially changed the subsequent development path. Another important focus was that the turning points in the relationships selected resulted in several important consequences for both counterparts. Additionally, the development turning points changed not only the management of the subject relationship, but the whole supplier or buyer portfolio of the partners. Originally, I intended to carry out three case studies, but after two successful interviews, several problems arose with the third relationship.

In the selection of the third case, we tried to find a domestic retail chain complying with two conditions: common history with the supplier with couple of incidents in their past and their permission to publicize the case. The latter condition turned out to be the obstacle. As excessive simplification of the case study could jeopardize the validity of the research and the selected potential retailers did not welcome the detailed introduction of the critical incidents (inflexion points) of the relationship, I skipped the third case study analysis and decided to interview the relevant experts²¹ of the buyers and supplier. These interviews were applied for the justification of the conceptual model, which was formulated on the basis of the results of the two case studies. I asked the interviewees to explain their own interpretation of the success of a relationship with a buyer or with a supplier.

Table 5 below summarizes the main parameters of the selected buyers from the supplier’s viewpoint. I collected those parameters of the buyers which can appropriately illustrate their relationship with the supplier, and they provided their consent for

¹⁹ Fast Moving Consumer Goods: for instance food products, perfumes, etc.

²⁰ The petcare industry is one of the most dynamically growing industries in Hungary and belongs to the FMCG product categories. Local market size larger than detergents, or over HUF 50 billion (around EUR 180 million) in nominal terms. The market share of private label products is one of the highest within the food sector, reaching around 60%. Source: AC Nielsen, 2008.

²¹ Sales managers on the supplier side and buyers on the buyer side.

publication. After that, Table 6-8 introduces the number and the members of the interviews, which were conducted with the participating supplier and buyers and experts.

Table 5. Buyers in the case studies and their key parameters

Accentuated parameter of the buyer/relationship	Buyer “A”	Buyer ”B”
<i>Ownership structure</i>	Hungarian private individuals	Hungarian private individuals
<i>Managed product portfolio</i>	Wholesale and retail of petcare products	Wholesale and retail of petcare products
<i>Share in the supplier’s turnover</i>	Drastically decreasing, currently around 5	Continuously increasing, currently around 30%
<i>Changes in the power position with the supplier in the last 3 years</i>	Strong supplier dominance	After initial supplier dominance, balanced power position exists
<i>Development path of the relationship with the supplier in recent years</i>	Significant downturn after a promising start	Dynamic, smooth development
<i>Coordination and management tools of the relationship</i>	Application of rough management tools, frequent ad hoc processes, primarily arms-length style	Significant level of awareness, application of continuously professionalized management tools, coordinated by the supplier, joint learning
<i>Development level of interpersonal relationships</i>	Balanced, smooth interpersonal relationships, which turned bad after unsuccessful cooperation	Positive atmosphere after initial uncertainties, some turns can happen.

Table 6. Interviews in Case “A”

Interview member	Number of interviews, notes
Supplier – Sales Director	2+1 meeting – interpretation and some kind of “validation” of existing research results
Supplier – Sales Development Manager in Specialist Channel	2+1 meeting – participation in the discussion of the research results
Supplier – Key Account Manager	1 meeting
Buyer – Owner-Manager	1+1 meeting – participation in the

	discussion of the research results
Total	9 interviews

Table 7. Interviews in Case “B”

Interview member	Number of interviews, notes
Supplier – Sales Director	2 meeting
Supplier – Sales Development Manager in Specialist Channel	2+1 meeting – participation in the discussion of the research results
Supplier – Key Account Manager	2 meeting
Buyer – Head of Petcare Division	2+1 meeting – participation in the discussion of the research results
Buyer- Sales Director	1 meeting
Buyer – Business Development Manager	2+1 meeting – participation in the discussion of the research results
Total	13 interviews

Table 8. Participants of the expert interviews

Interview member	Number of interviews
Supplier – Sales manager at a multinational company	3 interviews
Multinational retail chains – Buyer	3 interviews
Local retail chain - Buyer	1 interview
Total	7 interviews

6.6. Aspects of the verification

In order to ensure the quality and the ability to confirm the research results, both qualitative and quantitative studies are also generally verified from the viewpoints of validity, reliability and generalization (Babbie 1995). The examination of these variables in the qualitative field, however, is quite different from “traditional” quantitative research, because in qualitative research the main focus is on the processes, and thus the assurance and monitoring of validity, reliability and generalization are built into each phase of the research process (Gelei 2002).

The **validity** of theories generated by qualitative research results is usually higher than the traditional quantitative research, which are based on questionnaires. This is because the main advantage of the qualitative method is that it provides more accurate and deeper understanding of the reality (Babbie 1995). This statement can be applied to my research results as well, because the multiform data collection and the parallel application of various research and theory building methods all strengthen validity. According to Charamaz (2006) and Glaser (2002), the grounded theory can be considered as valid, if it provides a broad, logical and integrated interpretation of the

examined problem in all details. Although it is not sure that the elements of the grounded theory model can only be connected in one way, if the applied theory-making logic of the theory appropriately interprets the reality, the validity of the theory cannot be questionable.

Reliability of the qualitative research results is however problematic, because the researcher's subjectivity can not be filtered out either from the research process or the identification and interpretation of the results. Accordingly, it is absolutely not certain that another researcher will draw the same conclusions from the analyzed phenomenon in a "repeated" research process. In order to avoid and mitigate this reliability concern, I applied the following practice. The research questions and the constructed theoretical model of the research were discussed several times with my supervisor and colleagues. Additionally, after finalizing the case studies, I conducted interviews with experts, who were not involved in the case study research, but have several years of experience in the FMCG-sector. Their feedback and suggestions supported the clarification and refinement of the research results.

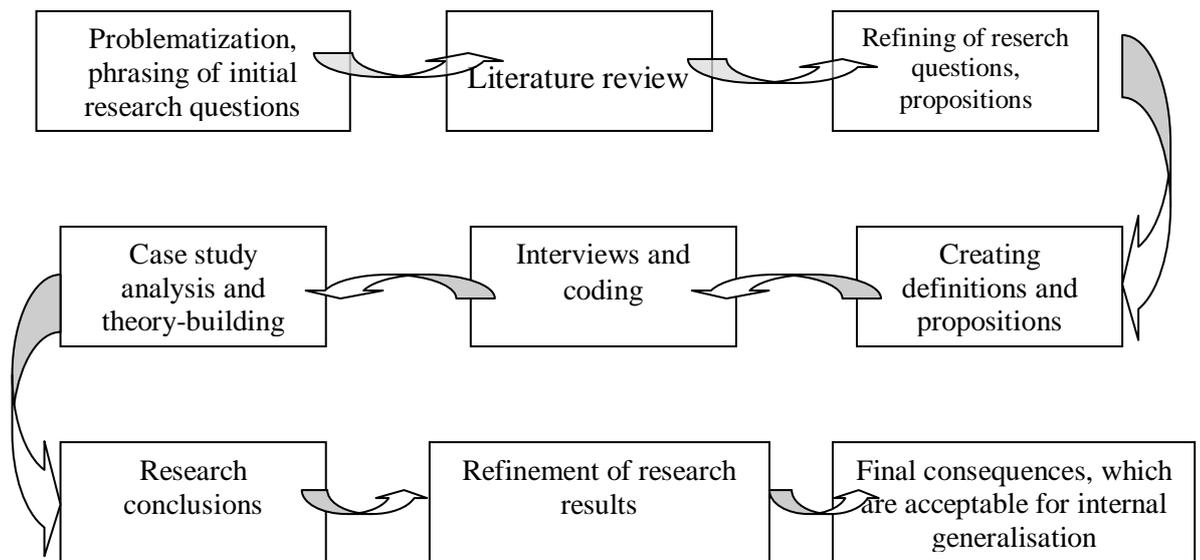
Deriving from the character of the research, the **generalization** possibilities of the results are also limited. In the case of qualitative studies, Maxwell (1996) differentiates between so-called *internal and external generalization*. In respect of internal generalization, research results can be generalized for the analyzed unit or group, while in respect of external generalization they may be valid for a broader group as well. According to Maxwell, the strength of qualitative studies is internal generalization; in certain cases, however, the results – partially in a changed context – can be applicable for external generalization as well. Stake (1994) considers that generalization of the results of case study research primary depends on the reader, who compares the conclusions with his or her own experiences. Within the framework of the grounded theory, appropriately integrated theories are usually considered as generalized.

Based on the above, it can be stated that internal generalization of my research is ensured. I tried to increase the level of generalization in various ways: I shared the semi-final research results with the interviewees and requested their feedback, and I refined the results based on their input. The fact that I constructed the final results integrating the considerations of the case study and the grounded theory methods can also increase

the generalization level. In the case of the external generalization, context dependency still appears, as it is a general problem of business sciences.

The research process, and thus the path from the initial questions to the answers to the problem analyzed, is illustrated in Figure 16. In order to be more simple, certain research details such as the controlled sampling or the “drop-out” of the third case are not indicated in the figure.

Figure 16. The research process



The research problem “was born” in my ideas after several years of orienting experiences and smaller studies. In order to correctly express the research questions and develop the research model, the literature review was carried out focusing on the variables, development and structure of buyer-supplier relationships. Of course, knowledge of the available publications on success in business relationships was also a significant part of that research phase. Based on the known theories, I created the definitions of the applied focal ideas such as supplier-buyer relationship, relationship success, and after that I constructed my research model and established the propositions and the expected results of the empirical research. Of course, the definition-making and research modelling were all also ‘multi-circuit’ processes, and during this I received useful advice from my supervisor. I started the interviews in January 2010, and then transcribed and coded them. This research phase lasted till August 2010; after that I started the theory-building phase based on the results of the coding and case studies. Following creation of the initial conceptual model, it was refined with the results of the

interviews with FMCG-experts. In the final phase, the model was finalized after intensive discussions with my supervisor and colleagues.

7. Research results

This chapter introduces the empirical results of my research. However, before introducing the particular findings of the research, the main trends in the industry of the companies analyzed are discussed in the first subsection, because the environmental context significantly influences the research conclusions. Following the introduction, the case studies are discussed. After that I interpret the identified critical incident types and the results of the application of the grounded theory method. Finally, the results of the interviews with FMCG-experts are summarized.

7.1. The Hungarian petcare industry

In Hungary, evolution of the petcare industry started in the early 1990s, and nowadays it is a dynamically growing, significant part of the food industry.²² Compared to Western European²³ countries, this sector has registered extremely high growth, as the compound annual growth rate amounted to 12-13 per cent during the 2000s. Deriving from these steady dynamics, the local turnover of the industry – without export sales – has increased to more than HUF 40 billion.²⁴ The economic crisis has decreased its market potential since 2008, and thus the market can be characterized with stagnation in the last two years (AKI 2010). Wet and dry petfood for dogs and cats represent the largest segment of the petcare industry in terms of both sales volume and value. Analyzing the average sales turnover of the 2000s, it can be stated that in terms of volumes, 60% of the market is dogfood and the rest is catfood. In terms of value, the share of dogfood is only 55%, while the share of catfood is 45%, because catfood products are relatively more expensive. The growth rate of the two subsegments is also different: annual average growth of the catfood market is around 8-10%, while it is around 12-14% in the case of dogfood (AKI 2010).

²² The petcare is the ninth largest product category in Hungary, annual turnover of the segment is higher than mineral water or detergents (AC Nielsen, 2008).

²³ The average growth rate in these countries is around 4-5% (Euromonitor, 2007).

²⁴ Around EUR 145 million.

There are three dominant multinational manufacturers as suppliers; all of them entered the Hungarian market in the early 1990s mainly through greenfield investments or acquisitions. Besides the big names, there are some smaller local producers. Their aggregated market share is quite low, however, amounting to less than 10%. The buyer side of the market should be grouped into two major categories: certain wholesalers and retailers are specialized only in petcare products (the so-called specialist channel), and general retail chains selling petcare products together with several other FMCG products (the so-called grocery channel). One of the producers is specialized in the manufacturing of private label, economy products. The other two produce and import globally known brands in Hungary. They have dual brands, which are available both the specialist and the grocery channels, and they also offer brands exclusively for the specialist channel. The last 15-20 years can be characterized with a very strong market concentration in both buyer segments, and the local retail networks and the hypermarkets are the winners of the market. In the specialist channel, one of the local wholesalers significantly strengthened its position by acquisitions and also gaining advantages from the “less competitive” behaviour of other market players. Retailers in the specialist channel, however, continue to be extremely diversified; there are couple of hundred small shops in the market along with the professional chains.

In terms of product quality, there is great variety in the Hungarian petcare sector. The so-called *superpremium products* represent the high-end of the market. They provide excellent nutrition value and offer solutions for special feeding needs. But special guidelines are necessary for the “use” of such products, i.e. feeding pets with them, which is why it is typically breeders and conscientious, well-off pet owners who “consume” these products. Competition is fierce in this sub-segment. In addition to the three local manufacturers, there are also many other brands, due to the import activity of wholesalers. The majority of sales is realized in the specialist channel. Well-known brands in the superpremium segment include Acana, Royal Canin, Eukanuba, Pro Plan and Hill’s.

Premium products provide a bit lower quality level; these products are available in both the specialist and grocery channels, but the majority of their sales is generated in the specialist channel. Some of the well-known brands of the premium products are Pedigree, Friskies, Dog/Cat Chow, Whiskas.

The sales of so-called *standard* quality level products account for a sizeable share in the total market sales volume. They are mainly sold in traditional retail chains (hyper- and supermarkets, discount chains, traditional local chains), and their presence in the specialist channel is not significant. These brands are the most popular ones for the average Hungarian end-users, for example Chappi, Kitekat and Darling.

At the lowest level of the quality pyramid, we find a wide variety of *economy products*. It is a local speciality that this segment accounts for 45-50 per cent of total annual sales turnover. According to experts, there may be two major reasons for this: 1) it is possible that deliberate pet-ownership in Hungary is not as widespread as it is in Western Europe; and 2) local pet-owners tend to spend less money on their pets compared to other countries. All the private label products of retail chains belong to this segment, and there are some branded ones as well, for example Floki, Kedvenc, Happy Plus and Prémium Dog.

7.2. Case "A" – “the overestimated opportunity”

The companies participating in the study refused to consent to the publication of their names or any kind of information, from which they could be identified. This does not, however, obstruct the research process, because my research aims to analyze the dynamics of buyer-supplier relationships and to understand the role of success in them, and I do not intend to study the sensitive financial aspects of their relationships.

The “fixed” point of my research is a multinational supplier company, which entered the Hungarian market in 2001 via an acquisition. It produces some petcare brands in Hungary and sells its parent’s worldwide brands as well. The supplier has a wide product range: it offers its own brands in all quality segments, and some of its premium and superpremium brands are only available in the specialist channel.

A medium-sized company owned by Hungarian private individuals is the buyer in the subject relationship. The buyer entered the market in the early 1990s as a petcare products wholesaler with a small production capacity. In the beginning, it was a small family-owned enterprise, but it continuously grew. In the early 2000s, it founded a

purchasing association with one of its biggest competitors, and thus became the second largest market player in the specialist channel. This buyer-supplier relationship was basically a supplier-dominated relationship, due to the huge differences in the size and equity position of the companies. The exact materialization and impact of the above on the relationship development is analyzed later.

The introduction of the history of the relationship is presented with the summary of the interviews, citations from the interviews and the coding results.

7.2.1. The beginning

The buyer-supplier relationship dates back to the early 2000s, when the supplier entered the Hungarian market. At that time, the buyer represented only a relatively small share of the supplier's buyer portfolio. The relationship existed only on an episode level and was mainly focused on the sale of giant-packed economy, standard quality wet and dry products. This operation form fit in well with the marketing concept of both partners. Their strategy was aimed at intensive growth and increasing market share – independently of each other. Based on Ford (1998), this phase can be considered as the pre-relationship phase, when partners establish contacts by way of transactions which are continuously repeated and develop into episodes. One of the sales managers of the supplier remembered the beginning steps as follows. *"Our company entered the market and intended to reach spectacular and quick achievements that required it to generate high sales volumes. At that time, profit was not so important, as almost everyone – even the European top management – monitored only the sold tons. Every partner buying large volumes, not complaining very much and settling the invoices on time was a good partner in executing the so-called market expansion strategy."*

Analyzing the story from the buyer side, the beginning of the relationship was also smooth and was supported with the attractive price/value ratio of the supplier's products. *"Practically, our relationship started at the time of the most intensive development period of the local petcare market. It was the heyday. We were quite a small market player back then with huge ambitions, and were mainly looking for suppliers offering good quality products at affordable prices and flexible service*

conditions. The supplier in question absolutely fulfilled these requirements, so as our portfolio of (retail) buyers had grown, logically the number and volume of our orders also grew,” explained the owner-manger of the buyer, describing the early years of the relationship.

I identified the concepts of relationship development through the coding process of the respective relationship success goal categories. Although I do not want to interpret the research results at this stage, it should be noted that I did not apply separate coding process for identifying the relationship success goal categories and the most relevant concepts of development, because there is a strong correlation between the two variables. The coding results are presented in Annex 1 and 2.

The key concepts at the early development stage were as follows: **application of the tools of collaborative management style** and **high level of supplier performance in operative processes**. For the buyer, the following expectations had absolute priority: **attractive price/value ratio of the products, wide product range** and **precise customer service**. The supplier’s expectations were dominated with the **growing number and volume of orders, low level of customer care** and **on-time payments**. The expectations of both partners were fully met, so everything seemed to be good for continuing the relationship. But in order to provide a full and complete picture of this relationship phase, the following comments of the supplier’s Business Development Manager should be reviewed. *“Looking back now, we can state that back in those days everything was fine and went smoothly. But it should also be noted that market growth was very dynamic and above the average. So every action on the market was executed without any significant efforts by the players. The buyers of the wholesaler could easily sell the products to the retailers, and we could also easily generate sales in both channels. During that period, the so-called volume products with low margins dominated the market, because these products were required to reach high growth on all sides. And yes, the double-digit growth figures enticed everyone to follow the trend.”*

7.2.2. The promising continuation and the turnaround

In line with the gradually growing number and volume of orders from the buyer, the supplier was forced to pay more attention to this buyer. Thus, the usual visits of the area sales representatives were changed to contacts with key account managers, and in parallel to the normal orders there were more and more tailor-made promotions offered to the buyer. The turnover of the buyer steadily grew year after year and reached a respectable size, especially after establishing the purchasing association with one of its competitors. The years between 2001-2005 can be considered as the **exploratory stage** of the relationship, when routines took place on an operative level in the cooperation, and the support processes of the sales activity also grew closer. *"It seemed that we were able to work together on a higher level as well. The targeted numbers were met, and there were no significant problems,"* summarized the key account manager of the buyer, speaking about the essence of the first half of the 2000s. The relevant concepts²⁵ of this relationship development stage can be summarized as: thanks to the **good interpersonal relationship among partners** – “we personally knew each other, we were almost friends” – **continuously increasing sales results**, and **smooth operational processes**, a **supportive atmosphere** evolved in the relationship.

Then came 2006, the year of the turnaround...

Between 2006 and 2007, the supplier changed its corporate strategy, because the market expansion strategy had come to a dead-end: raw material prices increased, potential sales channels were saturated, and as a result the relatively cheap, giant-packed volume products did not generate a profit any longer. The profitability of the supplier company weakened and it was clear that the practices from the previous year were no longer sustainable. Furthermore, the European top management set even higher expectations for the Hungarian division: following the initial support of market share growth and “focus on tons”, they switched their efforts to monitoring profits and costs. As a consequence of the aforementioned circumstances, the supplier company revised its strategy and put more emphasis on value instead of volume. The Sales Director of the supplier recalled the necessity of this strategic change as follows, *“Practically speaking,*

²⁵ Cf. coding results in Annex 1 and 2.

it happened that we did everything in the same way just like in the past, but it only resulted increasing stocks, falling turnover and extremely declining profits and no positive financial figures. At first, we did not understand what was going on; that is why we could not react immediately. After the first shock, we tried to figure out the main causes of the problem and understand our situation. We came to the conclusion that we sold quite high volumes of the relative low-profit products, while the profitable products only accounted for a limited share of our sales turnover. That is why we decided that the only option was to get rid of the low margin products and customers, and focus on the high margin products. Summarizing in a few words, the value-strategy was born this way.”

This change in the supplier’s strategy resulted in the rationalization and revision of the product portfolio. The absolute first priority was to increase sales of the most profitable superpremium and premium products, and in parallel to this to decrease sales of the previously dominant volume products. The supplier decided to decrease the number of its low profitability customers, and – based on the previous experiences – it concentrated on partners, who might have enough potential to participate in the execution of the new strategy. *”So we had to totally reorganize our life and focus on profit and value, instead of volume. I know it sounds very simple, but in practice it resulted in such an intensive turnaround that we, the sales team members, had to repeat every day that the answer to the question “How are we doing?” had to be provided in millions of forints and not in tons,”* said the Key Account Manager of the supplier.

During the execution of the value strategy, the supplier decided to provide the rights of its superpremium product’s sales to a sole-buyer (wholesaler), in order to increase the market development potential. Summarizing the essence of these changes, the supplier’s Sales Director explained, *“There was no other option if we wanted to realise profits. It was clear that we had to dynamically increase the sales volume of the superpremium products and develop their market. We were of the opinion that the best way for this is to work with a sole distributor to sell our products in the specialist channel. It seemed to be a good choice, because we supposed that it will not require so complex task-management from our side, and the market development of our superpremium products can be ensured in a more professional and deliberate way. And maybe, it is easier to manage the relationship with only one customer than ten or twenty ones occasionally.”*

The buyer in this case study received the sole Hungarian distribution rights for the aforementioned superpremium products. The Business Development Manager of the supplier remembers the decision-making and the selection of the buyer for the sole distributor position as follows. *“It was not difficult to declare the withdrawal of the distribution of superpremium products to all wholesalers and to select one wholesaler for this purpose. Actually, there were only two options. We either provide this right to the largest market player or choose the second one. Serious trust problems came up, however, in the case of the number one player, because it was also the sole local distributor of our biggest competitor. So we could not imagine that they could reassuringly handle our products and our competitor’s products as well, thus we skipped over them quite early. As a result, the second player remained as our only possible option. This company was not the sole distributor of any other competitors and we believed that its medium-sized, flexible operation and ambitious CEO could all be advantageous. Based on the above, we thought that we could find creative and effective ways of cooperation forms.”* From the viewpoint of the buyer, the owner-manager told the following story. *“The supplier contacted us and presented their offer to be the sole distributor of their superpremium products. They requested us to build up a sales team, develop a stable retail network and smoothly increase sales results. These expectations were quite serious, but they did not seem to be impossible at the beginning. Furthermore, this offer was a big development opportunity for our company as well, so it sounded very attractive. We did not hesitate too much; essentially I decided to accept the offer, so we did not spend so much time discussing the details.”*

Initially, both partners were very optimistic. The verbal agreement was rapidly followed by the signing of a framework contract. The following conditions and business targets were set up for the buyer in the contract:

- sales turnover of the superpremium products should be increased by 25 per cent annually;
- development and continuous care of the “Excellent Petshop” retail network, which should contain at least 70-80 retail members and should reach nationwide coverage within two years. With this network, the ultimate aim is familiarize a wider consumer group with the premium and superpremium brands;
- development and expansion of the existing breeders’ relationships;

- participation in the preparation of the annual demand plans of the premium and superpremium products.

In order to support these goals, the supplier provided enhanced marketing support and organized regular trainings on the management of premium and superpremium brands for the buyer's employees. Additionally, the buyer received special care in terms of logistic services through flexible customer services and payment conditions.

Despite the initial goodwill, trust and support, the relationship went in the wrong direction. Serious problems arose concerning the sales activity of superpremium products, and it was clear even after 2-3 quarters that it would not be possible to reach the initial goals. The buyer's performance was significantly below the targets, and the supplier did not understand the reason for its passivity. The supplier expected higher and higher orders from the buyer, and tried to indirectly convince the buyer to generate higher growth. At first, they applied different price promotions to encourage higher orders. As the buyer did not want to lose the supplier's goodwill and the offered business opportunity, they kept on ordering products. But practically, the ordered products did not leave the wholesaler's warehouses and that materially deteriorated its financial situation and thus they had to request the restructuring of payments to the supplier. After one year, the wholesaler almost ordered the whole initially targeted volume of superpremium products from the supplier, but it could sell only a small part of that to retailers. As a consequence of the above, the liquidity crises at the buyer became even worse, and in parallel to that outstanding invoices kept on increasing at the supplier as well, as the buyer could not settle the invoices on time. The "Excellent Petshop" network did not develop: there were a couple of members, and of course it did not cover the country. The expansion strategy for the breeders' network also failed, and the existing members were unsatisfied and complained a lot. The initial optimism turned into deep lethargy, and it came out that none of the partners could continue the cooperation in the current form. *"It was absolutely horrible what happened. In the reports almost the whole expected turnover appeared, but in practice we could only see overcrowded warehouses, marketing promotions with zero effect and increasing outstandings. We could not understand what was happening. After the initial enthusiasm and positive decisions, there were no positive results at all, moreover our most valuable products were jeopardized. There was no other way: we had to negotiate*

with the wholesaler and discuss the whole situation thoroughly, step by step. Of course, he was not against this, because it was clear for him as well that there is no other chance to continue the relationship in its existing form,” recalled the Business Development Manager of the supplier, speaking about the incidents at the end of 2007. After long discussions, the parties decided to withdraw the sole distribution rights for superpremium products following a three-month interim period, and the supplier would try to find another solution. During this interim period, the buyer should make serious efforts to settle the accumulated outstandings, and a financial manager would monitor and schedule all the orders until their liabilities declined to an acceptable and healthy level. The accumulated outstanding liabilities forced the buyer to get rid of its huge warehouse stocks as rapidly as possible, and switch to “safety operation” in order to be able to repay its debts to its suppliers and other debtors. Thus, after an initially smooth development and an uncertain upsurge, the relationship turned to a “very weak and limited” stagnation phase. Dyadic sales – in parallel with the market position of the buyer – fell drastically. After this failure, the relationship activity focused more on sales of the so-called volume products again. Due to the overall stagnation and downturn generated by the economic crisis, further deterioration in the financial situation of the buyer forced the owner to sell his business to the largest competitor.

7.2.3. Potential causes of the failure

In reading the case, the question arises as to what were the variables that resulted in disruption of the relationship development following a promising beginning. From the point of the “research questions”, I analyzed the kinds of elements that resulted in the failure of the relationship together with my interviewees and focused on those elements that would have been necessary to meet the relationship success goals.

In the introduction of the text and the conclusions of the interviews, the key concepts for the potential causes of the failure and for the success goal categories will be indicated in **bold font**. All of the results are based on the coding method.

During the interviews, the Sales Director of the supplier company identified **the significant differences between the two companies’ knowledge and management skills** as the main reasons for the failure. *“It was clear from the beginning that there*

was a big difference between the two companies in terms of knowledge, organizational structure and management. Essentially, the wholesaler was a one-man show, and the operation of the company was entirely based on the owner's market knowledge, interpersonal relationships and passion. During the period of market expansion strategy, all the above did not cause any problems, because as long as someone did not make a big mistake, he or she could grow intensively with the dynamics of the industry. ... But later on, when the wholesaler would have to sell highly valuable and knowledge-intensive products on a saturated market, this was not possible simply based on enthusiasm and old routines. ... They should have built a professional sales team, a stable, mature organization that would have been able to manage these challenges, monitor the outstandings of the retailers and provide a predictable operation. In retrospect, it is clear that the multilevel tasks of the superpremium products in terms of market development activity cannot be managed in an organization where all the decisions, tasks and responsibilities are concentrated in one hand. The initial flexible attitudes became serious drawbacks in the new setup. In my opinion, it was also a problem that our buyer let the problems build up and did not give us any feedback. I am sure that if they would have indicated the problems in time, we would have been able to create a more viable structure together. As we did not receive any input from the buyer, we chose the wrong way and kept on pushing them to buy more and more. Looking back, the right solution would have been to ask them about their view of the problems and why they were not meeting the targets. It was not a good decision to leave them alone."

The Business Development Manager of the supplier summarized the main reasons for the failure as follows and emphasized their own mistakes as well. The **preliminary evaluation on the wholesaler's ability** to manage the expected duties should have been thoroughly analyzed before contracting. The **lack of necessary merchandising and other sales capabilities**, and the **underdeveloped management and leadership capabilities of the buyer** also played an important role in the failure, as well as the **excessive push for high sales turnover** from the supplier's side. According to the interviewed manager, it was also a major mistake that they **started this high-level cooperation without any prior detailed business plans and relationship goals**.

"Before contracting, we should have checked whether the selected supplier had the necessary capabilities to manage the upcoming tasks. The answer would have been

definitely no. So we either should not have decided to work with them or should have taken serious steps and become deeply involved in the development of their organizational capabilities.” As this comment by the Business Development Manager seemed to be a very important puzzle, I asked her to interpret the meaning of the so-called organizational capabilities in details. *“First, I should mention the merchandising and sales capabilities and skills. Petfood costing ten to fifteen thousands forints per bag cannot be sold in the same way as one that costs three thousand forints per bag. This requires professional competence and very precise, detailed knowledge of the product: what kind of products consumers need and for what purposes. ... Besides, different incentives should be applied in the sales field; the appropriate retail partners should be carefully selected and these retailers should be regularly trained as well, because otherwise they would not order new superpremium brands at all. These sales and merchandising capabilities were completely missing. However, the basic management and leadership capabilities did not exist either. ... Certain things are absolutely natural for us at a multinational company, for example there is a forecast meeting on the first Monday of every month, or I can easily run a report to check the turnover figures, or we usually plan the coming promotions 3 months in advance. Such kinds of operational routines were totally absent at the buyer. There was no information system at all; we asked for a useful retail shop-list for weeks, but they stated that their sales representatives continuously visited those shops. Their turnover data were only clarified once their bookkeeper finished with the invoices after the 10th day of every month. There was such a big difference in the organization or rather disorganization of the two companies that finally caused the termination of our cooperation.”*

The Key Account Manager of the supplier added the following to the evaluation of the failure of the relationship. The supplier did not recognize in time that the distribution tasks of superpremium products generated **too huge management challenges for the buyer**. So, over the short run, a relatively small company is not able to develop so much on its own to cope with such challenges. *“Both of the parties had positive intentions and an optimistic can-do attitude as well. But we considered the wholesaler as any other multinational partner, who has the appropriate organization, logistic system and any other tools to operate as an equal partner. ... We did not recognize that after the usual business in economy and standard products, sole distribution of superpremium brands represent such a huge challenge and change that the buyer had neither the*

necessary knowledge nor the tools to manage the situation. My colleague is right that we should have either selected someone else or we should have supported them to a greater extent in their business development.”

Of course, I also asked the wholesaler to provide his opinion about the drivers of the unsuccessful cooperation. The owner-manager of the buyer summarized the main reasons as follows. The tasks deriving from the distribution of superpremium brands represented a huge step in the development of the relationship and parallel to that in their life as well. He should have more precisely **assessed the ability of his company to cope with the challenges**, and it also would have been necessary to **define the requirements and related duties in advance**. Furthermore, he considered the **acceptance of the supplier’s power dominance in the filed of order pressure** as a further mistake, and he felt that his company did not get the supplier’s support in time.”

“If you ask a manager in the middle of a flourishing business whether he wants to earn three times more money, the answer will definitely be yes. In my opinion, my biggest mistake was that I entered into this distribution business without any prior, detailed information. We did not discuss the details of the job itself, what was to be done exactly and what the requirements were. From that point on, I had no chance to do it right. I only felt that I was working hard together with my colleagues, while the supplier was continuously pressuring us to buy more and more. Of course, I did not dare refuse it, because I was afraid of losing the business, and I still had the initial positive feeling that it would go smoothly soon and there would be a happy end. ... After that, it turned to fear, because my outstanding liabilities towards the supplier reached a huge amount, and the supplier could have chosen to liquidate my company at any time. At that point, I could have lost the results of my whole life. So I kept on buying and buying, and loaded my warehouses from credits. Of course, it was also a problem that I did not have the appropriate professional colleagues with experience in material handling, finance, sales, etc.... But I have to add that it is not only me who can be accused of failure in the cooperation. The supplier was only interested in pushing its products to us month after month, but they did not think about how it would disappear from our warehouses. ... Of course, that would have been our core activity, but I think it would have been much better to receive some kind of support from the beginning, or not to place such intense pressure on us to buy continuously. In this case, the sad final situation could have been avoided. ... At the end of the day only facts count, but I should not have accepted the

offer to participate in the whole thing, because such a small company is simply not able to fulfil the tough requirements, and actually the requirements should have been clarified at the very beginning.”

7.2.4. Summary evaluation of success in relationships

Evaluation of the relationship was carried out in two major steps. At first, I drew a “map” of critical incidents types at each development phase, after which I applied the coding tasks of the grounded theory and the related theory-building.

7.2.4.1. Critical incidents and relationship success goals in relationship “A”

During my analyses, I identified the critical incidents, incident types and related relationship success goals which mainly determined the success and development of the relationship. This analytical phase was also conducted in two steps. First, I focused on identifying and understanding the critical incidents in each development phase. Second, I aligned the coding results of the identified relationship success goals to each incident type; and refined my previous findings based on that.

At the pre-relationship stage, the growth of own sales volume and expansion of own market share were identified as the main business success goals. Relationship success goals were very primitive at this stage and were mainly related to the episode-level operation of the relationship, and thus focused on servicing the customer’s logistic processes. At the exploratory stage, the role of relationship success goals strengthened, but still remained subordinated to business success goals. These relationship success goals focused on the joint – typically annual – dyadic sales increase, market share growth and the related performance evaluation. In the development phase, the relationship success goals were only partially or absolutely defined, and these goals typically – or should have been – focused on the development of the partners’ long-term strategic cooperative management tools and on identifying the organizational-institutional frameworks. Figure 17 presents the critical incidents and related relationship success goals at each development phase in the case of relationship “A”. All critical incident types are indicated with flowchart figures, and relationship success

goals are shown below them. The transition period between pre-relationship and exploratory stage is indicated with the dashed line in order to illustrate the step-by-step nature of the development process which takes place if all prior success goals are fulfilled. The time-dimension of each development phase is plotted by the time-line. It can be clearly seen that the step towards the next relationship development phase strongly depends on the outcome of the critical incidents and the related success goals.

Figure 17. Critical incidents and related success goals in relationship “A” 1.

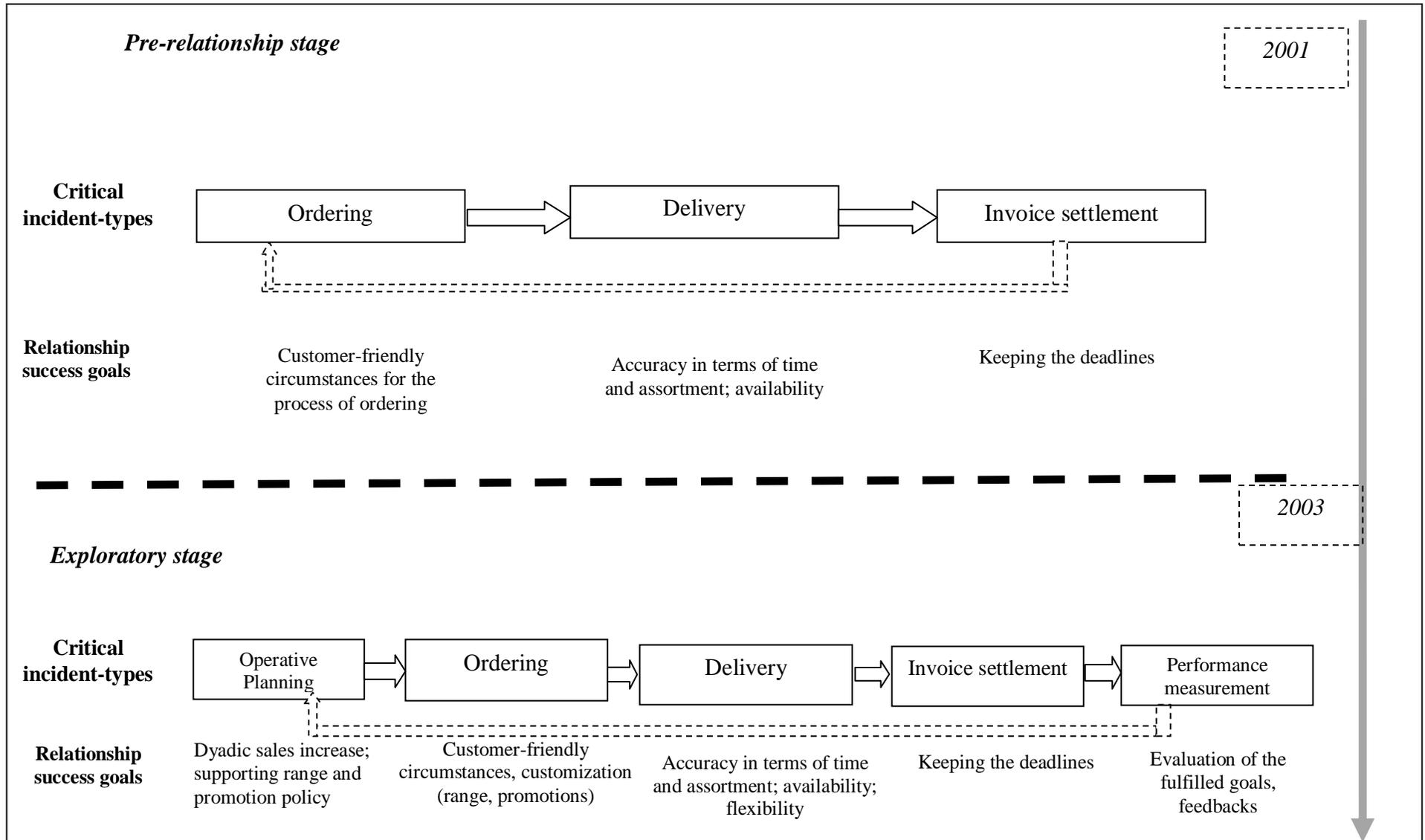
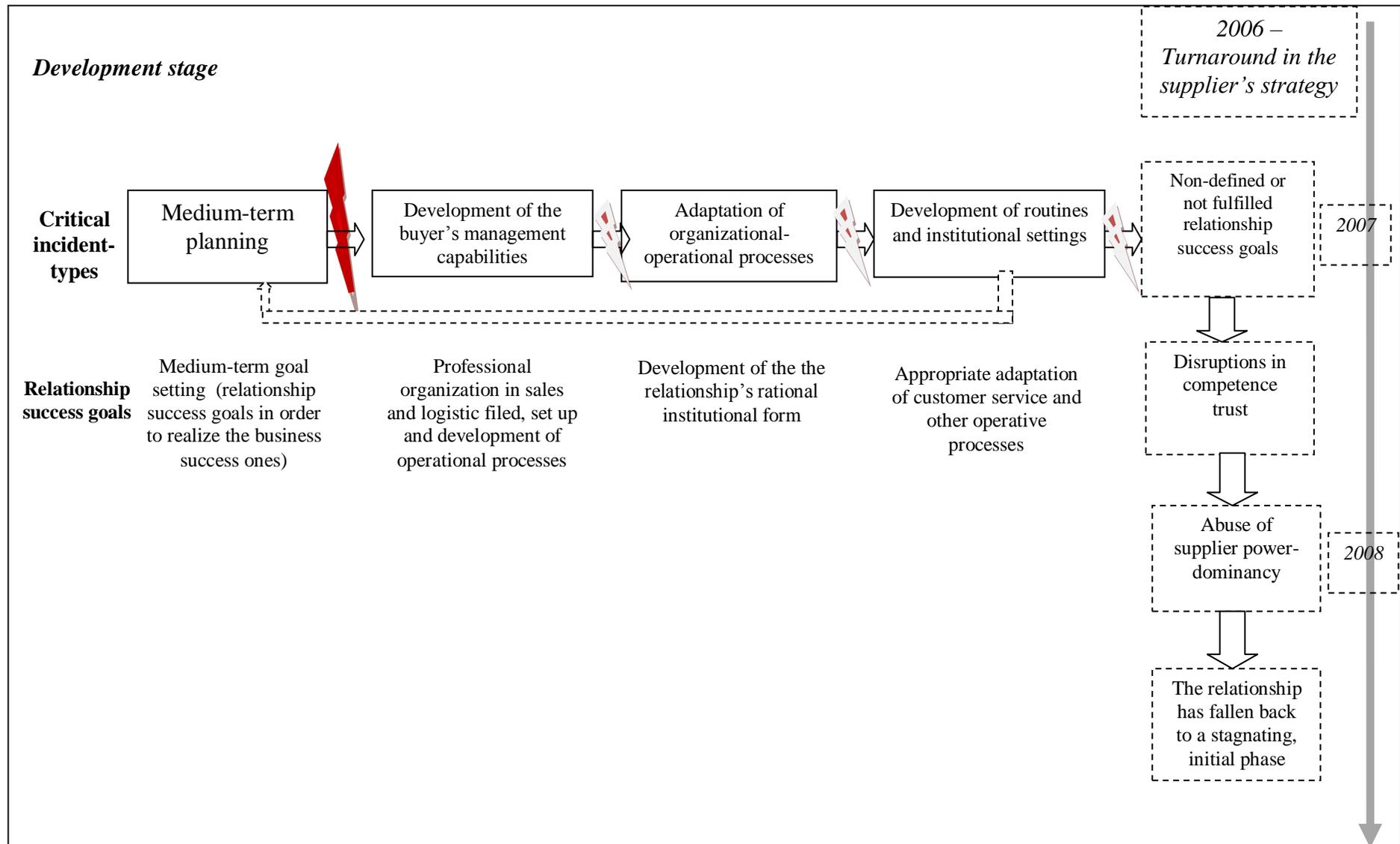


Figure 17. Critical incidents and related success goals in relationship “A” 2.



7.2.4.2. Results of the grounded theory

I followed the logic below during the coding of the interviews' text. First, I tried to identify the categories describing the meaning of business and relationship success and categories describing the conditions to achieve success and the interrelations between the categories. After that, I re-analyzed the text of the interviews and focused on the role of success and the connection between relationship development and success. Finally, from the identified categories I developed a comprehensive theory which can answer the research questions in a coherent, logical manner.

Table 9 identifies the understanding of business and relationship success in relationship "A", based on the results of the case study and the grounded theory. The significant relationship development stages were differentiated by applying the model of Ford (1998). In my opinion this relationship did not reach the highest, stable stage. Ford (1998) also added that development phases do not always appear in a clear and distinguishable form in all cases. Based on that, my limitation of the identified development stages can also contain subjective sentiments. The detailed coding results of the introduced relationship success categories and success factors are introduced in Annex 1/A and 1/B.

Table 9. The goal structure of relationship “A”

<i>Relationship development stage/ Variables of the theory</i>	Pre-relationship stage	Exploratory stage	Development stage
<i>Business success goal</i>	Increase in own sales and market share	Dyadic sales increase, dominant market position	Intensive growth of superpremium products sales, development of their local distribution network
<i>Relationship success goal</i>	High level management of customer servicing process – fair business behaviour	Adaptation of operative processes – joint operative goal-setting focusing on customization of customer service processes and promotion policies	Development of the strategic level, medium-term cooperation frameworks – but partners did not identify relationship success goals that would be necessary to realize the business goals
<i>Relation of business and relationship success goals</i>	Relationship success goals are definitely subordinated	Business success goals are still dominant, however the role of relationship success goals are also strengthening	Business success goals remain dominant; partners did not recognize the importance and necessity of relationship success goals
<i>Critical incidents</i>	Management of operational processes, on-time customer payments	Management of operational processes, on-time customer payments – fulfilment of joint operational goals	Organization and capability development to establish the institutional frameworks of the relationship; the importance of the operational processes is still high, is not a focus.
<i>Success factors</i>	Attractive price/value ratio of the transferred products; smooth operational processes for providing appropriate customer service; mutual reliability	Compatibility of long-term (business) goals; supportive environment; wide, customizable variety of products; flexibility in customer service	Appropriate organizational knowledge of the partners, establishment of relevant business and relationship success goal-structure, adaptation, fitting operational processes, trust, reliability

At the initial pre-relationship stage, both **partners' behaviour was definitely dominated by the respective business success goals**, which focused on boosting their own sales turnover. It can be easily accepted, as at this development stage the relationship existed only at the episode level and there were no mature processes between them. Due to the above, the relationship success goals were very primitive, and thus they can not be easily differentiated from the business success goals. I identified the key category of relationship success as **“high performance of operational processes – reliability”**. Deriving from the interviews, the following two relationship goals influenced their cooperation to a great extent: **high logistic and operational performance of customer service processes** and **fair business behaviour**. In order to achieve the success goals, **success factors** such as the attractive price/value ratio of the products, the supplier's developed operational processes ensuring high customer service level as well as on-time payment, fair behaviour, rare complaints and special requests of the buyer were necessary.

The relationship success goals and success factors of the pre-relationship stage did not appear only at this stage, but also existed at the later development stages. At the higher stages, these variables, however, were not in focus; they appeared as natural, basic conditions. The same applies for the whole history of the relationship: **key relationship success goals and success factors of the lower development stages appear at the higher development phases as well, but their role is not so important.**

Business success goals were still dominant **at the exploratory stage**, but partners explicitly targeted increases in dyadic sales, indicating the next step in relationship development and in success goal-setting. The **“adaptation of the operational processes”** was identified as the key category of relationship success at this stage, because partners set up and accepted common operative and typically annual targets as well as performance indicators for them to align their operation to reach these goals. The major difference between the current and the previous development stage is that the partners started to harmonize their individual business goals to each other, notwithstanding that it was only short term and appeared on the operative level. The buyer and supplier discussed their mutual expectations annually and agreed to customize their customer service and logistic processes, for example by offering special assortment, ordering conditions and promotion policies.

The categories **attractive price/value ratio of the products** and **supportive business environment** were also supportive in reaching business and relationship success goals. I summarized the positive industrial trends in these categories. Another supporting success factor was the **compatibility of the partners' long-term strategic (business) aims**. It is, however, not considered as a consciously managed process for common goal and strategy setting, but more as a coincidence of the partners long-term strategic aims (such as market share and turnover growth).

At the development stage, both partners significantly changed their business strategy to develop the brand-awareness and distribution network of superpremium products. Each partner relied on the other party in the execution of the new strategy. The supplier shifted from the volume to the new value-strategy, while the buyer intended to enter the superpremium products market. **Partners did not, however, set up explicit relationship success goals together with business success goals; this was done only after serious critical incidents in the relationship history**. Looking back now, it is clear that the lack of the above process played a key role in the disruption of the relationship. As a result, I identified the possible or necessary relationship success goals indirectly, that is by analyzing the parts of the interviews that described the plausible reasons for the failure.

The development phase usually symbolizes the mature, flourishing phase of a relationship. As a consequence, the **key category** of relationship success is identified as the “**joint, high-level development capabilities**”. This key category was created through integration of the following dominant “relationship sub-categories”:

- it was clear from the partners' interpretations that starting from this development stage, the nature of the relationship completely changed and it became more complex and mature. I assessed this phenomenon as a significant step in development (that should have happened) in the field of **institutionalization and routinization**. Had it materialized, it would have been one of the most important relationship success goals.
- it was also a typical characteristic of the interviews that the market-expansion orientation of the partners was substituted with the “motive of joint development”. This phenomenon can be interpreted with the **increased**

interdependence between the partners, and the necessity of their strong cooperation also increased from this development stage. It was clear for both of them that they can only develop together and by supporting each other in the future. Obviously, they could have fulfilled their success goals only in this way.

- while discussing the possible reasons for the failure with the interviewees, the most frequently mentioned terms were **able** and **capability**. A detailed capability-based evaluation of the relationship does fall not within the scope of this dissertation, and the interviewed partners did not use these terms as they are defined in the resource-based approach. But I think it is worth emphasizing that from this stage those capabilities could influence the further development of the relationship that could also result in the institutionalization and interconnectedness of the relationship. It is also mentioned by IMP researchers as well. One of the major conclusions of this case is that if these supporting capabilities (including routines and organizational knowledge) do not exist at the same and/or complementary level at the cooperating parties then the success of the relationship can be difficult to ensure.

In order to achieve success at this stage, the following support factors are critical: **harmonization of the partners' processes** (not only at the operational level), **similar organizational knowledge** (which can include the professionalism of the operation of each organizational part, market and product knowledge, management and organizational development capabilities) and a **long-term, strategic way of thinking**. These support factors – as already mentioned in the literature review – cannot be separated from the success goals, because partners sometimes considered cooperation to be successful if they were able to harmonize a certain part of their business processes. Nevertheless, I still feel the necessity in separating the success goals and supportive success factors. The first one determines the essence of the relationship, while the latter expression shows the way to achieve it.

By assessing this case, the following valuable *conclusion* can also be made *about the separation of business and relationship success goals and their role in relationship development*. In the third chapter of my dissertation, I stated the research pre-condition that standalone business success and relationship success can be separated to a certain

extent. The results of the coded interviews in this case also suggest that **business and relationship success simultaneously appear in the operation of relationships, however at the higher development stages the role of relationship success goals becomes even more important from the development and future point of view.** At the pre-relationship and exploratory stages, business success goals determine the relationship, while at mature, higher development stages the identification and execution of relationship success goals are necessary to ensure smooth further development. Thus, at the higher stages, relationship success goals should be as consciously managed as business success goals.

One of the main messages of this case is that as the relationship moves closer to even higher development stages, the importance of non-measurable, soft relationship success goals continuously increases in operating the relationship. At the higher stages, partners focus more on deepening the cooperation and developing the interconnectedness. For example, in the early years, timely financial settlements and an increase in turnover were almost the exclusive goals of the relationship. However, as the partners moved forward they focused more on the joint business development and on the mutual utilization of each other's knowledge and market experience. Drawing a conclusion, we can state **the analyzed relationship** – mainly at its higher development stages – can **justify our pre-condition that business and relationship success can be differentiated.**

The **relation of success to relationship development** appears during the whole relationship history in an indirect way. At the initial stages, the partners mutually fulfilled the prior – mainly business-oriented – expectations, and the relationship can be identified as a definitely successful one. However, as the parties reacted improperly to the emerging challenges, the success of the relationship was disrupted and the whole development broke down. Moreover, the development reverses as the unsuccessful stage becomes permanent. *All of this underlines that both direct business success – which is measurable with financial indicators – and relationship success – expressed with soft, cooperation targets – play an important role in relationship development.* Accordingly, the **interviews' results indirectly justify that business and relationship success can be identified as key variables, and drivers of relationship development.** During the analysis of the interviews, the success and development of the relationship

create an integrated unit; success can be identified as a necessary condition of development.

By analyzing the time dimension of the relationship, further interesting conclusions can be drawn from the interviews. The business goals of the initial cooperation suggest that partners considered fulfilment of the actual tasks as the main success dimensions and did not have joint and long-term perspectives. However, as the relationship developed in time and context, the necessity of a long-term way of thinking in the relationship success goal-setting also increased. It came out mainly during the crisis of the relationship that especially those success factors were missing from the relationship context that could have formed a basis for long-term cooperation, such as the harmonization of operative processes, a similar level of organizational knowledge, and a strategic way of thinking. Evaluating the conclusions of the case, we can state that – although the long-term perspective do not play a significant role during the initial phases – **the existence of long-term success factors in the parties' organizational and operational attributes are necessary for success and for the smooth development of the relationship.**

Summarizing the relationship history discussed in this chapter, the following statements can be made in relation to success in supplier-buyer relationships:

- *business and relationship success appear simultaneously in the operation and development of relationships. During the initial phases, it is mainly the business success goals which dominate the partners' behaviour, but the importance of relationship success goals rapidly increases in parallel with the institutionalization of the relationship;*
- *after a promising start, the major reason for the failure of the buyer-supplier relationship discussed above was that the partners did not recognize the role of relationship success goals in relationship development;*
- *the context and complexity of relationship success continuously increase from the initial reliability and high level of operational performance. Relationship success goals are built on each other at the different development phases; and the higher-level goals are built on the lower-level ones;*

- *based on this case, the development process of the relationship can be interpreted in the following way. Partners set up business and common relationship success goals at each development stage, and the fulfilment of these goals results their mutual satisfaction. Everything that supports taking the next development step in the relationship also triggers new, higher-level goal-setting. During this development process, the managed goal structure of the partners continuously broadens, and relationship success goals gain even higher importance within this;*
- *the key categories of relationship success are presented in their development order: high performance of operative processes and reliability, adaptation of operative processes, and joint high-level development capabilities;*
- *the fulfilment of business and relationship success goals of each development phase can only be realized if their support factors appear in the relationship context as well. These success factors are different in all development phases, but the most important ones are: attractive price/value ratio of the products, appropriate supplier operation ensuring high-level customer service performance, enhanced payment morale and fair behaviour of the buyer, (mainly interpersonal) trust, supportive business environment, complementary strategic aims, harmonization of operational processes, long-term strategic way of thinking and a similar level of organizational knowledge;*
- *the analyzed relationship justifies the pre-condition of the literature review that the meaning of business and relationship success can be separated, but these variables simultaneously appear in relationships. This statement is relevant especially at the higher development stages.*

7.3. Case “B” – “the long-term matching”

The supplier in this relationship has already been introduced, as it is the same in both cases. The buyer is local wholesaler, also fully owned by Hungarian private individuals. The wholesaler has a relatively wide activity range: along with the wholesale of petcare products (petfood and accessories), it also dealt with animal healthcare products and operated an animal hospital as well. The company entered local petcare market in the

mid-1990s, and has become the market-leader wholesaler through continuous business development and several acquisitions. Based on its local market share and corporate size, the relationship can be described with a balanced power situation of the buyer and supplier.

Similar to the previous case study, I start with the introduction of the relationship by summarising the interviews and citing the relevant parts. After that the coding results are introduced. The identified concepts and key categories at each development stages are indicated in **bold font**. The detailed coding results can be found in Annex 2/A and 2/B.

7.3.1. The beginning of the relationship

The early years of this relationship were very similar to the previous case. The “common history” of the two companies started at the beginning of the 2000s, when the multinational supplier entered the Hungarian market. Initially, there were occasional transactions between the partners, focused on sales of so-called volume products in large quantities. The supplier’s products were very popular among wholesalers, and so these transactions were repeated quite frequently and thus became episodes. Besides the usual orders, the wholesaler started to buy additional branded products from the supplier. Similar to the first case, the buyer emphasized **the attractive price/value ratio of the products, on-time deliveries and precise customer service** as the most important expectations vis-à-vis the supplier. *“The relatively low prices and attractive price/value ratio of the products of the supplier suited the needs of our retail buyers. Besides, their payment, ordering and delivery conditions were also acceptable for us. In short, all the conditions were in place for ordering more and more frequently,”* said the Head of Petcare Division of the wholesaler, describing the early years. During these episodes, the partners were basically satisfied with each other. The supplier delivered its valuable products in the requested quantity on time, and **the buyer also settled the invoices on time and ordered more frequently and in larger quantity**; so there were no difficulties in the relationship. Similar to previous case, the following **key categories** of relationship success goals were identified: **high level performance of operational processes** and **fair behaviour**. Additionally, both partners had the feeling that there was more business potential in this cooperation, but their ideas remained only at the concept

level. *“Both of us felt that we could reach more with this cooperation, but we had not found the right ways for it. Besides we were also committed to other directions and developed our businesses separately,”* explained the Sales Director of the supplier in the interviews. Applying the relationship development model of Ford (1998), *this stage can be identified as the pre-relationship stage.*

Due to the frequently repeated transactions in growing volumes and for a widening product range, the supplier was satisfied with the performance of the buyer and “paid more attention” to the wholesaler. The sales representative frequently (at first monthly, then weekly) visited the purchasing colleagues of the buyer and discussed the needs of the product range to be sold and ordered. In these meetings, the supplier offered different kinds of price and other promotions to encourage the buyer’s trading activity. Smooth operational level cooperation developed between the partners step by step. The following sentences of the key account manager of the supplier appropriately describe this relationship period. *“We had seen that the buyer’s orders were dynamically increasing and had reached a significant share in our sales turnover. So we started to more consciously manage this relationship; one of our sales representatives was appointed to manage the operative details of this relationship during most of her working time. In order to smoothly manage the ordering process, we continuously provided information about the availability of our most popular products. Furthermore, we offered customized price-promotions and organized other promotions such as guaranteed gifts or overfilled products on the field of sales activity.”* The buyer’s demand stabilized at a relatively high level, but its orders were still dominated by lower quality volume products and the share of premium and superpremium brands was quite low. Nevertheless, the **buyer accounted for a significant share in the supplier’s portfolio**, which was continuously strengthened with the annual framework contracts. It can also be seen that **partners set up common yearly targets and applied some customization in their customer service and sales operations**. These steps can be considered as signs of more intensive cooperation. Of course, it took years to reach this level that can be identified as the *exploratory stage* based on Ford’s (1998) model. Based on the interviews, **the mutual smooth and high level performance of the partners were important drivers of this development.** *“When we ordered something, it was delivered on time. When we asked for direct delivery from the factory, it was also possible. And we only complained if something was really not working and we always*

paid on time,” stated the buyer’s Sales Director, speaking about the most important dimensions of reliability expectations.

The thriving industrial environment was a further supporting success factor, as **intensive sales growth and market extension** were the **strategic aims of both partners**. But it must also be noted that during these phases, the relationship processes were governed by short-term decisions and a long-term way of thinking was not typical. The spontaneity of this early relationship stage is appropriately described by the buyer’s Sales Director: *”Looking back now, we can say that maybe good fortune and the market trends resulted in our similar market behaviour. Both of us intended to grow, expand the business and expand our market position. In order to achieve those aims, we were the optimal partners for each other. But this should not be imagined as a deliberate, well-managed structure! Everybody followed their own way, and it happened that our ways met somewhere. Of course, it was supported by the fact that there were advantages for both of us: affordable prices, valuable products and flexible customer services for us, while good settlement and increasing ordering volume for the supplier. But we had the same relationship with the biggest competitor of this supplier at that time, so there was nothing special in this relationship history.”*

Both of the partners’ goals were dominated by market expansion in the early years. The basics of the relationship development included the high operational performance, timely and accurate financial settlement and fair market behaviour. At this time, we reach the turnaround in the relationship history, which is caused by the previously discussed change in the supplier’s strategy.

7.3.2. Initial impacts of the supplier’s new value strategy

As mentioned in the first case study, the supplier significantly changed its strategy in 2006 and started to concentrate more on the high-margin premium and superpremium products, instead of the low-profit volume products. This strategy change resulted in a slowdown in this relationship as well. As introduced in the previous case study, the supplier selected the competitor of wholesaler “B”²⁶ for the sole domestic distribution

²⁶ As the chapter discusses case “B”, I substituted the name of this wholesaler with letter “B”.

of its key superpremium products. The reasons for this decision have already been discussed, but I find it expedient to further analyze the motivation of the supplier in selecting the other wholesaler and also to gain insight on that from the perspective of the current buyer. The Sales Director of the supplier told the following story about the influencing factors in the selection process. *“I would not say that we hesitated too much between the two wholesalers, because it would not be not true. ... We did not want to cooperate with company “B”, because at that time they were also responsible for the distribution of our main competitor’s superpremium products. We assessed that to be a quite serious concern, practically in terms of trust. So we skipped the opportunity to build up a stronger cooperation with them. We simply could not imagine that the representatives of the wholesaler would visit a shop and recommend “XX” branded superpremium brand, and one week later he or she would go back and recommend “YY” brand, our one. ... We could not imagine that joint management of these two superpremium brands was doable. Moreover, the competitor brand already had an excellent market position, while ours had just been launched on the market, or at least it to be intensively developed. In fact everything was in favour of selecting wholesaler “B”, except for the above reason. Its organizational processes, knowledge, market experience and managers were better than at company “A”. We already knew at that time that “B” would be much better than “A”. But we did not believe in them, just because of the distribution of the competitor brand.”*

Evaluating this interview part, it can be stated that it was mainly **the lack of goodwill trust from the supplier’s attitude** – mentioned also by Creed and Miles (1996) and Doney (1998) – which obstructed the deepening of its relationship with this wholesaler. Although the organizational features and market knowledge definitely suggested the ability of the buyer to handle the distributor position (so the basics of competence-based trust were available), the supplier still did not believe that the buyer would be able to fulfil its obligations. It should also be noticed that the **level of competence-based trust was not fully perfect** either, as the supplier could not imagine that the buyer could find a suitable solution for the concerns; nonetheless, we can still say that the complete lack of goodwill trust dominated the supplier’s decision and obstructed the development of the relationship.

The buyer evaluated the decision as a disruption in the relationship history, but it was not so serious for them. The buyer was more afraid of the success of the other relationship, because that could have resulted in the strengthening of its competitor wholesaler. The wholesaler's Division Head evaluated the supplier's choice as follows. *"We were not so happy about that, but we did not take it too seriously. We accepted the supplier's decision and did not want to force them. We continued ordering the products, as we did it in the past, and were waiting to see what would happen. Of course, we would not have been too happy if our competitor wholesaler were to build up a dominant market position, but actually we did not worry about that too much. We did not think about obstructing their activity at all. Of course, we expected that they would face challenges with this business, because at that time we had already had significant market experience in superpremium brand development and already knew about its complexity. It turned out to be too huge a challenge for them later."*

7.3.3. The deepening relationship

As introduced in the previous case study, the relationship of the supplier with wholesaler "A" turned critical within one year, and thus the supplier decided to end its sole distribution contract with wholesaler "A". At that time, the supplier was faced with new dilemma, but new perspectives appeared in the context of the supplier's relationship with wholesaler "B". The above is introduced by citing the relevant parts of the interview with the Business Development Manager of the supplier. *"We were in a situation that our relationship with "A" had broken down, our superpremium products were performing really poorly on the market, our financial situation was also quite serious and the outlook was even worse. This caused a serious dilemma for our top management. Practically, everyone was still committed to continue the value strategy, as we did not think about turning back to the volume strategy, because we felt that it would be a dead-end. We only knew that we must build our business on the premium and superpremium products, but we had no idea how to do that. Actually, we had two possible options. Either we in-source the whole distribution and build our own sales team or select wholesaler "B" for the sole distribution, because there were no other potential wholesalers on the market. The advantages of insourcing were that we did not take the risk of cooperation again and could be our own masters. But it also had serious*

disadvantages such as the huge operational expenses; it would have been quite challenging to solve this task in our SAP system, and it would have required significant developments in that. So we decided to give a chance to wholesaler "B", thus our CEO together with the Sales Director visited the Managing Director and Sales Director of wholesaler "B".

The first CEO meeting was more about discussions about the actual market situation and general trends of the industry, but it was really useful for the management to revise their trust concerns. The Sales Director of the buyer had the following view about the discussions. *"It was a very positive sign for us, especially from a psychological point of view, because it was not so typical that a multinational supplier negotiates on the highest organizational level. We had the feeling that they took us seriously and considered us as a key buyer. I think we all liked each other. ... Of course, it was a formal meeting with many protocol elements, but it had the message that we were mutually important to each other and there was probably a good deal of untapped business potential for us."* The partners assessed the meeting as highly valuable, despite not agreeing on any specific details about the development of their relationship. The only outcome of the first meeting was that the partners decided to meet again in a few weeks or months and reconsider their position again. According to the Sales Director of the supplier company, the high level of care was necessary, because their company needed time to draw the consequences from the previous failure and they did not want to start a relationship without the appropriate preparations again. *"Together with its difficulties and the failure itself, the first relationship was also good for us, as it drew our attention for the necessity of prudence and due foresight. We were sure that if we made a deal with someone else, that it would be built on detailed preparation. We had the opinion that we should not anticipate the partner's abilities, but the partner should persuade us about his competences."*

Meanwhile, the wholesaler also felt that the CEO-level meeting had special aims, and a positive change could also happen in the relationship history. The Sales Development Manager of the buyer recalled this turning point of the relationship as follows: *"They did not say exactly what they really wanted, but this is a small country and we knew that they had had many problems with wholesaler "A". ... We were talking about majestic things such as cooperation and trust; but we should not forget that it is always business*

that counts. We knew that if we received the sole distribution rights of their superpremium products, then our market-leader position would be unquestioned. And on the top of that, we could also significantly increase our turnover and profits. So it was obvious that we were looking to strengthen our cooperation possibilities, although we had the feeling that we had already demonstrated our knowledge and there should not be any doubt about our competences and abilities.”

By recognizing the attractive business potential of a stronger cooperation, both parties started the negotiations about the possible avenues of relationship development on a positive note. The negotiations lasted for several months, and sole key question was how the wholesaler could reassuringly manage the distribution of superpremium products. The negotiations had a positive atmosphere, and both parties aimed a solution that had the highest value for them. They finally agreed in all points by the end of 2008. The parties signed a framework agreement, which contained the following key points. The supplier will provide the exclusive rights of distributing the superpremium products on the Hungarian market to wholesaler “B”, and if they are satisfied with each other’s performance – measurable key performance indicators were also formulated in advance – the buyer will have the opportunity to receive the distribution rights of the whole product range of the supplier in the specialist channel. The wholesaler undertook the task of establishing a subsidiary for the distribution of the supplier’s products and to set up a separate sales team for the management of the superpremium brands. Besides, the development of the “Excellent Petshop” network, nationwide sales-coverage and an intensive increase in superpremium brand turnover were also mentioned among the objectives of the wholesaler. To fulfil these requirements, the wholesaler needed to invest heavily, but the supplier also took significant part in the business development. *”At this time we did not want to repeat the previous failure and leave them on their own. We agreed in that the buyer should do the network development activity, but we were responsible for the strategy building and should also be involved in the decision-making. We wanted to control the whole process, ... although there was no doubt about the buyer’s capability, as they had all relevant organizational capabilities and knowledge, but ... we did not want to make the same mistake again that we were not involved to an appropriate extent, and we could not manage any problem in time that could overwhelm us. We were also responsible for the marketing activity such as consumer promotions, advertisements and exhibitions; we created a special Sales and*

Training Manager position, whose responsibility was to support the sales team development of the wholesaler and ensure continuous contact with the manager and employees of the wholesaler's specialized subsidiary. This manager was involved in the recruitment of the superpremium product's sales team members, and continuously coached them in the field of merchandising and product knowledge as well. She met with the top managers of the subsidiary on weekly basis, continuously discussed all work-in-progress issues, problems and gave and requested feedback. Moreover, the sales directors of the two companies would have regular monthly meetings to discuss the actual issues and evaluate their progress." It is clear that along with the **significant relationship-specific investments of the buyer**, the **supplier** also wanted to be an active partner in the brand and market development processes, so it **provided extensive support to the buyer** in order to meet the targets. The supplier did not want to make mistakes in this case and tried to formulate a framework for the relationship which would be advantageous for both parties. The buyer brought in its market knowledge and superpremium brand distribution experience, while the supplier brought in its high-quality products and its contribution to marketing and business development. The partners tried to establish the cooperation **on the basis of their individual strengths**. *"We managed to set up the basics which were mutually advantageous for both partners. We entered into the business with the development of a brand new sales team, and responsibility for logistics; both of course consumed a huge amount of money. Certainly, our market knowledge and prior experience were also necessary. The supplier provided the high quality products and took part in the market development activity. This seemed to be a sustainable set-up,"* explained the Sales Director of the buyer. The negotiations between the partners to identify the most appropriate form of relationship were very similar to Blomqvist's (2002) model about **complementary capability-based cooperation**, which was introduced in Chapter 4.

Of course, it does not mean that there are no conflicts between the partners, but the problems which occur can be solved on a middle management level, and mainly derive from planning or logistic challenges. According to the partners, **the smooth management of the differences between them deriving from their different organizational structure and operation** need to be **developed** most in the future. The Sales Director of the supplier illustrated this with the following example. *"So we are a multinational company with diversified organizational structure and many decision-*

making levels. The really significant decisions cannot be made at the local level; the approval of the European management is always necessary. As a result, it can take couple of weeks to receive a decision on important issues, for example the annual operational and financial plans, or the launch or removal of certain of our brands on or from the local market. On the other side, there is a much smaller organization with Hungarian directors, CEO and owners. They organize a meeting whenever they want to and decide on every on-going issues. So they can often feel that we are hesitating too much. ... But this is how we operate.”

Based on the achieved results, it can be stated that the partners established the proper conditions for a successful, long-term relationship. Only one serious conflict occurred since the start of the relationship which weakened their strong cooperation to a certain extent. Although none of the partners considered the incident as highly important and it did not jeopardize the relationship, it is still interesting to analyze it, because of the conclusions that can be drawn. The contract between the partners was precisely prepared, however – deriving from the complexity of the distribution tasks – it was only a framework agreement. There was a change in the supplier’s CEO, so certain points of the agreement had to be defined again, because there were several so-called ‘gentleman’s agreements’ in everyday operations. Naturally, this caused some uncertainties on the buyer’s side, because they had already fixed the sensitive cooperation points relating to the sharing of costs and benefits and the annual sales targets in the contracting phase. But these points had to be renegotiated with the new CEO from the very beginning. *“I do not think that it seriously affected us. We considered it as a conclusion that contacts should have been defined more precisely. Cooperation between partners can be driven by mutual sympathy and trust, but its form cannot be determined by them,”* said the Business Development Manager of the supplier, evaluating the incident and illustrating his point with a symbolic example: *“It works like a marriage. After a long period of dating, we get married and we have to accept and manage each other’s weaknesses. Plenty of patience is necessary to be able to cooperate smoothly. This conflict did not jeopardize the basic values, but it did cause some uncomfortable moments.”* I emphasized this critical incident in the relationship history, because it appropriately illustrates that **interpersonal trust has significant importance at the mature relationship development stages as well.** The institutionalization level of the relationship was much higher, so this kind of incident

did not threaten to put an end to the relationship, but it was still able to “*shake the partners and cause a temporary slow-down in the relationship development,*” according to the Petcare Division Head of the buyer.

7.3.4. Understanding of success in this relationship

As in the first case, at first the critical incidents and relationship success goals of each relationship development phase are introduced, after which I present the results of the grounded theory’s coding process. The analysis was prepared in two steps. The coding process was done in the same way as in the first case. At first, the critical incidents of each development were identified, and after that I assigned the success categories to them.

7.3.4.1. Critical incidents and related relationship success goals of relationship “B”

At the pre-relationship stage, business success goals related to episode-level cooperation were dominant. These goals focused on own company growth. As a result of this, the early relationship success goals and critical incident-types were related to the operational processes of customer service on the supplier side and to the financial settlement on the buyer side.

At the exploratory stage, the operational processes still remained in the focus of the critical incidents, and the dominance of business success goals was also significant. Relationship success goals were, however, widening to the annual operative planning and their performance measurement, while the increase of dyadic sales appeared as business success goals as well.

At the development stage of the relationship, the main focus was on the medium-term relationship and business goal-setting and the related planning processes. The relationship moved towards a higher-level development stage, as evidenced by the fact that the partners set long-term strategic level goals and assigned joint relationship success goals to their execution. After managing the initial trust problems, the partners formed a strong and close cooperation; thus, the importance of relationship success

goals reached the importance of business success goals. The partners recognized that they could significantly boost the sales of superpremium products through the adaptation of their organizational and operational processes and the development of their relevant routines and complementary capabilities. By necessity, the critical incidents were connected to trust creation and to the formulation of the conditions of strategic level cooperation at this development phase.

At the stable stage, the importance of relationship success goals further increased. Joint strategy building and the related relationship-specific investments determined the relationship processes in terms of critical incidents. The development and institutionalization of the relationship processes – which started at the previous stage – continued further, and their outcome impacted the execution of the strategy and sometimes forced the partners to refine their concepts.

The relevant critical incidents in the relationship history are illustrated in Figure 18. Similar to the previous case, the critical incident types are indicated by flowchart figures and the relevant relationship success goals are marked below them. The line on the right hand side illustrates the time dimension of each development stage. It can be seen again that the step towards the next relationship development phase strongly depends on the outcome of the critical incidents and the related success goals.

Figure 18. Critical incidents and related success goals in relationship “B” 1.

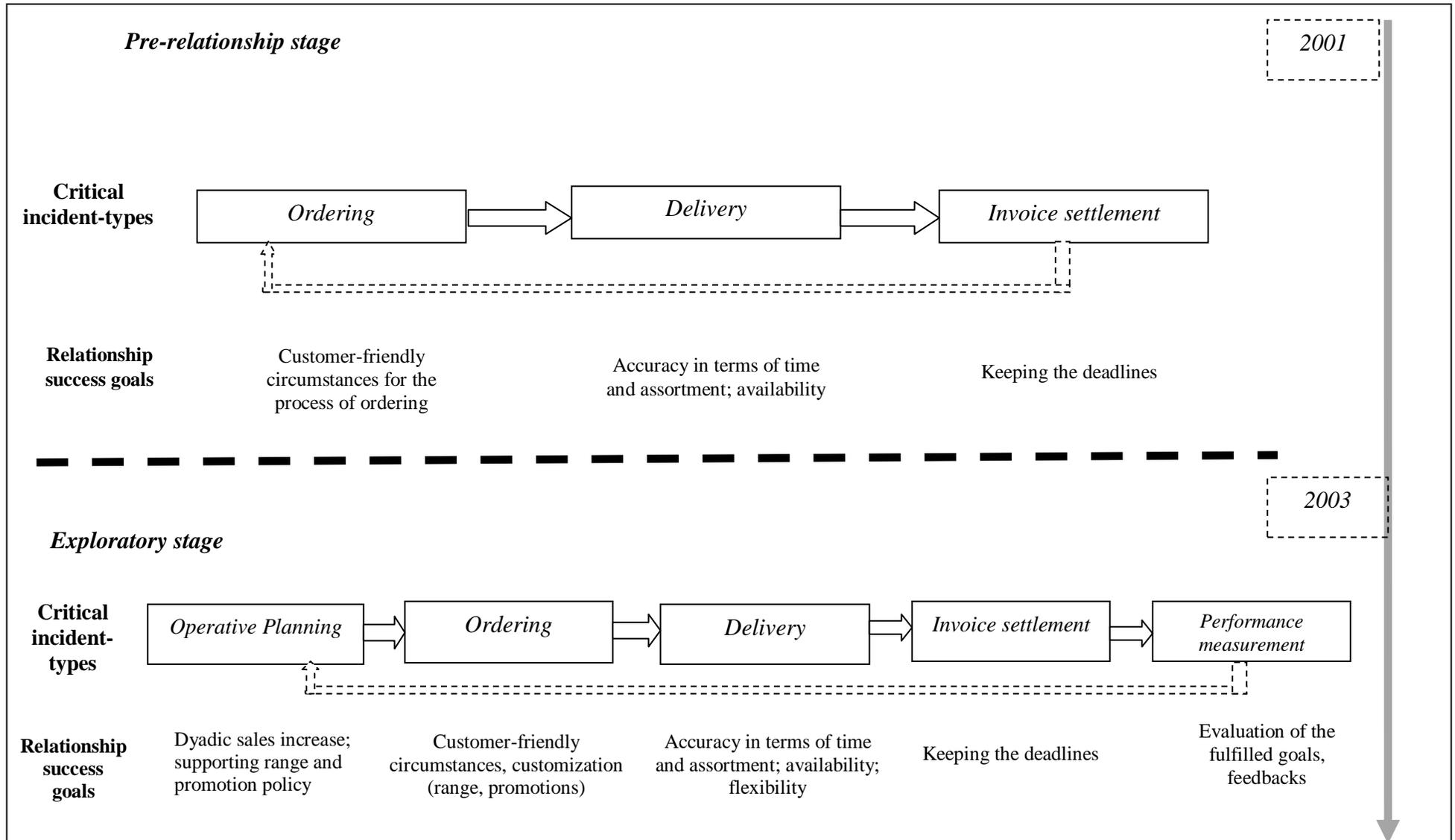
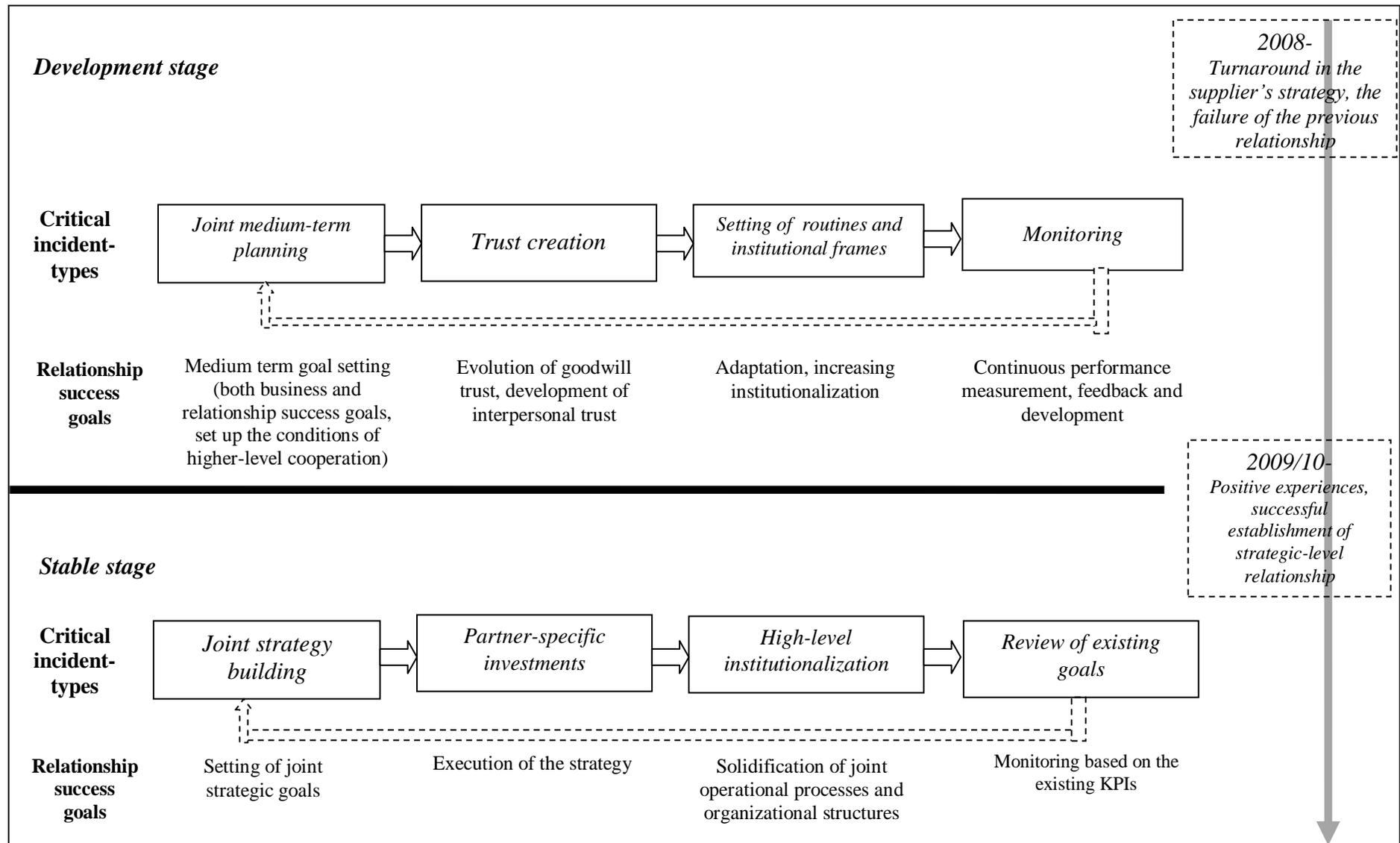


Figure 18. Critical incidents and related success goals in relationship “B” 2.



7.3.4.2. Results of the grounded theory

During the coding process, the key categories of relationship success and the related success factors were identified. After that, I reviewed the text of the interviews again and analyzed the links between the existing key categories and the relation of success and relationship development.

Table 10 systematizes the understanding of business and relationship success in the context of this case study. The applied relationship development stages in the table are based on Ford's model (1998), as mentioned several times. Of course, the limitation is also valid here that success goals and factors can be overlapping at different development stages, because their identification is not clearly linked to one single phase. It is very fortunate for my research that this relationship has an unbroken development history and – apparently – reached its stable stage. The detailed coding results are presented in Annex 2/A and 2/B.

Table 10. The goal structure of relationship “B”

<i>Relationship development stage/ Variables of the theory</i>	Pre-relationship stage	Exploratory stage	Development stage	Stable stage
<i>Business success goal</i>	Increase of own sales and market share	Dyadic sales increase, dominant market position	Intensive growth of superpremium products sales, development of their local distribution network	Joint strategy building, continuous growth in the superpremium segment
<i>Relationship success goal</i>	High level management of customer servicing processes – reliability	Adaptation of operative processes – joint operative goal-setting focusing on customization of customer service processes and promotion policies, reliability	Establishment of strategic level cooperation capabilities – “transferring” of joint business goals into relationship goals, development of routines, increasing institutionalization processes	Execution of joint relationship-specific investments, continuous development of joint routines and complementary capabilities, maintenance of existing results, evolution of mutual commitment
<i>Relation of business and relationship success goals</i>	Dominant business success goals, relationship success goals are definitely subordinated	Business success goals are still dominant, however the role of relationship success goals is also strengthening	Balanced relationship: the fulfilment of relationship success goals is necessary to meet business success goals	Balanced relationship, limited movement towards the dominance of relationship success goals
<i>Critical incidents</i>	High level performance of operational processes, on-time customer payments	Management of operational processes, on-time customer payments – fulfilment of joint operational goals	Trust creation, organizational capability development in order to reach smooth cooperation. (operational processes are embedded into the relationship routines)	Operability and profitability of joint investments, development of joint routines.
<i>Success factors</i>	Attractive price/value ratio of the products; smooth operational processes for appropriate customer service; fair customer behaviour, timely payments	Compatibility of long-term (business) goals; supportive environment; wide and customisable variety of products; flexibility in customer service	Complementary operational processes, similar level of organizational knowledge and management capabilities	Well-developed, institutionalized business processes

At the initial relationship stage, **business success goals determined the relationship**, which focused on **maximising the partners' own business performance**. Relationship success goals were quite primitive and subordinated to the business success goals. Relationship success goals providing a foundation for further growth can be coded with the category “**high level performance of operational processes – reliability**”, as in the first case. *The following supporting factors played an important role in fulfilling the business and relationship success goals: attractive price/value ratio of the products and the balanced performance of logistic processes that ensured high customer service level from the supplier. On the buyer side, timely payments and justified complaints also supported smooth cooperation.* It could be concluded from the explanation of the partners that the cooperation was managed by ad-hoc decisions and processes at this phase. Based on that, the success of the relationship was mainly driven by the mutual high performance and the fair behaviour of the partners. The relationship did not function well because of the highly developed processes and routines between the partners, but rather because both partners performed well on their own and that became the basis of their relationship future.

At the exploratory stage, the dominance of business success goals still remained, but the appearance of dyadic sales increase among the goals indicated the next stage of development. This development phase can be considered similar to the previous case, because the “**adaptation of operative processes**” was identified again as the key category of relationship success. This is because **annual and joint operative targets appeared** at this relationship stage which described the framework of the relationship, such as annual turnover, product range, distribution policies and customer services. These targets also refined and customized the customer service processes between the partners. *The following success factor categories were identified at this stage: supportive business environment, compatibility of the partners' strategic aims, flexible customer service conditions and a wide product range.*

The content of the two cases differs starting from the development stage. In my understanding, the reason for that is that relationship “A” was disrupted at certain stages of the development phase, while – luckily – relationship “B” continuously developed and reached its stable stage. Due to that, the evolution of relationship success goals can be observed more precisely in the latter case. The milestone in this relationship

development was that the partners recognized the importance of relationship success goals and their key role in the realization of business success goals. The major conclusion of the first case study was that at higher development stages it is not sufficient to concentrate only on business success goal-setting, because the deliberate and equal management of relationship success goals has at least the same importance. It can be postulated that the failure with wholesaler “A” forced the partners to recognize the importance of the above, and based on that they succeeded in establishing the business and trust basics for their strategic cooperation. We can also suppose that if the partners would have skipped the relationship success goal-setting, this relationship would have followed the path of the previous one or would have also reached a lower level of development. For this stage, I created the “**establishment of strategic level cooperation capabilities**” as the key relationship success category. The identified key category contained the following sub-categories:

- **Trust creation**; we could see the huge influence of goodwill trust in the supplier’s decision on partner selection. This stage of the relationship history can definitely be described with the partners’ willingness for trust creation, which was initiated by the leaders of both companies.
- **Establishment of long-term institutional-organizational frameworks**; in addition to trust creation, the partners were intensively looking for the answer to the following question: “How can we cooperate efficiently together?” As a result of several rounds of negotiations, the partners developed special organizational frameworks (separate subsidiary, distribution structure and sales team, enhanced customer care, joint short-term and medium-term planning), which were able to establish sustainable conditions for their successful cooperation.
- **Capability development**; the relationship processes could be also described with the mutual capability development processes, which were initiated by the supplier (for example, continuous coaching and discussions on the development of their joint processes). The most expressive sign of this sub-category was that the supplier created a separate position for the development of the buyer’s sales team members.
- **Harmonization of strategic aims**; it was absolutely clear that the basic aim of the top-manager meetings was to identify the potential joint long-term goals,

harmonize their strategy and set up a monitoring system that could be able to highlight the strengths and weaknesses of the cooperation.

The following supportive success factors can be identified at this relationship development phase: *adequate level of organizational knowledge – because negotiations would not have started without it, compatibility of mutual aims, and a strategic way of thinking.*

Based on the messages of the cases, I drew the conclusion that the establishment of sustainable, strong, strategic-level cooperation is the most important relationship success goal at the development stage. Naturally, many variables are necessary for this establishment process, but trust, the capabilities of the involved partners, knowledge, market experience and the compatibility of their operations can play key roles in it. In the first case, the lack of buyer competence was in focus, while the adequate fundamentals were in focus in the second case. But the success categories in both of the cases stress the importance of elements such as trust or other capabilities which can establish deep cooperation and joint development at this development stage.

At the mature, stable stage of the relationship, relationship success goals were indicated with the key category of “**maintenance of joint strategic level development**”. It was clear from the interviews that both parties invested heavily in the relationship to be successful and wanted to realize the results together. The parties became strategic partners for each other, established the basics of the relationship with an eye to their existing strengths and developed support for each others’ capabilities. The relationship has become a substantive variable, it has institutionalized. At this stage, the most important goal of the partners was to maintain the achieved, high-level cooperation. The key support factor of the relationship at this stage was the highly institutionalized operational processes.

During this case study, the separation of business and relationship success and the analysis of the relation between success and development were also important research points. The current case study also confirmed the statement from the previous case that **business and relationship success goals exist simultaneously in the operation and**

development of relationships, but their content and context can be separated more during the higher relationship development stages. It was frequently mentioned in the interviews that the partners did not harmonize or set up joint strategy in the initial phases: *“it just happened”*, *“that was a lucky case”*, *“by chance”*, *“our ways happened to cross”*. Accordingly, their behaviour was definitely determined by their own business turnover goals, and it was a fortunate situation that their cooperation supported achievement of their individual goals. That is why relationship success goals were subordinated. But at the mature, higher development stages the interdependence between the partners could be felt in the interviews. They recognized that they could not be successful without each other. At these stages – along with certain turnover targets – relationship success appeared in such dimensions as trust creation, capability development and adaptation of operating processes. That is why the conclusion was reached that **there is no strict separation line between business and relationship success during the early development stages, but this separation increases as relationship development progresses.**

It was quite difficult to analyze the **relation between success and development** during the coding process, because each sentence and expression that referred to relationship success could also be directly or indirectly connected to the development as well. However, the case confirmed the previous results that business success goals are necessary at the initial stage, while relationship success goals are necessary at higher development stages, and thus the two variables are strongly connected to each other. In this case, we can even say that the development and success are the prerequisites of each other: (joint) success is necessary for further development and new success goals can appear as the result of a developing relationship. In this case, the dynamics of the relationship can be described with the following cycle: business and relationship goal-setting – successful execution – mutual satisfaction – higher level of goal-setting.

Concerning the time dimension of the relationship, the same conclusions can be drawn as in the first case. Thus, **the initial short-term approach was necessarily changed to a long-term way of thinking.** In the early years, the partners mainly focused on the actual issues that are illustrated with the following expressions from the interviews: *“there should be no problems”*, *“deliveries were accurate”*, *“they paid on time and did not complain”*. The long-term approach, however, appeared more intensively during the

higher development phases of the relationship, because partners have to create frameworks for sustainable cooperation over the long term and set the relationship success goals accordingly.

Summarizing the buyer-supplier relationship history and the text of the interviews based on the grounded theory in this chapter, the following statements can be made in relation to success in supplier-buyer relationships:

- *business and relationship success goals appear simultaneously in the operation and development of relationships, and the importance of relationship success goals increases during the development progress of the relationship through institutionalization;*
- *it was a milestone in the history of this buyer-supplier relationship that the partners recognized the necessity and importance of relationship success goals in the establishment of their strategic level cooperation at the developing stage;*
- *this case also justified the previous result that – based on the high level performance of operational processes and reliability – the complexity of relationship success continuously increases during the relationship development process;*
- *the results of the case study justified the pre-condition of the literature review that the meaning of business and relationship success can be separated especially at higher development stages;*
- *the fulfilment of business and relationship success goals resulted the mutual satisfaction of the partners at each development phases which supported the step towards the next development stage;*
- *the key categories of relationship success in order of their development process were as follows: high-level performance of operative processes and reliability, adaptation of operative processes, maintenance of common strategic level cooperation;*
- *this case confirmed the previous conclusion that relationship success can only be reached if the supporting success factors materialize in the relationship context as well. These supporting success factors can be different at each relationship*

development stage, but at the higher development stages those factors will be in focus which support adaptation and institutionalization;

- *finally, the case also confirmed the pre-condition that the long-term orientation continuously increases during relationship development.*

7.4. Expert interviews – fine-tuning of the results of the case studies

As mentioned already, I did not have the opportunity to prepare a third case study, due mainly to the lack of support and openness of the third buyer. Following this, I decided to align my strategy to the new circumstances and conduct interviews with further suppliers and buyers in the FMCG sector to test, fine-tune or add further views to the research results. I prepared seven interviews with procurement managers of both domestic and multinational retail chains and sales representatives of further producers (suppliers).

Interviews consist of two main parts. The first, shorter section was almost entirely unstructured; I asked them to explain to me their views of a successful relationship with examples from their experiences and what conditions they see as essential for the success of a business relationship. Depending on the scope of the interviewees' responses, I usually asked more questions to refine the answers and the examples. I requested them to provide examples for a successful relationship and explain their view on success to prepare them for my research questions. The second, longer part was structured and I requested them to confirm the key findings of my conceptual model built from the two case studies. I focused on the following key questions during the interviews:

- What attitudes are needed from both the supplier and the buyer so that relationships can develop from the simple transaction level?
- What is the role of product characteristics and the level of customer service provided by the supplier in establishing and strengthening relationships?
- Does growth play a key role in assessing the success of a relationship with a buyer or supplier? I was curious about the answers to this question to generalize my results, as I wished to determine whether growth-dominant business aims

appearing at the early development stages are sector-specific or are valid for all kinds of buyer-supplier relationships.

- What conditions, capabilities and attributes are essential for a relationship to become depth and strategic based on their view? How can a business relationship be successful even over a long-term horizon?

7.4.1. The beginning of relationships – understanding of success from transactions to episodes

The meaning of success at the early development stages was confirmed by the interviewees. They also emphasized the **product characteristics, price and acceptable level of customer service provided by the supplier** as the basics of a relationship at this stage; the same results were found in the case studies as well.

Besides the quality of the product, the **brand valuation of the product** was also mentioned by two of them as important element to establish and strengthen relationships. One of the procurement managers expressed the following: *"in my view, the product is the alpha and omega of everything. If we are talking about a good brand, a well-known product that consumers need, relationships are quite easily established and operated, despite certain downturns. If the situation is that we already have 3-4 well-known brand products and want to add a no-name product to this portfolio, then the role of price, flexibility and other conditions starts to increase."* The awareness of a products' **brand valuation** and its impact in buyer-supplier relationships was demonstrated as follows by one of the procurement managers of a multinational retail chain. *"Just imagine that I have relations with 130 partners. Physically, I do not have the time to take care of them just the same. For most of my time, I concentrate of the most important ones. I mean partners supplying a sizeable portion of our turnover as well. So it is obvious that these brands will become well-known and popular and not the sauerkraut supplied by the sole trader Smith."*

All of the interviewed suppliers and several buyers highlighted the importance of **on-time financial settlement of invoices**. This is illustrated by one of the key account managers of a domestic supplier: *"I have to say that we have come to the point that the value of on-time financial settlement of invoices is so great that suppliers even take*

certain financial losses as well, e.g. discounts. Unfortunately, we have seen quite a few manufacturing companies go bankrupt, due to unpaid receivables. On-time payment is a must nowadays for us enter into a significant business opportunity.”

In response to the question as to what supportive factors and attitudes are needed to achieve success at this stage of the relationship, all interviewees on both the supplier and the buyer side emphasized high-level performance of value-creation processes and fair behaviour. The **permanent high level of customer service, flexibility and quick adaptation to buyer needs** were all highlighted. As for the behaviour of the buyers, **predictability, low level of care** (i.e. only few problems) **and on-time payments** were mentioned as pre-conditions for success.

The compatibility of the two partners business (strategic) **aims** was also stressed by several interviewees as a condition to understanding success not only at the early development stages, but as a constant condition throughout the life of a relationship. It is interesting that the case studies showed that this success factor is linked to the development stage of a relationship; while several key account manager and procurement manager considered this idea as a basic condition of success in relationships. The necessity of compatible business aims is illustrated by a procurement manager of a domestic retail chain: *“I believe that the second most important issue following the product is what we want or can do together. If a supplier distributed a really good product at reasonable price, it would be important for me in case I am not interested in that category. I would rather order only a smaller quantity from that product and I will not bother too much about that. But it can also happen that the products of the supplier do not suit the size of our stores or the needs of our customers, thus I will not invest in strengthening this relationship. An inverse situation can also occur. Let’s say I intend to develop, but the supplier refuses to invest and is not able to deliver two or three times more than the original orders, or the supplier is not able to be more flexible then there will be no big deals either.”*

7.4.2. Success and growth

As mentioned in the analyzed questions section, business aims focusing on corporate growth are dominant in the first two stages of the case studies. Based on the results of the two case studies, our assumption is that the business aims of the cooperation focus on corporate size and market share growth. In understanding the above result, the question arises as to whether this conclusion is context-dependant or not, because the analyzed relationships are embedded in a sector that had been generating double-digit growth for a couple of years. In order to provide an adequate answer, I first examined how my interviewees working in different sectors assess growth. After that I concentrated on how the success of a relationship can be connected to the growth-centricity experienced in the case studies.

The role and understanding of growth in corporate operations was not uniform based on the opinion of the interviewed experts. The interviewees tended to mention the category coded as **market acquisition growth** and **sustainable profits** instead of growth. Experts believing in market acquisition growth considered constant annual sales growth, corporate size and market share increase as indispensable elements of corporate operations. *"There is pressure everywhere to grow and grow, to generate even higher turnover and to appear in more and more stores with additional products. It is quite significant pressure, but in my opinion it also supports us in achieving our targets. Of course, this is not the sole element, but if someone can support us in that we will do our best to become a reliable partner,"* said one of the growth-oriented procurement managers in an interview.

Besides growth as a key business success goal, the contribution of the performance of the involved partners to the sustainable efficiency of the companies also appeared as a further aspect of this. Accordingly, several interviewees highlighted that it is more important for them that their business partners support them in achieving their own profit targets. By understanding **sustainable profit** as a key success goal, interviewees emphasized the long-term sustainability and profitability operation as the business aim of the cooperation. Related to this, they added the supportive partner role of buyers/suppliers. *"Growth by all means is not sustainable over the long run in my*

opinion, as all sectors saturate sooner or later. I think that it is more important to focus on reaching and preserving a stable profit than to focus only on the actual market share and corporate size. From the cooperation point of view, a supportive partner in the above aim is really important for me. I believe that this could be the fundament of success to a certain extent,” highlighted the key account manager of one of the suppliers.

There is a grouping logic in the interviewees’ opinions about growth and efficiency. It was typically the sector and the corporate strategy that influenced whether or not sales and market share growth or stable profit is the major business aim. It is to be noted, however, that in several cases these two factors are prerequisite elements to each other. Typically, key account managers of suppliers with a stable market position and operating on a saturated market (for example chocolate bars, detergents) confirmed that profit was more valuable than market share growth. Growth was a key success goal of mainly highly growth-oriented retail chains.

In order to precisely understand success in business relationships, I felt that it was important to analyze what kinds of relationship development stages my interviewees differentiate. Related to this question, I was also curious whether they agree with the assumption/research result that different business and relationship success goals can be relevant at each development stage. Concerning the development of buyer-supplier relationships, the experts had the same view. The majority of them had the view that there was a kind of visible development curve or history in the analyzed business relationships. This development is, however, not necessarily linear; it is usually not unbroken, and in several cases development gets stuck at the early development stages. Only few relationships reach a higher, more mature development stage. One of the procurement managers concisely summarizes all the above. *”If I just think over my relationships with the suppliers belonging to my portfolio, I have to say that I do not really know approximately half of them. We selected them on different tenders; since then they are delivering the products and we are usually ordering up to the agreed limits. We are also quite frequently ordering without defined limits from certain partners, however I would still group them into a simple and normal category. From my 70-80 partners, I could name only 7-10 partners, who really count and I think it will not change materially in the future either.”*

The majority of the interviewed experts agreed with the concept that different business and relationship success goals are relevant at each development stage of a relationship. Many of them confirmed the idea from their own experience that both parties in a relationship need a higher level of cooperation and adaptability in terms of relationship success goals to develop further. They also highlighted the widening context of prerequisites in further joint development. *“The tighter the relations, the more the partners have to achieve. But it is quite obvious, in case we are also committed and invest let’s say in IT infrastructure then the partner also has to present more,”* said a key account manager of one of the suppliers, demonstrating the deepening expectations of the cooperation.

7.4.3. Capabilities and conditions for the success of relationships

The third question group of the expert interviews was how they judge the role of the capabilities and knowledge of the partners in the success of relationships. The messages of the case studies were clear that well-founded relationship management capabilities are essential for reaching the deep, stable relationship development stage. Accordingly, I asked the experts to tell – based on their experiences – their opinion on the role of the partners’ capabilities in forming and maintaining strategic cooperation, and what other conditions can be relevant in the aforementioned strategic cooperation.

In the opinion of the experts, two major elements were identified as prerequisites for reaching long-term, mature relationships. The first one is coded as the basic category **adaptation grounding, supportive capabilities**. The following expressions frequently appeared as essential success factors to long-term, strategic development: *“it is really important to know how the other party works”, “it is not enough to understand the processes of our partner, we have to support them as well”, “we all have to align our processes to each other to a great extent”, “we have to learn to accept the mistakes as well and not only the virtues”*. As part of the basic category, these categories can be related to adaptation grounding, supportive capabilities: **well-organized, internal operational and management processes of the partners, adequate sector knowledge, adaptability and complementability of the involved parties’ operating processes**. The concept of capability is not necessarily used similarly to the definition

presented in Chapter 4, as was already mentioned in the research results. I accept the terminology applied by the interviewees and understand *capabilities as a wide group of corporate skills and knowledge that entail the integrative characteristics of dynamic capabilities*.

Although the experts did not read the case studies, it was interesting that the majority of them confirmed the findings of the case studies in relation to the organizational knowledge and management capabilities of the involved partners. It appeared implicitly in almost all of the interviews that **relationships between similarly equipped partners "with roughly the same knowledge" can be successful**. It was also an important message that the parties individually reach these capabilities, while the parties are developing together from this level. One of the key account managers summarized the above findings in the following way: *"We can serve those partners well, who also have a developed IT infrastructure and are able to monitor their sales and the actual liabilities towards us as well as able to provide feedback to our requests, for example inputs to our forecasting. ... I do not say that this should be the maximum, as we also invest a lot in our buyers even after selecting them for an accentuated position, but without establishing the basics the cooperation simply cannot work properly.... If we do not receive the necessary inputs to do our job, there is no possibility for development ... we cannot move on in development with companies which do not have the basics, for example inventory monitoring tools, daily reports, well-trained and available contact persons. Of course, we will sell some to them, but they will never become an important and significant partner compared to other ones which have all these prerequisites."* Interviewees highlighted the **well-organized operative processes and proper organization for management and decision-making** as necessary capabilities for a successful cooperation. The procurement manager of a multinational retail chain illustrated the problems with the buyer's management (coordination) as follows: *"It is typical for smaller companies that the quality of their products is quite good, but their corporate governance is so under-developed that we cannot do anything with them. They do not have separate functions such as sales and marketing, finance and logistics that are quite normal for larger companies. They usually employ generalists for the administration and an accountant, but their professionalism is well-below that of the multinationals. It is only the accountant who knows the exact numbers of the major performance indicators such as turnover, and in most of the cases the owner only has a*

rough estimation of them. And if one of their employees is missing, then life stops there; we have seen it several times. ... I do not say that all small entities should become a multi company, because that makes no sense, but I think that they could learn a lot from us in certain organizational and management duties.”

In addition to the adaptation grounding, supportive capabilities category, the **harmonious cooperation atmosphere** category also appeared as a condition for the permanent success of business relationships. I identified several categories within this basic category: (mainly interpersonal) trust among partners, good reputation, a balanced power situation,²⁷ result-driven conflict management practices, and smooth communication. This finding practically fully corresponds to the theory of the Interactive Approach.

I would like to highlight the importance of **interpersonal trust** which also corresponds to the results of the case studies. The role of trust was also stressed by all of my interviewees. However, most of them also added that trust is usually understood as a good personal relationship practically in relationships between companies. This is illustrated by one of the procurement managers. *”It happened that I had cordial relationship with the key account manager of one of the suppliers, when I was working for X retail chain. But when I moved to Y retail chain, my successor at X retail chain could not work with that key account manager and that supplier was almost listed out from the retail chain. But I can mention another example as well: the relations of my current company with one of their suppliers were quite lame, but when I joined this company we managed a breakthrough, as I had known them for many years and we could work well together. So, we were able to save this relationship in the context of my new company.”*

Special attention was given to the establishment of a **balanced power situation** in the interviews. Most of the interviewed experts mentioned the importance of an atmosphere with the buyer/supplier that can support stable, calculable and efficient cooperation. They added that the above can be seriously thwarted if either of the parties abuses its

²⁷ A balanced power situation does not mean that there are no parties in a dominant power position, but I consider it as being when none of the members abuse its power dependency and none of them hamper the other parties.

power dominance. The representatives of the suppliers had the feeling that the market can be characterized with a captive supplier position and certain retail chains usually do not hesitate to draw the attention of their suppliers to their power dominance. It is, however, notable that many of the interviewees had the opinion that the abuse of power dominance is usually connected to the personal characteristics of the involved members. One of the interviewed key account managers summarized the complexity of the appearance of power dominance as follows: *"I think it is quite complex. If there is high turnover and margin pressure at a certain retail chain, their suppliers will also be burdened with that and thus they will be quite tough throughout the negotiations. However, I think that it is not the mission of all the retailers to abuse their power dominance. It depends more on the people involved. If someone was taught to oppress the other party or simply it is his or her character, then it is no surprise that he or she will be really aggressive during the discussions. But I would not say that the management obliges him or her to behave like this, ... or at least it is not the sole reason for that. In my view, it is the characteristics of the people that really count. ... But of course, performance is also highly important. If someone lags behind in the services or underperforms, it will be quite easy to surmount him or her. But if a supplier constantly performs well, there is no sense in pushing it ... in my experience."*

In my view, the results of the expert interviews support and confirm the respective conclusions of the case studies. The statement of the case studies that the capabilities of the involved partners are major prerequisites to long-term success has also been verified. These interviews also helped to refine the conceptual model of the case studies built for the relations between business success and development, especially in terms of growth. I built the results of the above interviews into my conclusions presented in the next, summarizing chapter.

8. Synthesis of the research results and the conceptual model of success

This chapter summarizes the main conclusions of business and relationship success. I start with the introduction of the conceptual model of buyer-supplier relationship success based on the research results. Afterwards, fulfilment of my expectations drafted in the propositions is evaluated.

8.1. The conceptual model of success in buyer-supplier relationships

The initial proposition – which is also considered as a prerequisite for analysis of the research questions – was that **success in buyer-supplier relationships can be understood in the form of business and relationship success goals which can be separated from each other. This statement can be accepted with the following considerations:**

- *Business and relationship success appear simultaneously in the operation and development of relationships, but their relevance changes over time. During the initial development phases, the individual business success goals play a dominant role. Later, at higher relationship development phases, the importance of relationship success goals grows and it is not possible to reach the corporate business aims without them.*
- *Unequivocal separation of business and relationship success can principally occur starting from the so-called development phase. Business success goals derive from the corporate strategy of the relationship members in most cases. They are measurable and they usually appear in the form of individual, mostly financial or business performance indicators (such as revenues, market share, profit, cost level, etc.). Relationship success goals are difficult to quantify; relationship members usually jointly set up and manage them. They focus on the joint operational processes, management tools and institutionalization of the given buyer-supplier relationship and can also be characterized with mutuality.*
- Business success goals mainly focus on growth in almost all relationships, but their actual appearance depends strongly on the context, as growth-orientation can have different meanings (market-acquisition growth versus sustainable profit growth).
- In the initial development phases, relationship success goals are subordinated to the execution of business success goals, but the importance of relationship success continuously grows throughout the development of the relationship. *Relationship success goals are built on each other in the different development phases, and achievement of the lower-level goals is necessary to reach the*

higher-level ones. *In the case of business success goals, this kind of hierarchy does not necessarily appear.* Business success goals can change significantly during the development of a relationship, as was shown in the case studies, where the strategy of the supplier changed.

Applying the above business and relationship success goals as supporting ideas, the following answer can be provided to the first research question. The concept of success in buyer-supplier relationships can be defined as follows.

Success in buyer-supplier relationships can be understood as a subjective, organizational-level perception, which evolves following the fulfilment of both business and relationship success goals. It derives from the joint relationship performance of the relationship members, achievement of their prior expectations, and results in mutual satisfaction.

Having already answered the second and third research questions, *the following can be stated concerning the time dimension and role of success in buyer-supplier relationships and in relationship development.*

- Success appears in the form of business and relationship success goals in buyer-supplier relationships. **These goals define the exact expectations of the interested parties in relation to the performance of the relationship. Fulfilment of the expectations strongly depends on the actual own performance of the members in the relationship.** As already mentioned, business success goals – mostly depending on the corporate strategy – usually focus on corporate growth, while relationship success goals summarize the common aims of the parties related to the operation and sustainability of the relationship, and the increasing complexity during relationship development can be found in their content.
- **Both business and relationship success goals change over time.** In general, the importance of relationship success goals increases at the higher relationship development stages, and the content of business and relationship success goals steadily deepen as time passes. **The change in behaviour over time does,**

however, absolutely depend on the context of the relationship. In contrast to the growth orientation, there are many relationships with the aim of sustaining the existing situation. In such kinds of relationships, the diversity of success goals is limited (they are constants in certain cases).

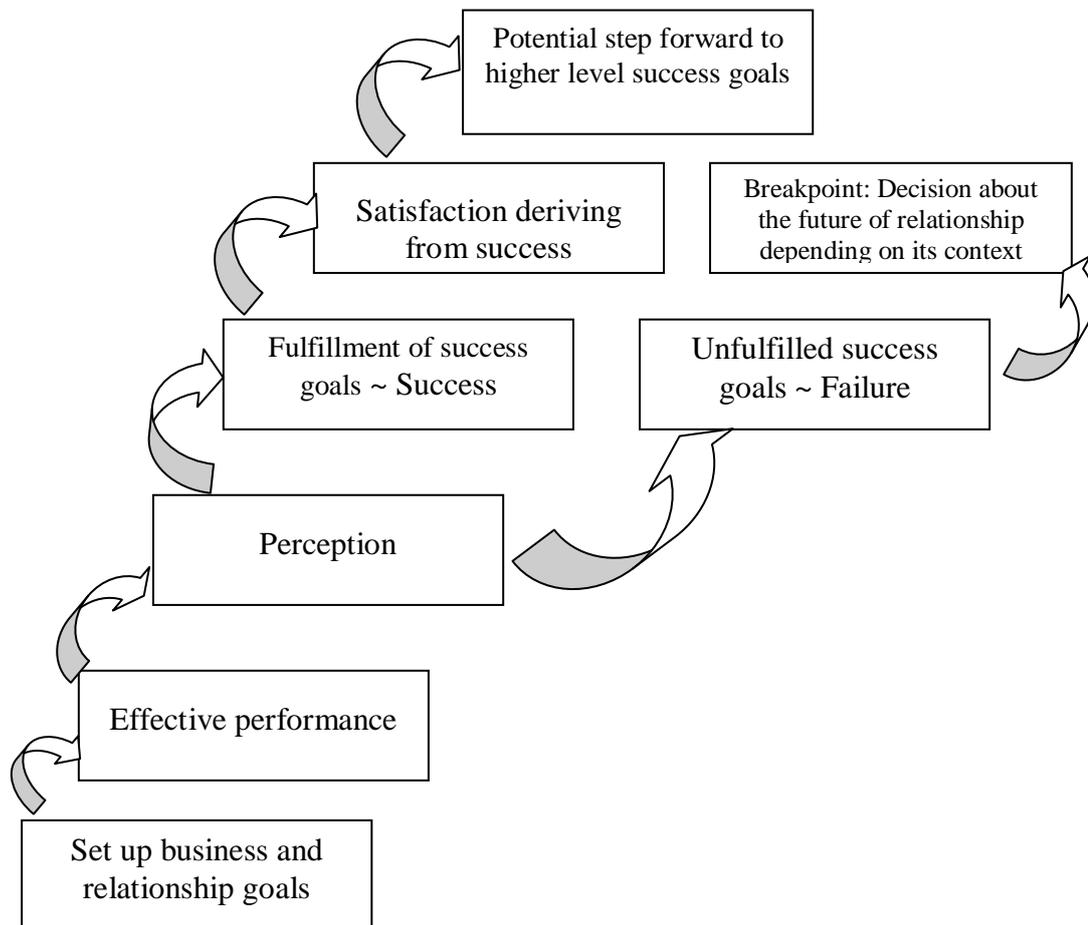
- **Success can be understood as a subjective, organizational-level perception of the relationship members about their actual and joint relationship performance, and thus fulfilment of the business and relationship success goals.** This perception is typically non-repetitive, and not individual, rather than organizational. As a result, it is significantly different from the perception of Parasuraman et al. (1985).
- **Achieving the success goals results in mutual satisfaction of the relationship members and can lead to steps forward in the relationship development.** It should be emphasized, however, that success in itself is only a necessary, but not a sufficient condition for development, because the potential directions and possibilities of development are strongly determined by the prior aims of the parties and the relationship context. Additionally, development can take place in a relationship following an unsuccessful situation as well, if the parties can learn from the unsuccessful situation and/or there is no other available partner to realize their initial aims. Concluding the above, **the relation of success and development absolutely depends on the relationship context**, and there is no general deterministic relation between them.
- It should be also noticed that **even mutual satisfaction** – generated by success – **cannot result in a linear “straight” development.** Development can be understood as a learning curve (see Grant 1996; Teece et al. 1997; Kyläheiko 1995), in which progress is supported by satisfaction – generated by success – but there is no causality between the two variables.

Based on the above, the role of success in buyer-supplier relationships and relationship development can be interpreted with the following dynamics. Relationship members set up business and relationship success goals, and the achievement of these goal depends on both their own and joint performance in the relationship. If the success goals are met, and the parties understand it positively; it can lead to their satisfaction, which can be the basis for further development. But if the perception of the performance of the

relationship is negative, success can not be identified, and it can be a breaking point in the relationship's development. This breaking point, however, does not necessarily result in a breakdown in the development or the end of the relationship, because the relation of success and development depends on the actual relationship context.

In general, the basic goal structure is the same in each development phase: success (or lack thereof) can be identified following the perception of the achievement of the individual-level quantified business goals and the joint relationship goals. The dynamics of success in buyer-supplier relationship is illustrated in Figure 19.

Figure 19. Role and meaning of success in business relationships



8.2. Evaluation of the propositions of the research results

In this section, I analyze whether the results of the empirical research can confirm the initial expectations reached on the basis of the literature review.

(1) Different business and relationship success goals are relevant at each different development stage of the relationship.

This proposition can be considered as justified, because both case studies and the conclusions of the interviews with FMCG-experts confirm that success appears in the form of different business and relationship success goals during relationship development. Business success mostly derives from the corporate strategy of the partners and focuses primarily on company-growth, but depending on the actual strategy of the buyer and supplier it can appear in different forms. In general, the dominant initial goals of relationship success are the high-level performance of customer service processes and reliability. These are complemented with the adaptation of operating processes in the exploratory stage, which can be evidenced in the joint set-up and customization of the operational targets of the relationship members. In the development stage, business and relationship success goals become equal. During this phase the most important dimensions of relationship success are the institutionalization, adaptation, evolution of the developed routines and trust creation. The management processes and capabilities of the parties can also play an important role in achieving these goals. At the highest stage, the stable stage, the main relationship success goal is the sustainability of the results gained from the smooth, strategic-level cooperation. It should also be noted that the diversity of both business and relationship success goals over time and in content absolutely depends on the internal and external environmental context of the relationship.

(2) Different success factors support the fulfilment of different relationship success goals, and the importance of each success factor depends on the relationship context.

The proposition can be considered as **partially justified**, because the research results showed that although there is a certain level of context dependency in the influencing

role of certain support factors, in the initial phases success goals mainly focus on the management of high-level operational performance and mutual reliability. There are, however, basic success factors which are necessary to reach success goals in almost all cases. Such kinds of “general” success factors can include the appropriate price/value ratio of the products and services, compatibility of strategic aims or the existence of complementary capabilities. In general, we can state that, although context dependency exists to a certain extent, the results of the interviews and the case studies suggest that supporting success factors can also be similar.

(3) There must be a connection between relationship development and relationship success: relationship success plays an important role in relationship development, while the lack of success may result in disruptions in the relationship.

This proposition can be also considered as **partially justified**, because the major message of the case studies and interviews is the context dependency of the development and management of relationships. It can be concluded from the case studies that success is one of the important, but not exclusive conditions for development. Moreover, some kind of cyclicity can be identified between the fulfilment of success goals and development, based on the case studies. The fulfilment of business and relationship success goals at each development stage resulted in the satisfaction of the parties, supporting the move forward to higher development phases. The findings of the case studies and expert interviews also showed that – especially at higher development stages – other support factors²⁸ are required to reach higher development phases. The importance of relationship success in development should be noticed. Case “A” proved directly, while case ”B” proved indirectly that if relationship members do not set up relationship success goals, requiring higher institutionalization in higher development phases, then individual business success goals will “hang in the air” and it will be not possible to reach them. A further important message of the interviews with FMCG-experts is that continuous development is not the general target of all relationships; a stagnating relationship can also be a successful one. Besides, in the case of an unsuccessful situation there might be certain decision opportunities and/or environmental contexts, when an unsuccessful relationship can also develop. Summarizing the above statements, it can be stated that success can support relationship

²⁸ For example, the compatibility of long-term corporate aims, or adequate organizational knowledge.

development with a high probability, but that the relation of the two variables is context dependent. Thus, the internal and external context, and the environmental situation of the relationship determine the practical role of success in relationship development.

(4) The time dimension of business and relationship success goals at each development stage can be different. In line with the relationship development, the relevance of long-term oriented success goals strengthens.

Some kind of development process was identified in the time dimension of success goals as well. In line with the development of relationships from the transactional and episode levels to higher levels, the time dimension of business and especially relationship success goals lengthens. This phenomenon can be mostly interpreted insofar as the members' joint efforts in capability and process development pays off only over the long run. In this relation, one need only consider the "return time" for IT investments, merchandising capability development of buyers, or the establishment of a joint sales team. We should, however, also analyze the limitations of context dependency of this proposition. As mentioned earlier, not all relationships aim to continuously develop: there are stagnating or even weakening relationships as well. In the latter cases, the time horizon of the relationship is usually short or medium term. Concluding the above, the proposition is considered as **justified** *in terms of the case studies* and as **partially justified** *in general*.

(5) Relationships which contain the supporting management tools for mutual commitment and development (as key success factors) have the chance to reach the stable development stage at the early development stages already.

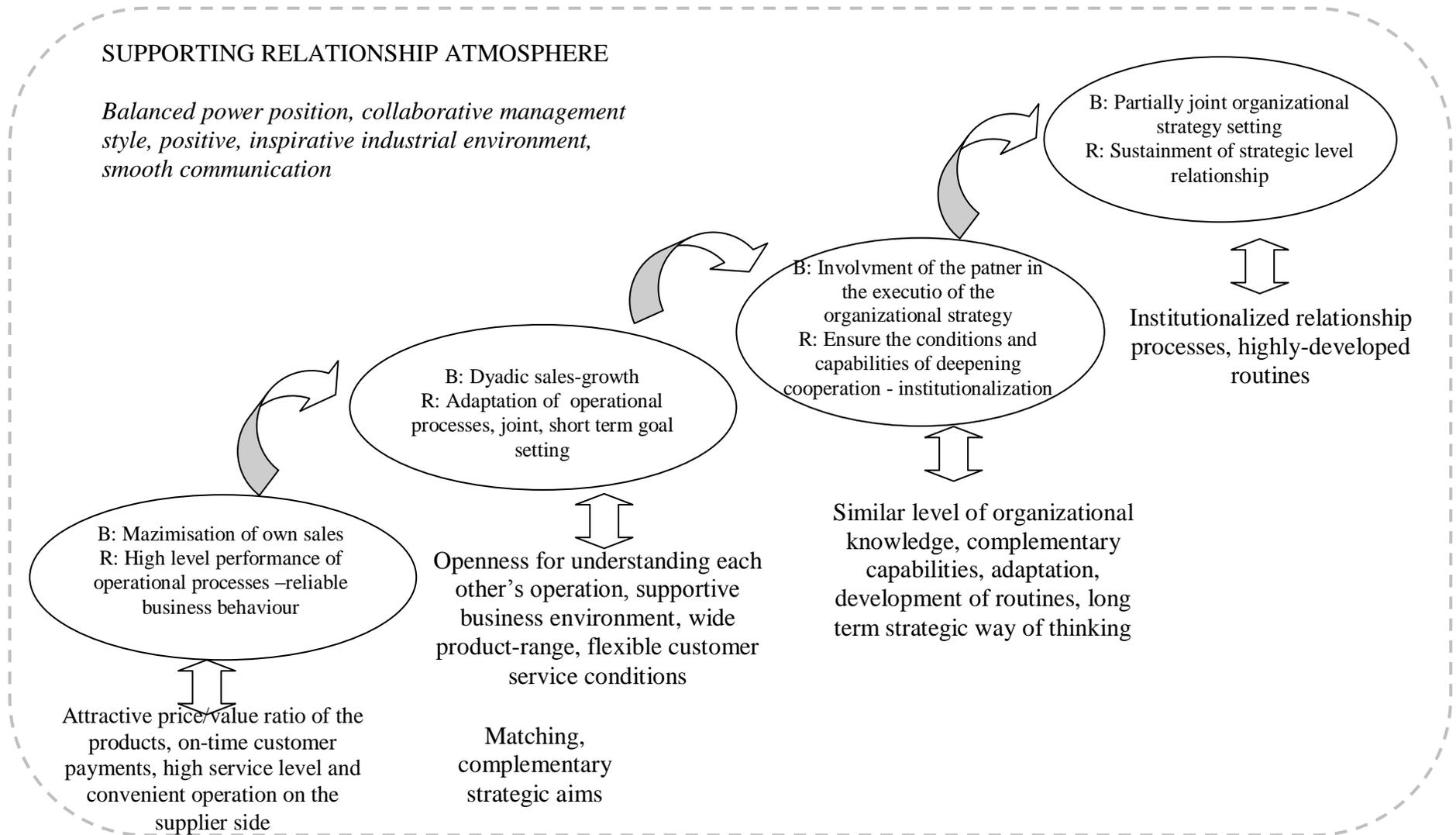
In analyzing the role of supportive success factors in the success and development of relationships, we can see that high-level performance of value-creating processes and harmonization of the members' strategic goals are essential even in the early development stages. Success is not probable without these success factors. The research results indicated that the matching of the members' capabilities and operational routines, and based on that the long-term operability of the relationship, become the development engine from the late exploratory – early development phases. Thus, the proposition is only **partially justified**. Although the existence of basic supportive

success factors such adequate products, flexible supplier services, and collaborative management style is needed even in the early development stages, the role of success factors grounding the long-term cooperation becomes dominant at the middle development stages.

8.3. Applying the conceptual model to the analyzed cases

In the following chapter, I apply the above introduced conceptual model to the studied cases to determine the possible role and appearance form of success at each development stage. The mapping and identification of business and relationship goals at each development stage is illustrated in Figure 20. The supportive context of the relationship atmosphere is essential to meet success goals. A vulnerable, vague atmosphere can hamper success and thus the development of a relationship. The role and existence of the atmosphere is represented with the dashed lines, also showing the difficulties in drawing the borders of the atmosphere. Ford used ellipses to illustrate the relationship development stages, and I also drew ellipses picturing business and relationship success goals to reflect the tight links between the two ideas. Supportive success factors help to reach business and relationship success goals, and thus they appear below the success goals. The letters B and R show the respective business and relationship success goals, and the related supportive success factors at each development stage.

Figure 20. Actualization of the conceptual model for the case studies



In my conceptual model of the understanding of success in business relationships, I have identified elements essential for the balanced development of relationships as the supporting atmosphere based on the results of the case studies and the conclusions of the interviews. A balanced power situation is also essential, as is shown in the first case study: if either of the parties relies exclusively on its power dependency to manage the relationship, mutuality suffers and long-term development can be hampered. Thus, I consider a situation as balanced in terms of power, when none of the members abuse their power dependency. Collaborative management style and smooth communication is important, because they play a key role in forming a positive, conflict-free atmosphere around the relationship. Dynamic and growing industrial environment also has positive and motivating effect.

At the pre-development stage, the major business success goal of the relationship is to maximize the individual turnover, and the two basic relationship success goals are the high-level performance of operational process and reliable business behaviour. The latter two, however, have high relevance at the further development stages as well. Research results confirm that if the above business and relationship success goals are not reached in the early development stages, the development of the relationship simply cannot evolve.

I consider dyadic sales growth as the most significant business success goal at the exploratory stage, as it can be the foundation of long-term cooperation. As a relationship success goal, I emphasize the adaptation of operational processes that can materialize in the appearance and fulfilment of mainly short-term – typically one-year – relationship goals. These goals include turnover expectations, assortment configuration, joint promotions, and various (partially) customized marketing campaigns. The fulfilment of these goals contributes to step towards the mature relationship development phases.

Business success goals are difficult to generalize at the development and stable phases. As the case studies showed, the members tightly link their corporate strategy to their business goals in the relationship at these development stages. These strategies and goals obviously vary for different companies. Relationship success goals are related to the establishment of long-term, deep cooperation capabilities. The main focus is to set

up the organizational-institutional frameworks for cooperation, and to institutionalize the operative processes through the complementary capabilities. Relationship success at the stable stages is to sustain and deepen the achieved results. Success goals include the execution of partner-specific investments, identification of long-term strategic aims and a higher level of institutionalization.

8.4. Further research directions, messages

My dissertation concentrates on understanding and defining success in buyer-supplier relationships through the application of the grounded theory and case study methods. Based on the results of the research, several further relevant research directions can be identified to broaden our knowledge on the role of success in relationships. I would mention three possible directions that could support further refining and extension of the conceptual model:

- It is worth deeply analyzing the role of certain success factors in success, and the role of the atmosphere in the performance of relationships as well as in achieving business and relationship success goals. It would also be interesting to explore how the change and/or impact of the atmosphere and the identified success factors influence the fulfilment of business and relationship success goals.
- In this dissertation, I presented one successful and one unsuccessful relationship. In order to generalize the research results, it would be useful to analyze a developing, but unsuccessful relationship. The conclusions of such a case could materially broaden the conceptual model of success.
- Quantitative testing of the conceptual model as a further research direction also seems to be helpful. It is, however, quite a challenge whether relationship success goals identified through qualitative research results can be quantified. I also find it relevant to examine how the multi-variable data analysis method based on quantitative data collection can confirm the role of perception in the judgment of relationship success and show the nexus between success and development.

Despite the several questions which remain unanswered as listed above, I am of the opinion that a couple of management messages can be formulated, which can serve as

interesting lessons for both businesspeople and researchers of business sciences. The major observations for the success of relationships from my dissertation are summarized below:

1. In buyer-supplier relationships, success can be grounded with the exchanged products/services, the good performance of customer service operations and reliable business behaviour. If there are problems with any of the above factors, the success and development of the relationship is in danger, according to the research results. These three factors are the 'solid bases' of further development to set up higher-level business and relationship success goals.
2. Research results confirm the finding of management literature that a high level of internal and external context dependency is characteristic for the operation of business relationships. As a result of that, the establishment of relationship success goals, exact relationship performance of the companies, and the relationship between success and development are all changing, depending on the actual environmental context, and they should be evaluated accordingly.
3. Depending on the actual context, success can be one of the engines for relationship development. It can be interpreted through the following cycle: goal-setting – effective performance – perception – success – satisfaction – potential steps forward in relationship development. Business success goals are the decisive factors in the initial phases, but relationship success factors will have growing importance throughout the development of relationships and are crucial for reaching the stable phase. It is important to harmonize the business aims of the parties and to transform them into relationship aims in order to reach and sustain the strategic level, stable relationship phase. This development is not, however, linear even in the case of successful relationships. It is rather a helical development and can be understood as a learning process.
4. Business and relationship success goals can be limited in terms of both time and content. It is obvious that not all buyer-supplier relationships aim to reach a strategic-level relationship; in most cases, relationship development remains at

lower levels. In these cases, both business and relationship success goals are aligned to this structure and do not set up higher level of cooperation.

5. In order to reach a mature, strategic level of relationship, all interested parties need to have – besides the common and coordinated goals – the capabilities for joint development and deep cooperation. These capabilities are not always natural endowments of the business partners. As a result, the relationship can be considered as success at the different development stages if the parties are able to establish the basis of higher-level cooperation by utilizing their complementary capabilities. Adaptation, institutionalization of cooperation processes and evolution of routines play key roles in reaching success at the relationship development stages.
6. It is not enough, however, to only possess the above mentioned capabilities in order to attain success supporting permanent and dynamic relationship development. All involved parties need to make serious efforts, joint investments, capability development and adaptation so that success can be sustainable. It is important to highlight the role of relationship-specific investments and capability development that can strengthen the institutionalization of the relationship and the routines.

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Annex

1/A. Coding results of supplier's success goals in Case A

Key-category	Connecting sub-categories	Concepts	Examples from the interviews belonging to the concepts	Number of identified text-parts belonging to the category (pieces)
High level performance of operational processes - Reliability	High level operational performance	Satisfaction with the products	"the products had good prices, the customers looked for them" "we offered many kind of products"	7
		High level customer service	"the goods always arrived in time" "the deliveries were accurately"	14
		Flexibility	"we could order by phone as well"	5
		Availability	"the first priority at the stocks was the continuous availability"	4
	Application of collaborative management tools - reliability	Trustworthiness	"it happened... as we promised" "that happened... what we discussed in advance" "we followed the contract"	23
		Solution-oriented conflict management	"we tried to manage our problems quickly"	9
	Balanced interpersonal relationships	"we understood each other" "there was a quite good relationship between us"	13	
Adaptation of operational processes	Customization of operational processes	Customized product range and promotion policy, flexible customer service	"we tried to fulfill our customer's needs even perfectly" "we organized the customer service processes on that way, which was the most comfortable for the buyer"	17
	Setting and fulfillment of short-term operative goals	Increase of dyadic sales, compatible business aims, harmonization of the operational processes	"we discussed a lot how do they do and which way would be the best one" "we wanted to grow"	15
Joint high-level development capabilities	Decrease the differences in the parties' knowledge- development of the buyer's management skills	Decrease the gaps deriving from different organizational structure, knowledge and culture	"we were not on the same level" "there was a huge difference in our knowledge" "the wholesaler was a one man show... it didn't had a real organization"	37
	Long-term goal setting with the buyer	Identification of the superpreium products' sales opportunities - Setting of the joint sales and distribution structure's frames	"it seemed that we were not in the same reality" "we looked for a partner to our new strategy" "we didn't understand each other"	25
	Development of the cooperation's processes - Intensive adaptation	Harmonization of operative processes, adaptation	"the basic information, reports were totally missing" "there wasn't any valuable feedback" "the was a limited stock turnover" "they didn't have professional people and functions"	33

1/B. Coding results of buyer's success goals in Case A

Key-category	Connecting sub-categories	Concepts	Examples from the interviews belonging to the concepts	Number of identified text-parts belonging to the category (pieces)
Development of "fair" partnership - reliability	Supportive, fair behaviour	Valid claims	"we claimed only in case of real problems"	7
		In-time payments	"there wasn't any problem with the payments" "we settled the invoices in time, they shouldn't have to force us"	8
	Application of collaborative management tools- reliability	Trustworthiness	"it seemed that they didn't want to cheat" "we indicated all problem, even if it was our fault"	9
		Solution-oriented conflict management	"if there was any problem, we tried to solve it as quick as possible" "we claimed if we didn't really solve the problem alone"	13
		Good interpersonal relationships	"our people met each other" "we could work together quite well"	6
Adaptation of operational processes	Management of promotion and range policy together with the supplier	Jointly managed sales promotion and range policy	"we discussed what kind of products could be sold easily" "most of the cases the supplier decided about the promoted products" "we evaluated the efficiency after the promotions"	19
	Short-term operative goal setting	Understanding of each other's operation, short term goal setting	"we tried to adapt to their operation" "we planned the yearly turnover targets together"	27
Joint high-level development capabilities	Development of own management and sales capabilities	Development of professional sales function and specialized organization	"there was a huge gap among their expectations and our possibilities" "a professional sales team would have been necessary" "there wasn't any people in my team for that"	22
	Long-term goal setting together with the supplier	Identification of superpremium products market opportunity, development of effective joint distribution structure	"they pushed their products to us" "it was impossible to meet so huge expectations" "the goals were correct, but without any execution tool"	18
	Intensive adaptation - development and matching of operational processes	Harmonization of operational processes, adaptation	"we had to work a lot to meet the supplier's expectations" "we should manage these things more slowly"	23

2/A. The coding results of supplier's success goals in Case B

Key-category	Connecting sub-categories	Concepts	Examples from the interviews belonging to the concepts	Number of identified text-parts belonging to the category (pieces)
High performance of operational processes - reliability	High level operational performance	Customer's satisfaction with the product	"the products were OK" "we had wide product range"	16
		High customer service level	"there was nothing special with the deliveries" "we delivered the products on that way as it was requested"	23
		Flexibility	"depending on the customer's request, we delivered from the factory directly" "we could discuss the the order size as well" "we tried to match to their processes"	12
		Acceptable stock and service availability	"we kept the 48 hours delivery in generally"	6
	Application of collaborative management tools	Trustworthiness	"they respected the contractual points" "it didn't happened unexpected things"	29
		Positive relationship atmosphere	"there was a normal relationship between us" "it was easy to cooperate with them"	16
Adaptation of operative processes	Customization of operational processes	Application of tailor made promotions, flexible customer service	"we tried to manage the product range on that way, which met their needs" "at the promotional offer their points were always taken into consideration"	38
	Cooperative (business) goal setting	Openness for understanding each other's operation, joint short-term goal setting, Focus on dyadic sales increase	"we jointly discussed the yearly sales plans" "their preferences were taken into consideration" "it was important to realize the yearly plans"	21
Establishment of strategic level cooperation capabilities	Trust creation	Top-managerial contact, willingness for goodwill trust building	"we wanted to prove that they could do it" "we invited them to visit our factory" "there was many barriers among us, which had to be pulled down"	34
	Setting of long-term institutional frames	Contribution in the buyer's specialized subsidiary's foundation, development of joint planning process	"we spent many months with thinking about the proper ways" "we had to find the best way for the cooperation"	47
	Development of the buyer's sales capabilities	The buyer's mechanizing capabilities development, participation in the buyer's organizational development processes, Utilization of the first case's conclusion	"we learned from our failure" "we built up a comprehensive capability-development program" "their capabilities were previously evaluated"	42
Sustenance of joint strategic level development	Development of relationship-specific bonds, well-developed institutionalization	Creation of partner-specific management positions	"we created that position in order to focus on the buyer" "we didn't want to lose control"	26
		IT-developments	"every sales rep. got a PDA" "in the long run an EDI connection should be considered"	23
		Development of joint performance measurement system	"the requested data set was discussed in advance" "there is a perfect KPI system"	14
	Harmonization of strategic aims	Building of joint sales strategy	"we jointly built up our sales strategy and its execution as well" "our sales targets are their one as well"	25
		Regular formal management meetings	"a mid-level meeting structure was developed" "there are regular forecast meetings on the first week in every month"	19

2/B. The coding results of buyer's success goals in Case B

Key-category	Connecting sub-categories	Concepts	Examples from the interviews belonging to the concepts	Number of identified text-parts belonging to the category (pieces)
Fair business behaviour	Financial discipline	In-time payments	"we always kept the deadlines" "there wasn't any outstanding"	9
		Valid claims	"we didn't call them needlessly"	12
	Application of collaborative management tools	Trustworthiness	"they kept the contract" "they seemed to be fair"	15
		Positive relationship atmosphere	"our relationship was better than average" "the conflicts were really rarely"	6
Adaptation of operational processes	Supplier's participation in the sales management	Joint promotion setting, mutual involvement in sales incentive policies	"we discussed the promotion offer" "they tried to be competitive in prices, and we helped"	18
	Joint (business) operational goal setting	Openness for understanding each other's operation, short term goal setting	"it happened that... we followed the same way" "our expectations had met" "we tried to manage these things more deliberately"	21
Establishment of strategic level cooperation capabilities	Trust creation	Top-managerial contact, Willingness to create goodwill trust, Informal meetings	"their CEO had never visited us before, that was a big thing" "we were open for everything" "it seemed that they really wanted to do it"	27
	Development of long-term institutional frames	Founding a specialized subsidiary, Setting up joint planning principles	"we established a specialized company for the distribution" "we put every activity to that company, which was connected to the supplier" "we had to learn cooperate together"	47
	Development of sales capabilities and market opportunities	Superpremium product knowledge and merchandising capabilities development - coordinated by the supplier	"we set up a training course" "there are always trainings"	42
Sustenance of joint strategic level development	Relationship-specific bonds, well-developed institutionalization	Creation of partner-specific subsidiaries and warehouse operation	"we had a specialized company for this" "a separated sales rep team was created for these tasks"	23
		IT-developments	"there is a real time connection among the systems"	17
		Development of joint performance measurement system	"we set up the KPIs" "the key reports are always monitored"	14
	Harmonization of strategic aims	Building of joint sales strategy	"we set up the goals, promotions, forecast and everything together"	25
		Regular formal management meetings	"our top managers have bi-monthly meetings" "the plans are always discussed"	19

Structure of the interviews

Research structure

Analysis of the supplier's relationship with selected buyers

1. Internal organizational context of the buyer relationships

The supplier entered the Hungarian market in 2001. Its initial strategy was to rapidly increase its market share, which was based on low production costs (partially deriving from cheap raw materials). As a result of that, they focused on realising high turnover volume, but less attention was paid to profitability. This strategic direction worked well and they reached market leader position in the wet petfood segment and No. 2 in all other segments within a few years.

By 2006, market trends had changed dramatically: raw material prices increased, private label branded products strengthened their market position, production costs rose and thus market share came under pressure. Consequently, the growth-oriented strategy of the supplier broke down, and it could not generate profits any longer and turned to loss-making. The company, however, recognized quite late that the volume-driven strategy was not sustainable. Initially, they tried to sell even more at reduced prices to hypermarkets to regain their market leader position. But this step resulted in a so-called downward spiral: turnover and profits kept on falling, while they could not regain market share either, and thus a crisis in strategic goals evolved at the company.

Questions:

How and why did these trends happen? What caused the weakening profitability and the crisis in strategic goals? How did they identify the problem and the new strategy focus? What are the details of the new strategy?

The head office management of the multinational company reacted to the above problem with the complete replacement of the local management and strategy. They selected managers, who were not linked to the previous era, but were committed to the basic values of the company. The new strategic focus was replaced with profit generation and basic values such as sustainable growth, stability, reliability, transparency and loyalty appeared among management tools. They emphasized the business turnaround for all employees and business partners. This turnaround greatly impacted the buyer relationships and the range of sold products as well. High profit-bearing and top-quality products were in focus, and private label brands were not peers any longer.

In line with the refocus on premium and superpremium products, the company also started to prefer wholesalers specialized for pet food sales as key buyers. Originally, the company had relations with 50-60 retailers and wholesalers; this was reduced to 10 and they paid special attention to the key important partners. Furthermore, they decided to conclude an exclusive nationwide distributor agreement with a wholesaler procurement association and a third-party partner to smoothly manage the sale of the superpremium products and strengthen their market share.

Description questions:

- How does the change in the trends appear in reality?
- How did the strategy change influence relationship with the buyer in 2006-2007?
- Which buyer groups were negatively and positively impacted by the strategy change?
- What kinds of new management tools appeared during implementation of the new strategy?
- How was the new strategy of the grocery and specialist channel separated? How did they find the superpremium products as a new strategic focus?
- How did they select the distributor of the superpremium products? What were the key selection points, processes, etc.?

2. Analysis of relationship “A”

The supplier shifted its new strategy to the so-called value-strategy: it replaced the whole product range, started to focus on superpremium brands and decided to offer the products through an exclusive distributor. In order to ensure country-wide coverage, the company selected a wholesaler based on their relationship history, the existing retail partner network of the wholesaler and the high growth potential in the partner.

The relationship lasted for only approximately 1.5 years, although the parties originally intended to work longer together. The cooperation, however, did not fulfil the previous expectations.

Identified basic problem to be analyzed

- The buyer was really successful during the time of the volume strategy, but had major difficulties with the sales of superpremium products requiring expertise and special knowledge in their retail network. What could be the reason for that?

Questions: Why did it not work? What kind of knowledge was missing from the buyer? What is their view on that? What kind of role did the supplier play in knowledge creation and when and how did it intervene? Why did it not work?

- Relationships with buyers were also burdened with serious internal financial problems. As a result, the supplier could not supply continuously. All that was caused by the lack of management capabilities.

Questions: What is the background of this issue? What mistakes were made by the buyers? How could these mistakes have been avoided or how could the supplier have helped the buyers out?

- The flexible, value-creating cooperation was also hampered by the differences in organizational culture and corporate governance tools (multi – SME)

Questions: What do we understand by cultural differences? How do they appear in real life situations? Mention some exact differences regarding governance and operative processes that blocked development!

Questions: What were the critical incidents and characteristics that resulted in disruption of the relationship? What are the lessons learned for the supplier and for the buyer?

3. Analysis of relationship “B”

Following the previous failure, the supplier decided to conclude the exclusive distributor agreement with a well-capitalized, domestic wholesaler. The current wholesaler was skipped until then, as they were already acting as the exclusive distributor of a competitor of the supplier. The relationship started in late 2007 – early 2008 and continuously strengthened. The wholesaler became the largest buyer of the supplier by 2009, while it was only the 4th largest in 2006. Sales of superpremium products have more than doubled since 2006.

Questions:

- How did this relationship start and develop in the early years?
- What were the major phases of the relationship development in the last 3-4 years?
- What kind of attributes, decisions and activities are characteristic for these development stages and what supported the step towards the next development stages?
- How did they manage to overcome the initial trust issues? What were the key elements of the trust creation?
- How did they develop/create the knowledge (product, sales, marketing and food safety knowledge) of the buyer so that it could be able to support retail sales?
- How did they build on the consequences of the previous case in this relationship?
- What were the capabilities of the buyer that enabled them to develop quickly?
- Why did the buyer decide to work with this supplier and what is their view about the requirements for a developing relationship?
- What did they have to change/develop to support cordial cooperation?
- What kinds of common decision-making and business development mechanism were set up to support the increasing sales to retailers and to end-users?
- Were there any cultural differences? If yes, how did they manage them?
- Did they experience differences in the management of the two companies? As this difference was identified as one of the reasons for the failure in the previous case.

- Were there any weak points in this relationship? If yes, which are these points and how do they manage them?
- What could be the critical incidents of this relationship and what kinds of consequences could we draw from them?
- How could they define the role of success factors in development?