

Business Relationships as Activity Systems – A Conceptual Note

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Abstract

Within the Markets-as-Networks perspective, the ‘ARA-model’ has been developed (Håkansson 1990; Håkansson and Snehota 1989, 1995; Ford 1998). This model conceptualizes business relationships as consisting of three layers; an *Actor* layer, a *Resource* layer and an *Activity* layer and their corresponding interorganizational couplings. Activities are performed by actors – actors that have access to, or are in control of various resources. In this paper, the activity layer is focused as it functions as the point of view of an analysis of business relationships and networks. This activity-perspective on business relationships means that actors are understood by the activities they perform, while resources are understood as the resources that these activities require. As a direct consequence, the notion of ‘interaction’ in business relationships is focused as it denotes a joint activity across borders. It is as interaction that actors perform activities, which affects the actor bonds and it is through interaction that resources are being transformed which affects the resource ties. Activity theory might provide a viable framework for an analysis of this type of interaction.

1. Introduction

To do business is an everyday, common sense, taken for granted activity of most people in our western society. This paper is about that activity. Being implicit and taken for granted by practitioners does not automatically make it a simple subject of scientific inquiry. Rather, it is precisely the other way around. Because it is so generic and implicit, it may be difficult to capture it in practice and even harder to conceptualize it in theory (Snehota 1990). Nevertheless, this paper represents an attempt at conceptualizing the phenomenon of doing business and to theoretically model it.

When we turn to the analysis of business firms, we turn to the analysis of people doing business. Actors perform activities. This paper is devoted to the elaboration of the application of an activity system (Engeström 1987, 1990; Engeström and Middleton 1996) for the analysis of business relationships as they are conceptualized within the Markets-as-Networks approach (e.g. Håkansson 1989; Håkansson and Snehota 1989, 1995). The aim is to expand our knowledge by providing another view on what it means to do business in business relationships. What, then, is meaningful activity given the Markets-as-Networks interaction approach? This is the overall research question addressed in this paper. To be more specific, the questions motivating this paper could be formulated as:

- How do activity systems relate to the existing conceptualization of business relationships within the Markets-as-Networks approach?

- Is the application of activity systems as a model of analysis fruitful when analyzing business relationships?

The purpose is twofold, associated with both theoretical grandeur and practical, methodological modeling. First, the purpose is to relate activity systems to the existing conceptual framework of business relationships of the Markets-as-Networks approach. Second, the purpose is to develop a model of an activity system that could be applied specifically for the analysis of interaction in business relationships between small firms utilizing new technology for strategic business development.

1.1. A Point of Departure: The Markets-as-Networks Approach

This paper is based on the ‘Markets-as-Networks’ approach on industrial markets (Ford 1998; Håkansson 1982; Håkansson and Snehota 1995). The reason for choosing the Markets-as-Networks approach as a theoretical base is to be found in the conceptualizations of business activity and business interaction which provides us with a viable theoretical notion of business enterprises as non-isolated entities (Håkansson and Snehota 1989, 1995) dependent on their business exchange relationships linking them to the wider business context (Snehota 1990) and populated by actors performing activities and with access to various resources (Håkansson and Snehota 1995). This view is founded on the ideas of organizational theorists such as Cyert and March (1963) viewing organizations as coalitions, Katz and Kahn (1966) viewing organizations as open systems, and Pfeffer and Salancik (1978) viewing organizations as dependent on resources in a socially constructed environment. These ideas along with the results of the early empirical research of the IMP²²³-group represents the foundation for the Markets-as-Networks approach (e.g. Håkansson 1982; Hägg and Johansson 1982; Ford 1990; Håkansson and Snehota 1995; Ford 1998).

2. An Activity Perspective on Business Relationships and Networks

Within the Markets-as-Networks approach, the ARA-model has been developed (Håkansson 1990; Håkansson and Snehota 1989, 1995; Ford 1998). This model conceptualizes business relationships as consisting of three layers; an *Actor* layer, a *Resource* layer and an *Activity* layer and their corresponding interorganizational couplings. Activities are performed by actors – actors that have access to, or are in control of various resources. In this paper, the activity layer is focused as it functions as the point of view of an analysis of business relationships and networks (compare with the works of Dahlgvist 1998). Albeit focusing the activity layer as a structure for the analysis of business relationships, the actor and resource layer is indeed very much part of the analysis as important and inseparable parts of a business relationship. However, this activity-perspective on business relationships means that actors are understood by the activities they perform, while resources are understood as the resources that these activities require. As a direct consequence, the notion of ‘interaction’ in business relationships is focused as it denotes a joint activity across borders. It is as interaction that actors perform activities, which affects the actor bonds and it is through interaction that resources are being transformed which affects the resource ties. Interaction is the process constituting the essence of the activity links. This will be further elaborated in the following section.

2.2. Exchange Through Interaction

The main requirement of business activity is that it has to be altogether effective in terms of the achievement of a goal by a minimum of resource utilization (Pfeffer and Salancik 1978).

²²³ IMP: *Industrial Marketing and Purchasing*.

What, then, is this goal? What is it that is being sought? In general marketing terms, it has to do with utility – the creation of value. This value is realized in the exchange with another actor (Alderson 1957, 1965; Bagozzi 1975a, 1975b). In marketing terminology, the goal with business activity could be defined as *exchange*. To do business is to perform activities that are of the character as to generate exchange between the actors (Prenkert 1998). This is also recognized by Snehota (1990):

“Theorizing about business behavior is contingent on theorizing about exchange behavior in general and about market exchange behavior in particular.” (Snehota 1990, s. 51).

The core of marketing is, thus, the exchange as suggested by Alderson (1957, 1965), Bagozzi (1975a, 1975b), Snehota (1990), and Kinner, Bernhardt and Krentler (1995) although the conceptualizations of *what* the exchange is may vary between these researchers (Khodabandehloo 1995). To do business is to perform activities that generate exchange. These activities are directed towards another actor whom is required for exchange to occur, i.e. a customer. This type of activities, which are directed towards another actor with the aim of producing an exchange, could be labeled as *interaction*. Exchange is created by interaction between two actors. The concept of interaction has been treated in a number of ways in marketing literature. Grönroos (1980) discusses the interactive marketing function as pivotal for the marketing of industrial services. The concept of interaction has been recognized within services marketing as important because of the specific character of services (e.g. Bitner 1995; Czepiel, Solomon and Suprenant 1985; Grönroos 1980). Services are realized in interaction between two actors, whether being industrial services offered to an industrial market or services directed towards end consumers. Within the line of research that has been labeled ‘Markets-as-Networks’, the concept of interaction has been used to denote one enterprise’s dependence and interconnectedness to other actors in a business network. All businesses require resources for its existence and these resources exist in the environment (Pfeffer and Salancik 1978) and access to these resources is gained through interaction (Håkansson 1982) in a network of businesses (Hägg and Johansson 1982). This line of research emerged from the works of the IMP-group during the 70s and 80s and has been elaborated to become what is usually called the Markets-as-Networks approach (e.g. Håkansson and Snehota 1995; Ford 1998). Sometimes, it is referred to as the ‘Interaction-perspective’ due to its emphasis on the interaction between businesses in a network to understand the functioning of industrial markets.

Hence, as a concept, interaction has been used and conceptualized in a number of ways to denote an array of phenomena in the marketing literature. It is therefore of outermost importance to clarify the content of the concept if it is to be used in a way apart from a mere every-day use of it. This is the case in this paper, and we shall therefore reason around a definition of it.

2.2.1. Interaction Defined

As we have seen, to do business means performing activities that generates exchange. These activities are directed towards another actor who is required for exchange to take place, usually a customer. This type of activities directed towards another actor and with the purpose of generating exchange could be labeled *interaction*. The exchange is created through interaction between two actors. Interaction is, thus, defined as a two-way dialectic process of boundary spanning activities. Exchange arises as a result of this process the content of which is composed of the activities. The specific purpose of business activities is to generate exchange of an economic character. The transfer of money for goods in a business

transaction most evidently exemplifies this exchange, although the exchange of knowledge for business purposes in a business relationship may be another example. Exchanges of other types than business exchange are quite possible where the purpose of the interaction is something else than business exchange. Social interaction results in social exchanges (Homans 1958; Emerson 1962; Blau 1964) since that is what the actors engaged in the activity primarily mean. How the interaction process is to be defined is dependent on the purpose with the process, i.e. what exchange the involved actors primarily seek as a result of it. To engage in business activity means to take part in an interaction process whose primary purpose is to generate business exchange. This type of interaction characterized by this type of purpose is labeled *business interaction*. It is important to note that the process *per se* may contain a large number of social elements although the purpose and the result of it is business exchange which primarily is focused on an economic utilitarian exchange (Bagozzi 1975b). Business interaction is therefore defined as *mutual dialectic activities across boundaries aiming at or resulting in business exchange*. Business exchange is defined by the primary pursuit of utilitarian exchange even though it usually also contains social elements and, thus, could be labeled mixed exchange (Bagozzi 1975b).

2.2.2. Interaction Marketing

Actors do business by performing boundary-spanning activities with the specific purpose to generate business exchange. This business exchange is usually conceptualized as *value* (e.g. Snehota 1990). Hence, to do business is to engage in a process of mutual boundary-spanning value creating activities. These activities are here labeled business interaction. As we already have seen, the concept of exchange is central in marketing, but as we also have seen, exchange cannot come about without interaction. These two concepts are extraordinarily important when it comes to understanding what it means to do business, and to conceptualize an exchange without interaction seems futile. This implies an activity perspective on what it means to do business and a marketing approach that could be labeled 'Interaction marketing'. The basic idea in this is hardly new. McInnes (1964) discusses a broad conceptualization of marketing in a similar way – albeit in different terms.

"A concept of marketing in its widest sense, therefore, *is any activity which actualizes the potential market relationship between the makers and users of economic goods and services.*" (McInnes 1964, p. 57, emphasis in original).

The actualization of the market potential is achieved in the exchange. Transferred to concepts used here, this has to do with boundary-spanning activities between actors. These activities actualize the latent potential exchange since it establishes a boundary-spanning contact. Hence marketing is a 'motion' or a force as Shaw conceptualized it already in 1915. McInnes (1964) expresses it as:

"Marketing is the creative force which reacts on these potentialities as material. Hence it is necessary to analyze marketing activity, an activity which in its essential and generic meaning is actualization." (McInnes 1964, p. 61).

These actualization-activities are of a genuinely boundary-spanning character and are in this thesis labeled interaction. The result of the interaction, or with the terminology of McInnes, what is being actualized through the activities is exchange. Business interaction contains both social and economic elements which was recognized by Bagozzi (1975b) arguing that exchanges could be of various types; utilitarian, symbolic, and mixed. Mixed exchanges contain a mix of utilitarian economic elements and symbolic social elements. The result of

business interaction is precisely this type of mixed exchange. Hence the purpose of the activities could be multiple – it could be both ‘business and pleasure’ involved in business interaction albeit – and it is worth emphasizing – it could never be *only* pleasure and social exchange sought; it would not be *business* interaction, but pure social interaction. Following the argument made by Granovetter, the business interaction is embedded; it is not purely social and symbolic – it would be to oversocialize it – and it is not purely utilitarian economic either – it would be to undersocialize it – it is socially embedded (Granovetter 1985). This social embeddedness is manifest in the mixed exchanges, which are the purpose and/or the result of business interaction. However, examples of undersocialized business interaction without social elements could be identified, as we shall see below.

2.2.3. Interaction Marketing Conceptualized

Business interaction could be identified within short discrete business transactions as well as in business relationships characterized by a long-term focus, trust, and commitment. Exchange could, thus, be present in both these types of business interaction, as recognized by (Snehota 1990, p. 64). The difference lay in the type of exchange being the result of the business interaction. In a discrete business transaction, the exchange sought is primarily of a utilitarian character, while in a business relationship primarily is of a mixed character. In a business relationship, business interaction is socially embedded and interspersed with social elements beyond the purely economic to a greater degree compared to a business transaction which could be completely without social elements. This is the case when buying an item from a vending machine. Albeit lacking social elements, it is still an example of business interaction and the episode fulfills the requirements of our definition. It is activities across borders; someone performs activities towards a vending machine which is a technical system clearly apart from the human being, and the machine perform certain activities towards the human actor. The relationship is mutual of character; one reacts to each other’s activities and the purpose is exchange. The actor exchanges money for a good. Hence, it is business interaction with a purely utilitarian exchange as the purpose. In the case where the setting of the episode is a business relationship, the business interaction is interspersed with social elements. An example might be a buyer-seller relationship on an industrial market. It is activities across borders in terms of the two businesses. The activities are of a mutual character as one reacts to each other’s activities and the purpose is business exchange. What is being exchanged are resource bundles (Snehota 1990) such as knowledge, experience and products etc. In this case, the exchange is not merely utilitarian but also of social character and shows the characteristics of a mixed exchange (Bagozzi 1975b). Not only the purpose and the result of the process is socially colored, but also the process *per se*; business interaction is colored by social elements such as trust (Morgan and Hunt 1994) and long-term commitment (Gundlach, Achrol and Mentzer 1995; Dwyer, Shurr, and Oh 1987). In this case, the business interaction is socially embedded contrary to the example with the vending machine above. The two episodes described here are extreme examples, nevertheless both episodes contain business interaction and the relevant unit of analysis is this type of episodes, which could be empirically identified. Whether these episodes are parts of chains forming business relationships or isolated discrete events is of less importance from a conceptual marketing point of view. What is important from a conceptual point of view is to have concepts that can handle all types of business episodes. The concepts discussed above, as central within interaction marketing seems at least initially to display these features. Table 1 offers an overview of the central concepts of interaction marketing.

Concept	Content
Business Episode	Structural framework
Business Interaktion	Activities
Exchange	Purpose and result

Table 1. Central concepts in interaction marketing

2.2.4. Implications for the View of Business Relationships

Business relationships constitute one extreme form of context for the business interaction as they display features of trust and long-term commitment developed over time by socially embedded business interaction. Business relationships comprise of chains of temporally interlinked business episodes, which, in turn, comprise bundles of temporally interlinked activities. The very specific process constituted by the very specific interlinked dynamic activities of a mutual character across borders and aiming at or resulting in exchange, is here labeled business interaction, hence giving the concept a very distinct and specific content. The use of the words ‘business interaction’ in this thesis should be given this very specific meaning and should not be confused with other more generic uses of the word in other contexts.

2.3. Business Relationships as Activity Systems: A Generic Model for Analyzing Business Interaction

By the adoption of an activity perspective on business relationships, the business relationship is conceptualized as an activity system (Engeström 1987, 1990; Engeström and Middleton 1996). The aim is to expand our knowledge by providing another aspect to what it means to do business in business relationships. The questions motivating this section could be formulated as: How do activity systems relate to the existing conceptualization of business relationships within the Markets-as-Networks approach? Is the application of activity systems as a model of analysis fruitful when analyzing business relationships? Here, the purpose is twofold, associated with both theoretical grandeur and practical, methodological modeling. First, the purpose is to relate activity systems to the existing conceptual framework of business relationships of the Markets-as-Networks approach. Second, the purpose is to develop a model of an activity system that could be applied on business relationships in SMEs utilizing new technology for strategic business development.

2.3.1. The Activity System as a Unit of Analysis

In his seminal work (Engeström 1987), drawing on the works of the cultural- historical ideas, Engeström introduced a model for depicting human activity in terms of activity systems. This model comprises an activity triangle as the primary conceptual construct of activity systems. Engeström showed its usefulness to understand complex organizational phenomena as he used the model to analyze the business of a hospital (Engeström 1987). The activity system in its original shape is depicted in figure 1 below. Although each part of the model is related to the others, let us, for the sake of clarity, examine them more closely as we go through the nodes A - F.

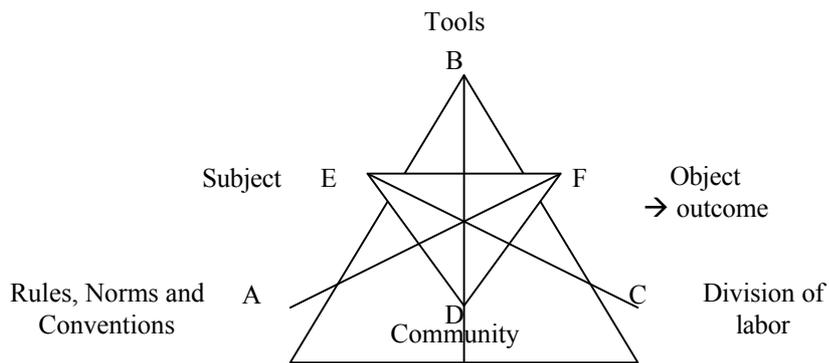


Fig. 1. Engeström's (1987) original model

Node A denotes the explicit rules as well as the more implicit norms and conventions used to mediate the relation between a subject and a community. These are socially infused and structured as the interaction between subject and community is of a social character. Node E denotes the subject performing the activities depicted in the activity system, i.e. the agent. This agent is not isolated but linked to the community as well as to other nodes of the model, as we shall see. Node B denotes the tools used by the subject to perform the activities so that a certain outcome is achieved. These tools could be viewed as technology and techniques used to achieve the desired outcome of the subject. Node F denotes the objective and the outcome of the activities performed within the activity system. Hence, it could be viewed as the purpose of the activities and the intentions of the subject with them as well as the actual outcome. Node C denotes the organization of tasks into certain areas and roles of the subjects. The division of labor mediates the relation between community and the object with the activities performed within the activity system. Node D, finally, denotes the collective of subjects to which the activity system pertains.

In summarizing, an activity system is a model for analyzing purposive activities performed by subjects with certain intentions and roles, and who are socially related to a collective. These activities are enhanced by the use of technology and performed within socially negotiated norms and values as well as within given rules and regulations.

According to Engeström (1987), the four sub-triangles that are being formed between the nodes are concerned with different aspects of social activities. The sub-triangle AED is labeled the 'exchange triangle' as it regulates how the exchange between a subject and a community is being mediated through rules, regulations, norms and conventions. The sub-triangle EBF is labeled the 'production triangle' as it regulates how the subject produces the desired outcome by using various tools. The sub-triangle DFC is labeled the 'distribution triangle' as it regulates how the work is distributed in the community to render a certain outcome. Finally, the sub-triangle DEF is labeled the 'consumption triangle' as it regulates how the subject consumes in a community with regards to a desired outcome.

In the discussions of Engeström, the heritage from Marxist theory could be traced, most notably in the discussion of the four sub-triangles. Production, consumption, exchange, and distribution represents the higher order functions that arise from the mutual relations among components/nodes of the sub-triangles. These functions are themselves contradictory and paradoxical as they arise from relations between nodes which are themselves contradictory in

nature. In addition, the reasoning and the dynamics of the general model of an activity system are quite sublime and not altogether easy to understand as noted by Dahlqvist (1998). Activity systems are to a large extent constituted by individual subjects with diverging interests, purposes and priorities which implies that incoherence and conflicts occur within the activity system (Engeström 1987, Blackler 1995). Hence, tensions in activity systems are inevitable and constitute a main characteristic as individuals meet and interact.

2.3.2. The Use of Models of Activity Systems for Business Analysis

Holt and Morris (1993) has made an excellent summary and analysis of the activity system and applied it for the analysis of complex organizations. Since then, Engeström's (1987) model has been adapted by Blackler (1993, 1995) who labeled it 'the socially distributed activity system'. This adapted version was in turn modified by Dahlqvist (1998) to depict a business model of the socially distributed activity system with a focus on knowledge as mediated through this activity system. Blackler's (1995) model is depicted below in figure 2.

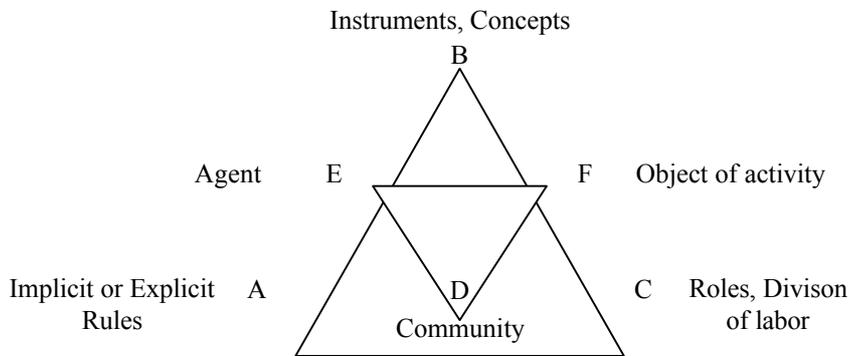


Fig. 2. The socially distributed activity system (Blackler 1995, p. 1037).

This model is used by Blackler to conceptualize a 'knowledge-based theory of the firm' and to analyze knowledge as a socially dispersed phenomenon in an activity system. The works of Blackler is very interesting and he brings some interesting points to attention as he criticizes the works of Engeström.

Blackler (1993) offers a key criticism concerning how incoherence and inconsistency is interpreted by Engeström. As a result of the Marxist tradition in which activity systems are developed, it is associated with an unwarranted emphasis on the frictions among the elements of the activity system. As noted earlier, Engeström's notion of activity systems stems from a tradition with the aim to avoid the pitfalls of separating mind from structure, thought from action, individual from collective – a separation that has characterized Western thought and tradition. Albeit promising, the Russian tradition has its own problems as recognized by Blackler (1993).

First, Marxism²²⁴ has an enormous ambition to explain not only the past of societies, but the future as well. Blackler (1993) establishes that the process that mediates culture and thought does not necessarily coincide with that of mediating social structures and their reproduction.

²²⁴ The term 'Marxism' is quite problematic as it is used to denote a wide array of lines of thought, and we lack consensus on what to include and what to exclude in this term. However, all of the themes could be traced back to the ideas and writings of Marx, and that is how the term is used here; as a label on the works of Marx, whether they are 'early' or 'late' is left unconsidered.

As such, activity systems are best suited for the analysis of the latter, and would, hence, be able to apply to the analysis of organizational phenomena. On this point Blackler's critique seems relevant and correct. Second, Marxism explains the nature of all societies based on their mode of production. Since production in a Marxist view always include consumption, the instability is stemming from this tension between production and consumption, a tension which Marx developed further in his social theory of society as consisting of classes. Engeström seem to adhere to this view of tensions, as stemming primarily from the conflict between production and consumption and this is what Blackler's critiquing aims at. However, it seems to me as if one could embrace the philosophical and methodological aspects of the Marxist tradition without having to embrace Marxism as a social theory of society. Third, Blackler (1993) offers critique of the search for deterministic causes in Marxism. In the case of Engeström's activity system, this could be traced in the notion that the tensions in the system drives change towards increased self-awareness, although Engeström never uses the Marxist term 'false consciousness'. There is an assumption made in Marxist social theory that there exists one true, optimal, and preferred state of society where there will be no tensions. This assumption determines the development or, in Marxist terms, the social transformation of people within the society. This is not the view adopted here, nor of Blackler (1993) who suggests that the incoherence and tensions of activity systems are much more complex than the Russian tradition manages to account for.

To summarize, Blackler's (1993) critique focuses on Marx' theory of the society rather than on his philosophy of science and method. As noted earlier, I see no reason why one could not adhere to Marx philosophy of science and method without embracing his theory of society. Indeed, as Blackler (1993, p. 875) points out, "[d]ivorced from Marx theory of the contradictions of capitalism, activity theory offers a powerful package of ideas..." Blackler (1993, p. 875) summarizes the contribution and benefit of activity systems by saying: "[...] practical actions are located in a process which is recurrent, systemic and self-organizing, rooted in history and reaching out to the future." (Emphasis in original).

After presenting his critique, Blackler formulates his own version of a model of an activity system adapted to the analysis of organizational phenomena. Apart from some cosmetic changes, the major change is concerned with the interpretation of the nodes of the activity triangle, and the addition of a trajectory of development over time. This adaptation is an important extension to Engeström's model, depicting a general model for business analysis purposes, albeit insufficient. When using activity systems for the analysis of specific business phenomena, the model must be adapted and related to that specific context. Although activity systems provide us with guidance concerning the unit of analysis, we still have to establish the *level of analysis* in regard to the phenomenon under study. Hence, the model of activity systems suggested in this thesis for the analysis of business relationships in SMEs using a certain technology for strategic business development and business activity should be applied only to these conditions. Although Blackler's (1993) model may function as a starting point, it needs further refinement and adaptation. This is elaborated in the subsequent sections. The model of activity systems used in the following discussions concerning business relationships in general as activity systems, is the modified version of Engeström's original model presented by Blackler (1995) which he labels 'the socially distributed activity system' and in which no extra temporal dimension is added as opposed to the model presented by Blackler (1993). Also, the elements constituting the apices and the nodes of the activity triangle is closer to Engeström's (1987) original conceptualization.

Drawing on the works of Blackler (1995), Dahlgvist (1998) customize the activity system to a business exchange context as it is conceptualized within the Markets-as-Networks approach. The focus of the activity system is on the business relationship in which the activities take place. Although very promising, Dahlgvist's (1998) work seem to fail to accurately account for the link between the analysis of business relationships in terms of activity systems and the current existing conceptual base developed within the Markets-as-Networks approach focusing on activities, resources and actors as substance layers of business relationships. Of course, some of the links are obvious, while some are perhaps not. It seems as if we need to carefully establish the relations and the links between the two conceptualizations of business relationships if we are to be able to further develop and refine our theoretical base of Markets-as-Networks.

2.3.3. Implications on the ARA-model

Dahlgvist (1998) has analyzed business relationships in terms of activity systems. However, his focus is on how knowledge is mediated through the activity system while the focus here is on the activity system as a model of analysis for *any* business interaction. Engeström's ideas of activity systems seem quite promising as a way of analyzing and understanding the intricacies and subtleties of business relationships. As Blackler (1993, p. 875) notes:

“[...] Engeström's approach provides a perspective on the complexity of relationships in which activities are embedded, located as they are not only in forms of discourse but also in material action, technologies, rules and social structures.”

The activity system accounts for the *context* in which activities are performed, activities that are in this paper conceptualized as *interaction* since they are responsive (Asplund 1987) in nature. What we can call *business interaction* is performed within business relationships, which, hence, constitutes the context for business interaction in terms of an activity system. This is also in essence what Dahlgvist (1998) establishes. The problem is that he halts there. According to the Markets-as-Networks approach, the substance of a business relationship consists of three layers; resources, actors, and activities (e.g. Håkansson 1989, Håkansson and Snehota 1995). These substance layers constitutes the very core of the activity system as it is depicted in figure 2.

The triangle ABC in figure 2 is the *resource triangle* of the activity system denoting the resource layer of the business relationship. This resource system is being deployed within the business interaction, which the model clearly depicts. Node A consists of rules and norms mediating the relation between the individual agent and the collective actor. Albeit, these rules and norms need not to be a resource *per se*, they certainly may control access to resources. In an organization with an 'open' climate towards creativity and innovation, this openness will be reflected in the norms, values and regulations of that very same organization and could in itself be seen as a resource. Node B consists of technology. The technology embraced by an organization is one of its significant resources. It encompasses such things as physical production facilities as well as know-how and hands-on techniques regarding the operative activities performed. The technology mediates between the subject node and the objective/outcome node. Node C consists of roles. These roles reflect a division of labor and various areas of competence and knowledge within the activity system mediating between the larger community or collective and the objective/outcome node. Hence, these elements located at the apices of the activity triangle, function as mediating processes mediating between the other nodes of the activity system. Consequently, resources are seen as dynamic components mediating between the nodes of subject, object and community in a business

relationship. This view seems compatible with the conceptualization of business relationships of the Markets-as-Networks approach. The organization of tasks and knowledge is of crucial importance. An well-organized activity system where competence and division of labor has been carefully organized is a resource that could be deployed whenever needed.

The triangle DEF is the *actor triangle* of the activity system denoting the actor layer of the business relationship. This actor system is structured within business interaction. The activity system as a model has the strength to overcome the conceptual difficulties with the ‘actor’ concept as it is articulated in the Markets-as-Networks approach, where the actor is conceptualized as anything from an individual agent via the business enterprise to a cluster of business enterprises linked to each other in a network (Håkansson 1982). As is clearly shown in figure 2 the individual agent in node E is linked to a collective actor in node D. This benefit with using the activity system as a means for analysis of business relationships is also recognized by Dahlqvist (1998) and takes serious the argument made by Granovetter (1985) that economic activity is socially embedded. Node F consists of the purpose and outcome of the interaction. Only actors can have intentions and perform purposive acts that generates an outcome. In business relationships, the purpose of the interaction is business exchange and the intentions of the actors are to achieve business exchange, hence the label *business relationships* and *business interaction*.

The entire activity triangle ABCDEF depicting the activity system *per se* accounts for the activity layer of the business relationship. It links the three layers in a process of interlinked activities, which is here labeled business interaction. Business interaction is the very core of the business relationship and an activity system has the power to account for the complexity and the intricate dynamics attached to it. As business is conducted, activities are performed by actors, which have access to various resources. This is, in this paper analyzed in terms of an activity system in which actors interact as they do business.

2.3.4. Implications for the Analysis of the Dynamics of Business Relationships

So far, when discussing business relationships, we have not yet discussed the role of activity links, resource ties, and actor bonds. These are the connections between the business entities in a network, each related to their substance layer, respectively. However, when discussing change and dynamics in business relationships, these connections plays an important role as they do not merely display the effects of change but are also one of its main sources (Håkansson and Snehota 1995). “*Relationship development is the mode in which the connections become manifest.*” (Ibid, p. 276).

Before we continue, it is fruitful as well as necessary to briefly account for the view of relationships in the Markets-as-Networks approach: At first glance, networks and relationships seem to have a *static* connotation almost as if they were frozen in time. I would say that this view is stemming from the adoption of a static model of business relationships, a model depicting a relationship as a static relation between two entities. In order to overcome this, the question of change and stability surface as an important issue to deal with. Indeed, it is important, however, it seems to me that we need a dynamic model to account for a dynamic phenomenon.

The Markets-as-Networks approach identifies three dimensions of change as shown in figure 3.

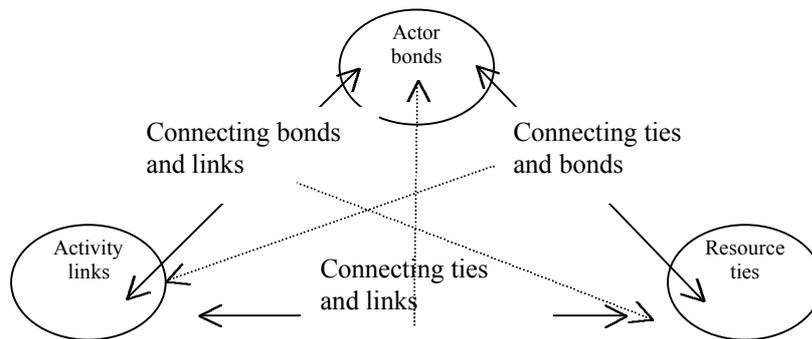


Fig. 3. Dimensions of change in business networks. (Source: Håkansson and Snehota 1995, p. 275).

These dimensions are formed as the interplay between the three static notions of activity links, resource ties and actor bonds are recognized. By connecting them two by two, a dynamic effect on the third dimension is achieved. In this way the six vectors of change are identified and explored (Håkansson and Snehota 1995, pp. 276-281).

1. A structuring vector strengthens actor bonds, as the activity links and resource ties are connected. This vector of change preserves the existing actor bond structure.
2. A restructuring vector of change, which reshapes the existing actor bond structure, weakens actor bonds.
3. A specializing vector strengthens resource ties, as the actor bonds and activity links are connected. This vector of change preserves existing resource tie structure as the ties becomes specific.
4. A generalizing vector of change, which substitute resources and resource ties for general technology interdependence, weakens the resource ties.
5. A hierarchization vector strengthens activity links, as the actor bonds and resource ties are connected. This vector of change preserves existing activity link structure.
6. A heterarchization vector of change, which reshapes existing activity link structure, weakens the activity links.

In the activity systems model, the dynamic is implicit, as it is a model depicting the system of ongoing historically dependent activities. The activity system *per se* is a dynamic model of the activities of business relationships. Therefore, change is an integral part of the model as the activity system is based on activities and interaction between its elements. These elements, *per se*, change over time as well as their relations to each other resulting in tension and conflict between its parts. This creates the innate incoherence and paradox characteristic to activity systems, something that is also recognized by the Markets-as-Networks approach concerning change in business relationships and networks, albeit only as conflict of interest between actors: “The ‘hierarchization’ and ‘heterarchization’ vectors involve conflict of interests among the actors within a network.” (Håkansson and Snehota 1995, p. 281).

The activity system model is a model depicting the actor bonds (in the actor triangle), the resource ties (in the resource triangle), and the activity links (in the activity triangle) in a dynamic fashion. The dynamic connection between the actor triangle and the resource triangle is obvious in the activity system model and is recognized by the Markets-as-Networks approach as Håkansson and Snehota (1995, p. 280) notes that: “[T]he actor bonds

– *resource ties dimension [of change] is principally a matter of resource control or availability.*” In terms of an activity systems interpretation this could be reformulated as the mediating nature of the resource triangle between the elements of the actor triangle. It seems only to be expressed as the flip side of the coin. The dynamic connection between the activity triangle and the actor triangle may seem even more obvious from an activity systems point of view, as the activity triangle integrates both the actor and resource triangles. This is also recognized by the Markets-as-Networks approach, albeit expressed somewhat differently (Ibid, p. 281):

“Both the hierarchization and heterarchization vectors become manifest directly in the activities carried out in the companies but primarily they affect the priorities in development of relationships to other parties and the nature of the bonds that arise between actors.”

From an activity systems view, changes in the actor triangle occur as a result of the interaction between the activity triangle and the resource triangle. Changes in the resource triangle occur as a result of the interaction between the actor and activity triangles. Finally, changes in the activity triangle occur as a result of the interaction between the actor and resource triangles. Various actors’ intentions, resource heterogeneity, and activity creativity color all these interactions, which, as a result, create tension, paradox, conflict and incoherence. Tension, paradox, conflict and incoherence, in turn, ignite and propel change.

Although change is implicit and innate in the activity system model, we can still identify some features that are somewhat stable over time. The nodes and apices of the activity system are such anchoring points. In other words, an activity system model represents a model of business relationships as situated in a field of gravity between stability and change.

3. Conclusion: A Situated Model for Analyzing Tensions in Business Activity

As noted earlier, the activity system model requires adaptation to the specific phenomenon which it is used to analyze. In this paper, the phenomenon of interest is business relationships in SMEs. Furthermore, these SMEs are applying a certain technology, that of digital networks, as a strategic tool for business activity. Given these specifics, the activity system model is customized according to figure 4.

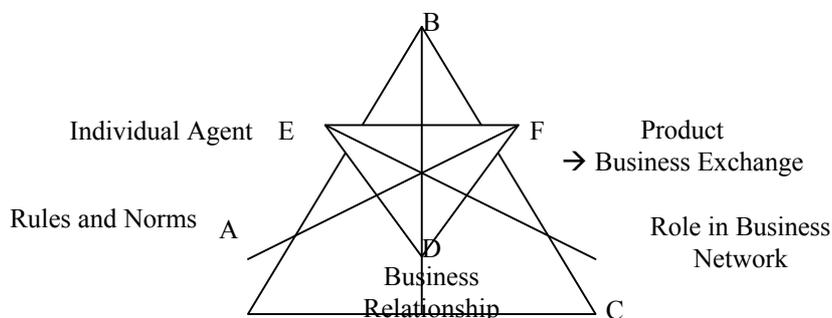


Fig. 4. The situated model of the activity system

This model of the situated activity system depicts the interaction and the tensions between the parts of it occurring in the business relationships of SMEs as they use digital networks as a

strategic tool for doing business and for business development. The individual agent is connected to other co-workers of the business relationship by the tension that occurs. The rules and norms apex of the resource-triangle mediates this tension. The object of the activity is the product (in a general sense, including such intangibles as services etc.) at which the activity is geared. The outcome of the activity is business exchange. The fact that the aim and/or result of the activity are business exchange is what makes the activity system a business activity system. As all the members of the activity system populate the business relationship, the business relationship is a part of a larger network of relationships. The role of the business relationship in the network mediates between the actors in the activity system and the objective of the activity as a whole. Hence, the result of the activity in one relationship is dependent on the role of that relationship in relation to the wider network of relationships. The roles are in part determined by the other types of resources that the actor possesses or has access to, as well as a certain role may very well give access to certain resources. This is accounted for in the activity system as the three apices of the resource triangle are connected to each other via the actor nodes. Whereas extra attention is given to the use of digital networks (in terms of the Internet) as a strategic tool, this use of a certain technology denotes a resource for the SMEs, which mediates between the individual agent and the objective of the activity; business exchange. To summarize, this model of a business relationship as an activity system could be used to analyze how SMEs apply information technology as a strategic tool for business activity. All of the nodes and apices of the activity system is empirically identifiable and observable.

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