

# Social Relationships as a Precursor to International Business Exchange<sup>1</sup>

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## ABSTRACT

This paper focuses on the socially-based interpersonal relationships from which economic exchange may grow, as a result of the recognition of shared aspirations and understandings. It explores how economic exchange relationship successes may arise from effective *interpersonal* trust development between key strategic actors. This is in contrast to more commonly held approaches that view relationships as beginning with organisations searching for and identifying economically viable relationships with others. Building on previously published work, the paper presents these two perspectives within a model of relationship evolution. The model's relevance is then explored in an empirical study of three rapidly growing businesses in different industry settings: electronics, furniture manufacturing and tourism services. A research approach is used that involves in-depth conversations based around non-directive questions to access the interviewees underlying considerations and beliefs. This is followed by protocol analysis of the transcribed interviews and notes. The study finds that in the three firms studied, significant business relationships arose out of existing social relationships. It also finds that relationships developed out of the need for exchange exhibit different characteristics to those that develop from pre-existing social relationships. Those starting from pre-existing social relationships have a tendency for ongoing development and renewal, whereas those arising out of the need for exchange are more likely to break down. The study concludes by suggesting that existing social interpersonal relationships represent the most effective starting point for the study of international business exchange processes.

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## INTRODUCTION

The standard conceptualisation of business relationships starts from the premises both that they exist, and that economic exchange is the primary motivating factor behind their creation (Ford, 1998). The role of interpersonal interactions has also been widely recognised (MacNeil, 1980, Heide and John, 1990, 1992). For example, research into business services following the work of Czeipel (1990), Gabbott and Hogg (1996; 2001), Klaus (1985) and Solomon et al (1985) has indicated that ‘the interaction between the purchaser and provider is a key part of the product and is inseparable from both... [and thus] the behaviour of each party has a direct effect on the outcome achieved’ (Dibben and Hogg, 1998). Here, however, the precursor to exchange relationships (for those who have them) is, first, a rational analysis of the exchanges that are needed, second, a search for relationships that may fulfil them, and, third, negotiation of appropriate exchanges. This paper theoretically and empirically re-examines the universality of this process.

## THE PLACE OF EXCHANGE IN RELATIONSHIPS

It is unsurprising that those whose starting premise is transactions (who typically employ the assumptions of transaction cost economics) adopt an exchange approach (e.g. Jap and Ganeson, 2000 and Houston and Johnson, 2000). Yet a review of the ‘roots and directions’ of relationship marketing theory (Moller and Halinen, 2000) has suggested that this approach is also taken by those who make relationships their starting point, notwithstanding subsequent ‘markets’ or ‘networks’ preconditions, even in recent work. In an attempt to establish a continuum of exchange relationships from straight-forward transactions to an integrated hierarchy of relationships, in terms of their potential impact on strategic decision making, Li and Nicholls (2000) cite exchange orientation as the fundamental underlying determinant of even the most developed types of relationships.

Similarly, Chein and Moutinho (2000) draw on a range of earlier work to suggest seven basic propositions of the network and relationship view of market behaviour. Among these they list ‘[h]umans engage in behaviour directed at managing daily life through consummating exchange’, ‘[h]umans are able to create innovative behaviours directed at securing sustainable surroundings through facilitating exchange’, ‘[i]nstitutional frameworks exist which are directed at consummating and/ or facilitating exchange’ and ‘[t]he potency of each party is increased as the consequence of exchange’ (p.585). Each of these ‘basic relationship marketing premises’ is described as a ‘condition necessary for there to be the potential for exchange’ (ibid.). Thus, interpersonal interactions are said to arise as a result of a pre-existing exchange need.

Such a view recognises different stages in relationship development. Jap and Ganesan (2000), for example, suggest four sequential phases, exploration, build-up, maturity and decline. The ‘exchange need’ premise, however, determines that trust and cooperation – hence the development of relationships – arise out of consistent buyer behaviour (Cheung and Turnbull, 1998, Dyer and Chu, 2000, Walter, 2000). It also recognises the importance of trust and co-operation in exchange relationships, but rarely explores to any significant extent either how they come about or how they interrelate to affect behaviour (Ghauri, 1996, Wilkinson and Young, 1997, Nidam, 2000). As a result, the role of trust continues to be discussed in the marketing literature largely in general terms, rather than in ways which enable meaningful and operational conceptualizations to be derived (Jevons and Gabbott, 2000, Hennig-Thurau, 2000, Knight, 2000; Doz, 1996, Ghauri and Usunier, 1996; Grabher, 1993; Hakansson, 1987).

This tendency may be traced to two factors. First, the varied trust literature historically either examines the nature of trust itself, or isolates trusting behaviour determinants. This makes it difficult to achieve a readily researchable operational construct that adequately and sufficiently encapsulates both the acknowledged complexity of the concept, and the processual and qualitative nature of the phenomenon. Second, while the existing marketing literature acknowledges the role of interpersonal relationships, it usually holds the organisation rather than the individuals involved as the primary focus of study (Knight, 2000, Hakansson and Snehota, 1998, Ford, McDowell and Tomkins, 1998, Solberg and Nez, 2000).

From this research tradition that has focused on exchange as the focus of study the following propositions emerge:

*P1a. Exchange is necessary for business relationships to exist.*

*P2a. Business relationships are developed in the pursuit of exchange potential.*

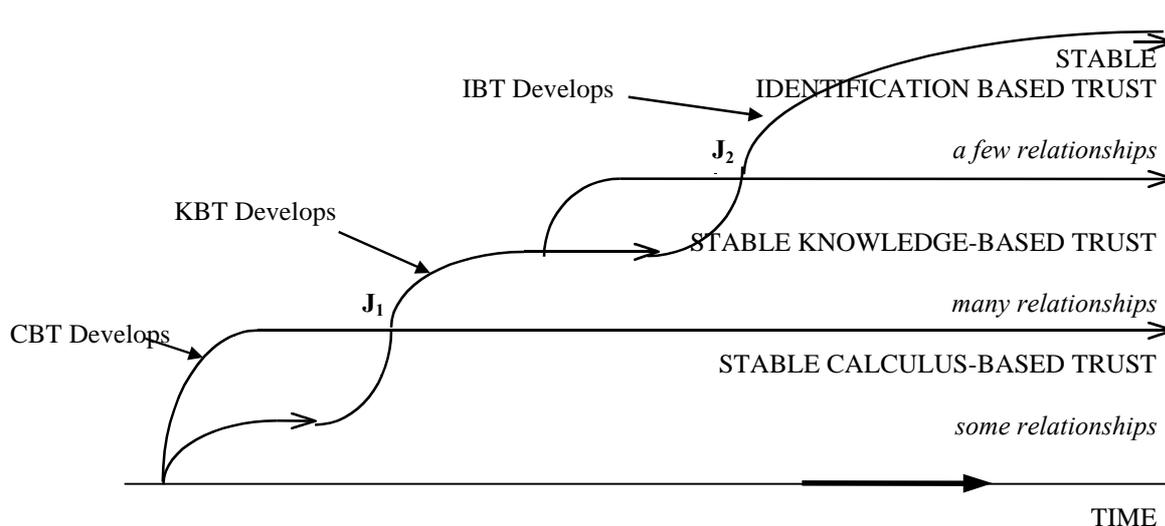
*P3a. Social relationships are not (in and of themselves) a source of exchange opportunity.*

## THE PLACE OF TRUST IN RELATIONSHIPS

When trust is brought into research that starts out with exchange as its focus, it tends, for the sake of simplicity, to be studied as organisational trust, the averaged-out view of key players in the firm (Blomqvist and Stahle, 2000, Dyer and Chu 2000, Raimondo, 2000). While recent theoretical discussions of trust (e.g. Kramer and Tyker, 1996; Sitkin et al., 1998) have drawn on earlier studies to identify what determines trust in given situations, this work has ignored the *quality* of the trust developed and the impact it has on the relationships concerned. Harris and Dibben (1999), however, have drawn directly on trust theory in attempt to unpack the complexity of the trust that may underpin marketing relationships. Figure 1 shows a typology of trust development in professional relationships that they have used, which was first proposed by Lewicki and Bunker (1995, 1996).

This suggests that trust exists in one individual for another individual, and not at the level of the organisation; 'the trust between two people' is two trusts, one in each person (Dibben, 2000). Focusing on interpersonal trust as the most important type of trust, this model, summarized in Table 1, accounts for the development of trust in one individual or another over time (Stack, 1978, Luhmann, 1979; Powell, 1996; Giffin, 1967, Worchel, 1979). It provides 'trust identifiers' - perceived similarities and differences in professional knowledge and individual character.

In circumstances where it is exchange that is paramount, individuals will be more willing to exit from relationship interactions (e.g. Hibberd, Kumar and Stern, 2001). This is indicative of a shallow type of trust that develops based on an economic calculation where the outcomes of creating and sustaining the relationship are compared to the costs of maintaining or severing it. Such Calculus Based Trust (CBT) is characterised by intimations of *difference* between individuals and exists in circumstances where the relationship characteristically short term, fulfilling immediate exchange needs (Lewicki and Bunker, 1996).



At  $J_1$ , some-calculus based trust relationships become knowledge-based trust relationships.

At  $J_2$ , a few knowledge-based trust relationships, where positive affect is present, go on to become identification-based trust relationships.

**Figure 1. The Stages of Trust Development (Lewicki and Bunker, 1996)**

This is in contrast to ‘Knowledge Based Trust’ (KBT), which is based on a history of interaction between two individuals that allows each to make predictions about the other, and ‘Identification Based Trust’ (IBT), which arises when the parties understand and appreciate each other’s wants to such an extent that each can act and substitute for the other in interpersonal interactions. The nature of business exchange relationships discussed above suggests that these trusts, like the relationships themselves, arise *as a result* of economic exchange relationship successes and not as a precursor to them. From these theoretical developments, however, a range of propositions can be developed which stand in almost complete opposition to those that were developed earlier from work that focused on the exchanges rather than the relationships involved:

*P1b. Business relationships can develop from social relationships formed without the potential for exchange*

*P2b. Business relationships develop from trust formed within social exchange*

*P3b. Social relationships are a very important source of exchange opportunity because within them, deeper forms of Knowledge and Identification based trust will be nurtured.*

Such a simplified model of trust however, ignores a range of other important factors. Though internal, trust is manifested in external actions, mainly a willingness to cooperate (Powell, 1990; Riker, 1974). Cooperation is a manifestation of trust. Violated trust leads to non-cooperation exhibited in such behaviour as relationship exit (see above), and repair requires both parties to be willing to cooperate again (Lewicki and Bunker, 1996; Bies and Tripp, 1996). Models which include this additional complexity often become difficult to demonstrate empirically (e.g. Shelly and Bryan, 1964, Jungermann and de Zeeuw, 1977). Marsh (1992, 1995) however, has structured a limited number of key determinants for use in Artificial Intelligence. Exploratory applications of this found that accurate predictions of trusting cooperation in a variety of small business settings are enabled by taking into account five determinants of a cooperation ‘threshold’, summarized in Table 1 (Harris and Dibben, 1999; Dibben, 2000), which are situation specific (Marsh, 1995).. These are utility (economic profit), importance (social benefit), competence of the trusted party, competence of the trusting party and risk of the situation (Mayer et al, 1996; Currall and Judge, 1995).

Since situational trust and cooperation thresholds together are said to predict co-operative behaviour between two individuals in a given situation, only where trust exceeds the cooperation threshold for *both* individuals will cooperation ensue (Harris and Dibben, 1999; Dibben, 2000). If trust is higher than the cooperation threshold for one but not the other, stress is expected, and the cooperating individual's trust will be felt violated by the other (see figure 2). Comparisons of situational trust and cooperation threshold help indicate how interpersonal situational trust may influence individual behaviour, and the development of co-operative relationships. Studies of trust in the foregoing literatures indicate that the potential for economic profit (utility) and low potential risk are predominant factors influencing behaviour in exchange relationships (e.g. Blomqvist and Stahle, 2000, Doz, 1996, Dyer and Chu 2000, Ghauri and Usunier, 1996, Grabher, 1993, Hennig-Thurau, 2000, Hibberd, Kumar and Stern, 2001, Jevons and Gabbott, 2000, Knight and Raimondo, 2000). To a great extent, therefore, it follows that utility and risk (coupled with the presence of Calculus Based Trust) may be said to determine the character of exchange relationships between individuals.

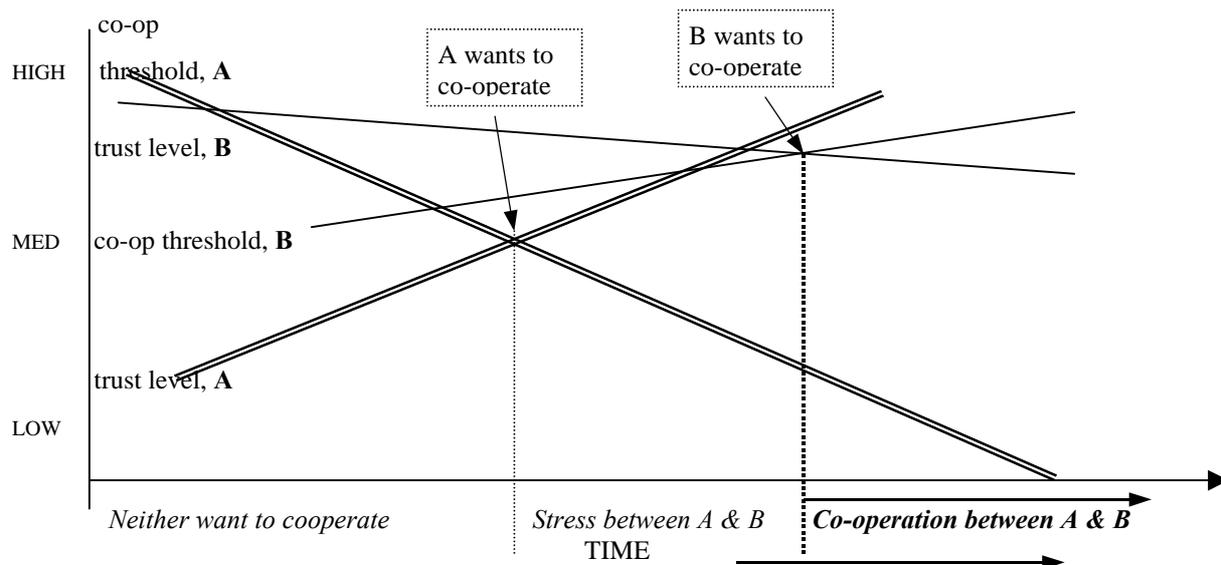
These theoretical developments enable an additional two propositions to be drawn, concerning the nature and role of these relationships:

*P4. The search for exchange will drive the development of calculus based trust relationships, which will tend to be of a short duration. Exchanges based on longer established Knowledge and Identification Based Trust relationships will be of greater strategic significance.*

*P5. Interpersonal relationships formed as a result of the search for exchange will be valued according to their potential for economic profit (utility) and their low potential risk.*

**Table 1. Trust and Co-operation Criteria (Harris and Dibben, 1999; Dibben, 2000)**

TRUST CRITERIA	DESCRIPTION
Calculus-Based Trust	Trust formed between individuals in the early stages of a relationship on the basis of what each sees s/he can get out off the relationship: a 'market' economic calculation where the outcomes of creating and sustaining the relationship are compared to the costs of severing it. Characterised by intimations of <i>difference</i> between individuals, and a lack of shared knowledge of the situation.
Knowledge-Based Trust	Trust formed over a period of interaction between individuals on the basis of shared knowledge. Characterised by <i>intimations of similarity / agreement</i> between the individuals, allowing each to make predictions about the other and thus reduce uncertainty.
Identification-Based Trust	Trust with a high degree of identification with the wishes/intentions of the other individual, such that each can act and substitute for the other in interpersonal interaction. Characterised by strong agreement between the individuals in the situation, and intimations of <i>mutual sharing of values</i> .
CO-OPERATION CRITERIA	DESCRIPTION
Utility	An individual's perception of the <i>potential economic value</i> ('economic profit') of a situation. Characterised by positive intimations regarding the effect of co-operation on the individual's business.
Importance	An individual's perception of the <i>potential non-economic value</i> ('social profit') of a situation. Characterised by positive intimations regarding the effect of co-operation on the individual's social relations or social standing.
Risk	An individual's perception of the <i>potential social/economic loss</i> from a situation. Characterised by negative intimations regarding the effect of co-operation.
Competence	An individual's perception of the <i>professional ability</i> of another individual in a situation. Characterised by comments regarding (e.g.) business acumen c.f. other individuals and self.
Self-Competence	An individual's perception of his <i>own ability</i> in a situation. Characterised by comments regarding (e.g.) business acumen c.f. others.



**Figure 2. The Theoretical Interaction Between the Trust levels and Co-operation Thresholds of Individuals A and B (Harris and Dibben, 1999; Dibben, Marsh and Scott, 1996; Marsh, 1995).**

## RESEARCH APPROACH

The aim of the study was to explore the possible relevance and nature of the propositions and to refine the theoretical notions from which they were developed, in the light of empirical data. The focus was the exchange development processes - what may or may not go on even before the 'negotiation' phase that enable business exchanges to take place. This involved a study of the beliefs and rationales of relevant individuals, and the background behind the approaches those individuals used. The study particularly needed to access the origination and full history of important exchange relationships, and the perceived nature of the inter-personal relationships lying within them. These requirements indicated both the appropriate approach and the nature of appropriate subjects for empirical study.

A qualitative exploration of appropriate individual person based cases was indicated (Eisenhardt, 1989; Silverman, 1993; Yin, 1994). Since reasonably detailed hypotheses based on a-priori research were being explored, however, verbal protocol analysis was used to analyse the transcripts and notes from extensive interviews of appropriate individuals (Ericsson and Simon, 1985). The theory (described in Table 1) was used to develop protocols that directly relate to the propositions but also include their alternatives, many (but not all) of which are dichotomous, as summarised in Table 2.

**Table 2. Characteristics of Exchange and Relationship Driven Processes**

<i>Characteristics of interviewee's process:</i>	<b>Exchange Driven Process</b>	<b>Relationship Driven Process</b>
<i>p1</i> Nature of the process:	Search for Exchange	Evolution of relationships towards exchange or not
<i>p2</i> Active pursuit & development of:	Exchanges	Relationships
<i>p3</i> Passive approach to:	Relationships	Exchanges
<i>Nature of each relationship:</i>		
<i>p4</i> Depth/Nature of Trust:	Shallow... Calculus Based Trust	Deep... Knowledge & Identification Based Trust
<i>p5</i> Value of Relationship:	Utility	Importance
<i>p1</i> Necessity of Exchange:	Necessary	Not Necessary
<i>Nature of each exchange (if any):</i>		
<i>p5</i> Intended duration:	Short-term & immediate	Long-term
<i>p5</i> Potential Risk:	Low Risk	High Risk

With the phenomena being individual, subjective, and described within extensive personal discourses, the analysis procedure was adapted to allow a range of expressions to indicate one protocol, and more than one protocol to be indicated by a single expression. Analysis involved coding each transcript discussion of each relationship to the alternative protocols, possibly (where they were not mutually exclusive) to both, and possibly to neither. Following Berelson (1954), a proportion of the transcript material was multiply coded to minimise the risk of individual coding bias in the process.

The case interviewees studied, founder chief executives of profitable young international businesses, were of particular amenability and interest for this study. They had been trained, as fresh graduates, in an intensive 3-month programme (with later follow-up support) that aimed to help them to develop successful new businesses. The interviewees were the only alumni of that programme to have developed thriving international businesses - the others had either failed to develop successful businesses, or their businesses were domestically focussed.

The programme itself had a particular dominant rational, analytical 'planning' paradigm concerning all aspects of business development. There was an emphasis on 'networking' and on the fostering and development of inter-personal business relationships, solely as one instrument in a marketing strategy that sought to pursue business goals and plans (Fletcher, 1999). The taught approach, therefore, was the conventional one that the pursuit of exchange drives relationships, rather than that the pursuit of relationships drives exchange. The business plans produced at the time indicated indoctrination in this approach, and any variation from this approach now could be characterised as their 'lessons of experience.

This indoctrination about what they 'should' do, however, also presented challenges within the interview approach, by influencing the data revealed: the interviewees might have expressed what they should have been doing rather than what they were doing. A 'native category' approach to data gathering was therefore adopted (Buckley and Chapman, 1997; Harris, 2000). Following Calori et al. (1994), tightly directed questions derived from theory were avoided in favour of extensive conversations about beliefs and perceptions around non-directive questions, though strict consistency and some structuring of the interview process was necessary to direct discussion to relevant topics and to achieve equivalent data (Eisenhardt, 1989). No prompts were used to pursue issues (such as relationships or exchanges) not raised by the interviewee, and no clues were given as to the areas of interest of the interviewer (Strauss and Corbin, 1991). Any perceived pressure to rationalise responses into a particular paradigm was lessened both by an explicit declaration that rationales would not be sought, and by adopting 'What you think about when you consider the future of your business' as the overt focus of discussion. Exchanges and relationships, as well as all the other 'native category' issues the interviewees raised were discussed at length with relevant, consistent, follow-up questions.

While there were these clear similarities that yielded a useful data set for analysis, there were significant differences in the interviewees' industry contexts. 'Electronics', a graduate in electronic engineering, designs and sells electronics equipment used to design complex chemical structures, mainly for the US pharmaceutical industry. Though all manufacture is subcontracted, he has just taken on his 15<sup>th</sup> employee. 'Furniture', a design graduate, designs, makes and sells upmarket bespoke corporate furniture to customer design briefs. He now employs 55 people, following sales growth in both his domestic market and in other North European countries. 'Golf', a sports graduate, has built up a specialised tour organiser, selling bespoke and packaged golfing holidays to American and Japanese golfers. Sales have recently rocketed as a result of a new international joint venture with two competitors. He directly employs only 5, but a considerable number of sub-contractors rely on his business.

## FINDINGS

### *The nature and source of the important business relationships*

Table 3 summaries pertinent features of the important business relationships, as revealed in the interviews. The Electronics and Tourism firms each revealed three important relationships (E-1, E-2, E-3 and T-1, T-2, T-3 respectively), while the Furniture firm revealed five (F-1, F-2, F-3, F-4, F-5).

Electronics' business had not really begun to establish itself in a substantial way until he met E-1, a much older man who had established, grown and successfully sold out a business in a similar business area. Then facing a cash shortage, Electronics initially approached E-1 for venture funding. E-1 saw value in Electronics' technology, but not in his business approach. Over the next four years, the two formed a close relationship, in which E-1 acted as a guide and mentor. Electronics, reflecting some pain, describe how E-1 had emphasised that Electronics had a technology, and not a business, and "needed to go out and meet some people". With E-1's guidance and facilitation, Electronics went on an open ended visits, to the east coast of the United States, to meet people in customer, competitor and parallel industries, through attending important trade fairs and through direct approaches and visits. There was to be no agenda to these meetings: Electronics was not selling, he was simply meeting, discussing and learning. In E-1's terms, he was 'finding a business'.

A market focus emerged – the pharmaceutical research industry needed his technology, and would be prepared to pay for it. This led to a (previously absent) product focus. Within a year one pharmaceutical manufacturer gave a contract that effectively financed the tailoring of the technology to meet its industry's needs. The issue is now to sell and distribute in the United States, and here, two relationships were emphasised.

Electronics first met E-2, senior company executive in a large electronics company when he was trying to sell him his technology. E-2 was not interested in buying, but a relationship evolved in which E-2 was always ready to chat about the industry, sharing his long-study knowledge of the different firms. Though E-2 has now become a customer, Electronics regarded this as a minor element of the relationship. Most important is the advice and council that E-2 continues to give: he has guided Electronics in the establishment of a direct marketing operation, being established by a new marketing manager, a younger former colleague of E-2 recommended by him. A supporting distribution arrangement in the US run by E-3, is planned. E-3 was known to E-1, who provided the initial contact, and in the two years since they met, they have talked from time to time about how to get distribution in the US. E-3 has supported E-2's view about establishing a marketing operation, and is now ready to provided a field support along the Eastern Seaboard. A shallower relationship, it would probably have withered without the potential for a distribution arrangement.

Furniture's five relationships were all long-standing: F-1 and F-2 were personal friends before the business was even formed. They were important with or without exchange, though exchange subsequently did or was planned to take place with all. Furniture had known F-1, a marketing consultant, since university, but they rarely discussed business. Furniture had recently mentioned that he had a marketing problem, and F-1 had suggested that he help on a professional basis. Furniture was initially reluctant, seeing F-1 in a social rather than professional perspective. He became deeply impressed at F-1's depth of perception, and the creativeness of his ideas. A new marketing approach was developed together, which proved highly effective, and a trusted professional relationship, involving exchange, has been overlaid on the previous personal, social one.

**Table 3. The nature of the important relationships**

<b>FIRM:</b>	<b>Electronics</b>			<b>Furniture</b>					<b>Tourism</b>		
<b>Relationship:</b>	<b>E-1</b>	<b>E-2</b>	<b>E-3</b>	<b>F-1</b>	<b>F-2</b>	<b>F-3</b>	<b>F-4</b>	<b>F-5</b>	<b>T-1</b>	<b>T-2</b>	<b>T-3</b>
<b>Age in years</b>	<b>6</b>	<b>5</b>	<b>2</b>	<b>12</b>	<b>8</b>	<b>12</b>	<b>7</b>	<b>8</b>	<b>5</b>	<b>5</b>	<b>2</b>
<b>Depth:</b> <i>Shallow</i> or <i>Deep</i>	<b>D</b>	<b>D</b>	<b>S</b>	<b>D</b>	<b>D</b>	<b>D</b>	<b>D</b>	<b>D</b>	<b>D</b>	<b>D</b>	<b>S</b>
<b>Form of Trust:</b>	IBT, KBT	KBT	KBT, CBT	IBT, KBT	KBT	KBT	KBT	IBT, KBT	IBT, KBT	KBT	KBT, CBT
<b>Basis:</b>	Identif'n of common experience & he knows the business	They get on: he knows the industry & the competition.	Will distribute in US, knows specialist market well	Personal friend who knows the business	Close relationship, long, specialised experience	Known personally for years	Known personally.. he's been in the business for years	Have known him on and off for years	Met socially and respected for knowlege, a mentor.	T1 introduced, knowledge & achievement respected	Met socially, good know-ledge of Japanese market,
<b>Value:</b> <i>Utility</i> or <i>Importance</i>	<b>I &amp; U</b>	<b>I &amp; U</b>	<b>U</b>	<b>I</b>	<b>I &amp; U</b>	<b>I &amp; U</b>	<b>I &amp; U</b>	<b>I</b>	<b>I &amp; U</b>	<b>I &amp; U</b>	<b>U</b>
<b>Basis</b>	Provided business re-conceptualization, its product & distribution	Most valued for product & distribution advice, now a customer	Provides access to US market, sounding board, advice	Its all about changing the image of the business	Benefits of association improves sales	Enables better access to English Market	Enables access to the Irish market	Link for strategic development in new countries	Knew socially and respected. Now US link in their JV	Provides adv-ice & access to English market	Tourism needs a Japanese partner to access that market better
<b>Exchange needed?</b>	<b>NO</b>	<b>NO</b>	<b>YES</b>	<b>NO</b>	<small>MAINLY</small> <b>YES</b>	<b>NO</b>	<b>NO</b>	<b>NO</b>	<b>NO</b>	<b>NO</b>	<b>YES</b>
<b>Exchange realised?</b>	<b>YES</b>	<b>YES</b>	<small>PLANNED</small>	<b>YES</b>	<b>YES</b>	<b>YES</b>	<b>YES</b>	<small>PLANNED</small>	<b>YES</b>	<b>YES</b>	<small>PLANNED</small>
<b>Intended duration</b>	<b>L</b>	<b>L</b>	<b>L</b>	<b>L</b>	<b>L</b>	<b>L</b>	<b>L</b>	<b>L</b>	<b>L</b>	<b>L</b>	<b>L</b>
<b>Short- or Long- term Potential Risk: Low or High</b>	<b>H</b>	<b>H</b>	<b>L</b>	<b>H</b>	<b>L</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>H</b>
<b>Characteristics of relationship</b>	Talks every day, more if pos., trusted v. deeply. Knows contacts & approaches. Now shareholder & Chairman	Approached him as a potential customer. Didn't buy, but became friends. Chat regularly & socially.	Approached him as potential distributor. They get on, & chat about things. Now making plans for new market entry.	Constantly talking to him and dealing with him... at least once a week.	A joint venture relationship improves sales on a project basis	A very impor-tant back to back market-ing relation-ship based on deep know-ledge based trust	Important foreign dist-ribution agent based on deep trust	Formed personal friendship without exchange, Now planning new business together	Talks things through at least once a week: plan-ning their JV business together	Talks things through at least twice a month: plan-ning their JV business together	Are discussing the industry & the market now planning a partnership.

F-2 was a long established foreign competitor who had previously been a supplier to Furniture for many years. Though the supplier link had become irrelevant, a personal friendship had remained, and Furniture respected F-2's knowledge of the future market. Recently, they had concluded a back-to-back marketing relationship, whereby each markets and distributes the other's products in their home markets. F-3 was a friend who worked for a Danish competitor, who had met socially as a result of Furniture's business in that country, and over the years had talked at length about the Scandinavian markets. Eight years on, F-3 was tired of his job, and the two friends were planning a new joint venture to better address the Scandinavian market, with F-3 leaving his current position to head it up. The relationship with F-4, an Irishman, was less close, but Furniture had deep trust in his knowledge and ability in the industry. F-4 had recently returned to his homeland with a marketing and distribution agreement with Furniture for the whole of Ireland. With F-5, a highly respected well-known designer, he discussed design rather than industry issues. They had a long-term joint-venture, but involving exchange on a project-by project basis. This gave F-5 a stake in the success of the products he designed, and Furniture a strong benefit from association with the famous man.

Tourism described three important relationships, reflecting the recent explosive growth of his recent joint venture, though it was clear always that, perhaps because the nature of his business, social, trust-based relationships had always lain at the core of his business. He met T-1 five years ago, in the café of a trade fair. Both were tired after day's work, and had just begun chatting, which continued over lunch the next day. T-1 owned a similar though much larger and better-based American company. T-1's extensive experience was of interest to young Tourism. Both keen golfers, they arranged to play a round or two, over which the kernel of a business idea formed. T-1 set-up to meet with T-2, a long-standing English partner, with whom he had a strong back-to-back marketing agreement. In the ensuing 18 months, a new venture was created, encompassing substantial merger of the business of all three companies. Both T-1 and T-2, both in their 50's, hope to sell out, and either tourism will buy the whole business, or it could be sold (through flotation or trade sale), with Tourism heading the management team.

At the root of this whole business idea is a range of industry perspectives and understandings unknown to Tourism, T-1, or T-2 before their meeting. The very idea of the exchange has evolved from their social interaction. The project, however, has now driven an important new relationship with a Japanese potential partner, T-3, whose marketing presence in Japan can help bring Japanese golfers both to America, England and T-3's home market. While T-3 is known and respected for his knowledge, the relationship is shallow, and exchange will depend mainly on the calculation of mutual benefits by both parties.

### *The approaches and processes of relationship development*

Table 4 presents a different focus: not the relationship themselves, but the revelations from the interview transcript concerning the individual business leader's approaches towards the development of relationships.

Continual financial crisis bedecked the first six years of Electronics' business. His relationships were driven by a need to sell. As E-1 pointed out to him, no customers would buy from an unestablished electronics engineer with an unproven technology and no product. It could not be trusted. He could not be trusted. Somebody, a potential customer, needed to be able to trust him as a person, and this would present him with his first market, and his product. Electronics' first customer, a pharmaceutical company, paid for the tailoring of the product, but also acquired it, and a development relationship with electronics, cheaply and earlier than competitors. As a shy man, while Electronics enjoys his discussions with E-1 and E-2, he dislikes the 'relationship development' process. Market development overseas is now being led by a marketing manager that E-2 has found for him, who will also 'take over' the shallower E-3 relationship.

**Table 4. The approaches and processes of relationship development**

<b>FIRM:</b>		<b>Electronics</b>	<b>Furniture</b>	<b>Golf</b>
<i>Nature of Process:</i>		<b>Now Relationship driven:</b> Now accessing people through E-1 and recruiting a manager	<b>Relationship driven:</b> Actively seeks 'movers & shakers, and also people for project ideas	<b>Relationship Driven:</b> Has always engaged with different people in the industry.
<i>Active pursuit &amp; development of</i>	<i>Relationships?</i>	<b>NOW:</b> Belatedly recognised need for relationships, but personally finds it difficult. Has a few good relationships, and is using these to develop others.	<b>YES:</b> On projects, seeking product views for medium term, & views / impressions for the industry future. Relationships also help to improve image & thereby, sales	<b>YES:</b> Active in business & industry bodies & forums 'Its useful to talk things through with people'. Locally, can lead to local suppliers. Wider, leads to distributors, customers, partners.
	<i>Exchanges?</i>	<b>PREVIOUSLY:</b> Training had emphasised the need for networking to sell, but this was insufficient.	<b>NO:</b> 'You can't chase these things, or people see you as a threat'.	<b>NO:</b> Is seeking exchanges, but important ones only come from & trusted through the prior development of partnership relationships.

The personal inclination of furniture was different. Before going to university, he had work in marketing within the furniture industry, and had already got to know F-1 and F-2. He never entirely bought the marketing approach taught him – though did so for a while. He went out ‘networking’ to establish exchange, but it was not a great success. He now regrets not having spent more time, at an early stage, forming more relationships with the main ‘movers and shakers’ in the industry, just to find people that he might be able to get along with. He continues to do this now, but believes that now he is better established, people in the industry can see him as a threat. Most of his exchange relationships have social relationships at their root, within which ideas about products and business ideas accrue. His social relationships with designers enhances his firm’s reputation for design oriented contract furniture.

Tourism never bought the marketing approach that he was taught. He is a social person, and it is difficult for him to separate social from exchange relationships – all his exchange relationships have always had strong social elements. The early development of his business was based on his golfing expertise, and the relationship he had with people that he knew in the industry. The only marketing approach that has worked for him has been referral. Only three relationships were discussed in depth, because only three are of major significance and importance at the moment: many others have been important in earlier years. While his relationship with T-3 is exchange-driven, the exchanges involved with T-1 and T-2 are so important that deep levels of mutual trust were required before they could take place.

The necessary process of forming and planning the most significant exchanges itself required a social relationship that enabled knowledge, and then, identification based trust to develop. Personal chemistry, possibly assisted by the nature of the business and the firms’ needs meant that the social relationship development into a business exchange relatively quickly. The pattern of this relationship development, however, was similar with Electronics’ relationship with E-1 and E-2, and furniture’s relationship with F-1, F-2 and F-3. It appeared to be a necessary pattern, not for all exchanges, but for the most important. This pattern, the focus of this paper, will now be discussed further.

## **DISCUSSION**

The data gathering approach adopted in this study, in focusing on strategic issues and developments and the relationships involved in pursuing them, inevitably narrowed and biased the data array that was available for analysis to the current relationships perceived to be of strategic significance. It is this bias and focus, however, that has enabled a potentially important phenomenon to come into view.

**P1a.** *Exchange is necessary for business relationships to exist.* NOT FOUND

**P1b.** *Business relationships can develop from social relationships formed without the potential for exchange.* FOUND

From the data, exchange is clearly *not* needed for relationships to exist. Even although this study examined young businesses, only three of the eleven business relationships examined (that were regarded by the interviewees as their most important) was exchange necessary. The other seven relationships all developed without exchange in mind, and directly or indirectly through pre-existing social relationships.

**P2a.** *Business relationships are developed in the pursuit of exchange potential.* NOT FOUND

**P2b.** *Business relationships develop from trust formed within social exchange.* FOUND

The notion that interpersonal relationships are formed as a result of the active pursuit and development of exchanges is also not supported by the data. Most of these important relationships originated before the exchanges *could* even take place or be thought of. It is within the social development of these relationships that trust grows sufficiently to allow important, high risk exchange, and co-operation becomes feasible.

**P3a.** *Social relationships are not (in and of themselves) a source of exchange opportunity.* NOT FOUND

**P3b.** *Social relationships are a very important source of exchange opportunity because within them, deeper forms of Knowledge and Identification based trust will be nurtured.* FOUND

While this study can in no way capture an idea of the relative frequency of exchange-driven (compared to socially-driven) relationships, these relationships were the less important. This is significant because the case CEOs had all been taught and trained in the process of exchange-driven relationships. Tourism never believed this to be an appropriate approach, Furniture half believed it but did not succumb to it before abandoning it, and Electronics wasted five years of business development before he abandoned it. In all the most strategically important exchange-driven relationships, the anticipated exchanges had failed to materialise, and socially-driven relationships had evolved as a result of the natural social impulses of the individuals involved. Other very important relationships started from social, not exchange-driven interactions. All the important relationships of 'exchange-focused' Electronics were of this type. Electronics, like Furniture and Tourism, now only ever discussed important potential exchange with those with whom they had developed social relationships. It follows that relationships appear to be actively pursued for their own sake, and the pursuit of relationships solely for the achievement of pre-planned exchange has been abandoned by all.

**P4.** *The search for exchange will drive the development of calculus based trust relationships, which will tend to be of a short duration. Exchanges based on longer established Knowledge and Identification Based Trust relationships will be of greater strategic significance.* FOUND

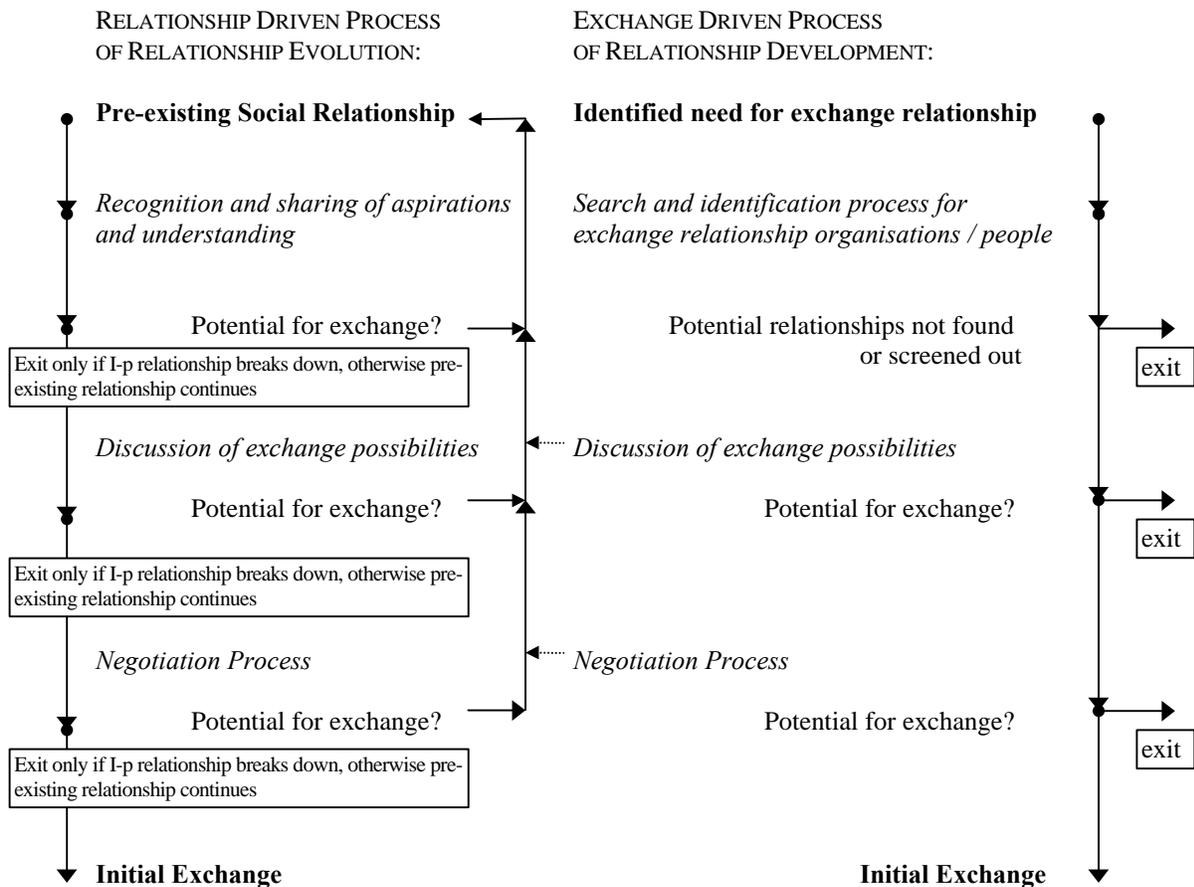
**P5.** *Interpersonal relationships formed as a result of the search for exchange will be valued according to their potential for economic profit (utility) and their low potential risk.* FOUND

The data bias limited examination of whether or to what extent the interpersonal relationships formed as a result of the search for exchange will have a short term duration. This is because none of the relationships described were of a short-term nature. Nevertheless, exchange driven relationships (E-3, T-3, and, to a lesser extent, F-2) were evident. These relationships were the most shallow, being based on calculus more than knowledge based trust, and not employing identification based trust at all. Only these relationships were formed to pursue utilitarian objectives, within which exchange was required, and supporting only these relationships carried low risk.

So social relationships are seen to be important for a variety of reasons. They have value in their own right, because they are enjoyable. They are the seedbed for future high value, high risk, long term exchanges because of the heightened trust and amenability to co-operation that they confer. They have business value aside from exchange, in terms of a source of discussion and counsel, and a knowledgeable arena for ideas generation. Here, there is a clear link to the resource-based view of the firm. For these young businesses, social relationships are unique, difficult to copy, important intangible resources. based view of strategy (Hall, 1992; Wernerfelt, 1994).

Figure 3 represents the two processes of relationship development that have been distinguished in this paper. Where existing relationships are the driver, the intrinsic value of the relationships is recognised, and the relationship will continue at a social level; evolution of such relationships towards business exchange occurs naturally when exchange opportunities present themselves.

**Figure 3. Processes to Exchange: A Comparison of Two Approaches**



## CONCLUSIONS

This study has found that while the ‘negotiation’ or ‘exchange’ phases in the business relationship may be a perfectly logical starting point, given the ‘exchange need’ premise of much current theoretical understanding, a change of focus can reveal another process leading to international business exchange. Many strategically important relationships developed by CEOs do not have economic exchange as either a goal or an outcome. Instead these relationships consist of the sharing of visions and understandings. It is from a sharing of visions and understandings and not from economic intent that the most strategically important exchange relationships (if not, perhaps, the greatest number of exchange relationships) were found to evolve. While in some cases exchanges resulted, they were not always of the type that were initially anticipated.

By taking the relationship and not the exchange as the subject of study, we can begin to see that important strategic exchange can be considered not only as the beginning of a process, but also as the outcome of a process. The importance of personal relationships goes beyond the mere maintenance of transactions; they may be the bedrock upon which economic transactions are founded. CEOs often pursue social relationships rather than economic transactions *per se*: it is these relationships that they instinctively feel will provide the potential for strategic development, even though they don’t necessarily know the types of exchange that will result. In other words it is not the need for exchange that necessarily determines important relationships but, rather, it is the relationships that often drive the exchanges.

If the focus of analysis remains the exchange and relationships based on exchange (which exclude other important social relationships), and if the focus of the analysis is static rather than dynamic, then the importance and role of interpersonal social relationships as a precursor to important exchange will be missed. This is because there are important interpersonal social relationships between firms, themselves important resources, which represent possible but unknown future exchanges and interactions of an important but not utilitarian nature.

While economic need is self evidently imperative, the CEOs understanding of that need, and the realisation that it can be fulfilled as a transaction, arises out of a process of *personal* relationship evolution. As such, we suggest that the precursor to exchange relationships is not necessarily the search for exchange. Rather, the precursor to exchange relationships might be an open-minded engagement with other people, an evolution of shared understandings and, from that, an identification of potential business exchanges. These may, or may not, ultimately lead to actual business exchanges. Future research could benefit from considering relationships as important precursors to exchange, rather than (as much of the contemporary literature would seem to indicate) considering them only as necessary for the subsequent maintenance and development of such exchanges.

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