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**When partners decide to leave
Termination of a joint company between competitors**

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ABSTRACT

Industrial relationships consist of different phases, ranging from establishment to termination. Of all phases, the termination process has been studied least. In order to get a holistic understanding of industrial relationship, more research is needed within this area. Several researchers have recently stressed the importance of studying the termination of business relationships. There is especially scarce research about termination of relationships between competitors although earlier research within the field shows that these can be more vulnerable to termination than vertical relationships. The objective of the paper is to analyse the termination of a joint company between competitors. The research questions are: Why was the joint company terminated? And: How is the termination process formed? The empirical part of the paper is based on a case study consisting of personal interviews. The findings of the study show that the reasons for termination can be found on three dimensions: external, company and individual related. The most prominent reason was the recession, which forced the companies to cooperate on an international market in order to survive. The process of termination consists of the following phases: harmony, negligence, withdrawal, communication and break-up. These findings are described in models. Generally the empirical results differ from previous research within the field, as communication and assessment took place later on in the termination process.

INTRODUCTION

Within the network approach relationships are often viewed as cooperative, long-term, based on trust and mutuality. Both harmony and conflict are, however, natural features of industrial relationships. A relationship can be viewed as a process through time. According to Ford (1980) a buyer-seller relationship contains of five different stages, which are pre-relationships stage, early stage, development stage, long-term stage and final stage. Dwyer, Schurr and Oh (1987) on their part consider relationships to evolve through five general phases, which are 1) awareness, 2) exploration, 3) expansion, 4) commitment and 5) dissolution. There is a waste amount of literature addressing motives for industrial relationships (e.g. Ford, Gadde, Håkansson, Lundgren, Snehota, Turnbull and Wilson 1998; Håkansson and Snehota 1995a, Welch 1992) as well as the development of relationships (e.g. Dwyer et al. 1987; Ford 1980; Halinen 1994; Håkansson and Snehota 1995a). Dissolution or termination of relationships has, though, been quite unexplored¹. Researchers such as Ping and Dwyer (1992), Tähtinen and Halinen-Kaila (1997), Stewart (1998), Tähtinen (1998, 1999), Alajoutsijärvi, Möller and Tähtinen (2000) have recently started to explore this field.

The reasons for termination (dissolution) of industrial relationships have been considered as important (among others Tähtinen 1999). Not many empirical studies have though been conducted within this area. It is logical to start by identifying the reasons for termination when aiming at understanding the process as a whole. Several researchers (Dwyer et al. 1987; Tähtinen 1999) have stressed the importance of studying the termination process. This type of research will enlarge the previous understanding of business relationships in general. By knowing what characterizes this process it might also be possible to control and manage it in an early stage of the relationship. If the relationship leads to termination this can thus be directed towards a desired end. More knowledge about the termination process may enhance the possibilities of stopping it and instead to rebuild or maintain the relationship as a whole. Knowledge about the termination process might also be valuable in the establishment of new relationships.

¹ The dissolution phase is for example not considered in Ford's model from 1980.

A majority of the scarce research that until now has been conducted within dissolution or termination of industrial relationships has been focusing on vertical relationships², i.e. relationships between buyers and sellers (Alajoutsijärvi, Möller and Tähtinen 1999, 2000; Dwyer, Schurr and Oh 1987, Tähtinen 1999). Horizontal relationships³, i.e. relationships between competitors, are in general much less researched (Bengtsson and Kock 1999, 2000; Johnsen and Johnsen 1998), although relationships between competitors become more and more common. Conflicts naturally occur in relationships between competitors because they have similar resources and strategies. The termination of a relationship is often a consequence of conflict (Ping and Dwyer 1992), which stresses the importance of research within termination of relationships between competitors. Park and Russo (1996) indicate that it is risky business to cooperate with competitors. The results of their study show that a joint venture between competitors is significantly more likely to fail than one in which the partners do not compete. Similar results have been showed in an empirical study by Hamel, Doz and Prahalad (1989). This indicates that relationships between competitors are more likely to terminate than vertical relationships. This is one argument for especially studying the termination of relationships between competitors.

Objective

The aim of this paper is to analyse the termination of a joint company between competitors. The research questions are: i) Why was the joint company terminated? and ii) How is the termination process formed? The empirical part of the paper is based on a qualitative study of three competing firms within the house-building sector in Finland. The data collection is based on personal interviews.

REASONS FOR TERMINATION

The factors that lead to the termination of a relationship can be quite complex and hard to define. Different reasons for termination of relationships could for example be decreased liking for or reduced satisfaction with the partner. Other reasons could be that the relationship has reached its goal and served its purpose or dissatisfaction with the relationship itself. (Duck 1981) According to Kaufmann (1994) the aim of co-operation is to achieve some kind of synergy effects between the partners. Accordingly, we believe that when there are no longer synergy effects to be held from the co-operation, the relationship might be terminated.

Håkansson and Snehota (1995b) state that most relationships contain some negative effects, which means that they include some kind of burden. This burden can be related to the content of the relationship as well as to the parties involved. According to Miles and Snow (1992) failure is not caused by the inappropriateness of the network form but because of managerial mistakes in designing and operating it. Tähtinen and Halinen-Kaila (1997) state that predisposing factors and precipitating events lie behind dyadic dissolution. The former factors do already exist when companies enter into relationships and this makes the relationship more prone to dissolve. Precipitating events, which can be actor, dyad or network related, bring change to the dyad and speed up the process of dissolution. Attenuating factors can, however, moderate the predisposing and precipitating events. These factors can be related to the actors themselves, their dyadic relationship or the surrounding business network.

If the partners are competitors this could be seen as a predisposing event, which might inherently decrease the possibilities of finding complementary factors that bind the companies together. Example of a precipitating event is if one partner perceives the relationship as not valuable any longer (Tähtinen 1999). The model developed by Tähtinen and Halinen-Kaila (1997) is based on vertical relationships and is thus as such not considered to be appropriate when specifically

² Vertical relationships exist between firms with different positions within a value- or distribution chain.

³ Horizontal relationships exist between firms with identical positions within a value- or distribution chain.

studying horizontal relationships. The model is fairly general and therefore it might not capture explicit features of horizontal relationships.

THE TERMINATION PROCESS

Many terms have been used when describing the ending of an industrial relationship, for example: break-up (Baxter 1988), dissolution (Seabright, Levinthal and Fichman 1992; Tähtinen and Halinen-Kaila 1997; Alajoutsijärvi et al. 2000), termination (Ping and Dwyer 1992), divorce (Guillet de Monthoux 1975). We prefer to use the term “termination” because it indicates an active participation by the actors involved in the relationship⁴. We propose that the termination of a relationship is a deliberate act by a majority of the actors involved. In accordance with Tähtinen and Halinen-Kaila (1997) we agree that a termination implies that all resource bonds and activity links are broken. However, we believe in accordance with Havila (1996) that some personal relationships might still exist between individuals after the termination. Before the dissolution is finalized the process can, however, be stopped or move backwards to a previous stage (Ping and Dwyer 1992; Tähtinen 1998).

Duck (1982) has developed models of dissolving personal relationships within social psychology. These models have later been used and developed within business and marketing studies and the influence can be recognized in studies by among others Ping and Dwyer (1992), Tähtinen and Halinen-Kaila (1997), Tähtinen (1998). Ping and Dwyer (1992) divide the termination process into two larger phases, which are the committed phase and the dissolution phase. The committed phase consists of a positive stage and a negative stage. The negative stage in turn is divided into an intra-personal stage and an inter-company stage. The dissolution phase includes the following stages: inter-company, public and aftermath stage. Ping and Dwyer (1992) describe how the first signs of dissatisfaction with the relationship occur on an individual level, leading to an overall discontent on an organizational level. In the actual dissolution phase the partners meet on an inter-organisational level to decide about the future of the relationship. When the finalization of the relationship becomes evident, the partners start to involve and discuss with external partners. The aftermath stage involves a final termination of the relationship and each partner reflects about the situation.

The termination of a business relationship can be complex and multidimensional, because many different partners are often involved (Tähtinen 1998). Tähtinen (1998) distinguishes between five stages in the dissolution process of a business dyad: assessment and decision-making, communication, disengagement, aftermath and restoration stage. In the first stage the parties start to evaluate the relationship and decisions about the future of the relationship are made. In the communication stage, the parties start to announce the dissolution of the relationship. If they cannot see a reason to continue with the relationship, the disengagement stage begins. In this stage the exchanges between the parties will start to decline and the bonds are getting weaker. The next phase is the aftermath stage, where the parties start to wonder what actually happened. The dissolution process is not over until after the aftermath stage, which mean that the relationship can be restored during the process. The dissolution process is not always that stepwise and clear and we believe that it can have many different patterns, depending on different aspects of the relationship.

Termination of a relationship cannot be framed adequately by a single sequential pattern (Baxter 1988). Even if we try to capture the termination of a relationship into a sequential process-model, the stages will not always be that significant. Different positive and negative influences within one certain stage of the termination process can cause dramatic indirect changes that can be hard to measure and/or detect. The dissolution of a relationship is also affected by the history of the relationship (Seabright et al. 1992).

⁴ The term “termination” is considered as more active in comparison with the term “dissolution” that frequently has been used in earlier studies.

Although the earlier models of relationship termination seem to be useful for understanding the phenomenon, they are not completely relevant for this study. The reason therefore is that they are based on vertical relationships and this study focuses on horizontal relationships. According to our opinion it is relevant to develop new models concerning the process of termination of horizontal relationships, as these are considered to be different from vertical relationships.

AN EMPIRICAL STUDY OF THE TERMINATION OF A JOINT COMPANY

The empirical part of this paper is based on a study of a joint company between three competitors within the house-building sector in Ostrobothnia, Finland. This was considered to be an appropriate case, as the companies within the joint company are competitors and have been operating with similar products on the same market for a long time. The material has been collected through personal interviews during three separate occasions in 1998-2000. During all three occasions, semi-structured interview guides have been used. A total amount of nine interviews have been made. The results of this paper are mainly based on the interviews that were made in year 2000. The interviews lasted about one hour, and were recorded and transcribed.

A case study is considered to be the most appropriate research approach for this study because, as Yin (1993) states, the researchers have little control over events and the research problem is based on “how” and “why” questions. A qualitative approach, with empirical material collected through personal interviews, is considered as suitable as qualitative data is a useful source for deep explanations (Miles and Huberman 1984). Since quantitative research briefly is about measuring a phenomenon, it is not used in this study (Merriam 1988).

In the beginning of the 1990's the Finnish economy was facing a severe recession. The house-building industry had great difficulties as very few houses were built during this period. The only way to survive was to seek new international markets. This was also the reason why a group of companies within the house-building sector in Ostrobothnia started to cooperate with the aim of reaching the German market. They also managed to get governmental support for their operations. The joint company consisted of four house-building companies and a planning and consultant company. This new joint company should handle the four house-building companies' activities on international markets, such as marketing, sales and also provide delivery assistance. The planning and consultant company should assist the house-building companies to plan and deliver the orders.

Reasons for termination of the joint company

Already in the beginning of the cooperation problems appeared. According to our empirical findings we have divided the reasons for the dissolution into three dimensions, which are external, individual and company related (Laine and Åhman 2000). A summary of these is illustrated in Figure 1.

Insert figure one about here.

External dimension

The recession is one of the main reasons that led to the termination of the joint company. The companies had entered the joint company during the recession hoping that this would help them to survive. To quote an answer by a respondent: “And so this, it was a recession... it was kind of a bad start.” We consider this as a reactive motive, as they were more or less forced to interact. Bengtsson, Kock and Laine (2000) state that competitors usually are forced to interact, which indicates that competitors often try to avoid cooperation. Also due to the recession, their financial situation was strongly weakened. This meant that the companies did not have the financial capacity to fully invest in the joint cooperation. The situation was further worsened by the fact that one of

the companies went bankrupt and the others had to divide its debts among them as well as paying their own shares. This is how one of the respondents puts it: “Because company A went bankrupt and we had to pay ten thousands (of Finnish marks) each. It started already then. One was not really happy about that. Then one had to pay both one’s own share plus another share!” At the same time the financial support from the governmental foundation ended. To successfully continue the operations of the joint company the individual companies would have had to invest a lot more themselves. There were also some difficulties with the German market concerning legal aspects, building- and customer related issues.

Company-related dimension

The main company-related problem was that the companies were competitors, i.e. they had similar resources and strategies. Their products were quite similar, and not complementing each other. Therefore it was difficult to share orders among the companies. Another fact was that the culture in the companies differed as two of the companies were family-businesses and as two of them were part of larger corporations. These cultural differences meant that the companies sometimes had problems understanding each other, and sometimes were focusing on different goals. These companies did not totally believe in the joint company and they were not willing to put in as much resources as was proved to be needed to make the cooperation work. They showed a lack of interest in the joint company and instead they tried to export on their own, for instance to the German market. One of the respondents stated: “We did not really go for it whole-heartedly.” Instead of focusing on the potential benefits of the joint company the companies started to behave more or less opportunistically.

Individual dimension

On the individual level the problems were that the persons who represented the house-building companies did not totally trust each other. The result of this was that they were all unwilling to share knowledge, and to reveal specific facts for example about their own products, building methods and prices. One of the respondents stated, “To cooperate within knowledge is not really considered, when one does not really want to talk about everything.” The persons that should handle the joint company’s sales and marketing were not very efficient. None of them had any education for marketing and sales tasks, only relying on little prior working experience in these tasks.

These dimensions do not exclude each other, and there may be more reasons that have not directly been perceived. The reasons for termination found in this study can be compared with research by Tähtinen and Halinen-Kaila (1997). The recession can be seen as a predisposing factor lying behind termination. Another predisposing factor is that the companies stemmed from different cultures. A precipitating event is the opportunistic behaviour that arouse. Lack of trust among the parties can be seen as another precipitating event. The network-related reasons (Tähtinen and Halinen-Kaila 1997) can be compared with the external dimension in this study and the actor-related reasons can be compared with the individual dimension. The dyad-related reasons by Tähtinen and Halinen-Kaila 1997 has been replaced with a company dimension as they base their study on dyadic buyer-supplier relationships meanwhile this study is based on relationships between a group of competitors.

The termination process

The relationship between the competitors can generally be divided into three stages: the situation before the joint company, the situation during the existence of the joint company as well as after the joint company. Before the joint company was established the competitors had knowledge about each other’s products and competed with each other towards the same national customers. When the joint company was established the competitors competed nationally simultaneously as they

were cooperating on the German market. This fact does also illustrate the ground that the joint company was built upon, and maybe it could also be one of the explaining factors of why the relationships within the joint company within just a couple of years went from establishment to termination. The termination process dominated the life of the joint company. Soon after the company was founded, the first signs of trouble could be noticed. The process is divided into the following phases: harmony, negligence, withdrawal, communication and break-up, and it is illustrated below.

Insert figure two about here.

In the initial phase, the “**harmony-phase**”, of the joint company all parties were excited about the possibility to overcome the recession in Finland by exporting to Germany. Unfortunately the termination process was actually initiated even before the joint company had started its operations. Two companies that initially were involved in the joint company got into deep financial problems. One survived, but the other one had to withdraw.

Due to the financial burden that fell on the other firms within the joint company, disappointment arose. Logically it could be expected that the companies at this stage would have evaluated the possibilities of continuing the operations of the joint company. But apparently there was no direct assessment of if or even how to continue. The joint company just went further towards achieving the initial goals. It does also seem that there were no direct and deep communication between the parties. One reason for this could be that the parties were afraid of revealing secrets of core competences to the others. We call the second phase “**negligence**”, because the operations still continued, and it seems like nobody wanted to claim or suggest anything else.

In the first phases of the termination process we can conclude that even if problems could be noticed, they did not get that much attention. What happened was that the companies within the joint company started to operate on their own. The third phase in the process of termination could therefore be called “**withdrawal**”. Instead of working for the mutual goals of the joint company, the companies started to reach similar goals by themselves without taking into account the possible effects of cooperating. This indicates that sharing was not considered to be one of the most important cornerstones of the joint company. Because all the companies wanted to operate alone, no single company could be blamed by the others. As in the “negligence”-phase, direct communication was also rare in the third phase. It was some kind of silent, indirect agreement that made it possible for the parties to work alone.

The “withdrawal”-phase goes almost hand in hand with the “**communication-phase**” that could be considered as the fourth phase in the termination of the joint company. The problems were now multidimensional: great costs stemming from the initiation of the joint company, only two houses were sold from the joint company and nobody managed that well on their own on the German market. At this stage the companies started to directly communicate with each other. And it seems like the need to communicate rise due to the fact that it was the only thing left to do, referring to the problematic situation. This was the first time when a possible termination of the joint company was stated. When the thought of the finalization of the joint company came up, nobody resisted the idea. It was everybody’s wish to end the operations of the joint company. The joint company formally still exists, but it has no operations and has so to say been “put into the desk drawer” to quote two of the respondents. There is no wish for any of the actors to continue the operations of the joint company. This can be illustrated in a quotation by one of the respondents: “If somebody offers a similar cooperation again we will not join. It costs more than it tastes.” The reason why the company has not formally been terminated has to do with taxation and a vague hope that an external part would be interested in taking over the company. The “**break-up phase**” of the termination process has been reached, even though some personal relationships still exist. The break-up phase ends in the final termination of the relationship.

An interesting finding of this study is that the direct communication phase took place in the end of the termination process. Earlier in the process the companies reacted on the problems by negligence and withdrawal. These could be regarded as indirect communication, but to be more specific the above named phases are seen as more appropriate. This can be compared with findings of Ping and Dwyer (1992), as communication also appeared in a later stage of the termination process. It seems like the phase of direct communication in our study appears later in the process than is suggested by Tähtinen and Halinen-Kaila (1997) as well as Tähtinen (1998). This might be explained by the fact that the partners in our study are competitors, which naturally could cause information hiding.

In comparison with Ping and Dwyer's (1992) argumentation, which is that the dissolution of an industrial relationship starts on an individual level and then proceeds to an organisational level, the findings of this study is rather different. In our case, the termination process started with organisational factors, for example the financial burden. Social or individual aspects became evident later on in the process. This can also be compared with the findings of Tähtinen (1998) where assessment is the first stage in the dissolution process. Assessment can be considered as a social or an individual factor, as one individual or a group of individuals assess the relationship and the possibilities for ending it. This appeared later on in the termination process in our study.

CONCLUSIONS

Termination or dissolution is the phase of industrial relationships that has been studied least. It is, though, important to examine the termination to get a deeper understanding of its impact on the dynamics of the relationship as a whole. Especially concerning relationship between competitors it should be relevant to develop the previous understanding of the termination process since horizontal relationships are more prone to terminate. The aim of this study was to analyse why a joint company between competitors was terminated as well as how the termination process was formed. It is not only the reasons for termination that are of interest, but also the content of the termination process.

Earlier studies within the field have been based on vertical relationships and therefore they have mainly been used as inspiration when analysing our empirical findings. Earlier models were not as such considered as suitable within the context of this study. The reason therefore is that these models are based on dyadic relationships among buyers and suppliers. To some extent the findings of our study have similarities with earlier research (e.g. Tähtinen and Halinen-Kaila 1997), but there are differences both concerning reasons for termination as well as the process of termination.

The empirical results of this study show that the reasons for termination could be found on three dimensions, which are external, company- and individual related. External reasons are for example the recession as well as the financial burden. A company-related reason is that the interaction parties were competitors with similar interests. Individual-related reasons are among other lack of trust and information hiding. The process of termination consists of five phases, which are harmony, negligence, withdrawal, communication and break-up. An interesting finding is that the communication phase appeared fairly late in the termination process. This might be explained by the fact that the interaction parties are competitors and thus not willing to share information.

As suggestions for further research we would like to stress the importance of studying termination of relationships between competitors. These relationships have some similarities with relationships between buyer and supplier, but the differences are for example that there usually is an element of conflict involved in relationships between competitors, since the partners already from the beginning have homogeneous resources and strategies. For a more thorough understanding of the process of termination, there is a need for more empirical research, and especially how the phases

within the process are interrelated. There is also a need to further analyse and define the concepts and terms that are used when describing the ending of industrial relationships.

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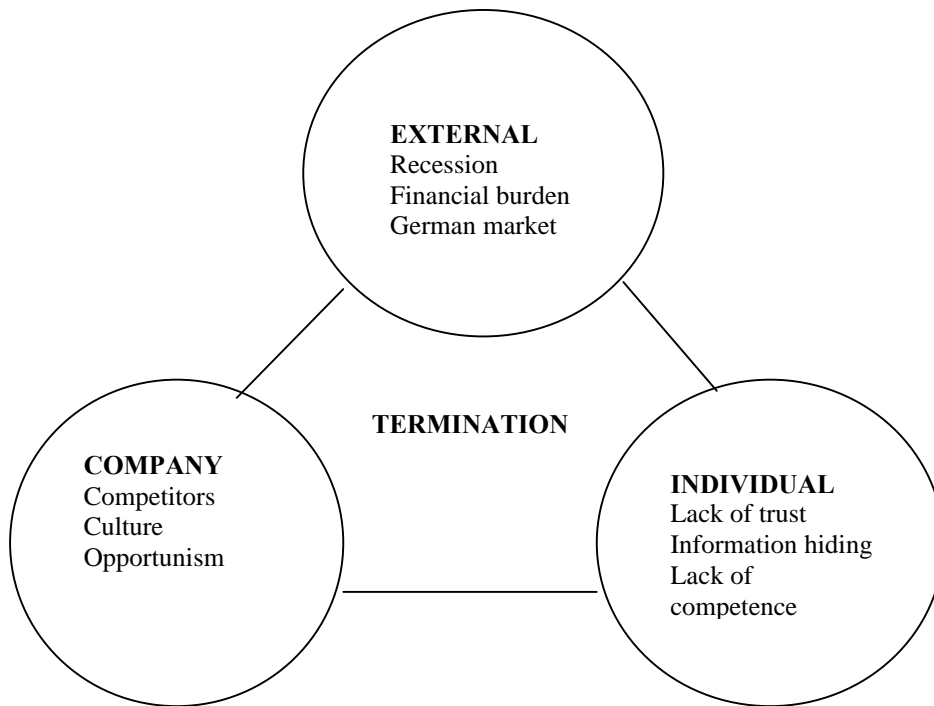


Figure 1: Reasons for termination

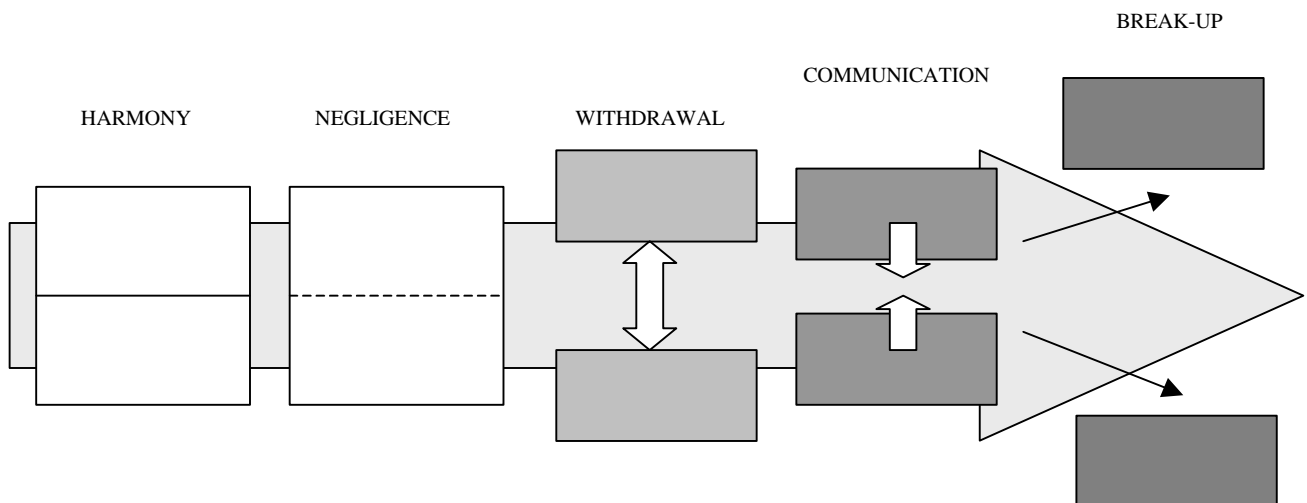


Figure 2: The termination process