Strained business relationships: A conceptual paper

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Abstract

This study was undertaken to increase the current knowledge of the business relationships where business parties are in increasing amount to be connected to each other by various electronic commerce (EC) technologies. These technologies as well as other information technologies (IT) are tightening business relationships and networks that exist between parties as well as creating barriers to enter these relationships and networks. This paper is conceptual in nature and the main outcome of the study is the model developed for tackling the phenomenon.

Introduction

In recent times we have witnessed a steady growth of companies using different kinds of electronic environments including software applications and tool kits to enhance their business. This is partly done because of the turbulent and changing business conditions (Spekman 2000). Another reason for this kind of behaviour is that firms are facing pressure to manage their complicated set of business processes that are in increasing amounts to be partly or wholly digitalized. These business processes are many times overlapping with business processes of other corporations. In order to deliver value for end-customer and business parties these sometimes digitalized business processes need to be linked and managed as effectively as other types of resources that companies have. Resource is anything that can be thought of as a strength or weakness of given firm (Wernerfelt 1984).

This paper highlights the importance of different kinds of links between business parties and how the digitalization is effecting upon the links. This study answers the following question:

How and why is IT and digitalization tightening business relationships and networks?

The answer is derived from the literature review on business relationships, IT and EC. We are trying to aim our research to fill the gap that exists in the literature between the business relationships and networks research and IT and EC.

Literature review

Business networks (Axelsson and Easton 1992; Håkansson and Snehota 1995), relationships (Håkansson 1982) and value-chains (Porter 1985) as well as supply chains (Christopher 1998) are product of our imagination. There is no real concrete network or relationship but these concepts give us some insights when we are pondering on the linkages between different corporations. Therefore, if we think that firms form these linkages we can go on and say that firms are arranged into value delivering business networks, value chains or even strategic nets. In this study we are interested in business relationships. Business relationships and ultimately business networks are tightened because the use of IT. In this study IT encompasses all the technologies capable of transmitting and processing information. These include, but are not limited to, information and communication technologies (ICT), information systems (IS), EC systems, EC technologies, EC applications, enterprise resource planning (ERP), customer relationships management (CRM), supply chain management (SCM) and enterprise application integration (EAI). The links between business parties that form business relationship and the links of business relationships to a wider network are

complex to explain. For the purpose of this study the links are the IT resources that are interconnected to each other or not. Investments that are made directly or indirectly to business relationship usually attaches business parties together (Easton and Araujo 1992).

IT is increasing its share in total sum of company's investments (Davenport and Prusack 1997; Dedrick, Gurbaxani and Kraemer 2003). From ERP, CRM, SCM to EAI and other systems are helping companies to organize their internal processes as well as interconnected processes. These systems involve lots of personnel training and the pay back period is long and complicated to account. Although accounting managers are trying to come up with calculations that take into consideration invisible i.e. almost impossible to account effects that these new breed of information technology resources bring into the calculations. It was pointed out by Wilson, Littler and Bruce (1997) that it is not fruitful to identify different approaches to define IT. Instead how firms can utilize IT effectively is the main question. Technologies whether they refer to IS, IT, ICT or perhaps ECT are resources that companies are employing. These EC applications and systems are many times acquired in different ways. There are four common ways which are (i) off-the-shelf, (ii) developed internally (by the company specialists and others) (iii) lease and (iv) mix of above mentioned. The third option leasing the tailored system from the application provider via the internet is gaining popularity. With help of these resources companies can make their internal processes i.e. billing, invoicing, shipping etc. more effective and they can connect to other companies and their resources more effectively. However, when companies are installing and using applications and systems that enable many new streamlining solutions and revenue models they also bring in something that has not yet been studied. This is the focus of this study.

Strained business relationships and networks

Technologies between business parties are those elements that are tightening business relationships and business networks. There exist two kinds of technologies according to Shapiro and Varian (1999) those that are *compatible* and those that are *incompatible*. To put it shortly, compatible "machines" and software can talk to each other while incompatible can not speak directly to each other but connections can be made through adapters or re-programming. The compatibility or incompatibility in business relationships and networks depends on business parties technologies.

One criterion to choose IT resources should be the compatibility/incompatibility trade-off. The figure one presents one aspect of compatibility and incompatibility dilemma faced by decision makers.

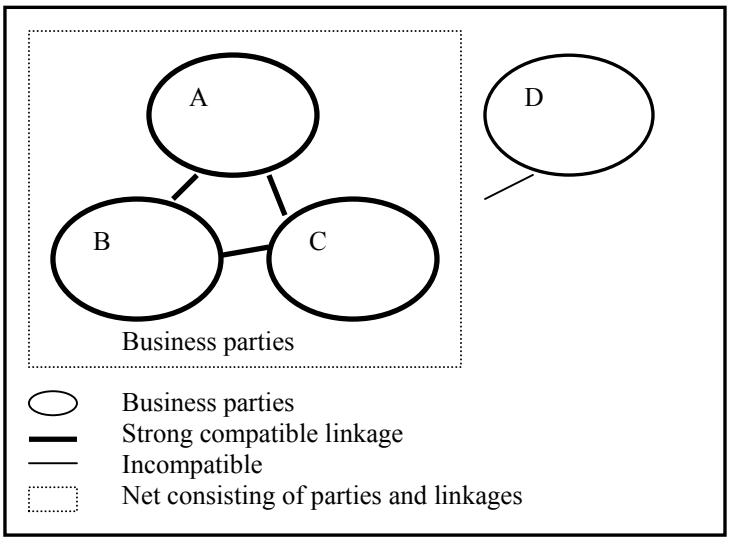

Figure 1: Safeguarding existing business networks

In short, the more you have partners with the same compatible technology the lesser is the lock-in effect, for parties endowed to these systems, and higher are the switching costs from one IT resource supplier to another. This is the case in inside the net but with outsiders the

technologies are purposefully moulded to be incompatible. In this type of tightening parties are in some sense protecting themselves from entrants either to the net or relationships. When firms have *compatible* IT or EC systems these firms can form partially digital business relationships where some aspects of the traditional business relationship are replaced with digital elements. This is usually the situation in *established* business relationships where both parties have made the necessary investments that are creating mutual benefits for parties. If the system links between these firms are compatible it means that these parties can act to deliver "the best value" for the customer organization or the end-consumer. The real value is always subjective and it depends on the customer.

In the figure two it can be seen how parties with incompatible technologies form compatible technologies by adjusting technologies over period of time.

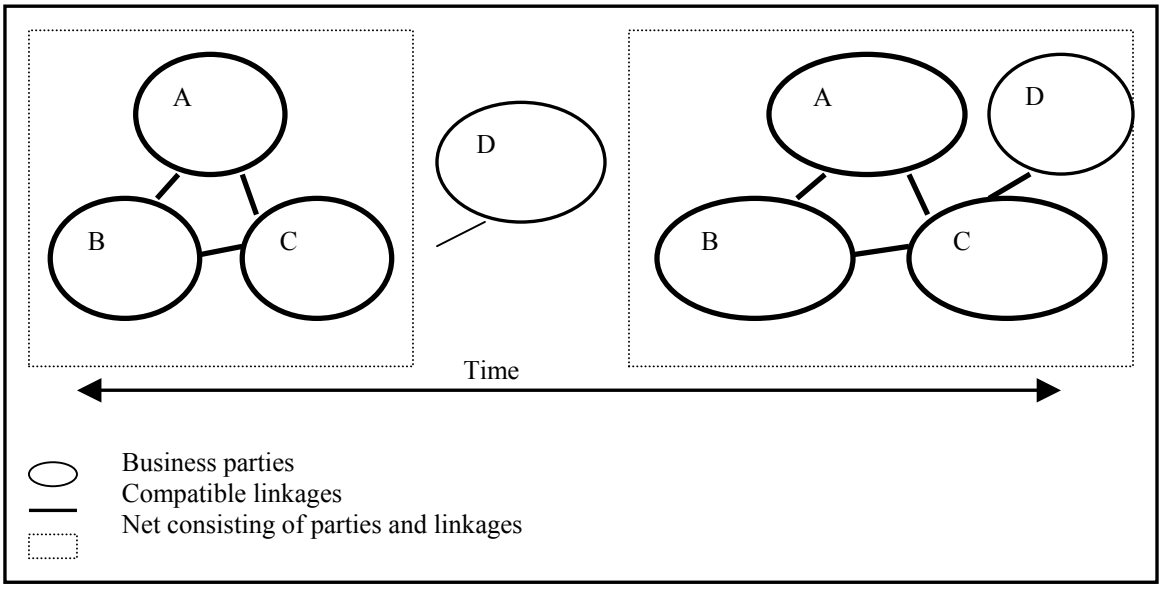

Figure 2: The adaptation process over time

In *emerging* relationships parties do not have previous experience that is cumulated over long period of exchanges. The relationship must be developed and investments to compatible technologies conducted if these parties perceive that something valuable for both of them can

be acquired by investing into the emerging relationship. An example of this could be a strong buyer that has IT resource labelled X in use and that system requires that the seller should also have the same system in order to be compatible for partially digital business relationship. This means that the seller should invest into X before it can try to establish a business relationship with the buyer. The amount of money and time to be invested is not always clear but if the buyer is big enough and the relationship is possible then adaptations and investments could be reasonable. Or the seller might perceive that it is not worth investing to fully compatible systems and they partially integrate to the buyers systems.

When companies invest in compatible IT resources they also in some sense restrict themselves to those business partners that use the same technology. Therefore companies that have invested heavily on compatible systems probably do not actively seek new partners with different systems in place. There is a possibility that there is no relationship initiated between parties because of the high up front costs related to IT and the systems would stay incompatible. This as an entry barrier to form business relationships might lead to smaller supplier bases and lost of revenue.

An IT investment also tightens up the business network since actors are investing in those systems and applications that are in place and must be updated in order to compete in the business. Also new more effective and wider applications and systems are available to corporate clients. When these firms invest in these systems together then there is a possibility that these systems are really integrated and interoperable but this is usually not the case. These systems are working inside firms but when they should connect to other systems problems occur.

When firms have imperfect systems that are sometimes incompatible it creates possibilities for others to make profit. One solution to this emerging problem is to create more compatible systems or create a common language for those systems i.e. electronic platform where all the systems can "talk" to each other. RosettaNet is one type of common language developed for EDI. It is one of the most prominent standards for business communication and information transfer since it makes possible many-to-many transmissions instead of point-to-point like in standard EDI (Hannula & Vasama 2002).

At the end of the day, the Internet and many new technologies enables people and organizations to establish, create, maintain and end relationships between people and organizations. The question to answer from the marketing perspective is how to use these technologies to connect to relevant people and organizations to make exchanges possible.

Conclusions and further research

This paper is conceptual in nature and therefore has limitations but in general it provides some thoughts how business relationships and networks are tightened due to the technologies used in those relationships and networks. We examined only one aspect of technology namely compatibility or incompatibility but there are many other aspects also to be pondered. One aspect would be the creation of standards and management skills related to technology developments in business relationships and networks. Business relationships are tightened by the use of compatible technologies between parties conducting business and by using incompatible technologies for other parties they safeguard themselves against enemies. Limitation of this paper is the conceptual nature of this paper but further studies will include the empirical validation of the revised model for strained business networks. This could be

done by comparative case study analysis. For academia and managers this paper provides some ideas to think about strained networks and opens up discussion for further studies i.e. which links should remain closely controlled and incompatible and which one can be or remain compatible with third parties.

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