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**Temporal Quality Configurations in a Business Relationship:
A Longitudinal Case Study of a Customer and
a Telecommunications Service Provider**

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Abstract

The purpose of this study is to describe, analyse, and understand the perceived quality of a business relationship between a telecommunications service provider and an international conglomerate, and to understand the formation and temporal development of the perceived quality in such a business relationship. This study uses a single dyadic case-study approach with several in-depth interviews. The qualitative study is longitudinal and dynamic in nature, and follows the temporal development of the focal business relationship in a six-year period. This qualitative case study utilises a dyadic model with technical, social, and economic dimensions of perceived relationship quality, and includes an evaluation of both partners of the focal business relationship.

Introduction

Business relationships are complex and multifaceted. Four core features of business relationships are mutuality, long-term character, processual nature, and contextual dependence (Holmlund – Törnroos 1997, 305-308). In business-to-business markets, long-term relationships between buyers and sellers are a common form of organising economic exchange. This is the case whether industrial products or business services are the object of economic exchange (Halinen 1994, 13). In these markets business relationships can be approached from a processual perspective. This means that business relationships emerge, evolve, and dissolve in a continuous and interactive process between firms in which various activity links, resource ties, and actor bonds develop between the interacting partners (Halinen 1998, 113; Halinen – Tähtinen 2002, 166). The processual perspective takes up the process of development as such—that is, the nature, sequence and order of events and activities that unfold over time—and describes how things change (Halinen 1998, 117). Consequently, business relationships involve a temporal aspect, and relationships are dyadic (Halinen 1996, 48).

The inner context of a business relationship refers to the general structural and processual characteristics that are considered typical for inter-organisational relationships. Structural characteristics address issues such as continuity, complexity, symmetry, and informality. Processual characteristics address issues relating to the process feature of the relationships, and include adaptation, cooperation, and conflict (Håkansson - Snehota 1995). Business relationships are embedded in a set of interrelated levels of analysis characterised as the outer and inner contexts of the focal firms (Holmlund 1996, 63-67; Pettigrew 1997, 345). This not only means a contextual embeddedness but also implies a temporal embeddedness. Temporal embeddedness implies that business networks are evolving social and economic systems that are intrinsically linked to time (Halinen – Törnroos 1998, 194-195; Holmlund – Strandvik 1998b, 8).

Business markets in the telecommunications sector can be characterised by stability and source loyalty, high cost of change of business partner, power-dependence, and long-lasting relationships between business partners. Many of these features are related to high levels of investment and perceived risk, which often predominate in business-to-business markets. Service complexity, high purchase value, and necessity are important contributory factors in perceived risk. In these markets, both the service providers and the customers are active participants in the relationship. These characteristics tend to

produce long-lasting relationships as a risk-reduction strategy. Industrial marketing and purchasing therefore becomes a matter of organisational interaction involving a series of exchange processes and adaptations in behaviour involving both partners over time (Håkansson 1982; Håkansson – Snehota 1995).

Customers in telecommunications often demand that sellers provide more than just technical solutions. They are increasingly interested in buying function, not merely products (Giarini 1991, 60). In many cases, a decision to buy a comprehensive service from one service provider relates to the customer's own decision to outsource certain operations (Stremersch et al. 2001, 8). They do this because external service providers who specialise in specific services can provide the required services more quickly, more reliably, and at a lower cost (Gross et al. 1993, 15).

Business firms are increasingly outsourcing their business activities. This externalisation of value-added activities is dependent on creating strong supplier partnerships in those activities that have high strategic relevance for the customer firm (Möller – Halinen 1999, 414). Outsourcing has changed the nature of business relationships in telecommunication services. The business relationships in the telecommunications sector have moved from competitive bidding to searching for long-term business relationships. The outsourcing of information technology means that the customer lets the service provider take responsibility for the property, personnel, and managerial liability connected with the information technology and, through these, the seller provides telecommunication services to the customer's organisation (Hirschheim – Lacity 2000, 99).

Business arrangements between organisations are shifting from a transaction-oriented mode to a relationship-oriented pattern. This means that the purchasers of the future will be shifting from controlling the process of purchasing to controlling the process of business relationships (Sheth – Sharma 1997, 91). A special feature of the interaction between firms is that an overall relationship is formed between the organisations, but the interaction itself takes place at the level of individual employees. This interaction is of critical importance in business relationships (Blois 1997, 379; Halinen 1997, 47; Kotsalo–Mustonen 1996, 14; Ojasalo 2001, 199; Håkansson 1989, 108).

Perspectives on perceived quality in business relationships

Quality in business relationships can be approached from various perspectives that represent different views of perceived quality. The traditional production-focused perspective is commonly formulated in various quality certificates and awards. Industrial firms are focusing on managing their own resources in terms of controlling and measuring the production process and internal logic. The service-management perspective offers valuable insights into many issues that are not recognised in the production-focused perspective. The service-management perspective also includes managing the customer's resources, because the customer is considered to have a significant influence on the production process as a co-producer of the service. These two perspectives complement and enrich each other and provide starting points for the next step, which is the expansion of the understanding of perceived quality to encompass business relationships and chains of relationships in a network setting (Holmlund 1997, 63).

Shifting the attention to a dyadic relationship perspective introduces totally new management aspects of perceived quality in industrial settings. From a dyadic

relationship perspective it is no longer a question of managing one's own resources as such, but more a matter of adapting them to those of the counterparts, and of cooperating in using and developing resources in appropriate and efficient ways. Taking this line of reasoning one step further to the network perspective would result in a still larger scope for any understanding of perceived quality. In such a scenario, the focus shift to the whole value-creating chain of activities—ranging from the service provider's provider to the customer's customer, or the end-user. These different perspectives of perceived quality are illustrated in Figure 1 (Holmlund 1996, 5-7).

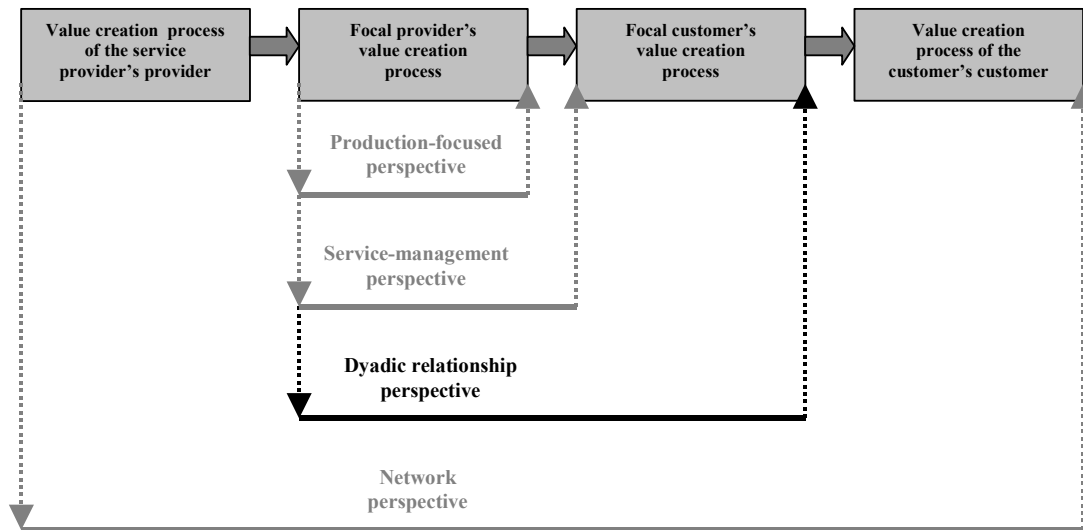


Figure 1. Different perspectives of perceived quality

The traditional production-oriented perspective focuses on the producer's own production and production-related process. Quality management focuses on securing an even and smooth production flow. The provider is not concerned about the after-delivery process and whether the product or service is part of the customer's value-creation process. The service-management perspective extends the scope of perceived quality. In this case, the service provider has a responsibility to manage the participation of the focal customer in order to achieve high-quality service performance. This perspective, however, still has its limitations because it mainly focuses on the provider's processes (Holmlund 1997, 64).

A dyadic relationship perspective also takes into consideration the focal customer's value-creation process. Hence, it represents a wider scope and a completely different approach to perceived quality compared with the traditional production-focused and service-management perspectives. In this case, the focus is neither on the product (or service) nor on the production processes of either firm. Rather, the focus is on activities that take place in the dyad—that is, the focus is on relationship between the two counterparts. These activities influence the firms involved, and, conversely, the activities are influenced by the firms themselves. Consequently, the various types of interaction, exchange, and adjustment performed within the dyad by the two focal firms are important sources of quality (Holmlund 1996, 7). In this study such a dyadic relationship perspective on perceived quality is adopted.

Interactions in business relationships

A business relationship can be defined in terms of interaction. The interaction between business partners can be frequent or infrequent, regular or irregular, explicit or implicit, conscious or unconscious. Each interaction can be individually more or less vital but, collectively, such interactions comprise a comprehensive representation of both the firm and the reasons for its existence. It is the firm's interaction with other firms that leads to an activation and integration of its resources. Interactions are connected to both previous interactions between the partners and future interactions between the partners, and they might become interdependent over time as the firms continue to interact (Holmlund – Törnroos 1997, 304). Not all interactions taking place in a relationship are equally important. Some interactions are more critical and have more influence on how quality is perceived, whereas others are more routine and absorbed in the stream of interactions that constitute the relationship (Holmlund 1998, 536).

The interconnectedness of interactions has meant that it is useful to group interactions into natural entities on different hierarchical levels. In this way, each smaller entity is embedded in a larger interaction context. Embeddedness relates to the fact that economic actions and outcomes are affected by the partners' dyadic relations and by the overall structure of network relations (Holmlund – Törnroos 1997, 306). Halinen and Törnroos (1998, 194-198) elaborated six types of embeddedness: (i) temporal; (ii) spatial; (iii) social; (iv) political; (v) market; and (vi) technological. They further identified the vertical and horizontal dimensions of embeddedness. Vertical embeddedness refers to the relations between different identifiable levels in a network, whereas horizontal embeddedness refers to the relations of the actors within a specific network level.

Business relationships are composed of higher-level and lower-level elements. Various elements of relationships have been distinguished in different relational contexts, and several concepts have been used to describe them (Holmlund 1997; Holmlund – Strandvik 1998b; Liljander – Strandvik 1995). Ojasalo (1999, 144) identified assignment and interaction as hierarchical lower-level elements of a relationship in the context of professional services. Assignment-level interactions contribute directly to the goals of an assignment. However, relationship-level interactions refer to interactions that contribute to the relationship in general. Liljander and Strandvik (1995, 147-149) classified interactions into episodes and acts in the context of customer relationships. These authors defined an episode as an event of interaction that has a clear starting point and ending point, and that represents a complete service exchange. Within the episode several acts can exist.

Holmlund (1997) expanded interactions into more detailed aggregation levels in the context of business relationships. Interactions were categorised into actions, episodes, sequences, and relationships, which, taken together, constitute the partner base of a focal service provider. Lower levels of interaction are embedded in higher levels because they are part of the aggregated higher levels in a hierarchical order. This categorisation into five levels—actions, episodes, sequences, relationship, and partner base—encompasses the whole relationship at several levels of interaction, and also encompasses subsequent actions and episodes. The fifth level of partner base is principally applicable to situations in which network partners are required in business relationships, whereas the other four are appropriate to the analysis of relationships in general (Holmlund 1998, 536).

The most detailed type of interaction is comprised of actions—which form the lowest hierarchical level of interactions. Actions consist of individual initiatives by firms and

are the smallest unit of analysis in the interaction process. Actions can relate to any kind of exchange element—including products and services, information, money, and social contacts. An example of an action is a telephone call (Holmlund 1997, 96). In the service-management literature, actions are often referred to as ‘moments of truth’ (Grönroos 2000, 373; Normann 2000).

Interrelated actions can be grouped into interactions on a higher episode level. Episodes are defined as several interconnected actions, and represent a minor natural entity on the next hierarchical level within the relationship. Every episode involves a series of actions—for instance, a negotiation process consisting of a number of actions. Interrelated episodes can, in turn, be grouped into a sequence, which forms a larger and more extensive entity on a higher interaction level. This level can be defined in terms of a contract, a product, a campaign, or a project. A sequence can involve a certain period of time, and sequences can overlap, so that episodes belonging to one sequence can also be part of another sequence. The completion of a sequence constitutes a vulnerable period of time in a relationship during which the partners can make crucial evaluations (Holmlund 1996; 48-49).

A relationship refers to the level of analysis encompassing the entirety of the interaction between the firms. This level thus comprises all sequences, which, in turn, are comprised of all episodes, which, in turn, consist of all actions within a relationship. Sequences can follow each other directly, can overlap, or can follow after longer or shorter intervals (Holmlund 1997, 97). The nature of the overall relationship simultaneously affects the perceptions of the actions, episodes, and sequences taking place within the relationship. A satisfied customer can evolve into a true advocate for the company and give a powerful word-of-mouth endorsement for the service provider.

This novel way of dividing relationships into several layers on different levels of aggregation gives the marketer an instrument detailed enough to be useful in the analysis of interactions between service provider and customer. This comprehensive framework is equally valid for describing and analysing relationships in both consumer markets and business markets (Grönroos 2000). Figure 2 depicts the four different interaction levels in a business relationship (Holmlund 1996, 49).

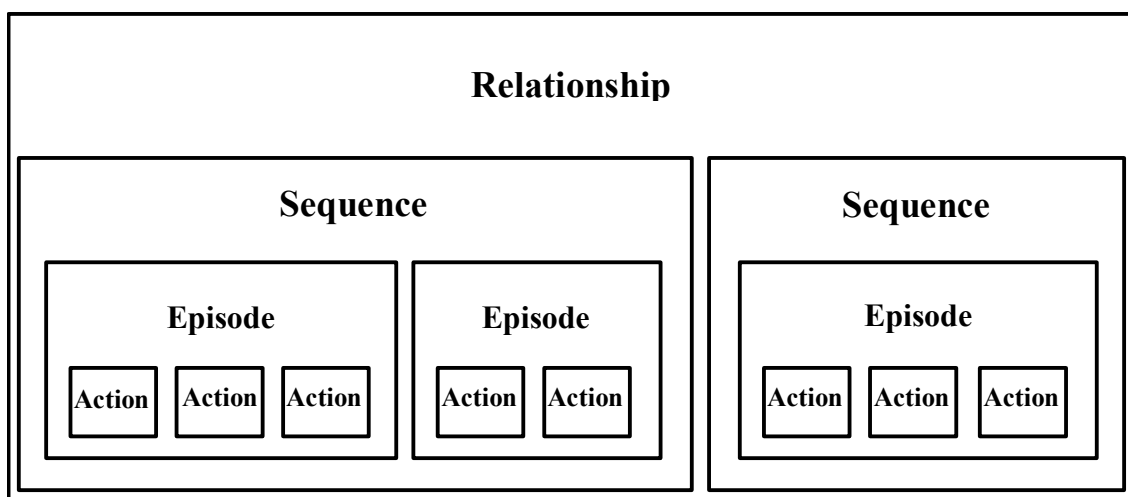


Figure 2. Different interaction levels in a business relationship

A further distinction between episode-dominated and relationship-dominated services can be made—according to whether the service is of a discrete nature (whereby the customer makes a separate decision each time regarding which service provider to use) or of a continuous nature (whereby the customer makes a contract for service delivery with the service provider). In a continuous relationship context, customers, by definition, use a large variety of different episode types, ranging from simple routine episodes to complex episodes (Storbacka 2000, 566). There are also services that fall between discrete and continuous services. Such services might be of a long duration but composed of discrete components. A distinction can also be made according to how often the service is consumed. Services of a discrete type, which are seldom used, can be said to be episode-dominated (Liljander - Strandvik 1995).

The interaction levels proposed by Holmlund (1997) represent a fresh perspective to categorise interaction in a business relationship. Interaction levels refer to diverse aggregation levels and time frames for interactions between two interacting business partners. The traditional use of two aggregation levels of interactions (that is, short-term episodes and long-term processes) has rather limited analytical depth when it comes to describing the content of a particular business relationship or capturing differences in the structures of business relationships. This categorisation of interaction levels is not a static structural conceptualisation. Rather, it is dynamic in the sense that it captures how interactions on the lower levels are able to affect interactions on the higher hierarchical levels in the relationship, and vice versa (Holmlund 1998, 536).

Perceived quality dimensions in business relationships

Holmlund (1997, 161-164) has proposed a model of perceived quality in business relationships. This dyadic model is based on the way in which firms experience their business relationship compared with their own standards. The model provides a broad description of the business relationships—in that it discloses the relationship comprehensively and takes into account perceptions of two business partners. Perceptions of a relationship are based on the interactions taking place in the business relationship. From a dyadic point of view, perceptions can concern both the process aspect and the outcome aspects of the interaction levels in the business relationship. Consequently, the interaction levels between firms are approached using two specific domains of process and outcome. This categorisation refers to two diverse arenas in the value-creation process. These two domains of process and outcome can be combined with three different dimensions of perceived relationship quality. These three dimensions constitute the technical, social, and economic dimensions of perceived relationship quality. The model of perceived relationship quality also depicts the connectedness of the focal firms to the surrounding network. The model of perceived quality in business relationships is illustrated in Figure 3 (Holmlund 1997, 162).

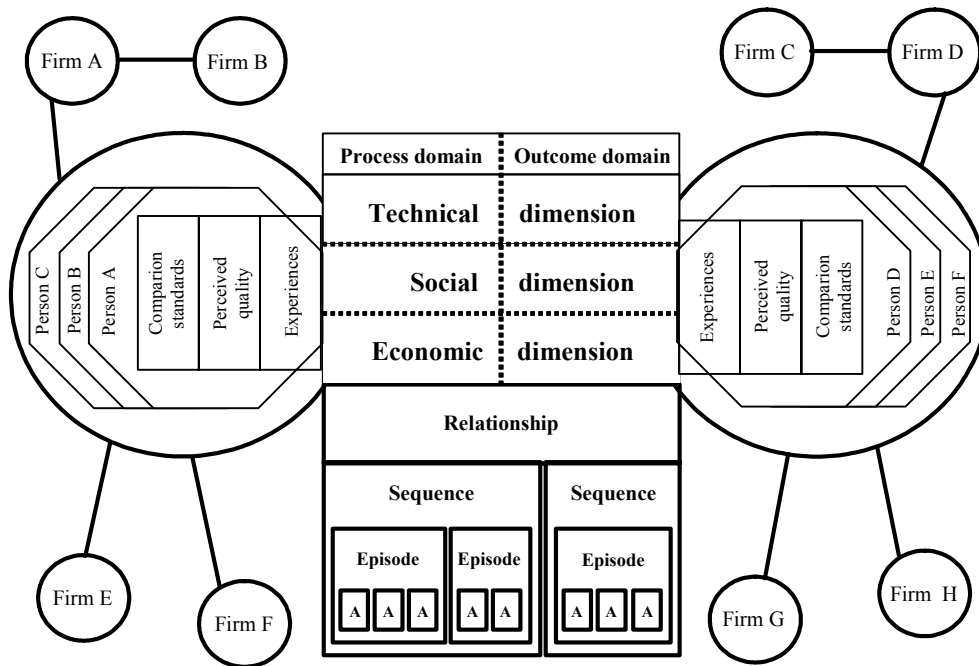


Figure 3. The model of perceived quality in business relationships

The three dimensions of perceived relationship quality consist of the technical, social, and economic dimensions. The technical dimension of perceived quality in a business relationship represents the core competence of the interacting firms. It refers to the main offering in the focal relationship, and it can consist of tangible as well as intangible elements. The social dimension of perceived quality concerns the human interactions at the individual and firm level. The economic dimension of perceived quality concerns the economic issues, benefits, and costs of the relationship (Holmlund 1996, 90-138; Holmlund 1997, 157-163). Consequently, the perceived quality of the business relationship consists of the firms' perceptions of different technical, social, and economic interactions taking place in the dyad (Holmlund 1998, 535).

Problem setting and research design

Industrial markets can be described as networks of inter-firm relationships. Service providers build business relationships with their customers, and through these become connected to broader networks of business relationships (Halinen – Salmi – Havila 1999, 779). The present study concentrated on one focal business relationship between the customer firm and the service-provider firm. The market consisted of customers with whom the service provider has a relationship and customers with whom the service provider did not yet have a relationship. Some of these potential customers had previously been customers, but had defected for various reasons. Existing and potential customers constitute the market for a service provider. This means that the customer has an opportunity to choose between existing service providers. There is the possibility in the field of telecommunications that a service provider inside the firm might have to compete with external service providers. Based on the ideas proposed by Storbacka

(1994, 54), the current research setting in business relationships is illustrated in Figure 4.

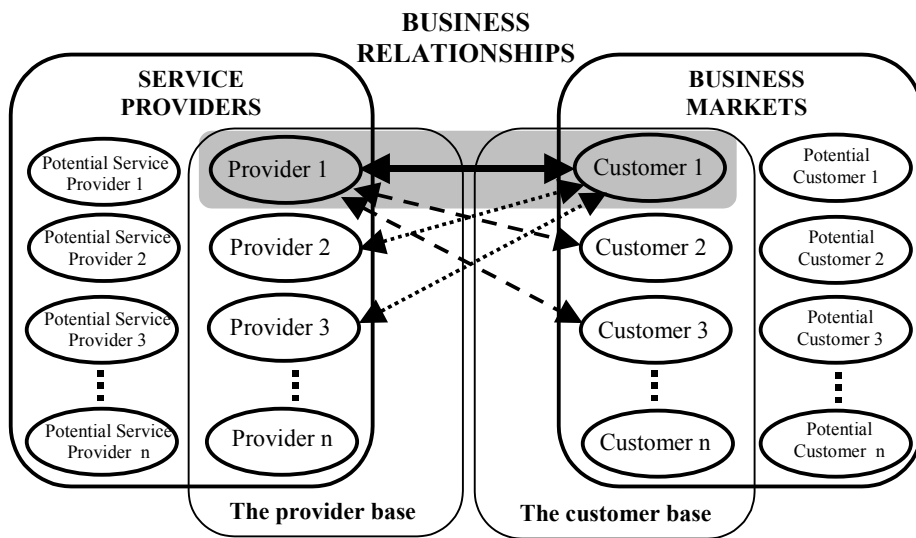


Figure 4. Business relationships between service providers and customers

The purpose of the present study was to describe, analyse, and understand the perceived quality of a business relationship between a telecommunications firm and an international business conglomerate, and to understand the formation and temporal development of the perceived quality in such a business relationship.

The aim of this study was therefore to find answers to the following research problems:

1. How are the different levels of interaction formed and developed in a business relationship?
2. How are the technical, social, and economic dimensions of perceived quality formed and developed in a business relationship?

The basis of this study is the dyadic interaction between a business customer and a telecommunications service provider. Business relationships and their development are always bilateral. This study used a longitudinal approach to understand the content and temporal development of perceived quality in the focal business relationship. Without temporality there is no scope to reveal the dynamics of the process, and the relationship between the past, present, and future (Pettigrew 1997, 345). Without a process perspective, the changing facets of business relationships might not be adequately revealed (Holmlund – Törnroos 1997, 308). In longitudinal studies, data are collected over a period of time, in contrast to cross-sectional studies, in which data are gathered at one specific moment (Halinen – Törnroos 1995, 501).

This study investigated the dynamics of a business relationship over time and involved data collection from several periods of time and from multiple sources of evidence. The research problem was tackled with an action-oriented approach. It was based on hermeneutic philosophy and it aimed to achieve a profound understanding of intentional human action. Consequently, it was assumed that the actors were not acting

on a stimulus-response basis; rather, the aims or intentions of the actors are assumed to have had a crucial role in explaining their actions (Pihlanto 1994, 369-375). The aim of this study was therefore to achieve a deep understanding of the perceived quality of the focal business relationship and its temporal development.

Longitudinal research, which focuses on the study of processes, provides clear advantages compared with cross-sectional research. First, it assists in the construction of logically consistent models of processual phenomena. Longitudinal research facilitates attempts to establish causality—in that temporal precedence of events can potentially be shown. Furthermore, a longitudinal study allows the researcher to acquire a rich understanding of the contextual setting. A major disadvantage of conducting a longitudinal study is that it tends to be extremely time-consuming (Halinen 1994, 33; Halinen 1998, 120; Halinen – Törnroos 1995, 510-519; Miettälä – Törnroos 1993, 25-33; Pettigrew 1997, 338-347).

At least three diverse longitudinal approaches are available for studying the dynamics of business relationships. These approaches include historical or retrospective studies, follow-up studies that investigate relationships in real time, and futures studies, which consider the possible futures of a relationship (Halinen 1997, 21; Halinen – Törnroos 1995, 510-519; Miettälä – Törnroos 1993, 25-33). Retrospective and real-time data each has its strengths and weaknesses. The reconstruction of histories over long periods of time makes it possible to identify continuities, different periods in relationship development, recurrent cycles, and breaking points. In retrospective studies there is, however, a danger of rationalising different occurrences and re-interpretations. In contrast, following events in real-time, tends to draw attention to the complexity of real-life events and changes in the relationship. In real-time studies there is a risk of drawing attention to the complexity of events and to minor changes (Dawson 1997, 402; Halinen 1996, 50-53; Halinen 1998; 120-121; Pettigrew 1990, 271; Pettigrew 1997, 337-348; Van de Ven 1992, 169-188). In the present study, which involved time-bound phenomena, a combined approach was used, whereby longitudinal data were collected both retrospectively and in real time. By combining these two approaches, the aim was to overcome the major biases inherent in using one particular approach alone.

The existing theoretical literature and empirical evidence were used as sources for this longitudinal and single dyadic case study. A steady comparison and dialogue between the a priori model and the received empirical evidence was carried out. In case studies, generating and interpreting data is, to a great extent, an overlapping process. The aim of interpreting data is to create order, structure, and meaning to the collected empirical material (Eisenhardt 1989, 532-550). Empirical pre-understanding in the present study was based on the practical experience of one co-author. Theoretical pre-understanding was based on a literature review, and theory was used as a guide for semi-structured interviews and for triangulation. An assumption behind triangulation is the premise that the weaknesses of one method can be strengthened by the counterbalancing strength of another. Triangulation can be used not only to examine the same phenomenon from multiple perspectives or with different methods, but also to enrich understanding (Cunningham 1997, 401-423; Jick 1979, 602-611). Perceived empirical reality was thus approached in the present study by using multiple sources of data, and a process of constant comparison between theory and empirical reality was utilised. Empirical and theoretical knowledge has thus been integrated with the perceived empirical reality in the natural context of the phenomenon under study (Bonoma 1985; Coffey – Atkinson 1996; Dubois – Gadde 1999; Yin 1991). Based on the ideas proposed by Halinen (1994, 31), the main principles of current research strategy are illustrated in Figure 5.

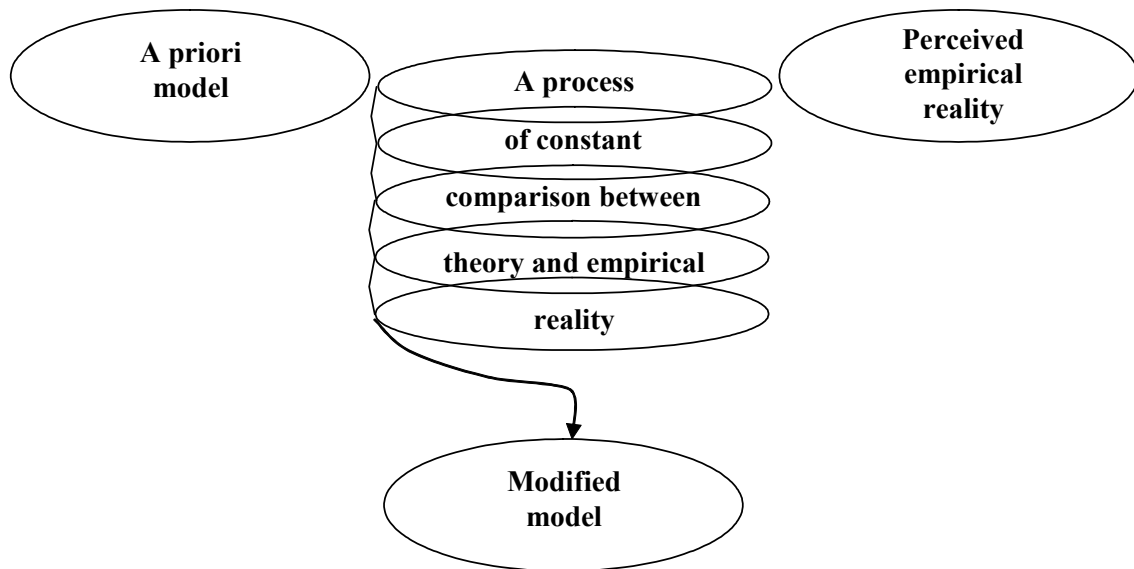


Figure 5. The main principles of current research strategy

This qualitative single case study applied a longitudinal and dyadic approach and included an evaluation of both partners of the focal business relationship. Although it is widely recognised in the interaction approach that relationships are dyadic in nature, dyadic models are sparse. A dyadic model takes corresponding perceptions from both partners in a dyad into consideration, rather than focusing on only one firm's view of its relation to another (Holmlund – Strandvik 1998a, 540). The dyadic approach was important in the present study because, in a business setting, both partners are active and both partners have perceptions of the quality of the relationship. With this dyadic perspective, the overall nature and fundamental components of the focal business relationship between firms can better be understood. The current dyadic case study utilised a longitudinal and dynamic approach with a focus on the evolution of perceptions on relationship quality. Another alternative would have been a static study with a cross-sectional measurement only.

In this study, the term 'dyadic case' refers to a business relationship between a service provider and its customer. The case study approach is appropriate for understanding the dynamics in settings in which the phenomenon under scrutiny is embedded in complex relationships, and in which the existing body of knowledge is presently insufficient (Bonoma 1985, 199-208; Dubois – Gadde 1999). The main advantage of a single-case design is its ability to provide full and in-depth insight into dynamic phenomena in organisations. A trade-off is necessary between the number of cases and the depth and completeness of data collection. This study used analytical generalisation, which occurs at the level of theory, and contextual generalisation, which implies the transferability of interpretation into other contexts (Halinen 1994, 35; Yin 1991). The present authors concur with Halinen's view that the value of the study depends upon the cogency of its theoretical reasoning and the comprehensiveness of the case description, not upon the sample size and empirical coverage (Halinen 1997, 22).

Multiple sources of data were utilised in the form of semi-structured interviews and specific documentary material. In processual case studies, the interviews can be used to collect data on what individuals identify as being a particularly memorable moment or incident. A major concern with this method relates to recall and the tendency for individuals to rationalise past actions. Sometimes, the informants might also merely

provide socially acceptable answers or answers, which they believe the interviewer wants to hear (Dawson 1997, 398-400; Eisenhardt 1989, 534). Documentary evidence can offer a useful reference source for constructing a chronology of the key events, since documents can provide more precise and consistent longitudinal data and can be obtained unobtrusively (Dawson 1997, 401). The documentary evidence for the present study was mainly collected before the interviews and thus provided useful knowledge of the business relationship to be studied. The documentary material consisted of memoranda of meetings, offers, agreements, various transparency presentations, and customer-satisfaction enquiries. The combined use of interviews and internal company documents made it possible to clarify the findings of the study.

The customer in this study was ABB Ltd and the telecommunications service provider was Elisa Communications Ltd. The study followed the temporal development of the focal dyadic business relationship over a six-year period from 1996 until 2001. A business relationship exists at the organisational level, but it is handled and executed by employed persons associated with various roles and functions in the dyad. Therefore, it is assumed that persons who are significantly involved in a relationship are best able to provide information about it—because their perceptions and interpretations determine both the content and the orientation of the dyad. Consequently, six persons were interviewed from both parts of the dyad. Thus, the approach of the study was also dyadic, because it took in the perspectives of both the service provider and the customer. Three interviewees were selected from the customer firm and three from the service provider firm. These six persons were known to be the key persons in the focal business relationship and its longitudinal development, and all were closely involved in the focal business relationship during the whole study period of six years.

The validity of this case study should be understood as a fit between theory and reality. In case studies, validity can be considered as a continuous process that is integrated with theory. This requires the researcher continuously to assess assumptions, revise results, retest theories, and generally reappraise the limitations originally recognised in the study. The validity of research findings can be enhanced by different methodological approaches producing convergent findings about the same empirical reality (Gummesson 2000).

Interaction levels and temporal development

Business relationships can be based on diverse types of offerings. These refer to the core value-creating process in the interaction between the partners in a business dyad. The various offerings involve inherently different types of situations and processes, and therefore, involve different consequent relationships. The vital aspects of an offering depend on the degree of complexity of the offering and on the degree of adjustments and customisations of the offering. Different types of offerings are depicted in Figure 6 (Holmlund 1997, 69).

Degree of Complexity	High	Standardised Complex Offering	Adjusted Complex Offering
	Low	Standardised Simple Offering	Adjusted Simple Offering
		Low	High

Degree of Adjustment

Figure 6. Different types of offerings

Standardised simple offerings are related to business relationships in which standardised goods or services are exchanged—for example, components, and raw materials. Standardised complex offerings comprise, for example, production equipment and accounting services for a small firm. Adjusted simple offerings relate to business relationships involving, for example, manufacturing or production specifications. Adjusted complex offerings comprise, for example, long-term and technology-dominated business relationships. Adjusted complex offerings contain a system of different kinds of tangible and intangible elements and extend over a long period of time. Adjusted complex offerings also often involve extensive interactions, exchanges, and adaptations. This case study fits very well with the special features of the adjusted complex offerings (Holmlund 1996, 57-58).

The levels of interaction in a business relationship include actions, episodes, sequences, and relationships (Holmlund 1997, 94-97). In this study, actions were further divided into three main categories with different characteristics. These three categories were: (i) face-to-face actions; (ii) electronic actions; and (iii) written actions. It is believed that this sharpened categorisation accurately described the quantity and quality of the actions between the customer and the service provider.

The development of buyer-seller relationships has interested marketing scholars since the 1970s. Halinen intensively evaluated the existing models of relationship development from industrial and service marketing contexts (Halinen 1994, 17-26; Halinen 1996, 47-71; Halinen 1997, 5-14; Halinen 1998, 122-135). There is, at present, no agreement on the conceptual language to be used to describe the development and the various temporal phases of buyer-seller relationships (Halinen 1998, 131). In this study, actions were grouped into four temporal phases on the episode level. These phases were: (i) initial contact; (ii) offer and agreement; (iii) launch of the service; and (iv) use of the service. In this study, the sequences of the business relationship consisted of two comprehensive outsourcing agreements between the customer and the service provider: (i) the ‘ABB WAY’ agreement; and (ii) the ‘ABB-NET 2nd Generation’ agreement. Figure 7 depicts the interaction levels that were most crucial to the focal business relationship between the case firms ABB and Elisa.

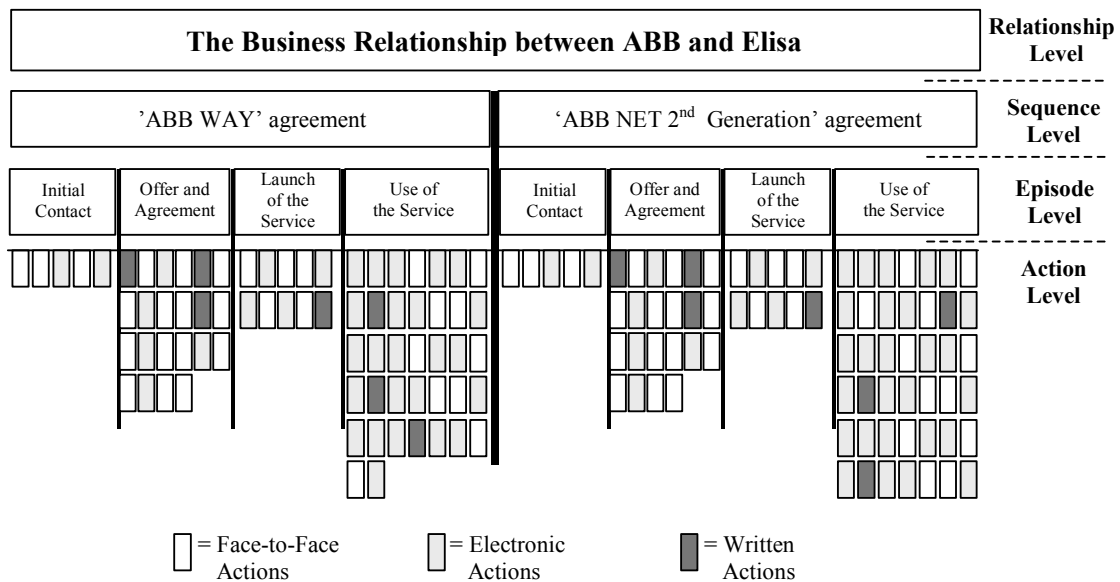


Figure 7. Interaction levels between the case firms ABB and Elisa

The temporal formation of interaction levels in a business relationship was explored over a period of 6 years. The business relationship had first been based on only one business arrangement called 'ABB NET'. This was an outsourcing agreement whereby the customer outsourced its services in telecommunications to Elisa. This first agreement was made in 1996. After the original 'ABB NET' agreement, negotiations had been started with the same customer for a second comprehensive service. The subsequent 'ABB WAY' agreement was a total agreement with respect to information technology, and it was agreed in 1998.

After the original 'ABB NET' agreement ended, the service provider won the next competitive bidding in 2000, and ABB therefore renewed the agreement with respect to the comprehensive provision of telephone services. This renewed 'ABB NET 2nd Generation' agreement was both more comprehensive and more strict in its service standards than the previous 'ABB NET' agreement had been. The customer entrusted both the telephone service and the telecommunications services to the service provider. Both agreements ('ABB WAY' and 'ABB Net 2nd Generation') included the above-mentioned four phases—initial contact, offer and agreement, launch of the service, and use of the service. Figure 8 depicts the temporal development of the levels of interaction in the focal business relationship between the case firms ABB and Elisa.

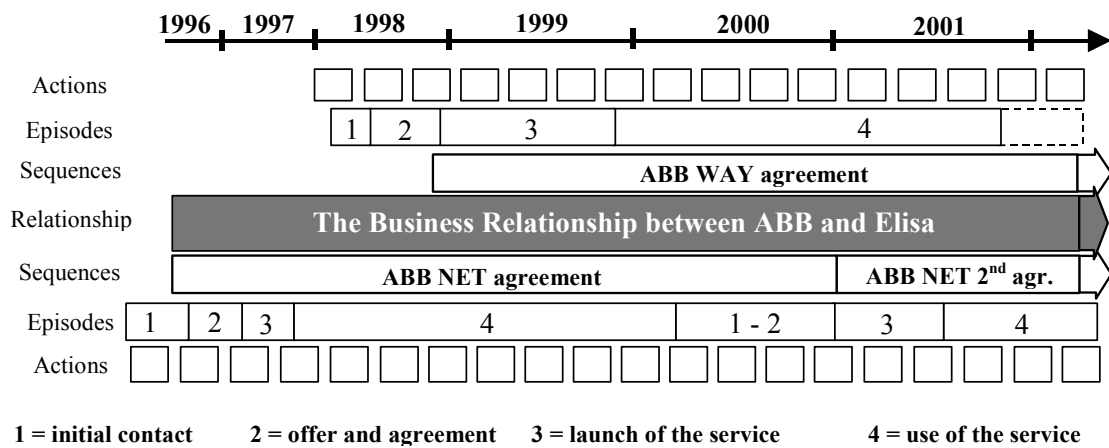


Figure 8. The temporal development of the levels of interaction between the case firms ABB and Elisa

A special characteristic in outsourcing agreements was that there were strict standards of quality. These quality standards were important because the overall standard of the whole operation was defined through them. The highest level of such two outsourcing agreements is referred to as a sequence. Both agreements consisted of several episodes. In addition, the episodes consisted of actions. In this study, the individual actions were further divided into different categories including face-to-face, electronic, and written actions.

We found that individual problematic actions do not necessarily harm the entire business relationship, whereas one or more problematic episodes or sequences might destroy it. Our results support earlier research findings regarding business relationships and their development. Trust in a business partner can be built based on actions and episodes. Trust in a business partner's operations can evolve, and trust becomes a basis for the development and continuation of the focal business relationship (Halinen 1997, 250-258; Holmlund 1997, 180).

Perceived quality dimensions and temporal development

This study took into account the perceptions of both partners in a business dyad and combined them into a perception configuration. The combination of the two partners' perception of the quality of the business relationship can be illustrated in a configuration matrix (Holmlund - Strandvik 1998a, 540-541). Perceptions of the customer and the service provider are depicted on the horizontal and vertical axes, respectively, in the matrix. For illustrative purposes, the partners' perceptions can be categorised as positive (+), neutral (0), or negative (—). Nine different dyadic perception configurations can occur, as depicted in Figure 9 (Holmlund – Strandvik 1999a, 10-11).

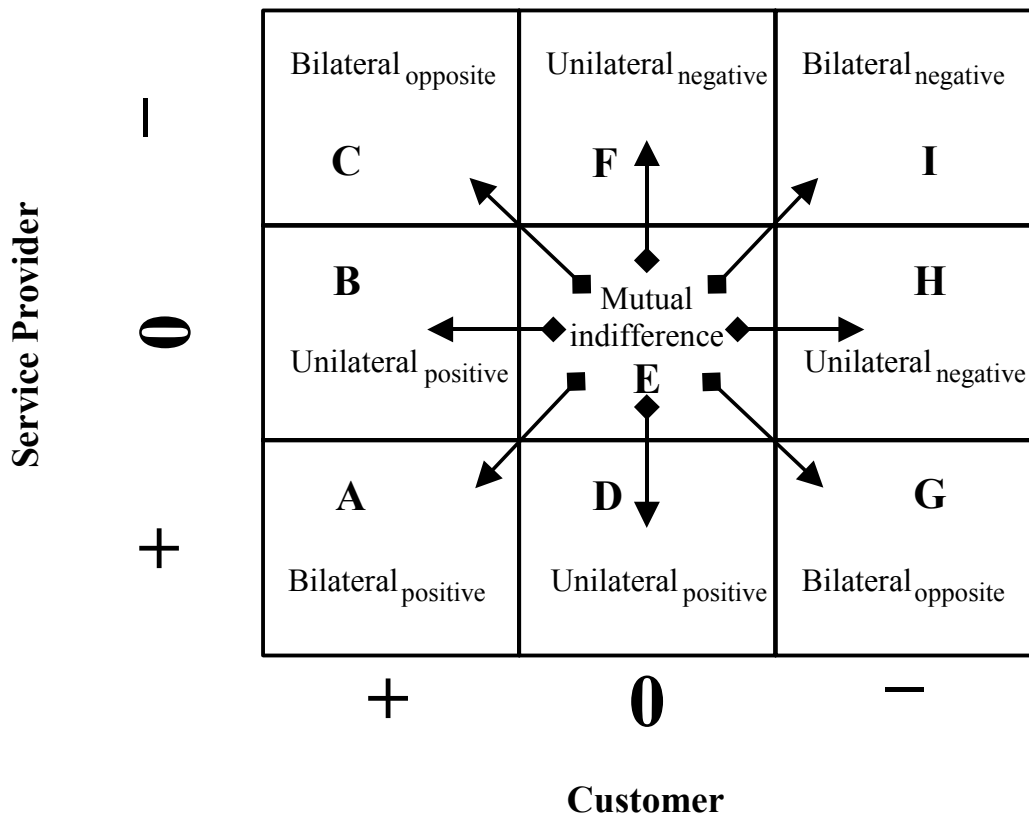


Figure 9. The configuration matrix

The axes represent the relative experience frame of each firm. The low and high ends of the axes reflect the floor and ceiling for perceptions, and are based on the firms' experience and knowledge of alternatives. This corresponds to the discussion of comparison standards in service-quality studies. The categories reflect three types of evaluation (+, 0, —), which can be related to actor behaviour. The closer to the lower left-hand corner the perceptions are depicted, the closer the partners are to each other (Holmlund - Strandvik 1999a, 10-11).

The configuration matrix contains certain sections (A, E, and I) in which the firms' perceptions of the relationship quality match. The other sections (B, C, D, F, G, and H) represent situations in which perceptions of the relationship quality differ between the interacting business partners. Section E represents a business dyad of mutual indifference. Bilateral perception refers to mutual perception whereas unilateral perception refers to one-sided perception. Bilateral or unilateral perception can be negative, opposite or positive. Sections A, C, G, and I represent bilateral perception in the business dyad. Sections B, D, F, and H represent unilateral perception in the business dyad. These sections can denote conflict situations for the firms, because the perceptions of relationship quality differ between the interacting business partners (Holmlund - Strandvik 1999a, 13-14).

The configuration matrix allows conflicting views in the business dyad to be revealed and described. The configuration matrix offers a powerful and flexible tool that can be used in both qualitative and quantitative studies of perceptions—for example, in perceived relationship quality. The matrix also makes it possible to recognise and analyse business relationships in which one or both partners are dissatisfied with the relationship. The configuration matrix enables visualisation and compares both the

customer's perception and the service provider's perception of the relationship quality. The matrix is generically applicable to studies of perceptions in business dyads and it can be used to capture both the composition and the dynamics of perception configurations (Holmlund – Strandvik 1998a, 540-541). A further benefit of the matrix is the opportunity to describe indifference zones in which one or both interacting business partners are neutral and perceive normal and acceptable performance in the business dyad (Holmlund – Strandvik 1999a, 11).

The configuration matrix proposed by Holmlund and Strandvik (1999b, 5) can be used to describe the quality of the business relationship as perceived by the two interacting partners. Positioning the perceived quality dimensions in a certain section of the matrix is not an easy task. In Figure 10 the prior positions in 1996 are marked with a broken line, and the current positions in 2001 are shown with a solid line.

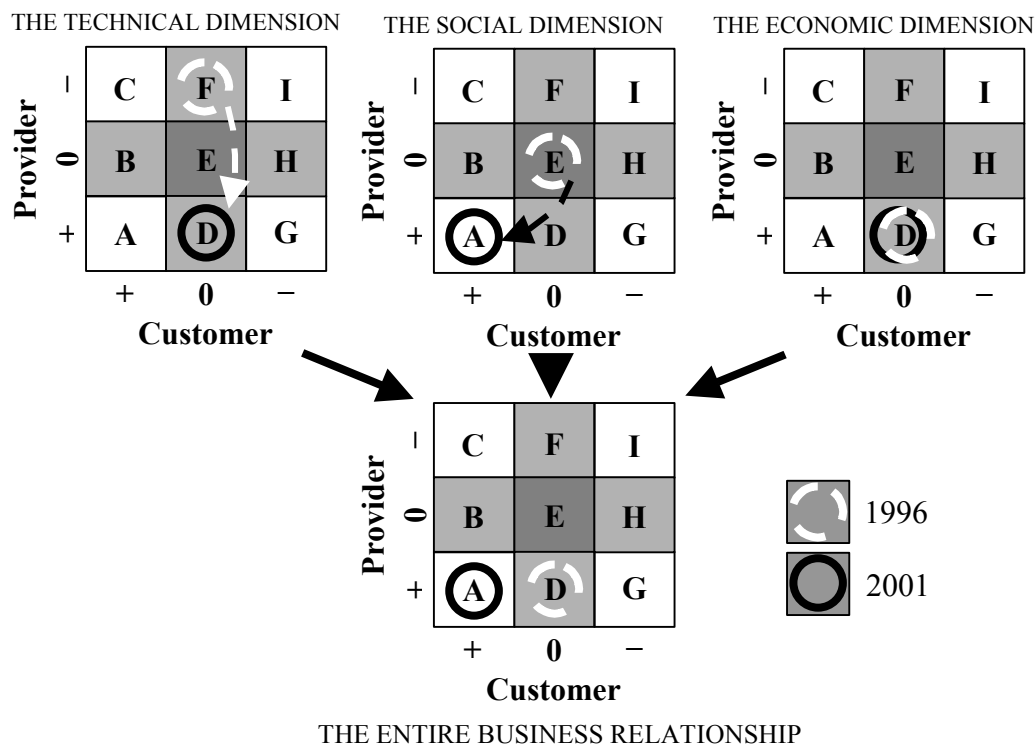


Figure 10. Perceived quality dimensions and their temporal development in the configuration matrix

At the beginning, the perceived quality in the technical dimension was perceived unilaterally to be negative in section F. Over a period of six years, the relationship evolved in this dimension to be perceived unilaterally positive in section D. At the beginning, the perceived quality in the social dimension was perceived to be mutually indifferent in section E. The relationship developed to be bilaterally positive in section A. At the beginning, the perceived quality in the economic dimension was perceived to be unilaterally positive in section D, where it remained during the entire study period of six years. At the beginning, the entire business relationship was perceived to be unilaterally positive in section D. The entire relationship progressed to be bilaterally positive in section A in 2001.

It is evident that both partners perceived the business relationship positively, and felt that there was a good basis for its continuation. These findings do not imply that nothing in the business relationship needed improvement. On the contrary, there are always elements that need improvement, and to achieve such progress both interacting partners must have mutual goodwill, trust, and commitment. The service provider wants to maintain its own business, while simultaneously broadening the supply of its services for its customer. The service provider considers the demands to be challenging, which creates a positive pressure to improve and enhance its business relationship with the customer.

Conclusions and managerial implications

At any given time, firms can have several different types of business relationships, some of which are closer and longer-term than others (Ford et al. 1998, 6). A significant characteristic of a business relationship is the existence of a number of long-term personal relationships. In the present study, these personal relationships had largely been formed during the first agreement of the business arrangement, and were continuing. Through such good personal relationships and contacts it is possible to acquire the knowledge and the resources that are necessary for business (Nicholson et al. 2001, 12).

Many customers today perceive their business relationships with a service provider in terms of cooperation, whereby the interaction between the customer and the service provider is considered to be a matter of importance. In cooperation such as this, the customer and the service provider exchange potentially sensitive information about their respective businesses. In many cases, this implies a single-provider model in certain areas. The aim is to connect certain operations of the customer and the service provider in a suitable arrangement, bearing in mind the customer's requirements regarding delivery and quality of product (Hutt – Speh 1998, 46; Stremersch et al. 2001, 6; Gross et al. 1993, 109).

Considering the three perceived quality dimensions from the perspective of the service provider, this study indicates that the total quality can be perceived more positively than that of each of the specific quality dimensions. The same conclusion can be made from the service provider's perspective. This means that the effects of problematic actions are quite weak when the business relationship is perceived on a larger scale. The service provider is pleased with the annual economic growth, and the customer is equally content to have achieved its results in a manner that was operationally rational and more convenient.

This study concludes that the nature of the personal relationships is one of the most crucial elements in the positive development of the business relationship. The fact that both partners can be positioned in a positive section also implies future challenges for both partners in maintaining, developing, and enhancing the relationship.

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