

## **Managing business relationships in Australia**

**Catherine Sutton-Brady<sup>1</sup>**

**Work-in-Progress paper**

**IMP20**

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### **Abstract**

This work-in-progress paper is the first in a series to come from a research study being undertaken to ascertain if and how practitioners in Australia manage their relationships. Given the growing awareness of the importance of business relationships to competitive success in business to business marketing (Leek et al, 2002) it is felt that this timely study will give academics and practitioners alike an understanding of how Australian firms manage their relationships. While there has been considerable research on the benefits of implementing relationship management to date only one study in the U.S. (Bain, 2001) and one study in the U.K. (Leek et al, 2002) have attempted to investigate whether companies have established relationship management systems. In Australia especially there appears to be a dearth of information available on the number of companies who have established a customer management system. This paper introduces the study which hopes to fill this gap.

### **Introduction**

There is a substantial history of interest in business relationships and their role in business (industrial) markets (Bonoma, Zaltman & Johnston, 1977; Achrol, Reve & Stern, 1983; Dwyer Schurr & Oh, 1987; Anderson & Weitz, 1989; Anderson & Narus, 1990; Ford, 1990; Anderson, Hakansson & Johanson 1994;). Traditionally in business markets the single transactional episode has been given prominence as the unit of analysis in attempting to understand and predict the outcomes of business transactions. A central concern in this context has been the notion of transaction cost, and the idea that cost reduction is a primary driver of market performance (Williamson, 1985). These ideas have gained wide currency

and the idea of transaction cost economics has been widely promoted by a cohort of writers and researchers who can be labelled the “New Institutional Economic theorists”.

Other researchers have suggested that this New Institutional Economics approach has a number of shortcomings. One shortcoming is the failure to account for issues which are widely regarded as being inherent in exchange. These include relational cooperation, which has been shown to both evolve over time and to affect the nature of the transactions. Additionally this viewpoint neglects the processes whereby trust and bonding can serve to reduce opportunism and increase the willingness to share information. Moreover, no account is taken of the value placed on relationships and this can be seen as a critical deficiency of this perspective on business markets. (Child & Faulkner, 1998).

The traditional single transaction orientated approach to understanding exchanges and transactions has been supplanted by what can be described as the interaction approach (IMP, 1982). According to this view the relationship between parties to exchange assumes centrality as a determinant of the functioning of business markets. It draws on the theory of the new institutional economists but the expansion of, and greatest contribution, to the theory comes from the explicit recognition of the importance of relationships.

Researchers who formed the original IMP group advocated the idea that relationships are long-term in nature (Ford, 1997). This long-term view leads to closeness between the parties. These relationships also tend to involve a complex pattern of interaction between the parties resulting in the fact that the focus of the parties becomes, as much an issue of relationship management rather than purely transaction management. In other words the emergence of a relationship means that the parties are no longer concerned with just closing the sale, but that

they are thinking ahead to the implications it will have on other aspects of their business. His idea is advancing the notion that there is more than just a sale and that by its' nature the relationship between the buyer and seller implies a long-term orientation. This broadened orientation of buyer-seller relationships has been emphasised by other researchers (Anderson et al, 1987; Spekman 1988; Dabholkar, Johnston & Cathey, 1994).

The problem of managing business relationships is one not only of concern to academics but also an issue for practitioners, and is therefore worthy of continued study. Business-to-business marketing is nowadays widely regarded as a vital and important field of research endeavour (Naude & Turnbull, 1998). While academic institutions and the authors of textbooks and research papers once concentrated almost exclusively on the importance of consumer marketing, in the last twenty years there has been a shift towards the importance of business or industrial marketing (Gemunden, Ritter & Walter, 1997). More courses in business marketing are now offered to students and research centres devoted to the study of this area are commonplace. This growth in the number of courses correlates strongly with the growing demand for educated business-to-business marketing graduates in the workplace. With the growth in awareness of the importance of business marketing has come the need for in-depth research in the area to contribute to the knowledge and understanding of academics, students and practitioners.

The aim of this research project is to ascertain if and how practitioners manage their relationships. Given the growing awareness of the importance of business relationships to competitive success in business to business marketing (Leek et al, 2002) it is felt that this timely study will give academics and practitioners alike an understanding of how Australian firms manage their relationships. There has been considerable research on the benefits of

implementing relationship management (Krapfel et al, 1991; Olsen and Ellram, 1997; Turnbull and Wilson, 1989), however apart from one study in the U.S. (Bain, 2001) and one study in the U.K. (Leek et al, 2002) there appears to be a dearth of information available on the number of companies who have established a customer management system. This research project aims to fill this gap (initially) in an Australian context. It is hoped that future research may lead to international collaboration that would allow for comparison of results across national boundaries. Additionally it aims to test the hypothesis that suppliers and buyers manage their relationships differently (Leek et al 2004).

### **Research Plan, Methods and Techniques**

This quantitative research study is based on a postal questionnaire, previously used by Leek et al, 2004. The use of this tested questionnaire not only gives allows for comparability but additionally gives the researcher an instrument which has proven validity. The questionnaire will initially be sent to 1,500 companies in the wine industry in Australia. As in the UK study the aim is to divide the sample equally between purchasing and marketing managers, (buyers and suppliers). Respondents will be asked whether they have a system for managing relationships, either formally or informally. They will also be asked to rate how useful they find common methods (Leek et al, 2002) for managing relationships. A section of the questionnaire will relate directly to the company, including such variables as size, profitability industry/ product type, etc, Responses will allow not only an investigation of relationship management methods and implementation but may also highlight any differences that may exist by industry type size of business etc. This analysis will be possible through use of the coded data gathered from the questionnaire.

### **Rationale for choosing the Wine Industry**

The Australian wine industry is a growing industry. It has doubled from producing 777,000 tonnes of grapes in 1993-94 to a projected 1.81 million tonnes in 2003-04. The export value of the industry surpassed the \$2.3 billion dollar mark in 2002-03, which was a 20% increase in the previous year. This has left it the 4<sup>th</sup> largest valued agricultural export commodity for Australia after wheat, beef and wool.

<http://www.abare.gov.au/research/agriculture/wine/wine.html>

With the growth projected to continue, despite the drought, it is considered a good industry to initiate a pilot study. The Australian wine industry has a large number of both buyers and sellers, which provides an extensive population of potential respondents. Contact lists of buyers and sellers are also relatively straightforward to access making for ease of sampling. Additionally the broad cross section of diverse buyers and suppliers in the wine industry provides greater external validity to the study because it is representative of other industries in Australia. The results can therefore be justifiably generalised to other companies and their management of business relationships. Companies in the Australian wine industry range from small boutique wine companies to mass-produced wines. This range will enable a comparison of different sized enterprises in the analysis.

### **Conclusion**

This work-in-progress paper has outlined an ongoing research study, which is clearly at the preliminary stage of development. The researcher has just received ethical clearance from the university for the study. The researcher is confident that by September preliminary results of the study will be available for presentation.

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