

Title: The role of interdependencies for value co-creation in buyer-seller partnerships in Business Markets

Birgitta Forsström

Åbo Akademi University
Henriksgatan 7, 20500 Åbo
Finland
email: biforsst@abo.fi

Jan-Åke Törnroos

Åbo Akademi University
Henriksgatan 7, 20500 Åbo
Finland
email: jtorntoo@abo.fi

Abstract

There is only a limited understanding of *value* in business markets in situations where the interactive process between the involved parties is assumed to contain a value creating ingredient. In neo-classic economic theory it is assumed that interaction only deals with how value is distributed or shared, not value as such. In the context of industrial buyer-seller relationships value is created through interaction over time. Interaction leads to differing degrees of dependence and interdependence. It is argued in this paper that interdependencies – and creating and exploiting these – are essential in realising the value creation potential that exists in a business relationship.

Keywords: value, value co-creation, buyer-seller dyad, partnership, interdependence, business networks

Introduction

Creating a partnership between a buyer and a seller on a specific industrial market can be seen as a strategic alliance between interacting parties where the aim is to carry out business activities jointly in order to create value for both parties involved. A recent study on value co-creation in an industrial buyer-seller partnership suggests that there are two active parties co-creating value over time, in a buyer-seller dyad. This view challenges the traditional view of one party creating value and the other receiving, or even 'destroying' the value created by the other counterpart. The study suggests that a buyer-seller partnership is characterized by involving two active parties over time and further suggests that value should not be seen as restricted only to consider the monetary outcome. (Forsström 2005).

In order for the business partners in a business dyad to maintain their interest in carrying on the interaction in the relationship there has to be some sort of "glue" that keeps the parties together for the long term – an idea of the existence of something to gain from interacting with each other in the long run. This is often based on previous experiences with the partner(s) and other previous partners as well as on expected future gains and value expectations from investing into the relationship (Håkansson & Snehota 1995).

Due to mutual investments in the dyad, interdependencies are created between the parties. Interdependencies tend to increase over time as the parties engage in different types of business activities. The types of interdependencies vary depending on what strategic and practical choices the parties choose to make during the course of the relationship. Interdependencies are often created unintentionally and reach the mindsets of the counterparts afterwards when the manifestations for mutual interdependence come to existence and are "sensed" in specific situations. The main idea presented in the paper is that the exploitation of interdependencies can be the key to a successful partnership. Different types of value are also discussed in the paper. The value will be conceptually elaborated within the specific context the paper addresses. Furthermore the role of interdependencies and value co-creation are analysed from an empirical viewpoint, stemming from a longitudinal case study of a buyer-seller partnership in the shipbuilding and cruise industry.

The aim in the paper is to present the link between value co-creation and interdependencies and to analyse different types of interdependencies as well as their impact on value co-creation potential in b2b dyads. Further the paper aims at presenting ideas concerning different types of expectations from both the buyer and the seller when it comes to perceiving value created within the partnership. The expectations and goals of the parties are (to the most part) different and, consequently, the types of interdependencies that the parties wish to create may vary and even contradict.

Theoretically the paper studies the value concept within marketing literature applying theories of the Industrial Marketing and Purchasing Group, the business network theory and the interaction approach in particular. Empirically the study is limited to study one single case, a focal dyad, i.e. one exchange relationship between an industrial buyer and a seller. A limitation of the study is that it focuses only on one dyad instead of taking the wider network into consideration. Möller and Halinen-Kaila (1999) criticize dyadic studies because they fail to take into consideration the complexity of dyadic interaction due to embeddedness and connectedness. The chosen approach does, however, give good access to empirical material and the two interacting parties are the focal actors in this specific case.

The paper is structured as follows. In the next section a short description of the applied research method is made. Thereafter the empirical context is presented where the interacting companies operate and wherein the focal dyad is embedded. The third section deals with the concept of interdependence and forms the theoretical core of the paper. It presents and discusses different types of interdependencies and the role of value creating processes between business actors as well as the formation of partnerships between business companies. The role of involvement and its potential benefits (and perils) is also taken to the fore. The paper ends with a discussion of the key findings in light of theory together with conclusions and implications.

Research approach and design

The focus of this study is to explore value co-creation between buyer and seller; the dyadic approach can be justified although an obvious limitation from viewing the wider context. Still it should be recognized that a dyad is embedded in a larger network of connected exchange relationships, and simultaneously connected to a number of actors in a network.

The paper is empirically based on a qualitative case study of a buyer-seller relationship in the marine industry. The seller is one of the worlds leading marine diesel engine manufacturers and the customer is one of the worlds leading cruise companies. The study has been carried out during 2003-04 when 24 personal interviews were carried out with representatives from both sides of the dyad. Additional data has been gathered through participant observation and document analysis. The time span of the case is about nine months, from September 2003 to May 2004. The study covers a period of 30 years in general and more specifically the last 7-8 years of the relationship. Geographically the study is limited to study a European supplier and an American buyer, both of which operate worldwide.

The data has been analysed through content analysis of the interview transcripts. The analysis has been ongoing since the first interview. Thus additional understanding of the dyad and the value that is co-created has been gained throughout the process of the study. Partial participant observation has been an important way to gather data. This has been possible due to good access to the case companies. The results of the study have been presented to the two companies during the course of the study, which has added to the input from the participants. The empirical study is an in-depth, exploratory case study of a buyer-seller dyad (Stake 1978, 1994, Yin 1994). The pre-understanding of the industry and phenomenon has been gained through working experience. The abductive research process used enables to go back and forth between theory and practice as the research process evolves (Peirce 1931, Kirkeby 1994, Alvesson & Sköldbberg 1994, Schauman 2003, Gummesson 2001, Dubois & Gadde 2002).

The research method applied can be defined as a qualitative, exploratory case study. This choice rules out direct applicability on other cases or a representative sample for statistical purposes. However, this choice allows the researcher to go deeper into the subject and explore something new and unique.

The contextual setting of the study

The focal dyad is the relationship between a seller, a diesel engine supplier, and a buyer, a cruise ship owner and operator. The classical market relation, or the "classical dyad", illustrates the most basic market relation, where there is a buyer and a seller that interact on a market (Gummesson 1995). In the shipbuilding context the basic setup of actors is a triad instead of a dyad. The triad consists of a ship owner, a shipyard, and a focal equipment supplier. Even though the shipyard is an important actor and the relationship with the shipyard is crucial for both equipment supplier and ship owner, the yard will be left outside of the focus of this study. This is the case because the study focuses on the development of the partnership between the buyer and the seller. Including the shipyard would make an interesting study, but one with a different focus.

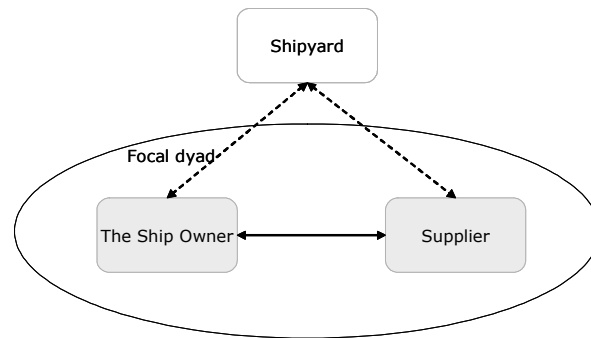


Figure 1: The focal dyad of the study in its triadic context

The ship owner or operator, in this case the buyer, is the company that operates ships in order to create business and profit. The owner builds ships by ordering a ship from a shipyard. Most cruise ships in the world are built in Europe, due to the accumulated knowledge and skills of the European yards in carrying out cruise ship projects. Building a ship takes about 2 years, during which time the ship owner is engaged in intense interaction with the shipyard. The actual project is preceded by an intense period of several months even years of planning, designing, bidding, and negotiating. However, what is relevant in this context is that the ship owner only has a relatively short, intense period of interaction with the yard during a new building project. After the ship has been delivered and the warranty period (usually 1 year) from the yard is over, the ship owner operates the ship and deals with all the equipment that is installed on board for over 20 years. This puts the cruise ship owner in a situation of having approximately 3000 different counterparts to interact with while operating a cruise ship.

The focal seller is one of a total number of these approximately 3000 suppliers to a cruise ship, providing the engines that power the vessel. Regarding importance - both strategic importance of the product and the investment - the focal seller is among the top 10 suppliers for the cruise customer. To date the focal buyer has operated a number of cruise ships all over the world, of which part are powered by the focal seller's engines, a total of some 70-80 engines. The top priority for the buyer when operating cruise ships is safety and reliability; the diesel engines play a vital part in delivering this promise to the cruise company's customers. The buyer's main business is tourism – to create dream vacations for tourists. The most important concern for the company is that the fleet operates as safely and reliable as possible. An engine breakdown resulting in a day at a harbor, or inadequate electricity supply on board the ship, can be a great safety risk and an economic disaster for the company. The buyer aims to “deliver the most outstanding vacation experience” whereas the seller “offers the most effective solutions to all marine power and propulsion needs”. Due to the different roles the parties play in the dyad they obviously have differing expectations of the outcome of the interaction with the counterpart - it can be said that the *value* that the parties expect from their involvement differs. The focal buyer currently has a fair amount of vessels operating with the focal seller's engines. Since 2000 the relationship has been governed by a cooperation agreement that contains commitments and obligations for both parties related to transactions, maintenance planning, reliability, and operational issues.

At the outset, when the buyer company was founded in the late the interaction between the buyer and the seller mainly took place between the companies in Europe. In the 70's and 80's the business between the two companies could be characterized as a traditional buying-selling –type of transactional activity. The seller was supplying engines to the shipyard where the buyer's ships were built. The first service agreement between the two companies was signed in 1993. According to the service agreement the seller was to take care of service and maintenance of the engines during the operating of the vessel, after the initial engine delivery to the shipyard. The agreement was a service agreement for a specific vessel class, an agreement where the seller took responsibility for delivering spare parts, service, and maintenance work for the engines. It was an agreement that marked the direction towards wider cooperation between the companies. This was a general industry trend in the 1990's, namely to enlarge the scope of supply and take care of the total power supply, from delivering

the engine to maintaining it and servicing it throughout the lifetime of the ship. This commitment is still strongly emphasized in the vision of the seller company.

In 1997 the buyer was struggling with high operating costs and was trying to find ways to lower them. This is when the first discussions of a widened and deepened cooperation between the two companies were initiated by the customer. The two companies tried to find a way to take care of the service and maintenance of the buyer's fleet within the frames of a wider service agreement. However, the discussions did not turn out satisfactorily from either party's view. As a result of this the buyer made the decision to start building up its own service and maintenance organization in-house, which meant a loss of business for the seller service organization in the US. This came to be an issue between the two companies for several years. However, it did not seem to harm the relationship critically since discussions of a wider and deeper way of cooperating were still pursued. As a result of developments in the relationship during the late 1990's the buyer and the seller were facing a situation where they had to re-think and negotiate the logic of their way of working together; this led to the signing of the first cooperation agreement. The discussions about a partnership started already in 1997 but the first cooperation agreement, which marked the beginning of the partnership, was signed in the spring of 2000. The focus of the joint efforts was now directed towards joint innovation and co-development of technology and business concepts instead of focusing on service and maintenance.

The rationale for a partnership from the buyer's point of view is that this is the most economically efficient way of working in the long run. A pro-active approach is believed to add to the reliability of the fleet and to the comfort of "a good night's sleep". It is believed that it is more economical to act pro-actively and avoid breakdowns or damage, than to be reactive when the damage occurs. For the seller the partnership implies business security and continuity coupled with possibilities of joint innovation and development of new technologies.

The empirical study reveals that the seller perceives price received for the product or service, business volume, business security, increased efficiency in operations due to joint planning, the creation of new business opportunities both in the existing relationship and with other customers as a result of joint development of new products, innovations and concepts as valuable outcomes of the relationship. Public visibility and reference value are also considered valuable outcomes from a successful partnership. The buyer perceives value as increased security in operations – it is considered reassuring to work with a trusted partner and share the risk. The buyer also seeks for increased efficiency both in transactions with the seller and in operating the fleet. Perhaps the most important expectations from the focal relationship are joint business and product development with the seller, and more specifically the co-development of more fuel economic technologies.

Defining value

Value is a complex phenomenon of study for many reasons. One of the most obvious is that the phenomenon is dynamic to its nature – the understanding of value is depending on time, actors and context. The following is an attempt to establish how value should be understood in this study.

Flint et al. (1997) and Biong et al. (1997) provide a basic definition of value, which can be used on a relationship level. The definition does not include the idea of monetary value. According to this definition value can be regarded as "a trade-off between benefits and sacrifices" (Walter et al. 2001, p. 366). This definition does not include the idea of value being a measurable unit such as money, but gives room for the thought that value can be seen as a subjective perception of what has been gained when compared to what has been given away or sacrificed. De Chernatory et al. (2000) provide another definition that is along the lines of the one presented above, namely that value in business marketing should be seen as the perceived trade off between total benefits obtained and total sacrifices incurred. What is perceived to be the value gained from the relationship can be seen as the trade-off between benefits and sacrifices in long-term business-to-business relationships. The definition includes the idea of value being a perception of what has been gained when weighted towards what has been given away or sacrificed – something subjective, meaning that there is no

value if it isn't value for someone. This definition is used in this study, where value is seen as a dynamic and interactive phenomenon - meaning that value is changing over time and perceived differently depending on the situational context. The phenomenon is dynamic – value is not constant but changes over time. The creation of value at a given moment depends on what has happened before. In the same way it can be said that present value creation re-shapes history; it gives new meaning to events that have happened before. Value is therefore treated as “relational” in relation to the past, present and the anticipated future.

The empirical study reveals that there were issues and incidents that had been considered valuable in the past, but that they had changed over time. There are also examples of where incidents that had been interpreted as disastrous in the past later were seen as triggers for positive development.

Interdependencies as the source for value co-creation potential

Interdependence is a characteristic of long-term business relationships. The argument presented in this paper is that interdependence is inherent in business relationships and can be a constructive force if the potential that lies in interdependence is exploited in a meaningful manner. It is important to make a distinction between dependence and interdependence in this context. A situation of dependence exists when there are only one or a few available actors on the market who can provide the needed resources. Dependence implies that one party is in a weaker position in relation to another party who is in a more powerful position (Emerson 1962). Interdependence is here used as Pfeffer and Salancik (1978) defined the concept in their theory of resource dependence. Interdependence is not simply mutual dependence between two companies, but can be understood through more than one causal relation.

“Any event that depends on more than a single causal agent is an outcome based on interdependent agent. (...) Interdependence exists whenever one actor does not entirely control all of the conditions necessary for the achievement of an action or for obtaining the outcome desired from the action” (Ibid. p. 40).

The opposite of interdependence is independence. In economic theory dependence is traditionally regarded as something negative, inhibiting market forces to act in the most efficient manner - companies should optimize and preserve bargaining power by being independent. An independent actor tries to optimize every transaction, and by definition would not get involved in a long-term relationship. However, in the context of long-term industrial buyer-seller relationships both dependence and interdependence are given, and can be regarded as potentially constructive forces. Both dependence and interdependence can be the triggers for creating something together and motivate the interacting parties to cooperate and solve problems. In the IMP network view, interaction and the interdependence that is created as a consequence of this are seen as a prerequisite for development to take place (Håkansson & Waluszewski 2002). This argumentation suggests that in a situation of independent actors there is no value co-creation potential.

Exploiting interdependencies means to realize the potential in cooperating and doing things jointly by utilizing each other's resources. The reason why parties cooperate is that they are dependent on each other's resources and the resources can only be utilized through cooperation (Håkansson & Prencert 2004). The assumption of resource heterogeneity and possession of heterogeneous resources is one of the cornerstones of the argumentation on interaction in the network view. As companies possess heterogeneous resources it makes a difference with whom you interact and how you interact. Interacting with the partner with the resources that are most valuable and doing it in the most sensible way makes sense. No single resource is of any value if you cannot make use of it. So, interacting with the right partner and being able to use the partners' resources in a meaningful way becomes the key issue.

The overall conclusion of the discussion so far is that there exists potential for value co-creation if perceived benefits outweigh perceived sacrifices during the duration of the relationship for both parties involved, and if there is interdependence between the parties. The basic logic is that with increased interdependence the potential for value co-creation increases. How the potential is exploited and realized is another story. There obviously is no simple formula for how the cooperation and interaction

between the parties should be carried out in practice, in order to co-create value, since it boils down to social process of interaction between people. However, if the conditions presented prevail (benefits are greater than sacrifices and there is interdependence between the parties), the realization of the potential for value co-creation rests on how the potential is used; in other words, what the interacting parties make out of the relationship through interaction and utilization of each others' resources. The outcome of interaction depends on how the potential for value co-creation is appraised in each interacting company, how the potential is used - how resources are allocated and what priority the relationship gets from the management of the involved companies. The value co-creation potential is realized through processes of value co-creation. In the following section a further elaboration on interdependence and value co-creation is developed.

Types of interdependencies and value creating processes

The process of value creation is defined as: "the process by which the capabilities of the partners are combined so that the competitive advantage of either the hybrid or one or more of the partners are improved" (Borys & Jemison 1989, p 241). The definition supports the assumption that value creation is a joint effort – that value creation is something that none of the parties could do alone. As argued above, this results in interdependence between companies – interdependence that is a prerequisite for value co-creation potential. Different types of interdependencies influence value creation possibilities - each type of interdependence represents different value creation opportunities (Håkansson & Persson 2004).

In a conceptual exploration of the concept of exchange in marketing Håkansson and Prencert argue that "it is through exchange that the potential services of resources are released and value arises" (Håkansson & Prencert 2004, p 91). Value arises from the realization of the potential services that lies in the resources - the process of realizing the potential is dependent on the context where exchange occurs (Snehota 1990). Different categorizations of interdependence can be found in the literature. Thompson's (1967) typology of technological interdependence is a suitable example.

There exist many different types of interdependencies between actors. Here three types of interdependence are presented:

- Sequential (or serial) interdependence
- Pooled interdependence
- Reciprocal interdependence

Sequential interdependence implies that one partner gives to another (Borys & Jemison 1989). The output of one activity is the input of another. The rationale for sequential interdependence is that economies of integration can be gained. These can be associated with technology or administration, and have a positive impact on costs as well as increased services in relation to a specific counterpart. The logic of a supply chain lies in exploiting sequential interdependencies (Thompson 1967, Håkansson & Persson 2004). Pooled interdependence implies that the alliance provides a pool of resources and that the parties both draw from this pool of resources (Borys & Jemison 1989). The parties are either related to a third activity or share a common resource and together they form a technological or managerial system. The efficient exploitation of this type of interdependence is associated with economies of scale or scope (Håkansson & Persson 2004).

Reciprocal interdependence is defined as: "mutual exchange of inputs and outputs between two parties" (Håkansson & Persson 2004, p 6). The parties exchange outputs and there is a need to learn from each other. Consequently, a hybrid characterized by reciprocal interdependence requires a wider fit between the operations of the involved organizations than hybrids characterized by other types of interdependence (Borys & Jemison 1989). In a study of five different companies Håkansson and Persson (2004) found that the benefits of reciprocal interdependence were associated with either improved problem solving capabilities or the securing of a more effective use of resources (Ibid.).

The fit between the operations of the two involved organizations is something that cannot be anticipated or designed in advance; it is something that evolves over time through interaction between the parties (Borys & Jemison 1989, p 241). Therefore it is difficult to estimate beforehand the outcome of the realization of the value co-creation potential. One of the conclusions of the Håkansson and Persson (2004) study is that different outcomes can be achieved through exploiting different types of

interdependencies, namely economies of integration, economies of scale and scope, and economies of innovation. Economies of integration can be achieved through exploiting sequential interdependencies. The successful exploitation of pooled interdependencies can lead to economies of scale and scope, while the exploitation of reciprocal interdependencies leads to economies of innovation. Exploiting reciprocal interdependencies means “to pursue the economies of adaptability and change. In other words, it concerns being innovative, agile and responsive to change” (ibid. p 14).

Different value creating processes in business exchange

In theoretical framework for analyzing alliances provided by Borys and Jemison (1989), the authors propose the following research propositions with regard to value creation concerning supplier arrangements:

“The performance of supplier arrangements is determined primarily by its ability to create and manage reciprocal interdependencies between supplier and buyer”

“In hybrids in which the value creation process is poorly understood, partner managers have different assumptions about and understanding of the hybrid’s production process, thus interfering with effective cooperation” (Borys & Jemison 1989, pp 239-240)

The above propositions direct the focus of interest towards understanding what the “management of reciprocal interdependencies” implies, and in order to understand that, towards exploring the production processes of different types of hybrids i.e. different value creating processes. The Håkansson and Prencert (2004) framework for categorizing activity systems and their outcomes, involving two different types of value creating processes, offers a suitable framework for understanding how different activity systems achieve either efficiency or effectiveness by applying different types of value creating processes.

Håkansson and Prencert (2004) discuss different ways of “closing” exchange activity systems and the consequences of the different ways of closing the system for the outcome of the activities. They suggest that different activity systems imply different value creating processes. “Closing” an activity system simply means that an open system is closed i.e. the mode of the activity system is decided upon, depending on the specific purpose of the relationship and the nature of the activities involved and the object of exchange.

They suggest four types of activity systems, namely: the buying/selling system, the producing/using system, the cooperation system, and the networking activity system. The outcome of the two first types of activity systems, namely the buying/selling and the producing/using system, is argued to be efficiency in the process of exchange. The outcome of the two latter activity systems, cooperation and network-activity systems is argued to be effectiveness in making use of each other’s resources. This argumentation suggests that business exchange involves two different types of value creating processes i.e. the exchange value creating process with the aim of achieving efficiency in the exchange process, and the use value creating process, which has to do with the effectiveness of making use of each other’s resources (Ford 2002).

The above reasoning leads to the following conclusion: when two companies possess heterogeneous resources it makes sense to interact in order to create something of value together, provided that the companies can make use of each other’s resources in a meaningful way. The choice of value creating process for a specific relationship depends on the closure of the activity system i.e. whether it is a buying/selling, producing/using, cooperative or networking activity system. Each activity system implies different logics for value creation. Value is created by exploiting different types of interdependencies in order to achieve either a) efficiency in the exchange or b) a more effective use of each other’s resources. The figure below illustrates the reasoning. The positive trade off between benefits and sacrifices of involvement is argued to be a prerequisite for value co-creation potential in this study, something that is also illustrated in the figure below.

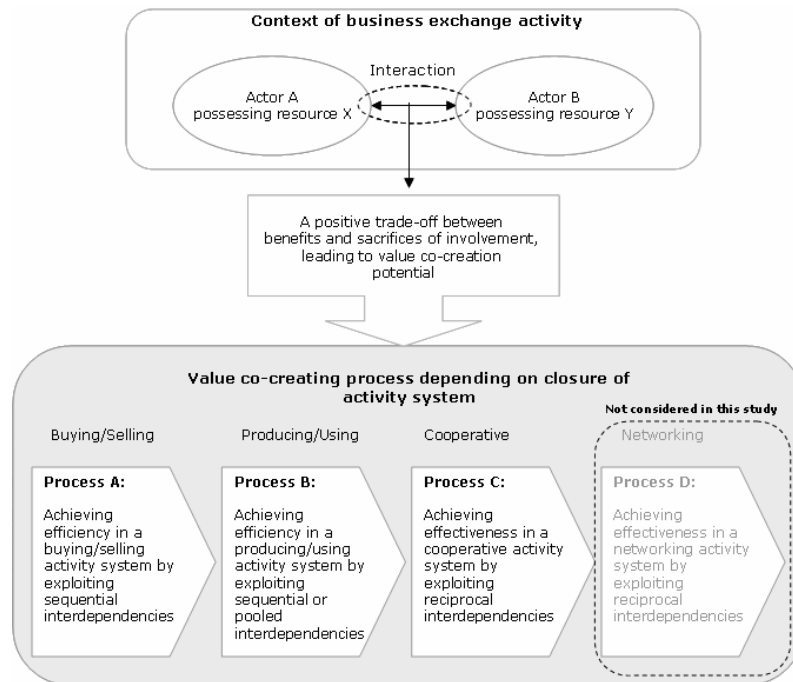


Figure 2: Different value creating processes through exploiting different types of interdependencies to achieve efficiency or effectiveness

Buyer-seller partnerships

An inherent characteristic of a partnership is that it includes long-term commitment, which over time creates degrees of dependence. If managers are not able to see that it was precisely the dependence factor - which they are most afraid of - that might be the key to value co-creation potential, there is no way to realize that potential (Granovetter 1973). The question is: How can both companies achieve something by working together in a partnership?

Interdependence provides a chance for value co-creation if it is managed and exploited in a fruitful manner. Companies seek to manage interdependence with different governance mechanisms, such as different types of formal and informal agreements. The case of the focal partnership is an example of a situation where interdependence is managed through a cooperation agreement. Instead of avoiding being interdependent, the parties strive to use the potential inherent in interdependence in order to co-create value. Being able to exploit the potential that lies in a relationship with a partner requires that the parties get closely involved. A prerequisite for involvement is intense interpersonal interaction and coordination of activities as well as mutual adaptations. These all entail costs for the involved companies. This is why it is worthwhile stressing that a high-involvement approach is not always the most feasible one, and should not be regarded as the best relationship strategy per se. The assessment of the benefits and sacrifices of involvement should be made separately for each specific case.

The Borys and Jemison (1989) framework for analyzing strategic alliances as "hybrid organizational arrangements" offers insight into the management of interdependencies, and consequently different value creating processes. The case companies for the research declare that the relationship between the companies is a partnership, and therefore the partnership is here discussed as a form of cooperative relationship strategy.

The buyer-seller partnership is one type of an alliance between two organizations. Companies tend to enter into high-involvement relationships if it is perceived that there is something to gain in working

more closely together. A customer taking a high-involvement approach to a relationship does not try to optimize the price in each single transaction. Instead, the customer aims at improving its operations in the long term by using its supplier's resources more effectively. In the same way a supplier that takes this approach, does not seek to maximize price and minimize effort, but instead work for improving both its own and the customers' business for the long term. This involves attempts to reduce the total costs of the relationship by effective adaptations done by both of the companies as well as innovating and developing new solutions together. Worthwhile noting is, however, that high-involvement approaches to relationships always are resource demanding (Ford, et al. 2003).

The assessment of possible benefits and sacrifices of involvement in any relationship cannot be made in advance. The assessment is made along the process of pursuing a relationship through interaction. A partnership is usually something that is created through interaction over time, building up trust and commitment between the involved parties (Anderson & Narus 1998). In the IMP literature relationships are seen as a company's most important assets, because without them it cannot gain access to the resources of others, acquire the supplies that it needs, or solve its problems and thus generate revenue. Relationships are social entities where the possible benefits very much depend on the involvement of the two parties and the degree to which they are prepared to actively react, adapt, learn, and invest. Relationships are in many ways the assets that bind together all of the other assets of a company and convert them into something of economic value (Ford et al. 2003).

There are studies on how relationships evolve through different stages (e.g. Ford 1980) or steps from being more transactional into being increasingly relational. A relationship develops from interaction between individual actors, to co-ordination of the activities of the involved companies, to adaptations of resources of the two companies. The degree of involvement is not a unilateral choice by either of the companies, but something that emerges through the interaction between them. A supplier may wish to have a high involvement relationship with a customer, but high involvement will only develop if that customer also wishes it to and the interaction between the companies leads to it (Ibid.).

Levitt (1983) uses marriage between husband and wife as an analogy when discussing relational exchange arguing that research shows that attraction and interdependence between husband and wife provides a good framework for describing how buyer-seller relationships evolve. The argument is that buyer-seller relationships involve analogous benefits and costs to a marriage. The benefits are reduced uncertainty and managed dependence (Spekman et al. 1985), exchange efficiency and social satisfactions - gains as a result of effective communication and collaboration (Dwyer et al. 1987).

What makes a relationship a partnership?

"... I would not like to call it a "way of doing", but instead a "certain philosophy". It is more like a religion. There are more similarities between religion and...you can not take this partnership and apply it directly to another relationship, now it has to build on mutual trust and it has to be based upon... one often hears talking about win-win, but people do not seem to understand what it means. They calculate money, but there are so many other things that you can gain than money." (Interview: Seller 2)

There is no simple or universal definition on what makes a relationship a partnership. Gadde and Snehota (2000) argue that "closeness" is commonly associated with partnerships, while Ford et al. (1998) takes this further by saying that "degree of integration" has to be considered in order to understand closeness. According to Gadde and Snehota (2000) none of these vague terms offer much help in understanding what a partnership is and therefore involvement is proposed as a relevant concept. Consequently a commonly used synonym in the IMP literature for partnership is high-involvement relationship, implying that involvement is a crucial element in a partnership. A distinction between three dimensions of involvement is proposed: coordination of activities, adaptations of resources, and interaction among individuals. These are labelled: activity links, resource ties, and actor bonds using the Håkansson and Snehota 1995 conceptualization. An integrated delivery system is an example of a coordinated activity, while a jointly developed product or process is an example of a resource tie. Interaction between individuals can be either more or less intense. If the interaction is close, the choices become more interdependent, which is said to affect both commitment and trust, which in turn impacts upon coordination and adaptations (Gadde & Snehota 2000).

The benefits of a high-involvement relationship are associated with effective communication and flow of information, increased predictability, reduced problems of misunderstanding and a chance for both companies to cope with their uncertainties, enhanced efficiency of the two companies combined operations and activities and a "division of labour" between them, based on their respective abilities and resource investment. Once achieved, a high-involvement relationship implies a certain degree of interdependence, which may be the source of considerable future business between them. In addition to the benefits listed above the results from the case study reveal that there are additional benefits that can be associated with high involvement. These are: access to information, know-how to do, cultural assets and barriers of entry for third parties.

Based on the above discussion on involvement it is suggested that more involvement is required in achieving economies of innovation than in the case of economies of integration. The argument is not that economies of integration would be possible to achieve with low involvement, but that the degree of involvement required for that is likely to be less than in the other two types of economizing suggested. Further the question most likely is not simply about different degrees of involvement (less–more), but also about different types of involvement, the rationale being that different types of involvement ameliorate the achieving of different outcomes. Economies of integration can likely be achieved by being rational and systematic, while economies of innovation will more likely be achieved through being adept and inventive.

So far it has been established, in this case, that a positive trade-off between benefits and sacrifices of involvement is a prerequisite for a relationship to exist. It has also been argued that there has to be interdependence between the parties in order for value co-creation potential to exist. This leads to the next turn in the argumentation i.e. realization of the potential through processes of value co-creation. As suggested in theoretical argumentation earlier, the starting point is taken from the Håkansson & Prencert (2004) conceptualization of types of activity systems involving different value-creating processes with different outcomes i.e. that a certain type of activity system aims at efficiency while another type aims at effectiveness in resource use. In this framework four basic types of business exchange activity systems are presented: buying/selling, producing/using, cooperation, and networking (Ibid. p 91). A partnership falls into the category of a cooperation activity system. The outcome of this type of activity system is argued to be more effective use of resources, ultimately aiming at effectiveness in resource use.

The authors argue that there are two different value-creating processes involved in business exchange: the process for creating exchange value and the process for creating use value. Exchange value has to do with how efficiently the transaction or resource exchange is carried out, and use value has to do with how well the parties make use of each other's resources i.e. the effectiveness of their exchange (Ibid p. 93). According to this framework the focal partnership – being a cooperation activity system - should focus on a use value creating process in order to achieve effectiveness in the use of resources.

In the focal case, the outcome was not as clear-cut or as evident as the conceptualization suggests. This partnership, although being a cooperation activity system, involves processes aiming at both efficiency and effectiveness, as well as processes for enabling these outcomes. The empirical case reveals that there are initiatives taken in the partnership that aim at both strive both to efficiency in exchange and effective use of resources. In addition there were initiatives that did not seem to fit in any of the two categories. These were labelled "enabling initiatives". The reason for calling the category "enabling initiatives" is that they all aim at enforcing the partnership spirit – the atmosphere of cooperation. In a sense they can be seen as serving as expressions of goodwill since they include ingredients such as "promising", "ensuring", "committing", "trusting", and "understanding".

What was even more interesting was that there are several initiatives, connected with more effective use of resources that are directed towards the future, and consequently aimed at creating new interdependencies between the companies. This finding suggests that the creation of new interdependencies is an outcome of the activities carried out in the partnership. The initiatives aim at creating new interdependencies between the two companies through increasing the seller's business activities at the buyer with the ultimate goal of optimizing the running of the buyer's fleet. The initiatives involve the connecting of the two companies' resources and creating new business opportunities for the seller. New business undertakings in the form of controlling the buyer's parts

inventory and setting the most optimal standards for min, max and re-order levels of parts, conditioning the buyer's parts at the seller workshop, analyzing downtime together in order to be able to assess the effects of the machinery management system, and being able to further develop the concept. Making efforts to optimize engine performance and develop more fuel-efficient technologies would imply product development for the seller and increased operational efficiency for the buyer. And finally investigating the possibilities for annual ordering of parts would enable economizing as a result of long-term planning of parts purchase, warehousing, and logistics arrangements.

As a result of the analysis of the focal case the logic for buyer-seller partnerships can be seen as the creation and exploitation of interdependencies. When a buyer and a seller have chosen a high-involvement strategy in their relationship, in this case a partnership, the parties have made an assessment that it is worthwhile to cooperate and get highly involved in order to achieve something that neither of the parties could achieve alone. When such a situation is attained, usually as a result of interaction over time, there is room for creation of new interdependencies as well as efficient exploitation of the interdependencies that exist between the two companies. There is a possibility space created, there is "slack" in the relationship, which enables the parties to widen their view of what can be achieved together. Consequently there is a possibility to create new interdependencies and exploit them, with the aim of creating both use value in the form of more effective use of each other's resources, and exchange value i.e. increased efficiency in the exchange activities between the organizations. In the presented case, I was able to find both attempts to create use and exchange value, although this is seen as a cooperative activity system. This finding suggests that the categorization of different activity systems, and their different aimed outcomes should be seen as indicative, and that reality once more has proved to be more complicated (and interesting) than theoretical generalizations.

The question about what kind of interdependencies should be created and what the most critical interdependencies are is interesting. Obviously there is no general or universal answer to that. The importance and criticality of interdependencies is context dependent, depending on what the object of exchange between the parties is and what the objectives of the relationship are. In the focal buyer-seller relationship the emphasis seems to be shifting from being about exchange of a product accompanied with service towards being increasingly about developing new technological solutions together, with the aim of achieving operational efficiency for the buyer and developing and improving the seller product.

Discussion and Conclusions

The argumentation suggests that traditional economic theories have partly failed in taking into consideration that interaction between the parties in itself would contain a value element. There is only a limited understanding of **value** in situations where the interactive process between the involved parties is assumed to contend a value creating ingredient. In classic economic theory it is assumed that interaction only deals with how value is distributed or shared, not value as such. Interaction has been seen as a means for sharing value. The parties get increasingly involved with each other through interaction over time. Interaction over time creates interdependencies between the parties. The potential for value co-creation that lies in a relationship can be realized by making best use of existing interdependencies and by creating new ones.

The overriding conclusion from the argumentation presented in the paper is that 'value' is something that is co-created through interaction by two active parties in a long term buyer-seller partnership. Further, the proposition is that value should be viewed as something complex, dynamic and subjective - monetary value is just one tangible manifestation of value in the context of buyer-seller relationships. The parties in a buyer-seller dyad represent two different sides, and thus are having differing expectations of the outcome of the interaction and differing perceptions of what value is in the specific context. In the studied case the common denominator when it comes to value was the development of new fuel economic technologies. In this way the buyer was able to run its fleet in a more economic manner and the seller was able to use the buyer as a guinea pig and thus had a live test lab for product development purposes. In summary it can be said that there has to be a strong incentive to carry on a high involvement relationship like a partnership. Partnerships are resource demanding and payoffs can sometimes be gained only after long time interaction.

The argumentation presented in the paper rests on an empirical study that has been carried out in a specific context. This particular empirical setting forms the specific value-creation system of this study. The case is from the marine industry and key business relationships for the context here where mutuality, relationship and value-creation development was scrutinized. The situation might vary considerable in other settings (it can be hard to generalise).

Co-creation of value needs mutual investments and bonding as well as mutual learning and/or unlearning in order to be able to develop and exploit mutual resource constellations in the focal dyad. The role of interdependence is important in b2b relationships. Unbalanced interdependencies can lead to power-based relations. There should be some kind of a balance between counterparts in order to find "win-win" solutions. Being able to learn mutually and use the acquired knowledge in a competitive manner even when things do not develop as planned is a tricky issue. Different business cultures and organizational modes have to be overcome. The role of personal relationships that 'span over' in both interacting organisation is critical in many cases. This could be seen in the studied dyad clearly.

The role of involvement is crucial – a balance should be sought for between the partners. The partnership role implies close collaboration and creeping close to the core competencies of the interacting organizations. Exploiting interdependence means realizing the potential that there is in cooperating and doing things jointly by utilizing each other's resources. The overall conclusion of the conceptual discussion and the case study is that there exists potential for value co-creation if perceived benefits outweigh perceived sacrifices during the duration of the relationship for both parties involved, and if there is interdependence between the parties.

Implications and issues for further research

The study shows that value creation in b2b dyads is manifested over time and needs mutual investments in both people and technology. Understanding the dual nature of relationships and what value means for the other counterpart forms a key role for managing business relationships and enabling mutual value creation and potential to come into being.

The results also show that there exists, especially in international business markets, different ways of dealing with management and value in the marketplace and between business actors. American companies e.g. can have different views concerning relationships with other companies than Asian or European companies and counterparts.

The study shows that there is only a limited understanding of the issue of interdependence in business marketing. A suggested avenue for further research is the development of new tools for understanding, categorising and thus being able to handle and further explore the matter of interdependencies.

Limitations

The study is dyadic, and network embeddedness is only partially highlighted. The extension to focal network partners should for a core issue for further investigation, but the complexity becomes a problem. Also access problems can become a great obstacle to overcome. The current study has theoretically been based on interaction and network theory of the IMP group. The theoretical base and analysis of co-value creation could be related also to institutional theory or e.g. the resource based view of the firm or through a sense making approach, to name a few potential pathways.

References:

- Alvesson, M. & Sköldberg, K., (1994). *Tolkning och reflektion. Vetenskapsfilosofi och kvalitativ metod.* Studentlitteratur, Lund
- Anderson, J, C and Narus, J, A, (1998), *Business Marketing: Understand What Customers Value*, Harvard Business Review, Nov-Dec 1998
- Biong, H., Wathne, K., and Parvatiyar, A, (1997), *Why Do Some Companies Not Want to Engage in Partnering Relationships*, in *Relationships and Networks in International Business Markets*, H.G. Gemünden, T. Ritter and A. Walter eds. Elsevier Science, New York, pp 91-107.
- Borys, B. & Jemison, D.B., (1989). *Hybrid Arrangements as Strategic Alliances: Theoretical Issues in Organizational Combinations*, *Academy of Management Review*, Vol. 14, No. 2, pp 234-249
- Day, G.S. & Wensley, R., (1983). *Marketing Theory with a Strategic Orientation*, *Journal of Marketing*, Vol. 47, pp 78-89
- de Chernatory, L., Harris, F., & Dall'Olmo Riley, F., (2000). *Added value: its nature, roles and sustainability*, *European Journal of Marketing*, 34, pp 39-56
- Dubois, A., & Gadde, L-E., (2000). *Supply strategy and network effects: Purchasing behaviour in the construction industry*, *European Journal of Purchasing and Supply Management*, 6, pp 207-215
- Dwyer, R. F., Schurr, P.H., & Oh, S. (1987). *Developing Buyer-Seller Relationships*, *Journal of Marketing*, Vol. 51, pp 11-27
- Emerson, R. M., (1962). *Power dependence relations*, *American Sociological review*, Vol. 27, No. 1, pp 31-41
- Flint, D.J., Woodruff, R.B and Gardial, S.F. (1997), *Customer Value Change in Industrial Marketing Relationships: A Call for New Strategies and Research*, *Industrial Marketing Management* 26, pp 163-175.
- Ford, D, Håkansson, H and Johanson, J (2002), *How do companies interact? In: Understanding business marketing and purchasing*, 3rd edition, Thomson Learning, London.
- Forsström, B. (2005). *Value Co-Creation in Industrial Buyer-Seller Partnerships – Creating and Exploiting Interdependencies*, Doctoral thesis, Åbo Akademis förlag - Åbo Akademi University Press, Åbo.
- Ford, D., Gadde L-E., Håkansson, H., Lundgren, A., Snehota, I., Turnbull, P., & Wilson, D.(1998). *Managing Business Relationships*, John Wiley & Sons Ltd, Chichester
- Ford, D., Gadde L-E., Håkansson, H., Snehota, I., (2003). *Managing Business Relationships*, Sccond Ed. John Wiley & Sons Ltd, England
- Gadde, L-E & Snehota, I, (2000). *Making the most of supplier relationships*, *Industrial Marketing Management*, Vol. 29, pp 305-316
- Gummesson, E. (1995). *Relationsmarknadsföring: Från 4P till 30 R*, Liber-Hermods AB, Malmö
- Gummesson, E. (2001). *Are current research approaches in marketing leading us astray? Marketing theory articles*, SAGE volume 1(1), pp. 27-48
- Granovetter, MS (1973). *The Strength of Weak Ties*. *American Journal of Sociology* Vol. 78, pp 1360-1380
- Håkansson, H. & Persson G. (2004). *Supply Chain Management: The Logic of Supply Chains and Networks*, *International Journal of Logistics Management*

Håkansson, H. & Prenekert, F. (2004). Exploring the exchange concept in marketing, In Håkansson et al. Eds. (2004). Rethinking Marketing, John Wiley & Sons Ltd., pp. 75-97

Håkansson, H., & Snehota, I., (1995). Developing relationships in business networks, Routledge, London

Håkansson, H & Waluszewski, A (2002), Managing Technological Development, Ikea, the environment and technology, Routledge Advances in Management and Business Studies

Jackson, B. (1985). Winning and keeping industrial customers: The dynamics of customer relationships, Lexington, MA: D.C. Heath and Company

Kirkeby, O., (1994). Abduktion, In: Andersen. H, ed., Videnskabsteori og metodelaere, Fredriksberg: Samfundslitteratur, pp 122-152

Levitt, T. (1983). The Marketing Imagination, New York: The Free Press

Möller, K & Halinen, A, (1999). Business Relationships and Networks: Managerial Challenges of Network Era, IMM 28, pp 413-427

Peirce, C. (1931). Collected papers, Harvard University Press, Cambridge

Pfeffer, J. & Salancik, G.R., (1978). The external control of organizations, New York, Harper & Row Publishers

Schauman, B. (2003). Från Venus och från Mars - Om jämställdhet som organisatorisk fars, Doctoral thesis, Åbo Akademi förlag - Åbo Akademi University Press, Åbo.

Snehota, I., (1990). Notes on a theory of business enterprise. Unpublished doctoral dissertation , Uppsala University

Spekman, R.E., Strauss, D. & Belk Smith, R. (1985). Antecedents of collaborative relations between buyers and sellers: An exploratory investigation from the buyer's perspective, Mimeo, University of Maryland

Thompson J.D. (1967). Organizations in action, New York: McGraw-Hill

Walter, A., Ritter, T. & Gemünden, H.G., (2001). Value Creation in Buyer-Seller Relationships - Theoretical considerations and empirical results from a supplier's perspective, Industrial Marketing Management, Vol. 30, pp 365-377

Interviews:

Interview: Seller 2 (anonymous)