

## **“Comments on: The anatomy of relationship significance: a critical realist exploration”**

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Relationship significance is defined by the authors as: “the influence of business relationships on the focal firm’s survival or growth,” which draws attention to the kinds of benefits or functions that relations can provide for a firm. These are, in critical realist terms, the powers and tendencies of relations and, on the negative side, the burdens or liabilities of relations. It is argued that the causes of relationship significance are for the most part left unidentified. This I find hard to agree with. It seems to me that a lot of IMP research, both empirical and conceptual has gone into the role of relations and networks and could be linked to and translated into a critical realist perspective.

Empirical work includes that stemming from the IMP2 study of relations and connected relations and their impact (e.g. Wiley et al 2006), which is referred to by the authors, or the work of Walter et al (2001) and Walter et al (2003) who have undertaken empirical and conceptual work on the functions and value of business relations and reviewed previous research on this topic.

Conceptually the functions and value of relations and networks have been linked to the actor bonds, activity links, resource ties and schema couplings among firms involved in business relations (e.g. Anderson et al 1994, Hakansson and Snehota 1995, Wiley et al 2006). I would have thought that the significance of a relation can be understood in terms of these dimensions and their effects on the firms involved. The stronger the bonds, links, ties, and couplings the greater the impact of the relation on those involved, by definition. Weak ties can also be significant if they span structural holes and open up new knowledge sources.

So what is new in this paper related to this debate? The authors rightly point out that not all relations a firm has are significant and that relations can be a source of burdens and liabilities as well as a source of value (Hakansson and Snehota 1998). They argue that “relation’s significance is a notorious *event* for the business world, taking place intermittently and *here and there*.” (p4). Such significant events, to my mind, correspond to the performance of relationship functions or dysfunctions, which in turn stem from the powers, tendencies and liabilities of relations. The experience and outcomes of on-going events in turn shape and reshape the relationship, as the IMP interaction model makes plain, and thus affect a relation’s powers, tendencies and liabilities and how they develop.

The authors adopt a critical realist approach to analysing relationship significance arguing that a reality exists “regardless of any knowledge one may have or develop about it.” By this they refer to the critical realists distinction between the real, the actual and the empirical; with only the latter being available to perceive. I have no quarrel with adopting a critical realist approach and do not claim to be an expert in it, so I will not enter here into a debate about it compared to other perspectives. Instead I will focus on what is contributed to our understanding of the significance of relations. Are we just renaming things we already know or identifying elements left out of our existing frameworks?

The authors draw on the economic theory of the division of labour and economies of specialisation to explain why relations exist. Work is divided up within and between firms and once it is divided up there has to be put in place the means of integrating and coordinating the specialists. Business relations are one type of coordinating or governance mechanism, the others being markets operating via the price mechanism and hierarchical governance within firms. They equate relational significance to close, complex and ramified forms of interfirm cooperation (p7) with suppliers,

customers, and even competitors, which are contrasted with arms-length market relations. These are all well known aspects of relations and Richardson’s 1972 article, which they draw on here, is a seminal paper that has influenced IMP thinking.

Their ‘pivotal argument’ is that “the structure and powers and liabilities of firms are ... influenced ... by the structure and powers and liabilities of the relationships firms establish, develop and sustain among themselves” (p8). This does not seem new to me. Surely most of IMP thinking has been about how firms influence each other, how relations develop and the effects they have both positive and negative. In particular IMP relationship conceptualisations in terms of actors, activities, resources and schemas seem relevant and are ways of describing the impact of relations on the firms involved. So what does a re-conceptualisation in terms of powers and liabilities add? I am not clear.

As the authors expand on their arguments they raise specific issues I would take issue with. For example, they seem to imply at times that firms have the option of engaging in discrete transactions or recurring interactions. But we know that relations involve some kind of mutual choice and that at times it is a matter of getting chosen than choosing ones partner and the type of relation to be developed. To be fair the authors do mention this potential limitation. Relations are quasi organizations that have a life of their own and depend on the way firms interact over time, as the authors describe: “The development of any business relationship is a time consuming, path dependent , and costly process.” The shadows of the past and future colour perception and proclivities and shape the ongoing conditions of the relation, including the functions it performs for those involved.

The authors base their analysis of relationship impacts (positive or negative) on 6 dimensions or “powers” of relations, i.e. access, control, efficiency, innovation, stability and networking. I am troubled by the lack of a clear theoretical basis for the list of dimensions and am unable to detect clearly the contribution made by incorporating this set of concepts into the analysis. The 6 dimensions seem to me to point to various types of relationship functions that others have pointed out and, indeed, they point to many IMP references to support their discussion.

To me the functions of relations are conveniently summarised in terms of the direct and indirect functions classification proposed by Walter et al (2001) and Walter et al (2003), which draw together much of the literature (see Figure 1). An important distinction from previous schemes is perhaps that the 6 dimensions can be a source of costs or burdens as well as benefits. We don’t have a good classification scheme for the dysfunctions and burdens of relationships. But the way the 6 dimensions proposed function to produce dysfunctions remains unclear and underdeveloped. “Such liabilities follow whenever some powers are left unexercised.” (p11).

**Figure 1 A Typology of Relationship Functions**

<b>Customer Relations</b>	<b>Supplier Relations</b>
<p><b>Direct</b>  <i>Profit</i> - revenue greater than costs to serve  <i>Volume</i> - help use capacity and achieve economies of scale and scope  <i>Safeguard</i> - relations maintained as a insurance against crises or difficulties with other customers</p>	<p><b>Direct</b>  <i>Cost reduction</i> – working with suppliers to reduce costs and price  <i>Quality</i> – improving customer’s value creation and costs  <i>Volume</i> – single sourcing to gain influence, consistency and reduce communication costs  <i>Safeguard</i> – parallel supplier</p>
<p><b>Indirect</b>  <i>Innovation</i> - source of new product and service ideas.  <i>Market</i> - support development of new markets thru referrals or reputation effects  <i>Scout</i> - source of market information  <i>Access</i> - bridge or go between to gain access to relevant organisations</p>	<p><b>Indirect</b>  <i>Innovation</i> – access to new ideas and technology  <i>Market</i> - bridge to other suppliers, industry associations, government and reputation effects from supplier inputs  <i>Scout</i> - source of market and technical information  <i>Social support</i> – mutual support and working atmosphere, personal bonds</p>

source: based on Walter et al 2001 and Walter et al 2003

The discussion of the connectedness of relations (p12) and how this impacts on the firms involved in terms of the 6 powers I find hard to follow. The authors rightfully point to the complexity of the interactions among the 6 powers of relations they identify, both within and between relations. A clearer classification and exploration of the impacts of connected relations is that of Anderson et al (1994), who conceptualise the potential negative and positive effects of connected relations in terms of the actor bonds, activity links, resource ties that arise, and Wiley et al (2006) extend this to schemas couplings. Do the 6 powers lead to a better way of conceptualising the impacts of connected relations? I am not sure and would like to see the two approaches compared.

In any event the authors have pointed to a possible conceptual hole in the IMP framework in terms of the nature and causes of dysfunctions in business relations. The IMP concept of the burdens of relations (Hakansson and Snehota 1998) point to some of the dysfunctional characteristics of relations but a more systematic development is called for.

The authors argue that the markets-as-networks explanation of how relationship significance is brought about is in terms of the benefits exceeding costs, burdens and liabilities compared to alternatives. But this refers to the result not the method of getting there! Based on critical realist theory, the authors argue for another cause of relation significance in addition to these costs and benefits. This is the degree of influence of the business relation on a focal firm's structure, powers and liabilities. Here again I am not sure what the critical realist perspective adds to our understanding of the impact of relations on a firm.

The authors focus attention on two powers of relationships i.e. access and innovation (or lack thereof), which they regard as more important in terms of their impacts on a firm. Both of these dimensions seem to me to deal with aspects of relations and networks that have been the subject of considerable research by IMP researchers.

Here they point to the division of labour and specialisation among firms that creates the need for some coordination of effort and outputs through market exchange and business relations. These are the means by which firms access the outputs and specialised assets and competencies of other firms. They distinguish between gaining access to the outputs of others via market exchange, which embody the resources and competencies of the seller, and gaining access more directly to the resources and competencies of others via business relations. Business relations are the means by which firms can make use of external resources needed by the firm. They are also a potential source of innovation as the resources and competences of those involved interact and adapt to each other. I have no real problem with the basic logic. But does it add anything to what we already know?

In conclusion my main argument is that conceptualisations and theoretical frameworks exist to further develop and structure better the critical realist arguments presented. I don't see that IMP has neglected the sources of relationship significance but that most of it is about these issues and existing schemes for classifying the functions and dysfunctions of relations and networks should not be ignored. What is needed is a more systematic comparison of the two analytical frameworks.

The significance of relations and networks for firms stem, I believe, from two basic sources. "First, they are the *means by which the fruits of the division of labour in a society are realized*; the way the activities, skills, resources and outputs of people and firms specialising in different tasks are accessed, combined recombined and coordinated in order to produce and deliver value in the form of desired products and services. Second, they play a central role in *shaping the way an economic system develops and evolves* through their impact on innovation, learning and knowledge development. Through these roles business relations and networks extend what a firm can do, know and think. They act as both pipes and prisms, providing the means of accessing and using the

resources, knowledge and skills of others and the means by which the firm can know and understand the problems and opportunities it faces.” (Wilkinson 2008). The degree of significance of any particular relation will vary depending its relevance and importance in terms of these two basic roles.

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