

CONGRUENCE BETWEEN PORTFOLIO PLANNING AND ADAPTATIONS – THE GORDIAN KNOT OF SHARING A PIE AND MAKING IT GROW AT THE SAME TIME

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Abstract

The existing research on adaptation has focused on adaptations as vital in relationships. Adaptations are seen as increasing and making relationships work more smoothly. At the same time adaptations

in themselves are said to signalize commitment to the relationship from the involved actors. Entering into one relationship gives the opportunity to get rewarded, but leaves out the possibility to go into other relationships. As resources are scarce, commitment to one relationship through adaptations impacts the overall resource allocation. Choice of relationship also means choice of prospects for future rewards.

In the present paper, the problem of a more gradual adaptation and choice of existing and potential relationships now and in the future is discussed. The process of adaptation is seen as making choices about prioritization in relation to partnering firms, but prioritizing should not be made in isolation from portfolio planning. Portfolio planning is a focusing process that demonstrates which limitations and possibilities are related to certain choices, seen from a focal firm's perspective. Adaptation describes how firms make particular choices in relation to each other. The aim of the paper is to focus on the problem that adaptations are made gradually on this may have server impacts on portfolio planning. Portfolio planning may be made obsolete due to adaptations earlier made. If congruence in relationships should be achieved, a holistic view on portfolio planning and adaptations is needed.

Keywords

Key words: Adaptation, resource allocation, relationship prioritization, portfolio planning

Introduction

To stay competitive firms have to use their resources in an effective manner and to engage in cooperation with other firms to bundle their resources. Gadde formulates it this way: "Firms constantly try to improve the utilization of their resources and also to recombine them in new innovative ways" (Gadde, 2004, p. 165). Suppliers are an important part of the process of the

utilization and recombination of resources (Trace & Tan, 2001). Different suppliers holds different resources for utilization. Therefore firms have a wide range of suppliers as firms often have differentiated needs (Gelderman & Semeijn, 2006). Due to the differentiated needs, relationships with suppliers will vary (Gadde & Persson, 2004). Some relationships will be closer than others as the object of exchange will develop over time (Ford 1980). For the individual firm, the handling of suppliers represents a challenge, as it is not possible, nor useful to have close relationships with all suppliers (Gadde & Snehota 2000). Prioritizations have to be made. Portfolio planning is useful in the process of prioritization as to figure out which suppliers are important for the success of the firm. Suppliers contribute with resources that can be used to become successful on the market.

Portfolios are said to be advantageous in the handling of suppliers. First of all portfolios provides guidelines for the overall strategic handling of suppliers. Second portfolios make prioritization possible between suppliers and in relation to the individual supplier. Third portfolios gives guide to the organization how a consistent handling of suppliers can be undertaken. The down side of portfolio planning is that these guidelines are often rather general as many portfolio models divide suppliers into groups of 2 – 6 suppliers (Olsen & Ellram, 1997). Having several hundred suppliers is not uncommon and dividing these into groups of 2 to 6 is often still a very rough categorization (Flies & Becker 2006). As the variety within the individual supplier groups can be quite high, it can be difficult to give very much guidance as to handling the individual suppliers. Yet another problem with portfolio models tend to be one-sided in the perspective, as portfolio models describe how the focal firm can prioritize and categorize its suppliers (Gelderman & Semeijn 2006). In other words, the core idea of portfolio models is to help the focal firm to organize its supplier base, but using portfolios may lead to neglection of some of the positive effects of working within close relationships. In other words portfolio planning may leave out some the possible positive effects on looking on a relationship from a win-win perspective. Prioritizations are made to meet to the focal firm's needs. Suppliers will have different priorities and will not necessarily agree on the terms required by the focal firm (Gadde & Snehota 2000).

An interesting question is what can be done both to handle problem of internal prioritization in the focal firm and at the same time take the suppliers situation into account. In other words how not only to prioritize from a them-against-us perspective, but also take a win-win perspective in while prioritizing resources, recombine resources and getting new resources in?

Solutions that take both the buyer's and the supplier's requirements into account will have to be identified.

A central approach of how resources are recombined and used is adaptation. When firms engage in day-to-day operations or are making the arrangement for supply a useful solution has to be found. Identifying useful solutions will often lead to adaptations as the outcome of the process (Brennan & Turnbull 1997). Examples of adaptations can occur in many forms such as product, process, technological and social adaptations (Brennan & Turnbull 1999). Adaptations will often be the necessary step to make a relationship work.

Making adaptations can also lead to constraints, as getting access to the resources of other firms can create interdependence. Interdependencies can be of more or less importance, and may not always be intended, but are often necessary to get access to the resources of the partnering company (Canning & Hammer-Lloyd 2002). Access to the resources of other firms involves constraints that can be seen as costs. Some of the costs in the form of interdependencies can become critical. For example, a particular buyer may be interested in a distinct logistical set up or an adaptation of a product for which there may be no other use. Such adaptations may be seen as an investment by both the supplier and the buyer, but it can become critical if the supplier or the buyer withdraws from the relationship (Medlin, 2004). Substituting partners who can utilize the adaptations already made can be difficult to find, and the investments made in the relationship may be lost.

When firms utilize and recombine resources by adapting to each other, this has strategic implications. A strategic aspect of adaptations is that interdependency is created and this may leave out the opportunity to relate to other partners (Håkansson & Snehota 1998). Therefore the process of adaptation also includes choices of prioritization in relation to partnering firms, but the decisions made may not necessarily correspond with the prioritizations made on the overall portfolio level in the firm. In the portfolio planning process, the requirements of the focal firm are mainly taken into account, and in the adaptation process the requirements of the focal relationship are mainly taken into account (Hagberg-Anderson 2006). The processes of adapting and portfolio planning can be seen as interrelated but choices made are not always congruent.

In essence portfolio planning and adaptation is two sides of the same coin. Portfolio planning is about whom to relate to and for what reasons. Adaptation describes how relating to different firms is done! Chosen adaptations and portfolio choices does not always go well together. Adaptations are often made in isolation and are often step-by-step choices which not always corresponds with the overall consistency laid down in portfolio planning. Until now little is known as to how the two constructs actually go together in the literature. The aim of this paper is to contribute by discussing how adaptation and portfolio planning are conceptually related. For this purpose portfolio planning is

discussed at start. Different aspects of portfolio planning are highlighted and a definition is offered. After this the subject of adaptation is addressed, and a perspective on adaptations in relation to portfolio planning is chosen. Then methodological issues are discussed along with an introduction to a case study. The aim of the case study is to offer deeper insights into the different aspects of adaptation and portfolio planning in relation to each other. Finally, the need for further research and managerial implication is discussed.

Portfolio planning

Customers' demands are changing over time. In order to stay competitive suppliers have to evolve with the changes in demand (Gadde & Persson 2004). For the purchasing function it is a challenge to have the right balance of resources and competences available in the supplier base (Flies & Becker, 2006, Tan & Trace 2001). In the process of getting the right suppliers into the supplier base and making the suppliers apply to the needs of the firm, portfolio planning is a much used tool. Behind portfolio planning is, in principle, the very simple idea of prioritization. However, in fact, it may be very complicated to use this. In theory, it would be easy to set priorities right with regard to the supplier portfolio, if the needs of the customers were evident, if the contribution by the focal firm was evident, in line with the contributions by the focal firms' suppliers to solving the customers' needs. Even if the focal firm is clear on what the needs are, it will be difficult to have a clear view on what is needed from the suppliers as the business context is not static.

As pointed out by Anderson (2004) the business context is changing rapidly. Not only are new technologies introduced faster than before, but also the distribution system itself is undergoing a change (Gadde, 2004). For example, Lancioni et al.(2000) contributed by highlighting how the internet creates new supplier requirements. Firms must be aware of the changes and adapt accordingly. Firms are incomplete as they rely on the resources and competences of other firms. A firm's relationship with its suppliers is an important part of the process of satisfying customer needs as suppliers offer the possibility to recombine resources in new innovative manners.

Supplier relationships have many dimensions and the exchange of information and mutual planning may be intensive in order to take place at different levels and in different departments of the firms involved. Firms usually have a high number of relationships and as several employees will be involved in the relationships it will be beneficial and necessary to orchestrate the different processes taking place. Overall portfolio planning helps the orchestration of the interaction processes going on. At the same time it is obvious that by categorizing suppliers into typically 2 to 6 categories to be treated subsequently, it will be a rather rough guidance which portfolio planning will give in the individual relationship (Olsen & Ellram, 1997).

Two interrelated issues constitute the core of portfolio planning; similarity and value and cost. Portfolio planning is about defining the similarities in the relationships with suppliers. Relationships have many dimensions and are taking place at different organizational levels. Portfolio planning offers an approach to how similarities can be detected and learned about (Turnbull, 1989). Similarities can be found at different levels and relate to different dimensions. For example Kraljic (1983) uses power at the cooperate level as the distinctive dimension for his portfolio model. Turnbull & Zolkiewski (1997) emphasize the value and cost in the exchange process of the pivotal dimension for categorizing suppliers or as Gelderman & Semeijn put it “what is the added value of this supplier to our company?” Estimation of value is also about estimation of cost. Making prioritization as a process not only involves cost, but prioritization in itself creates cost. Dealing with suppliers in different manners has higher costs than the costs of treating suppliers equally. For example different procedures and information regarding these procedures need to be developed and maintained for each category of suppliers. At the same time relationships are not stable over time. The balance of cost and value may shift. A positive balance may become negative or turn the other way around. The prioritization behind a given categorization of suppliers may therefore only be valid for a limited period of time (Bensaou 1999).

As earlier mentioned, choices often imply limitations. Choosing one supplier will leave out another supplier and the potential rewards and cost from this relationship now and in the future will be left out as well. A categorization of suppliers may be valid at one point of time and invalid at a later point of time, but choices made will be impossible to retrieve.

Portfolio planning offers the possibility to make more targeted efforts towards suppliers and to achieve higher value than by treating all suppliers equally. Portfolio planning also involves cost. Planning in itself has a cost. Using the portfolio model has a cost. Demands may change over time, but can be difficult to deal with because previous choices hamper future decision possibilities. In essence, portfolio planning can be defined as identifying the most important value and cost similarities for categories of suppliers seen from the purchasing firm’s perspective.

Adaptations

In order to become successful on the market, a firm will have to alter its offers to the customers (Anderson 2004). On one hand, alteration will give the possibility to have a competitive advantage, but, on the other hand, serving specific needs puts pressure on the firm to adapt to different needs of the customers. For the individual firm the alternation process becomes an ongoing process which

makes it evident how important it is to be flexible and responsive in order to stay or become competitive (Selnes & Johnson 2004). Alternation cannot be done in isolation from other firms.

Firms exchange resources to recombine them in innovative ways to stay or become competitive. The exchange and recombination of resources takes place as a continuous process of interconnected relationships, which constitute a network (Håkansson & Snehota, 1995). The different forms of relationships hold possibilities as well as limitations. First, different relationships provide access to different types of resources such as knowledge, competences, etc. (Möller & Törrönen 2003). These resources are more comprehensive than what the firm could accumulate on its own. Secondly, the different relationships represent points of access to the network and imply possible advantages to the firm. By developing different relationships the firm has the possibility to develop and position itself. Thirdly, developing certain links also means that activity structures are developed which can be streamlined and as result should give higher pay-offs. At the same time it is obvious that the choice of different relationships gives limitations (Gadde & Snehota 2000). Access to more resources also means that the firm will be occupied with the absorption of the resources and that other resources cannot be acquired. Consequently, some relationships may flourish, other will stagnate and still other demise. Developing some relationships contrary to not developing others will have the result that certain patterns of carrying out activities will be familiar and others not. Dealing with exchange process and recombination of resources is a complex process that includes prioritization and strategic choices.

Setting priorities and making choices are undertaken with the aim of accruing higher pay-offs than otherwise available. Adaptations firms are made to make the relationship run smoothly. This often means that the focus will be on the relationship and not on the overall effect of the arrangement made. In other words does the arrangement made fit with overall priorities. But priorities and choices are not made in isolation. The firms in the network will make strategic choices and prioritizations in relation to the exchange process and the recombination of resources and this will affect the individual relationships and the network. Recombination of resources means that to some extent complementarities must exist. If similarities between firms are too high, only limited advantage may be achieved, apart from extending capacity (Gadde, 2004). When the aim is recombination of resources, firms will be looking for other firms with complementary resources (Wilkinson, et al. 2005). As recombination of resources and setting up the exchange process is a double choice, being dyadic in the way that both buyer and supplier will make prioritizations and strategic choices, it can be difficult to foresee which adaptations will be at the end of the process (Blau 1964, Brennan & Turnbull 1999). In some cases standard products may be sold, standard logistical systems may be

used and so on, but as differentiation is the key driver of competitive advantage, adaptations may be seen as a very useful mean. Adaptations are complex in nature, have many dimensions and will take place at different levels. In accordance with Brennan, Turnbull & Wilson, (2003) dyadic adaptations can be defined as: *“behavioural and organizational modifications at the individual, group, or corporate level, carried out by one organization, which are designed to meet the specific needs of one other organization”*. Three challenges can be raised in connection with this definition.

First, adaptations are designed to meet the specific needs of the other organization, but mainly made indirectly by anticipating the other firm’s need. The ability to understand the other firm’s need will be hampered by the complex nature and the many dimensions of the recombination of resources and the exchange process and the ability to communicate and to analyse the situation from the perspective of the other firm. One challenge is to minimize perception gaps in the dyad (Ritter 2007). Secondly, both firms will make prioritizations and choices that have implications for the relationship and the adaptation process. The two firms can have different views on the strategic importance and the required specific outcome of the relationship and the adaptation process. These views will be in accordance with internal priorities and choices. In other words, gaining insight in the other firm’s perception is not the only problem in acquiring information as such, but priorities may simply be different. It is therefore a second challenge to gain insight in the other firm’s priorities and choices and to look for possible positive outcomes for both parties. If no common ground can be identified, only power can be used to acquire an outcome, which raises the question whether the relationship can be seen as a partnership (Cox 2001). Thirdly, the process of adaptation is in itself an exigent endeavour. Planning is made difficult by the complex nature and many dimensions of the exchange process and adaptations needed. Past experience and future expectations will play an important role. All facets of the adaptations needed in the endeavour will not be known and the adaptations made will often be in the form of creeping commitment (Gadde, 2004). A third challenge is to be aware of the shifts of priorities and stakes during the adaptation process.

Analyzing and strategizing in relation to the adaptation process may therefore be felt as aiming at multiple targets, the next movements of which can be difficult to forecast.

Challenges in portfolio planning and adaptations

Adaptation and portfolio planning viewed together is about understanding value and costs within different relationships. Portfolio planning offers an overall framework for analyzing relationships. Adaptations constitute particular resource recombinations necessary to make a relationship work.

Managing a supplier portfolio and understanding how this connects to adaptations holds several challenges as pinpointed in matrix 1.

Matrix 1: The dynamics of value and cost in relationships

	Present situation	Future situation
Other relationships	Present balance of costs and value	Future balance of costs and value
Focal relationship	Present balance of costs and value	Future balance of costs and value
Potential relationships	Potential balance of cost and value	Future balance of costs and value

Understanding the dynamics of value and costs in relationships holds several challenges:

Analysis of the supplier:

- To identify and understand how perception gaps in dyads may be minimized.
- To gain insight in the other firm’s priorities and choices and to look for possible positive outcomes for both parties.
- To be aware of the shifts of priorities and stakes during the adaptation process.

Analysis of relationships in comparison:

- To gather and detect the most important similarities in the relationships.

Analysis of the focal relationship:

- To understand the value and cost which is created within a relationship

Matrix 1 and the questions raised in relation to pinpoints the problems to link portfolio planning and adaptation processes. For the focal firm the challenge is both to make day-to-day operations with the individual supplier work and to follow the priorities set in portfolio planning.

In the following, the challenge of both to make day-to-day operations with the individual supplier work and to follow the priorities set in portfolio planning will be demonstrated by means of a case.

As Dubois and Araujo (2004) write: “Case studies thus resonate well with interaction and relationships as basic units of analysis, p. 210.”

Methodology

To highlight how adaptation and portfolio planning go together, a case study approach was selected. Application of a case study approach both has weaknesses and strengths. It is not the main point to try to achieve empirical results to be generalized, but the aim is to illustrate that the consideration of adaptations to a high degree conceives portfolio planning aspects and that a more holistic view on adaptations and portfolio planning gives a good basis for an in-depth understanding of the phenomenon (Stake, 2000). Further Halinen & Törnroos, (2005, p. 1286) have been arguing that a case study approach is appropriate for studying business relations.

In this study, the analyzing unit was formed by the manager of a purchasing function, a project manager and an architect. Both the manager of the purchasing function and the project manager came from the same organization; Skanska. The architect had been involved in projects with Skanska. First, the purchasing manager was interviewed to get information on how Skanska work together with their cooperation partners, how portfolio planning is undertaken and what role adaptations play in the relation to the suppliers. As validity and reliability of case studies have been questions, a number of procedures were applied. Secondly, a project manager was interviewed to assure the possible differences in perception between how the purchasing department and project managers looked upon cooperating with suppliers, what adaptations have been made and for what reasons and to get information as to how the portfolio model of the company actually worked. Finally, an architect was included to get an outside perspective on how cooperation with partner firms was set up by Skanska. The main purpose was to get information from different actors to make triangulations possible (Patton, 2001). Secondary data was obtained from the internet and from internal papers from Skanska. At the end of the empirical investigation, the actors interviewed received the written case for comments. Only a few insignificant pieces of information were corrected.

Case – Skanska

Skanska is one of the major players in the very competitive construction industry in Denmark and has more than 2000 employees. To direct the firm's efforts towards other business partners, the following three points are of particular importance:

First the purchasing function is measured on the following issues:

- fewer suppliers
- lower prices and larger bonuses from the suppliers
- indexes of employee and customer satisfaction
- ability to solve disputes with others

Secondly, to stand out from other construction firms Skanska introduced what is called a "partnering model". The main idea of the partnering model is to raise the loyalty of all the partnering firms involved in a particular construction project. At the beginning the firms involved agree on a certain budget frame. If the spending deviates positively or negatively from this budget frame, the amount will be divided among the firms based on a certain percentage key. (For example: owner, Skanska, architect and advising engineer 70, 20, 5 & 5 %). The core idea of the partnering model introduced by Skanska is to make it attractive identify savings and to share these.

Thirdly, in relation to all Skanska's important suppliers, cooperating agreements have been set up. The suppliers are divided into three groups; red, blue and green. The fewest are the red category of which there are only ten suppliers. Skanska has agreed to buy the entire budget from these suppliers. The blue suppliers are said to be preferred suppliers and Skanska will get most of its purchases from these suppliers. The green suppliers are generally more local suppliers that may be the sole supplier of certain items within a certain area.

The agreements with the suppliers depend on the condition that the various divisions and departments respect the agreements made. An important task for the purchasing department is to make sure that the organization respects the agreements made or so to say follow prioritisations due to the portfolio model. This will only be the case when the agreements meet the needs of the organization. At the same time it is important that agreements do not change too much over time as this may cause confusion in the organization. Saving a few percent by changing the supplier may therefore not always be seen as an improvement by the organization. Especially it is expected that the suppliers within the red category do not change very much over time, as this would cost a lot of efforts to up-date the organization all the time! The prioritization of suppliers into different groups creates tension in the organization as the prioritization to some extent does not meet the special needs for development and adaption of the individual projects. Guidelines for the co-operation with suppliers are considered advantageous by project managers. In overall, it is necessary to be aware of

how Skanska wants to relate to particular suppliers, however, the agreements seem to give too little space in the particular situation!

The “Partnering model” was developed by Skanska to minimize perception gaps and to look for positive outcomes for the parties involved. Two problems seem to hamper the “partnering model’s” success. First of all, the firms involved in the projects are used to look for advantages for themselves and are not used to look for mutual advantages. Little time is usually spent on minimizing different perceptions of the situation. Secondly, within the organization projects often compete for attention and as new projects come along, this may have an affect. Priorities shifted over time because of this, when projects were running with less attention from the management. Consequently, the local project managers wanted to make sure that they were not to blame if problems appeared. The local managers seemed to have experienced that managers favoured new projects with earning possibilities whereas old projects were continued on condition of keeping cost down. In projects in which the (top) managers’ interest for the project was maintained in all the involved firms, Skanska succeeded in realizing positive rewards, even if prioritizing had changed over time.

Skanska’s portfolio model was mainly focusing on lowering prices and getting larger bonuses from the suppliers, but it did not take into account the important drivers for use of the model. First of all, the model looked mainly at costs and rewards from a firm perspective. The project responsible also evaluated the suppliers with respect to their responsiveness and ability to respond to problems in previous projects. Secondly, not all the red suppliers acted as if Skanska was a preferred customer. In other words, the suppliers and Skanska gave different priority to the relationships.

Case analysis

The case revealed several of the challenges described in connection to matrix 1. Portfolio planning and adaptation are connected issues. Firms aim for clear prioritizations towards suppliers. Such prioritizations give the opportunity to achieve overall advantages for the firm. Getting higher bonuses by having fewer suppliers is one of Skanska’s aims. Due to projects managers’ interest in cooperating with one or more local suppliers instead of a centrally picked supplier, it became difficult to achieve the bonuses aimed for. Both a preferred local relationship and the possibility to make adaptations in the particular situation played an important role for the choices made by project managers. Struggling getting the organization to do management wants is not a new issue. The case although makes clear that there is a trade-off between overall aims and local needs for adaptations. Employees’ interest of bypassing aims at the firm level is not necessarily due to convenience or

neglect, but may take place in the positive interest of serving the firm's aims. This demonstrates that portfolio planning and adaptations are related, but do not always easily work together in congruence.

The case highlighted another issue – that cooperation needs time and attention. The aim of the partnering model is to get the involved firms to look for solutions that add value to all involved firms. This turned out to be difficult. Self-interest is often deeply grown and looking for mutual value needs to be learned. When different priorities are set for cooperation with other firm, attention and time is needed to make the cooperation work. In the partnering category of suppliers changes do not occur by themselves. Management must be aware of the way in which adaptations can actually lead to more value for all the firms involved in the project and not only for one or some of them. The partnering model can in it self be seen as another dimension added to the portfolio model. A problem was it where not clear how different participants in a building projects should actually be treated and how this would go together with supplier category they where placed in. In a situation a supplier was the only supplier due to the categorisation, but at use another supplier would have been a better solution. Due to the portfolio planning of Skanska it was not seen as an option to take in another supplier.

Conclusion

Portfolio planning is about whom to relate to and for what reasons. Adaptation describes how relating to different firms is done! So far, portfolio planning and adaptation has only to a limited degree been seen in connection to each other. The purpose of this article is to contribute with reflections on the way in which portfolio planning and adaptation relate. The start of the process of relating the two constructs was previous research on portfolio planning and adaptation. The discussion of the two constructs demonstrated that it is possible and useful to see them in relation to each other. A contribution is made by pinpointing the linkage between the two constructs and that portfolio planning is problematic in relation to adaptations as the one holds a one-sided perspective and the other has the focus on the relationship. On a practical day-to-day basis this has to go together, but theory is not very specific as to how the relating process is undertaken. Portfolio planning and adaptation theory can be made more useful in practice and congruent in theory if a more holistic stance is developed. The value of such a stance may also be that it can throw more light on the two construct and make it necessary and interesting to revisit them again.

From a managerial point of view the paper contributes by developing five challenges. Addressing these challenges will provide the firm with the possibility to understand the dynamics of relationships with other firms and the possible costs and value associated.

From a managerial point of view achieving congruence between portfolio planning and adaptations is about:

- Understanding what resources are affected and utilized overall in focal and supplier firm and what ad hoc adjustments are necessary for getting the day-by-day operations running. New projects often hold their situational constraints. Skanska must at least try to be aware of potential problems and to anticipate which effects the project could have on it self and its relationships with suppliers.
- Achieving consistency in both the aims behind the overall arrangement made with the supplier and the day-by-day operations and taking the suppliers aims in on the two levels at the same time!

Following the categorisation in the Skanska portfolio model is not always easy due to time constraints and special needs. Effective communication may be necessary to make the suppliers understand why own prioritisation are not followed and why flexibility is wanted from the supplier.

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