

UNDERSTANDING BUSINESS INTERACTION: EMPIRICAL EVIDENCE FROM RUSSIAN FIRMS

Abstract

The paper explores business relationships in Russia, using a sample of 152 firms operating in B2B markets. Our focus is on the firms' perception of their relationships with partners vis-a-vis the constructs of relationship intensity and performance. A more detailed analysis is made with regard to firms' interaction with key up- and down-stream partners – customers and suppliers. The perceptions of marketing and purchasing managers regarding their business interactions are validated through the use of two key respondents in each firm (marketing and purchasing departments). The paper aims to analyze differences in interaction perception by marketing and purchasing departments of industrial firm regarding focal firm's potential stakeholders. Our main hypothesis concerns the link between a firm's relationship intensity on the one hand, and the perceived performance of these relationships as well as the overall firm's performance on the other.

Keywords: interaction with customers, interaction with suppliers, interaction intensity, interaction performance, markets in transition

Introduction

While the role of relationship characteristics and performance has been discussed in the extant literature before (e.g., Medlin & Rao, 2004), there is still no understanding of how these constructs interact in transitional markets. The research mainly focuses on established industries and Western-world countries. At the same time, economies in transition provide a unique opportunity to investigate changing and adapting network structures and outcomes of selected network and relationships constellations.

Our study focuses on both up-stream and down-stream relationships, reflecting a synthesis of respondents' perceptions regarding important business relationships. Selected approach contributes, firstly, to the understanding of how various business relationship characteristics interact – especially relationship intensity on the one hand, and relationship and firm performance on the other. Secondly, we analyze these constructs within a non-Western setting on example of Russia as an economy in transition, thus enabling a juxtaposition of our findings with the existing business relationship literature.

Interaction and relationships in transition economies

There is a number of features in transition economies, determining potential differences in orientation towards relationship strategies. Among them – higher instability of relationships in the market, lack of information about potential partners, no information disclosure, higher readiness for opportunistic behavior and higher time pressure (Ford et al, 2006, Johanson 2007, Halinen, Salmi, 1996). These factors allow implying that there is more risk in managing interaction and relationships due to interaction environment factors. The relationships thus could be described as having high frequency of interaction, low mutual trust and commitment, high importance of personal contacts. Relationship characteristics in the Russian economy have been investigated since the early 1990s, i.e. since the collapse of the planned economy and dissolution of existing economic links and whole value-creating systems. Later developments of newly formed business relationships were the subject of cultural analyses and attempts to find a “specific Russian way” to relationship building (e.g. Davis, Patterson, and Grazin, 1996; Golden et al., 1995). There are some studies analyzing the nature of these new relationships within a market economy (e.g. Johanson, 2007; Tretyak and Sheresheva, 2005). As Johanson (2007) pointed out, such new relationship building required significant time and

resource investments and was based on the development of decentralized and mutual planning capabilities by individual firms. This initial period was a time of highly unstable networks, which were gradually replaced by more stable ones through the creation of actors' new identities and positions within these networks and the development of the capability to match mutual activities through exchanges and interactions ("plan matching").

The role of interaction intensity

Stability of relationships provides a platform for further growth for the firm. At the same time, there is always a "dynamic feature of relationships" (Häkansson 1987) that allows keeping a "feeling of freedom" that can be more or less supported and enhanced by the nature of market, competition, forecasts and other factors. It can be assumed that a market in transition the dynamic feature of relationships has higher influence due to transition processes in the market and higher uncertainty level. This higher level of dynamic feature will also influence actor, social and activities bonds, as well as relational norms formation. The ties are created as an outcome of interaction between parties that occurs on different levels and in different functional spheres of organization. Interaction intensity is one of the constructs used to describe and analyze the interaction process. Chacko and Johnston (2005) refer to interaction intensity as "people doing things together or with respect to one another with accompanying action, communication, and thought process (Strauss, Corbin, 1990, p. 158). Interaction intensity can be seen as a sequence of social episodes which can become relationships over time, or can stay discrete transaction. In general definition interaction intensity can be seen as "the frequency of both parties in communicating together either for personal or business purposes" (Crosby et al, 1990) – that can be limited to necessary contacts to maintain the interaction or can be extended to more personal and or interaction with higher level of social bonding. As a factor of relationship development intensity of interaction can be measured in terms of contacts frequency (Cunningham, Homse, 1986). Intensity is capturing just one dimension of social nature of business relationships, while measuring frequency of contacts. These contacts are building exchange episodes, which will later influence formation of relationship characteristics, including mutual trust level, commitment, relational norms formation, etc (Biggemann and Buttle, 2006).

Consideration of firm's attitude towards interaction intensity can provide various evidences depending on the level of analysis. Interaction intensity can be analyzed in case of a dyadic relationship when measuring contacts frequency between departments of cooperating firms. It may also be measured as aggregated indicator of relationships with stakeholder group inside or outside the firm, assuming implied comparison between the groups on the base of their relative importance. For example, interaction with intensity with banks may be more important for purchasing manager than interaction intensity with federal authorities, resulting in higher intensity of banks interaction. This implied relative importance of relationships with specific stakeholder groups can be applied to development of network pictures of a certain company, in particular when measures from several respondents within the firm are available. In addition it may be proposed that on the aggregated level of relationship portfolio, intensity of contacts reflects firm's strategy (competitive, cooperative), level of customer involvement in focal firm's processes, interaction process complexity, and other factors.

Interaction performance

Assumption of differences in interaction intensity is leading us to notion of variance in interaction performance. There are various conceptualizations of approaches to relationship performance measurement – both quantitative and qualitative. Medlin and Rao (2004), for example, mention that "when it comes to examining the success of business relationships, research has been less particular about dependent variable". Among them – relationship quality measurement (Naudé, Buttle 2000) and relationship value measurement approaches (Walter, Ritter, Gemünden, 2001; Ulaga, Eggert, 2003). Other examples are decreased propensity to leave a relationship (Morgan, Hunt 1994), long-

term orientation of the relationship (Ganesan 1994), and other. Relationship performance can be seen as an integrative term, aggregating various elements and approaches to relationship outcomes measures. The ultimate criteria for relationship performance can be defined by relationship partners only and are relationship or industry specific.

Hypotheses development

In frames of the study we analyze interaction intensity and performance of the focal firm with a number of potential partners, but in focus of our analysis is focal firm's integration at the level of integration in demand chain. At this level integration can be varied by level of integration with key stakeholders – customers and suppliers. The hypotheses developed in the next sections can be applied and tested in regard to various stakeholders in value network, but the most interesting in terms of impact on value creation are customer and supplier interaction processes.

Customer interaction perspective

Customer integration is a subject for analysis in various research streams – customer integration research (Jacob, 2003), customer relating capabilities development (Möller, Törrönen, 2003). The higher the potential for relationship value increase through customers integration, the more important is it for the focal firm to create incentives for customers to share their knowledge, market information, know how and innovation potential with the firm. It may be concluded that intense contacts may not necessarily lead to interaction with high performance. Problematic, intense and costly projects with multiple customers' complaints can be low-performance interaction cases, requiring significant resources from the side of the focal firm. Nevertheless, we imply that the more intense firm's interaction with customers, the higher is customer relationships performance. Even in case of frequent complaints communications, these contacts can contribute to firm's future success in the market.

H1: There is a positive relationship between the customers' interaction intensity and customers' interaction performance.

Interaction with suppliers

Interaction with suppliers is regarded as one of the key elements of strategic purchasing implementation. Collaborative supplier relationships are assumed to have positive influence on strategic purchasing and supply chain management and can level of long-term planning. It may be assumed that higher intensity of suppliers interaction can be considered as a sign of higher potential of effective relationship building, more active and open interaction and more actor bonds between the parties. This assumption is based on understanding of a logical nature of decision making process in business markets, while intensity of interaction is signifying potential benefits for parties involved.

H2: There is a positive relationship between the suppliers' interaction intensity and suppliers' interaction performance.

On another hand, both customers' and supplier's interaction should positively affect firm's financial performance.

H3: There is a positive relationship between the firm's customers' interaction performance and firm's financial performance.

H4: There is a positive relationship between the firm's suppliers' interaction performance and firm's financial performance.

One of the fundamental marketing problems is lack of organizational homogeneity (Ivens, Dahlke 2006), influencing implementation of value creating processes and firm's ability to maximize value

creation and input/output capabilities alignment. Demand chain approach assumes that customer-oriented information is influencing supply chain management for better serving customer needs, but when measuring performance – this link will also have opposite effect – the more effective are supplier relationships, the more effective will also be customers' relationships. This effect can be considered as “return on transparency and interfunctional coordination”. This assumption is reflecting the motivation behind the logic of demand chain integration – transferring marketing signals along the demand chain will also pay off by operational efficiency and effectiveness of superior customer value delivery to the target market.

H5: There is a positive correlation between the company's Supplier Relationship Performance and Customer Relationship Performance

Methodology

The paper is based on data collected in November-December 2007 with a sample of 152 firms from various industries. The study was designed on a basis of two key respondents in each company (i.e. 304 face-to-face structured interviews) in 34 regions of Russia. The sample was stratified with regard to the following criteria – region, industry, and annual revenue of the company, plus the availability of two key respondents in each firm (i.e. one respondent represented Marketing, such as Head of Marketing or CEO, and one represented purchasing, such as Head of Purchasing). Using marketing as well as purchasing representatives was done to minimize the potential of common method bias (Podsakoff et al., 2003). Furthermore, it allows us to capture dispersed network pictures indicative of disparities in marketing versus purchasing perspectives. This addressed the stated need for an integration of marketing and purchasing perspectives.

Interaction performance is measured as overall performance estimation of interaction with given stakeholder group. In frames of the study we have performed analysis as a sequence of steps. Firstly, key respondents have assessed interaction with a set of potential stakeholders (see Table 1). Secondly, the interaction with key stakeholders was analyzed on the base of developed hypotheses – in our case, these are customers and suppliers. The interaction can either be perceived as well performing, while contributing to the focal firm's aims and targets, neutral – as performing well on the general level, but not contributing strongly, and negative – while taking firm's resources, but not contributing to the firm's aims and implementation of its strategy. A five-point Likert scale was used for measurement of this questions (answer anchors: -2 – strong negative effect of interaction; 0 – neutral effect; +2 – strong positive effect of interaction). The use of single-item scales was required by the overall low readiness of respondents to evaluate relationships with partners and significant methodological difficulties of data collection in Russia. The focal firm's performance was assessed on the base of a number of indicators – overall perception of firm's economic situation and performance was assessed (single-item measurement, Likert-type scale, answer anchors “near to bankruptcy “ – “excellent”), several performance indicators (market share, relative market share, profitability, sales growth) ($\alpha = 0,919$ (marketing); $\alpha = 0,883$ (purchasing)). To avoid common method bias, we have calculated integrated indicators for focal firm's performance by aggregating the responses of marketing and purchasing respondents ($\alpha = 0,937$). Among additional variables used for analysis of potential mediating effects have been firm's size (as number of employees and annual turnover), industry, number of available customers in the market, interaction with Russian/non-Russian customers and suppliers, way of foundation (state-owned, newly founded or privatized), interfunctional coordination (Kahn, Mentzer 1998) ($\alpha = 0,923$).

Analysis and Findings

The results received after the data analysis support our main hypotheses and provide some interesting implications for both practitioners and academics. While performing overall analysis of stakeholders' interaction (see table1) we have found various discrepancies between interaction intensity and

performance perception. These differences found have provided support for the hypotheses formulated for a detailed analysis of customers and suppliers interaction of the focal firm.

Regression analysis results have provided support for the hypotheses that there is a positive relationship between interaction intensity and relationship performance perceived by both marketing and purchasing respondents in the focal firm (see Tables 2, 3). On another hand, customers' and supplier's interaction have proved to affect differently the focal firm's financial performance (tables 3, 4). Table 3 shows results of analysis of correlation between the customer and supplier interaction and focal firm's performance indicators. Correlation analysis results provide unexpected results – there are no significant links between intensity and performance of customers' interactions, according to responses of both marketing and purchasing sides. At the same time, there are multiple significant links in case of supplier relationships. These results provide us with materials requiring further investigation. Table 4 presents the responses of sample firms according to their financial performance assessment. In most cases there is increasing trend in interaction intensity and performance, supporting our hypotheses. But in case of customer interaction we see a curvilinear relationship between intensity and performance of interaction and firm's performance. This can be explained by different reasons as different evaluation of customer relationships by firms, changes in strategic orientations by the growth of firm's performance, different attitude to customers with increasing market power, etc. Nevertheless these factors require further investigation.

To test the explanatory power of supplier interaction performance, as perceived by both marketing and purchasing respondents, we have applied linear regression procedure to test whether supplier relationship performance has impact on marketing perceived customer relationships performance. Both hypotheses are supported by our data (Table 5).

For further analysis the control variables have been applied in order to test potential group differences. We have identified significant differences when comparing contacts with customers and suppliers when comparing interaction with partners in Russia and abroad. At the same no significant differences were found when comparing firms in the sample according to the firm's size, way of foundation. According to the industry of respondents firm's we have only identify differences in terms of supplier interaction intensity by marketing and customer interaction intensity by purchasing.

Conclusions and Implications

The study presents a first approach to develop an understanding the nature of focal firm's demand chain integration in the context of transitional economy. The results we have received reflect current “balance” in managing up- and down-stream interaction by two key variables – interaction intensity and interaction performance. Our key hypothesis that effective supplier relationships will also affect customers' relationships was supported by the data received. This link is also affected by some factors, as interfunctional coordination. Stability and growth of the focal firm thus is based on supplier's interaction and suppliers can not be excluded out of analysis of firm's competitiveness in Russian market.

At the same time, some results can be explained by so called “country- and development stage specific” – multiple opportunities proposed by developing Russian market lead to a specific situation when assessing interaction with key partners – customers and suppliers. Being dependent side, suppliers are mostly following buyer's requirements that lead to a link between supplier interaction intensity and supplier interaction performance. Interaction with customers is subject to change and is less dependent on the selling firm that lead to obtained results on no link between customer interaction intensity and interaction performance. The longer perception of new opportunities created by market growth will be more attractive than strategic alignment within the value chain, the situation will stay unchanged. The next steps in the study thus will be investigation on the role of the firm size, industry and market power in order to check interaction effects and create a more exploratory model.

There are several assumptions and propositions that could be made for future studies in measuring innovations-linked and learning effects in suppliers' interaction, impact on firm's market knowledge and development of focal firm's management competences. These issues are outside the framework of analysis of current study but can be proposed for further research.

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Appendices

Table 1 Overview of respondents interaction with key stakeholders: interaction intensity and performance

Types of partners	MARKETING RESPONDENT (N=152)				PURCHASING RESPONDENT (N=152)				Marketing vs Purchasing difference: Interaction intensity	Marketing vs Purchasing difference: Interaction performance
	Interaction Intensity	Intensity ranking (1 – the highest intensity)	Interaction Performance	Performance ranking (1 – the highest performance)	Interaction Intensity	Intensity ranking (1 – the highest intensity)	Interaction Performance	Performance ranking (1 – the highest performance)		
Customers	4,08	1	1,52	1	3,59	2	1,33	2	0,49	0,19
Intermediaries	3,89	2	1,43	2	3,55	3	1,15	3	0,34	0,28
Suppliers	3,59	3	1,34	3	4,47	1	1,69	1	-0,88	-0,35
Shareholders	3	4	0,86	8	2,9	4	0,97	5	0,1	-0,11
Customers abroad	2,88	5	0,96	4	2,29	12	0,57	11	0,59	0,39
Russian investors	2,87	6	0,9	7	2,45	10	0,46	13	0,42	0,44
Tax officials	2,82	7	0,77	14	2,79	5	0,66	9	0,03	0,11
Suppliers abroad	2,81	8	0,96	5	2,75	6	1	4	0,06	-0,04
Competitors (Russia)	2,69	9	0,72	15	2,61	9	0,7	7	0,08	0,02
Municipal administration	2,69	10	0,77	13	2,66	7	0,66	8	0,03	0,11
Foreign partners in JV	2,68	11	0,84	10	2,11	16	0,35	16	0,57	0,49
Competitors (abroad)	2,64	12	0,52	17	2,15	15	0,46	14	0,49	0,06
External research organizations	2,62	13	0,94	6	2,44	11	0,61	10	0,18	0,33
Consultants	2,52	14	0,83	11	2,62	8	0,79	6	-0,1	0,04
Federal authorities	2,48	15	0,85	9	2,27	13	0,39	15	0,21	0,46
Universities	2,48	16	0,77	12	2,16	14	0,49	12	0,32	0,28
Foreign investors	2,28	17	0,7	16	1,94	17	0,13	17	0,34	0,57

Table 2 Regression analysis results: dependent variable customer relationship performance

	Customer relationship performance (marketing)			Customer relationship performance (purchasing)		
	R ²	t value	Significance	t value	Significance	
Customer interaction intensity (Marketing)	0,441	(t-value 5,172)	(0,000)	0,165	(t-value 2,022)	(0,046)
Customer interaction intensity (Purchasing)	0,215	(t-value 2,525)	(0,013)	0,535	(t-value 6,568)	(0,000)

Table 3 Distribution of means on interaction intensity and performance

Question/Respondent (Marketing/Purchasing)	Parameter	“Bad”	“Satisfactory”	“Good”	Excellent”
Relationships with suppliers	M Intensity	1,7	3,5	3,8	4,2
	Performance	0,6	1,2	1,5	1,9
	P Intensity	4,0	4,2	4,6	4,2
	Performance	1,0	1,6	1,7	1,9
Relationships with customers	M Intensity	2,7	4,2	4,2	3,6
	Performance	1,0	1,5	1,6	1,2
	P Intensity	3,7	3,5	3,8	3,3
	Performance	0,25	1,4	1,5	0,9

Table 4 Customer and supplier interaction impact on focal firm performance

Supplier relationships (Marketing/Purchasing respondents)		Overall Performance	Market share	Relative market share	Sales growth	Profitability
Intensity	M	0,192*	0,185*	0,155	0,181*	0,202*
	P	0,126	0,184*	0,138	0,181*	0,055
Performance	M	0,277**	0,266*	0,349*	0,292**	0,322*
	P	0,310**	0,242**	0,198*	0,223*	0,173*
Customer relationships (Marketing/Purchasing respondents)		Overall Performance	Market share	Relative market share	Sales growth	Profitability
Intensity	M	-0,092	-0,009	-0,063	-0,086	-0,082
	P	-0,023	0,031	0,002	0,143	-0,044
Performance	M	0,008	0,165	0,167	0,090	0,113
	P	0,068	0,133	0,120	0,187*	0,057

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Table 5 Regression analysis results: dependent variable customer relationship performance

	Customer relationship performance (Marketing)		
	R ²	t value	Significance
Supplier relationships performance (marketing)	0,260	(t-value 2,849)	(0,005)
Supplier relationships performance (purchasing)	0,239	(t-value 2,615)	(0,010)