

Re-organising relationship interaction by stabilising a new interaction form

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Abstract

Interaction within relationships is central to the rhetoric of the IMP tradition. Yet the empirical observation which led to the well-known Interaction Model (Håkansson 1982) - that companies have long term, stable relationships - is hardly new. More recent work has called for a re-examination of the interaction approach in light of changed business conditions (Leek et al 2003; Ford 1998; Valla and Salle 1997) and indeed the trend in general business marketing literature and within IMP is to investigate the dynamics of relationships and networks (Narayandas and Rangan 2004; Johnston et al 2006; Schurr 2007; Geersbro and Ritter 2007). In terms of relationship dynamics, the few conceptual studies available centre upon investigating types of interaction episodes and their link to relationship development (Schurr 2007), e.g. through mapping and analysing patterns of episodes (Schurr et al 2008), and by investigating individual action in relationship development processes (Mainela and Tähtinen 2007), while empirical work centres upon relationship dissolution and to a lesser extent, the initiation of relationships (Tahtinen 2002).

In this paper we investigate how two firms try to re-organise their relationship interaction processes by introducing and stabilising a new form of interaction over multiple episodes. We follow the interactions at multiple levels of the dyad, along with the factors/conditions that support and constrain the focal firms in their efforts. The case study underpinning the paper is based on multiple, sequential episodes within the ongoing relationship between a product-developer Scranton and sub-contractor JP within the Scandinavian Electronics Industry. The empirical data was collected between August 2002 and February 2006 in the form of 72 interviews, observations of 17 meetings and secondary data. We first consider the conditions that resulted in the firms becoming

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dissatisfied with their current form of interaction in the ongoing relationship. A relationship project group was established in order to discuss and design a new form of interaction. Simultaneously, the two companies continued their regular patterns of exchange. Both took place across a time period of four years.

It was an ongoing struggle to stabilise a change in the interaction form, not least because multiple parts of the relationship would be affected. There was substantial inconsistency between the ongoing relationship and the changes the relationship project group was attempting. Features such as 'forum for negotiation and information sharing with corporate management' supported the focal firms in their efforts, while constraints included 'incompatibility of current relationship infrastructure'. Overall, the main way in which the new form was stabilised was to formalise this into a series of roles and procedures near the end of the lifespan of the relationship project group. In sum, in this paper we aim to contribute to the growing literature in business marketing and IMP regarding the dynamics of relationships.

1.0 Introduction

Interaction is the central concept within the IMP approach, and relationships the main unit of analysis. The seminal works reported in Håkansson (1982) observed that business organisations have stable, long term relationships. Understanding relationship development requires examining both individual episodes and series of episodes simultaneously (Ford 1980). Information exchange and inter-personal communication result in specific contact patterns in a relationship that are multi-layered, and can be both formal and informal in nature (Cunningham and Homse 1986). The empirical observation that business organisations have stable relationships underpinned by interaction processes has both endured and yet at the same time is underdeveloped. It is easy to take for granted the empirical 'fact' that businesses have relationships yet understand little about the dynamics of the interaction processes within these. In this paper we will discuss how two firms in a long term relationship attempt to re-organise their current interaction processes by introducing and stabilising a new form of interaction over multiple episodes.

One current trend in the general business marketing literature and within IMP is to investigate the dynamics of relationships and networks (Narayandas and Rangan 2004; Johnston et al 2006; Geersbro and Ritter 2007). In terms of relationship dynamics, the few studies available either conceptualise types of interaction episodes and their link to relationship development (Schurr 2007; Schurr et al 2008), prioritise individual action in relationship development processes (Mainela and Tähtinen 2007), discuss time and interaction episodes (Medlin 2004) and re-consider the somewhat blunt distinction between episode and relationship by providing a more fine grained analyses of interaction levels within a relationship (Holmlund 2004). The available empirical work has mainly

centred upon the two ends of the business relationship lifecycle model of Ford (1980), i.e. initiation and dissolution. For example, a dynamic perspective on dissolving business relationships and networks considers relationship dissolution as a process (Tahtinen and Halinen-Kaila 1997).

An interesting topic for further research is how two firms in an ongoing relationship might deliberately re-organise their current interaction processes. This would not necessarily have to imply moving along any relationship life cycle stage, but instead a wish to change the current form of relationship interaction. This would allow an investigation of the dynamics within the interaction process in a dyad over time. That is, managing within the relationship rather than the managing of the relationship (Ford et al 2003; Ritter et al 2004; Håkansson and Ford 2002; Vagn Freytag and Ritter 2005; Zolkeiweski 2007). In the case study reported in this paper, the product-developer Scranton and the sub-contractor JP were dissatisfied with how their relationship was organised. In order to collectively re-organise and change their relationship, the focal firms established a relationship project. The two main concerns were to develop a new division of responsibilities between the firms and a new way to interact in joint projects.

Over multiple, sequential episodes, the case shows how the two firms struggled to change their interaction processes despite having a relationship project group in place. There was substantial inconsistency between the ongoing relationship and the changes the relationship project group was attempting, not least because multiple parts of the relationship would be affected. For example, shortly after the relationship project was established, one important supplier to the dyad went bankrupt. While it was Scranton which traditionally selected these types of suppliers, the counterparts had agreed in the relationship project group that the selection process should be collective. As the case study shows, Scranton handled the situation unilaterally. This example illustrates how changing the ways of interacting within the dyad can be problematic to stabilise. Hence, there are two related research questions to be addressed by this paper. These are '*how does a dyad change the current interaction process/form*' and '*how is this new interaction form stabilised?*'

The paper proceeds as follows. In the next section we provide an overview of the relevant literature. Afterwards, the case study is described and analysed simultaneously. The discussion of the main findings of the paper highlights five features that constrain and support the change in the ways in which interaction processes were organised. In sum, the paper is an example of actual managerial actions in re-organising an important business relationship.

2.0 Interaction within dynamic business relationships

The theme of dynamics in business relationships is long standing within IMP. The seminal works of the IMP Group were strongly empirical in nature, and emphasised the dynamics of business relationships by investigating patterns of interaction in relationships. The purpose of relationships is

as a means to activate and utilise resources across firm boundaries (Ford, Håkansson and Johanson 1986). The interaction model is a representation of how companies interact in business relationships (Håkansson 1982, see also Cunningham 1980; Hållen 1980; Turnbull and Cunningham 1980, Turnbull and Valla 1985).

Active inter-organisational exchanges occur in individual episodes and are framed within an ongoing interaction process. The types of exchange incorporate products and services (technical), information, financial and social, whereby the first is the core of the interaction process (Håkansson 1982). Social exchange is arguably the primary factor ensuring that inter-firm industrial activities are co-ordinated. It is through communications that firms discuss and confront their individual concerns; it is where they discuss, negotiate and solve problems. Hence the parties can increase predictability by clarifying expectations of how each side expects the other to behave in the future and factors such as trust, commitment, and mutual orientation is then the outcome of social exchange (Hållen et al 1991).

Understanding relationship development requires examining both individual episodes and series of episodes simultaneously (Ford 1980). In other words, “each episode in turn is affected by and affects the overall relationship” (Turnbull et al 1996:4). Episodes executed over time interlock the parties and bonds are created among the members of the interacting organisations as a relationship evolves (Håkansson 1982). Short-term exchanges result in adaptations in resources over the longer term – investments - in order to support an effective exchange process characterised by trust and commitment (Brennan and Turnbull 1999). Furthermore, there are different departments and levels involved in the different size of single adaptations (Håkansson 1982; Cunningham and Turnbull 1982; Brennan and Turnbull 1999). In sum, “relationships are organized patterns of interaction and interdependence with their own substance” (Håkansson and Snehota 2000:38).

Processes of interaction in relationships are essentially based on relationship development stages, adaptations and inter-personal contact patterns. Ford (1980) discusses how the evolution of a business relationship occurs across five phases (see also Dwyer et al 1987). Interaction in a relationship over time influences and is influenced by features such as level of experience, uncertainty reduction and commitment. He argues that “...a company can emphasise commitment to a relationship by the way it organises its contacts with its partner. This includes both the status of personnel involved and the frequency of contact” (*Ibid*, p346).

Co-ordination within a complex, important business relationship can be assisted by putting in place a relationship “manager” or “...someone of sufficient status to co-ordinate all aspects of the company’s relationships with major clients at the operational level...” (*Ibid*, p348). This has also been referred to as a ‘relationship promoter’ (Walter and Gemunden 2000) and it can incorporate relationship-specific management tasks (Ritter 1999) such as co-ordination activities. Internal

boundary spanning by account managers and project managers in marketing is also vital for coordination and communication (Moller and Rajala 1999). In other words, the internal structure of roles and responsibilities has to match the evolution of the interaction pattern.

Information exchange and inter-personal communication result in specific contact patterns between the parties that are multi-layered, and can be both formal and informal in nature (Cunningham and Turnbull 1982; Hällén and Wiedersheim-Paul 1982; Cunningham and Homse 1986). In their six-part classification of the roles of personal contacts within inter-organisational contact patterns, Cunningham and Turnbull (1982) discuss information exchange, assessment, negotiation and adaptation, crisis insurance, social bonding, and ego enhancement. Furthermore, as patterns of contacts evolve over time, distance reduction between two parties occurs as the complexity of a contact pattern increases (Cunningham and Homse 1986). In other words, patterns of inter-organisational contacts between marketing and purchasing units can be related to stages of a buyer-supplier relationship. Dimensions such as frequency, purpose, breadth and organisational level were used to develop the seven-part taxonomy of patterns of inter-organisational contacts.

Overall, while the empirical observation that companies have long term, stable relationships *is* well known, the IMP 1 project conceptualised the organisation of ongoing interaction processes. This should be a useful starting point in terms of the present resurgence in the general business marketing literature to investigate the dynamics of relationships and networks (Narayandas and Rangan 2004) and in the call for a greater focus on empirically studying dynamics within IMP (Håkansson and Snehota 2000; Halinen et al 1999; Vagn Freytag and Ritter 2005; Johnston et al 2006). Sections 2.1 and 2.2 below discuss the more recent conceptualisations of interaction episodes and relationship development, and empirical accounts of the dynamics of initiation and dissolution of relationships.

2.1. Relationship dynamics one: Revisiting interaction episodes

Dynamics in relationships and networks has always been a feature of IMP research, at least to some extent. For instance, network dynamics is a long standing if understudied area (e.g. Lundgren 1992; Hertz 1996; Harrison 1999; Vagn Freytag and Ritter 2005; Ford and Redwood 2005; Johnston et al 2006). The recent resurgence can perhaps be linked to an increased empirical focus on (even a return to) managing *in* networks and managing *within* relationships. In terms of relationship dynamics, research can be crudely divided into conceptual discussions of types of interaction episodes and empirical investigations of relationship initiation and dissolution processes. The text below considers the first point while section 2.2 outlines the available empirical work.

Several studies conceptualise types of interaction episodes and their link to relationship development and thereby dynamics (Schurr 2007; Geersbro and Ritter 2007; Schurr et al 2008). By

taking a starting point the relationship life cycle models of Ford (1980) and Dwyer et al (1987), episodes of various types become vehicles to analyse how a relationship changes from one relationship stage to another as relationship dynamics are defined as “the change in state” (Geersbro and Ritter 2007:2). For example, Schurr (2007) uses critical interaction episodes as a way to discuss episodes that significantly alter the development of a business relationship, either positively or negatively.

With a more specific focus on processes, it is argued that investigating relationship dynamics necessitates a re-consideration of the somewhat blunt distinction between episode and relationship by providing a more fine-grained analysis of interaction levels within a relationship (Holmlund 2004; Medline 2004; Mainela and Tähtinen 2007). This is one way to update the categorisation of relationship interaction, in particular when time is taken seriously and therefore ongoing interaction processes, rather than stage models, are central (Halinen 1998, cited in Medlin 2004). Based on a large-scale empirical study, Holmlund (2004) proposes a five-part categorisation of levels of relationship interactions; (i) action (“single individual exchange”), (ii) episode, (iii) sequence of episodes, (iv) relationship and, (v) partner base /portfolio.

Medlin (2004:188) distinguishes between elements of business interaction in episodes that are present-oriented (e.g. co-ordinating actual activity links) from those that are future-oriented (planning the co-ordination of activities). That is, “...because the dynamics of exchange and adaptation, the two elements of business interaction (Johanson & Mattson, 1987), are necessarily different in time; for economic exchange the object of interaction is in the present, while for adaptive interaction the focus is in the future”. Therefore the quality of staff responsible for considering future potential co-ordination possibilities and making changes to these – i.e. adaptive interaction – is vital (Medlin 2004).

Indeed, both the lifecycle model-inspired and the ongoing process dynamics studies have one aspect in common; to re-focus around the roles of individuals and teams in relationship interaction. That is, “the Interaction and Network Approach to business relationships has always acknowledged the individuals as a part of a business relationship...In spite of this, a large part of recent business research emphasises the level of company actors” (Mainela and Tähtinen 2007:2). Studying relationship dynamics requires the inclusion of multiple individuals involved in relationships at multiple levels and functional areas (Holmlund 2004; Geersbro and Ritter 2007). This team-based view is more consistent with the seminal works than looking at a single connection between two individual managers (e.g. Ford, Håkansson and Johanson 1986). As Geersbro and Ritter (2007:6) argue, “as more people are involved on either side of the business relationship complexity increases and it is not simply a matter of reducing the importance of a single individual... People will have different roles and responsibilities in their organisations which will influence the way they view a

given relationship...to understand the relationship we need to understand the constellation of roles of different people...”

Lastly, in terms of changing relationships over time, the interactions of individuals and teams within relationships will be “...more or less inconsistent with each other and over time” (Ford, Håkansson and Johanson 1986:85). Inconsistency can take place across the levels of a relationship at the same point in time. In this way, “...inconsistency captures the dynamic nature of interaction...”

2.2. Relationship dynamics two: Processes of initiation and ending

In maintaining the strong empirical tradition of investigating managing in rather than managing relationships, the most recent empirical work has centred upon the two ends of the business relationship lifecycle model of Ford (1980), i.e. initiation and dissolution (see also Schurr 2007; Geersbro and Ritter 2007).

One major area of empirical investigation has been in the dynamics of relationship ending and relationship recovery. A dynamic perspective on dissolving business relationships and networks considers relationship dissolution as a process. Tahtinen and Halinen-Kaila (1997) and Tahtinen (2002) proposed a model of the process of business net dissolution based on the work of Duck (1982) and Ping and Dwyer (1992). The model has six inter-connected stages, from intra-company to network levels. Of course, any given dissolution process might not follow the stages in the order suggested, use all the stages, use stages simultaneously, or return to previous stages (Tahtinen and Halinen-Kaila 1997; Laine and Ahman 2000; Tahtinen 2002). Typically, a process is triggered by managers responsible for a relationship becoming dissatisfied with the performance of their business partner (Doyle, Corstjens, and Michell 1980; Young and Denize 1995).

Empirical studies of the dynamics involved in initiating relationships and networks are fewer in number and generally the area has received less attention. This is presumably at least in part an issue of research design, because it is more difficult for researchers to identify when a relationship will start. Some exceptions in terms of the process of initiating a business relationship are those of Bygballe (2006) and for initiating a network, Harrison and Waluszewski (2008). The latter authors discuss how a firm can re-launch a product through the development of a user network. The paper illustrates three main roles for the firm in developing a user network; creating lead users, organising directed applications development and facilitating user-user interaction.

To the best knowledge of the authors there are few studies of purposeful changes in ongoing interaction patterns within established relationships as examples of relationship dynamics in action. That is, how does a dyad change the current interaction form and how is this stabilised. This would involve managing within a relationship that is neither at the beginning nor the ending stage, or moving from one relationship life cycle stage to another. In the case study reported below in section

three, two organisations within a business relationship deliberately set out to change how the interaction processes were organised.

Managers decided to establish a relationship project group with members from both organisations in order to discuss a new form of interaction. There was substantial inconsistency between the ongoing relationship and the changes the relationship project group was attempting. Over a number of sequential episodes, we describe and analyse why the relationship project was thought to be necessary, its form and remit, how it attempted to connect to the ongoing relationship, and not least, how it attempted to alter the current interaction pattern, which was broad and multi-functional. The case illustrates the interactions involved at multiple levels of the dyad, along with the conditions that support and constrain the focal firms in stabilising a new interaction form.

3.0 Empirical material

3.1 Research design

This paper is based on a single case study about a four year period in the business relationship between Scranton and JP. The case study is a type of qualitative research design that has been deemed highly suitable for studies whereby the researcher aims at investigating specific issues in depth and detail (Easton, 1995; Patton, 2002). The case study approach has also been the most frequently used method in studies conducted within the IMP tradition (Easton 1995; Dubois and Gadde 2002; Dubois and Araujo 2004, 2007). Easton (1995) argues that industrial network researchers “have been driven to cases because they make sense of the phenomenon we have sought to understand” (p. 385-6).

The case is of three sequential episode sequences within the ongoing relationship. The empirical data was collected between August 2002 and February 2006 in the form of 72 interviews, observations of 17 meetings and secondary data. Three joint industrialisation projects that were central to the interactions within the focal dyad and these have been used in order to draw boundaries around the multiple episodes within the case (see Figure 1). In order to analyse the data we have developed a methodological tool by adapting Holmlund’s (2004) categorisation of interaction levels and the original 1982 framework. Figure 2 below summaries the main way in which the case has been written up.

Please insert Figures 1 and 2 about here

3.2. Case study background

The business relationship between Scranton and JP dates from 1995. In addition they are financially very interdependent as Scranton is the largest supplier to JP and vice versa. In 2002, Scranton produced four products (SRR, Bella, Telius and Serus) for JP at their facilities at Scranton Hisøy and

Scranton Kongsberg.

The focal firms formed a relationship project group in October 2002. This project consisted of a group of seven middle managers from each firm. The decision to establish a relationship project was the result of discussions between August and October 2002 regarding a perceived inability to reduce production costs and improving co-ordination. The Sourcing and Marketing departments at Scranton, and the Logistics and purchasing department at JP led these discussions. Various internal restructuring programmes over the past few years had led to considerable consolidation of resources and internal cost reduction but had not led to any significant changes in co-ordination in joint projects (see Figure 3 – No.1). Secondly, there was perception of vast informal social bonds in place that hindered effective communication and co-ordination on a middle management and operational level (Figure 3 – No. 2). Thirdly, they also agreed that previous attempts by middle management to propose initiatives and implement changes had been unsuccessful because both firms had directed actions *at* each other rather than pursuing collective initiatives (see Figure 3 – No. 3).

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3.3. Case and case analysis

3.3.1 Episode sequence one

Episode 1: Pre-Metallic situation interactions (Aug-mid Oct 2002)

The relationship project group was formally established in early October 2002. Prior to that, managers that would form the group held frequent dialogues. These centred upon how Scranton could become more involved in supplier and component selection when the product was in its development phase. Discussions were held between the corporate managers from Scranton and middle management from JP (i.e. development team). The second process was between the production team at Scranton and middle management (i.e. logistics team) from JP. There was no co-ordination between the two processes.

Episode 2: Solving the Metallic problem (mid Oct-Nov 2002)

The sole supplier of mechanical components to the SSR project – called Metallic - was declared bankrupt in mid-October 2002. The focal firms had to find a replacement quickly in order to maintain production. Managers from JP decided to assemble an in-house group with individuals within the SSR project which would be responsible for selecting a new supplier. None were members of the relationship project group. While the decision group considered the Metallic situation to be a collective problem, they concluded that it was not necessary for them to include people from Scranton. Selecting customer-specific suppliers had been a responsibility they had always controlled internally. The relationship project group did not have any formal meetings during

this period.

Episode 3: Interaction after a new supplier was selected (Dec 2002)

The relationship project group met a month after a new supplier had been chosen. There was confusion around why a unilateral supplier selection process had taken place, despite their earlier discussions on how such processes could become a collective matter. The project group members from Scranton organised meetings with their dedicated JP production teams and middle managers from the sourcing and marketing departments. At the same time, the project group members from JP met their development team and those involved in the decision group (see Episode 2). When the project group met in December all of these individuals were invited.

These interactions resulted in a renewed collective understanding regarding the role the project group needed to play. Managers also learned how the current financial systems and contracts did not support changes in the type of role Scranton could undertake. Furthermore, the project group concluded that they had not been effective in communicating the purpose of their forum. The result was a decision to spend several months designing an ideal supplier selection process.

Episode 4: Forming a new supplier selection process within the dyad (Jan-Mar 2003)

In early January the project group initiate multi-level discussions with the objective to devise a supplier selection process collectively. This 'extended' project group consisted of individuals from the production teams at Scranton Hisøy and Scranton Kongsberg, the development team from Scranton Arendal, and the development teams from JP's radio and technology departments. Two types of meeting were initiated; in-house and those within the project group.

The purpose of the internal meetings was for individuals in each firm to create consensus around what were the relevant resources, how these could best be organised, and what was an ideal distribution of roles/responsibilities within the dyad regarding supplier selection. After evaluating four main alternatives, the relationship project group chose one where Scranton would be responsible for evaluating the mercantile conditions (including sourcing, logistics and price) and JP would handle be responsible for evaluating the technical capabilities and quality conditions.

Episode 5: Collective reactions to outsourcing plans (Apr-May 2003)

In April, project group members from JP informed the others that their corporate management had decided to implement a major restructuring programme. Several business functions, such as component engineering, were to be outsourced. JP corporate management were considering two potential candidates to purchase sourcing capabilities from in the future and Scranton was one of them. However, some problems were perceived by corporate management regarding how Scranton

organised their technical and sourcing resources. The relationship project group reacted to the situation by initiating two separate processes directed at their individual corporate managements. For example, the representatives from JP engaged in dialogues with their corporate management in order to better understand their views, and how the existing relationship with Scranton could be adapted.

When the relationship project group met later in April and during May JP's representatives put forward concrete demands they wanted Scranton to comply with. This was one of the reasons why Scranton's corporate management created an independent firm called Scranton Sourcing. This built on the idea that the new firm could function as a sourcing partner to Scranton's internal design and production firms as well as other external customers such as JP. The new sourcing organisation was then discussed internally within JP on the initiative of the relationship project group members from JP. The JP Managers also made sure that the ideas connected to the new supplier selection process were communicated to their corporate management. The discussions between the focal firms that were managed through the relationship project group were amongst the central factors convincing JP's corporate management to choose Scranton Sourcing as their new sourcing partner.

Comments

Episode 1 illustrates how the focal dyad suffered from un-coordinated communication between them and the negative impact this had on their ability to make changes in the ongoing relationship. When the Metallic-situation arose in episode 2 the relationship project group failed to respond to the situation and remained passive. This showed that the project group did not assume an active role in the ongoing interactions within the dyad. In episode 4 the relationship project group were systematically inviting persons from middle management and operational core to participate in the search for an ideal supplier selection process. This extended the number of persons that were involved the relationship project. The firms managed to come to an agreement as to the ideal concept for supplier selection that would be implemented in the dyad. In episode 5, however, JP's corporate management had decided to perform a new restructuring programme. The situation revealed how difficult it would be for the project group to change and also stabilize a new form of interaction without including corporate management in their efforts. Thus the sequence of episodes incorporating episodes 1-5 allowed the relationship project group to learn first hand the importance of interacting with all levels of the dyad.

Please insert Figure 4 about here

3.3.2 Episode sequence two

Episode 6: Interaction prior to the SRR 2 situation (Jun-Aug 2003)

The SRR project was reaching the end of its volume production phase in the autumn of 2003 and the

focal firms were facing considerable revenue reduction as a consequence. The end of the SRR contract did not come as a surprise as the relationship project group had since May organised several meetings to discuss this. The JP Representatives shared their views on future requirements. This in turn triggered numerous meetings within Scranton between June and August 2003. The Scranton members used the relationship project meetings as an opportunity to share information on the strategic decision options their corporate management were considering in regarding reducing their production capacity. JP focused on rationalising their design and development process in order to adapt to fewer large scale design projects. Meanwhile, JP were not prepared at this point to give Scranton a definitive 'yes' that they would get future SRR 2 production contracts.

Episode 7: Collective reactions to the SRR 2 situation (Sep-Oct 2003)

JP informed Scranton via the relationship project group in early September 2003 that they were in the process of searching for alternative sub-contractors to produce SRR 2. The JP individuals explained some of the factors that hindered Scranton from being chosen, such as Scranton's high cost structure. The relationship project group held several meetings in September to discuss the consequences, and responded by communicating with each firms' corporate management in order to understand current strategic thinking. The Scranton members also set up meetings with their corporate management in order to discuss the operational consequences for joint projects with JP. The Scranton members also organised in-house meetings with middle management from departments directly involved in the industrialisation process.

The relationship project group aimed to develop a solution that could be presented to both firms' corporate managements. JP's corporate management responded positively but insisted on cost and project management changes for the production process in SRR 2 (when compared to SRR 1). In addition, they wanted a new project plan for SRR 2 from Scranton that described how resources could be utilised in a more co-ordinated manner. That is, detailed descriptions on how departments and business functions were to interact, the specific resources to be dedicated to the SRR 2 team and how the specific industrialisation stages were to be organised and prioritised. The relationship project group then discussed a new project structure that would enable Scranton to fulfil these demands. These interactions marked a significant change in the focal relationship as the project plan for the production phase traditionally had been developed unilaterally by JP's Operations department. JP responded by allowing Scranton to be responsible for the SRR 2 contract, with the understanding that there needed to be changes to the production set up that had been in place in the SRR 1 project.

Episode 8: Collective decisions and goal setting for the SRR 2 project (Nov-Dec 2003)

The focus of project group meetings in November was to discuss how to implement initiatives that could reduce informal contact patterns, and improve the production quality and delivery accuracy in SRR 2. An agreement was reached to implement three key ideas relating to the operational core of the relationship. The first termed a 'single point of contact principle' involved explicitly stating how each relevant department was to formally share information. This was believed to improve the communication flows in general and reduce the informal contact patterns in particular. The second initiative was a 'quality problem solving procedure' that should improve quality and control costs in the production process. Thirdly, to implement a new procedure for monitoring component life cycles and to enforce appropriate warning systems to reduce the vast number of last-time-buy situations (LTB) the firms had experienced in the original SRR project.

These three initiatives were implemented from December 2003 within the SRR 2 project. This represented a significant change in the relationship as the project plan was the outcome of joint planning and decision making. The Scranton members concluded that the way the initiatives were devised with input from 'both sides of the table' provided a real chance to develop an industrialisation process that was optimal from a relationship perspective.

Episode 9: Collective evaluations of the results of the SRR 2 project (Aug 2004)

The SRR 2 project reached the volume production stage in December 2003. The three key initiatives were then implemented between January and June 2004. The relationship project group did not have any formal meetings within this period. Two project leaders from the focal firms were collectively responsible for the way the initiatives were implemented in SRR 2. It was also their job to make sure that relevant experience data was gathered and communicated to the relationship project group afterwards.

In August the relationship project group met to evaluate the implementation of the single point of contact principle. The feedback received from the project leaders was that it had been a struggle to implement the principle due to significant changes in the firms' resource collections. For example, internal restructuring within Scranton whereby sourcing was transformed from a department to an independent firm had changed the way resources were made available to the SRR project. These changes were not included in the original plans that the single point of contact principle was based on. As a result there were two main constraining factors. First, several individuals who had developed and used the plans in SRR 1 were no longer employed in the focal firms. Secondly, the lack of written documents explaining the procedures that were transferred to the remaining personnel in SRR 2 also made it difficult for those involved to understand how the new procedure differed from the old one.

The relationship project group concluded in August that the implementation process of the

three initiatives had not been satisfactory. Therefore it was agreed that more radical changes were needed in the way in which the project process was managed in order for costs to be significantly reduced. To the relationship project group, this meant ‘throwing away the old project plans’ that described how responsibilities had to be distributed, and instead developing a new project plan that was based on the type and amount of resources that currently were available.

Comments

In episode 6 the relationship project group demonstrated how they treated their individual problems and concerns as collective ones. When they learned that Scranton was not an automatic choice for the SRR 2 contract in episode 7, the group responded collectively by initiating communications with middle and corporate management on both sides of the dyad in parallel processes. Their involvement allowed the firms’ corporate managers to influence each other through the relationship project group. Moreover, the project group was able to connect the unilateral problem solving processes to the bilateral process that it was actively trying to manage. The three key initiatives were to change how to interact in SSR 2 were directed at the operational core. There was a mutual understanding that changes in interaction could have significant effects on resolving major problem areas within the ongoing relationship. Later, the relationship project group concluded that it had failed to adapt the initiatives to the changes to internal resource collections. In addition, the group was not actively involved in the implementation process. This was first hand insight as to how challenging it was to stabilise new interaction processes when the resource basis those processes are devised on are undergoing changes.

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3.3.3 Episode sequence three

Episode 10: Collective reviewing of the results of the relationship project (Oct 2004)

In the autumn of 2004 the relationship project group managed to convince JP’s corporate managers to include Scranton as an equal partner in a product development project called Bella 2. This marked a radical change in the focal dyad as Scranton traditionally was not included in the industrialisation process until the end of the product development phase.

The relationship project group held two meetings in October in order to review activities in the two years since it was formally established. The main concern was to evaluate to what extent the firms had managed to achieve the overall objective, i.e. ‘to confront the accepted ways of operating within their business relationship’. There was also a perceived need to develop a collective understanding of what would be focused on in the future. One main conclusion was that the project

group needed to be more 'hands-on' and actively participate in implementation. This would allow the possibility to make modifications in plans when unforeseen developments occurred. Moreover, the second year had revealed how open dialogues with corporate management was 'the only' way to avoid situations where they enforced radical changes that would have significant effects on the attempts of the project group.

The meetings resulted in a renewed interest in changing the way the industrialisation process was organised between the firms. The relationship project group was now recognised as an acting entity and was under pressure to demonstrate results in order to satisfy the expectations of shareholders and corporate management. The project decided to use the Bella 2 project as a pilot project to test out several radical changes. The development phase in Bella2 would begin in January 2005 and was estimated to last 12 months.

The firms decided to create a Control Group³ for the Bella 2 project. This would replace the function the relationship project group had in the ongoing relationship. The individuals forming the Control Group were from the two firms' operational cores, and two of the original relationship project members were also included. The control group would have the responsibility to supervise, control and implement radical changes in the Bella 2 project. It would have a dual managerial and operational role, with a particular emphasis on the latter. The implication was that the control group would be responsible for devising project plans and distributing responsibilities. To achieve this, the control group would have to interact with both corporate management and the operational level.

Episode 11: Collective confronting of the industrialisation process (Nov 2004)

The control group met in November to discuss how Scranton could be included in the development phase of Bella 2. The group agreed that it was a major advantage that Scranton had participated in the prototype building and testing in the original Bella project. The result was a decision to develop a new division of responsibilities. First, the control group developed a new business contract that supported an increased involvement from Scranton during the development phase. Secondly, there was the issue of how to organise and link the various development stages, departments and business functions involved. The discussions and reflections leading to the new project plan revealed how the two firms approached these issues differently and that a consensus was necessary.

Episode 12: Developing objectives and key initiatives for the Bella 2 project (Dec 2004)

The control group's discussions centred on how and when each firm would be involved in the industrialisation process. The result was an agreement to design a new 'master' project plan that built on new goals, a new division of responsibilities, and new information and reporting principles

³ The control group were 7 people in total. The members from Scranton were production team (1), Scranton Sourcing (2) and the design firm called Scranton Billingstad (1). The members from JP were from radio (1), technology (1) and logistics (1) departments.

describing the formal contact patterns at the different stages. The control group utilised the experience and insight of the two relationship project members during the discussions.

The focal firms also wanted to implement a new project management principle. The control group concluded that the informal communication that hindered projects such as SRR had also to some extent had a negative impact on the Bella 1 project. The group therefore examined the outcomes of the single point of contact principle that was only partially implemented in SRR 2. The control group made one significant modification: to recruit a new project leader that would represent both firms in the Bella 2 project. This replaced the need for each firm to have one project leader each.

Episode 13: Evaluating the results of the Bella 2 project (February 2006)

The development phase in the Bella 2 project began in January 2005 and was completed in February 2006, two months behind schedule. The relationship project group did not have any formal meetings, although the control group met regularly to monitor and evaluate progress. The control group was in close contact with the Bella 2 project leader. The group's operational role meant that sometimes they would be directly involved by coaching the various departments as to how specific responsibilities and conditions in the business contract and master project plan had to be interpreted.

The end of the Bella 2 project in February 2006 was marked with a meeting between some members from the relationship project group and the control group. The group discussed whether their objectives had been met in relation to the seven objectives formulated for Bella 2. Costs had been reduced by 50 % compared to the Bella 1 project. These results vindicated how the ideas of the relationship project group regarding a new distribution of sourcing responsibilities (i.e. component and supplier selection) during the development phase could reduce total production costs later in the process.

Hence, the relationship project had allowed the firms to confront the accepted ways of operating within the relationship in general (i.e. new distribution of responsibilities) and setting up a new sourcing process within the focal dyad in particular. The relationship project group was dissolved after the meeting in February 2006. The fundamental conditions that the arrangement was founded on had changed in the three and a half years since it was initiated as several of the key individuals within the group had left the focal organisations.

Lastly, the control group also registered that the way the focal firms had interacted within the Bella 2 project had impacted other relationships and projects connected to the firms. The control group was informed that corporate management had received several complaints from other project leaders that their products were not given sufficient attention. This led to the conclusion that there were insufficient resources at specific industrialisation stages.

Comments

In episode 10 the relationship project group looked back at what they had accomplished in the two years since the arrangement was established. Their evaluation led to the decision to initiate the more hands-on control group. This was specifically set up for Bella 2, which in essence became a way to test out the new project master plan. A new project manager for Bella 2 was recruited as an individual to represent the relationship. The evaluations in episode 13 revealed how the Bella 2 project had been a success in the sense that the parties had managed to stabilise a new form of interaction that had produced cost benefits. However, success in this one dyad had constrained the interaction in other projects/relationships due to resource interdependencies. This demonstrates how difficult it can be to stabilise changed interaction processes within a single dyad without constraining other relationships.

Please insert Figure 6 about here

4.0 Discussion and conclusion

The case above describes how managers within the two firms re-organised and eventually stabilised their interaction processes over a series of episodes. It shows how the relationship project group was a formal mechanism for attempting and making radical changes in interaction processes within the relationship, thereby changing the relationship as a result. This was a significant indicator of commitment to the relationship on both sides because it was a way to indicate a willingness to adapt (Ford 1980; Brennan and Turnbull 1999) and as a specific forum for discussing changing co-ordination and communication patterns within the relationship, or adaptive interaction (Medlin 2004). It was a way in which to purposefully change interaction patterns as a result of a need for alterations in the division of responsibilities and roles within the relationship.

Over several sequences of episodes the managers within relationship project group deliberately attempted to steer the direction of the relationship. After initially being rather passive, the project group became gradually more responsive and /or a change initiator. Indeed, the group effectively mobilised within the relationship in episode three and halted potential relationship dissolution. The effects were even more pronounced as a control group was initiated and a relationship project manager appointed. By this episode sequence, a readiness for change had already been built.

It is self evident that the purposeful attempts to re-organise interaction took time. This is not least because the formal mechanism of the project group had to both assume a role within the ongoing existing relationship and connect to existing interaction processes. In fact, the deliberate

attempts to change the interaction form can be argued to be stabilised as *purposeful* only towards the end of the project group's duration. Moreover, the existing extensive contact patterns in place resulted in the ongoing relationship being difficult to change at multiple levels of interaction. That is, there were various conditions within the case that enabled and constrained the focal firms in stabilising a new interaction form.

Features enabling stabilising a new interaction form

The conditions that enabled embedding the relationship project and the possibility for changes within the relationship can be summarised under the following five headings: (i) *Creating critical relational processes for focusing interaction*, (ii) *a multi-layered group builds new contact patterns*, (iii) *creation of new roles*, (iv) *forum for negotiation and information sharing with corporate management* and (v) *an evaluation function allows for a more active role*. The first positive condition, '*creating critical relational processes for focusing interaction*' refers to activating events that are initially treated as unimportant from a relational perspective (such as the selection of a new supplier in episode 3) into the need for designing common processes. This is a way in which to direct efforts to change interaction.

Secondly, '*a multi-layered group builds new contact patterns*' refers to the systematic creation of the extended relationship project group (episode 4 onwards). The relationship project – and hence the formal attempts to change the relationship – became more embedded into the ongoing relationship through these new communication channels. The project group increased involvement in discussions of future adaptations by initiating and directing multi-level forums (what Medlin (2004) calls adaptive interaction). Furthermore, the creation of the control group builds new connections in terms of purposeful interaction to the operational core of the relationship. This was a way to emphasize the need for change by building connections within and across the firms (Ford 1980).

Following on from this, the '*creation of new roles*' is an important way in which to both embed the relationship project group and to stabilise the new interaction form. This is not least because the relationship project group was a temporary mechanism. The remit of the relationship project is embedded within the relationship via being formalised into roles and responsibilities for particular individuals and a new control group. The latter was designed to have a dual role and contact patterns with both the corporate management and operational levels of the business relationship. The project master plan devised by the control group (episode 12) designed a set of formal contact patterns at each industrialisation process stage. This change was supported by the recruitment of a joint project leader in order to represent both firms as a shared managerial resource. The joint project leader would facilitate co-ordination within the relationship (what Ford (1980)

refers to as a relationship manager and Walter and Gemunden (2000) a relationship promoter.

The fourth condition is that of *'forum for negotiation and information sharing with corporate management'*. Significant changes were possible in the relationship as a result of the new way in which the corporate managements from the two companies could influence and be influenced through and via the relationship project group. For example, the group is used as a forum whereby information can be shared on the strategic decision options being considered internally. Furthermore, it also facilitates negotiations with the respective corporate managements to avoid the dissolution of the relationship.

The final enabling condition is that *'an evaluation function allows for a more active role'*. Evaluating the results achieved by the group – i.e. how accepted ways of operating had changed – led to a collective understanding of what to focus on in the future (direct attention to adaptive interaction) and a decision by the group to be more 'hands on'. This is partly to direct initiatives, make more radical changes to project plans and obtain a clearer understanding of the respective firms' resource collections (see episode 9).

Features constraining stabilising a new interaction form

There were various features that constrained the stabilising of the new interaction form. These can be summarised as: (i) *ongoing dominance of 'business as usual' contact patterns*, (ii) *critical events only perceived in retrospect*, (iii) *incompatibility of current relationship infrastructure*, (iv) *isolation of the formal mechanism* and (v) *vast, informal social bonds hinder effective communication and co-ordination*. One central feature was the *'ongoing dominance of business as usual' contact patterns'*. One example is the use of in-house decision groups that are disconnected to the relationship project. The project group has to work hard in order to obtain convergence between ongoing relationship exchange interaction and its plans for how the parties should interact. That is, inconsistency can take place across the levels of a relationship at the same point in time (Håkansson, Ford and Johanson 1986).

Secondly, in some instances *'critical events were only perceived in retrospect'*. For example, the relationship project group remained passive when a key supplier was bankrupt (in episode 2). In retrospect the project group could have been more involved. Therefore the issues around unilateral action rather than interaction in the relationship prior to the establishment of the project group continue in the early episodes.

A third feature that hindered changes initiated and directed by the relationship project group was the *'incompatibility of current relationship infrastructure'*, such as existing financial systems and contracts. In later episode sequences (see episode 12), the control group changed the content of project contracts in order to facilitate changed roles in the different industrialisation phases. Furthermore, in the last episode sequence a new 'master project plan' is devised by the control

group, which re-allocates responsibilities within the relationship.

Fourthly, in particular within the first two sequences of episodes, there was '*isolation of the formal mechanism*'. That is, poor communication relating to the purpose and progress of the relationship project made it an isolated and unknown phenomenon within the ongoing dyad. Within the early episodes, there were insufficient connections to the existing ongoing relationship. This at least in part explains why the project group is relatively passive initially. Lastly, the existence of '*vast, informal social bonds hinder effective communication and co-ordination*', both in terms of the middle management and operational levels. In such an extensive business relationship, the existing contact patterns are multi-layered, informal and formal (Cunningham and Turnbull 1982; Cunningham and Homse 1986). In episode sequence two three new interaction principles were designed by the relationship project group as ways to reduce informal contact patterns.

Overall, this paper contributes to the ongoing debates about the dynamics of business relationships in several ways. It is an example of actual managerial actions in re-organising an important relationship. As such, it is empirical work about relationship dynamics that is not at the relationship initiation or the relationship dissolution "ends" of the spectrum. We make no claims in terms of episode types or changing relationship stage. Instead, the paper is about purposeful changes in ongoing interaction patterns within an established relationship as an example of relationship dynamics in interaction. It highlights the roles played by multiple groups or teams within the two organisations in relationship interaction and how and why such a micro-focus is necessary for understanding relationship dynamics. Stabilising a new interaction form takes time and requires experimentation (Håkansson and Snehota 2000:44) even if managers in the companies involved interact in a purposeful way.

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● -----> Directing actions at individual and/or collective resources/activities or a counterpart

Figure 4 – The main interaction within the dyad during episode sequence one

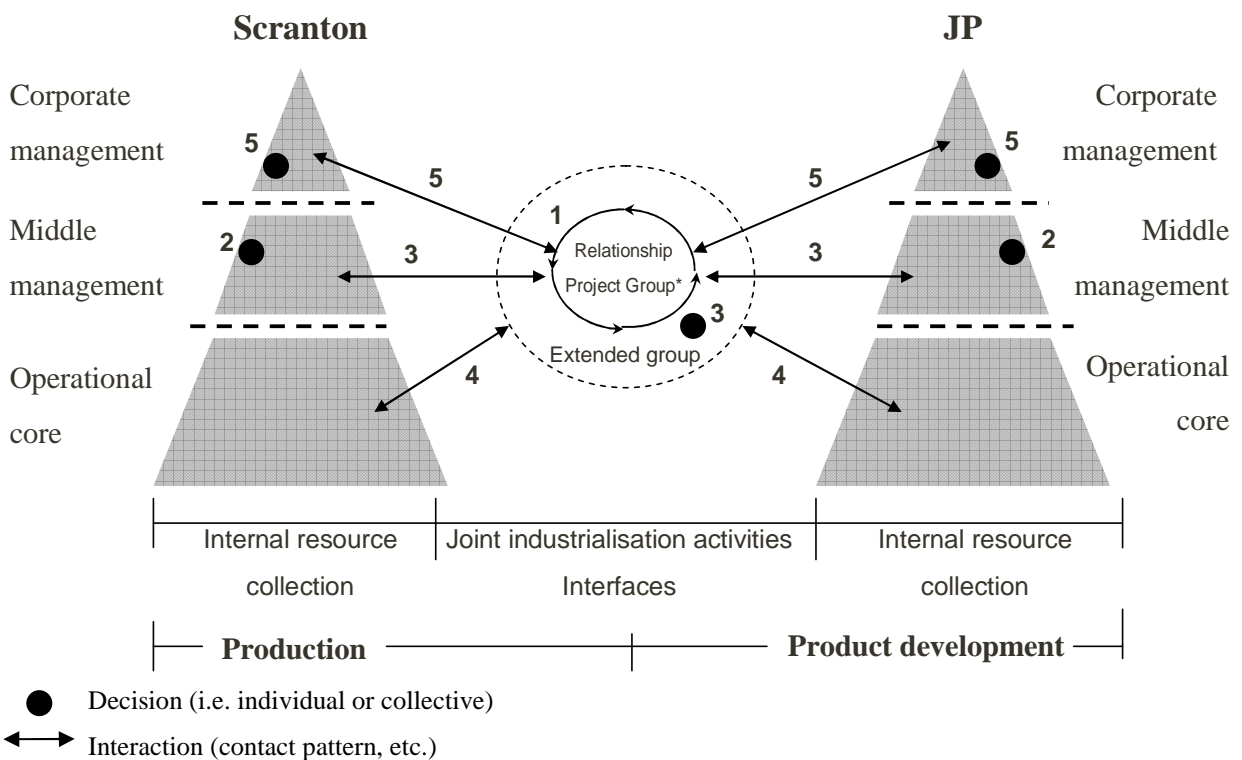
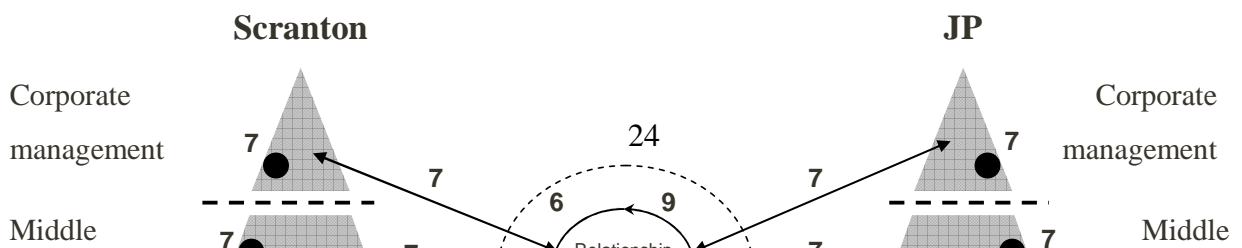
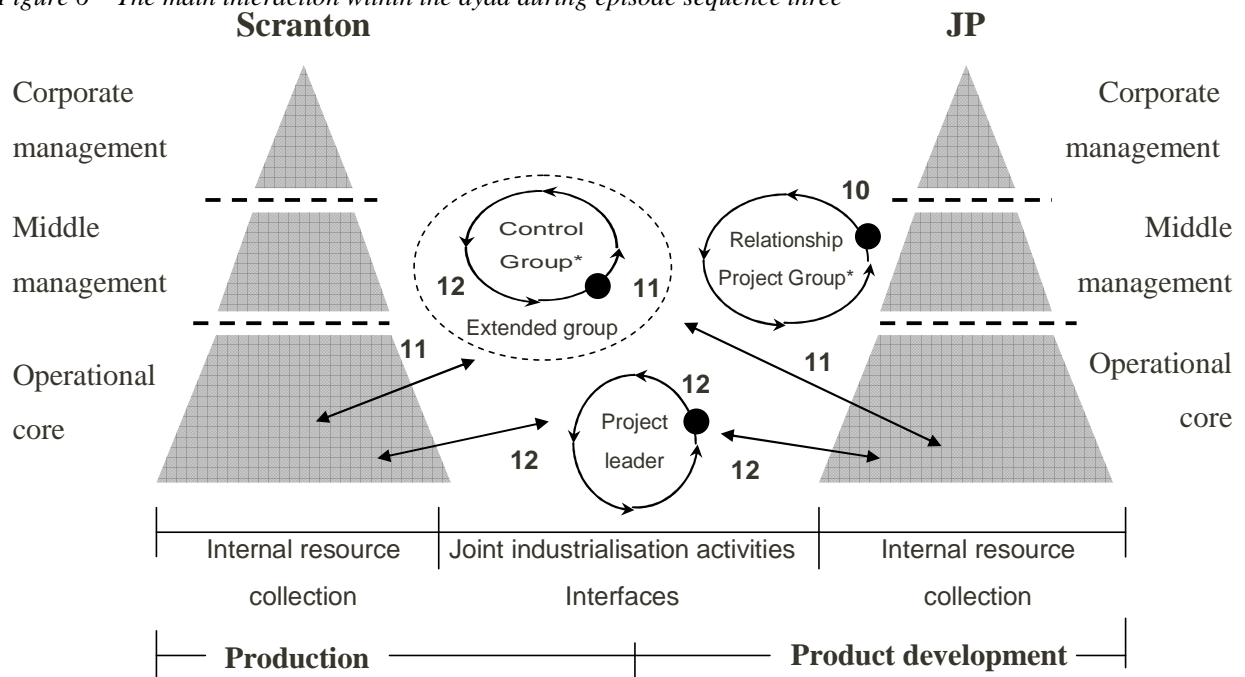


Figure 5 – The main interaction within the dyad during episode sequence two



- Decision (i.e. individual or collective)
- ↔ Interaction (contact pattern, etc.)

Figure 6 – The main interaction within the dyad during episode sequence three



- Decision (i.e. individual or collective)
- ↔ Interaction (contact pattern, etc.)