

# What is Missing in Business-to-Business Relationships?

## Competitive Paper

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### Abstract

The IMP group has made a great contribution to business-to-business marketing, focusing on interactions, relationships and networks (Håkansson 1982, Ford 2002). Many factors that have influences on business-to-business relationships have been explored such as trust, commitment, reliance and power (e.g. Morgan and Hunt 1994, Naude and Buttle 2000). Although it has been argued that service is implicit in business-to-business interactions (Zolkiewski et al 2008), not enough attention has been paid to the role of service in business-to-business relationships. Researchers have called for a close investigation of service issues in business-to-business markets (Zolkiewski and Lewis 2003, Parasuraman 1998). This research project has been designed to explore how service experience, especially problem handling, impacts on business-to-business relationships. Its theoretical background stems from services marketing and business-to-business marketing. Both suppliers' and buyers' perceptions of service experience have been obtained from case studies. The project contributes to business-to-business marketing by finding that how service failure and recovery is handled can be constructive or destructive to business-to-business relationships.

Keywords: service experience, business-to-business, relationship

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## **What is Missing in Business-to-Business Relationships?**

### **ABSTRACT**

The IMP group has made a great contribution to business-to-business marketing, focusing on interactions, relationships and networks (Håkansson 1982, Ford 2002). Many factors that have influences on business-to-business relationships have been explored such as trust, commitment, reliance and power (e.g. Morgan and Hunt 1994, Naude and Buttle 2000). Although it has been argued that service is implicit in business-to-business interactions (Zolkeiwski et al 2008), not enough attention has been paid to the role of service in business-to-business relationships. Researchers have called for a close investigation of service issues in business-to-business markets (Zolkiewski and Lewis 2003, Parasuraman 1998). This research project has been designed to explore how service experience, especially problem handling, impacts on business-to-business relationships. Its theoretical background stems from services marketing and business-to-business marketing. Both suppliers' and buyers' perceptions of service experience have been obtained from case studies. The project contributes to business-to-business marketing by finding that how service failure and recovery is handled can be constructive or destructive to business-to-business relationships.

Keywords: service experience, business-to-business, relationship

### **INTRODUCTION**

Business-to-business marketing focuses on interactions, relationships and networks (Håkansson 1982, Ford 2002). Many factors that have influences on business-to-business relationships have been explored such as trust, commitment, reliance and power (e.g. Morgan and Hunt 1994, Naude and Buttle 2000). However, Ford and Hakansson (2006) argue that relationships cannot be seen as a managerial technique. Zolkiewski et al (2008) contend that by discussing the role of service explicitly in interactions would contribute to the managerial practice in business-to-business markets. This research project has been designed to explore how service experience, especially problem handling, impacts on business-to-business relationships.

Firstly, this paper reviews previous studies in relevant fields. Secondly, it explains the research methods which have been employed to explore the topic. Then, research findings are presented and discussed. The paper concludes with reflections of the research and further investigation opportunities.

### **SERVICE FAILURE IN B2C**

As there is limited literature about service failure and recovery in business-to-business markets, studies from consumer markets are also reviewed to expand the view. However, it has been noticed that service recovery in consumer markets is one-sided, focusing on a single actor, a single incident, and one side's evaluation of the recovery (Salo et al 2009, Tahtinen et al 2007). Dyadic and network approaches characterise business-to-business marketing (Håkansson 1982, Ford 2002). Thus, the application of service failure and recovery studies in consumer markets to business-to-business markets needs caution.

“There are many opportunities for something to go wrong when the service provider and the customer interact, when both parties experience and respond to each other's mannerisms, attitude, competence, mood, dress, language, and so forth” (Berry et al 1988, p.38). The cause of problems in manufacturing firms and service firms are different: the primary causes in factories are related to materials, product design and process equipment; while in services,

causes such as customer-contact personnel and communication make a greater contribution (Berry et al 1985).

Bell and Zemke (1987) distinguished two levels of service failure: “annoyance” and “victimization”. The difference between these two is that victimized customers are more dependent on the service and experience major feelings of frustration rather than inconvenience or irritation. For example, an annoyed customer may find the flight is one hour late but does not experience any other consequences. On the other hand, a one-hour late flight causes a victimized customer to miss the last connection to a destination and causes an unexpected change of plans.

Bitner et al (1990) classified three major groups of employee behaviours that contribute to service recovery management. Group one is employee response to service delivery system failures. Under group one, there are responses to unavailable service, responses to unreasonably slow service and responses to other core service failures. Group two is employee response to customer needs and requests. Within group two, there are responses to customers’ special needs, responses to customer preferences, responses to admitted customer error and responses to potentially disruptive others. Group three is about unprompted and unsolicited employee actions, such as attention paid to customer, truly out-of-the ordinary employee behaviour, employee behaviours in the context of cultural norms, gestalt evaluation and performance under adverse circumstances.

Kelley et al (1993) identified fifteen types of failure in the retail sector and classified them under the three major groups identified by Bitner et al (1990). In the first group ‘employee response to service delivery system/product’ are policy failures, slow/unavailable service, system pricing, packaging errors, out of stock, product defect, hold disasters where mistakes are made when putting a product aside, failures that occur during alterations and repairs of products, and bad (incorrect) information. Under the second group ‘employee response to customer needs and requests’ are failures of a special order/request, and admitted customer error (i.e. customers acknowledge their own mistakes). Under the third group ‘unprompted and unsolicited employee actions’ are mischarged, accused of shoplifting, employee-created embarrassments, and employee attention failures.

Berry (1999, p.31) listed a group of reasons for service failure (see Table 1).

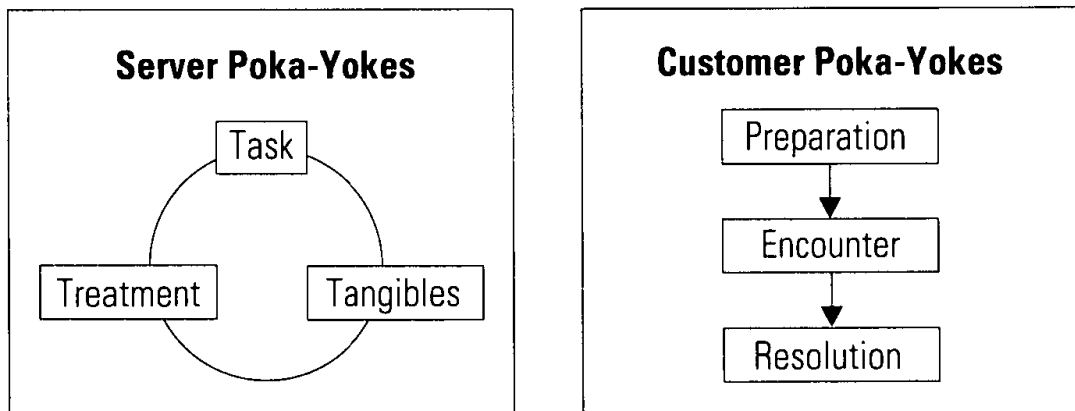
True Lies	Blatant dishonesty or unfairness, such as service providers selling unneeded services or purposely quoting fake, “low-ball” cost estimates
Red Alert	Providers who assume customers are stupid or dishonest, and treat them harshly or disrespectfully
Broken Promises	Service providers who do not show up as promised. Careless, mistake-prone service
I Just Work Here	Powerless employees who lack the authority – or desire – to solve basic customer problems.
The Big Wait	Waiting in a line made long because some of the checkout lanes or service counters are closed.
Automatic Pilot	Impersonal, emotionless, no-eye-contact, going-through-the-motions non-service.
Suffering in	Employees who don’t bother to communicate with customers who

Silence	are anxious to hear how a service problem will be resolved.
Don't Ask	Employees unwilling to make an extra effort to help customers, or who seem put-out by requests for assistance.
Lights On, No One Home	Clueless employees who do not know (i.e. will not take the time to learn) the answers to customers' common questions.
Misplaced Priorities	Employees who visit with each other or conduct personal business while the customer waits. Those who refuse to assist a customer because they're off duty or on a break.

Source: Berry (1999, p.31)

Chase and Stewart (1994) proposed the application of the Poka-Yokes (i.e. fail-safe) framework from manufacturing to detect failure in service delivery in order to better manage the service process. Chase and Stewart (1994) divided service mistakes into server errors and customer errors (see Figure 1). Service providers' mistakes may include failure in the task (for instance, fail to do the work correctly, efficiently or in the right order), the process (such as listening to customers and reacting appropriately) or the tangibles of the service (i.e. physical elements of the service); while customers' errors may happen in preparation for the service encounter (for example, customers fail to bring necessary materials to the encounter), during the service encounter (such as misunderstanding, or fail to follow instructions) and the resolution of the encounter (for instance, customers fail to learn from experience or make adjustments).

Figure 1 - Poka -Yokes (Fail - Safe)



Smith et al (1999) classified service failures into three categories relating to outcomes, procedures and interactions. Customers tend to more dissatisfied with process failure such as inattentive service than outcome failures such as unavailable service (Smith et al 1999).

### SERVICE RECOVERY IN B2C

“To err is human; to recover, divine.” (Hart et al 1990, p.156). Recovery has been defined as “to return to a normal state; to make whole again.” (Bell and Zemke 1987, p.32). Service recovery has received considerable attention in consumer markets (Gustafsson 2009). Each service failure can be seen as an opportunity for the service provider to prove its commitment to service, even if it may not be the service provider who causes the problem (Hart et al 1990). This section reviews previous studies of effective recovery strategies.

Fiebelkorn (1985) identified seven attributes associated with problem handling in encounters: employee politeness, competence, friendliness, interest in helping, waiting time, problem

solution, and the clarity of the explanation. A prompt and complete solution of problems contributes to satisfying service encounters.

Bell and Zemke (1987) offer five elements in managing service recovery: apology, urgent reinstatement, empathy, symbolic atonement and follow-up. Bell and Zemke (1987) distinguished the recovery elements for annoyed and victimised customers. Bell and Zemke (1987) suggest that apology and urgent reinstatement are essential for annoyed customers, while victimized customers need all the five elements. Bell and Zemke (1987) further suggest a proactive rather than reactive recovery approach to generate positive outcomes.

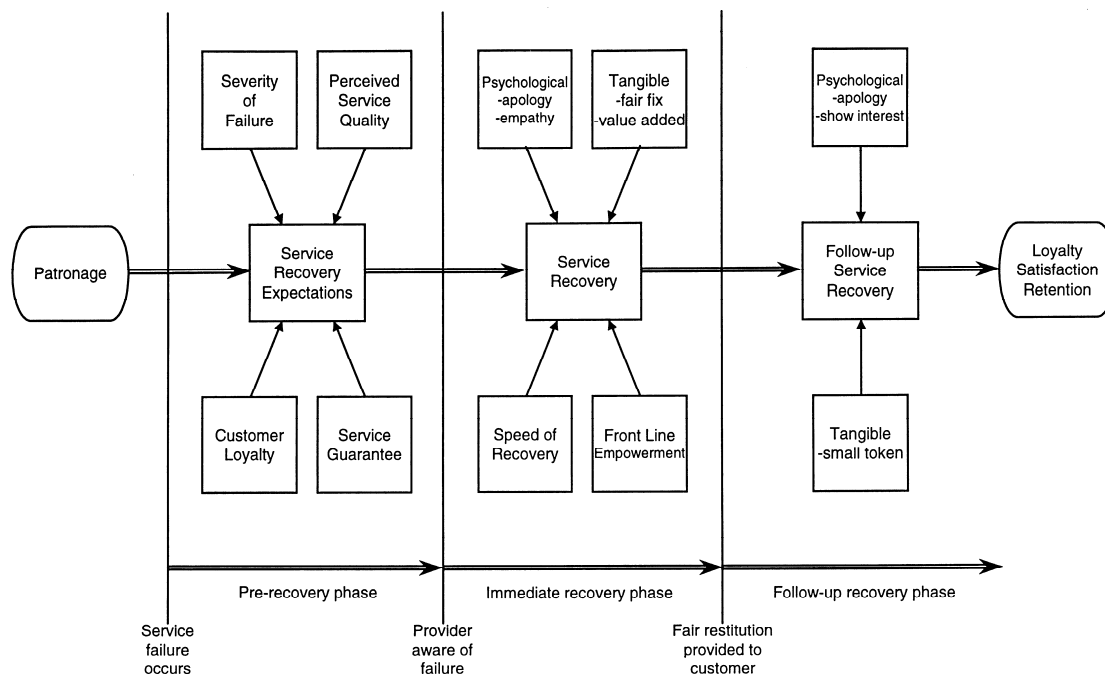
Hart et al (1990) suggest the following actions to recover service problems: measure the costs of effective service recovery (i.e. it costs more to gain a new customer than recovery efforts), break customer silence (i.e. actively identify problems) and listen closely for complaints, anticipate needs for recovery, act fast, train employees, empower the front line, and close the customer feedback loop.

Kelly et al (1993) analysed 12 types of recovery strategies in the retail sector. Seven of them are favoured by customers. These include providing a discount as a means of compensation for service failure, correcting mistakes, manager/employee intervention to solve a problem, offering correction plus such as free merchandise, replacement of defective products, making an apology, and offering a refund. There noted four unacceptable recovery strategies. These are customer initiated correction, offering a store credit instead of a refund or replacement, unsatisfactory correction, failure escalation (such as incorrect repairs, blaming customers for the failure and providing customers with incorrect information), and no attempt to recover the failure.

Johnston and Fern (1997) distinguished single and double deviation scenarios (i.e. inappropriate responses to service failure). According to Johnston and Fern (1997), although all service failure require quick responses and correction of problems, double deviation demands service providers to deal with the situation by going out of their way. Johnston and Fern (1997) argued that service recovery can restore customer satisfaction or even delight the customer.

From an operational perspective, Miller, Craighead and Karwan (2000) provide a service recovery framework (see Figure 2) to deepen the understanding of what is required of an organisation in responding to service failures. The framework divided service recovery into three phases: pre-recovery phase, immediate recovery phase and follow-up recovery phase. In the pre-recovery stage, four factors were identified relating to service recovery expectations: customer commitment to organisations, perceived service quality, the severity of the failure and the presence of a service guarantee. During the immediate and follow-up stages, service recovery activities take two forms: psychological recovery such as empathizing and apologizing to show concern for the customer needs, and tangible recovery efforts such as providing compensation and value-added atonement. In the immediate recovery stage, the delivery of service recovery such as front-line employees' knowledge and power to correct failures and how promptly problems are solved are important. The framework indicates that the outcome of service recovery can be measured by customer satisfaction, loyalty and customer retention.

Figure 2 - Service Recovery Framework



Source: Miller, Craighead and Karwan (2000, p. 388)

Bitner et al (1990) emphasized the importance of response to service failure, such as acknowledging a problem, explaining for the problem, making apologies and compensations.

Boshoff's (1997) findings suggest that recovering the failure quickly with acceptable levels of atonement matters much more than who carries out the recovery. Boshoff (1997) believes that service recovery cannot compensate for service failure, but can mitigate its harmful impact.

### Fairness in Service Failure and Recovery

Service failure is regarded as a conflict between customers and service providers in terms of fairness of the resolution procedures, the interpersonal communication and behaviours, and the outcomes (Tax et al 1998).

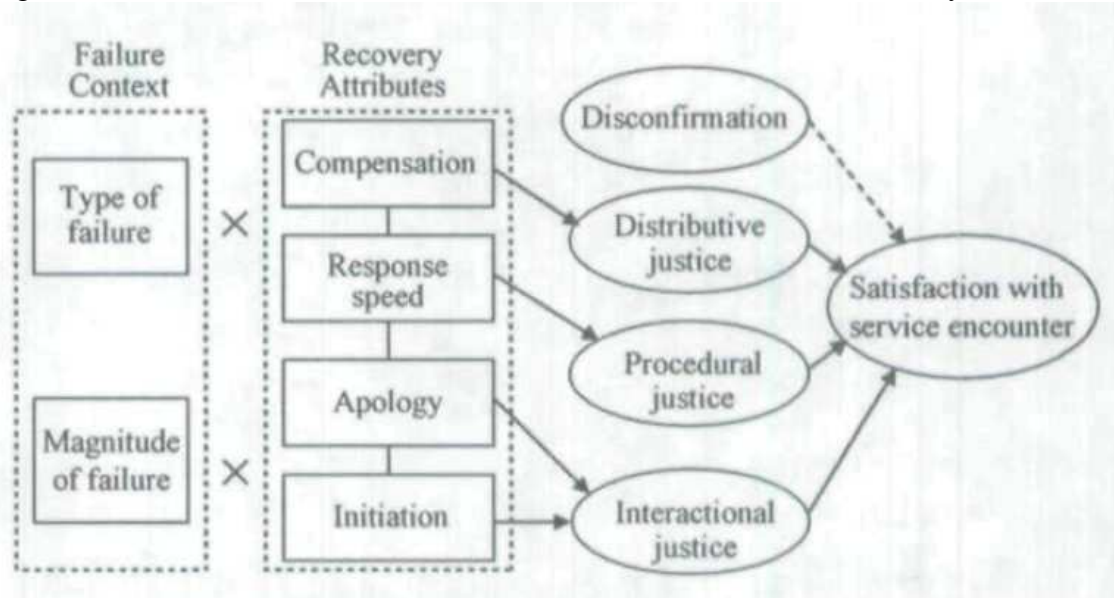
Customer perceived fairness of how service failure is handled influences their satisfaction with service recovery (Andreassen 2000). A lot of studies have investigated justice using three dimensions: distributive, interactional and procedural (e.g. Rio-Lanza, Vazquez-Casielles and Diaz-Martin 2009, Smith et al 1999). Some other research has split interactional justice into interpersonal and information justice, resulting a four-dimension construct (e.g. Lee and Park 2010). See Svavi et al (2010) for a review of the construct of perceived justice, and Tax et al (1998) for definitions of justice elements.

Rio-Lanza, Vazquez-Casielles and Diaz-Martin (2009) hypothesised three dimensions of justice in service recovery. First, distributive justice refers to the assignment of tangible resources by the firm to rectify and compensate for a service failure such as refunding money or changing the good or service. Second, procedural justice includes the methods the firm uses to deal with problems such as flexibility to adapt to customers' recovery needs. Third, interactional justice refers to customers' perceptions about employees' empathy, courtesy, sensitivity, treatment and the effort they expend to solve the problem. Their findings indicated that all three justice dimensions affect customer satisfaction with service recovery, among which procedural justice has the strongest influence.

Lee and Park (2010) applied a four-factor justice dimensionality to assess service failure in online double deviation scenarios. In their study, distributive justice refers to “perceived fairness of the tangible outcome of a dispute, a negotiation, or a decision involving two or more parties”; procedural justice is about “perceived fairness of the policies and procedures used by decision makers in arriving at the outcome of a dispute or negotiation”; informational justice refers to “the perceived adequacy and truthfulness of information explaining the causes for unfavourable outcomes”, and interpersonal justice refers to “the interactional component of the service delivery process which is about sensitivity, reflecting the degree to which people are treated with politeness, dignity and respect by authorities or third-party involved in executing procedures or determining outcomes” (Lee and Park 2010, p.50). Their findings show that initial service failures threaten distributive and procedural justice perceptions, while failure in the recovery stage threatens not just distributive and procedural justice perceptions, but also interpersonal justice perception (i.e. interpersonal and emotional issues).

Service recovery is a bundle of resources contributing to perceptions of fairness (see Figure 3) (Smith et al 1999). For instance, compensation has the greatest contribution to perceptions of distributive justice, and apologies have the greatest impact on interactional justice perceptions. Smith et al (1999) also found that different types of service failure play a moderating role of how service recovery attributes impact on customers’ perceptions of justice. For example, compensations and quick actions contribute to customers’ higher perceptions of justice who experienced outcome failures. An apology or a proactive response will be valued more by customers experienced process failures.

Figure 3 - A Model of Customer Satisfaction with Service Failure/Recovery Encounters



Source: Smith et al (1999, p.358)

### SERVICE FAILURE AND RECOVERY IN B2B

Previous studies investigating service issues in business-to-business markets focus on service elements and dimensions, and show no consensus on the findings (e.g. Cunningham and Roberts 1974, Szmigin 1993, Zolkiewski et al 2007, Qualls and Rosa, 1995). Not many studies into service experience or service encounter exist in the business-to-business marketing literature. Neither does it discuss service failure and recovery explicitly. Instead,

there is some research related to complaint handling and how those activities influence customer satisfaction, switching behaviour and relationship ending and recovery.

For example, Chumpitaz and Paparoidamis (2004) suggest that errors and delays during the service exchange can cause customer dissatisfaction in the information technology sector. They argued that it is vital to generate satisfied customers to influence their future buying decisions. Chakraborty, Srivastava and Marshall (2007) highlighted the complexity of understanding customer satisfaction in business-to-business markets. Their research draws people's attention to complaint handling in the business context, as they found that a majority of customers do not complain. Hansen, Swan and Powers (1996) investigated industrial purchasers' complaint behaviour and found the opposite to be true. Their findings suggest that a dissatisfied buyer is likely to complain as it provides seller with an opportunity to correct the problem. Hansen, Swan and Powers (1996) classified four dissatisfied customer behaviours. Their research suggests that complaints can be beneficial to resolve problems. They also found that suppliers' appropriate responses to dissatisfaction may lead to healthier buyer-seller relationships in the future.

Bolton, Lemon and Bramlett (2006) attempted to model the influence of supplier-customer interactions over time on the customer's decision to renew service contracts. Their findings show that customers' recent experiences (i.e. the timing of service experience) are critical to the survival of buyer-seller relationships. Favourable (unfavourable) extreme outcomes experienced over prior time periods will positively (negatively) influence firms' renewal decisions for service contracts at a given time. Additionally, customers recognize and value the exceptional efforts made by the supplier.

Henneberg et al (2009) investigated complaint management expectation in business relationships. Their findings show that complaining customers perceive disruptions to their relationships with suppliers. Furthermore, there is indirect effect on down-stream customers. Henneberg et al (2009) suggest that complaints should be managed from a network perspective, not only providing a solution to a complaint situation, but also to the continuous business-to-business relationship issue within the complex system of network.

Lockshin and McDougall (1998) investigated critical incidents in a business-to-business market (wine retailers). Their findings reveal that service failures in industrial markets are mainly in core or service outcome issues, for example incomplete orders or late delivery. This is different from service failure in consumer markets which is more related to the process dimension – how service is delivered.

## **SUMMARY**

Anderson (1995) proposed that relationship development is not linear or sequential, but experienced as a series of exchange episodes. He indicated that each exchange episode contributes to relationship changes, by pointing out that after each exchange episode, "each firm in the customer-supplier working relationship decides whether to continue the relationship at the same level of collaboration, to broaden it, or to curtail it." (Anderson 1995, p.347). Zolkiewski et al (2008) contended that a service encounter which is where service quality perceptions are formed is implicit in the relationship emphasized by business-to-business marketing.

Based upon the review of previous studies, responding to research calling for the investigation of service issues in industrial markets, this project explores how service



experience, moreover, how problem handling, impacts on business-to-business relationships. It adopts Axelsson and Wynstra’s (2002, p. 264) definition of service where “a service consists of activities (physical or mental) that are sold as a promise or an agreement from the supplier to the buyer, before they are produced. The services are often carried out in some kind of interaction between the parties, which puts the spotlight on the communication, coordination and collaboration between the two (or more) actors involved.”

### **RESEARCH METHOD**

The nature of this project’s research question has been decided to be exploratory, focusing on complex business-to-business markets over which the investigator has no control. Furthermore, a holistic examination of the real-life event is needed to help with description and explanation of the phenomena. Therefore, a case study strategy was selected as a suitable research strategy (Yin, 1994, Hartley, 2004).

Ford and Hakansson (2006, p. 249) emphasized that both customers and suppliers are involved in and contribute to the interactions between them, which leads to their point that “an understanding of what was happening could only be obtained by simultaneously analysing both the buying and selling sides of relationships.” Although business-to-business marketing can be analyzed from various different angles and at various levels, the basic element of interorganizational research is a dyad, i.e. the relationship between two actors (Wilke and Ritter, 2006). Ford and Hakansson (2006, p. 253) emphasised the engagement of both parties, claiming that “putting interaction at the centre makes it impossible to make sense of what happens between business companies by looking at just one of them...a relationship has an “interactive existence” beyond that of the participants.” Business-to-business research should include both customer and supplier perceptions as the focal unit (Czepiel 1990). This project responds to the importance of obtaining an understanding from two sides, both service providers’ and receivers’ perceptions of service experience have been obtained to examine service experience in business-to-business relationships.

This project includes two case studies. The companies that participated in the first case study are located in the North East of England. The supplier is a metal finishing company, providing customers with transportation, technical backup and giving them a whole metal-finishing package. Its main customer is an internal customer, a sister company, which manufactures lock mechanisms for the rail industry and the high-security industry. The majority of its external business is in sign making and the engineering industries. 20 interviews were conducted in the first case study, among which five were from staff in the supplier company and 15 interviews from 14 customer companies (see interview profiles in Table 2 and Table 3).

Table 2 – Case Study 1 Supplier Organisation Interview Profile		
Supplier Organisation	Industry	Interviewees
EPE	Metal finishing	general manager
		technical manager, with a combination of project managing
		production manager
		business development manager
		production clerk

**Table 3 – Case Study 1 Customer Organisations Interview Profile**

Customer Organisation	Industry	Interviewees
AMT	engineering	managing director, directly at purchasing, sales, quotations and financial side of the business
AS	signage	manufacturing manager
FN	hospital equipment	procurement and planning manager buyer and sales of products, buying all the hard products
BTF	educational Scientific Furniture	production planning, control manager, dealing directly with PEP
GCR	laser technology	managing director
GCR	laser technology	project manager
CME	architectural metal works	logistics controller
MBM	design and supply components based on aluminium extrusions	general manager
LT	transformers	managing director
HFE	a sheet metal work and engineering shop	company secretary, doing the accounts, buying, purchasing etc
PKY	manufacturer of lock mechanisms	managing director
RLE	subcontract engineering company	technical director, running the production
RPS	lighting	managing director
SPG	patent glazing	contracts director
UPR	railway barrowing	assistant cell manager, from purchasing to continuous improvement events

The second case study is in the paint and coatings industry in the North West of England. The supplier provides industrial paints to customers from standard to highly specialised products, along with additional help in disposing of customer paint and powder wastes. One sector of their customers are industrial companies covering commercial transport, automotive and marine businesses. Another sector of customers is paint distributors. 20 interviews were conducted in the second case study, among which five were staff in the supplier company and five interviews were from four distributors, and 10 interviews from 10 industrial customer companies (see interview profiles in Table 4 and Table 5).

Table 4 - Case Study 2 Supplier Organisation Interview Profile		
Supplier Organisation	Industry	Interviewees
GMH	Paint and coatings	Sales representative
		Laboratory technician
		Sales representative
		Sales representative
		Sales representative

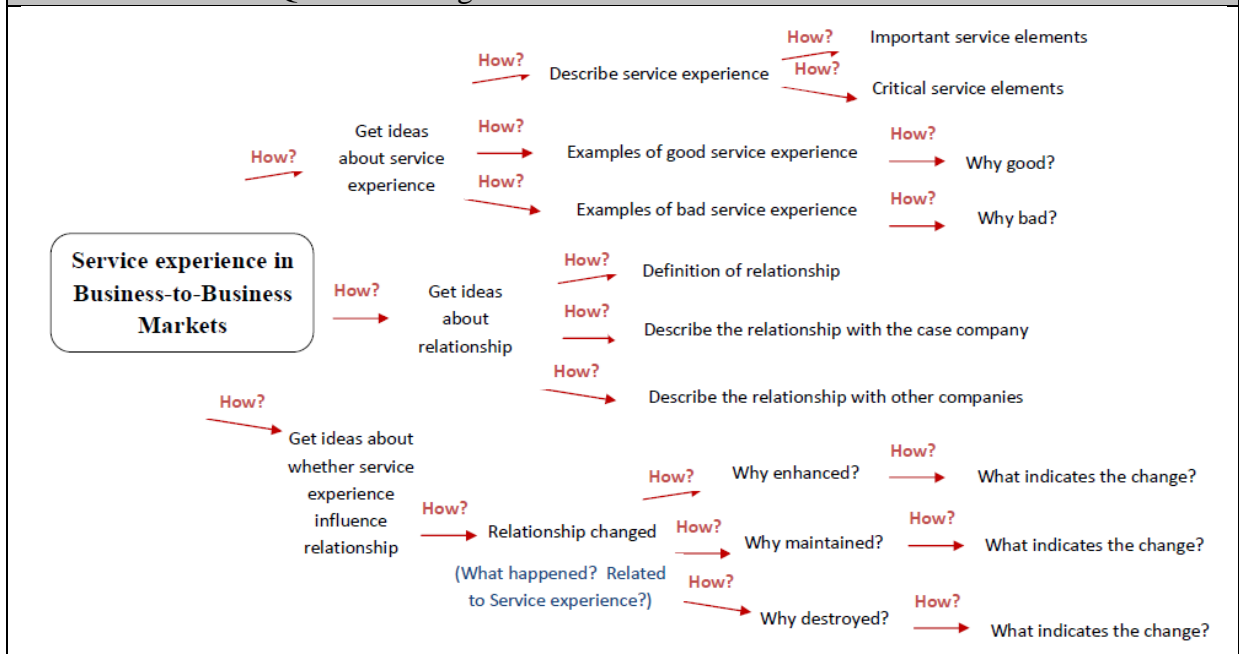
Table 5 - Case Study 2 Customer Organisations Interview Profile		
Customer Organisation	Industry	Interviewees
AT	furniture	Shop supervisor

Table 5 - Case Study 2 Customer Organisations Interview Profile		
Customer Organisation	Industry	Interviewees
BJ	Furniture	Office manager
FP	Engineering - refurbish containers	Managing director
JJ	Furniture	Production manager
SE	Engineering – making containers	Finishing manager
SPC	Powder coatings	Production manager
TG	Engineering – making Fire protection equipment	Factory manager
VG	Engineering	In charge of the paint side
VPC	Powder coatings	General officer
YCL	Repairing caravans	Managing director
CC	Paint Distributor	Regional manager
	Paint Distributor	Technical manager
MPS	Paint Distributor	Managing director
ST	Paint Distributor	Branch manager
APS	Paint Distributor	Shop owner

### DATA COLLECTION AND ANALYSIS

In both case studies, semi-structured interviews were conducted (see Table 6 Interview Question Design) combined with shop floor visits offered by the companies. Direct observation has been carried out during the field work. Secondary data have also been collected to understand the context. Moreover, research notes and a diary were kept after each trip for data collection to help with researcher’s reflection about conducting the project. Interviews were recorded with interviewees’ permission and transcribed for analysis.

Table 6 - Interview Question Design



The case study process cycle differs from others in that it continues to ask the question why and aims to identify of mechanisms behind phenomena (Easton 2010). “Neither deduction nor induction captures the process of theory development (as opposed to theory testing) in case study research... theory development in case studies involve a process of ‘systematic

combining' in which there is a constant movement back and forth between theory and empirical observation." (Piekkari, Plakoyiannaki and Welch, 2007, p.7). Piekkari, Plakoyiannaki and Welch (2007) labelled this process 'abductive'. Abduction has been suggested as appropriate for case research (Dubois and Gadde, 2002, Easton 2010) and has been employed in this project.

In case studies, the unit of analysis is related to primary research questions and to defining what the case is (Yin 1994). The unit of analysis of this project is service experience. In other words, each customer company's service experience with the supplier under investigation is a case. Suppliers' perceptions are obtained to help understand the phenomena.

Thematic analysis has been carried out based upon interview transcriptions. Although data and facts do not speak for themselves (Anderson 1983), computer-assisted NVivo software has been adopted to assist with coding of the interview material.

## **RESEARCH FINDINGS**

The findings highlight important themes related to problem handling, these are discussed below.

In this project, anything that goes wrong from a customer's perspective is viewed as a problem. These may be related to materials, products, completion of orders, customer-contact personnel, communication and the process of service recovery. In other words, problems include not only unacceptable elements in the initial service, but also those failures in service recovery.

### **Problems**

Most customers understand that problems may occur during the process of dealing with each other. The project manager of GCR said that "*we all make mistakes.*" The logistics controller from CME further explained that especially with metal finishing, "*you can't have somebody in there to stop that happening because it's cooking at 1000 degrees...it is only when that door is opened that they realize something has fallen off, so it has to be re-painted...that happens with all powder paint companies.*" The majority of the customers understand that suppliers make mistakes.

However, most customers expressed the frustration of having problems such as wrong colour or late delivery and pointed out the disruption caused in their production. For example, the company secretary of HFE claimed that problems gave him headaches "*because we couldn't do what we planned to do.*" The manufacturing manager from AS supported this view and gave the example of suppliers not telling them about delays to delivery and this causes her problems because she needs to rearrange the jobs in her factory. She pointed out that AS's work is dependent upon metal finished items from suppliers.

In addition to frustration and production interruption, the dominant reason of customers concerning about failure is due to a negative domino effect. For example, if EPE had a breakdown and did not tell customers that the job is going to be two days late. Without this information, customers cannot inform their clients in the network of any delay. The assistant cell manager of UPR pointed out that if anything goes wrong, their clients would complain to UPR: "*He (UPR's customer) doesn't care that my (UPR) supplier is rubbish, he just knows you (UPR) supplied it, you (UPR) got it wrong.*" The assistant cell manager of UPR emphasised the importance that their clients should not be affected.

How quickly suppliers handle a problem also has a knock-on (domino) impact on customers' clients. The company secretary of HFE claimed that HFE's delivery to their clients will be affected by how quickly EPE handles problems. The managing director of GCR pointed out that it is not acceptable for a supplier to solve a problem in three to four days, "*because my (GCR) clients are being promised a particular job on a particular date. We have given the delivery for our product. If that product doesn't arrive on my client, I will lose that client.*" The managing director of GCR was further concerned that not only their clients' retention but also the supplier's future business will be affected.

The company secretary of HFE also pointed out that if problems happen continuously, it impacts on HFE's clients' satisfaction. The company secretary of HFE relates customer satisfaction to customer's future plans to buy from them: "*if our customer is happy, it will come back and order some more... if you lose customers, where is your profit... you need to keep your customers happy and you will make a profit.*" Thus, HFE's company profit would be influenced by its supplier's handling of problems.

Table 7 summarizes the reasons for customers concerning problems.

<b>Table 7 - Reasons for Customers Concerning Problems</b>	
<b>Customer-Related</b>	Customer dissatisfaction
	Not meeting customer requirements
	Not meeting customer expectations
	Impact on customer business performance
	Impact on customer production
	Impact on customer costs
	Impact on customers' peace of mind
<b>Supplier-Related</b>	Future problem prevention
	Help supplier understand problems
	Help supplier understand customer requirements
	Help supplier understand the effects on customer work
	Improve supplier performance
	Impact on supplier costs
	Problem resolutions
<b>Network-Related</b>	Customer Clients' satisfaction
	Customer Clients' retention
<b>Other</b>	Limitation of available alternative suppliers
	Quality system

### **Problem Resolutions**

The findings show that customers are outcome-oriented. Customers emphasised the importance of suppliers being capable of learning from quality failures, finding the root cause, correcting the root cause, and making sure that the failures would not occur again in the future.

Customers pointed out that if they brought an isolated problem to a supplier's attention and the supplier sorts it out quickly and efficiently, the relationship will be maintained. According to the procurement and planning manager at FN, "*you (a supplier) can make a mistake but if you rectify in a good way it's soon forgotten about if you deal it with it properly... You can carry on as normal.*" A lot of customers having good relationships with GMH said "*GMH*

*sorted out problems at each stage.” or “they addressed the situation whatever we threw at them.”*

On the contrary, if service failures occur continuously and situations are not improved, customers not only express the frustration, but also take repeating problems more seriously than the first time it happened. Customers indicate the potential of switching to another supplier if problems keep on happening and situations are unchanged. The managing director of PKY described a deterioration of a long term relationship with a big supplier where the supplier kept on saying that they will solve problems, but never did. That supplier did not have the capability to solve the problem; neither did they work together with PKY to sort it out. In the end, PKY moved all jobs to another supplier. The contract manager of SPG said that, *“if they let me down on, you tend to tell them and then if they don’t improve, you tend to not use them anymore.”* The general manager at MBM claimed that they lost confidence in suppliers who lie about problems happening or making excuses not to improve things. LT supported this view that they were let down by a supplier who did not respond and correct problems the way they expected. LT gave jobs to EPE because that supplier *“let us (LT) down until it pushed us to a point where we’ve actually gone out and found somebody else.”*

Suppliers also recognise that problems need to be solved and regular problems should be avoided. *“If customers get a problem and never get it sorted out, the relationship will decline. The important thing is to sort the problem out, and keep that relationship.”* – Norman (sales representative at GMH). Paul (sales representative at GMH) commented that *“customers remember the issues at the back of their mind. You cannot have that too many times.”*

### **Process of Handling Problems**

Solving problems is important to customers and the process of handling problems is even more vital due to the domino effect.

Customers addressed the importance of suppliers’ responsiveness towards problems. SPC pointed out that *“what I can’t deal with is when they don’t get anybody from the company to come to see what the problem is and try to resolve it. It is not acceptable that representative – front line dealing with this area cannot send it out.”* SPC further explained that it is partly because of the domino effect as *“SPC customers won’t accept it.”* Supplier availability when problems happen impacts on business-to-business relationships. SPC put it as *“if the supplier says I won’t be in your area this week, then I won’t order from you again.”* On the contrary, customers having a good relationship with GMH mentioned that they can ring GMH any time if there is any problem. The following quotation from AT illustrates the point: *“a lot of other suppliers are not bothered, just wash their hands. GMH sent a laboratory fellow to us and he looked at what we are trying to achieve. They took away the paint we had and reformulated and gave it back to us. To me, that’s very good. They tried to do something with one material and used it on three different surfaces and it reacted differently. Obstacles pop up and they deal with it. It helps us and strengthened the relationship.”*

Suppliers’ responsiveness is closely related to suppliers’ attitude towards problems. FP claimed that if sales representatives ignore or talk back, don’t listen or respond, customers will go somewhere else.

The managing director of LT pointed out that suppliers’ attitudes towards problem handling impacts on relationships (see Vignette 1). The logistics controller of CME stated that they will switch to another metal finishing supplier if the existing supplier is not bothered to solve

problems which are not up to customer standards. The assistant cell manager at UPR also pointed out that it has negative effects if a supplier gives them the impression of “*I’m not interested in putting that right for you, we don’t think we’ve done that wrong, it’s not our problem.*” The general manager of MBM supported this point that if suppliers give customers an uncaring impression, then MBM will go somewhere else instead of wasting time to try to make things better.

#### Vignette 1 - Attitude Towards Problem Handling

Before EPE, LT had a local paint finishing supplier. This is a big company, bigger than EPE. There was a problem with the paint finish on one particular enclosure. The supplier sent their quality manager down. The quality manager walked in this office eating a McDoanld’s double burger and said “well, what’s your problem mate?” showing such a bad attitude. After it was confirmed that there was a problem caused by them, he denied it all and tried to talk his way out of it. That’s the final straw.

That’s not the way LT would approach a problem. When there is a problem in the company, LT always accept responsibility to take it and cure it. That’s how EPE deals with problems. Without waiting, it cures the fault if there is a problem. If there is any disagreement between EPE and LT, for example, if LT asks for too much, EPE will come back and negotiate with them “we can’t offer this, we can do it this way or that way, would that be okay?” That will be okay.

The managing director of PKY believes that sometimes customers and suppliers may have different perceptions about whether there is a problem. Moreover, customers and suppliers’ understanding of what caused problems may be different. The managing director of PKY pointed out that relationship will get worse if the supplier is not aware of the mismatching perceptions, and “bury their head in sand and thinking it’s not my problem, it’s their problem, so I’m not going to do anything.” The managing director of PKY believes that not only a supplier’s caring attitude towards the problems that customers reported but also making extra efforts to investigate problems is part of building a relationship (see Vignette 2).

#### Vignette 2 - Investigate Problems

PKY has a warranty returns policy. PKY get locks returned from the railways because there’s a problem. However, when PKY inspected them, there’s nothing wrong. The locks worked perfectly well. PKY’s warranty team used to return the product to the customer with just one line saying, “no fault found.”

People don’t take locks off doors and send them back if there isn’t any problem. Customers wouldn’t be happy because they had taken this lock off the door because it wasn’t working, and got it back saying no fault found.

The investigation of the problem was incomplete. Although there was nothing wrong with the lock, when customers bolted the lock back on the same door, there might be a problem. Because the problem might not be with the lock it might be with the door. It might be with the interface.

The only way to resolve the problem is to go down and see the problem first hand. It’s important not to take the view that, “it isn’t my problem.” Because that customer will say, “well, they are not solving the problem. They are not giving me service.” Customers will form the perception that PKY is a company that doesn’t care because they are just sending

the lock back, with no fault found.

The customer knows there was a problem with it. As far as the customer is concerned it is still lock. So suppliers need to listen and think through what and why customers say things. Suppliers need to take some extra steps to solve problems.

Problems may provide an opportunity for suppliers to work together with their customers (see Vignette 3). GMH and SE reached an agreement to prioritise and solve the issue. This strengthened their relationships.

#### Vignette 3 - Work Together to Solve Problems

GMH had a problem last year. One of the mixers broke down. At that time, SE placed a large order to GMH. GMH knew that because of the problem, SE would not be able to get all the paints in when they needed it.

Instead of chopping the order, Alan (GMH sales representative) rang SE and explained the situation, and said, "let us prioritize. What colours you want first?" They worked out a priority list between them. SE got the paints on time. The three colours SE required urgently were there. The other colours came the following day.

SE commented: "That is what I am saying about customer service."

There may be problems that cannot be solved. However, the relationship can still be intact even if a supplier cannot help customers solve certain problems on the condition of supplier being honest and informing customers that "*we don't know how to solve this out,*" as was pointed out by the managing director of PKY. The following example (see Vignette 4) illustrates how a relationship can be maintained where suppliers cannot solve the problem for a customer, but handle the process properly.

#### Vignette 4 - Supplier cannot Solve a Problem

If a problem cannot be sorted out, then there is a problem. However, the two sides might still have a good relationship but just don't work together. Because a supplier can't do it, the customer needs someone else to do it.

PKY had a supplier saying, "we can't make this spring for you, but we think XYZ can make it for you." Everything else that supplier does is perfect. They tried to make the spring but they couldn't do it. It doesn't end the relationship. They helped PKY find someone else who can do it. The two parties can still be friends.

In addition to factors from customer and supplier sides, there are many other factors which may cause problems. For instance, weather. Due to temperature, frost, wind, or rain, paint reacts differently in different weather conditions. As FP mentioned "*the paint has been tweaked along as we go through the seasons we get different problems*", but the important thing is that "*GMH has addressed every problem at every stage.*"

#### **Perceived Fairness**

The perceived fairness of suppliers treating customers fairly in handling problems is important for business-to-business relationships. The managing director at GCR gave an example that EPE solved problems fairly and correctly, the relationship between the two companies was strengthened, and GCR will not go anywhere else (see Vignette 5). The



managing director of Reprise supported this view that they gave all the work to EPE because “they (EPE) have ironed the problems out and they are fair with me (RPS).”

#### Vignette 5 – Perceived Fairness in Solving Problems

EPE did a recent job (painting a panel) for GCR. The panel was sent to GCR’s customer and fitted to site. However, EPE damaged it on packaging when the panel went to GCR’s customer. That customer requested another panel remaking. The existing panel was taken off the site and replaced with a new one. On this job, EPE gave a credit on GCR’s back for the cost they actually remade the panel. EPE incurred the cost of the remaking of the panel which in GCR’s view: “they did it correctly.”

Perceived fairness is another vital factor in problem handling that impacts on business-to-business relationships. A classic example of this is the scenario of the leaking paint (see Vignette 6). MPS would have been angry if GMH had not stepped forward and dealt with it, because in MPS’s perceptions “it is not my fault. It has arrived it is leaking. Why should I have to pay for it.” GMH looked at a bigger picture and kept MPS happy with the free compensation which has been perceived as fair. GMH kept a distributor who would spend £100,000 pounds with them by sorting out the problem quickly with £40 compensation.

#### Vignette 6 - Leaking Paint

MPS had a problem with GMH in the past when some tins of paint arrived leaking because they had been crushed. It made the shop floor messy and sticky. MPS rang GMH and described the situation.

Alan GMH sales representative) could not get to MPS at that time, but he said, “No problem at all. Make a note of what it is, get the mess cleaned up, and we will sort it out.” Alan used ‘we’ to sort the problem together with MPS. Four tins were broken. Alan gave MPS four more tins of that free of charge. Alan gave another two tins free of charge to compensate for the fact that MPS had spent two hours cleaning the floor and cleaning the paints off. Alan even then took the old stock that was damaged and that needed replacing away and arranged for that to be disposed of because it has got to be disposed off legally. Alan arranged everything, turned the situation around and sorted the whole thing out. MPS cannot ask for more.

Suppliers also recognise the importance of recovering problem and being fair to make sure that customers have no ill feeling about the situation (see Vignette 7). Norman (GMH sales representative) further commented on Vignette 7 that “if it hasn’t been sorted out immediately, it will impact on b2b relationships.” GMH sales representatives believe that if customers perceive unfairness in problem handling, then GMH will “win a battle, but lose the war.”

#### Vignette 7 - Perceived Fairness

GMH has an agreement with customers: if a customer has his order delivered using a carrier service, if it is wet paint and the order is less and £275, he will pay the carrier charge of £11.50.

Another paint supplier can offer AT what GMH was supplying, and said to AT that they do not have the extra carrier service charge. If AT have £100 orders, they won’t charge for delivery. To compete, Norman (GMH sales representative) reduced £275 to £175.

AT placed an order to GMH which was more than £175. That order should go out in one delivery with no delivery charges. However, GMH cannot make two products in time to put them in one go using a carrier. So AT received a phone call from GMH about the delivery and the following day AT will get the other two products. However, AT has to pay the delivery charge because it is below the amount.

AT phoned GMH sales representative and said “I cannot make sense with the person in sales office about it (the additional carrier charge).” GMH sales representative said “there is no way that you need to pay for that. Leave that with me.” GMH sales representative made a phone call and addressed it.

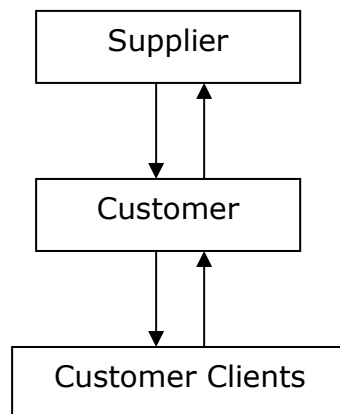
“You cannot expect a customer to pay the carriage jeopardize because you cannot make the product in time. That’s not fair. We cannot make one delivery and that’s not the customers’ fault.” - GMH sales representative.

## DISCUSSION

### Domino Effect

In this project, a domino effect has been identified. The domino effect is on two levels and in two directions. On the first level, suppliers’ service influences customers’ performance; the second level is customers’ performance influences the customers’ clients’ work. The reverse is also true, customers’ clients’ requirements impact on customers’ demands about suppliers’ performance. For example, customers need to meet deadlines for their clients, so they expect the supplier to deliver their orders on time to complete jobs. The domino effect implicitly dominates interactions and service failure and recovery between suppliers and customers.

#### Domino Effects



### Service Failure in B2B

Firstly, service failure in b2b markets shares certain similarities with those in b2c markets. Many aspects contribute to service failure, for example, suppliers paint wrong colour on products (related to outcomes), late delivery, inaccurate information and problems in communication (related to the process).

Secondly, Bitner, Booms and Mohr (1994) pointed out that service encounter participants, for example, service employees and customers, tend to have some different perspectives towards failure, though they may share some similar viewpoint. Similar to findings in b2c markets, Vignette 2 shows that suppliers and customers in b2b markets may have a mismatch in their understanding of problems.

Thirdly, service failure in b2b markets does cause dissatisfaction as identified in previous studies. However, the difference is that industrial customers tend to be tolerant of suppliers' occasional service failures, as customers claim that "*we all make mistakes*".

Instead of service failure per se, industrial customers are more concerned about the impact of service failure on their production and business performance. Additionally, this project found that customers worry about service failure and the impact on their production are largely due to the negative domino effects of service failure on their clients. In other words, compared to service failure in b2c market, the major difference of service failure in b2b is the domino effect.

### **Service Recovery in B2B**

One of the unexpected findings is that industrial customers are more concerned about how problematic issues are handled (i.e. service recovery) rather than failure itself. One of the explanations is that customers understand that it is rare for nothing to go wrong, thus they pay more attention to the follow-ups. Another explanation is that the domino effect drives customers' demand for effective service recovery.

Attributes associated with service recovery in b2c markets can be borrowed for problem handling strategies in b2b markets. Elements identified in b2c recovery such as apology, empathy, employee politeness, competence, friendliness are also valued customers in b2b sector. For example, Bitner et al's (1990) findings of the importance of response to service failure, such as acknowledging a problem, explaining for the problem, making apologies and compensations in consumer market are also applicable in b2b markets. At the same time, the findings confirmed that b2b customers need psychological recovery such as empathizing and apologizing to show concern for the customer needs and tangible recovery efforts such as providing compensation and value-added atonement identified by Miller, Craighead and Karwan (2000).

This project confirmed the findings of the role that perceived justice plays in service failure and recovery in previous studies. It found that b2b service recovery concentrates on distributive justice. Compensation, in particular, contributes to customers' perceptions of fairness. The additional finding is that customer perceived fairness in service recovery would contribute to their relationships with suppliers.

### **Service Failure and Recovery in B2B Relationships**

This research responds to Henneberg et al's (2009) suggestion that attentions should be made to the effects of handling problems in business-to-business relationships. The results show that effective problem solving maintains supplier-customer relationships. In addition, a lot of customers have a good relationship with suppliers if suppliers address problems appropriately at each stage that customers voice concerns. However, suppliers need to be aware that although customers are tolerant of service failure, they expect suppliers' improved performance. Continuous and repeating problems not only cause customers' negative emotions, but cause long-term b2b relationships to deteriorate. An unexpected finding is that a relationship can still be intact even if a supplier cannot help customers solve certain problems on the condition of the supplier being honest.

In b2c studies, controversial arguments exist. Some researchers suggest that each service failure can be seen as an opportunity for the service provider to prove its commitment to

service (Hart, Heskett and Sasser 1990). However, Smith and Bolton (1999) warned about the risk of welcoming service failures as opportunities to delight customers, because their findings indicate that it is rare for companies to consistently provide effective and satisfactory recoveries for every service failure. In particular, severe service failures generate negative consequences, such as bad word-of-mouth, low trust and less commitment, regardless of the successfulness of the service recovery (Weun et al 2004). On the contrary, this project shows that problems may provide suppliers an opportunity to work together with customers and may have a chance to strengthen b2b relationships.

In addition, different to arguments in b2c that service recovery cannot compensate for service failure, but can mitigate its harmful impact (Boshoff 1997), the findings show that service failure may maintain or strengthen b2b relationships.

### **CONTRIBUTIONS AND REFLECTIONS**

This project first attempted to investigate how service failure and recovery impact on business-to-business relationships explicitly. One of the unexpected findings is that industrial customers tend to be tolerant of suppliers' failure on the condition that suppliers recover the situation and make improvements. Switching costs and available suppliers may account for this. As b2c literature discuss zone of tolerance, further research is needed to explore whether or not there is a zone of industrial customers' tolerance.

Another major difference from previous studies of service failure and recovery in the b2c sector is the domino effect in b2b markets. The findings show that it is b2b customers concern for the negative domino effects on their clients that drive their focus on suppliers' effective service recovery.

The findings also confirmed that some factors used in b2c markets can be applied in b2b markets. The process of handling problems is of greater importance than solutions, as it has been identified that relationship can still be intact even if a supplier cannot help customers solve certain problems on the condition of supplier being honest. Furthermore, the results contribute to the understanding of distributive justice in service failure and recovery in b2b markets. However, much more research is required to investigate interactional, informational and procedural justice in b2b problem handling.

Investigating service failure and recovery contributes to the understanding b2b relationships. The results indicate service failure may provide an opportunity for suppliers and customers to work together. Properly handled problems may maintain or even strengthen b2b relationships. However, continuous problems do cause deterioration of b2b relationships.

Last but not least, this project is exploratory. Efforts from researchers investigating relevant issues will contribute to this subject.

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