

Shifting initiatives and interacted strategies within business relationships. Analyzing the DR Motor-Chery relationship

Competitive paper

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ABSTRACT

In this paper we adopt an IMP interaction perspective to study the evolution of a business relationship. An exploratory approach is applied to develop an analytical framework that connects shifting initiatives and interacted strategies within the development of business relationships. Specifically, we utilize the case study of the relationship between the Italian DR Motor and Chinese Chery Automobile to build a model that connects four main constructs: changes in *relational strategies*, *shifting initiatives*, *interactions* and *interdependence*. In the model we show how initiatives generate changes in commitment and dependencies which influence the development of the business relationship, and how the strength of these indicators may shift from one actor to the other because of renewed strategies. The context of the case study provides also interesting and unique insights about internationalization of Chinese firms, cross boundary relationship development, and outsourcing in the auto industry.

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INTRODUCTION

In this paper we adopt an IMP interaction perspective (Håkansson, 1982; Axelsson & Easton, 1992; Håkansson & Snehota, 1995; Ford et al., 2003) to study the evolution of the business relationship between the Italian carmaker DR Motor and its Chinese supplier Chery Automobile. Originating from one of Italy's largest car dealership, DR Motor started its venture as automaker in 2004 by looking for partners and suppliers to develop its first automobile model. A prototype of a sport utility vehicle (SUV) was developed throughout 2005 and presented to the Italian market in 2006. By the end of 2007 the vehicle (DR5) was in production and commercialized.

In this process few key suppliers have been essential, and in particular the relationship with Chery Automobile has revealed itself increasingly so. This relationship originated in 2004 when DR Motor was just formed and its management was looking for a supplier of car bodies. This was the natural first step for a new auto maker as all other components are coming in to play only after the car body is defined.

The first period from 2004 until the successful launch of the DR5 SUV at the end of 2007 was characterized by DR taking a leading role in the development of the relationship, working to gain trust from Chery with relatively high commitment of resources. However, the Chinese supplier did not commit resources nor trust much the small Italian firm and, exception made for the supply of Chery standard car body, Chery was not willing to invest in this relationship. However, by the end of 2007, because of DR Motor improvements on Chery's product quality, successful standardization according to European (safety) standards, and initial success on an attractive market such as Italy, Chery changed their approach to DR Motor. From that moment on Chery took steps to get closer to DR Motor and started to *develop their relationships* on new grounds. For instance an agreement on several other vehicles has been made at the end of 2008, a common spare parts warehouse (to be placed in

Italy) has been planned, and a joint EU entry strategy plan has been drafted. This last point shows how in 2008 DR Motor entered as a key factor in Chery's plans to enter the European market.

Even if extensive research has provided important insights on the key features of business relationships (Håkansson, 1982: 15-24; Dwyer, Schurr & Oh, 1987; Håkansson & Snehota, 1995: 25-36) and on their change and development (Ford, 1980; Medlin, 2004, Andersen & Kumar, 2006; Schurr, Hedaa & Geersbro, 2008), the details of inter-firm interaction patterns are not fully understood and need to be further conceptualized (cf. Holmlund, 2004; Ford & Håkansson, 2006). Against this background, the purpose of this paper is twofold: first, we aim to analyze how the development of the DR Motor-Chery relationship, in terms of shifting *initiatives* of both parties, relates to parallel changes in their *strategies*, depending on their goals within the broader network that embeds the focal relationship; second, we aim to relate these shifting initiatives and strategic changes into an extant framework that conceptualizes the unfolding of inter-firm interactions. This paper contributes to the IMP field in three different ways. First, it shows how changes in commitment, dependencies and initiatives influence the development of a business relationship, and how the strength of these indicators may shift from one actor to the other because of renewed strategic objectives. Second, it sheds light on the implication of firm size, cultural differences, initiatives and strategies for the development of a business relationship. At last, it provides an insightful case study within the global automotive industry.

The paper is organized as follows: after a review of previous research on automotive relationships and of our key theoretical concepts, we present our method and the case of the DR-Chery relationship. We then analyze and discuss this relationship in order to build a model that reunites our key concepts. We conclude the paper with suggestions for further research and managerial implications.

PREVIOUS RESEARCH AND THEORETICAL FOUNDATIONS

Automotive networks have historically been dominated by carmakers: they exerted strong power both towards their suppliers, who were kept at arms-length (Gadde & Håkansson, 1993), and towards their distributors, whose only choice was to comply with their requests and live in a conflictual relationship (Frazier & Summers, 1984; 1986). While carmakers considerably reshaped their relationship with suppliers and moved from adversarial to more collaborative and long-term approaches starting from the 1980s (Gadde & Håkansson, 1993), no particular changes has occurred in relation with distributors: car dealers remain strongly dependent on carmakers (Kumar, Scheer & Steenkamp, 1995a; 1995b). Automakers typically set strategy and goals and dealers execute, following a strict role theory (Salomon et al., 1985). Against this background, DR Motor is a rather special type of actor, being both a very small carmaker and tightly linked (by having the same owner and sharing part of the organization/facilities) to one of Europe's largest and most established car dealer, DR Automobile Groupe. Moreover, Chery is a rather special type of supplier, being a much larger company than DR Motor and being itself also a car producer. This particular situation implies that the aforementioned traditional relationship scheme and structure for the automotive industry are unlikely to fit the DR Motor-Chery relationship: instead of a merely adversarial, unilateral and carmaker-dominated relationship, our introduction already hinted at a more complex type of interaction, based on collaboration, mutual dependence, shifting initiative-taking and power balance.

Therefore, in order to analyze a complex and shifting relationship such as the one between DR Motor and Chery we need a theoretical apparatus based on broader relational

concepts and models that can encompass the interactive dynamics and the development of this particular type of relationship. Even if this paper focuses on the connection between *shifting initiatives* and *changing strategies* of the counterparts, in order to conceptualize this very connection we need to discuss other key concepts related to initiative-taking and strategy within the context of business relationship, namely *commitment*, *adaptations*, and *interdependence*. Admittedly, recent studies of automotive relationships suggest that these can be characterized by varying combinations of coercive power and trust-based collaboration, leading in turn to a mix of both strict compliance and genuine affective commitment (Nadin, 2008; Baraldi & Nadin, forthcoming). Within these relationships, initiatives are not unilaterally taken by the most powerful party and executed by the most dependent actor, but the initiative (e.g., for store openings or sales campaigns) can shift to the less powerful actor signaling a collaborative approach that goes beyond mere compliance to carmakers' requests (Ibid).

However, the abovementioned studies do not indicate *how and why* the initiative shifts among the parties, namely they do not unravel the process that connects initiative changes to other relational variables. Therefore, this paper aims to develop a framework over this process. In order to prepare the ground for this framework, which we explicitly develop in our discussion section, we now review first a few dynamic models over relationship development and then a set of selected relational concepts that will compose our extant framework, that is, *interdependence*, *commitment*, *adaptations*, *initiatives* and *interactive strategies*.

A number of relationship development models based on evolutionary stages have been suggested (e.g., Ford, 1980; Dwyer, Schurr & Oh, 1987). Typical stages are for instance "Pre-relationship", "Early", "Development", "Long-term" and "Final" (Ford, 1980), or "Awareness", "Exploration", "Expansion", "Commitment" and "Dissolution" (Dwyer, Schurr & Oh, 1987). Changes, growth and dissipation in a relationship have also been conceptualized as driven by specific interaction episodes, including critical events, which change the state of key relational constructs such as trust, commitment, and adaptations (Schurr, Hedaa & Geersbro, 2008: 878-9). Moreover, changes in the emotions of the involved actors have been related to the various stages of development of a relationship (Andersen & Kumar, 2006). Even though we concur with Medlin (2004: 189) that relationship lifecycle models requiring relationships to go through predetermined necessary phases are misplaced, the relationship development model proposed by Ford (1980) and elaborated in Ford et al. (2003: 51-58) is valuable in that it enables identifying and synthetically defining the state in which a relationship finds itself at a certain moment of time. The non-deterministic nature of this model suggests that these states do not imply a strict sequence going for instance necessarily from the "Exploratory Stage" to the "Developing Stage", but a return to a previous stage is always possible, as well as repeating these movements several times (Ibid: 51, 56).

For the purpose of our analysis it is enough to focus just on two stages in the relationship development because we are concerned with what happens *at the movement* from one stage to another. Particularly we study the shifting from "Exploratory Stage" to the "Developing Stage" (see Ford et al., 2003) as we trace changes in the initiatives and strategies of the parties that signal a development of the focal relationship from lower to higher intensity of interaction. In this way it is sufficient to map the variations in the relational constructs of our interest (e.g., commitment, adaptations and interdependence) when moving between two relationship stages instead of including all the stages in the model in our analysis. The "Exploratory Stage" (Ibid: 53-4) is characterized by weak actors bonds, activity links and resource ties (Håkansson & Snehota, 1995), by the need of the parties to learn about each other and a correspondent lack of mutual trust. At the same time, for a relationship to develop towards the next stage, it is fundamental that the parties start increasing their commitment to each other in terms of concrete actions and investments. Such a positive spiral opens for the

entry in the “Developing Stage” (Ford et al., 2003: 54-5), which entails a strengthening of actors bonds, activity links and especially of resource ties, by means of specific adaptations. In this stage the parties strive to learn how they can exploit each other by mutually adapting their resources and competencies, so that their commitment to each other also grows. However, there is no guarantee that this positive spiral of increasing commitment (via adaptations), mutual learning and trust continues forever: a relationship’s development can stall, revert to the selection of a different counterpart or enter a more stable and institutionalized “Mature Stage” (Ibid: 55).

While moving across two or more stages in this relationship development model the patterns and intensity of interaction change along such key dimensions as commitments, adaptations, initiatives and the extent to which the parties are dependent on each other. Therefore, we now review these relational dimensions including *strategies and initiatives*.

Commitment and adaptations

As already mentioned, no relationship can develop unless the parties clearly manifest their commitment by dedicating time and investments to their counterpart. In this context, adaptations, and especially voluntary informal ones, are a major *indicator and manifestation* of a party’s commitment to the relationship (Ford et al., 2003: 55). Moreover, showing a general willingness to adapt to the requests of the counterpart is a major way to show that one can be trusted as a long-term partner (Ibid). Adaptations can be viewed as modifications in own resources (e.g., products or equipment) and activities undertaken by one or both parties in order to have them fit better economically or technically with those of the counterpart (Hallén, Johanson & Sayed-Mohamed, 1991: 30). In an extreme sense, “no relationship can evolve without some adaptation” (Ford et al., 2003: 71) and they are one of the key process characteristics of business relationships (Håkansson & Snehota, 1995: 9).

Dependence and interdependence

Adaptations are pivotal in strengthening a business relationship, but they also create mutual dependence between the interacting parties because they limit their ability to simultaneously adapt to or interact with other actors (Brennan & Turnbull, 1999). In particular, as two parties interact for some time, adapt and commit resources to each other, technical and social interdependencies between them will either emerge or become reinforced (Ford & Håkansson, 2006). While in a traditional perspective being dependent on others is viewed as a dangerous situation, the IMP interaction approach views interdependence as a natural, universal and inescapable facet of business life (Ibid; Håkansson & Snehota, 1995: 13-6). Moreover, interdependence is multi-dimensional because it embraces the three interaction layers of activities, resources and actors (Ford et al., 2003: 8) and such different aspects as technology, knowledge, revenues and routines of the two parties (Håkansson & Snehota, 1995: 13-5). Due to the multi-dimensional and composite nature of dyadic interdependencies, relationships typically include a mix of power and dependence, whereby an actor may be dependent on a certain dimension (e.g., market access) but make the other actor dependent on another dimension (e.g., technology).

Being dependent on a counterpart’s competence and resources can also be viewed in the *positive* sense of being made available external resources for own exploitation, without the need to own, develop and control them internally (Håkansson & Snehota, 1989: 193; Ford & Håkansson, 2006; Håkansson & Snehota, 1995: 13-5). From a strategic point of view, the fact of being interdependent not only requires broadening the control boundaries of the organization (Håkansson & Snehota, 1989: 192-3), but also goes against the so called “myth of independence” (Ford et al., 2003: 5-8) according to which companies are free from external influences in setting their strategies provided that they control the necessary resources. The

existence of interdependencies suggests instead that firms are never free in setting their strategies within a relational context, but depend on the resources and commitment of their counterparts, as much as they can exploit these resources and commitment to accomplish strategies they could have alone. Therefore, a key strategic issue within a network is to identify and establish the right level of engagement, and hence of interdependence, in each relationship (Gadde, Huemer & Håkansson, 2003: 358).

Relational strategies and initiatives

An interactive view on business strategies clearly differs from other strategy schools centered on the duality between the firm and the environment, or the market (Baraldi et al., 2007). “Interdependence between companies means that the strategy process is interactive..., rather than independently developed and implemented” (Håkansson & Ford, 2002: 137). Our conceptualization of strategies follows the above reasoning on the importance of interdependence, which will be included in our extant analytical framework as a key driver of a firm’s strategy within a relationship. However, the connection between relational strategies and interdependencies involves, as we shall see in our discussion section, several other elements.

Next to identifying certain strategic goals and evaluating their match with the resources and goals of one’s counterparts (Baraldi, 2008: 103-4), a key issue is how to make the strategy of an actor become visible to the counterparts. In fact, in the interactive context of a relationship or a network, a strategy cannot remain a *plan* held exclusively by one party (cf. Mintzberg, 1987), but whatever the original form of a strategic idea, this needs to become manifested to the counterpart. In other words, one of the parties needs to take some form of initiative. Thus, we use the term “initiative” to mean *the relational manifestation of each of the two parties’ strategy*, displayed by making contact and coming with proposals and suggestions to the counterpart with the aim to accomplish own goals within a relationship (but also in connection with the broader network). For instance, a carmaker whose strategic goal is entering a new geographical market needs to take initiative with a local dealer by contacting it with a concrete proposal on how to go about in this strategy, including the expected contribution of the counterpart. The concept of initiative is not extensively used within the IMP approach, except for the claim that business relationships display symmetry in terms of initiatives, that is, both parties – and not only the seller – are active in coming with suggestions and requests to the counterpart (Håkansson & Snehota, 1995: 8).

The scope of initiatives and how these can concretely appear is clearly very broad, depending also on the type of strategy and goal, such as developing new products, outsourcing, internationalizing etc. However, Ritter and Ford (2004) present three potential types of broad strategies that a firm can apply within a network, including the following dualities: “coerce/concede”, addressing the choice between imposing one’s will on counterparts or accepting their suggestions; “conform/confront”, addressing the choice between accepting the existing structures or challenging them; and “consolidate/create”, addressing the choice between deepening and strengthening existing relationship or building new ones. A specific strategic goal (e.g., entering a new geographic market) can be achieved with mixtures of the three dualities above (e.g., coercing partners on some issues but conceding on others, conforming to some routines but confronting others, and deepening one relationship but also adding a new one). Moreover, these mixtures can change as time goes by during the pursuit of the original goal. Similarly, we can expect that, even if the initiatives in a relationship tend to be symmetric, they can change and also shift between the parties from time to time, also depending on the changes in the strategies of each of the counterparts. In this paper a specific case is used to illustrate how these shifting initiatives and the underlying strategies relate to the development of a business relationship.

METHODOLOGY

The research design for this paper is a single explorative case study. We chose to analyze the case of the DR Motor-Chery relationship because it presents a very particular context that can lead to interesting findings. This empirical context is rather unique in two ways: firstly, compared to typical carmaker-supplier or carmaker-dealer relationships within the automotive industry, this case features a more complex interaction between a large car dealer, DR, who transformed itself into a small carmaker, and a large carmaker, Chery, who plays the role of a first-tier automotive supplier; secondly, the case presents a particular combination of the relational dimensions that we are interested in, namely clearly shifting initiatives, interdependence, commitment and changing actors' strategies. Therefore, we expected that the analysis of this very case can lead to new conceptual insights.

The data collection was conducted between November 2007 and December 2008. A total of 28 semi-structured interviews, spanning from one to several hours in length were conducted with both DR Motor and Chery people. Respondents included DR Motor CEO, the management, the engineers working on the prototype and in the plant following production, some of the sales and marketing personnel, and Chery's managers responsible for the European market and the DR Motor account. All of them were informed of the purpose of the research prior to the interview. All interviews with DR Motor people were done in Italian as this helped them in the task (e.g. many of the engineers do not speak English at all), while with Chery the language used was English. An interview guide was prepared before each interview and adjusted based on the outcomes of the previous ones. When allowed interviews were tape-recorded (and transcribed). E-mails and phone calls to follow up on interviews were made, and archival data, including company websites, business publications, and other materials provided by the informants, was collected. Interviews were stopped when the authors considered that the level of understanding obtained was satisfactory for the purpose of the research. Upon completion of the interviews, all the gathered information was synthesized into a case history that includes a description of the decision-making process, actions that key managers took throughout the process, and outcomes that followed.

In the next sections we illustrate the case of the DR Motor-Chery business relationship. Picking up from the start up of the project we will focus subsequently on the evolution of the relationships to shed light on the shifts in initiatives and changes of strategies at each partner side. Consequences of actions and developments in the business relationship will be analyzed in the last section also in relation to the overall network context.

THE CASE OF THE DR MOTOR-CHERY RELATIONSHIP

Introducing DR Motor

In January 2008, with the roll-out of the first "DR5" sport-utility vehicle (SUV), "DR Motor", part of DR-Automobile Groupe (DR-AG), made its official entry as new producer and brand (DR) into the auto industry. DR-AG is an Italian firm with facilities in the Molise region and one of the largest car dealerships in Europe with a turnover of more than €250 million and about 200 employees. DR-AG started its activities in 1984 and during the 90s it developed a strong presence on the Italian market with both new and second-hand vehicles. Today DR-AG operates in three different business areas: car dealership (representing most of the existing international car brands), car service and assistance, and vehicle manufacture (as DR Motor).

The manufacturing unit was started in 2004 and the DR5 has been the first vehicle to be developed (between 2004 and 2007) and launched in late 2007 by DR Motor. The DR5 is a 5-

door full-optional SUV sold (currently only) on the Italian market in three different versions, gasoline, gpl and diesel. In 2008, the first year of sales of the DR5, the turnover of DR Motor has been of 35 ML Euros. In the process of setting up DR Motor and developing the DR5 few key suppliers have been essential, and in particular the relationship with the Chinese auto maker Chery has been increasingly so. DR Motor business relationship with Chery started in late 2004, with a first agreement of car body supply to the Italian company.

Chery Automobile

Chery Automobile Co. Ltd. was founded in 1997 in Wuhu, Anhui Province, China. The first car was produced in 1999 and it was the first car produced by a fully-owned Chinese company. In fact, Chery is a state-owned company and it differs from the other big car producers in China that are the results of joint ventures (JVs) with foreign companies. In this sense Chery is defined as an independent producer, i.e. not in partnership with other companies, although Chery's strategy has to follow the plan of central government.

Today, Chery is the fourth largest passenger vehicle manufacturer in China. Chery has two automotive manufacturing plants, a transmission plant, an automotive engineering research institute, and an automotive design institute. It employs 23,000 people and has total assets of over 2 billion Euros. It has the annual production capacity to produce 650,000 completed vehicles, 400,000 engines and 300,000 transmissions.

The initiation of the DR Motor-Chery business relationship

In 2004, DR-AG decided to found a new business as auto maker (DR Motor) with the aim to produce and sell 10.000 vehicles the first year and up to 40.000 by 2011. DR-AG strategy was to pull together different components, the cheapest when possible (e.g. for the metal parts and interns) and of good quality where necessary (e.g. engine and electronics), and exploit market connections and marketing knowledge resulting from more than 20 successful years on the market as a dealer.

The first step in the development of the DR5 project was to find the right supplier for the car body as all other components are coming in to play only after the car body is defined. In late 2004, few months after its formation, DR Motor took the initiative and got in contact with Chery as it had been identified by DR Motor as one of the possible suppliers of the car body. After a series of visit of DR people to Chery in China a period of negotiations was carried out till a supply agreement was reached. According to DR Motor top management Chery became the right choice as supplier because it is one of the few companies in China already producing a relatively high-quality SUV, and because Chery is one of the few state-owned Chinese car-manufacturer and therefore export-oriented. In fact Chinese car makers are of two types, fully Chinese and state-owned or private company formed in JV with a foreign partner. Only the former type of firm is able to decide its own export strategy and eventually form partnership with other firms in new markets, while the latter are subject to the foreign partner's international strategies.

The first contacts between the two companies were in late 2004 and a number of visits by the CEO and top managers of DR Motor to Chery in China followed also in 2005. Initially, there was a difficult period of negotiations between DR Motor and Chery mainly because the latter was not interested to supply DR Motor. According to DR Motor managers Chery perceived a potential high risk in doing business with DR Motor as this was a new company and of very small dimensions. Later on, there were also difficulties to establish the delivery status of the vehicle to DR Motor in Italy. DR Motor was looking for car bodies without engines and mechanical parts but equipped with some basic components (e.g. lights, security

belts and glass), rims and most importantly wheels. Having wheels would have made it easier to move the car bodies once in Italy. Chery did not accept DR Motor's proposal because it could raise problems on its own production line as this meant additional steps in Chery's production process. At last, cultural differences between the two companies were evident and of hinder to the development of the relationship (and still are from time to time). Typical examples are expectations not shared, and initial positive reactions to certain business propositions not supported later on. For instance miscommunication about shipments is often pinpointed as a concrete problem as deliveries are sometimes wrong and urgent shipments are handled by Chery in a sort of regular way. But despite all these problems, a first agreement was eventually reached as Chery became more interested in testing a new market and benefit from DR Motor's organization and net of contacts. In this supply deal DR Motor clearly was subject to Chery's power position and had to fully accept Chery's conditions of both financial and logistic nature, i.e. Chery would ship only the mere car body without rims and wheels and only after anticipated payments. In early 2007 a first shipment of 100 body cars left China by boat and arrived at DR Motor (via the harbor of Naples, Italy) after one month journey and entered production.

Overall, the development period of the DR5 model lasted two years. According to DR Motor's top management the project has been challenging. DR Motor's activities focused on reaching European standards of quality and safety of the vehicle, and at the same time to leverage DR-AG contacts and long experience to market the car. The very first step was to develop the prototype. During this process lasting three months the components and technical characteristics were defined and all the suppliers identified. In addition to the assembly line, an R&D and a design center were created. The two centers and all DR Motor efforts at that time were committed to making the Chinese car body compliant with European standards and to study the development of the assembly line. DR Motor had also to homologate different vehicle parts, such as the bumpers, the hood and the engine sound proofing, and many crash-tests were necessary to meet safety standards. Being new to car manufacturing, DR Motor needed to develop technical and industrial competences to fulfill the DR5 project.

DR Motor's strategic intents

DR Motor strategy is based on low price and flexibility. In fact, the company had targeted the low-cost vehicles segment of the Italian and European auto markets and it believes in the quick update of models and introduction of new ones. Therefore total outsourcing of manufacturing mostly to Chinese companies (for non-electronic components and engine) is part of DR Motor core strategy. To be cost-effective, DR Motor tried to jump most development phases by looking for ready-to-use components and focusing on system integration. In this way the typical four-year development time for a new vehicle¹ was reduced to two years; most important, this was done by DR Motor with much fewer resources than traditional processes require.

The total number of components which are assembled in the DR Motor plant is 640. Most of these are small parts which are necessary to put together the engine on the car body (i.e. crank case, nuts and bolts). Today, the manufacturing process at the DR Motor plant is structured in five main steps corresponding to the five main physical stations in the plant. Chery's car body is the core component of the DR5 and with its very low price contributes to DR Motor low-cost strategy. The car body arrives to Italy (from the Wuhu manufacturing plant) without extra components (e.g., wheels, hood, engine, bumpers, and other mechanical

¹ The typical phases of developing a new vehicle are the following: initial market study, prototype design and construction, testing and definition of details, industrialization, pre-scale production construction, production start, presentation, and sales start.

parts). Before the actual manufacturing process there is a pre-assembly phase of the power unit. For instance for the Diesel version the engine and the gearbox from FIAT are put together with the electronic control unit from BOSCH and the immobilizer from Magneti Marelli. All these parts are then placed into the car body. Successively, at each of the five steps different components, such as tank, brakes, pulleys, cluster, hood and spoilers, come together. Finally, the wheels and the headlamp check are set up.

Another aspect of the DR Motor strategy was the development of the technical (both production and product) competence as DR-AG previously has been mostly involved in sales, marketing and service only. In the period between 2004 and late 2006 Chery's engineers were invited to visit DR Motor facilities on a regular basis to follow the development of the DR5 project. The contact with Chery was very important for the development of DR Motor competence and strategy (as we will see also in the next section). DR Motor managers believe that the closer DR Motor can get to Chery and the faster DR Motor business can successfully grow as technical insights into Chery's production could help to improve the quality of the final product. Moreover, DR Motor management believed that the more trust and cooperation was formed between DR Motor and Chery and the more DR Motor will be able to introduce new car models into the market by simply adapting Chery's existing ones (e.g., two small city cars, the DR1 and DR2, are foreseen to be launched during 2009). This would contribute to DR Motor scope of product range and flexibility in marketing.

At last, future strategic joint investments with Chery are planned and could secure DR Motor business development. According to DR Motor's CEO and owner, these joint investments with Chery are of strategic importance as they reduce the overall risk involved in the DR Motor venture. Current DR Motor investment plans include the opening of a spare-parts warehouse together with Chery in Italy, a common internationalization effort into other European countries (with Spain first on the list). DR Motor also plans to complement its production capacity with the construction of a second larger manufacturing plant nearby the existing one in Italy.

The development of the DR Motor-Chery business relationship

In the beginning Chery was not so sure about how the relationship with DR Motor will develop particularly because of the weak commercial and financial position of the small Italian company. However, three years later as a consequence of DR Motor efforts to upgrade quality and safety standards in 2007, and the positive sales results in 2008, Chery considers DR Motor increasingly as a valuable partner.

The power position of Chery during the first period of negotiations has partly shifted in 2007 towards DR Motor. Chery had started accepting conditions and indications from DR Motor, in particular for what concerns homologation and standards. Later on, once the prototype of the DR5 was ready, DR Motor was formally asked by Chery to take responsibility for the security systems. Chery accepted to follow DR Motor's detailed suggestions to supply the car body with glass, headlights, and safety belts in conformity to European standards. This new situation changed the dynamics in the DR Motor and Chery relationships as suddenly DR Motor started to teach Chery how to make the new components and many meetings to share know-how between the technicians of the two firms took place. DR Motor employees went several times to China to study Chery's production line, and Chery representatives traveled to Italy to observe DR Motor's activities. According to Chery, this process had a significant impact also on Chery's suppliers as they were required to improve accordingly the quality of their deliveries.

DR Motor, being an Italian player in the European auto industry has direct responsibility for the vehicles sold and it has to give its own guarantee and service throughout

the territory. Therefore, DR Motor had to invest particularly in quality control systems as the production of all DR5's components is totally outsourced. This implies that, in the case of DR Motor, the investments that typically in the auto industry would go towards R&D were mostly directed towards quality control, and the improvement of existing components and logistics.

DR Motor, being responsible for the final product, is pushing Chery and the suppliers of other components for continuous improvements. So far much has been done by DR Motor locally in Italy as a pre-assembly and assembly activity. For instance, new bumpers and hood are produced and assembled on the Chery car body, some finishing of the car body is re-executed by DR Motor as well as new coatings and components are added. A common goal for the future is to have Chery supply many more components of good quality produced in house or outsourced locally in China. In fact, the objective is to have Chery doing more and more activities in China before shipping to DR Motor and at the same time to reduce the amount of work that DR Motor has to do to in Italy to improve and control quality. From Chery's perspective these changes in activities and routines, as well as the higher commitment of both parties directly enhance the success of the DR Motor-Chery relationship as well as Chery's overall business. In fact Chery is applying all the many technical improvements stimulated by DR Motor to their own brand vehicles and production processes in different plants in China. Moreover, many of the components developed and/or improved by DR Motor in its DR5 project to respect European safety standards have been recently (end of 2008) requested and bought by Chery, including the intellectual rights. These will be applied to other Chery vehicles and it will contribute to Chery's improvement process to reach European standards.

Chery's strategic intents

Chery's strategy has to follow the indications of the central government plan for the development of the Chinese auto industry. As part of this, Chery management is required to develop cooperation with leading engineering firms such as AVL-List Austria, Lotus Engineering, Mitsubishi Automotive Engineering, and global Tier-1 suppliers such as Bosch, Siemens-VDO, FIAT, Autoliv. However, many of the agreements announced by Chery in these years, such as the one with FIAT Power Train (FPT) for the supply and assembly in China of diesel engines for Chery and the alliance with Chrysler for the joint development of a compact car for 2009, have been cancelled. This situation has played in favor of the relationship with DR Motor. The fact of having no other relationship with companies from advanced countries has improved the perception that Chery had of the relationship with DR Motor. Moreover, being Chery an independent producer and not a JV with a foreign partner like most other Chinese automakers, it has more flexibility because it is not managed in accordance with the international partner's strategies. However, this also means that Chery to compete and survive in the tough auto industry has to grow internationally, which is not the case for the JVs companies. Chery started to export soon after the first product launch and today it exports to 30 countries, mainly in the Middle and Far East. To get closer to overseas markets, Chery opened also overseas assembly operations in Egypt, Indonesia, Iran, Russia and Uruguay. As for the key US and European markets, Chery has not yet succeed to enter them. In 2005, Chery made an agreement with Visionary Vehicles LLC for exclusive dealership of Chery automobiles in the North American market, and later on with Chrysler for a new vehicle to be launched in 2009. However, both deals were terminated particularly due to the slow development of the model for the U.S. market (e.g. many safety and emission concerns).

According to its plans, Chery was expected to hit independently the European market in 2007, but nothing yet has been marketed. Today DR Motor is the only concrete option for

Chery to have some business in Europe. The cooperation with DR Motor has been a good opportunity for Chery to test the water, learn about the market and reach European standard. The fact that DR Motor is one of the most important European car dealers has become a strategic asset for Chery that could enter the European market with DR Motor, as component supplier to DR vehicles as well as Chery-branded cars perhaps in a near future. Thus DR Motor is an opportunity to “bridgehead” Chery’s brand and vehicles into new European markets. DR Motor is positive to a joint internationalization effort and preliminary business agreements have already been reached to enter the Spanish market. The initial success of DR Motor on the Italian market with their placing on the 3rd place of the most sold SUVs in Italy in 2008 (with a 35 ML Euros in total sales during the first year) is very promising, especially considering that the Italian car market is not only an important one but is also reputed to be among the toughest. In this way DR Motor became a concrete alternative for Chery’s internationalization strategy and a great asset as source of sales and marketing knowledge.

Chery’s plans of expansion entail also a service network and spare parts warehouses in cooperation with DR Motor. The first spare parts warehouse is planned to open shortly in Italy nearby DR Motor. Overall, in this stage of development of the business relationship between DR Motor and Chery, DR Motor responded to Chery’s new commitment with increased efforts to further increase their share in the Italian and European markets with joint investments and a broader range of car models supplied directly by Chery.

Summing up, during 2008 there have been important changes in the context of Chery and DR Motor’s business relationship as well as in the auto industry in general that drove Chery to get closer to DR Motor (e.g., agreements of cooperation with other big auto corporations were terminated, recent downturn of the auto industry). Additionally, as previously mentioned, DR Motor has shown its capability to deliver quality and market success. As consequence both firms have been increasingly committing to each other, made or planned different investments, and redefined their strategies, which appear so far as complementary.

CASE ANALYSIS AND DISCUSSION

We can now apply the concepts that we discussed in our theoretical review to analyze the relationship between DR Motor and Chery. Our explicit purpose is identifying how these concepts (i.e., strategies, initiatives, interactions and interdependence) relate to each other and to the development of the relationship. The connection between these concepts is synthesized into an extant framework in the second part of our discussion. However, our starting point is to map the dynamics and changes that occurred in the focal relationship. The DR Motor-Chery relationship displays clear changes as it developed during its first five years. These five years can be distinguished into separate periods: the years 2005-7, corresponding to the “Exploratory Stage”, and the period starting from 2008, which signals the entry of this relationship into the “Developing Stage”. Our analysis now systematically identifies the nature of the two parties’ initiatives, commitments, adaptations, interdependence and relational strategies as they appear in the two stages. The main findings are summarized in the table below.

	<i>Exploratory Stage</i>		<i>Developing Stage</i>	
	DR Motor	Chery	DR Motor	Chery
Initiatives	ACTIVE -Open request of help to introduce a new car -Very first contacts and visits -Upgrade Chery's quality standards	PASSIVE -Simply deliver "naked" car bodies -Only responding to minimal requests	ACTIVE/STABLE -Launch together new models -Build spare-part warehouse together -New plant to expand production capacity for new markets	ACTIVE/INCREASED -OK for spare-parts warehouse -Joint entry in other EU countries -Implicit request for technical support and market knowledge
Commitments	HIGH -Design of the vehicle based on the Chery car body -Office in Shanghai	LOW -No product or routine changes and payment upfront	INCREASED -Larger volumes ordered of car bodies -Increased scope of purchasing, i.e. more finished components -Continue with Chery to supply the DR's new models	INCREASED -Accepting more and more product/process modifications suggested by DR -Financials for spare-parts warehouse
Adaptations	HIGH -Technical developments of components to match car body -Logistic and pre-assembly activities to match Chery's timing and quality	LOW -Simply supply of standard car body -No logistic adaptation	INCREASED -Shifting quality control and some assembly to Chery -Development of diesel engines that would fit Chery's chassis -Establish more presence in Shanghai	INCREASED -More quality control and pre-assembly -Coordination and delivery of other components to DR from other Chinese suppliers
(Inter)dependence	HIGH -Strong dependence on Chery as single supplier of car body -All shipments are via Naples harbor -Investments to homologate (AND TEST) just Chery's components	LOW -DR too small for Chery -Many other customers use capacity -No adaptations or investment for DR -No apparent need for having DR	INCREASED (a little) -Financing of joint investments -Spare parts -Extended now to several planned models -Chery affects DR internationalization strategy now	INCREASED (a lot) -DR is the only partner left in Europe -Chery is now customer of DR for know-how and components -DR's Italian market knowledge -DR's ability to adapt components to EU standards -DR's local distribution network -After-sale service
Strategy in the BR	-Obtain supply of key component (car bodies) for new product DR5 by keeping costs as low as possible	-Test the Italian market -Sell existing capacity -"Wait and see" with DR	-Obtain new models to complete range -Build service network -Enter new markets -Diminish product quality problems -Increase Chery's role in this BR	-Exploit this BR to enter European market -Transfer know-how and tech. in this BR to other Chery models (quality, safety etc.) - Improve safety standards

TABLE OF FINDINGS: Exploratory and developing stages of the DR-Chery relationship

In order to stress the dynamics, that is, how changes in each relational constructs unfold from one stage to the other, we now review our findings moving horizontally in the table, that is, row by row and for each party separately. At the end of our review we will instead connect these constructs with each other, that is, we will move vertically in the table, as this type of

connections will be the basis for our extant analytical model. Starting from the *initiatives* in the focal relationship, during the Exploratory Stage DR Motor was certainly the more active party, as in 2004 they took the first contacts with Chery with a request of help for introducing a new car model. Chery was instead rather passive and simply accepted to deliver “naked” car bodies (i.e. only a chassis) responding positively only to minimal delivery requests. During the exploratory stage DR Motor even had the chance to come with further initiative for Chery, such as upgrading the supplier’s quality standard to match the EU standards. Initiatives shift quite clearly when we move to the Developing Stage of the relationship: even if DR Motor remains active in terms of initiatives (suggesting launching together new car models, building a joint spare-parts warehouse and expanding capacity to tackle new markets), it is Chery’s initiative that become stronger at this stage, with their immediate acceptance to build the spare-parts warehouse and to enter jointly new EU countries. Moreover Chery implicitly requests at this stage DR Motor to provide technical support for Chery’s overall R&D efforts.

These changes in the parties’ initiatives are paralleled by changes in their level of *commitment*: in the Exploratory Stage DR Motor is highly committed to the relationship because they designed a wholly new vehicle based exclusively on Chery’s car body and also took the step to open an Office in Shanghai from where to interact more closely with Chery. On the contrary, Chery is only minimally committed to DR Motor as no product or routine changes have been made, while the low level of trust in the new customer is manifested in requiring upfront payments for each delivery. Things change quite radically when we move to the Developing Stage, with both actors considerably increasing their commitment to the relationship: DR Motor increases both their purchase volume and the complexity and value-added of the components they purchase, next to deciding to use Chery as a supplier for all their new models; Chery becomes more committed as it accepts to increasingly modify their products and process to accommodate more and more of DR Motor’s requests, next to allocating the financial means for the large joint investment in the spare-parts warehouse.

The above level and type of commitments are clearly manifested in the specific *adaptations* made by the two parties in the two stages of the relationship. In the Exploratory Stage it is only DR Motor who makes adaptations, in all components of the DR5 model so to match technically Chery’s standard car bodies and in their logistic and pre-assembly activities so to match Chery’s limited quality and delivery timing troubles. Signaling the increase in commitment that opens the entry to the Developing Stage, also the specific adaptations by the counterparts greatly increase: the first adaptation is a mutual one as DR Motor starts moving part of quality control and pre-assembly activities to Chery, alongside a strengthened presence in Shanghai. But even more than so DR Motor starts developing diesel engines to fit into Chery’s chassis, who never had them in their range of equipment, and in turn Chery reacts to the increase of purchase scope by DR Motor by exploiting more of its own local sub-suppliers to provide DR with more and new components.

It is particularly interesting to analyze the changes in the *interdependence* between the two firms, because the above changes in commitment and adaptations have important consequences in making the two companies grow more dependent on each other as the relationship develops from a stage to the other. We start from a situation in the Exploratory Stage where only DR Motor is highly dependent on Chery, who the single supplier of a key component, and has made large investments to homologate Chery’s specific components. In fact, at this stage DR Motor is too small a customer to create any dependence on Chery, who has not adapted anything to DR Motor’s requests nor perceives any need of having this partner. In the Developing Stage instead the two parties become much more interdependent. More precisely, DR Motor, who was already dependent, becomes only marginally more dependent for the financing on the joint spare-parts warehouse investment, for the launch of new models and for their internationalization strategy. Chery witnesses on the other hand a

very strong increase in their dependency on DR Motor, also due to changes in their own network of alliances: DR Motor seems to be the only European partner left after the problems with FIAT (originally involved for a diesel engines collaboration) and others, so Chery now needs DR Motor even more because of DR Motor's technical, market and regulation know-how, and of DR Motor's distribution and after-sale network. Moreover, on a more practical level, Chery has become dependent on DR Motor also for certain components that have adopted DR Motor design and improved standards, which Chery is starting to implement also on own different vehicles in China.

The above changes in the level of interdependence between the two actors need to be related with the changes in the *strategies* of the two actors, which indeed accompanied the transition of the relationship from one stage to the other. In fact, while the strategy of DR Motor during the Exploratory stage basically entailed becoming much more dependent on Chery than vice versa, it is only at a later stage that Chery develops a strategy that involves much more the counterpart and thereby makes Chery more dependent on DR Motor. More precisely, DR Motor's strategy was from the very beginning to *source key components for a new car model by keeping costs as low as possible*, whereas Chery's initial strategic approach was simply to *test the Italian market, maybe sell some existing capacity* with minimal efforts, and simply *"wait and see"* where the relationship with DR Motor could lead. Partly as a result of growing commitments and interdependence that propelled the relationship to the Developing stage, the strategies of the parties evolve and those of Chery change considerably. In fact, at this stage DR Motor simply broadens its initial strategic spectrum by including *the launch of new models in new markets, relying on increased service and on more help from Chery*, who from its side stretches to assigning this relationship the role of *a bridgehead to enter the European market* and to *upgrade the overall technical and quality level of all products* by Chery. It is also clear that the strategic importance of this relationship increases for both parties, while their relational strategies become more convergent and partly overlapping when moving from the Exploratory to the Developing stage.

While we now have focused on the horizontal movements in our table, it is also useful to read it "vertically", that is, to stress how changes from a stage to the next in one relational construct (e.g., strategies) relate to another (e.g., interdependence). This type of reading of our findings is the ground for building a synthesis of our finding and to relate the relational constructs into a preliminary model. Our findings show that the increased *interdependence* between the two parties derives from specific *interaction* episodes and negotiations that were triggered by the *initiatives* taken by one of the parties (e.g., to find a new key component or jointly enter the EU market) and that induced one or both of them to make certain *commitments and adaptations* (e.g., to design a vehicle based on that key component or to commit financial resources for a spare-parts warehouse). It is not possible to trace a univocal connection between *one* initiative of *one* party and the specific commitments and adaptations ensuing from it at each party. For instance, DR Motor's initiative in the Development stage to launch together with Chery new models appears related with several of DR Motor's commitments and adaptations, such as purchasing more car bodies for all these new models and also outsourcing more activities to Chery; moreover the same initiative by DR Motor results in Chery committing itself to making more modifications and adaptations, both in quality/preassembly and in involving sub-suppliers. It seems therefore that the initiative of one of the parties opens for a spiral of commitment and adaptations that sustain and multiply each other.

Moreover, the commitments and adaptations appearing during one relationship stage do not need to be related to initiatives manifested in that same stage, but can be the result of initiatives that were manifested in the previous stage. For instance, DR Motor's initiative to upgrade Chery's quality standards in the Exploratory stage directly result in a commitment of

resources by DR Motor already in the same stage, but it took substantial time before Chery did the same, with clear quality adaptations by Chery appearing only in the Development stage. Therefore, even if we identify a link between initiatives and commitments/adaptations, this connection is certainly a complex one. But for the purpose of our analysis what counts is that the initiatives of one or both parties induce commitments and adaptations which in turn change the levels of interdependence between the parties. What is then the link to strategies?

Our table places the parties’ relational strategy as the last row, stressing that mutual dependencies have an important impact on what goals and strategies the counterparts can identify and concretely pursue. For instance, only after utilizing so much of DR Motor’s technical know-how and quality control expertise (entailing increased dependence) could Chery develop a strategy based on transferring this know-how to all their products and using the relationship with DR Motor to plan entry into the European market. However, the goals and strategies of each counterpart also *pre-exist* the actual emerge of concrete interdependencies and, when manifested to the counterpart in the form of clear initiatives, these goals set into motion a cycle that via interactions further modifies the level of mutual dependence between the parties. These complex connections between our relational constructs of interests are synthesized in the figure below.

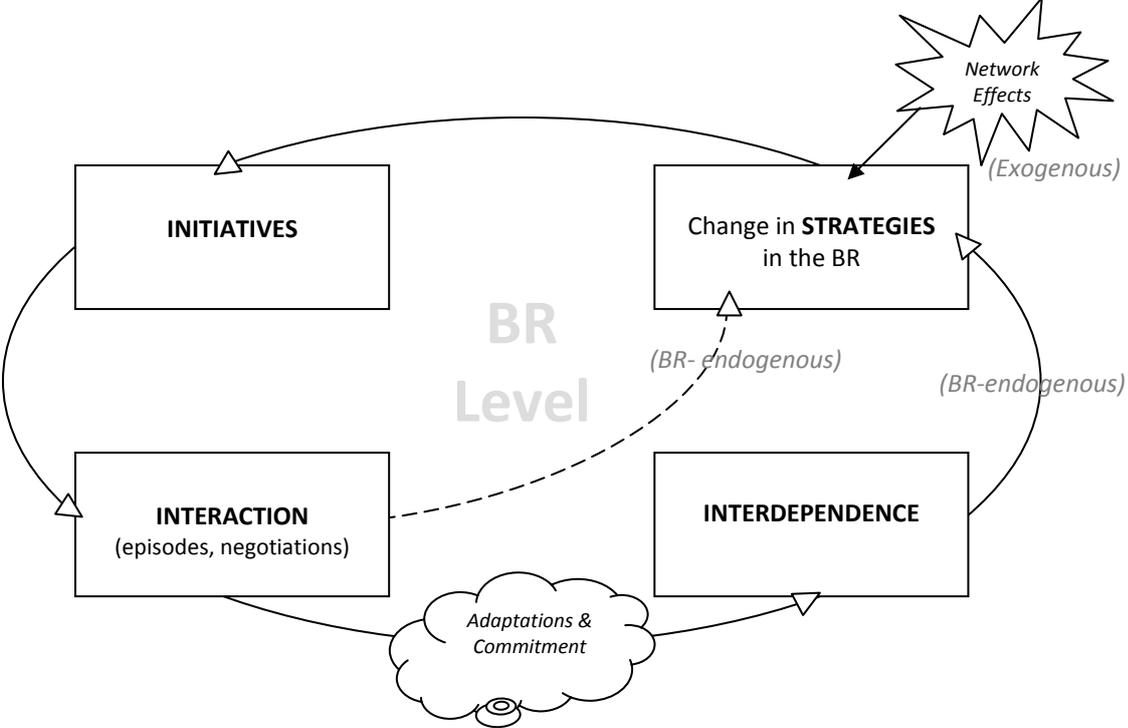


FIGURE – A framework over the development of a relationship

This model suggests a *cyclic* connection between the key relational concepts of *interaction*, *interdependence*, relational *strategies* and *initiatives*. Even if the model reads in an anticlockwise sense, there is no start and no natural end to the process of relationship development as envisaged in our model, but cycles that can be initiated by changes in any of the four key constructs. For instance, the new strategy of one actor (e.g., launching a new product) can induce this actor to take an initiative (e.g., suggesting the supplier to develop a new component), which can trigger a certain interaction with the counterpart (e.g., negotiations on prices, delivery quantities etc.). If this interaction leads to new actual adaptations and commitments, then the mutual dependence among the parties will tend to

increase creating the ground for renewed strategies (e.g., choosing to launching even more products together or to exploit the partner's resources in more extensive ways). On the contrary, a refusal to adapt or commit further resources can either reduce interdependence or directly result (via the dotted arrow) in changes in the relational strategy of one of the counterparts (e.g., choosing to launch that product even without involving that supplier or to launch a different product with that supplier onboard). Our model suggests that there are two *relationship-endogenous* ways in which a party's strategies become influenced, either simply as a result of communicative interactions such as discussions and negotiations (see the dotted arrow) or more concretely and deeply as the effect of concrete commitments and adaptations that change the level of interdependence between the parties.

Even though all concepts in our model are relational and applied to the analytical level of a business relationship, the constructs in the upper part of the model relate more to the strategic intent of the *single actors* in the relationship, whereas those in the lower part of the figure relate more explicitly to the *interactions among actors*. The contribution of the model is then in stressing how even such actor-centric constructs as strategy and initiative change not unilaterally but only when plugged into interactive cycles that involved always *at least one* counterpart. In fact, a third way in which the strategies of the counterparts can change is because of the influence of third parties, that is, actors not included in the dyad, which we term "network effects" in our model (see upper right corner). For instance, the impossibility to collaborate with other automotive firms induced Chery to assign strategic priority to the relationship with DR. These *relationship-exogenous* changes in the parties' strategies can also initiate cycles that lead to new or shifting initiatives, interaction and changes in interdependencies in the focal dyad.

As for the direction in the chain that connects these relational concepts, we already stressed that our model reads anticlockwise: this implies that changes in the strategy of one of the counterpart cannot per se and unilaterally increase or reduce the interdependence between the parties, that is, it cannot produce an effect moving clockwise in the model. For a change in strategy to make the actors more or less interdependent it will be necessary that one of them takes initiative and interacts in order to change their levels of reciprocal commitment and make concrete adaptations.

CONCLUSIONS

This paper relied on a case study featuring the relationship between the Italian DR Motor and the Chinese Chery Automobile to build a framework that connects changes in strategies and initiatives of the counterparts with the interaction and interdependence between them. Each time one of the actors is changing strategy relative to the business relationship, new initiatives will occur. Interesting is the fact that supposedly as actor strategies are different also their consequent initiatives will be, although the response of the counterpart is consequent.

The analytical framework presented relates the four mentioned concepts into a cyclic process that sustains the development of a relationship from a stage to another: for instance from the Exploratory to the Developing stage (Ford et al., 2003). Moving from one stage to another entails deepening, broadening and strengthening of the relationship. The development from these two stages is enabled if the spiral leads to increasing initiatives, commitment, adaptation and interdependence. On the contrary, we can assume that if a relationship experiences a "negative" spiral of decreasing (or negative) initiatives, commitments and interdependence, instead of deepening and strengthening, it can revert to a previous stage of development. In this case, the involved actors can even start viewing a relationship as of very

limited strategic value and consider the possibility of terminating it or simply not paying attention to it.

At last it is important to underline how this cycle characterizing the evolution of the business relationship is influenced by both endogenous factors pertinent to the relationship as well as by exogenous ones related to the network context.

Further research

An analytical limitation of our study is that it only focused on the movement between two stages of a relationship in order to understand how the process connecting shifting initiatives, strategies and other relational variables enables the development of a business relationship. Further research would be useful in order to map how the same process influences the movements of a relationship along all stages envisaged for instance in the models presented for instance by Ford (1980), Ford et al. (2003) or Dwyer, Schurr & Oh (1987).

Moreover, we explicitly chose to restrict our unit of analysis to just one business relationship. But clearly similar processes whereby strategies, initiatives, interactions and interdependencies feed on each other involve not only dyads, but also whole networks of actors. A viable approach to progressively increase the complexity of analysis would be to take a first step and apply and refine our model to encompass the interactions within a *triad* of actors (cf. Salo, Tähtinen & Ulkuniemi, forthcoming). Finally, a more conceptual issue that deserves further theoretical elaboration is whether the model presented in our figure can read only anticlockwise (or also clockwise). Reading it clockwise would imply for instance that a single actor is able to decide unilaterally the level of interdependence among the parties: is strong power in this case the construct that would enable such a situation?

Managerial implications

An important managerial implication of our model is that each party's strategies are both *drivers* and *outcomes* of the development of a business relationship. This issue goes beyond the general recognition that managers need to develop their strategies by taking into account also the current strategies of the counterpart, because it stresses that, by analyzing the previous levels of commitments and the current level of interdependences in a relationship, managers can understand more of the counterpart's strategies *even before these become crystallized*. For instance, counterparts that were totally independent are unlikely to develop strategies that rely on a certain relationship, while more dependent partners are likely to build their strategies starting from the existing texture of interdependency. While this is generally a favorable position, it can however entail the risk that a partner perceiving too much dependence will undertake strategic moves to become less dependent, including reducing its involvement in the relationship and opening for new ones. Moreover, as relational strategies depend on the level of interdependence, one way of influencing a counterpart's strategy is by changing the interdependence in that relationship: our model stresses that this change in mutual dependence can be achieved by means of specific initiatives that can trigger in turn commitments and adaptations. The challenge is thus to induce the counterparts to make commitments and adaptations that will make their strategic behavior more predictable.

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