

ANALYZING RELATIONSHIP SUCCESS

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Abstract

The basic aim of this paper is to identify and analyze the definition and role of success in business relationships. The paper introduces theoretical differentiation between firm success and relationships success, and after it the major characteristics of relationship success will be interpreted. The main outcome of the theoretical and empirical part is that relationship success can play important role in relationship development, and different success dimensions can be relevant in each development stages. In order to confirm the previous statement, the result of short case study will be also introduced. The research methodology of the paper applies qualitative semi-structured interviews with a multinational food producer in supplier position and with its buyer, a local wholesaler.

Key words: Relationship success, development, firm success, buyer-supplier relationship

Is there any connection between buyer-supplier relationship's development and the relationship success? – this research question is the major focus of this paper. In order to clearly interpret the potential connection, the first part begins with a literature review to clarify the exact definition of relationship success and introduce a model for relationship development (Ford, 1998). The second part of the paper tries to answer the research question by applying a case study, its conclusion will show an example, which success attributes can play important role in relationship development at certain stages.

Analyzing relationship success

One of the central focus in B2B researches is to identify those elements, which create success and sustainability in relationships. Although relationship success have been analyzed by several publications, majority of them do not apply exact definitions to clarify the idea of success and the meaning of its dimensions. These papers generally use implicit terminologies to express success content, such as: *efficiency, fulfilling aims and requirements, sustainability, smooth development* (Mohr & Spekman 1994, Dyer 1997, Virolainen 1998, Blomqvist 2002). In line with these concepts the majority of the publication emphasizes that the definition and perception of success are always relative and depend on the relationship counterparts' understanding of success. So the same success attributes and dimensions can have different interpretation and evaluation in different relationships.

In order to clearly understand the paper's framework, it's **necessary to differentiate firm (or business) success and relationship success**. Although the majority of publications do not provide strict rules for the difference, the two ideas can be significantly distinguished based on their content and sense. Firm success can be understood as a measurable, own performance that can be expressed – in most of the cases – via financial indicators, such as *increasing*

income and profit margin, decreasing costs and also ascendant market sharing, company size and portfolio (Ellram 1995, Humphreys et al. 2001, Chikán-Czakó, 2009). The basic essence of firm success is that its attributes are always applied only for one company's operation, its success dimensions measure the operation's efficiency of a company as an individual. Lengyel's (1999) research can underpin this approach on firm success. Lengyel questioned 540 companies in the Hungarian processing industry about business success, and his results were as follows. The most significant manifestation of business success is: increasing profit, stable liquidity and growth; and the most supportive firm activities in order to reach success are market and customer-orientated way of thinking and fair behavior with business partners. Although these elements of firm success can be realized by two companies together (via episodes and interactions), the firm success indicators always evaluated only for one individual company's point of view. Firm success expresses that companies can realize in their own accounts if they manage their relationship portfolio effectively.

In contrary **relationship success expresses that companies can realize together** by cooperating in episodes and relationship interactions. Based on quantitative research, Mohr and Spekman (1994) define two top-indicator, which express relationship success: dyadic sales and satisfaction. They interpret dyadic sales as an objective factor: its increasing numbers can indicate a deepening relationship. Satisfaction is the so-called emotional factor, which summarizes soft dimensions and play as a pre-requisite role in relationship development.

Ellram (1995) analyzed buyer-supplier relationships longer than 5 years that had different focus and intensity. Based on the questionnaires' result, the relationship success can be interpreted as: *smooth cooperation, continuous reduction of administration and transaction costs, increasing distinctive value-creation, decreasing one-sided dependency on buyer/supplier side, and creating balanced power-situation*. In order to reach this success, it's necessary to have supportive success factors on each counterpart's side, such as: two-way information sharing; top management commitment to relationship development; common aims, that can be adopted by each members; sharing examples of success with each other; and each partner should add distinctive value to the relationship.

Continuing the introduction of quantitative results Monczka (1998) et al. analyzed success-oriented parameters of buyer-supplier relationships. Based on their results, relationship success can be identified by the following attributes: mutual operation-cost reduction; efficient joint research and development activity; increasing customer service level; and smooth communication activity. In their interpretation the following success factors can support buyer and supplier companies to reach relationship success: mutual trust and commitment; solution-orientated problem solving; effective information sharing inside and among each management levels.

By analyzing B2B relationships Wimmer (2004) emphasizes those measurable performance elements that can assist relationship development and the members' mutual satisfaction. These kind of elements could be the products' high quality standard; attractive price/value ratio, decreasing lead time and increasing level of customer service, and satisfactory claim management. In this concept the good performance – e.g. mutual satisfaction and smooth development – can be considered as relationship success.

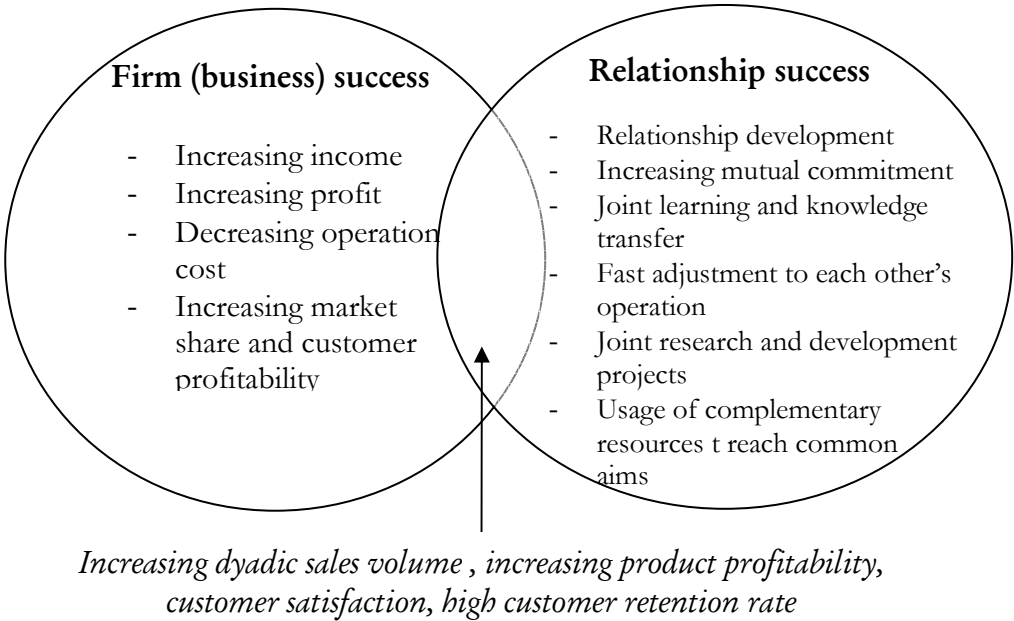
Hoffmann and Schlosser (2001) questioned 164 Austrian companies about successful cooperation with their business partners. Similarly with Ellram (a995) and Monczka (1998)

one of the major outcome of their research was that it is necessary to differentiate between success attributes and those factors which can support to reach success. These authors analyzed strategic alliances and found out that fast mutual adjustment; intensive knowledge transfer; the efficient usage of partner’s different resources and capabilities; establishment and acceptance of common strategic aims could be the most important manifestation of relationship success. Heunks (1998) research among small and medium sized companies’ partnerships had the same conclusion as above. Deep partnerships support the companies’ innovation competencies, and based on the creative cooperation the new products or organizational solutions can be the outcome of partnership’s success. Based on Henning-Thurau (2000) relationship success can be measured by customer satisfaction and retention rate. In his approach trust and commitment between counterparts are necessary to be successful, and the continuous development of customer’s skills can also play an important role in it.

Summarizing the introduced results of literature review relationship success can be described by the following statements:

- It is really important to make significant and unambiguous difference between company-level firm (or business) success and relationship success. Whilst firm success indicates the meet of one company’s – mostly financial – performance expectations; relationship success expresses the efficiency of relationship members’ joint activity and can determine the relationship’s future and development. In some cases firm and relationship success can have similar attributes, but basically the two ideas have different focus. Figure 1. illustrates the logic of firm and relationship success.

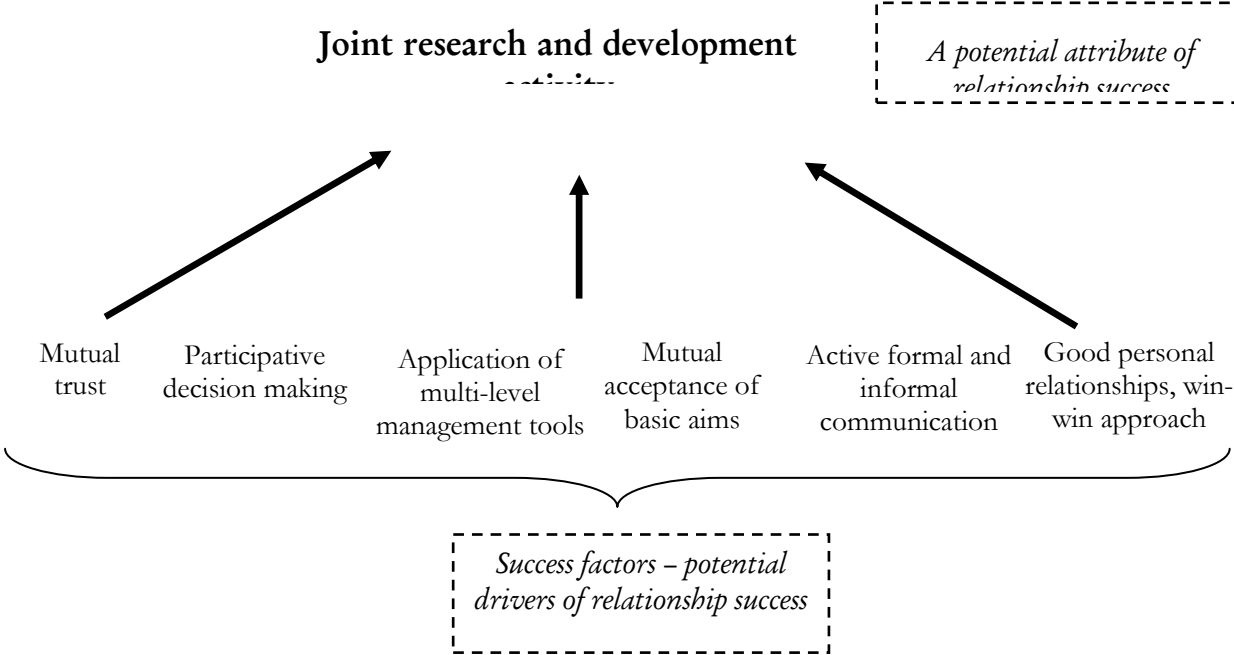
Figure 1.: Illustration of firm and relationship success



A hierarchical structure of relationship success also can be noticed. It is necessary to differentiate and identify the several different success appearance form (attributes) and the so-called success factors that can support to reach relationship success attributes. Although – as it can be seen in the literature review – this differentiation logic is not always clear in most of the cases. The success attributes can be understood as indicators of relationship members’ common performance, and success factors can be the drivers of this positive joint performance. Figure 2. illustrates one example of potential structure of relationship success.

Based on case study research results Kinnula and Jutunen (2005) emphasizes that factors of success are highly dependent of what is defined as to be an outcome of a successful relationship. They identified three major factors that can usually play important role in relationship success-realization, such as **business- related factors** (hard factors that can be measured in terms of money), **structural factors** between companies (processes and techniques that can be evaluated and assessed with e.g. process assessment methods) and **relationship-related** factors (soft, value-based, people- dependent factors that cannot be easily evaluated or measured).

Figure 2.: Potential structure of one selected relationship success attribute



Taking into consideration all the above, **relationship success can be defined** by the following way. *It can be considered as fully or partially mutual fulfillment of relationship aims and expectations – which were jointly set up and accepted by each member – and that can support relationship’s (usually long term) efficiency and development.* This kind of success is always *relationship-dependent*, so in every case the relationship members decide about the acceptance and evaluation of success attributes, and their priority. It is also important that *all members should accept and follow the common set relationship aims and expectations*, otherwise, the success can not be assessed on relationship level, it can only be realized on one company member, that can not motivate the other counterparts for continuing the relationship.

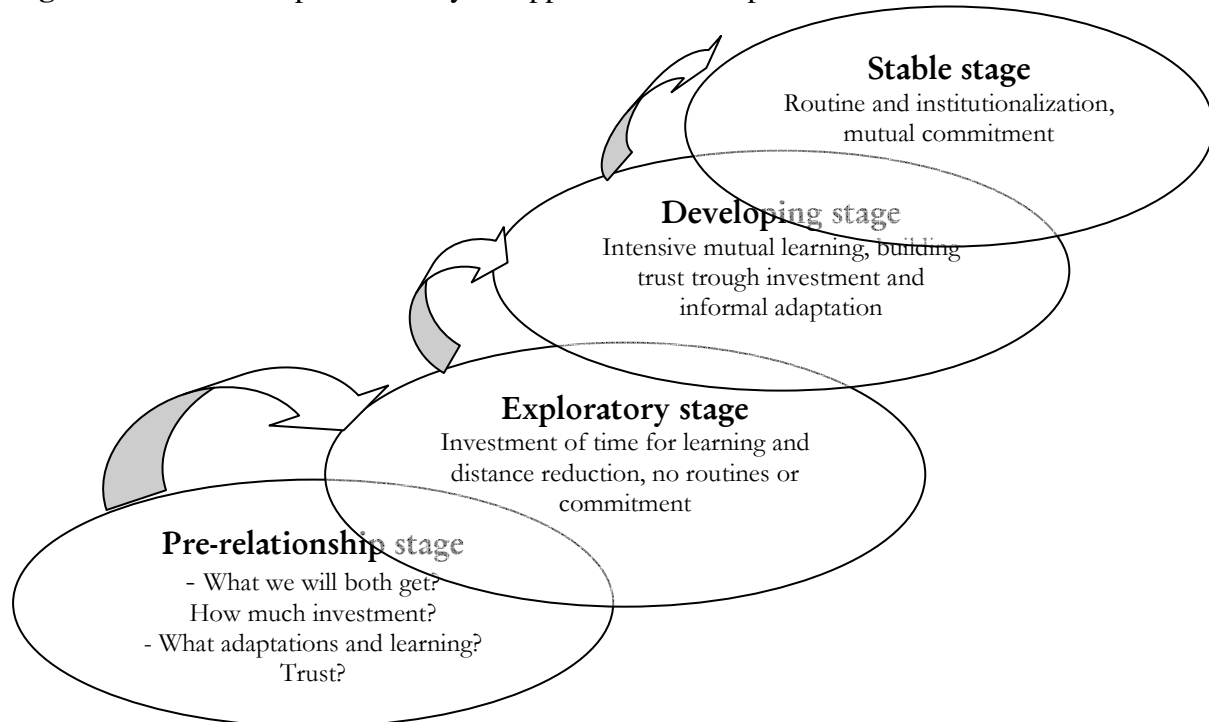
Under relationship success another important element should be understood: **time dimension**. Relationship success – as it was mentioned before – interprets the fulfillment of two partners’ common aims, and these aims can vary from time to time. But in the understanding of the introduced publications – even if it is not expressed explicitly - relationship success can be realized in the long run, because relationship development is also takes time. Short run success approach can be relevant in such authors’ viewpoints, who understand success on firm or business, not relationship level (Lengyel, 1999; Chikán-Czakó, 2009). Linkaging time dimension to success highly depends on the consistence of the relationship partner’s aims. If

the time dimensions of the aims fit to each other, success can be continuously realized; but if they are contrary with each other, it depends on management decisions whether short or long run optimization will be followed.

Relationship development

The evolution model of buyer-supplier relationship in industrial markets and more specifically the *process of establishing and developing relationship* over time have been interpreted and analyzed by Ford (1998). The author identified four projecting development stages in the process that are: 1) pre-relationship stage 2) early stage 3) development stage 4) stable stage. Ford's (1998) model illustrates the most significant processes in early relationship formations and enhances the key focuses of each stages, that are important from the development point of view. This model is especially used in introducing mutual commitment, even deeper and efficient joint activity (resource and capability transfer) as a knowledge curve, which final result is the stable relationship. The development process is manifested in increasing experience, reduction of uncertainty and distance, growing adaptation and mutual learning. Figure 3. illustrates this development and the focal characters of each stages.

Figure 3.: The development of buyer-supplier relationships in business markets



Resource: Ford, 1998:29.

The common focus of the first three stages is to establish a relationship, and continuously ensure all conditions that can be necessary for its development. Ford (1998) describes the *pre-relationship stage* consisting of high inertia and probing of mutual benefits and costs (e.g. investments, adaptations and learning). In *exploratory stage* the experiences are still minimal with high uncertainty, large process difference, and both actual and perceived commitment is low. The parties have started to adopt each other's processes, but mostly in the form of investing management time. The *developing stage* illustrates an even deeper cooperation, it contains intensive mutual learning, as well as trust creation through adaptations and

investments. This phase is characterized by intensive learning and commitment building through investment and informal adaptations. In the final *stable stage* the relationship has institutionalized and routines became developed.

Relationship success and development

Although the introduced success models provided a wide spectrum about potential definitions and concept of relationship success, they should be amended from the relationship development point of view. Supposing that relationship success is one of the main drivers of development, the different success attributes can be relevant at different relationship development stages. The satisfaction with product's quality and service level or mutual reliability can play important role in early development stages, but they can not be mentioned as final results at higher development phases. The same applies for joint research and development activity and smooth routinization, they can be relevant at higher stages, not on episode level. Table 1. provides a **potential grouping of relationship success attributes** – introduced during literature review – **relevance at different development stages**. The emphasized success attributes can support the relationship to great extent to reach higher development phases.

Table 1: Potential success attributes at each relationship development stages – based on literature review results

| Relationship development stages and relevant success attributes | | |
|--|--|--|
| Pre-relationship stage | Exploratory and development stages | Stable stage |
| <i>Partner's mutual satisfaction</i> | <i>Continuous development of operational routines and adaptation</i> | <i>Balanced power-dependence structure</i> |
| <i>Reliable, balanced service level and product</i> | <i>Decreasing administration and coordination costs</i> | <i>Mutual commitment</i> |
| | | <i>Mutual learning and knowledge transfer</i> |
| <i>Smooth cooperation on episode level</i> | <i>Increasing mutual value creation</i> | <i>Perfect adaptation on operational level</i> |
| | | <i>Joint product and process development</i> |

Summarizing the main results of the interpreted paragraphs, relationship success can be described as follows:

- Depending on the partner's preliminary aims and expectations, **relationship success can appear in different attributes** (such as mutual satisfaction, smooth cooperation, routinization, balanced power situation, etc.). **These success attributes are influenced by success factors** (such as communication form, management and decision making style and tools, trust, etc.), which are important performance drivers of the relationship. The practical and theoretical differentiation between success attributes and factors is not obvious; every relationship can have its own success-structure.
- Relationship success **can affect relationship development** and based on it, different success attributes can be relevant on each relationship development stages.

- Relationship success **expresses the common results of the counterparts**; it indicates the mutual fulfillment of their common – mostly long-term – aims.

Case study – important relationship success element from development point of view

In this paragraph a short case study will illustrate the supposed connection between relationship success, development and the identified success attributes beyond the development stages. The members of the analyzed relationship are: a multinational food supplier (subsidiary) and a Hungarian wholesaler in the petcare industry. The case study was created based on 9 deep interviews, which were made with the supplier's sales and supply chain managers (5 ones) and procurement and general managers on the buyer's side (4 ones). The scientific evaluation of the case study's results is the same as in every qualitative research. Its **validity** can be higher than the traditional quantitative results, because it provides more precise and deeper knowledge about the analyzed object. Its **reliability** can be problematical, because the researcher's subjectivity can not be strained off from the research process and evaluation, and in the end its **generalization** can be also limited.

The common history of the two companies began in the early 2000's, when – after an acquisition – the multinational supplier entered into the Hungarian petfood market. In the beginning, there were only occasional sales transactions between them, the buyer bought so-called volume-products¹ in large quantities. Because of their good price/value ratio, the supplier's products were popular among the buyers, so these transactions were repeated even frequently – episodes appeared – and the buyer started to procure even higher quantity of the supplier's premium products as well. This status can be identified as pre-relationship stage (Ford,1998), because the counterparts got contact with each other, and their continuous transactions have reached the episode level. During these episodes the relationship members were quite satisfied with each other: the supplier delivered valuable products in right quality at right time; the buyer transferred the money in time, set even more orders and submitted only reasonable claims. Both members felt that this relationship can be more productive, but they didn't put their ideas into practice: "Both of us felt that it can be a better business, but we did not find the right way of the execution. We run several business relationships parallel and developed our business alone."- said the commercial director of the supplier.

Thanks to the continuous and even growing – both in volume and product range – orders of the buyer; its relative share among the supplier's customer portfolio became even sizable. The supplier's sales representatives visited the buyer's purchasing colleagues and discussed the offered-ordered product-portfolio and its delivery requirement. Supplier also provided some kind of price and other promotions to motivate the buyer; during these procedures a quite smooth cooperation evolved between them on operation level. The dyadic sales stabilized on a relatively high level, although the majority of the orders still belonged to the 'volume-products'. Altogether, the buyer reached significant share in the supplier's customer portfolio, which was confirmed by a yearly delivery contract. The introduced processes – which can be identified as exploratory stage by Ford (1998) – took several years. The intensification of the relationship was generated by the even growing mutual reliability, which created trust between partners; and their fitting strategic aims. Although they did not harmonize their own strategy at all, their aims were to reach growing sales, company-size and market share. It has

¹ In order to utilize production capacities, the supplier manufactured economy and standard quality products in large volume with low margin – those were the 'volume-products' in the company terminology.

to be noticed that in these early stages, the processes of relationship development were managed mostly by ad hoc decisions, only very limited number of conscious, long-term orientated decision were made at that time. As the interviewers evaluated the most important outcomes of the exploratory stage is that personal bonds evolved among the two companies' staff, which supported the trust creation and process-adaptation of the companies. 'We more frequently met with each other personally, which helped us to know and understood more our companies' business operation. We honestly evaluated each other's advantages and disadvantages, provided open feedback during the communications that helped a lot to run smooth operation. During this cooperation even more trust was built between us" – said the procurement director of the buyer.

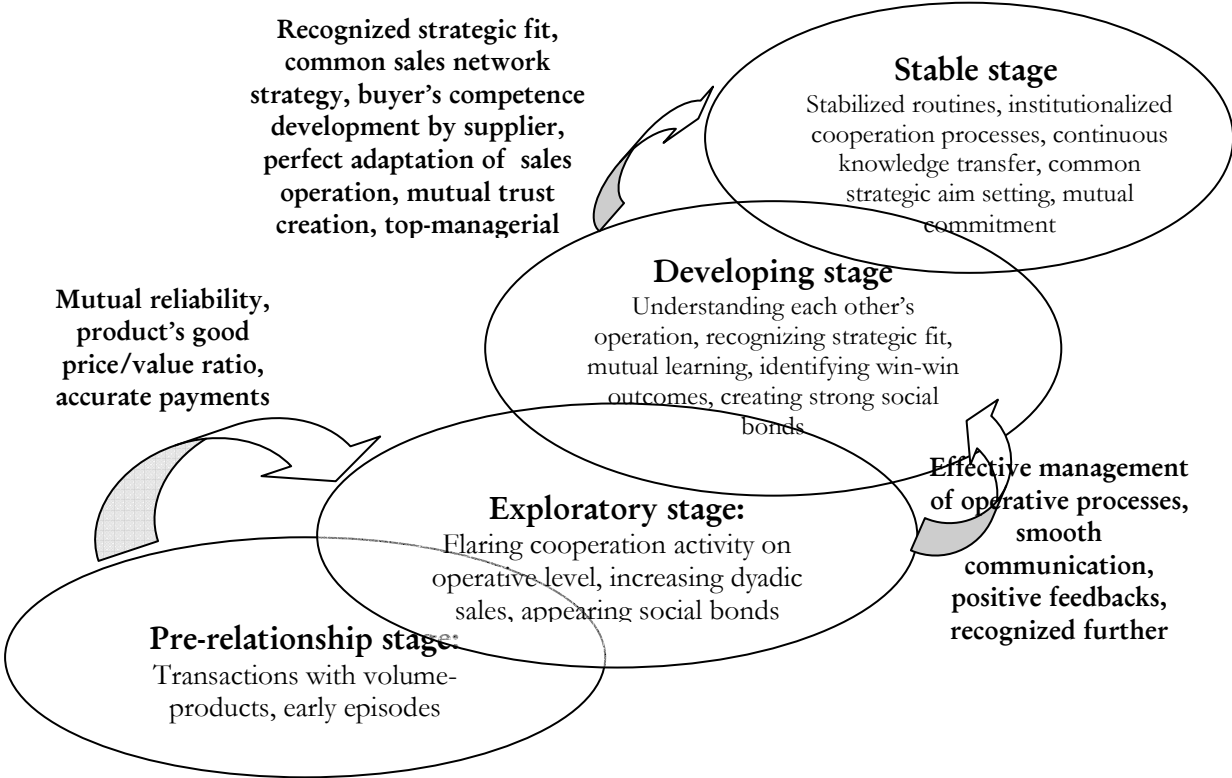
Between 2006 and 2007 there was a major change in the suppliers' strategy. The 'market share-growth' strategy reached its zenith and became unprofitable: the raw materials' prices increased, and parallel to Hungarian sales channels have saturated because of that the traditional 'volume-products' did not generated enough profit at all, the company's results got worse, and it seemed that the previous practices would not be sustainable. Responding to the market signals the supplier revised its strategy and put the focus on 'value-creator²', not 'volume-products'. It resulted the cleaning of the product and customer portfolio as well: the first priority was the superpremium and premium sales with continuous withdrawal in case of 'volume-products' and started to reduce its sales with low- profitable customers, and concentrate on that ones, who have enough potential to execute the new strategy. Parallel to a rapid concentration took place on the wholesale market, which strengthened the buyer's position, and the company became the biggest player on the wholesale market with the largest sales network. According to these parallel processes the relationship member realized the business potential of their closer cooperation. They recognized the similar points of their strategy and started to match them step by step. In these phase the cooperation processes were consciously managed on top management level. The partners harmonized their aims, expectations and the potential win-win outcomes of their cooperation. They decided about the product portfolio and sales network development together and made a frame agreement that fixed their common strategy. The supplier provided sole distribution right of their superpremium products to the wholesaler and the buyer guaranteed nationwide availability to the product within one year. This phase can be identified by the so-called *developing stage* (Ford, 1998), because the partners established the basics of their long term joint development and cooperation.

During development phase very important personal and socio-cultural dimensions of the relationships became even stronger, which generated even stronger strategic cooperation, and during the last two years the relationship reached its *stable stage*. The partners founded a joint organization for merchandising; and the supplier provides continuous knowledge transfer about the products and merchandising capabilities to the buyers' staff in the frame of 'train the trainer' program. The partners set a common procedure on operative and managerial level to harmonize their sales plan, create precise forecast and discuss actual issues and questions. There are weekly joint meetings on operation level and monthly on top-managerial level. On the top of that the partners working on the development of a joint performance measurement and reporting structure. In these two phases the relationship development speeded up: after they matched the common strategic aims the routinization and institutionalization of operative and management processes were realized within two and a half year, although the relationship is always changing.

² Premium and superpremium products with high added-value, profit margin in low volume.

Figure 4 illustrates the introduced main processes of each development stages and the success attributes of them that could play important role in the continuous and thriving relationship development.

Figure 4: Main processes of development phases and their important success attributes



Summary

The focus of this paper was to introduce the potential connection between relationship success and relationship development. Based on the literature review relationship success can be described as *fully or partially mutual fulfillment of relationship aims and expectations – which were jointly set up and accepted by each member – and that can support relationship's (usually long term) efficiency and development.* It expresses the common results of the counterparts; it indicates the mutual fulfillment of their common – mostly long-term – aims. Based on Ford's (1998) relationship development approach and the concept of relationship success it can be supposed that relationship success can support the development. As it was introduced by the case study success attributes can deepen the relationship and play important role in reaching higher development phases.

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