Handling Relationship Problems

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Submitted for Review
2011 IMP Conference, Glasgow

July 2011

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Abstract

This paper explores the darker side of business relationships through analyzing the problems that are encountered in business relationships and how they are resolved. An exploratory approach to the research is undertaken: in-depth interviews with business managers are used to provide insight into the subject area. We contribute to academic debate by expanding the exploration of the interpersonal interactions in a business-to-business context and also to management practice by giving insight in strategies that can be used to cope with the darker side of relationships.

Keywords

Dark Side, Problems, Business Relationships, Guanxi

Introduction

Exploration of business-to-business relationships and networks is the central them of IMP (Håkansson, 1982; Axelsson and Easton, 1992; Håkansson *et al*., 2009) and it is readily accepted that inter-firm relationships and networks have become a driver of competitive advantage as the business environment continues to become more intense (Mesquita, Anand and Brush, 2008). However, whilst acknowledging the importance of relationships is crucial for both academic researchers and managers alike, it is also important to be aware that relationships are not homogeneous (Ford, Gadde, Håkansson and Snehota, 2003) and can be burdensome (Håkansson and Snehota, 1998) as well as beneficial (Anderson, Håkansson and Johanson, 1994; Morgan and Hunt, 1994). Benefiting from business relationships is never automatic, because there are many factors determining relationship development (Ford 1980; (Dwyer, Schurr and Oh, 1987; Ford 1993)and some companies are simply stuck in business relationships where the profit-loss balance is questionable (Vilgon and Hertz, 2003).

There have been many attempts to categorize the dimensions that define a relationship, for example Wilson (1995) and Zolkiewski, Naudé and Waller (2008) provide some insight into the different dimensions that have been proposed. However, such conceptualizations can suggest that relationships are homogeneous rather than heterogeneous. Nonetheless, dimensions such as trust and commitment (e.g. Anderson and Weitz, 1992; Morgan and Hunt, 1994; Doney and Cannon, 1997) and power and conflict (e.g. Frazier and Rody, 1991; Geyskens, Steenkamp and Kumar, 1999) continue to receive attention. Whilst these dimensions can be suggested to represent behaviors exhibited by the parties involved (Leonidou, Palihawadana and Theodosiou, 2006) there is a tendency by researchers to accentuate the positive aspects of these behaviors, e.g. the belief that relationships are always 'win-win' (cf. Håkansson and Snehota, 1995) and stable (cf. Blois, 1997). As some of the suppliers axed by Marks and Spencer in the 1990s illustrate, relationships can result in extinction. Although opportunism and conflict (Lusch, 1976; Wathne and Heide, 2000; Welch and Wilkinson, 2005) have received attention, studies into satisfaction appear to predominate (e.g. Geyskens *et al.,* 1999). An effect, the negativity effect (Holmlund-Rytkönen and Strandvik 2005), which identifies the stronger influence of negative information than positive information on people's behaviors, also warrants attention in a business-to-business context. This mechanism was first noted in psychology research and has since been validated empirically in B2B relationship context (Odekerken-Schröder, van Birgelen, Lemmink, de Ruyter and Wetzels, 2000) but needs further exploration. A number of authors contend that the darker side of business relationships and the tools used by the companies to cope with these issues remain an under investigated area of B2B research

(Grayson and Ambler, 1999; Ford and Havila, 2003; Pressey and Tzokas, 2004; Edvardsson and Strandvik, 2009). Hence, this study responds to the suggestion that the dark side of buyer-seller relationships is an under-investigated area of research (Hibbard, Brunel Dant and Iacobucci, 2001; Holmlund and Strandvik, 2005) and explores the tactics used by SMEs to handle relationship problems. It illustrates the wide range of difficulties experienced in relationships and the wide ranging effects of these problematic incidents. We contribute to academic debate by expanding the exploration of the interpersonal interactions in a business-to-business context and also to management practice by giving insight in strategies that can be used to cope with the darker side of relationships.

The remainder of this paper is structured as follows. Firstly, extant literature is reviewed and the research gap established. Our methodology is then explained and preliminary results presented and discussed. We end with some tentative conclusions. However, as this paper reflects work-in-progress we plan to present a more developed analysis and discussion of the results during the conference.

Literature Review

The general approach within IMP leads us to understand that the key to business-to-business relationships neither favors negative nor positive interactions; it is the interactions that are the core of a relationship (Håkansson, 1982). Ritter (2000) identifies positive, negative and neutral interactions that contribute to relationship dynamics. Trust and commitment (Doney and Cannon, 1997; Morgan and Hunt, 1994) are seen as the result of positive interactions, yet it is simplistic to assume that the relationships development is smooth and always positive. Customers may remain in a relationship for many reasons, including because they want to but also because they have no alternatives (Bendapudi and Berry, 1997). Problems do occur and opportunism (Wathne and Heide, 2000) conflict and misuse of power (Vaaland and Håkansson, 2000; Welch and Wilkinson, 2005) have not disappeared from the business landscape. Even adaptations (Brennan, Turnbull and Wilson, 2003) can be used to make partners increasingly dependent on a particular supplier and result in future opportunistic behavior by either party.

There is evidence that business relationships are not always desired (Blois, 1998), nor stable (Blois, 1997), nor necessarily beneficial (Håkansson and Snehota, 1995) and whilst the idea of relational behavior is appealing it is not always put into practice (Morris, Brunyee and Page, 1998). Another area of discussion in business-to-business relationships does not concentrate on the positive aspects of relationships but on the difficulties associated with relationships. In the channels literature there is a focus on power and conflict (Lusch, 1976; Gaski, 1984; Frazier and Antia, 1995). The strategic management literature emphasizes the role of opportunism in business relationships, mainly concentrating on its corporate-level dimension (Das and Rahman 2010). From an IMP perspective attention had been paid to relationship ending (e.g. Alajoutsijärvi, Möller and Tähtinen, 2000; Tähtinen and Halinen, 2002), the network effects of conflict (Welch and Wilkinson, 2005), angry actors (Waluszewski and Håkansson, 2006), negative incidents and critical times (Holmlund and Strandvik 2005; Edvardsson and Strandvik 2009), and stress in business relationships (Holmlund-Rytkönen and Strandvik 2005). The notion of angry actors and actors' stress and their impact on relationships reemphasizes the role of social bonds in organizational relationships (Turnbull and Wilson, 1989). Even though there is some evidence that various affective aspects of business relationships become less important in mature stages of the relationship (Grayson and Ambler, 1999; Pressey and Tzokas, 2004), the social ties between representatives of cooperating companies seem to be important at all stages (Pressey and Tzokas, 2004). Prior studies suggest that in strategic alliances inter-organizational ties need to be supported by the development of cross-organizational social ties. Hutt et al. (2000, p. 51) state in this context that "many alliances fail to meet expectations because little attention is given to nurturing the close working relationships and interpersonal connections that unite the partnering organizations". Yet, these social bonds or the lack of them receive limited explicit attention in business-to-business research. Ingram and Roberts (2000) conclude that most studies on business relationships focus only on inter-organizational ties and do not incorporate any considerations of interpersonal relationships between companies into their research.

Interpersonal bonding is discussed with respect to qualities of sales representatives, e.g., Doney and Cannon (1997), boundary spanning personnel, e.g., Paulin, Ferguson and Payaud (2000) and the influence of key personnel on relationship ending (Perrien, Paradis and Banting, 1995; Bendapudi and Leone, 2002; Zolkiewski *et al*., 2008). However, these have tended to be more apparent when special contexts are being considered rather than being a part of the everyday interactions in the whole business relationship. Thus we perhaps need to be cognizant of Cova and Salle's (2006) recommendations and seek insight from the work of our colleagues in consumer behavior or even from other disciplines to assist in our understanding of the area.

For example, Fournier and Mick (1999), in a consumer context, illustrate that satisfaction is an active dynamic process which includes a strong social dimension in which emotion plays a role. It can be contended that such insight may be readily transferred into a business-to-business context. Implicit in this is the idea that communication is a key element in the process and it is also widely recognized that communication is a central aspect of business-to-business relationships (Cunningham and Turnbull, 1982; Alajoutsijärvi et al., 2000; Håkansson *et al.*, 2009).

Kowalski, Walker, Wilkinson, Queen and Sharpe (2003) investigate aversive behaviors including lying, betrayal and cheating and note that they are not unusual occurrences and that the perpetrator and victims tend to have different perceptions of the events. Nonetheless, they also note that the relationships seem to remain resilient. As they note that this behavior tends to occur in the context of intimate relationships it could perhaps be contended that aversive behavior tends to occur more frequently in close business relationships. Bagozzi (2006) confirms the need to consider both positive and negative emotions in business-to-business relationships and not always to take a purely economic approach to business relationships, thus suggesting the salience of considering aversive behaviours in a business-to-business context. Grégoire, Laufer and Tripp (2010) describe situations of consumer revenge, which include vandalism of the supplier's property in addition to negative word of mouth or insulting front-line representatives, which may be perceived to be more usual responses. They also identify two forms of revenge, 'face-to-face' and 'behind a firm's back'. Grégoire *et al*., (2010) believe the prime motivator to be the perceived greed of the supplier but also identify perceived fairness, blame and power as important influential dimensions. Perceived fairness has been identified as important by Tuusjärvi and Blois (2004) in a business-to-business context.

In an intra-organizational context, De Clercq, Thongpapanl and Dimov (2009) have noted that social relationships have a positive effect on the relationship between task conflict and innovation. They note however that trust suppresses this effect. They also see that stronger social interaction has a negative effect upon relational conflict. This illustrates the importance of isolating what the cause of the conflict is and also raises interesting questions about the effect of trust on the darker aspects of relationships. We would also contend that it would be interesting to explore these effects in a wider inter-organizational context.

There has been much more research into the factors that lead to positive rather than negative aspects of business relationships, but this gap is even more evident when we consider the scarcity of studies which have focused explicitly on how companies may deal with the darker side of relationships. On the general level, there are three main theoretical frameworks which may be used while conceptualizing strategies to handle problems in business relationships. Firstly, transaction cost economics suggests that a partner's opportunism might be controlled through monitoring the partner's behavior and offering long-term incentives for a cooperative approach (Williamson, 1975; Lal 1990). Secondly, social capital studies emphasize the role of embeddedness of economic transactions which mitigate the risk of opportunism (Granovetter, 1985; Uzzi, 1996). Thirdly, the IMP approach suggests interactive processes of solving relationship problems by "suggesting, requesting, requiring, reacting, performing and adapting activities" taking into consideration the inter-linkages between actions undertaken in a given relationship within the whole network of actors that surrounds this relationship (Ford and Havila, 2003, p. 8).

There have also been a few explicit attempts to propose strategies related to problems in business relationships. Wathne and Heide (2000) developed a conceptual framework of governance strategies that can be used to manage different forms of opportunism. This framework synthesized transaction cost economics and social capital studies. Namely, they proposed monitoring, incentives, selection and socializing as four methods of managing opportunism. More recently, in the context of buyer-seller relationships Holmlund and Strandvik (2005) conceptualized a model of negative incident management. They propose that this takes the form of systematic monitoring of disturbances in interactions with buyers in order to reveal hot spots which are the areas of high risk of negative incidents. This process should reveal the reasons behind frequently occurring problems and provide the basis for improvement actions. The above studies should be treated as important attempts to enhance our knowledge of strategies to deal with relationship problems, but they are also limited in because they were mostly conceptual in nature. Thus, the mechanisms that are used by managers to solve problems in their business relationships remains largely unexplored.

The above discussion is designed to illustrate the level of development of extant business-to-business literature with respect to the darker side of relationships and also the areas that may prove fruitful to our research. Given the unknown nature of this, we have taken an exploratory and somewhat grounded approach to its investigation and are motivated by a single objective which is to explore the problems that occur in business relationships and managerial tools to cope with them

There are various terms used in the literature to describe negative aspects of business relationships, such us opportunism, conflict and negative incidents. In order to explore this area as broadly as possibly, we prefer to use the term: relationship problem. In accordance with the definition of relationship problem proposed by Ford and Havila (2003) and the definition of negative incident proposed by Holmlund and Strandvik (2005), we take a broad definition of a business relationship problem. Such a problem is perceived by the focal company as the dangers and disturbances in its interactions with business partners. We also take a broad view of business partners and see it as including organizations that are perceived by the given focal company as key supporters of their market success, which may include buyers, suppliers and companies from a similar or the same industry.

Research Methodology

The field research was conducted in the United Kingdom. Taking into consideration the sensitive nature of this area of investigation, a qualitative study using semi-structured, depth face-to-face interviews and a purposive sample was employed to explore the research problem. Every interview was retrospective. The respondents provided stories describing critical incidents which took place in their relationships with various contractors (suppliers, alliance partners, key customers). Each manager was initially asked to identify the companies and the organizations in their business environment which are important for their market success and which were going through various stages, both: positive and problematic. Thus, in case of every SME that took part in our study, there was slightly different set of business partners discussed.

The positive aspects of business relationships were explored however the focus was mainly on the negative incidents which represent "…deviation from the expected by either or both parties in the relationship and caused by a failure or change in the interactions or the context" (Holmlund and Strandvik 2005: 229). The respondents were also asked about the mechanisms they used to handle negative incidents and the extent to which they appeared successful.

In total 22 managers of SMEs were interviewed which resulted in about 350 pages of interview transcriptions and more than 60 narratives referring to incidents critical to business relationships. The interviews usually started with general questions about the company's target market, the range of products and business partners. These were followed by questions about motives for developing business relationships and benefits acquired from relationships in comparison with arms-length business relations. The problematic issues referring to business relationships were discussed later.

Data Analysis

The data were analyzed using a grounded approach with an inductive philosophy guiding this analysis. The texts were reviewed carefully and the themes that emerged were noted and codes allocated to identify them. Examples of codes that emerged are presented in Tables 1 & 2 below.

Table 1 Relationship Problems

more demanding approach
employees' laziness
fines anti-monopolist
illegal price fixing
inter-cultural differences
inter-organizational (mis)match
economic slowdown
limited alternatives/higher supply risk
distant relationship
more demanding customers
nepotism
not(knowing) each other
opportunism
personal (mis)matching
personal threat
power
lack of trust
conflict around customer expectations/satisfaction
(non)controlling emotions
(not)careful promising/expectations
(not)taking lessons
aggressive industry
autocratic leader
bad communication
ending relationship
competitive competencies
stress
conflict around payment on time
conflict around reporting progress of service
conflict around the counterpart's adaptation
conflict between firms with same competencies
corruption
critical incident
difficult economic climate
big customer/supplier relation
(anti)price-based relations
unfair behaviors
problematic person leaves the company
similarities/differences between persons

Findings

The findings from the interviews suggested that SME managers use both social networks and business networks to achieve business objectives and they usually use social ties (e.g. school friends) at the stage of setting up the business. The social dimension of business partnerships appears to be embedded in its commercial aspects and the most important benefit that the manager may have from these relationships is the access to favors from other business people and overcoming the limitations of formal structures and procedures. It was also revealed that managers tend to develop business relationships on the basis of personal matching, which means that, in case of SMEs, organizational compatibility (e.g. resource matching) might be treated as a necessary but not sufficient condition for relationship development.

Respondents experienced various disturbances in their business partnerships relating to a relationship partner, the relationship nature or the context of relationship. In 2010 managers of SMEs felt very strongly the effects of the global financial crisis and they treated this as the trigger for a lot of their relationship problems, especially with regard to customer relationships. Other typical relationship problems referred to issues such as inter-organizational and personal mismatch, reconfiguration of relationship contacts, hidden opportunistic motives, competitive competencies, payment delays, unfulfilled promises and negative word of mouth. Sometimes a negative incident resulted in relationship termination and frequently the company was able to deal with the problem through receiving favors from another business partner. The tactics helpful in dealing with opportunism comprise so-called tit-for-tat, mainly showing initially a pro-joint gain attitude, monitoring partner's behaviors and then taking lessons/behaving accordingly. It was also suggested that you should control emotions, take responsibility and intensify communication with the relationship partner when the problem is revealed.

Table 2 Handling Problems (Tactics)

publishing papers
problematic person leaves the company
(non)controlling emotions
(not)careful promising/expectations
(not)taking lessons
good communication
indirect relationships/network
power
face2face
using friend for mitigating conflict
Assigning another person to relationship
building/using trust between partners
legal tools
formal mediation
ending relationship
Using personal relations

Intercultural differences appear to be frequently experienced by managers of UK SMEs which is perhaps not surprising taking into consideration the international character of UK society and UK business. A significant number of managers participating in the study reported that they had some foreign country origins and some of them had established business partnerships outside the UK (e.g. China, Indonesia). On the basis of interviewees' narratives some general differences between business relationships in the UK and other regions were identified. This study generally confirms the phenomenon of Guanxi as the specific type of business relationships developed in Asian societies (Wang, 2007), however a lot of Guanxi-like dimensions were revealed in business relationships maintained by UK-based SMEs.

Discussion and Conclusions

Most of the issues associated with relationship problems raised by the managers have been previously discussed in the literature. In this context our study might be treated as an attempt to test the validity of some prior conceptualizations in a specific setting of UK-based small and medium sized companies. The findings support the thesis by Masten (1988) that opportunism and other negatively perceived relationship behaviors can take place under any circumstances, even if certain conditions facilitate them (Wathne and Heide 2000; Das and Rahman 2010). As the financial crisis impacts on the strategies of SMEs in various parts of the world (Carmen and Miika, 2009; Liu 2009; Dyczkowski 2010), there is no reason to believe that it does not impact on their approaches toward business partnering. Our study, suggests that the global financial crisis stimulated problems in the relationships of UK-based SMEs. The crisis forced companies to seek cuts in costs and it increased the intensity of cost- and payment-related conflicts between SMEs and their suppliers and customers.

We believe that the main contribution of our research is in revealing some social aspects of business relationships that have been neglected in the business-to-business literature and which have only been treated as important in research contexts different to ours. Generally speaking our study suggests that some phenomena which have only been treated as serious problems in attempts to build business relationships in emerging economies may also be observable in highly developed economies, such us UK. For example, the lack of formal effective institutional support in developing countries which forces companies to use personal gifts with other business people and corrupt politicians as a method to protect the company from opportunism of various entities in the environment has been identified (Xin and Pearce, 1996; Peng and Luo, 2000; Jansson, Johanson and Ramström, 2007). Our study revealed that such practices as providing business partners with personal gifts are sometimes used by companies in the UK. The informants were strongly resistant to providing detailed stories with regard to this phenomenon, but some of them confirmed using such practices and reported them to be effective practices. It is important to emphasize that these practices were reported not only in case of companies where the informant had some foreign origins but also in case of natives.

Secondly, we observed a lot of guanxi-type phenomena during our interviews in the UK. Even if there is no consensus with regard to the domain of guanxi, it is usually treated as a Far-Eastern (or explicitly Chinese) phenomenon and is defined as exchanging favors thought personal ties with other business people and politicians for business purposes (Li and Zhang, 2007; Gu, Hung and Tse, 2008; Sheng, Zhou and Li, 2011). It is suggested that guanxi gives companies access to various types of resources and preferential treatment in relation to other companies and government. Wang (2007) suggested that guanxi practices are clearly distinct from relationship-related strategies utilized in Western economies, which are much more formalized, impersonal and based on corporate-level routines. However, his theoretical comparison of guanxi and relationship marketing referred mostly to consumer market settings and industrial networks in business marketing were not covered in the discussion. Thus, we argue that our study develops our understanding of business relationships by providing the evidence for guanxi-type relationships as methods used to handle relationship problems in the UK[ii]. It remains in line with multidimensional view of business relationships in industrial networks, where "social bonds" are treated as one of the three main substances of business relationships (the A-R-A model, Håkansson and Johanson. 1992). We believe that our study contributes to the call for cross-validation of research constructs developed in specific developing countries in different research settings. Burgess and Steenkamp (2006, p. 340) suggested explicitly with regard to such concepts as "guanxi" (origins in China) or "ubuntu" (origins in Africa) that: "An interesting question is whether these and other constructs are purely indigenous constructs or can also be fruitfully employed in other EMs [*emerging markets*] and perhaps even in HICs [*high income, industrialized countries*]". This study answers this question positively. The informants provided various stories about handling relationship conflicts purely by asking some employees in other companies for favors. If there was a close social tie in place, these people would return some previously received favors. This finding opens interesting avenues for further research. For example, as existing management studies emphasize the importance of some practices implemented at a corporate level and learned routines of behaviors (Zollo and Winter 2002) which has been supported as effective in relationship-based competitive advantage (Walter, Auer and Ritter, 2006; Ritter and Geersbro, 2010), these studies might be enriched in the future by studying the relative influences of corporate-level routines oriented at business relationships and guanxi-type ties on company performance. We argue that such studies might be beneficial also for business practices, as today companies may need to balance investments in various relationship building methods. On the more general level, we believe that this study might be treated as the evidence that social aspects of business relationships remain largely unexplored and research models would benefit from incorporating these aspects in the future.

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[i] The authors wish to acknowledge the support of the European Commission’s Marie Curie Fellowship Scheme for collecting this data. The main data was collected by a Marie Curie Research Fellow.

[ii] Again, it is important to emphasize that guanxi-type practices were reported not only in case of UK companies, where the informant had some foreign origins but also in the case of UK natives.