

Business relationship crisis and local entrepreneurial community change. A conceptual framework.

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ABSTRACT

This paper deals with industrial firms facing with customer relationship crisis. The main aim of the paper is to propose a conceptualization of the strategy potentially implemented by the company experiencing relationship crisis and the effects on local entrepreneurial community supply networks. To this aim the paper presents a theoretical background on IMP derived literature on the ending and staying in business relationship. After, a discussion on teaching and learning in business relationships is shown to develop an interactive view on local entrepreneurial community change. Finally a conceptual matrix is proposed and discussed.

Keywords: *interaction, network dynamics, business relationship crisis, business networks, local community*

INTRODUCTION

The paper, conceptual in nature, proposes an analysis of the interplay between business relationship crisis and local entrepreneurial community change in high-cost factors countries.

In recent decades suppliers in developed countries have lost much of their competitive advantage with respect to emerging countries competitors. More recently, the global economic crisis has emphasized the importance of the maintenance of manufacturing companies within economies of older industrialization. The reasons for the crisis of manufacturing companies in developed countries have been interpreted in terms of the costs of the factors and the subsequently growth of developing countries (Andersen, 2006). This paper proposes a more general explanation of the reasons that determine the possibility of failure or success of manufacturing firms in industrialized countries. These reasons focus on the micro level of interactions among suppliers in developed countries and their customers. In particular, the ability to keep manufacturing in high-cost factor countries is seen as a consequence of customer interactions and their implications on the supplier's network.

The specific aim of this paper is therefore to develop alternative theory on the relational paths in the interactions between buyer and supplier and the consequent implications on the supplier's business networks at a local level. The paper specifically aims at answering to the following research questions: What are the relationship strategies implemented to face with customer relationships crisis? What are the effects on local entrepreneurial community change?

To these aims, the paper firstly proposes a literature review on business relationships crisis according IMP derived literature. Secondly an interpretation of local entrepreneurial community change is presented recurring to the concepts of focal firm and gatekeeping. A theoretical framework is then proposed. Two supplier's relational strategies are identified, *integration* and *substitution*, and a conceptual *matrix* is presented to point out the main effects of relational strategies on local community change. The paper ends with future research and limitations.

A BRIEF LITERATURE REVIEW: TO END OR NOT TO END BUSINESS RELATIONSHIPS?

Business relationship crisis is a phenomenon which has received minor attention among marketing scholars. It has been argued that relationships weakening and crisis can be the result of opportunistic behaviour among parties (Wang et al 2010). In other words, the discrepancy and incoherence in buyer-seller exchange can be the cause for relationship ending due to a higher level of conflict among the parties (Humpries et al 2009; Morgan and Hunt, 1994). Other scholars have pointed out the role of externalities in creating relationship tensions (Grewal et al 2007) which can be lead also to a sudden death of buyer-seller relationships (Hallen and Johansson, 2004)

Within IMP literature, business relationship crisis has been described recurring to various concepts, with different meanings, although all deputed to describe business relationship decline.

A stream of research has focused on the changing of the relationship looking at how trust and commitment evolve during time between the two actors in the interaction. In particular, the decision to maintain or to end a business relationship has been interpreted in terms of "*relationship strength*" and "*relationship weakness*" (Rytönen and Strandvik, 2005). In particular "*relationship strength*" is considered to be related to an increasing role of commitment among parties and bonds among actors. Consequently, relationship strength is defined as a "comprehensive concept which can be operationalized as the degree of reluctance to end a relationship and to which other concepts, such as value, satisfaction, quality and commitment can be seen as antecedents" (Rytönen and

Strandvik, 2005, p. 13). The opposite concept of *relationship weakness*, instead, can lead to business relationship decline or closure.

Other authors, such as Hakansson (2006), propose a similar concept of “relationship strength” analysing “*relationship thickening*”. This concept refers to a more direct and greater interaction among customers and suppliers, with some business relationship become less “thin” with respect to others.

The processes of strengthening or weakening of a business relationship may derive from stress factors, commonly identified with the term “*relationship stress*”, intended to be critical events which can generate tension and stress among actors. The relationship stress has been defined as a perception at organizational level of “a function of the perceptions of those individuals who are significant in a business relationship” (Rytkönen and Strandvik, 2005p. 14). Gronhaug et al (1999) point out how stress factors may be considered looking both to the business relationship in itself or to general context surrounding it. Halinen and Tahtinen (2002) identify predisposing factors, precipitating factors and attenuating factors which single considered or together may cause stress in business relationship.

Moreover, Edvardsson and Strandvik (2009), highlight how, in the reality, is not possible to isolate single factors or a combination of them to explain relationship stress and the changing nature of business relationships. In other words, according to the two authors, instead of interpreting relationship stress as a matter of “critical incidents”, “critical events”, “precipitating events” or “negative incidents”, it should be highlighted the relevant concept of “*critical time*” in business relationship. Critical time is intended to be as a stress period which can increase relationship sensitivity, leading to changes. According to this view, the analysis of business relationship decline and crisis should be interpreted in terms of critical time which are timely and space embedded within the relationship. In general, within the IMP literature, relationship stress is considered in negative terms, as antecedents of business relationship decline and ending, as it is normally the results of perceived cumulative effects of negative experiences in the business relationship stemming from incidents not meeting expectations or comparison standard.

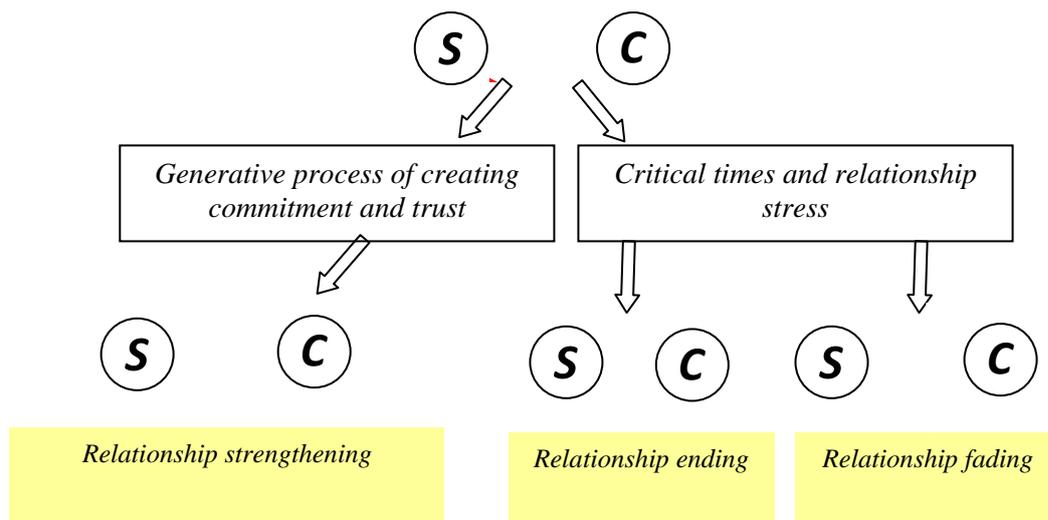
Consequently, relationship stress may generate different negative effects on business relationship. A part from the already cited relationship weakening, stress factors may lead to: “*relationship fading*” or/and “*relationship ending*”. While relationship weakening is commonly defined in contrast with relationship strengthening (as a degenerative process of relationship strength), the two concepts of fading and ending are autonomous conceptual categories, although directly correlated with the above mentioned terms.

Relationship fading is in general identified as a “phase in which relationship seems to be weakening and declining” (Olkkonen and Tuominen, 2008). Relationship fading can be an antecedent of temporary relationship weakening or may generate a business relationship ending. In other words, it can be related either to the “staying in the relationship” or to the “ending of the relationship” (Tuominen and Kettunen, 2003). Moreover, relationship fading may be associated with discontinuity in business relationship, with period of high activities and other with no activities among the parties (Easton and Araujo, 1994). Gronhaug et al (1999) define relationship fading as the “process whereby the strength of a relationship is permanently or temporally weakening and declining due to active or passive structural or situational reasons, but in which the outcome is not known”. In this context, the nature of fading is interpreted as “active if an actor is seeking a decline in the relationship but passive if the fading takes place with no deliberate actions to bring it about”. In other words, relationship fading may be the result of an intentional behaviour of one of the two parties or it can emerge without a planned behaviour within relationship interactions. “*Triggers of fading*” are commonly considered stress factors which may cause relationship fading.

Although fading may lead to staying in the relationship, it is often associated with relationship ending. “*Relationship ending*” is a general term which has been used to identify various situations which have in common the ending of all activities links, resources ties among two actors (Tahtinen and Halinen, 2000). Tidstrom and Ahman (2006) point out how the concept of ending has been

considered recurring to different terms such as break-up (Baxter, 1985), dissolution (Seabright et al 1992; Alajoutsijarvi et al 2000), divorce (Perrien et al., 1994), exit (Alajoutsijarvi et al 2000; Hakansson and Snehota, 1995), closure (Havila and Medlin, 2011) and termination (Ping and Dwyer, 1992). All these concepts have different meanings, some are related to the intentional strategy of one firm to end a business relationship (such as the concepts of exit or termination) some have a more general meaning (such as dissolution). But all refer to business relationship closure. According to Halinen and Tahtinen (2002) it is possible to identify different types of ending considering the specific nature of the business relationship. In particular, the two authors, following a previous approach developed by Ping and Dwyer (1992) and Ping (1997) with regard to marketing channels, divide business relationships into three main types to study business relationship ending: continuous, terminal and episodic. According to the type of business relationship the ending can be chosen, forced, natural, desired or predetermined. In fact, continuous relationships can come to an end owing to a deliberate intention of one of the two actors (chosen ending) or to a more general event which occurs in the business network in which the relationship is embedded (forced ending) or to a general fading of the relationship due to the changing stage in the life cycle (natural ending). Terminal relationships refer to relationships which are considered to be as burdens but whose closure is not possible. In this case, the actors' willingness to close the relationship will be realized as soon as circumstances can permit the dissolution (desired ending). Episodic relationships are developed when the two actors share for a time period a common goal. In this case the relationship ends at the reaching of the common aim (predetermined ending). As an example, companies which sell project-to-order must in fact face with great predetermined ending in the economic relationship with their clients (Cova et al 1996). According to these concepts and following the conviction that not all relationships can generate advantages to the firm, in so representing burdens, within the IMP literature it is possible to consider "business relationship portfolio models" (Olsen and Ellram, 1997). These portfolio models are developed with the specific aim to identify what relationships to end and what to maintain. Figure 1 summarizes the main concepts related to crisis in supplier (S) - customer (C) relationship proposed within the IMP literature and the interrelations among them.

Figure 1. Business relationship dynamic in IMP literature



Source: author's elaboration

In this theoretical context, our paper aiming at shading light on business relationship crisis. In particular, in our view business relationship crisis has not to be intended only in terms of fading and the process (more or less rapid) of coming to an end of business relationship. Rather, we consider relationship crisis as a state which can have positive effects on the relationship, leading to relationship strengthening, by means of a general rethinking and reconfiguration of the specific business relationship. This interpretation of crisis has received minor attention among scholars, and in our opinion, can be valuable in giving interesting evidences both considering the business relationship and business network dynamic.

TEACHING AND LEARNING IN INTERACTION AND LOCAL ENTREPRENEURIAL COMMUNITY CHANGE

The study of business relationship crisis will be considered in this paper taking into account local entrepreneurial community change. In particular we will develop consideration regarding business relationship crisis between a local actor (as a supplier) and a key customer and the effects for local community change.

To this aim we consider actors belonging to local communities as those actors which are immersed in a context that is underneath or overlapped to interorganizational networks. This context can take the characteristics of social network where relationships have been built historically in terms of geographical/physical proximity. These relationships may have produced institutions (rules, roles, etc..) and a shared culture that can be intense and may promote processes of *learning* and *teaching*. Learning and teaching can be generated at "firm" as well as at interaction "between actors" levels. These concepts are relevant especially within "industrial districts" (Marshall 1890, Becattini 1979) and "clusters" (Porter, 1998) literature.

Now keep in mind that the company may have different degrees of belonging to a local system, as we can identify two extremes: "completely local" firm and "completely non-local" firm. The belonging to a local system can be considered with respect to different criteria. We can consider that the firm belongs to the local system because its physical organization has its base in the local area (principle of actor's localization). On the other hand we can consider the enterprise as part of the system as it interacts exclusively/predominantly with other actors at a local level (principle of interaction localization).

According to the criterion of the interaction localization, a firm in a local system may in fact lie, conceptually, at different positions along a continuum between these two extremes:

- it only interacts with other actors/organizations within the local system;
- it only interacts with other actors/organizations outside the local system.

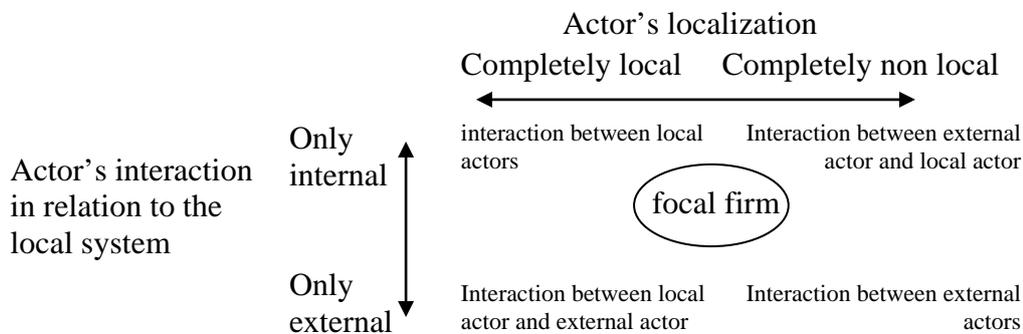
According to the criterion of the actor's localization, a firm in a local system can take rather different positions along the following continuum:

- it has an organization with only a local presence;
- it has an organization with a presence not only local.

In a local system, for example, we may have some organizations that interact only with actors within the system, and another group of actors that may have interactions with actors both internal and external to the local system. We hypothesize that interactions with internal/external actors can define the boundaries (internal/external) of the interaction context too. We may also have players who have interactions only (basically) with organizations outside the system.

In this context, we will recur to the concept of focal firm to study the impacts on local systems of the crisis in business relationships. In particular, the interaction among actors is examined here as a process of change related to the dynamics of learning and teaching in business relationships. At the local system level this process of change can be caused by both internal and external interactions, generating impacts which can be interpreted recurring to a network analysis. In this paper, we will use the term "*focal firms*", to identify those firms that, having interactions with actors outside the system and interactions with actors within the system, act as "*gatekeepers*". They transmit to the local system learning developed in the interactions with external actors. At the same time, focal firms can activate teaching processes with external actors based on the knowledge accumulated within the local system (technologies, skills and other resources). A description of the types of interactions and the position that focal companies can take in terms of interactions is shown in figure 2.

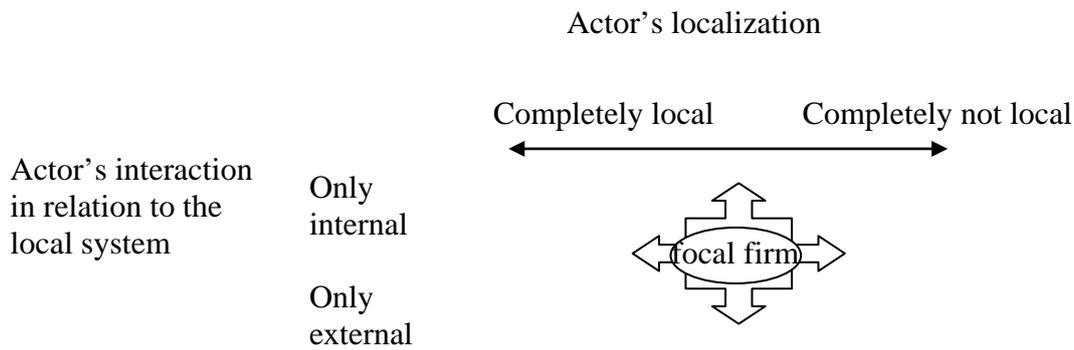
Figure 2. Focal firm as gatekeeper among external and internal actors to the local system



Source: author's elaboration

Business relationship crisis can be considered in relation to actors in a local system, taking into account all the situations in figure 2 where a local actor is present. In these situations the issue of crisis in customer relationships can be different according to the specific position that individual firms have in the network. There can be actors interacting only on a local base, and actors which interact both at a local and non local level. The "focal firm" plays a central role in the learning and teaching processes as its internal and external interactions may be the base to be the gatekeeper between the local system it belongs to and the external context. Business relationship crisis between the focal firm and its key clients may have dramatic effects on the local system. It may provoke the substitution of local sub-suppliers or it may generate, at the same time, learning processes (of existing or new sub-suppliers). It may also provoke a shift of the focal company in terms of localization either in the actor's or in the interaction dimensions (figure 3).

Figure 3. Focal firm shift towards different positions

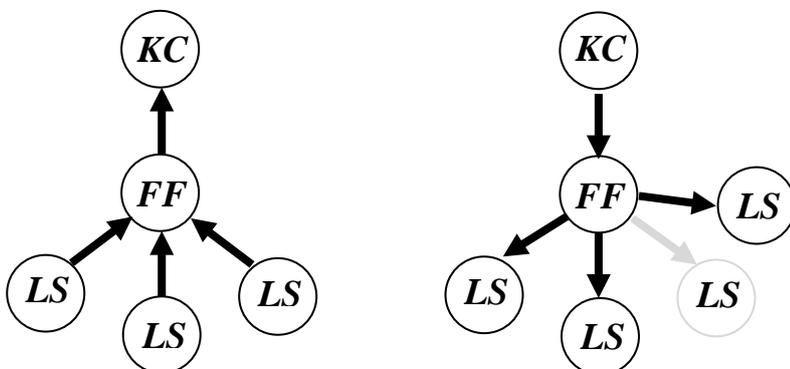


In the position of "gatekeeper" between the external environment and the local context, the focal firm may generate not only teaching processes but also new entrepreneurialism, to the extent that new actors may provide more appropriate responses to requests coming from the interactions with external parties. Similarly, through the position of the focal firm the local community can generate learning processes for actors external to the local context (but within the network). Figure 4a shows a representation of the process of "teaching" operated by the local business community towards the external environment through the central role of the focal firm. This firm share with external actors (as key clients) lessons learned from interactions with local partners (for example, suppliers and sub-suppliers within an industrial district). Figure 4b shows the process of "learning" operated by a key player (as a key client) with respect to the local business community. This process of learning can generate a change in the local business community, both through learning by existing local partners or through their substitution which favours the emergence of new partners for the focal firm.

Figure 4. Teaching and learning processes and business local community

(a) Teaching to external actors

(b) Learning from external actors



THEORETICAL FRAMEWORK: A CONCEPTUAL MATRIX

In this paragraph we aiming at formalizing through the development of a conceptual framework what stated above regarding the dynamics of the relationship with key customers and the impacts on the local community supply network.

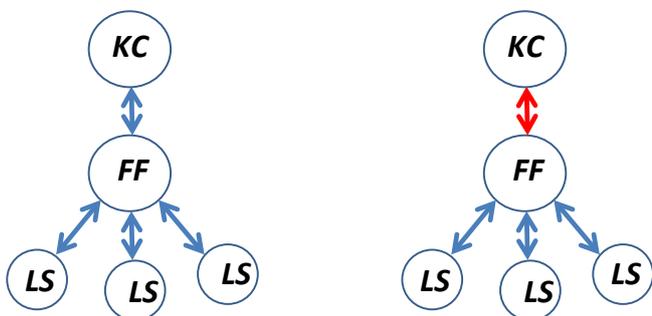
In particular, we propose reflections taking into account situations in which the company interacts with key clients with whom it is possible to plan together, even partially, a process of development. In other words, we look at the crisis of the customer relationship, where the term crisis is not intended as ending of the relationship. Rather, relationship crisis is understood as a time when the relationship tends to change because the client no longer has the same needs as in the past and the relationship evolves because the customer has a different perspective in the interaction. The supplier facing with relationship crisis can opt for two types of strategies: to substitute the customer for failing to follow him or follow him and decides to invest on this change, integrating more closely with the customer. The first strategy is what we call *substitution* of key clients, the second strategy is called the *integration* with key clients. Basically alternatives for the supplier are substituting the customer or changing with him. Both strategies are implemented in the search for relationship performances, which go beyond the economic performances, and whose return can also be understood as stability of orders or the activation of learning processes. This dynamic downstream is analyzed, taking into account the impact on relations with the upstream supply network.

So for both upstream and downstream relationships, we are interested in situations where there is not a mere exchange of money for goods/services, but situations in which companies learn and teach from each other.

We start from a situation in which we consider a focal firm as a local leader (FF), which has relationships with a key customer (KC) and with local suppliers (LS) (Figure 5a). When the relationship between the focal firm (FF) and a key customer (KC) is in a crisis situation (red arrow in figure b) what does it happen? How does the relationship with key client evolve? And, consequently, as a result of this change how does the relationship with suppliers evolve?

Figure 5. Business relationship crisis

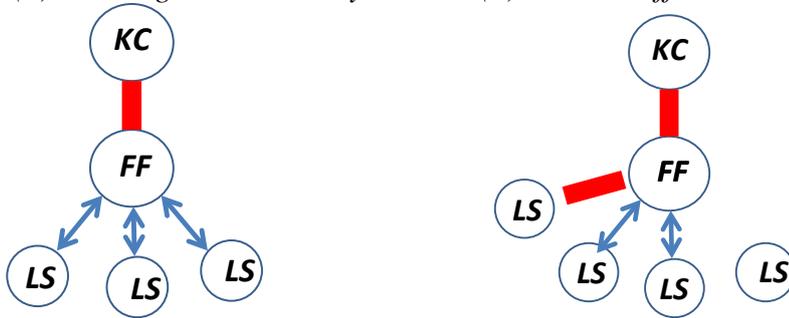
(a) The starting situation (b) Relationship crisis



The focal company's strategy to interact more strongly with its key customer is represented in figure 6a. As a result of this strategy other existing relationships with local suppliers may change in the attempt to find new ways to relate to the customer. This change can be the ending of the relationship with some suppliers, the substitution or the integration with others.

Figure 6. Integration with key client and consequences on local supplier network

(a) The integration with key client (b) Possible effects on local supplier network



The supplier's strategy to substitute the key customer to interact with because of the crisis is represented in figure 7a. As a result of this strategy relationships with local suppliers may be interrupted, remain stable or be integrated in an attempt to find new ways to relate with the new customer.

Figure 7. Substitution of the key client and consequences on local supplier network

(a) The substitution of the key client (b) Possible effects on local supplier network



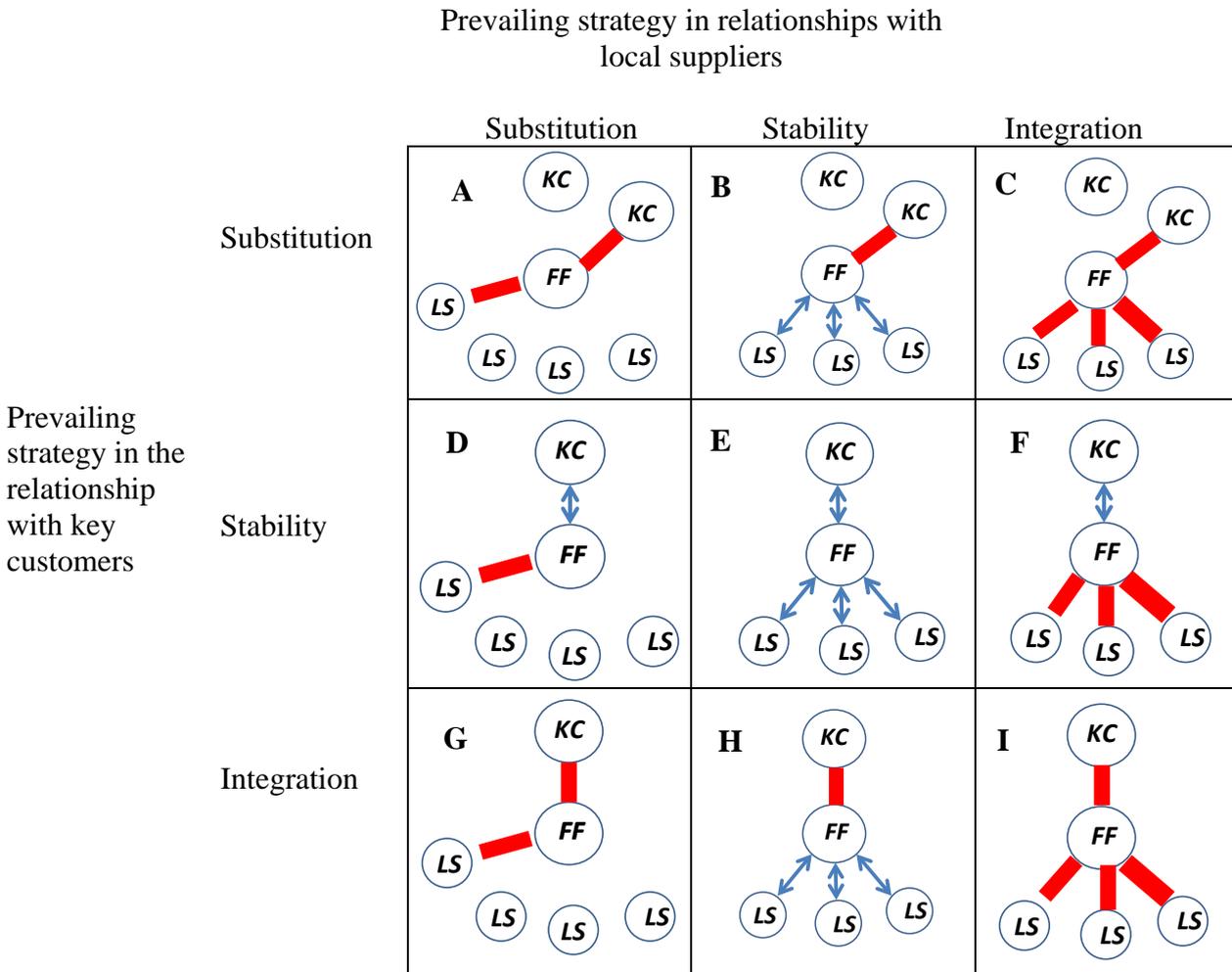
Following these consideration, we now propose a conceptual matrix to summarize the situations considered (figure 8). In this matrix we identify quadrants in terms of prevailing of one of the two strategies (integration and substitution) with key clients and local suppliers. At least nine prevailing situations can be identified. All these situations represent potential paths in local community entrepreneurial change depending to what happens in key interactions among focal companies and key clients.

The supplier's strategy to substitute customers to interact with because of the crisis may provoke three potential paths for the local community. As a result of this strategy supplier's relationships in the local system may be interrupted (scenario A) or they may be strengthened (scenario C) in the attempt to better fit with new needs of key customers. Moreover, the focal company may decide to maintain stability in supplier relationships (scenario B).

The supplier's strategy to integrate more strongly with customers because of the crisis may provoke three potential paths for the local community. Even in this case as a result of this strategy supplier's relationships may be interrupted (scenario G) or they may be strengthened (scenario I) in the attempt to find new ways to relate with the same key customers. Moreover, the focal company may decide to maintain stability in supplier relationship (scenario H).

Scenarios D, E and F represents situations in which we have stability in the interaction with key clients but changes at a local community level. It is not relevant here, as we specifically deals with customer relationship crisis.

Figure 8. Relationship crisis with key client and effects on relationships with local suppliers



FUTURE RESEARCH AND LIMITATIONS

The local community change paths identified in the previous paragraph represents research hypothesis to be further developed and investigated in future research. A key role in the analysis will be given to teaching and learning concepts. In particular the focal firm perception on how local community knowledge and skills could be relevant in key interactions with customer may play a significant role in the maintaining of local entrepreneurial community in developing countries. In this sense the study of change in entrepreneurial community, such as industrial districts, may be integrated with an interactive view of network dynamics by addressing the issue of how to lever existing local community relationships in situation of business relationship crisis between a focal company and a key client. Could they be the base to better integrate with existing key customers or alternatively could be burdens to end in order to maintain existing customer relationships? Moreover, could they be a way to find new key customers or could be burdens in the searching for new key customer? Depending from the answers to these questions different local community change paths may be activated.

Lastly, some words should be spent on various limitation of the research. With regard to the distinctions drawn regarding the possible alternative relational paths on business networks, the two alternatives identified may clearly not be the only ones. A broader study may very well bring to light other relations in business networks dynamics. Moreover, the present paper conceptual in nature should be followed by an empirical investigation as its full ramifications are yet to be revealed.

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