

# THE INSIGHT INTO RELATIONSHIP STRENGTH FROM A DOMESTIC AND INTERNATIONAL PERSPECTIVE – WHEN A RELATIONSHIP IS “AN IMPORTANT RELATIONSHIP”?

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## ABSTRACT

The purpose of the paper is to present a comprehensive analysis of relationship strength from the perspective of companies' domestic/foreign activities and interactions, and thus to answer the question whether relationships perceived by the companies as “important” can be equated with strong relationships. In this way we address the fundamental issue within IMP research, that is the notion of a relationship and its nature. Is a weak and unimportant relationship still a relationship? Is there a difference in nature between relationships occurring on a domestic (local) and international scale (namely with foreign distributors and clients)?

This paper adopts both a conceptual and empirical approach to the problem based upon a critical review of pertinent literature. We apply the concept of relationship strength to the analysis of relationship importance, additionally taking into account the specificity of local and international relationships. Moreover we exemplify our approach with two case studies conducted among two companies from industries representing different levels of technological advancement, i.e. the furniture and IT industries.

This paper's main research result is the conceptualisation of the dependency between relationship importance and strength, whilst taking in to account local, domestic and foreign relationships. The analysis confirmed that a strong relationship is also an important relationship. But relationships perceived by companies as being “important” cannot be equated with strong relationships. The geographical proximity (whether or not these relationships are formed with local or foreign entities) has, above all, an impact on social factors influencing relationship strength.

**Keywords:** relationship strength, relationship importance, industrial network, internationalisation, IT industry, furniture industry

**Competitive paper**

# **THE INSIGHT INTO RELATIONSHIP STRENGTH FROM A DOMESTIC AND INTERNATIONAL PERSPECTIVE – WHEN A RELATIONSHIP IS “AN IMPORTANT RELATIONSHIP”?**

## **INTRODUCTION**

Relationship strength was analysed both within and outside the IMP Group (Morgan & Hunt, 1994; Hausman, 2001, Medlin, 2003; Broad, 2012; Kenny & Fahy, 2013), with a view of finding the correlation between relationship strength and companies' performance (Li et. al, 2013). It is said that the strongest relationships are characterised by the occurrence of both behavioural and economic variables (Donaldson & O'Toole, 2000; Barry et. al, 2008). It seems that strong relationships are important ones for companies, however, there is the question of whether or not a relationship which is deemed “important” can be translated in to strength?

Another research issue raised in the article regards the effect of geographical proximity (whether or not these relationships are domestic or international) on the importance and strength of relationships. Relationships may be established and maintained at the domestic (local, country) level or broader – at the international level encompassing foreign entities (Ratajczak-Mrozek, 2012, p. 37). In the traditional research related to internationalisation theory the traditional approach analyses the entry process, where a company's activities in specific foreign markets are then analysed. In such cases, a company faces an unknown environment, as well as various unfamiliar foreign entities, such as buyers, distributors and competitors. Based on this and due to the fact that the foreign environment is characterised by a clear dissimilarity to the domestic environment, it can be assumed that “the foreign operations and relationships with foreign entities of a given company should be viewed in a particular manner” (Fonfara, 2012, p. 21) and therefore differently to relationships with domestic entities. Taking in to account the aforementioned assumedly different nature of relationships between domestic and foreign entities, it is interesting to note that research in to the nature and strength of relationships only deals with the issue of relationships with foreign entities to a limited extent (Hallén, Johanson & Seyed, 1987; de Ruyter, Wetzels & Lemmink, 1995; Samiee & Walters, 2003; Wiley, Wilkinson & Young, 2003; Fonfara, 2012). Moreover, there is a distinct lack of holistic research comparing the two types of relationships, which would identify whether or not domestic and international relationships are indeed different in nature.

The purpose of the paper is to present a comprehensive analysis of relationship strength from the perspective of companies' domestic/foreign activities and interactions, and thus to answer the question whether relationships perceived by the companies as “important” can be equated with strong relationships.

We analyse not only the determinants of relationship strength but also identify the determinants of relationship importance, including different aspects of activities conducted on a domestic and international scale. In this way we address the fundamental issue within IMP research, that is the notion of a relationship and its nature. Is a weak and unimportant relationship still a relationship? Is there a difference in nature between relationships occurring on a domestic (local) and international scale (namely with foreign distributors and clients)?

This paper adopts both a conceptual and empirical approach to the problem based upon a critical review of pertinent literature. We apply the concept of relationship strength to the analysis of relationship importance, additionally taking into account the specificity of domestic and international relationships. Moreover we exemplify our approach with two case

studies conducted among two companies from industries representing different levels of technological advancement, i.e. the furniture and IT industries (the detailed methodology of these studies is presented in the later part of the paper).

The paper is divided into 5 sections. In the first section the theoretical starting points regarding domestic and international relationships, relationships strength and relationships importance are discussed. In the second section we present a background and the empirical research method. The third and fourth sections deal with the analysis of relationships strength and importance from the perspective of a furniture company (section 3) and an IT company (section 4). Next, in section 5 there is a discussion and a comparison of both case studies. The article wraps up with conclusions, limitations of the study and implications for further research.

## **THEORETICAL STARTING POINTS**

### **Relationship strength**

By adopting a network approach a company's results are also dependent upon its partners' performance, capabilities and capacity for cooperation. So the performance of the relationship depends on both organisational variables, as well as the context in which they are built. For this reason a relationship should be treated as an interdependent phenomena and as a unique resource of a company. Relationship strength is a concept which sheds light on the ability of a company to build long term relationships with other actors.

Relationship strength is defined as the ability of partners to maintain an existing relationship despite internal and external challenges (Hausman, 2001, p. 602). So as a result, strong relationships should give rise to the commitment and willingness to continue cooperation between actors. This sets relationship strength as an aggregate of factors and determinants of inter-organisational ties. Synergies between different aspects and dimensions of a relationship as well as the optimisation of its performance can be only achieved when the relationship is sufficiently strong for all critical aspects (Palmatier et al., 2006, p. 149). Table 1 contains a review of research concerning variables and the effects of relationship strength.

Relationship strength, is a multidimensional and complex phenomenon and thus can be revealed by analysing its variables as contextual or background dependences, rather than setting a key driver of relationship performance (Morgan & Hunt, 1994). The strongest relationships are characterised by the existence of both behavioural and economic variables (Donaldson & O'Toole, 2000, p. 496; Barry, Dion & Johnson, 2008, p. 115; Małys, 2012). Behavioural variables include trust, interpersonal contacts, commitment, shared norms and values, quality of communication, customer satisfaction (Hausman, 2001; Richard, Huff & Thirkell, 2007; Storbacka et al., 1994). Economic variables include a company's orientation, technological orientation, sales turnover, calculative commitment, bargaining power of actors, common business goals, the possibility of changing partners, dependency and product quality (Broad, 2012, p. 6; Geyskens et al., 1996, p. 303-317; Håkansson & Snehota, 1995, p. 25; Richard, Huff & Thirkell, 2007, p. 130). In this sense, relationship strength may be perceived as a multidimensional aggregate variable regarding performance and has effects on an interpersonal, organisational and interorganisational level.

**Table 1. Relationship strength – a review of social and economic variables and its influence on achieved effects**

Author	Variables	Factors	Effects
Frenzen & Nakamoto (1993); Money, Gilly & Graham (1998); Broad (2012); Dyer & Chu (2011)	Interpersonal interactions	Social (behavioural) factors	<p><b>Increases in efficiency through the:</b></p> <ul style="list-style-type: none"> <li>• reduction of transaction costs: <ul style="list-style-type: none"> <li>- continuity of cooperation which enables stabilisation and specialisation of activity</li> <li>- conflict resolution</li> <li>- more efficient communication</li> <li>- division of operational risk</li> </ul> </li> <li>• business development capability: <ul style="list-style-type: none"> <li>- access to unique resources</li> <li>- sharing investment</li> <li>- development of innovation, including new products</li> <li>- better image of company and further recommendations</li> <li>- new business opportunities and initiatives</li> <li>- revenue growth and increase scale of operations</li> </ul> </li> </ul>
Frenzen & Davies (1990)	Social capital		
Morgan & Hunt (1994); Hausman (2001)	Affective commitment		
Anderson & Narus (1990); Hausman (2001); Mitreęa (2008)	Interorganisational trust		
Anderson & Weitz (1992); Axelsson & Easton (1992); Hausman (2001); Mitreęa (2008)	Mutuality	Economic factors	
Geyskens et al. (1996)	Calculative commitment		
Rindfleisch & Moorman (2003)	Product development		
Rindfleisch & Moorman (2001)	Organisational learning		
Medlin (2003), Dyer & Chu (2003)	Resource based approach		
Wilson & Mummalaneni (1986)	Alternative in choice of actors		

At the interpersonal level, research focuses on the dependence of communication on market information diffusion (Frenzen & Nakamoto, 1993), purchasing decisions (Money, Gilly & Graham, 1998; Broad, 2012) and on building customer satisfaction, trust and commitment (Miyamoto, Rexha & Grainger, 2002). At the organisational level, the main perspectives concerning relationship strength concentrate on the business performance of actors (Medlin, 2003), organisational learning (Rindfleisch & Moorman, 2001) and product development (Rindfleisch & Moorman, 2003). At the interorganisational level, relationship strength is analysed in terms of social and economic factors that foster the maintenance and development of durable relationships between actors.

The first of the mentioned factors is commitment that is a willingness to continue and further strengthen a relationship (Morgan & Hunt, 1994, p. 23; Hausman, 2001, p. 119). It can be the result of both social factors: psychological interaction between individuals and economic factors: calculation of losses and profits from maintaining relationships (Geyskens et al., 1996, p. 303-317) as well as the possibility of finding alternative partners for cooperation (Wilson & Mummalaneni, 1986, p. 50-51). When commitment is not based on mutual satisfaction, i.e. there is a significant imbalance in the achieved results of exchange for each actor, it is treated as the dependence of a company. This situation can be a result of advantage in resources and strategic positions within a network and/or industry. If a relationship is important to a company and it is hard or impossible to be substituted, then that relationship is significant to the company. Another factor that fosters the strength of relationship is interorganisational trust. It is based on a partner's reliability and confidence that they will avoid opportunistic behaviour (Anderson & Narus, 1990, p. 42-48; Hausman,

2001, p. 604). Trust has an advantage over institutional regulation, because it is hard to secure all possible negative effects of transactions (Håkansson & Gadde, 1992, p. 59-77). Trust can be achieved by providing mutual benefits for actors, which means that the costs and benefits of cooperation are shared equally by both actors (Hausman, 2001, p. 605). Asymmetry in a relationship affects its stability. Furthermore unilateral relationships are more likely to break (Anderson & Weitz, 1992, p. 25-30).

As an aggregate of behavioural and economic variables, significance and mutuality are the main components of relationship strength. Strong relationships tend to be the result of trust, greater commitment as well as the sharing of costs and benefits of the relationship between the actors involved. Strong relationships influence durable cooperation through the mutual investment in the adaptation of activities, resources and structures of the actors involved.

Strong relationships with key actors are a key determinant of companies' operational efficiency within a business network. To support this activity companies develop and improve the capability to continuously build and maintain their relationships. Relationships are subject to evolution over time and it is generally possible to identify subsequent phases of their development (Redondo & Fierro, 2006, p. 67). The most typical situation is the progressive development of relationship strength which requires premeditative actions on the part of both actors, as well as a longer period time (Dwyer et al., 1987; Cannon & Perrault, 1999). Taking into account these phenomena from the perspective of the dynamics of change, specific phases of development of relationship strength are identified. The achieved relationship strength is a result of the verification of continuous assessment of actors regarding the progress and effects of cooperation. The final assessment of an actor's relationship is made up of the mutual satisfaction achieved from each particular transaction (Walter et al., 2001). In the initial period of cooperation, more important are the economic criteria related to the specifics of the product quality and price, or product differentiation corresponding to the individual needs of the client (Siems, 2010, p. 88-90). As the cooperation continues, the level of customer requirements increases, becoming more detailed and specific which in turn requires the scope of cooperation to expand. Expectations go beyond the aspects related to the specifics of the product quality and focus more on delivery and payment terms, the level of product adaptation, including the provision of additional services (Siems, 2010, p. 91). In this stage of building relationship strength, economic variables are supported by the increasing importance of social variables. The main condition of further cooperation is to ensure efficient communication as well as the continuous rise of commitment and trust between actors.

Relationship strength is to a limited extent studied in terms of a network's scope, or in terms of relationships with entities operating on foreign markets. (Hallén, Johanson & Seyed, 1987). It is suggested, that in contrast to domestic markets, foreign relationships place a greater importance on social, cultural or environmental factors, which have an impact on the role and scope of a relationship (Samiee & Walters, 2003, p. 194). It has also been stated that in international marketing channels there is a positive correlation between perceived service quality, supplier power base and perceived relationship strength (de Ruyter, Wetzels & Lemmink, 1995). There is, however, a lack of any complex studies which would take in to account both social and economic variables, as well as domestic and international relationships.

### **The importance of the relationships**

Importance means "the state or fact of being of great significance or value" (Oxford dictionary). Literature proposes no definition of the term "importance", however, the impact

of various factors on the importance of relationships is often underlined and discussed. Most researches state that trust, commitment and loyalty are the most significant factors influencing importance (Morgan & Hunt, 1994; Håkansson & Snehota, 1995, p. 262; Tax et al., 1998; Hennig-Thurau et al., 2002; Farrelly & Quester, 2003). Some researchers also point to the role of importance on generating satisfaction for the end-consumer and hence it's significance in that respect (Storbacka et al., 1994; How & Sorooshian, 2013).

The dominant factor determining the importance of a relationship, as in the case of strength, is trust. Trust is deemed to be a long-term strategy (Geyskens et al., 1996), as it eliminates existing barriers, increases knowledge sharing and allows for networks to achieve their full potential (Ribeiro-Soriano & Urbano, 2009). This results, for example, from the fact that time is required in order to build trust (Högberg, 2002) but the process itself may not necessarily be free of problems (Walter, Mueller & Helfert, 2000). In the face of a lack of trust, it is difficult if not impossible to speak of the development of real relationships and for this reason, its significance cannot be stressed enough.

In the case of relationship importance, an adverse situation occurs when actors stop trusting each other. The decision to maintain a relationship in this situation is based above all on profitability, based on a cost/benefit analysis (Geyskens et al., 1996), which can lead to conflict (Lewicki & Wiethoff, 2000) and paralysis in the relationship (Luhmann, 1979; Revesz et al., 2013). Research carried out by Aramo-Immonen and Breite (2011) identifies insufficient collaboration model, lack of commitment or short-sightedness as potential causes.

Commitment means that the relationship is so important for the entity in question that it is worth devoting a certain level of effort in order to manage it (Hausman, 2001). What is more the level and strength of the commitment increases over time (Doney et al., 1998). Commitment is important to the study of relationship importance, as it not only signals enduring stability at the conceptual level, but also serves as a reliable surrogate measure of long-term relationships at the operational and empirical level (Farrelly & Quester, 2003)

Important relationships are those which are characterised by a high level of loyalty. Significantly, loyalty cannot develop if there is no trust (Costabile, 2000; Sirdeshmukh et al., 2002) or commitment (Dagger et al., 2011) between the parties. These factors determine whether or not loyalty is present in the importance and significance of the relationship itself. This is confirmed by studies (Revesz et al., 2013; Dagger et al., 2011) as well as citation from the research: "loyalty is a long-term relationship which is based on trust and commitment" (Revesz et al., 2013). The aforementioned studies are focused above all on the importance of relationships, although there is reference also to the concept of strength.

For some companies the importance of a relationship may be determined by the level of procurement by other companies. In this situation, those relationships in which the main supplier enjoys significant sales volumes are deemed to be the most important (Wiley, Wilkinson & Young, 2003).

The importance of a given relationship can also be measured by the presence of certain procedures and principles governing the relationship between companies (Håkansson & Snehota, 1995, p. 10-12). Of similar importance are adaptations in production processes, research & development or other internal resources, and which in turn lead to the achieving benefits such as increases in the effectiveness of a relationship and, in turn, the company itself (Håkansson & Snehota, 1995, p. 60).

An important relationship may also be defined as a "valuable" relationship and therefore the conclusion that "all relationships are valuable, but some are more valuable than others" is extremely relevant (Ford & McDowell, 1999, p. 430). It confirms that certain relationships may be more important for a company than others. Therefore, a company like an individual "has a lot of other relations, not all of these are important" (Håkansson & Snehota, 1995, p. 330). Håkansson and Snehota (1995, p. 330-331) also underline that there are relationships

which are very simple and have only one function and so are deemed uninteresting. For this reason, important relationships are often deemed to be those which are the most developed and mutually interdependent, rather than those responsible for simple, single activities.

There is a distinct lack of studies in the subject literature which would deal with relationship importance from the perspective of domestic (local) and foreign entities. This is significant in the sense that there may be differences in terms of relationships between entities from different countries in this regard. As an example, the studies of Wiley, Wilkinson & Young (2003) identified that in the case of Chinese companies, relationships in which they are able to gain technical knowledge are more important than those in which they have to supply this knowledge which is contrary to the principles adopted by Swedish or German Companies.

## **METHODOLOGY OF THE STUDY**

In the article we present case studies of two companies. An exploratory qualitative research method is used in order to “uncover and understand what lies behind a phenomenon about which little is known” (Strauss & Corbin, 1990, p. 19) and to use the experience of people with regard to the analysed phenomenon (Bazeley, 2007).

Companies selected for the case studies represent industries with different levels of technological advancement, i.e. furniture industry and IT industry. The first of the selected industries is the furniture industry, classified as a low-technology, but with a high degree of embedding in local resources and also a large extent of internationalisation (98% of Polish production was exported in 2011 (CSO, 2013). Poland is among the leading furniture producers in the world. The value of furniture produced is estimated to be 9th in world rankings (2009) and 4th in Europe (2010) (EPF, 2011). At the same, it is characteristic of Poland that many furniture producers aim to produce the final product without taking advantage of the economic effects of cooperation. As a result, the relationships between furniture companies in Poland are differentiated (Ratajczak-Mrozek & Herbec, 2013).

The second industry chosen for the case studies is the IT industry, classified as high-technology knowledge intensive services. High technology industries are characterised among others by a high intensity of research and development, high levels of innovation, short product life cycles & processes, large capital expenditure, high investment risk, scientific and technical cooperation (within countries and internationally, between enterprises and research institutions) and by increasing competition in international trade. For this reason, high-technology companies’ important determinants of competitiveness are cooperation, network relationships and the rapid introduction of products, services and all activities on a large, international scale (Ratajczak-Mrozek, 2012). High-technology knowledge intensive companies located in Poland do not impress both in terms of turnover and production (both 9th place in the European Union in 2010) and the level of exports (14th in the EU in 2011) (European Union, 2013).

Data was collected in Poland using semi-structured, in-depth, face-to-face and phone/Skype interviews (Silverman, 2000; Punch, 2005). A purposive sample was applied. Each time, the case study is analysed from the perspective of one local firm and entities which it identifies as being linked through an important relationship. Altogether we conducted 11 in-depth interviews. In the case of the furniture industry, 4 detailed interviews were carried out with company owners as well as with 2 owners of companies identified as being key suppliers. In the case of the IT industry, a 4 detailed interviews were carried out with the CEO of an IT company in Poland as well as 1 with the COO of the company’s important client which, in this case, turned out to be a COO of the Group located in a

different country. In the case of both focal firms, we also analysed supplementary information (companies' presentations, reports, web pages). The high positions held by the representatives of these firms ensured that they possessed the appropriate level of knowledge regarding topics covered by the research.

The interviews, which were carried out during the period January-February 2014, were conducted by two trained interviewers which aimed to ensure an objective assessment of the information obtained.

The in-depth interviews covered all areas important for the realisation of the research project, including internationalisation and relationship assessment. Focal firms' representatives were asked to identify three customers, suppliers and other entities important for their companies. The lack of a clear definition of what is understood to be "important" was intentional. The interviews were based mainly on open-ended and probing questions to encourage discussion of the phenomena (Denzin & Lincoln, 1998).

The importance of the relationship was assessed by directly asking why a relationship is important for a company. However, in terms of an assessment of relationship strength, an analysis of the responses obtained throughout the whole interview was carried out (a set of 15 detailed questions regarding the nature of the relationships with each of the identified entities)

The interviews were recorded and transcribed, thereby creating an interview protocol. In order to ensure objectivism and triangulation of the data interpretation (Gummesson, 2001) two researchers worked independently on the codification and analysis of the transcripts in order to assess the importance and strength of the relationship. These analyses were compared and in the case of any inconsistencies, a third researcher was requested to assess the materials. Additionally, all of the company representatives had the possibility to verify the transcripts of their interviews. All significant comments regarding the transcript were incorporated into the data analysis.

The case studies adopted the perspective of two focal companies, however, verified using information obtained from the remaining entities.

## **THE EVIDENCE FROM THE FURNITURE AND IT INDUSTRY**

### **Furniture case**

The Company Flow (Furniture Luxury of Wood)<sup>1</sup>, located in Poland with 100% of Polish capital, designs and produces furniture (mainly wardrobes, kitchen furniture, office furniture and bathroom furniture). The company was founded in 2004 and belongs to the small & medium enterprises sector (employs less than 49 people). During the first three years of being operational (i.e. 2004-2007), Flow was a sales intermediary on the furniture market. The company started to produce its own furniture in 2008.

In 2013 the company had between 200-250 customers. In terms of volumes, the company's main customers were individuals (70%). In 2014 Flow had 3 outlets serving mainly these customers, located in close proximity to the company. In terms of the value of sales, the proportions are exactly reversed, whereby 70% of sales were directed to entities from the B2B market. The constant decline in the share of individual customers in favour of institutional clients is typical for the Polish market.

The year 2011 was important for Flow as it initiated the process of internationalising its operations, i.e. Flow acquired a foreign customer – a large Scandinavian company operating

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<sup>1</sup> The name of the company was changed at its request.

in the recreational industry (in the case study this company is referred to as the Scandinavian Customer). Also in 2011 the company acquired new premises for production (previously, premises were being rented) and also transferred its production process. Furthermore, the company purchased its own means of transportation and expanded its machinery).

In response to the question requiring the identification of important entities, Flow pointed to two customers: the foreign Scandinavian Customer and a Polish Hospital. However, when describing its relationship with customers, the company stressed that individuals were the most important customer segment (i.e. not a single particular customer). Flow also pointed to two important Polish suppliers: the companies Sand and Sfinx. The company also indicated that it cooperates with entities from other groups e.g. local Furniture Guild and competitors (in terms of intermediate goods, joint responses to tenders), whilst these relationships were described by Flow as being of little importance and not subject to any further analysis.

The **Scandinavian Customer** is the company's only foreign customer. It mainly purchases wardrobes and in 2013 generated approx.60% of the Flow's sales. As a result, in the opinion of Flow's owners, the financial aspect is one of the reasons for which this customer is an **important** customer for Flow. In describing importance, as a second factor Flow's owners also pointed to the fact that thanks to the cooperation with this foreign customer, they were able to expand and, what is more, the cooperation *"required a lot of innovation"* in the production process, the purchase of new machinery (which is also currently used to produce and provide services for other customers), or the purchase of means of transportation

Moving on to the assessment of **relationship strength** with the Scandinavian Customer, it is important to point to the product development factors, including the development of innovation as well as calculative commitment. Under economic factors, it is also important to point out that the resource based approach is adopted from the customer perspective: *"our products are good quality and everything is how it should be. The customer, in fact, has more to lose than gain should they introduce a new supplier (a small cost saving but a big problem in setting standards)."* A longer period of cooperation has given rise to organisational learning which has greatly simplified cooperation. Principles for fulfilling orders have been developed (*"The order comes via e-mail, we propose a project which is then quickly accepted. Later it is just about how much time they have on-site, we set the installation date and they receive the service"*). In comparing the contact method and activities when first entering in to a relationship with the Scandinavian Customer and the ties observed in 2013, it is clear that with time and experience, communication has become more efficient. The alternative in choice of actors should also be assessed. Flow's owners assessed that it would not be easy to replace the Scandinavian Customer and as a result of its large share in the company's overall sales, the company's condition is strongly linked to this customer (*"because this is 60% of our income, there is a dependence here"*), however they add that *"we don't get too stressed about this. Things are how they are. We can't do anything about it."*

It is also possible to notice certain social factors influencing relationship strength. Firstly, with time a certain inter-organisational trust has formed. Despite the lack of an agreement stipulating the conditions of cooperation (individual, irregular orders are processed and settled separately), Flow assumes that cooperation will continue throughout the near future (*"The customer is satisfied with the fact that we deliver on time, that we have been cooperating for a few years during which we haven't disappointed, our products are good quality and everything is as it should be. (...) Cooperation will continue."*). However, an assessment of interpersonal interactions and their impact on relationship strength is not so simple. Contacts are personal and informal (referring to each other in the "you" form which is a result of cultural differences. In Poland, business partners refer to each other formally using

the term “Sir” or “Madam”). There are also contacts between the same people (Flow’s owners – the customer’s procurement director). However, these are not close, very friendly relationships. Moreover, the relations are characterised by certain difficulties which are a result of the companies’ countries of origin (“*Scandinavians<sup>2</sup> don’t fully respect Poles. This is a result of their mentality, quality of life, earnings etc.*”). The owners also point to different work standards for Poles and local workers from the host country (“*Our teams worked day and night in order to finish on time (...) they on the other are more laid back*” – initially Flow sold the foreign customer completed furniture including installation, however, the final installation is currently carried out by the customer’s own employees, which was forced through by trades unions and the laws governing the host country which are restrictive in terms of foreign workers).

In terms of mutuality, it is worthwhile underlining that just as Flow’s owners feel that there is a dependence on the customer, they also indicate that Flow is the customer’s single supplier of wardrobes. From the Scandinavian Customer’s perspective there was no need to adapt its operations to Flow, however, the customer takes in to account Flow when making its decisions (“*We have a significant amount of influence on the delivery timetable*”). From Flow’s perspective, the level of adaption to meet the Scandinavian Customer’s requirements was “*100%! Here most of the things, decisions, etc. even vehicles were specially adapted for unloading.*” A certain imbalance in terms of mutuality can therefore be noted.

The presence of the aforementioned factors means that the relationship can be evaluated as being **strong** (but not very strong) with a non-uniform split of power, thereby given the Scandinavian Customer advantage over the Polish company.

The **Hospital** was identified as the second most important customer and has been a local customer for Flow since 2012. It generated 2% of Flow’s sales in 2013 and an increase in the number of orders in comparison with 2012 was noted. The Hospital mainly buys office and other furniture together with installation. This institution is **important** for Flow due to “*the number of orders and regularity but not in terms of value*” and also, as the Flow’s owners claim due to the fact that “*these types of institutions also require that everything is done exactly to their specifications and therefore it (the customer) is important because we are able to do things which make large customers happy,*” which give the company a better image and further recommendations. In terms of relationships with the Hospital, the company’s owners appreciate the efficient decision making process within the institution, despite its developed structure and the highly specific nature of the Hospital’s operations.

Moving on to **relationship strength** in terms of the impact of economic factors, it is worthwhile pointing out that the arguments referred to above whereby the importance of the relationship was determined by the number of orders and further recommendations, are economic factors tied to calculative commitment. This relationship creates new business opportunities and initiatives which may be reflected in new orders submitted by individual customers (“*Maybe some individual orders were born as a result, but this is all part of the financial dimension*”). Despite this, the significance of this customer for the development of the company is immaterial. The alternative in the choice of actors should also be noted. Flow’s owners point out that this customer could easily be replaced which doesn’t, however, mean that it is not important. On the other hand, the links are also made stronger due to the location of the company (“*If we were 80km from here, then they probably wouldn’t have chosen us*”).

In turn, the importance of social factors in this case is small. In terms of interpersonal interactions, Flow has appointed one of its furniture designers to liaise with one of the

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<sup>2</sup> A specific Scandinavian country was mentioned during the interview.

Hospital's employees (generally, local institutions are served in the same manner as individual customers, namely by furniture designers; the exceptions are non-standard situations, not specified in the price list). Flow's owners believe that relationships with the Hospital's employee is formal in nature, that orders are submitted irregularly as part of one-off contracts. There is a lack of informal contacts.

The mutuality assessment is also somewhat weak. In making its decisions, Flow does not take in to account the possible impact on the Hospital which is also the case vice versa. However, there is also no significant imposing of will by either party and the fulfilment of each contract is done so by mutual adaptation (*"We determine the installation dates, we propose them and the Hospital accepts,"* however, *"they provide us with a range of suitable dates"*).

In sum, the relations between Flow and the Hospital can be assessed as being rather **weak/moderate**.

Annually, Flow has between 12-15 suppliers. As two of its important suppliers, Flow pointed to the wholesalers: Sand and Sfinx. Both operate on the local market. It should be stressed that Flow's owners generally believe that *"We have really good relationships with our suppliers,"* and in keeping with their stance *"it is always better to give someone the opportunity to earn here, locally, then to look for somebody far away."*

**Sand** is one of approximately 200 wholesalers intermediating mainly on the wood-based panels market (to a lesser extent – furniture accessories). Altogether Sand is responsible for approximately 50% of Flow's supplies. Sand's share in Flow's supplies increased together with an increase in orders from the Scandinavian Customer

The wholesaler is classified as an **important** supplier for Flow due to the financial support provided by Sand in the form of a trade credit when Flow was delivering the first order placed by the Scandinavian Customer (*"when we received the first orders from the foreign customer, (...) we weren't able to purchase the required materials for cash. We went to the supplier, sat down, talked a while and the trust they placed in us means that we are still cooperating to this day."*) The importance of this relationship was also confirmed by Sand's owner.

Assessing the **strength** of the relationship in terms of economic factors, it should be noted that the citation above indicates economic factors & variables in the form of calculative commitment and a resource based approach. Without this relationship, Flow would not have been able to develop and specifically acquire the resources for product development. Above all, deliveries are realised *"on time, for us this means reducing costs, because we do not need to go for the supplies, they give us good prices."* Hence the owners describe the status of the supplier as *"leading."* The assessment of the strength of the relationship in terms of alternative choice is influenced by the fact that despite the proposal of cooperation from another wholesaler, Flow's owners chose not to change their supplier: *"There is no problem with replacement, because there is another firm (...), which really wants to work with us. However, we don't want to. We work well with this we have currently."*

When describing social factors and their influence on relationship strength, it should be underlined that under long-term cooperation and mutual experience which enable stabilisation and specialisation of activities, with more efficient communication, the relationship and interpersonal interactions have a friendly and informal nature (*"This relationship is also very friendly"*). This is underlined by both sides (both companies Flow and Sand). The formalisation of cooperation between Flow and Sand is limited to a minimum (e.g. invoices etc.) – *"We don't really have any contracts. We don't have the required annual turnover in order to qualify for any kind of bonus."* Flow is in contact with this supplier on a daily basis and this is generally between one of the Flow's owners and a Sand employee,

although contact with Sand's owner is also possible. This in turn translates in to the further development of Flow as well as the quality of cooperation (*"Now nothing is impossible, because this contact is directly with the owner."*) In assessing the relationship in terms of social factors, affective commitment is clearly visible, as is inter-organisational trust. As has already been pointed out, trust has linked both companies from the very beginning and what is more – without a previous history of cooperation, which has had a positive effect on the relationship (*"We try to be loyal to them because they are fair towards us and there have never been any problems"*): *"Now, when a competitor tries to approach us, they hear about it from us first"*).

The relationship is characterised by a high level of mutuality. The supplier takes Flow in to account when making decisions and has made a few changes in order to adapt to Flow (e.g. the construction of new warehouses). Flow also takes in to account Sand when making its decisions, which is demonstrated by the fact that it informs Sand of approaches made by the competition (cited above) and by the fact that they are consulted regarding price levels, *"in order to be competitive."*

Taking in to account all of the social and economic factors, the relationship between Flow and Sand can be classified as **very strong**.

Another important supplier for Flow is the **Sfinx** wholesaler – supplier of furniture accessories. In 2013, Sfinx was responsible for 15% of Flow's supplies. In comparison to previous years, Sfinx's share in Flow's supplies was increasing.

In the opinion of the owners, the **importance** of this supplier stems from its availability and elasticity (*"they are able to deliver supplies urgently"*). The importance of the relationship is also underlined by Sfinx's owner: *"It purchases the largest amount of merchandise, payments are on time, orders are regular."*

Moving on to the assessment of **relationship strength**, in terms of economic factors, it is worthwhile noting calculative commitment as well as resource based approach: *"reasonable prices, invoices provided once a month without any problems, they don't flood us with documentation, so payment dates are positive. Besides, now wholesalers selling furniture accessories (...) have supply problems. But they are even without competition and reasonable, because wholesale trading has to be low margin."* So in assessing alternative in choice of actors, despite the fact that in the opinion of Flow it would be easy to replace this supplier, the owners don't want to make such changes (*"It would be easy but we don't want this. Besides it is difficult to find someone who has everything."*)

In terms of social factors, interpersonal relations are described as being friendly. Orders are submitted once a week and there is direct contact between the owners. Flow's owners also underline the existence of inter-organisational trust *"We trusted straight away that things will be as they should. Since then nothing has changed."*

The relationship is characterised by mutuality. The supplier takes Flow in to account when making decisions regarding stocks (*"Each time when they want to bring out a new product, they call us and ask if there will be demand, They source products which they previously did not trade just because we need them"*). Flow takes in to account **Sfinx** in its decisions (*"Yes, they also helped us in the beginning by giving us credit on our orders."*)

Taking in to account the assessed factors and variables, the relationship between Flow and Sfinx can be described as **strong**, however, not as strong as with Sand.

## IT case

The nSense Group was founded in 2003 in Denmark. Currently, the Group is made up of several branches located in Finland, Denmark and Poland, which together employ over 50 people, of which 15 are based in Poland (as of May 2014). The nSense branches located in Denmark and Finland employ IT consultants, administrative workers as well as persons involved in marketing, including sales. The Polish branch, however, does not have a marketing department and the services it provides are only consumed by the other entities in the Group.

The nSense Group specialises in providing IT security services for the B2B market. nSense is an independent company and a recognised leader in penetration testing, vulnerability assessment, security consulting and training. The company is a highly specialised IT security company offering high-end security services to Northern Europe but also to the USA and Philippines (what is important is that it does not sell products in Poland). The company's end-customers are medium/large enterprises and institutions.

The Polish IT firm first started cooperating with nSense in 2008 (at this stage the firm was not formally part of the Group) where it was subcontracted to carry out outsourced IT development. In 2010, after a period of cooperation lasting almost two years, nSense Group's Management Board decided to create a new entity called nSense Poland.

The case study described here is done from the perspective of nSense Poland, which is a small, autonomous decision making entity within the nSense Group.

In terms of identifying its most important counterparts, nSense Poland pointed to the foreign entities forming the nSense Group as its key customers. Furthermore, the company also identified the Poznan University of Technology as another important entity. It should be stressed that no supplier was deemed to be important (*"To be honest I could take my PC (...) go to the shopping centre where there is access to the internet and work from there. We really don't even need an office. For this reason we don't have suppliers, this doesn't apply to us."*).

The Polish branch exports all of its services to the other companies forming the nSense Group and in this regard they are the company's customers. The Polish nSense branch does not engage in final customer acquisition and is in fact just a centre for knowledge and know-how. It is the other branches which are responsible for final customer acquisition and submit orders to nSense Poland. For this reason, the Polish entity is focused purely on cooperation with internal customers belonging to the Group, namely **nSense Technologies** (located in Denmark), **nSense Denmark** and **nSense Finland**. The relationship between the Polish branch and the other entities is essentially the same in terms of nature and volumes and for this reason they are treated together as one relationship. The significance and importance of the relationship was also confirmed by the foreign (internal) customer (represented by COO of nSense Group).

In reference to the relationship with customers, nSense Poland assesses that these relationships are **important** in terms of *"Stability, income predictability, trust and impact on client decision making (If I am on the whole management board, then I am able to influence the direction of company's development)."*

Moving on to the assessment of **relationship strength** in terms of economic factors, it is above all worthwhile focusing on the resource based approach. nSense Poland is treated as a development centre. As stated by nSense Group COO *"on the internal side you could call it a resource pool of the skilled consultants that we use internationally."* The significance of Polish human resources together with additional factors tied to nSense Poland's geographical location has a direct impact on calculative commitment, organisational learning, product development and the achievement of operational efficiencies at the Group level. Both sides

underline the importance of “costs and skills” in Poland, as well as the fact that *“There is a lot of synergy in what we do. These firms do indeed cooperate with each other and want to do something together,”* *“Obviously, what we invoice the internal customer for is then sold on with a margin to the external customer. It’s a win-win situation for everyone.”* In terms of the alternative choice of actors, nSense Poland dependence on customers from within the Group is *“100%, (...) we have only three internal customers.”* However, there is also a dependence vice versa *“They can either use their own consultants or us. There are no other external subcontractors. In fact, this is actually insourcing.”*

In terms of the relationship linking nSense Poland with internal customers – entities from the nSense are particularly under the influence of social factors, especially interpersonal interactions: *“At a recent management board meeting, we came to the conclusion that we are a feelings driven company. (...) Above all we are a group of friends which do business at the same time – this is how it looks.”* This is confirmed by the Group’s COO: *“there seems to be very good relation, we kind of like working together, it is easy to communicate, the different cultural specificities they seem to be complementing each other.”* The good atmosphere is reflected in individual way in which employees are treated and the willingness to help: *“Of course, it’s not that we are not interested in the money – we are a company and we want to earn profit. However, whenever there is any conflict and there is a choice between the money or the person, then we always chose the person.”* The meaning of interpersonal interactions and the development of informal relations is also the result of the manner in which employees communicate with each other, as well as the democratic management style, which facilitates a swiftness, elasticity and autonomy in decision making. Direct contact takes place on a daily basis. Additionally, a video conference is organised at least once a week in order to ensure the continuity of information flows as well as to support operational activities. However, management board meetings dedicated to issues relating to coordination and the prioritisation of activities important for the growth of the Group are organised on a quarterly basis. Good flight connections between Poland and Denmark are important for organising direct meetings. This type of culture and management style fosters affective commitment. Inter-organisational trust is also very important (*“It’s often the case that if people do not fully trust each other, then communication flows are hindered, as a result of which work becomes very inefficient (...). With us it is the opposite”*). The high level of trust results in informal regulations regarding business issues, which is also tied to cultural differences and the customers’ origins. Generally relationships are not regulated by written contracts, but rather verbal agreements: *“For Scandinavians, a handshake is more important than a contract. There is no written contract, however, we are in agreement, we know how we are supposed to cooperate (...). When we were just a subcontractor, we also didn’t have any contracts other than verbal ones.”*

In terms of a mutuality assessment, the aforementioned mutual relationship is clear. The relationship is further developed thanks to the Group taking in to account what effect its decisions will have on nSense in Poland. Furthermore, decisions taken in Poland are mutually consulted within the Group.

Taking in to consideration the very strong social factors accompanying the strong economic factors, the relationship with the customers described above can be deemed **very strong** from the perspective of nSense Poland.

In reference to the relationships with other entities on the local market, the company pointed to one important actor: **Poznan University of Technology**. The relationship is important, as one of the key outcomes of this relationship is the possibility of hiring new employees: *“We run classes and workshops for students. We do this purely on a pro bono basis (...). This is an excellent albeit subtle source of talent....”* This is a particularly

important aspect as due to nSense’s high degree of specialisation, there is generally a lack of suitably qualified employees. These activities are important from the perspective of the development of the whole Group, as in Scandinavian countries there are barriers to obtaining workers with such specialist competencies due to saturation and the size of the market.

The aforementioned aspects constitute an important economic factor (calculative commitment) in the assessment of relationship strength. It should be noted, however, that: *“This gives us a lot (...). We have very interesting contacts as a result. The guest speakers and workshops which are carried out for students function excellently. However, from my perspective the Poznan University of Technology could benefit more from this cooperation. (...) We have the knowledge, they have the equipment, but nothing has come of this to-date in terms of joint research projects. There are a lot of formalities, documents (...).”* There are therefore barriers resulting from the fact that each entity has different goals and a different way of achieving them. At the same time, the citation provided above indicates that there is a very limited degree of mutuality in this relationship. Social factors also have a limited role in this relationship (*“At the beginning of the cooperation, we signed a letter of intent, however, later we never even updated it. (...) The authorities are not really interested in it, however, academic personnel are active and we have good contacts with them”*)

Due to the lack of engagement, limited prospects of developing the cooperation, insignificant mutuality and the lack of social factors, this relationship can be classed as **weak**.

## AN ANALYSIS OF THE RESULTS – DISCUSSION

An analysis of the two case studies revealed different relationships in the case of the three types of actors – customers, suppliers and other entities. These relationships, analysed from the perspective of variables determining their importance and strength are shown to be different in nature. A summary in terms of an assessment of their importance and strength (taking in to account the advantage of social or economic factors in the relationship) is shown in table 2.

**Table 2. An assessment of relationship strength and importance in the analysed case studies.**

Company	Relationship Entity			Importance Assessment of importance	Strength	
	Type of actor	Name	Foreign/Local Relationship		Advantage of Economic/Social Factors	Assessment of Strength
Flow	Customers	(1) Scandinavian Customer	Foreign	Important	Economic > social	Strong
		(2) Hospital	Local	Important	Economic > social	Weak/Moderate
	Suppliers	(3) Sand	Local	Important	Social > economic	Very Strong
		(4) Sfinx	Local	Important	Social > economic	Strong
	Other entities	(5) Furniture Guild	Local	Unimportant	Economic > social <sup>3</sup>	Very weak
nSense Poland	Customers	(6) nSense Group	Foreign	Important	Social > economic	Very strong
	Suppliers	(7) Various	Local	Unimportant	None	Very weak/None
	Other entities	(8) Poznan University of Technology	Local	Important	Economic > social	Weak

<sup>3</sup> There is a possibility of profiting from the cooperation – paid student training.

The furniture company „Flow” has stronger relations with suppliers than customers, although each time they are assessed as important. In turn, in the case of nSense Poland (from the IT industry) the relationships with customers are stronger than with the other important entity – an institute of higher education. Of course, these dependencies may be influenced by organisational structures at the very least.

In the case of both of the analysed companies, unimportant or, in the case of one entity, even non-existing relationships were identified. The specificity of a given industry certainly has an impact on their lack of strength or non-existence. In truth, this is the only area where the level of a company's/industry's technological advancement directly influences the nature of a relationship (the IT industry does not require many physical resources, hence the lack of suppliers, however, the furniture industry is focused on the production process).

It is worthwhile noting the assessment of economic/social factors associated with the verification of relationship strength. One dependency is clear here – the prevalence of social over economic factors results in the development of strong or very strong relationships. In the case of the reverse dependence (the prevalence of economic factors over social factors) both strong and weak relationships were noted, although the latter dominated. This confirms that the strongest relationships are characterised by the occurrence of both social (behavioural) and economic variables (Donaldson & O'Toole, 2000; Barry et. al, 2008) with many social aspects.

An analysis of factors which determine the final assessment of company' relationships as being important can be split in to three groups. Firstly, there is the financial aspect tied to the significant impact of the relationship on a company's income and a high level of orders (in terms of volume and value). Secondly, it is possible to identify aspects ensuring a company's development, in terms of implementing innovation and new solutions as a result of the relationship, but also acquiring resources for this development and the creation of a good reputation or development of a company's image. Last but not least, is trust and mutual commitment.

In turn, in considering the significance of geographical proximity (namely the fact if relationships are built with local or foreign entities) on relationship strength and importance, it can be concluded that a relationship with a foreign entity has a greater impact on the social aspects of this relationship. This is linked to cultural differences, communication, or mutual values. Importantly, both of the companies under analysis, despite the fact that they represented two different industries, cooperated with important customers from Scandinavia. What's interesting is that in the case of the company from the IT industry, the assessment of the Scandinavian entities forming the relationship as well as their mentality was very positive in comparison to the assessment of the owner of the firm from the furniture industry. The analysis showed that in both of these cases, geographical proximity/distance had no impact on whether or not social factors dominate or are less important than economic factors. Of course, in both of these cases, the foreign customers are more important and stronger than domestic customers, however, the evidence is not sufficient to generalise in this regard.

In attempting to answer the question „whether or not a relationship which is deemed “important” can be translated in to strength”, the relationships identified in the analysed case studies were applied to a matrix showing the dependency between strong and important relationships (see table nr. 3)

**Table 3. A Matrix of the dependency between strong and important relationships**

		Relationship Strength	
Relationship "Importance"	7	5 Negative compatibility (unimportant = weak)	No compatibility (unimportant but strong) <i>A hypothetical situation</i>
	8	2	Positive compatibility (important = strong)

In the matrix proposed above, local relationships are marked in blue, whilst foreign relationships are marked in orange. The numbers correspond to the relationships marked and described in table 2. A dichotomous split of weak/strong, relatively unimportant/important relationships would be a somewhat exaggerated simplification, therefore two dimensions were treated as fixed continuous, whilst the position of a given relationship suggests the concentration of both of the dimensions (an assessment was carried out based on the case studies).

An analysis of the proposed matrix together with the superimposed relationships leads to the following conclusions. Firstly, it can be concluded that, as set out in the introduction to this article, a strong relationship is equivalent to an important relationship.

Secondly, the area of the matrix where there is a lack of compatibility (where relationships are strong but unimportant) seems to be just a hypothetical situation, which does not occur in practice (also in other cases, it is difficult to imagine such a situation, irrespectively of the companies under analysis). This is confirmed in the definition and nature of a strong relationship, which at least thanks to the existence of trust, commitment and economic factors, impacts the importance of such a relationship.

Thirdly, there is no link between weak relationships – they can be both important and unimportant.

Fourthly, there is an interesting situation considered from the perspective of assessing the importance of a relationship. Unimportant relationships are solely weak relationships, or just don't exist at all. Companies which do not see the importance of relationships do not engage in them either from an economic or social dimension. In turn, relationships which are deemed important can be both strong or weak. For this reason and with reference to the question posed during the article's introduction, it is not possible to automatically translate an "important" relationships in to a strong relationship. Positive compatibility is of course desired – where important relationships are also very strong relationships. It seems therefore that in the case of important but weak relationships, the decision to continue with the relationships is based above all on a cost/benefit analysis (Geyskens et al., 1996), which can ultimately lead to the end of the relationship (Revesz et al., 2013). Reasons for such a situation could include an insufficient collaboration model, or even a lack of engagement on behalf of both sides in the relationship.

Looking at the matrix above which shows the dependency between relationship importance and strength, it would seem that relationships must first be important from a certain individual perspective and only then does this translate in to strength – the relationship becomes weak or strong.

## **CONCLUSIONS AND FURTHER RESEARCH**

In the article, based on a theoretical analysis and a review of two case studies we identified the determinants of relationship strength and relationship importance, including different aspects of activities conducted by companies on a local and international scale.

This paper's main contribution to the subject is the conceptualisation of the dependency between relationship importance and strength, whilst taking in to account local, domestic and international relationships.

In terms of comparing relationship importance and strength, the analysis confirmed that a strong relationship is also an important relationship. In answering the question we posed at the beginning of the article, we must conclude that relationships perceived by companies as being "important" cannot be equated with strong relationships. In consequence, not every important relationship must become a strong relationship but every strong relationship will be an important relationship. Moreover, to address the notion of a relationship and its nature, we may say that weak and unimportant relationship still is more a single interaction and not a real relationship. However, in certain cases it offers the possibility of further development and transformation in to a real relationship (such a situation exists in the case of the company from the furniture industry and the local Guild).

In turn, upon addressing the issue of geographical proximity, namely whether or not these relationships are formed with local or foreign entities, it is shown that this has, above all, an impact on social factors influencing relationship strength. The case studies described in the article also showed that relationships with foreign customers are strong and important. This, however, can be the result of both organisational structures (the case of the IT company) as well as a significant financial dependence upon a foreign customer (the case of both the IT and furniture companies), hence this issue should be the subject of a more detailed analysis and doesn't allow us to make any generalisations here. This is especially the case given that the observed relationships in the case of the IT industry shown that relationships with the Scandinavian partner can take place on equal principles, which cannot be said for the company from the furniture industry.

The analysis is not free of certain limitations which simultaneously suggest further areas for study. First of all, the research is based upon an analysis of two cases which, even though they are comprehensively reviewed from the perspective of several relationships and interviews with network actors, would need to be expanded. The discussions in this article are linked with the realisation of a three year research project which during its course should shed light on the development of the described relationships over time. Additional analyses as well as quantitative studies are planned. Secondly, a more detailed analysis requires the assessment of relationships with foreign customers – providing that their importance and strength depend upon the international factor itself and not on other aspects. Finally, it would be necessary to carry out a more detailed assessment of the dependency between social and economic factors, the order in which they appear during the development of the relationship and next their role in terms of relationship strength. Detailed studies are also required in terms of the link between specific variables influencing relationship strength and importance.

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