Competitive bidding and contracts - The impact of perceived fairness on relationship continuity among Finnish and Hungarian metal and machinery industry actors

Päivi Jokela & Aino Halinen

Turku School of Economics, University of Turku
Department of Marketing and International Business
20014 Turun yliopisto, Finland
corresponding author: paivi.jokela@utu.fi

Noémi Piricz
University of Dunaújváros
Department of Management and Enterprise Sciences
Dunaújváros, Táncsics Mihály u. 1/A, 2401 Hungary
piriczn@uniduna.hu

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Abstract

In this study we examine how suppliers and customers perceive fairness in competitive bidding and contract drafting process, as well as assess their effects on relationship continuity in the chosen context of the Finnish and Hungarian metal, machinery, and automotive industry. The study draws on the IMP view on relationships and relationship marketing as well as grounding the fairness concept in the equity theory. The study methodology is qualitative and both customer and supplier views are examined. The key findings of the study indicate that the relationship parties' perceptions of fairness differ concerning the processes that are examined, and suppliers tend to seek for more distributive and procedural fairness. In competitive bidding, the emphasis on low price leads lacking distributive fairness. Conducting a dialogue on the value offered by the supplier contributes to its perceptions of procedural fairness. Competitive bidding that takes place at high frequency interrupts the relationship continuity. However, for the customers, the recurring rounds of bidding are vital to ensure their competitiveness, whereas suppliers see that it obstructs their future-oriented development and the scope of cooperation. In contracts, product guarantees and payment terms in contracts prompt perceptions of distributive fairness. Procedural fairness, which is manifested through the possibilities of the suppliers to influence the contractual terms are often limited but not completely missing. Although the relationships are seldom a clear continuum, the breaks in cooperation may be temporary and even the varying level of fairness does not stop companies from participating in new rounds of bidding. However, even when relationships parties have previous history, benefits associated with long-term relationships are not always realized.

Keywords: Fairness, competitive bidding, contracts, continuity

INTRODUCTION

Relationship continuity and long-term relationships in the IMP view of relationships and relationship marketing theory are presented as an ideal due to the various benefits related to them (Ford, Gadde, Håkansson & Snehota, 2003; Håkansson & Snehota, 1995; Wilson, 1995). In reality, relationships are not automatically long-term and the relationship continuity is often interrupted (Coltman, Bru, Perm-Ajchariyawong & Devinney, 2009; Pereira, Medeiros, Borchardt & Geiger, 2011; van Tulder & Mol, 2002; Vesalainen, 2004), and long-term relationships are not always even preferred (Grayson & Ambler, 1999; Villena, Revilla & Choi, 2011). The interruption is caused by recurring rounds of competitive bidding and is followed by contract redrafting, where the parties redefine the rewards and rules for the exchange. In this study, we focus on examining the fairness perceptions in these processes.

Fairness, based on equity theory and defined in terms of distributive, procedural and interactional fairness (Adams, 1965; Luo, 2009) has been found to have a positive impact on relationship quality; satisfaction and commitment and eventually relationship performance (Brown, Cobb & Lusch, 2005; Liu, Huang, Luo & Zhao, 2012; Zaefarian, Tavani, Henneberg & Naudé, 2015). Similarly, fairness in drafting contracts supports nurturing the relationships, improve the cooperation outcomes, create trust and positively impact relationship continuity in terms of contract renewals (Coltman et al., 2009; Poppo & Zhen Zou, 2014). On the other hand, drafting contracts does not always take place in consent between the relationship parties due to asymmetries between them (Mouzas & Ford, 2004). In competitive bidding, the need for norms and ethical standards is pointed out (Crespin-Mazet & Flipo, 2009) and it is suggested that even when bidding and contracts are used in relationships with a common past, the companies should stress fairness (Coltman et al., 2009; Poppo & Zhen Zou, 2014). However, it has not yet been studied thoroughly, which aspects in these processes actually prompt fairness perceptions among the relationships parties.

In this study, we aim at filling this gap by examining these elements and how the fairness perceptions are linked to views on relationship continuity. This will further support an understanding of how fairness in competitive bidding and contract drafting can improve the relationships given its positive influence in relationship development and maintenance.

The study uses qualitative methodology and empirical data that has been collected in 24 interviews with machinery, metal and automotive industry actors and industry experts in Finland and in Hungary. The study mainly concentrates on the supplier view but expands toward a dyadic perspective including customer perceptions, too. The paper is structured in the following way: in the first section we view the theoretical concepts. Thereafter, we present our methodological considerations and discuss briefly the context of the study and the chosen industries in both countries. This is followed by the presentation of the empirical findings and the conclusions.

RELATIONSHIP CONTINUITY AND FAIRNESS ELEMENTS IN THE RELATIONSHIP

An essential feature in the IMP view on relationships or in a relational approach is that they present relationships as long-term, with continuity as an inherent and a desired feature (Ford et al., 2003; Håkansson & Snehota, 1995; Seshadri & Mishra, 2004; Wilson, 1995). The relational exchange is expected to lead to more stable relationships and improved relationship performance (Anderson & Weitz, 1992; Gadde & Dubois, 2010). Continuity has also been an important element in studies on relationship commitment, when the firms show strong

intention to prefer cooperation with its current partners (Anderson & Weitz, 1992; Morgan & Hunt, 1994). Continuity is often following the economic or social investments that the parties make in the relationship (Anderson, Håkansson, & Johanson, 1994).

The different fairness elements are rooted in the development of the equity theory (Adams, 1965). In business relationships, distributive fairness can be used to assess the balance between rewards and intput of the parties (Hornibrook, Fearne & Lazzarin, 2009; Luo, 2009). Procedural fairness refers to the symmetry of involvement in processes and decision- making (Duffy, Fearne, Hornibrook, Hutchinson, & Reid, 2013; Griffith, Harvey, & Lusch, 2006). In this study, we include interactional fairness that refers to the interpersonal treatment between firms' representatives (Duffy et al., 2013), in procedural fairness.

FAIRNESS IN COMPETITIVE BIDDING

Competitive bidding has mostly been related to transactional, arm's-length relationships with market price as the key determining factor (Araujo, Dubois & Gadde, 1999; Boughton, 1987; Pereira et al., 2011; van Tulder & Mol, 2002; Vesalainen, 2004). Bidding has been studied particularly in the context of project and solutions marketing, which often require preparation of lengthy, complex and expensive bids for customer evaluation, e.g. large scale procurement in the public sector or projects in the construction industry (Cova & Salle, 2007; Cova, Ghauri & Salle, 2002; Gadde & Dubois, 2010; Ivens & Pardo, 2010). However, bidding is also used in other industries, including electronics, machinery and automotive (van Tulder & Mol, 2002; Pereira et al., 2011), where the pressures for price reductions are driving companies to bid (Henke, Parameswaran & Pisharodi, 2008).

Bidding on low prices, the "adaptive strategy" (Boughton, 1987), is used by suppliers to react to the markets. It facilitates penetration to new markets and increases the chances of winning the bid but it also often means compromising the profits (Boughton, 1987; Vesalainen, 2004). Bidding a higher price is possible in a strategic approach to bidding: from the supplier perspective this it is more favourable because it is value-based and more selective (Boughton, 1987; Vesalainen, 2004). However, in markets with intensive competition suppliers are not necessarily able to follow "selectionism" with regards to the opportunities met. The strategic, value-based approach to bidding also comprises the idea of value-based pricing, which has been noted as a key to sustained profitability (Hinterhuber 2008; Töytäri, Rajala & Brashear Alejandro, 2015).

According to Hinterhuber (2008), value-based pricing requires identifying sources of value for customers, such as designing products, services, and solutions, as well as setting prices as a function of value and implementing consistent pricing policies. However, difficulties in making value assessments at the customer side, and difficulties with communicating efficiently value to the customer impede its implementation by the supplier firms (Hinterhuber, 2008). Ulaga (2002) suggests that even if customers understand the significance of the additional value dimensions and wish to have them included in the offering, it is challenging to align them with a fair price. Nevertheless, the suppliers can consolidate their bargaining position if they manage to influence the value perceptions of their customers efficiently, as well as when they are responsible for larger entities in their customer's end product (Vesalainen, 2004; Töytäri et al., 2015).

Since the price is in the core of competitive bidding, the questions of distributive fairness are likely to emerge. It is important for the customer to pay a reasonable "market" price for the offering, although they do want the suppliers to get the margins to live with (Ulaga, 2004;

Vesalainen, 2004). The suppliers, on their part, expect to receive a fair price that covers all the value dimensions of the offering. Combined, these perspectives refer to distributive fairness. It is seen as an ethical problem and lacking fairness if customers put pressure on suppliers who follow the markets rules and feel obliged to offer "abusively low prices in their bid", leading to losses (Crespin-Mazet & Flipo, 2009). This is experienced increasingly during economic crisis periods when competition becomes fiercer and tenders scarcer, at least in the construction industry (Crespin-Mazet & Flipo, 2009). Similarly, suppliers may sometimes try to compensate for the margin that was compromised in the bidding process (Cova, Ghauri & Salle, 2002), and for example, charge high prices for additional changes in the product or project.

We can interpret the possibilities of the suppliers to influence their customers' value perceptions (Hinterhuber, 2008) in terms of procedural fairness. Suppliers may or may not have access to the customers, whose attentiveness can vary. Of course, one has to be critical when perceptions are studied, because they are subjective assessments concerning the counterpart and cannot always be verified without the view of the other party. For the customers, the willingness of the suppliers to open their cost structure in the search for savings can be interpreted as procedural fairness. This mechanism, which can also be a part of contract negotiations, is used to ensure that pricing is at the right level and fair for the customer. Ideally, it could facilitate maintaining longer term relationships without recurring competitive bidding. The dialogue can also lead to joint learning and innovation, but their utilization to their full scale is impeded if the partners are always changing after new bidding rounds (Gadde & Dubois, 2010).

CONTRACTS AND FAIRNESS

In earlier research contracts are often discussed in the context of how the exchange between the buyer and seller should be governed (Chang, Chiang & Pai, 2012; Mouzas & Ford, 2007; Poppo & Zenger, 2002; Woolthuis, Hillebrand & Nooteboom, 2005). Contracts are used by buyer and supplier to agree on the terms of the exchange and specify operational and performance-related matters such as lead times and product quality (Simchi-Levi et al., 2009). Contractual arrangements for coordinating relationships are employed by parties to align their objectives, make the best use of their capacities and exercise their powers under specified criteria (Cachon, 2001; Mouzas & Ford, 2007).

Another important function employed by contracts is safeguarding against the foreseen contingencies and the business partner opportunism often leading to more complex contracts specify processes for resolving the unforeseeable risks (Woolthuis et al., 2005). The need for safeguarding increases together with relationship specific assets or adaptations (Anderson, et al., 1994), when the performance of other party is hard to measure or the uncertainty in the exchange is high (Poppo & Zenger, 2002; Chang et al., 2012). Because of considerable costs related to negotiating and overseeing contracts as well as enforcing them when necessary (Mouzas & Ford, 2007), trust and norms can complement contracts (Ivens & Pardo, 2009; Poppo & Zenger, 2002).

What is then is the connection between the contract and the relationship continuity? When parties observe fairness in the relationship they expect contract renewals and relationship continuity (Poppo & Zhen Zou, 2014). Fairness in the contracts should increase through revisions as the relationship progresses and the goal would be achieving a more equitable and efficient contract (Coltman et al., 2009). Equity refers to the existence of fairness in financial

terms, i.e. distributive fairness and it can lead to straightforward negotiations concerning the details of the exchange (Gundlach & Murphy, 1993). This implies that as the relationship matures and even if it involves several rounds of competitive bidding by adding fairness-related considerations in negotiations the parties can improve cooperation and its outcomes. They also can agree on a complex and detailed contracts (Seshadri & Mishra, 2004; Woolthuis et al., 2005), which also can promote cooperative, long-term and trusting relationships, which again may generate new contractual refinements that further support greater cooperation (Poppo & Zenger, 2002). Figure 1 summarizes the key concepts of the study.

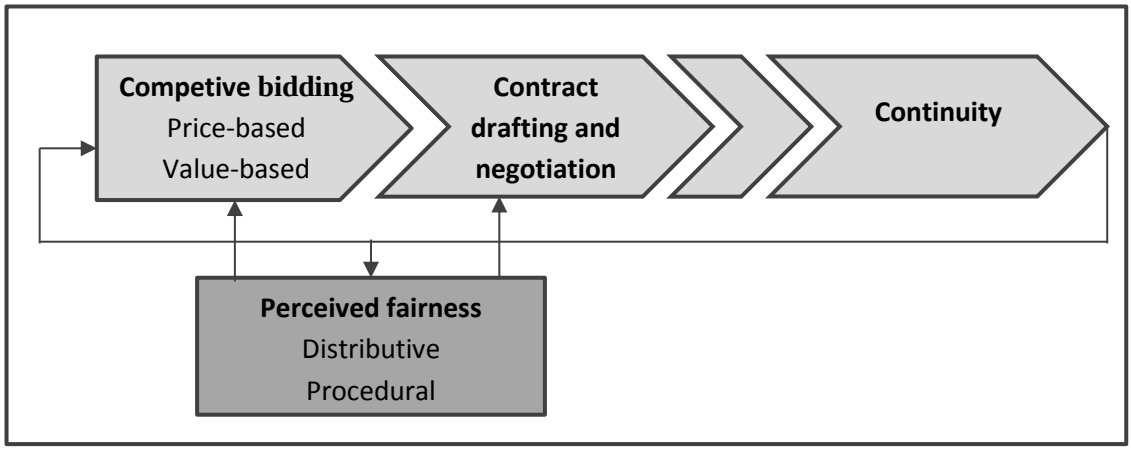

Figure 1 Key concepts of the study

Existence of procedural fairness can be observed in the contract negotiations through the possible influence of the parties in the process. Partners that are relationally oriented and emphasize the common goals may view contract negotiations as ways to learn about each other rather than ways to extract the maximum number of favourable terms at the negotiation table (Wuyts & Geyskens, 2005). Additional success factors for contract renegotiations also include openness and a true desire by all members to make improvements, find areas of potential savings and develop understanding of the problematic areas in the exchange process (Coltman et al., 2009), although mismatched expectations are commonly observed too (Seshadri & Mishra, 2004).

METHODOLOGICAL CONSIDERATIONS

The study followed qualitative methodology and data was collected in Hungary and Finland, in technology industry firms including metal and machinery industry, and automotive industry actors. The reason for selecting these industries was the common practice of outsourcing and subcontracting which require competitive bidding and drafting contracts before the formation of exchange relationships (Kotabe, Martin & Domoto, 2003; Högberg, 2002; Management Design Intelligence, 2011).

Finland and Hungary form an interesting context to the study. On the one hand, Finland traditionally has a well-developed metal and machinery industry with prominent domestic and international principles and there are supplier-customer relationships that have lasted even for decades (Hernesniemi & Nikinmaa, 2009). On the other hand, in Hungary the industry development has been more recent following the fast economic development after the dissolution of the Eastern Block since 1989 and privatization of government owned

businesses (from 2000 to 135 by 1998) (Kádár & Markovszky, 2004). Multinational companies have found the country an interesting option for investing and sourcing, for example in machinery industry firms foreign ownership accounts for 78 % (Karsai, 1999) and skilled workforce has encouraged establishment of R&D centres (Farkas, 2002). The Hungarian automotive industry has developed on the base of the earlier manufacturing of trucks and buses. The location in the Central Europe with markets in the West and in the East, and the ability to offer manufacturing at a relatively low cost and good quality have been key in attracting business partners (The Central and Eastern European automotive market).

Although our primary aim with this setting is to aim at providing a complementary view on the phenomenon rather than a direct comparison, we suggest that the comparisons can give enriched insights on the topic studied. This is especially relevant in the Hungarian context, where economic development has been fast and supplier cooperation with international companies does not have long previous history. Using the methods of qualitative inquiry, in the study we combined views of several companies (Miles & Huberman, 1992; Kuzel, 1992; Patton, 1990). Empirical data was collected with interviews and the main informants in the companies were senior managers, CEOs and one director of a board. The following Table 1 summarizes the informants. The topic was considered sensitive as it required discussing key business relationships. For this reason, the respondents and their companies are presented anonymously. Sensitivity also was a limitation in the study; the Hungarian companies in particular were hesitant disclose their views to the researchers.

Table 1. Participants in the study

	Interviewees	**Company information**
Companies participating Suppliers of parts and subsystems for machinery and automotive Customers in machinery and automotive (also dual roles in the 2 –tier companies)	13 CEOs 2 Sourcing managers Board director Development manager CFO, strategy Sourcing technology developer (ERP)	5 small firms 11 medium-sized firms 2 large multinational firms
Experts from industry organizations, research institutes, and consultants with previous experience in the industry	5 Experts	

In addition, a few expert interviews were conducted in both countries in order to get an expanded view on the topic and understand the industry dynamics. The total number of interviews is 24 with 17 interviews in Finland and seven in Hungary. Each interview lasted in average 1-2 hours and they were either recorded or detailed notes were taken in each occasion. The study is still on-going, and more interviews will be conducted in Hungary.

According to the criteria that was set the companies had to be active in business relationships with other same industry business actors, or in other words with suppliers or customers that buy products, materials and systems to be used in their own products or solutions. Other

characteristics, e.g. their size, type of products or customer segments were not specified but the customers were large international firms or medium-sized companies and suppliers small and medium-sized companies as well.

FAIRNESS IN HUNGERIAN AND FINNISH METAL AND MACHINERY INDUSTRY ACTORS - FINDINGS

Regarding both competitive bidding and contracts and the fairness perceptions, there are similarities in the Hungarian and Finnish industries yet also differences. The Hungarian supplier companies have rapidly adapted to cooperation with international firms in the automotive industry in particular (Bartlett & Seleny, 1998; Lorentzen, Mollgaard, & Rojec, 2003) and this could be an influential factor why the practices in firms are rather similar in both countries.

Fairness in competitive bidding

Our findings indicate that fairness in the competitive-bidding process relates to its contents, where perceptions concerning distributive and procedural fairness emerge and in addition to the use of the process itself in customer-supplier relationships. The effects of the competitive-bidding on the relationship continuity can be both direct and indirect. One straightforward result is that the relationship is terminated if the bid is not accepted. In this competitive situation, the customers are more dominant, but in the fast-growth phase the setting is the opposite. We place all those matters that include financial elements in them and that are experienced as fair or unfair under distributive fairness. Following the equity theory principle, the key element is the price that the customer is willing to pay versus the value of the offering as well as the ratio of which prompts a perception of distributive fairness, particularly on the supplier side. As a result, the price is in the core of competitive bidding, when the customer-buyer aims at locating a suitable value offering. It is important that the suppliers receive such a reward for their input which enables them to keep their profitability at a reasonable level.

In both countries, Hungary and Finland, and in most of the cases that were studied, the price was a critical dimension in assessing the bids, which refers to the favouring of the adaptive bidding strategy (Boughton, 1987). Based on this observation, the relationships, which in spite of their history, are considered more arms-length or transactional than close cooperative relationships with deep and wide interfaces that combine available resources (Araujo et al., 1999), although this took place in some of the relationships we studied.

The suppliers mentioned the strategic, value-based approach in the cooperation toward offering (Boughton, 1987; Vesalainen, 2004; Töytäri et al., 2015) would be more beneficial financially and thus would contribute to the perceived distributive fairness. It was assessed that it would also benefit the customers, and in this way they could do even more to serve them. One mechanism mentioned was to pay attention to rewarding the suppliers for their input in the development work. A supplier-side observation that did not support distributive fairness in bidding was that customers were not always inclined to pay extra for additional value dimensions (Ulaga, 2004). For example, this concerned the suppliers' readiness to offer services on the weekends, as well as longer guarantees for the product. A supplier characterizes the situation: "*Price is the most important factor, although technology is, or should be, vital in this field.*" Hungarian supplier

Similarly to the earlier accounts (Crespin-Mazet & Flipo, 2009), the price competition sometimes had unhealthy features: The Hungarian suppliers have faced situations where competitors lower their prices under the lowest limit and "there are always 'volunteers' for such an unfair role." This is commented by a supplier: "*This is not competition! It is impossible to compete with purely price-based evaluation. If a competitor makes an offer with an irrationally low price, the potential buyers expect us to follow this. The firm that made this impossible offer went bankrupt soon after the deal.*" Hungarian supplier

This situation is known at Finnish companies too, but a Finnish customer, a large international company, prefers not to accept such bids, since it is known from the start that a low bid could be used only as a strategy to enter a business relationship with a customer who has a good reputation, and as a result the following year the prices would go up. Also, this can be added to the supplier strategies that tackle the non-beneficial situations related to the low bids (Crespin-Mazet & Flipo, 2009).

In Hungary, certain companies are able to bid low and operate in deficit longer, because they are a part of a large corporation that transfers capital from a more profitable division. Still, one other example shows that value-based strategies are used in a successful manner: a medium-sized firm decided to focus on quality dimension and managed to create stable relationships with a group of customers. The Finnish customers also emphasize the total value – the value dimensions have to be in place in relation to the price.

In terms of materialization of procedural fairness, the suppliers wish to have a more intensive dialogue with their customers about these value dimensions and benefits in the bidding process (Hinterhuber, 2008; Töytäri et al., 2015). Additionally, it also relates to the dialogue of how to bring the resources together in an efficient way, and how to link the knowledge of the user and producer context (Araujo et al., 1999). The influence of the dialogue to the relationship continuation is indirect. We propose that the influence goes through the working atmosphere in the relationship. It is very important that partners in the relationships are listened to, influencing their willingness to invest in the relationship.

With regards to the use of bidding, the fairness perceptions relate mainly to its frequency, which also affects the relationship continuity as well. Sometimes the relationships are put on hold if the bid is not accepted but can continue later after a new round of bidding. However, in many cases the relationships had a long history and the recurring use of bidding increased uncertainty and reduced the suppliers' willingness to make adaptations.

Sometimes the companies expected that their previous relationship history would have an impact on being selected. For the Hungarian companies, the long prior relationships were seen as a good reference but were not a guarantee for an automatic relationship renewal. Some managers found it strange that they should win the bid, too. According to a Hungarian expert, a new tendency is that even close partners have to prove their capability and competence in each bidding round with only few exceptions. Strategic procurement is based on trust, and if there is a long-term proven relationship, another supplier cannot step in. On the other hand, in the car industry, the multinationals work not only with high expectations and standards that dominate the upstream supply chain (Change et al. 2012), but also their operations are stable and have longer relationships (Lewis and Wright 1999). Changing a supplier is challenging: *"There is always an alternative supplier, just in case. But if we have to turn to them it is a great risk for the quality."* Tier-1 Hungarian supplier

In the Finnish side, according to the assessment an industry expert the suppliers may rely too much on the past cooperation instead of developing capabilities for the future. Also some customers emphasize that the innovations developed by suppliers would be much appreciated. A Finnish customer had considerations to look for new supply alternatives with better innovation capabilities but at the same time the customer perceived that the adaption of the resources of the new suppliers to the customer processes involves risks (Gadde, Hjelmgren & Skarp, 2012).

Although bidding usually takes place before the signing the contract, in certain cases in Finland bidding suppliers were asked for quotations even when they had a valid contract in on-going relationships. In Hungary bidding to took place also afterwards: *"Once a partner started to ask for a price-discount after the work had been done. It was very uncomfortable when we sent back his mails concerning changing the terms."* Hungarian supplier

At the same time, the Hungarian market is very concentrated and has few powerful buyers. Once business relationships are dissolved their renewal is very difficult. Suppliers are left with the challenging option of finding new customers in the foreign markets. Hungarian businesses seem to have less procedural fairness and are getting used to this situation. Due to the dominancy of large-sized companies, more top managers have developed a survival attitude.

Fairness perceptions in contracts and the impact on continuity

In both countries the technical description of contracts and their role is rather similar. Large international companies have lengthy and detailed contracts, and their terms are sometimes rather demanding for SMEs. The perceptions of *distributive fairness* are triggered by product guarantees and payment terms, which can be unfavourable for the suppliers. On the other hand, contracts offer more distributive fairness when the customer is committed to buy a certain amount of stock, even when the product is removed from the market, and they take into account fluctuations in raw material prices. *Procedural fairness* was observed to be present to a certain extent, although also lacking, when a business partner is a large company and its suppliers much smaller. Therefore, the small suppliers do not have much voice in the contract.

In Hungary, lawyers play an active role in influencing the contents of the contract and ensuring one-sided contract-termination. Although written contracts are common, there are cases where contracts are short and concise, with an emphasis on technical specifications. Among the business partners, there is sometimes a debate as to when the supplier should start production. Buyers may try to prompt the suppliers to start production before signing the contract. Since this is financially risky and lacks distributive fairness, nothing is usually started before signing a contract, with the exception of trust-based, long-term relationships: *"We do not start working earlier just when a buyer's calls us."* Hungarian supplier

Fairness perceptions concerning prices emerge first. In Hungary, when large principal companies place orders, the unit-costs are expected to decrease when the volumes grow, which gradually lowers the margins of the tier-one supplier. From the customer's perspective, the learning-curve effects and future orders are expected to compensate for this unpleasant situation. An interesting mechanism to ensure distributive fairness exists in Hungary as it relates to raw material intensive-products (50% of the sales price). In this situation the company asks for a pre-payment from the customer in order to start production. More interestingly, there are also companies that demand upfront payment (and receive it) because

the customers tend to stretch out the due dates. *"We know that if we ask for payment before delivery few of our buyers do so. If it they pay six months after the delivery, it is as if we have not been paid at all."* Hungarian supplier

Payment conditions play an extremely important role in Hungarian business practices because generally the companies' credit possibilities are less favourable. For example, they cannot and sometimes do not want to offer necessary collateral to banks. As a result, they feel that they have to fully finance their operations from their previous earnings.

In Finland, companies seldom work without contracts, and if they do, customers have to have full trust in the suppliers' ability to supply the product. In specific case, a supplier refused to the sign the contract because of its demanding terms, but the known expertise and reputation of the supplier motivate the customer to continue ordering the products. One of the main distributive fairness related issues is that the contracts are difficult to interpret without lawyers who can help the supplier to see what are their financial responsibilities are. Commonly, the customers' viewpoint is that contractual terms are the same for every supplier Making amendments with the pool that is comprised of several hundred, or even thousands of suppliers, would not be realistic. In addition, the ability to work with such contracts reflects the ability of the supplier to cooperate with large international business partners.

Another issue related to distributive fairness is that the customer's commitment to specified orders has decreased over the years. The units written in the contract may not be ordered in their full measures. This implies increasing uncertainty for the supplier, who has to find a balance between finding new customers to fill his maximum production capacity, while at the same being available for the amounts mentioned in the contract. On the other hand, customers are often committed to buying stock that is produced according to the contract "no matter what happens" so that the supplier will not need to bear the costs, if the product is withdrawn from the market. The duration of the contractual periods vary anywhere between 1-3 years. A shorter term is also seen as a mechanism to safeguard against sudden price increases of the raw materials. *"If I negotiated a contract for three years and all of a sudden the price of steel comes down 30%, I would lose and somebody else who is buying from the spot market could sell it much cheaper."* Finnish customer

In such cases the +/-5% commonly included in the contracts against the fluctuation would not be enough. In Finland, product guarantees in the contractual terms can put the supplier in an unfavourable position because the coverage required is greater than the supplied part or entity. Payment terms of 60-90 days or longer, which is a corporate policy aiming at optimizing the amount of cash at the end of the quarter, compromise the suppliers' ability to meet their own obligations toward their own suppliers. *"The payment terms are an area where the cooperation does not really work. The large ones are quite merciless on that. But I have had lengthy discussions and I haven't taken it all in, although it is sometimes just dictation from the headquarters… I have tried to explain what the impact is. And some people have understood me and there have been compromises."* Finnish supplier

Sometimes with foreign customers the goods are paid for upfront in Finland, too. *"Once they came here and started loading the parts, and I told them that they hadn't paid for a full load and I would only give them what they had paid for. Afterwards, they came to see the parts and paid the rest. The customer was satisfied."* Finnish supplier

Also, in quiet periods the customers may ask for price discounts up to 20%. However, this is an "impossible equation because the cost structures have been trimmed by the supplier

already". On the contrary, when the demand grows, the customers are eager to ask the suppliers to show restraint and not to increase the prices. This implies that the relationship is not always mutually rewarding. Extreme bargaining in an "auction style" is problematic, because cooperation is forgotten even when production technology has been developed for the customer.

However, one feature of the relationships is that not all fines or sanctions mentioned in the contract are executed even when they are valid, which speaks of the fairness of the industry according to the interviewee. Another Finnish CEO says that the sanctions written in the contract are rather significant if they get to the situation where they have to be paid. Furthermore, co-development projects are rather problematic in terms of contracts. Although they are an important part of the relationship, there are limitations for their implementation as well. It is very difficult to define in advance how much resources a certain project will require from the supplier and how the rewards will be shared. In other words, it is difficult to monitor the realization of distributive fairness.

Procedural fairness in contract negotiations is assessed on how much influence the supplier may have in expressing its views concerning the terms or other cooperation-related matters. The influence was not extensive in either countries, although in certain cases the suppliers were able to negotiate "if there are things that are against the common sense". A supplier explaining the consequences of the payment terms is an example of procedural fairness. Another procedural fairness related role the contracts have is that they prevent conflicts by establishing clear, mutually-understood terms and situations.

The following Table 2 summarizes the results of the study. The finding that concerns fairness is marked either as positive or negative and the interpretation of the effect is marked in the right column.

Table 2. The summary of the results

Competitive bidding		**Continuity effects**
Distributive fairness	*-Low prices emphasized by customer (-)* *-Unbundling the offering into smaller units and bidding each unit separately (-)*	*-Suppliers balance with profitability* *-Too high prices drive customers to search for alternatives* *- Decreasing profitability of the suppliers forces to put the relationship on hold*
Procedural fairness	*-Frequent use of bidding (-)* *-Problems in communicating value to customer(-)* *-Problems in communicating expectations to supplier, e.g. innovation (-)*	*-Impedes the development of the relationship, reduces trust and willingness to adaptations and can lead to relationship dissolution*
Contracts		
Distributive fairness	*-Terms sometimes demanding to suppliers(-)* *-Customer shows solidarity in contract terms (+)* *-Customer does not pay in due time or payment terms are not favourable(-)*	*-Suppliers do not enter the relationship or there is no renewal of contract.* *-Supplier is willing to continue the relationship also in the future* *-Supplier's difficulties to meet its obligations to its own suppliers*
Procedural fairness	*-Both parties can influence in contract drafting (+)*	*-Improves the atmosphere in the relationship*

CONCLUSIONS

The purpose of the study is to understand how bidding and contracts are perceived in terms of fairness and how these perceptions impact the continuity of the relationship. The study that was conducted among Finnish and Hungarian companies did not reveal any fundamental gaps between the countries. Each company had fairly similar thoughts about fairness and the approach to continuity, despite cultural differences and the fact that the industries in focus are in variant development stages in the two countries. In competitive bidding, distributive fairness manifested itself in perceptions concerning pricing issues. Suppliers would prefer a strategic, value-based approach instead of bidding low prices. In terms of procedural fairness, the parties wish to have their voices heard and communicate in a clear manner the key issues to their counterparts; suppliers about the value of their offering and for customers, it is essential to make the suppliers understand the need for innovation. In addition, supplier firms with long previous relationships question the recurring use of bidding and wish to adopt a more relational approach aiming at co-development. Customers emphasize the ability to stay competitive as a rationale to use bidding but they also value the previous cooperation and recognize the challenges of changing suppliers.

Bidding, in spite of its recurring nature in the relationships, has not received much attention in the IMP literature, which otherwise is rich and widely addresses the different aspects in these relationships. Although the relationship theories emphasize the continuity of the relationships and the benefits related (Gadde & Snehota, 2000, Håkansson & Snehota, 1995), our findings suggest that recurring competitive bidding interferes with the continuity of relationships and sometimes also holds back their progress in technical development, quality, and performance (Gadde & Snehota, 2000). Therefore, a key area where the interference becomes visible and influential is the resource interfaces between the companies (Araujo et al., 1999; Gadde & Snehota, 2000; Gadde, Hjelmgren & Skarp, 2012).

In contracts, distributive fairness perceptions emerge concerning payment terms or product guarantees. Procedural fairness perceptions concern the dialogue between the partners in the negotiations. Although fairness has impact on how the relationship is experienced in terms of its working atmosphere, there were few indications that lacking fairness in these areas would have led to relationship termination or that firms would have deliberately stopped participating in the new bidding rounds.

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