

# Understanding the non-economic value of business relationships

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## Abstract

This article contains a review of relationship value literature which is structured by episode, relationship, and network level. We propose characteristic value dimensions in each level. The article concludes by a three levels and two dimensions framework of focal relationship value in business network. This value combines economic and non economic aspects and episode, relationship and network levels.

"All relationships are valuable...,but some are more valuable than others." (Ford and McDowell 1999 pp.430) The value should be measured at the activity level (Porter 1985), also at the product level (Reddy 1991). But it is not certainly enough to measure its complexity in the business markets. That is why it is important to understand this complexity through the value of the business relationships. Business relationship value is also a problematic concept. "The value concept and value adding seem to be one of the most recent and popular trends today. However, the concept of value is multifaceted and complicated...." (Ravald and Grönroos 1996 pp.19). And Wilson said "value is a problematic concept which cannot be ignored" (Wilson and Jantrania 1996).

So value creation is now a central purpose of marketing (Jantrania and Wilson 1999) and particularly to understand the dynamics of the business relationships (Anderson and Narus 1991). It is because delivering superior value to customer enhanced his satisfaction, his competitive position and his loyalty for sustaining long-term business relationships.

To understand business market the basic and now days familiar concept is the business relationship. Our starting point about business relationships is the well known IMP interaction model (Hakansson 1982). We emphasise that the business relationship is a process of bounded interactive exchange episodes (products/services, information, finance, and social exchanges) between the groups of actors involved in it. Business relationships are realised between the buyer and seller and demand different level of efforts in investments (money, time, skill...), organisational learning, adaptation, co-ordination, commitment and trust building from both parties. The main goal and incentive to do it are to create a superior value for each and to share it.

There are differences in the frequency, the structure and the perception of the exchange episodes and relationships. These are the main, but not the only, causes of the heterogeneity and dynamics of business relationships. Business relationships have different, non-sequential development stages (pre-relationship, exploratory, developing and stable) (Ford 1980, Ford at al.1998). For each stage there is a decision situation to continue or not if so how (Valla 1986, Anderson 1995, Wilson 1995). The focal relationship is embedded in its atmosphere (Hakansson 1982), and its network (Ford at al.1998). This complexity leads to see the business relationship management as an integrated element of the strategy redefinition in business markets (Hakansson and Snehota 1989, Ford at al.1998). It seems that the value of the relationship participates to this management.

Relationship management has three levels: episodes, relationships and networks. We notice the importance of the management of the portfolio the relationships (e.g. Turnbull and Zolkiewski 1995, Turnbull and Topcu 1996) even to understand the value of business relationships (Krapfel at al. 1991, Ford at al 1998, Ford and McDowell 1999). In our purpose we are interesting about the value of a focal business relationship at episode, relationship and network level.

### **Episode value**

Anderson and Narus (1999) consider the value as a cornerstone of business marketing. They define value in business markets "is the worth in monetary terms of the economic, technical, service and social benefits a customer firm receives in exchange for the price it pays for a market offering" (Anderson and Narus 1999 pp.5) Even they use monetary terms to express value because of managerial practice of utility understanding, they have a broaden approach of value which is rooted from the social exchange theory. Their value concept is based on benefits and calculates the difference or trade off between perceived worth and price paid (Anderson et al 1993). Anderson and Narus emphasise the "value is what a customer firm gets in exchange for the price it pays. Therefore, we conceptually view a market offering as having two elemental characteristics: value and price." (Anderson and Narus 1999 pp.6). Value is a net benefit (total benefit minus costs) perceived by the customer, and the fundamental value equation makes possible the comparison of an offering and its the next-best alternative (Anderson and Narus 1999). This value concept is clearly concerning the offering, ("offering is a set of economic, technical, service and social benefits a customer firm receives" Anderson and Narus 1999 pp. 5) or more exactly the exchange of it. This type of exchange is realised as an exchange episode of an interactive relationship between the supplier and customer (e.g. Hakansson 1982, Turnbull and Valla 1986 or Ford 1990). Normann and Ramirez (1993) say "in fact what we usually think of as product or services are really frozen activities, concrete manifestations of the relationships among actors in value creating system. To emphasis the way all products and services are grounded in activity, we prefer to call them offerings." (Normann and Ramirez 1993 pp.68). So the offerings are results of activities of exchanging partners realised in previous relationships. Ravalad and Grönroos argue that a relation consists of episodes. "An episode can be defined as an event of interaction which has a clear starting point and ending point and represents a complete exchange. In an episode there can exist several interactions..." (Ravalad and Grönroos 1996 pp.29). They are referring to Monroe's definition of customer perceived value as the quotient between perceived benefits and perceived sacrifice. The perceived benefits are some combination of attributes (physical, technical, service) in relation to the particular use, the purchase price and other indicators of perceived quality. The perceived sacrifice contains all the costs the buyer faces when making a purchase (e.g. purchase price, acquisition costs,

transportation, installation, order handling, repairs and maintenance, risk of failure or poor performance) (Ravalad and Grönroos 1996). In other words it could be considered as a trade off between the perceived benefice and the perceived sacrifice

They emphasise that the customer-perceived value of an offering is highly situation specific. as "the utility or the outcome of buying a good or a service [an offering]...*per se* raises buyer performance" (Ravalad and Grönroos 1996 pp.22). The offering as a "value carrier" contributes to the buyer performance and must be perceived by the customer as a greater net-value than the competitors' offering.

Reddy (1991) does not speak about offering but he defines the product value in industrial markets as a two dimensions construct. The product value is an ensemble of economic and non-economic elements (one dimension) and intrinsic and extrinsic elements (second dimension). Intrinsic elements come from the product itself (they are the economic and non economic attributes of the product). Extrinsic elements are mainly the activities (services) of the vendor. The intrinsic part of economic elements is the product performance, reliability, technology and price. Operator training, maintenance training, warranty, spare parts and identifiable post-purchase costs consist of the extrinsic economic elements. Non-economic intrinsic elements are the brand name, styling, packaging and appearance. Extrinsic non-economic features are the vendor's reputation, reliability, responsiveness, dyad relations and service. (Reddy 1991, Wilson and Jantrania 1996)

But "the value of having a relationship, e.g. the value of commitment for both parties,...also needs to be taken into account when analysing the offering provided and the manner in which it influences the customer's perception of the value." (Ravalad and Grönroos 1996 pp.23). To identify it the authors introduce the term of "total episode value", which could be describes "as a function of both episode value and relationship value" (Ravalad and Grönroos 1996 pp.23). This total episode value is always a ratio of perceived benefits and perceived sacrifice:

$$Total\_episode\_value = \frac{(episode\_benefits + relationship\_benefits)}{(episode\_sacrifices + relationship\_sacrifices)}$$

One can ask what does it mean the relationship benefits or sacrifices. With this question we can discuss the problem of relationship value.

Offerings (products at Reddy) are the object of exchange episode between buyer and seller. Offerings mean a perceived customer value for the buyer. It determines the episode value. But this value contains some element beyond the exchange episode which came from the relationship. Different kinds of episode value are summarised in the table 1.

**Table 1. Episode value**

Episode value	Offering as sum of benefices received by customer in monetary terms
	Offering as result of previous relationships
	Offering as a value carrier
	Offering as a set of economic and non economic elements
	Offering as relationship benefices or sacrifices

### **Relationship value**

Most of the theoretical frameworks describing buyer-seller relationship emphasise its interactive (e.g. Hakansson 1982, Turnbull and Valla 1986, Ford et al. 1986), dynamic (Ford 1980, Ford et al. 1986, Wilson and Möller 1995), ongoing (Dwyer et al. 1987) complex (Anderson and Narus 1990) and embedded (Anderson et al. 1994) characters. Theoretical bases of these models are different (Dwyer et al. 1995), some of them focus on the interactive exchange process (e.g. Hakansson 1982) others the consequences of the exchange (Anderson and Narus 1990) or the development phases of the buyer-seller relationships (e.g. Ford 1980, Wilson 1995). Although "value creation and value sharing can be regarded as the *raison d'être* of collaborative customer-supplier relationships" (Anderson 1995 pp.348) publications about relationship value are relatively recent (e.g. Wilson 1995, Anderson 1995, Flint et al. 1997, Gassenheimer et al. 1998, Jantrania and Wilson 1999, Wilson and Jantrania 1996, Ford and McDowell 1999, Wilson 1997, Walter et al. 2000)

We can classify the relationship value as perceived value, desired value or value judgement (Flint et al. 1997). First, value concerns implicit beliefs that guide behaviour. Second, desired value concerns what customer wants to have happen. Finally value judgement concerns an assessment of the value, it is the assessment of what has happened.

Wilson and Jantrania (1996) conceptualise relationship value along three dimensions as economic, strategic and behavioural (psychological) ones. The economic dimension consists of cost reduction, value engineering, investment quality and concurrent engineering effects of the relationship for both parties. Relationships should be driven by different strategic goals. Through the relationships partners can gain competitive advantage, force their core competencies or create market position Behavioural dimension contains social bonding, trust and the culture of and developed by the relationship. Behavioural elements are interrelating and dynamics. "With time a hybrid culture develops that will help bond the relationship. The culture is likely to carry values from both organizations and may develop values not present in either organization" (Wilson and Jantrania 1996 pp.66). To assess of relationship value they suggest to begin with the economic value after it to evaluate the strategic one and finally to estimate qualitatively the behavioural value (Wilson and Jantrania 1996). To understand deeply the relationship value it is useful to take consideration of technical and social aspects of a business relationship (Holmlund and Kock 1995).

Ravald and Grönroos (1996) are going beyond. For them the benefit concept takes on a deeper understanding of relationship value. They argue that "safety, credibility and security contribute to a reduction of the sacrifice the customer and this is something we believe that customer finds essential and very valuable." (Ravald and Grönroos 1996 pp.24-25) They emphasise the importance of continuity in a customer relationship. Considering value as a means of bonding customers "the discussion should not be limited to value-adding features in

the offering. The customer perceived value needs to get a deeper understanding, a deeper meaning - a meaning which does not relate only to episodes, but to the expectations of the customer and the responsibility of the company to meet these expectations in a long-term relationship. Then the customer perceived value can be increased on an episode level as well as on relationship level" (Ravald and Grönroos 1996 pp.25). The episode value is increasing the benefits or reducing the sacrifice, thus stimulates repurchasing activity and so builds the relationship. Relationship value means safety, credibility, and security which build trust. Trust increases the loyalty and as results a mutually profitable relationship for supplier and customer is created. (Ravald and Grönroos 1996)

Gassenheimer et al. (1998) regard the relationships value (economic and social) through the specificity of the relationship and the behavioural patterns (relative interdependence, mutual dependence, loyalty in maintaining the relationship, rules of fairness and tolerance for conflict). The combination of the economic and social values of two firms in the relationship through behavioural patterns creates the outcomes (exit, maintain, and tolerate with safeguards) of the relationships. Their research makes idea to regard the value of different stages of relationship's development. In his integrated model of buyer-seller relationship Wilson considers the value creation as a stage of relationship development (Wilson 1995). Based on a list of relationship variables Wilson describes the creating relationship value stage as mutual goals, nonretrievable investments, adaptations, structural bonds, cooperation and commitment by partners in the relationship (Wilson 1995).

The question is whether value creation is presenting only in one stage of the development of business relations or it should be part of other stages. Walter et al (2000) in their model conceptualises value creation as a set of direct and indirect functions. Direct value functions of a customer relationship are profit function, volume function and safeguard function. Indirect value functions consist of innovation function, market function, scout function and access function. In their research they found the indirect functions influence less important the supplier perceived value than the direct ones. As they measured the rational functions of relationship value the social dimension is not sufficiently presents (Walter et al 2000). We consider the network approach could contribute a deeper understanding of indirect value creation functions.

To summarise relationship value exists, and it is dynamic. There are different components or dimensions of it. Even at episodes level the value is mainly a result, at relationship level it is a process of creation. The result of this process (or the outcome of it) is not only the relationship value but the relationship itself. Different kinds of relationship value are summarised in the table 2.

**Table 2. Relationship value**

Relationship value	Value as desired, perceived and judgement aspect
	Value as economic, strategic and behavioural dimensions
	Value as safety, credibility and security
	Value as trust for a mutually profitable relationship
	Creation value as stages of relationship development
	Creation value as mutual goals, nonretrievable investments, adaptations, structural bonds, cooperation and commitment
	Creation value as direct and indirect functions

## **Network values**

Now, we are interested in "a set of independent firms that work together closely to manage the flow of goods and services along the whole value-added chain" (Johnson and Lawrence .1988 p.98). As the innovation process delivers value by transforming inputs into offerings, this process delivers value also by resolving unique problems, and the support of it delivers value by enabling direct and indirect exchanges between customers and suppliers. Because of the identification of alternative value creation technologies, Stabell and Fjeldstad (1998) propose a value configuration analysis approach to the diagnosis of competitive advantage. Based on Porter's model (Porter 1985) Stabell and Fjeldstad develop models of the value shop and the value network in terms of primary and support activity categories, driving by the cost and/or value system (reputation, scale and capacity utilisation). The reputation improves access to the best clients and projects in the network. This concept of value is near of the network identity construct which "is meant to capture the perceived attractiveness (or repulsiveness) of a firm as an exchange partner due to its unique set of connected relations with other firms, links to their activities, and ties with their resources." (Anderson et al. 1994 pp.4) The reputation likes similar as actor-relation generalisability because it could be a harmonious or not signs to other relations (Anderson et al. 1994).

In fact capacity utilisation makes possible the realisation of core competencies in different relationships in the network. It describes the phenomenon of transferability and complementarity of resources and also activities between different relationships of the same network (Anderson et al. 1994). Transferability and complementarity could create integrative value. Integrative value has two facets (Morash and Clinton 1998): collaborative closeness (frequent visiting of key customers by senior-level logistical executives) versus operational excellence (increased standardisation of supply chain operations).

Scale increases the number of connections between actors in the networks and thus the possibilities of value creation (Blackenburg Holm et al. 1999). A structural model of business relationship development in a business network context demonstrates a casual chain from business network connection (supplier's other customer, supplier's supplier, customer's customer, customer's supplier) through mutual commitment and mutual dependence to value creation in terms of profitability with the relationship of both the supplier firm and the customer firm. Profitability here is an economic construct but to get a deeper understanding of value at network level it seems to be necessary an embedded approach (Granovetter 1985). In supply chain we define primary members to produce a specific output and value for a particular customer or market. In contrast, supporting members are companies that simply provide resources, knowledge, utilities or assets for the primary members of the supply chain (Lambert and Cooper 1998) thus indirectly value for the customer.

The connectedness also implies that if in a relationship there is creation, in other relationship of the same network it could be a deterioration of relationship value. Thus, we could anticipate the constructive effects on network value and as well the deleterious effects on network value similarly and in the spirit of Anderson et al. (1994). The deleterious effect (resource particularity, activity irreconcilability and actor-relation incompatibility) could be a predictor of dissolution (Dwyer et al. 1987). Here we discuss not only the creation value but the sharing value too.

Network value is coming from the fact of connected relationships. With connectedness, we can rely relationship value and network value. At the network level, value creation inside a

focal relationship could have a positive or negative effect on connected relationships. Different kinds of network value are summarised in the table 3.

**Table 3. Network value**

Network value	Constructive value as resource transferability
	Constructive value as activity complementarily
	Constructive value as actor-relation generalizability
	Integrative value as collaborative closeness
	Integrative value as operational excellence
	Deleterious value as resource particularity
	Deleterious value as activity irreconcilability
	Deleterious value as actor-relation incompatibility

### **Conclusion**

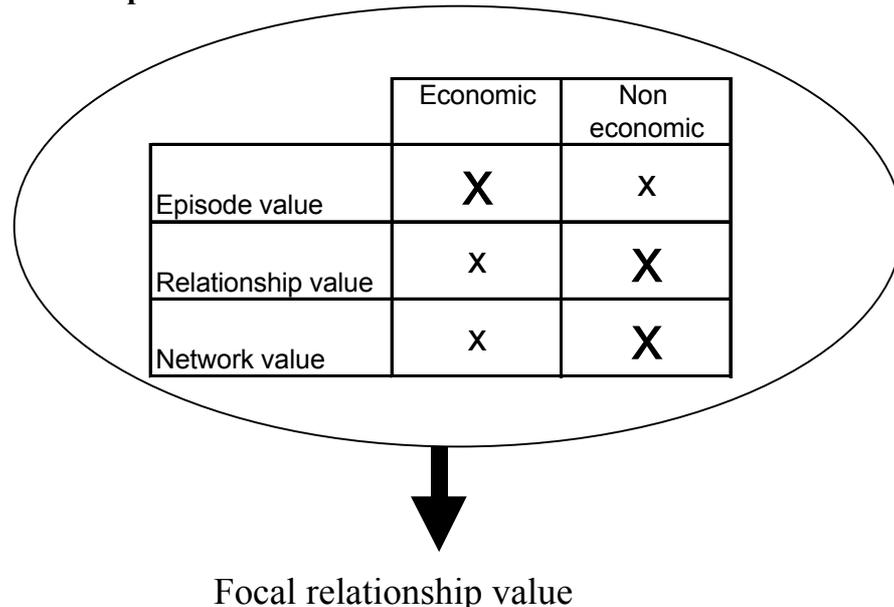
The aim of this research is to build a framework to understand a little bit better the relationship value. For this purpose, we have analysed the value literature at episode, relationship, and network level. As we found, the major part of this literature concerns value at episode level. Here, the value is the result (static) of the exchange that receives the customer. Different elements of this value seem to be mainly economic and could be expressed in monetary terms. We noticed that the episode value is defined by different types of offering (customer perspective). In this approach, we did not consider the supplier level. It is one of the causes to examine the value at relationship level too.

At the relationship level, the value seems to be a process of creation (dynamic). Different elements of this value seem to be mainly non economic. This approach concerns both parties. We noticed that the relationship value is defined by two types: value and creation value. The creation value is realised inside a focal relationship but this creation has also impact on connected relationships. That is why it seems to be logic to regard the value at network level.

At the network level, the value seems to be a process of sharing (spatial). As consequence of connectedness, the different elements of this value seem to be non economic.

To summarise our findings, we propose framework to analyse the focal relationship value. We suggest a three levels and two dimensions conceptualisation of focal relationship value (figure 1).

**Figure 1: Focal relationship value framework**



For each level, there are more or less economic and non economic components. At the episode level, the economic component is like the most determinant. In the opposite, the non economic component is like more important at the relationship and network level.

We are at the beginning of our conceptualisation of the focal relationship value. We need more understanding about this value and particularly at network level. We think that the creation value is influenced by the state of the network. In the same way as the value creation is the *raison d'être* of relationship, whether the value sharing is the *raison d'être* of networks.

About future research design, the framework must be tested in a focal relationship. We should use cognitive map to have collective representations of this phenomenon as value is perceived. This collective representations permit to a model building to measure the three levels and two dimensions conceptualisation of the focal relationship value.

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