

## HOW DO BUSINESS COMPANIES DEVELOP?

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IMP researchers have spent forty years investigating the relationships between business suppliers and their customers and the wider networks in which these relationships exist. This paper is oriented to the problems of a single company operating in the business landscape that IMP research has described. The paper aims to address the following question:

What do we know about the processes through which business companies evolve and develop and what advice can we provide for those attempting to manage business development?

### **INTRODUCTION: BUSINESS EVOLUTION IN THE NETWORK**

A starting point for IMP conceptual development has been the assertion that a business company cannot realistically be viewed as an independent entity for which managers are able to develop and implement strategy based on a set of internally controlled resources. IMP research has highlighted the incompleteness of a company's own set of resources, activities and associated actors and the extent to which all companies are dependent for their operation and development on the intellectual, physical and financial resources of others. Hence the process of business and the provision of goods and services take place through interaction within a network of multiple sets of activities, resources and the actors associated with them. It is also through interaction that the resources, activities of businesses and of the individual within them evolve and develop.

Business interaction is diverse. A company may interact with many others in a single, a few or a number of irregular episodes. But in some cases, multiple episodes of interaction lead to the development of routines, complex adaptations and a build-up of expectations, trust and dependencies between particular companies in long-term relationships.

Thus far, IMP research has envisaged that business development is a process that takes place within a *stable but evolving* network-like structure of long-term relationships, resource investment and interdependence (Hakansson ed, 1982, page 394; Hakansson et al, 2009, page 26). Network evolution involves widely scattered physical, financial and knowledge/informational resources on which each company depends and over which each has limited or no control.

The complexity of network processes together with each company's resource dependency, limited knowledge and inability to forecast may reinforce the impression of a company as a more or less passive *subject* to the processes which surround it. Despite the range and depth of IMP empirical research into business relationships and networks, the literature has until recently included few managerial analyses of or prescriptions for the interventions of a single company in network evolution or for business development of a company (Exceptions

include Ford & Hakansson, 2014; Mainela, Pernu, & Puhakka, 2011; Von Raesfeld & Roos, 2008).

## **THE DYNAMICS OF THE BUSINESS LANDSCAPE**

The view of the company as subject to network effects is compounded by the empirical dynamics of the current business landscape. We can express these dynamics and their effects as a set of propositions. However in presenting them it is important to note that the listing of current dynamics does not justify any assertion that business is more turbulent now than in the past or than it will be in the future:

1. *Companies Have Reduced Internal Resources:* The escalating technological intensity of companies' operations and the higher costs of sequential generations of technology lead companies to reduce the resources they hold internally. Hence companies are increasingly reliant on the physical and intellectual resources of multiple and sequential counterparts.
2. *Companies Face Wide Variation in Relationship Complexity and Counterpart Involvement:* Companies are likely to have small number of complex relationships in which they are closely involved in both relationship and technological development. Companies are also likely to have a larger number of technologically intense/multiple adaptation relationships in which they have much less involvement. This lower involvement may be because the company does not have the human, physical or technological resources to be effectively involved or to influence the relationship. The company may be precluded from strong involvement by the wishes of its counterpart. The company may also choose to allocate its resources more productively into other relationships. Companies in these low-involvement relationships are heavily dependent on their counterpart for relationship and technological direction. Finally, companies will also have a large number of relationships of varying technological complexity involving minimal adaptation in which they have minimal involvement.
3. *Companies Face the Rapid Evolution of Low-Involvement Relationships:* The frequent and rapid evolution of technologically intense but low-involvement relationships of a company occurs because of cost/price and technology change. This evolution restricts a company's ability to plan relationship development.
4. *Increased Relationship Dependence contributes to Reduced Competition:* The specific adaptations that are made in high-involvement relationships with suppliers differentiate these relationships from each other. This differentiation reduces competition between supplier counterparts even though they may be in the same product or service area (Ford and Hakansson, 2013). Reduced competition may require high commitment/involvement from a company to develop these relationships.
5. *Business Relationships Operate with Multiple Asymmetries:* Complex, high-commitment relationships are likely to demonstrate multiple and extensive asymmetries in technologies, experience and network position. Multiple

asymmetries are likely to outweigh company size as a determinant of relationship influence.

6. *Companies Vary Widely in their Commitment to different Relationships:* A company's relationships will vary widely in complexity, involvement and asymmetries. These lead to wide variations in each company's commitments to its different counterparts irrespective of company involvement. Companies are unlikely to be able to maintain overall company policies towards multiple counterparts and relationship assessment is complicated.
7. *Previously Conflicting Relationships Co-exist:* Developments in communication reduce the ability of a single or a group of companies to control interactions and relationships in the network. Examples are the decline or disappearance of resale price maintenance arrangements ("fair-trading") channel restrictions so that companies trade with intermediaries, final retailers and end users and the growth of mega-outlets acting as original vendors and intermediaries.
8. *Companies face Multiple Network Instabilities:* Increased technological intensity, commonality and communication mean that companies are vulnerable to multiple dynamics from across the network. Enhanced communication does not compensate for limited internal resources and companies reducing a company's abilities to monitor or respond to instabilities. Network and technological instability contribute to relationship uncertainties and reduce relationship lifetimes.
9. *All Companies are Subject to Large-Firm Effects:* Increased costs of technology development contribute to the domination of particular areas of the physical and technological network by small numbers of companies. Individual moves by large firms are sufficient to affect large areas of the business landscape, the direction of technological development and national economies. Large-firm domination reduces the number of competitive relationships. Reduced technology life-cycles mean that large firms need to achieve high market shares in a short period of time and this may lead to the growth of non-traditional relationships.
10. *Company Evolution is a Discontinuous Process:* Network and technological influences and interactions in specific relationships contribute to the evolution of a business company as a set of multiple discontinuities (Munksgaard and Ford, 2018).

These ten propositions and wider IMP research emphasise the effects of external forces on a company's evolution. Recently empirical research suggests that rather than an evolving, but stable business environment as suggested within IMP literature, companies face significant *discontinuities* in their evolution arising from the surrounding network, from changes in existing relationships or the loss or addition of relationships (Munksgaard and Ford 2018). These discontinuities provide the context for attempts by a company to develop an approach to its internal operations and resources and those of its existing and potential counterparts. The propositions indicate that the evolution of companies is closely related to the evolution of its relationships.

The propositions emphasise the extent and complexity of potential network effects and evolution on a company. It may appear that companies are passive entities and that their

evolution is largely subject to the impact of gradual or perhaps increasingly sudden network forces that are beyond their understanding or control. But of course, companies are not passive and they do seek to interpret network evolution and to determine and follow their own direction within the evolving network and even to change that network. The evolution of a company involves a combination of stabilising and changing factors.

## **COMPANY EVOLUTION AND DEVELOPMENT**

Our propositions outline some of the current and perhaps continuing phenomena which provide the context within which companies evolve and develop within their relationships with others. Earlier IMP conceptual and empirical research has examined the narrower effects of particular relationships on the development of both new and established companies (Snehota, 1990; La Rocca, Ford & Snehota, 2013). We also have some empirical results on the effects of discontinuities in specific relationships on the business development of counterpart companies (Munksgaard and Ford, 2018). We also have research that has shown how companies are dependent on the continuing and evolving consent of particular counterparts in their development and change. Other IMP research has shown how the development of companies may be affected as they follow a “herd” of others in fashionable or generally accepted ways of operating (Mouzaz & Ford, 2011). In contrast, all companies, no matter how small affect the evolution of other companies and the wider network that surrounds them to a greater or lesser extent and many revolutionary network changes emanate from the pioneering business ventures of small companies or technological innovations of single entrepreneurs<sup>1</sup>. Similarly, the development of all companies is affected by wider network changes, but the precise effects of these evolutions for each company will be affected by the interpretations and actions of individual companies, their management and their interactions with others.

### **The Process of Business Development: Continuity and Discontinuity.**

The evolution of all companies rests on the continuing evolution of the network and of the specific relationships in which the companies are involved. This continuing evolution presents itself as a procession of discontinuities arising from multiple sources, including the company itself. These discontinuities are interpreted by each company and those with which it interacts both directly and indirectly. Each discontinuity leads to others arising from the initiatives and responses of each company. Discontinuities in specific relationships are manifested in changes to the combinations of activities, resources and actors in interacting companies.

We have previously used the 6C’s framework to provide a structure for this process of interaction within a particular relationship (Hakansson and Ford 2002). We can use this framework to highlight managerial issues surrounding the effects of continuities and discontinuities on the development of a company within the context of the empirical dynamics in our propositions.

### **Conform/Confront.**

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<sup>1</sup> For example, the air travel industry has been revolutionised by companies that followed the initiative of Southwestern, the first low-cost airline. The vacuum cleaning market was dramatically changed by the developments of James Dyson.

These connected variables provide a profile of the state and dynamics of a particular relationship. Conforming to current ways of operating is likely to be the most significant aspect of operation in the continuing business relationships of a company. The extent to which issues are confronted and discontinuities are attempted provides a measure of the existing or likely extent and rate of change within a relationship or beyond. The source and development of confrontations are linked to the knowledge and interpretations of the relationship and network dynamics held by the participants. Discontinuities in the wider network are mediated by interactions within particular relationships. Confrontations within a relationship will lead to a discontinuity only with the tacit, explicit, willing or unwilling consent of counterparts.

The propositions in this paper suggest that confrontation in business relationships may be more widespread leading to rapid discontinuities in relationship structure and operations.

### **Consolidate/Create.**

This dichotomy highlights the alternative of seeking a discontinuity in the structure of a company's relationships within its existing structure or by changing that structure or developing new ones.

The propositions outlined in this paper suggest that companies are now likely to be involved in or subject to attempts to achieve discontinuities on a wide scale through create new network positions and structures. Further, the propositions indicate that the speed with which change is achieved is likely to be more rapid than in the past.

### **Concede/Coerce**

This dichotomy relates to the interactions within relationships and the extent to which counterparts attempt to influence interactions and the direction of a relationship based on their asymmetric knowledge or abilities compared to counterparts.

The propositions point to the increasing technological intensity of business relationships and the consequent reduction in the technologies held by interacting companies. The multiple asymmetries that arise from these pressures suggest that business relationships are now more likely to be associated with multiple, two-way coercing/conceding increasing the dependence between relationships.

## **CONCLUSIONS**

This brief paper has built on earlier empirical work on business development as a discontinuous progression. The propositions in the paper could provide the basis for further exploration to determine the nature, extent and direction of change in the current business network.

Further, these propositions lead to tentative hypotheses on the mechanisms of confront/conform, consolidate/create and coerce/concede within the current business network. Development of these hypotheses could form the basis for further empirical work on how companies actual do evolve in the current business network.

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