The problem of matching in the SME sector – A focus on actor bonds

Work in progress paper

Noémi PIRICZ¹
¹Corresponding author
College of Dunaújváros
2400 Dunaújváros, Táncsics M. út 1/a
E-mail: pimeon@gmail.com

Tibor MANDJÁK
Bordeaux Business School and
College of Dunaújváros
2400 Dunaújváros, Táncsics M. út 1/a
Email: tibor.mandjak@bordeaux-bs.edu

Judy ZOLKIEWSKI
Manchester Business School
University of Manchester
Booth Street West
Manchester, M15 6PB, UK.
Telephone +44 (0) 161 306 3470
E-mail: judy.zolkiewski@manchester.ac.uk

Keywords: international relationships matching, SME
Abstract

Connectedness is considered as the essential characteristic of a business relationship. We assume that personal matching is one of the basic factors of fruitful cooperation that’s why the purpose of this paper is to show the findings of other researchers in the field of relationship management then empirically investigate matching in business relationships.

Although matching was included as part of structural fit in the initial interaction model (Håkansson, 1982) it has been relatively neglected as an aspect of business relationship research (Mandják, Zolkiewski and Piricz, 2007). The interaction of personnel in a business relationship is often of critical importance, yet is often only considered in the of context faltering relationships (Halinnen and Tähtinen, 2002). The process of matching as part of interaction is also rarely explicitly considered, perhaps because of the difficult nature of unravelling the human face of relationships. Although the importance of social bonds (Turnbull and Wilson, 1989) is widely accepted and the discussion of social capital in a business-to-business relationship context is becoming more and more extensive (Walker, Kogut and Shan, 1997), empirical data is lacking. Witkowski and Thibodeau (1999) note the importance of inter-personal relationships in international entrepreneurial development, but they too note that investigation of such relationships is often neglected.

Data from a comparative set of international interviews (undertaken in SME-s in Hungary) is used to illustrate the process and role of matching in business relationships and to further develop the framework proposed in. Perceptions, mental models, sense making and value were used to conceptualise the matching between two organisations (Mandják, Zolkiewski and Piricz, 2007). This paper empirically investigates matching in business relationships among SME-s through qualitative research. Interviews focus on the four basic concepts and the interrelationship among them. We asked leaders and managers of small and medium sized enterprises to explain how they value their activities and their competitive advantages, what they think of their business relationships and how they decide on setting up or sustaining a business relationship. The first experiences confirm again the importance of personal contact in business relationships but this significance should not be overemphasized.
1 Introduction

According to Håkansson and Snehota “A relationship is mutually oriented interaction between two reciprocally committed parties.” (Håkansson and Snehota 1995:39) It means that, in general relationships usually include free choice and one or more common interests in short and/or long term.

In practice business relationships make an interactive connection between two organizations, in other words between two groups of involved people. This means that business relationships are the main forms of connectedness in the business world. With regards to IMP literature this connectedness can be characterised by three dimensions, this is the so called ARA model (Activity links – Resources ties – Actor bonds). Activity links focus on the way in which the various activities performed by two firms in the relationship are coordinated and adapted to each other. Resource ties include the way in which tangible and intangible resources supporting the activities of two firms in a relationship become oriented toward and integrated with each other. Finally actor bonds refer to the way in which the parties involved in a relationship perceive and identify with each other (Håkansson and Snehota, 1995). In order to understand connectedness it is possible to look at how the ‘connected’ dimensions match each other. Matching was included with respect to the structural fit between the interacting parties in the interaction themes section of the Håkansson (1982) book. These early IMP researchers also cite Mattsson (1975) who identified the importance of how well two parties fit together.

This paper shows the findings of other researchers about the nature of business relationships from the aspect of personal contact and then a model of matching is developed. This model is based on Håkansson’s interaction model and integrates it with four further concepts: perceptions, mental models, sense making and value. (Håkansson 1982) The first results of a exploratory empirical research are presented; owners and leaders of small and medium sized enterprises explain how they value their activities and their competitive advantages, what they think of their business relationships and how they decide on setting up or sustaining a business relationship.

2 Personal Contact and Business Relationship

“A customer’s supplier relationship will vary substantially in the level of activity links, resource ties and interaction between the individuals. Some relationships are characterized by extensive interpersonal contacts, some by joint development of offerings. Some suppliers are kept at arm’s length with minimal interaction. Some work solely to the customer’s specification.” (Ford – Gadde - Hakansson - Snehota 2006:101.) It seems that the role of personal contacts in business
relationship is clearly effected by the branch of the economy, the market situation, written and unwritten norms of the field and region, the nature of product or service, purpose and attitude of the concrete connection.

In Kotler’s view (1992.) the relationship has a broader meaning: the connection between the organization and its stakeholders. Sheth (2000.) illustrated the relationship with sellers, suppliers and strategic partners as the frame of value-creation, which identified the marketing to value exchanges. But “on the different level of business connections – more concretely exchange episodes, relationship level and network level – different value elements play essential roles.” (Mandják 2004:58)

Hausman (2000) researched the strength of a relationship and found that the following factors has an impact: what efforts the business partners make to maintain the relationship (commitment), how much they believe the other’s reliability and integrity (trust), and, finally if they are convinced this connection is essential for the success of their organisation (connection). This connection assumes reciprocity, solidarity and flexibility as well. (Little and Marandi 2003) Ford et al (2006) also found partly the same tasks during managing a customer relationship, such as learning and teaching, investing, adapting, committing and trusting, managing distance, interdependence and power, furthermore managing conflict, communication and interaction.

Turnbull and Cunningham (1981) point out that the features of relationships are: liking, trust, understanding and co-operation, personal relationships and language barriers were brought into the discourse about business-to-business relationships. This showed the importance of social integration and the development of social bonds in business relationships, suggesting that without this personal contact exchange may not take place (Cunningham and Homse, 1984).

Jorgensen and Freytag found that: “For the examined type of companies’ – small and medium-sized industrial companies – customer relationship is the most important parameter for success and they are very aware of how to treat their customers.” (Jorgensen – Freytag 2000:13)

3 The Process of Matching

In order to better understand the matching of actor bonds four concepts seemed to be useful. (Mandják, Zolkiewski, Piricz 2007.) Perceptions (i.e. Smith and Mackie 1995), mental models (i.e. Day 1994), sense making (i.e. Weick 1995) and value (i.e. Anderson and Narus 1999) are these basic notions.

According to the Oxford Dictionary perception is the "ability to see, hear or understand" something; the "quality of understanding, insight" and the "way of seeing or understanding" something. Several studies have found that demographic factors impact upon the perception of the
ethicality of negotiation behaviours. It has been shown that age, gender, and occupation lead to different perceptions of deception in negotiation (Anton 1990).

"Value is first usefulness, but also the determining factor, the compass of behaviour" (Mandják 2004:34). But value always depends on the given social and economic situation and in this coherence, it is socially constructed and interiorised by the individual.

It is not always obvious if perceptions are part of mental models, or if they are there to feed the model. Anyway the essential matter is, using the words of Day (1994), what is in the mind of managers? According to Markham mental models build on: perception, knowledge of prior experience, schema segments, and problem-solving strategies (Markham 1999).

As discussed above perception is quite complex psychological phenomenon. Prior experience does not need extensive explanation. The schema segment concept refers to a set of diagrams to describe the various combinations of premises and possible conclusions (Markham 1999). The problem solving strategies concept means some sort of general ideas that might work for a number of problems (Johnson-Laird 1983). Mandják et al speculate that mental models are essential to B2B relationships. The reason of it is that relationship is strongly tied to the partners’ mental models. For instance using and analyzing the business partner’s models may provide insight into how this partner is thinking. (Mandják, Zolkiewski, Piricz 2007.)

Although a relatively new introduction into business-to-business papers, sense making is widely adopted by organization behaviour researchers. (See Adobar 2005) The core assumption and statements regarding sense making theory are that it is an approach to designing and implementing a communications system (Weick, 1995). Vlaar et al. (2006) have found that relationships face ‘problems of understanding’ and that the high levels of uncertainty and ambiguity that exist in early relationship stages exacerbate this. They believe that sense making processes provide a mechanism for understanding these issues in relationships.

Figure No 1 shows a hypothesized model of matching (Mandják, Zolkiewski, Piricz 2007.). According to the basic premise of this model these four notions create a system where these concepts affect to each other. The base of sense making is perception. The roles of value and mental models are different. While values can be identified mainly to stability and orientating points, mental models focus on methods of problem solving.

The starting point and, at the same time, the precondition of matching is perceptions of business partners. In a business-to-business relationship it means that actors should know each others at a certain level. Therefore they should assume that the other side is suitable and worthy of creating as a business contact. We should also see that sense making is fulfilled through the screen of perceptions, values and mental models. Finally sense making becomes one of the actor’s engines of behaviour and concrete activity.
Consequently Mandják et al suggest that: “Matching is the successful outcome of the process in which each party in a relationship uses sense making to integrate their perceptions of the other party’s intent with respect to the relationship in the context of their mental models and understanding of value. By inference we can also suggest that mismatching and no-matching also can occur when both sides do not have appropriate perceptions and the results of their sense making are not equivalent or are unequal.” (Mandják, Zolkiewski, Piricz 2007:12)

This dynamic model is based on Håkansson’s interactive model where the relationship is embedded firstly in the atmosphere of relationship and secondly the environment of the business connection. (Håkansson 1982)

This model does not contradict the Balance theories, which help to explain the types of relations between people and firms that are likely to exist and persist (Young and Johnston 1999). Heider (1958) claimed that “By balanced state (or situation) is meant a harmonious state, one in which the entities comprising the situation and the feelings about them fit together without stress”. In Heider’ view the following factors contribute to the development of positive linkages between entities in relationships: proximity, more frequent contact, familiarity, similarity of beliefs and goals, predisposition towards certain sentiments and perception of potential benefits. (Cited Wilkinson – Freytag – Young – Chery 2003) Wilkinson et al (2003) also found that “the characteristics of firms forming relations are not randomly matched but result from a process of assortative mating”. (Wilkinson et al 2003:16) Their results also confirm that firms that enjoy good relationships show a
tighter match, reflected in terms of stronger correlations on such characteristics as market share, quality, innovativeness, and technology.

4 Some Findings from Qualitative Research into Personal Contacts in Business Relationships

After the literature review in order to identify the role of personal contact in business relationship we started qualitative research about this topic among small and medium-sized companies, independently on sectors of economy both in Hungary and later Great Britain. (See Table No 1 on Deep Interview Draft) The objective of our interview is the exploration of the nature of customer business relationships. The interviewee is the general manager or the owner of the SME. The deep interviews help us to show the complicated attitudes towards personal contact in business relationships. (Malhotra 2007) These features, that we research usually unconscious and also complex so it seems useful to start with qualitative research. Later, based on the findings of the deep interviews, we will organize a quantitative survey.

The research of Wilkinson et al showed that the size of the supplier and customer firms are significantly correlated (Wilkinson et al 2003). This result confirm the assumption that due to their size SME-s operate a bit differently with regard of business marketing and they should be investigated also separately at least. For example doctors cure children and treat them in totally different way while they have learnt and are aware that children are not small adults.

Table No 1 Deep Interview Draft

Questions:
1. A short introduction of the interviewee and his/her company (demographic questions)
2. Please choose a customer (client) relationship that you consider as being important.
3. Why this customer relationship is lasting?
4. What do you think, how your customer does consider you?
5. How do you decide on setting up, sustaining or ending a business relationship?
6. “Personal contacts are the lifeblood of supplier-customer relationships” (Cunningham and Homse 1984:1) What do you think about this statement? Do you agree with it or you don’t?
7. Why your customer is buying your products or your services instead of your competitors’ products or services?
8. How do you imagine your ideal customer?
9. Please describe the potential buyer with whom you don’t want to make business!

Till now six Hungarian interviews have been finished. The language of the interviews is Hungarian and they are documented in Hungarian as well. The most interesting and characteristic
thought are translated in English. We plan to make ten interviews in Hungary and ten interviews in Great Britain.

Concerning analysing the Hungarian depth interviews we thought of software which collects the most frequent words (like for example Leximancer in English) but the Hungarian language is very rich and opinions can be expressed in many forms furthermore the rules of Hungarian grammar make possible various forms. That’s why we had to choose another method and we have used thematic analysis after Miles and Huberman. (1994)

In Hungary we have different experiences on the attitudes about giving this deep interview. Almost half of the managers and owners called have refused to give this interview! The relatively high rate of refusal confirms again, that personal contact in business relationship and the ability of development, maintenance is a very important source of competitive advantage. Those enterprises which deal with confidential products – for example seed-corn – or services would not like to speak about their relationship while it seems they do not want to loose their competitive advantages. This contains a hidden opinion that personal contacts and mainly the knowledge how to create and maintain fruitful business relationships are essential skills of these enterprises. Meanwhile other firms – which are not operating in a special field and their number of customers can be almost unrestrictedly increased – are open and sometimes give their name too because they see certain advertising possibilities in it. Among retail enterprises in Hungary the current atmosphere is quite pessimistic because of essential turnover decrease due to growing number and effects of multinational hypermarket chains while in this country these chains are welcomed in almost every smaller town too. Obviously many SMEs feel these tendencies and they are quite worrying about future and developing. In such a difficult situation personal contacts may help the enterprise only to survive.

The majority of the interviewed companies were founded in the early 90’s when also in Hungary the socialist society and economic system peacefully collapsed. In these years ten-thousands of enterprises were established annually. The new and renewed growing markets offered several opportunities and uncertainties at the same time.

Most of the interviewed SME companies are operating with services; either they are from one of the service sectors or offer services together with their products while these complex packages can guarantee their success. The dominance of service activity is not very surprising among SMEs, therefore, this field needs relatively lower capital investment, flexibility and personal contact, trust, the process of services and the business in general have more importance. Among the six firms there was one medium-sized, two micro-sized and three small enterprises. The micro-sized firms are family companies. However, almost every director or top manager spoke about their most important
and usually largest buyer or supplier. It seems that under the question of business contact they do not mean new, exciting business partners but their key partner.

Regarding the beginning of a relationship many of them mentioned professional exhibitions but one manager did not see these events as chance of finding new relationship. The majority of managers that were interviewed outlined the role of personal contacts, for example somebody offered this example. “This is a personal investment, which is profitable in more ways. In one hand it is advantageous for me because I can sleep well. Through my business partners I can start new relationships. If they know them and think them reliable this is not a question for me. Till now this worked well. On the other side these connections have developed through more years and now they operate smoothly without large energy as well.” In this case they had worked together before for years and had got to know each other.

Table No 2 Typical Answers A

**Question: Why this customer relationship is lasting?**

“They buy a lot of products from us. We sell the whole software so they can fulfil maintenance too which earn them extra income.”

“They are flexible and carry back the unsold quantities too. They provide brochures and posters. When we order the goods they quickly deliver it the following day.”

“Every business relationship is lasting till it is profitable for the buyer. If I deliver such quality and quantity which ensure profit for them and meet my requirements this relationship can be developed further.”

“There is satisfaction on both sides. The price is not the most important factor. This buyer has not imported from China because he is not forced to do it. On the other hand he can order smaller quantities from us and we offer extra services such as quick, flexible and reliable delivery.”

“We are dependent on each other. They need product we need turnover. We must know each other. If a wholesaler tells me something it is not questionable for me. However my saying should not be questionable either.”

“The client always receives what he wants and a bit more. I give special concrete solutions to each of my clients. I never offer conserves.”

When we wanted to know where and how they had started their business contacts the stories showed more similarities such as somebody’s recommendation, an exhibition, regional agents had searched for them etc. For the question of lasting relationship we received quite different answers which are usually typical for the sector. However general aspects can be recognized too and these focus on flexibility, common interest, two sided dependency. It seems that in most cases they are clearly aware of their mutual dependency but they are still far from the attitude that confesses the value stream and searches value from the final buyer’s view.

Table No 3 Typical Answers B

**Question: How do you decide on setting up a business relationship?**
“We make a so called trial small business. If it works from the aspects such as quickness, reliability, accuracy, punctuality. If both sides see the future in it trust will be developed.”
“In this field where I operate I can start new business through talking to people. Meanwhile I slowly understand what I can expect from him. At higher levels rather money accounts.”

**Question: How do you decide on sustaining a business relationship?**
“Nothing else but talking to them. People need being cared. The relationship should be awoke the partner to the consciousness and people will open and become helpful. We know each other’s problem and we help to each other if we can.”
“It is worth if there is win-win game.”

**Question: How do you decide on ending a business relationship?**
“One partner did not keep the financial deadlines made bad professional work and that’s why they endangered our image. We tried to communicate the problems and teach them but they were not open.”
“The partner goes into bankruptcy. This is the most awkward situation. Or new supplier appears. Maybe there is a price competition what we do not want to take part. Most of our buyers origin from our establishment.”

Enterprises naturally would not finish a business relationship. They sometimes found a diplomatic solution such as accepting an offer with lower price. But this process is slower and more complicated where the business partners are legally contracted. In spite of this they broke one of these agent contracts because this partner had already endangered the image of the focal firm.

According to the interviewed people in most cases the sales people are in close weekday connections with important buyers so their responsibility is obvious. Their motivations, experience and education are essential. If they are pressed and expected to show very high turnover in short time they may push large quantities on their buyers’ shelves and do not bother if their business partners are satisfied or not and they could purchase these goods further or not. Certainly it will bring its ‘fruits’ in the long term.

Here is another reason why a business relationship and personal contact is very precious: “It is very difficult to find new buyer furthermore it is also problematic to ensure the quality requirements of the new buyers.”

BtoB markets are specialized and contain few actors so in a certain market almost everybody knows everybody. That’s why it is in their basic interest to develop and maintain stable long term business relationships.

Table No 4 Typical Answers C

**Question: “Personal contacts are the lifeblood of supplier-customer relationships” (Cunningham and Homse 1984:1) What do you think about this statement? Do you agree with it or you don’t?**
“The person is not very essential because they would buy from that supplier anyway. But personal contact counts.”
“We have been talking exactly on the importance of personal contact in business relationships till now.”
The personal contact is important but it is not the lifeblood of it. The moving element and the engine is the business background. The personal contact in business relationship should not be overemphasized. The business goal is more important and also the quality and safety.”

“I absolutely agree with it especially in my field.”

As it is seen the opinions differ. There is a tendency to agree that personal contacts in business relationship have in a general importance although the degree, dimensions even consciousness of it and form of appearance show great variety. It seems that it may depend on the size of company, as the results so far show that among the interviewees the medium sized firm leader thinks personal contact is the least important. Furthermore it depends on the concrete field of activity the number and character of competitors and buyers and we found that also there is strong connection with the interviewed manager’s personality and business philosophy.

Table No 5 Typical Answers D

**Question: Why your customer is buying your products or your services instead of your competitors’ products or services?**

“Although our largest competitor is at least twice larger than us we can offer a complex package of product and services which includes attractive profitable services for our buyers. Our other advantage is the technological development. It means that our products “know more” than our competitors’ ones. Unfortunately this character seems to melt down due to financial reasons.”

“The other companies do not have these kinds of products. Each product has different categories and qualities. In our field we are the most exclusive and offer the most expensive goods but we let everybody live in the market.”

“We produce and export our products with proper service and good quality. We hardly have quality complaints for ordinary goods and we closely cooperate with our buyer in case of new high tech products.”

“Although the Chinese quality seems to be improving, our buyer can order relatively small quantities from us. We produce it quite quickly and send them by mail if it is so urgent. Being small can be an advantage too. We can offer more advanced and more flexible services by smaller quantities and quick delivery.”

These answers show both some special characteristics of their activity and some general advantages. The well known strengths can be found in the answers such as complex product plus service package, technical benefit, good geographical position, acceptable prices, prestige consumption, appropriate services, excellent quality or no quality complaints etc. But they mentioned newer aspects too like common product development in case of high tech products. Furthermore it is really creative and profitable too when owners and managers of entrepreneurships are able to change threats into possibilities as happened in case of the China effect above.

Concerning the characteristics of the ideal buyer in the mind of interviewed SME owners and managers surprisingly the most frequent mentioned requirement is to be definite, precise. The ideal business partner should express the wishes, requirements and other conditions clearly.


5 Conclusions

The main limit of our qualitative research is the small number of interviewed owners and managers. We looked for SME enterprises independently on sectors of economy which is an advantage from the aspect of more general tendencies and it can be also a limit because the number of the interviews is too small to create well-founded conclusions. But this empirical investigation can sign living fresh tendencies problems and solutions as well and definitely serves as a good base for further research.

During the interviews it seems that matching is one of the basic points of a successful and long-term business relationship. The four concepts of the hypothesized model of matching also can be identified. Certainly at the beginning of a business relationship perceptions are more important and the screen of mental models and value does not work always perfectly. Each business contact has its own history but according to the first impressions in development of essential old business relationships these elements play dominant role. These four notion are decisive especially setting up new business relationship and usually are not recognized directly or at least are not conscious except if a owner or a manager has a clear business philosophy and also insists on it on weekdays too.

Among SMEs personal contacts are really essential as we expected especially in the case of micro and small sized firms and in classical service industry. One firm leader however expressed that personal contact does not count at all, although they could not cooperate without common values.

We also should take into consideration that business relationship cannot be substituted with core business goals and interests. It may not be useful to compete between business relationship and profit orientation but rather to declare that both parts are crucial so as to be successful in long term.
References

Mandják T. – Zolkiewski, J, - Piricz N. (2007.): Looking for a concept… Towards a better understanding of matching, 23rd Annual IMP Conference, Manchester