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## **Managing the informal side of business interaction: Personal contacts in the critical phases of business relationships**

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### **ABSTRACT**

The aim of this article is to analyse the vital role that personal relations play in the existence and development of business relationships. While personal contacts are often seen to enhance initiation of business relationships their role in other critical phases of business relationship evolution have been ignored. Moreover, the emphasis in research has so far been on the positive features of personal relations, while there is no doubt that they may also have negative effects on relationship development. Personal contacts are in many ways at the heart of business interaction, and therefore the issue of their management and control also becomes acute. In order to give managerial implications, it is useful to examine the situations where personal relations are, or can be, explicitly resorted to, or where they even risk the existence of a business relationship.

In this paper we therefore concentrate on the critical phases of business relationships: initiation, crisis periods and ending, and also pay attention to the negative effects that personal contacts may have on business relationships. Secondary case data is used inductively as a source of ideas and empirical evidence. The cases (7) have been conducted by Finnish researchers during the past decade. They deal with the development of business relationships in various business contexts. On the basis of the data we distinguish four basic functions of personal contacts that are necessary for any business relationship to exist and develop: exchange of information, assessment, negotiation and adaptation, and service production and transfer. It is suggested that personal contacts may either promote or inhibit the materialisation of these important functions. In addition, the role of personal relations as change forces is analysed. Six dynamic functions of personal contacts are separated: the role of door opener and gatekeeper, the role of door closer and terminator, and the role of peace maker or trouble maker. This latter separation makes it easier to view personal contacts as manageable assets and is therefore particularly valuable for business practitioners.

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**Keywords: personal contacts, business relationship development, social networks**

## **1. INTRODUCTION**

Managerial literature, practical experience and various scientific studies all indicate that personal contacts play an important role in the business world. Recently, the relationship between personal contacts and such issues as sales performance (Ahearne, Gruen and Jarvis 1999; Walter 1999), innovation development (Walter 1999), and customer satisfaction and commitment (Halinen 1997) have been analyzed, but still little is known about the role of personal relations in the development

of business relationships. While personal contacts are often seen to enhance initiation of business relationships (see e.g. Halinen and Törnroos 1998; Salmi and Bäckman 1999; Gulati 1995), their role in other critical phases of business relationship evolution (such as termination and various crisis periods) have been ignored. Moreover, the emphasis in research has so far been on the positive features of personal relations, while there is no doubt that they may also have negative effects on relationship development.

The aim of this article is to analyze the vital role that personal relations play in the existence and development of business relationships. In particular, we concentrate on the critical phases of business relationships. In addition to the “everyday” situation and the basic functions of personal relations in enabling and maintaining business relationships, we scrutinize the functions personal contacts have as change forces for business relationships. Our reasoning is based on earlier literature and on empirical evidence resulting from a number of case studies conducted in different industries and national contexts, and concerning different kinds of business relationships.

The article proceeds as follows: We begin by reviewing the previous literature on personal relations in an industrial buyer-seller context and introduce our empirical data. We then describe the functions of personal contacts in enabling and changing business relationships. The concluding chapter contemplates the implications of our findings. The negative and positive effects of personal contacts are summarized and the question of the management of personal relations is addressed.

## **2. PERSONAL CONTACTS IN INDUSTRIAL BUYER-SELLER RELATIONSHIPS**

According to Granovetter (1985, p. 490) economic action in modern industrial society is embedded in "concrete personal relations and structures (or networks) of such relations". Although firms are primary actors in economic life, individuals' role in actual business interaction is central, as is also shown by analysis of informal networks within formal organizational structures and inter-organizational relations (Marchan, Welch and Welch 1996; Ring and Van de Ven 1994).

In industrial markets, in particular, the importance of interpersonal contacts and social networks between selling and buying firms has long been recognized (e.g. Easton and Araujo 1994; Turnbull, 1979). In a business relationship, social bonds — i.e. personal relations — are typically distinguished from other relational bonds. However, they are often given the role of non-task

relations, which are not designed expressly for business purposes. Hallén (1992) refers to non-task relationships as "infrastructural networks" and distinguishes between organization-centered and person-centered infrastructural relations. The former are basically created by and related to the company of the person disposing of the contacts, while the latter are related to him/her personally (see also Marschan et al. 1996). When entering a firm people bring with them their personal contact network, which is based on their personal history, family, friends, education and earlier tasks in various firms and organizations and which has been called as the "relationship sediment" (Axelsson and Agndal 2000). These contacts can be used for either company or private purposes depending on the person's willingness and ability to use them.

Development of personal relations is usually seen to be an outcome of business exchange. Business parties gradually build up mutual trust in each other through a social exchange process. Ring and Van de Ven (1994) propose that, especially in the early phases of relationships, people act within their organizational roles; over time, personal relations increasingly supplement role relations. Recent studies, however, have shown that, e.g. in the Chinese and Russian contexts, personal relationships often precede business relationships (Björkman and Kock 1995; Salmi and Bäckman 1999).

Personal relations may fulfill different functions in a business relationship. Turnbull (1979) identifies six different roles for personal contacts (see also Cunningham and Turnbull 1982). Four of the roles are task-related and serve clear organizational objectives: *information exchange role*, *assessment role*, the *role of negotiation and adaptation* and *crisis insurance*. The remaining two roles are non-task related and exist for private social reasons: *social role* and *ego enhancement*. Axelsson and Agndal (2000) have studied the role of personal contacts as enablers and driving forces in internationalization. They present an interesting framework of the key features of personal contacts in this context, including the importance of the link (critical, marginal, bridge), the origin of the link (e.g. work place, family, friends), the quality of the link (its breadth and depth), the availability of the link (e.g. on-going, dormant), and the reach of the link (e.g. geographic, industry).

Personal contacts have received explicit attention only in recent studies, which have shown their importance in business but at the same time acknowledged the difficulties in their management. For instance, Marschan-Piekkari and Macdonald (2000) have noted that individual information networks do not function under organizational control. In these matters people resent organizational

intrusion. The inherent feature of personal, non-task networks is that they can not be built up systematically. They emerge spontaneously, but still they can be planned to some extent (Hallén 1992). Axelsson and Agndal (2000) suggest the use of IT to handle large databases of contacts of international companies. These databases of course can not tell in detail how to use the contacts, but rather what contacts there are within the reach of the company, and then the question arises, whether people allow the company to use their contacts (see also Marchan et al. 1996).

In our view, it has been well established that personal contacts are in many ways at the heart of business interaction, and therefore the issue of their management and control becomes acute. But in order to give managerial implications, it is not enough to acknowledge and analyze personal contacts, but also to examine the situations where they are, or can be, explicitly resorted to, or where they even risk the existence of a business relationship.

### **3. THE DATA: EMPIRICAL CASES ILLUSTRATING THE ROLE OF PERSONAL CONTACTS**

We resort here to a set of case studies made by Finnish researchers during the past decade. These cases are used inductively as a source of ideas and empirical evidence in this study.

The data includes seven case studies which describe business relationships and their evolution in various contexts, in service industries (advertising and management education), high technology business (information technology, computer production) and also more traditional manufacturing industries (paper machines). Some of the cases are national, some international dealing with the Finnish companies' Nordic, Baltic or Russian operations. Methodologically the cases are mainly based on interview data and company documents, but also on personal business experience. A more detailed description of the case database is given in the appendix.

The use of secondary case data is meaningful for many reasons. There are several case studies available that focus on interaction in business relationships and networks, and which thus suit well to our purpose. The rich case descriptions often bring up ideas that are not used in the original study and have remained unexploited even in the authors' later writings. Access to several cases (in addition to our own research) let us draw inferences from different research contexts and industries, which improves the credibility of the study. But some evident caveats also loom in the use of

secondary case data. Since the studies have been carried out for other purposes, the data concerning personal contacts has not been analyzed or reported systematically. In order to make reliable conclusions, interpretation of the researcher who knows the data in depth is needed. Therefore, we have consulted the authors personally and also asked permission to use their data.

Our empirical data concerns situations where at least one of the involved companies is Finnish. In inter-cultural situations the role of personal contacts becomes emphasized. There are contrasts across cultures: how important it is to be personally acquainted with other people if one is to interact with them efficiently (personalization/people orientation vs. depersonalization/ rule orientation, see Usunier 2000). Russian and Chinese cultures are examples of the need for personalization. In the former, personal relations have provided an important means for overcoming uncertainty during the economic transition process (Salmi and Mattsson 1998). Moreover, people in some cultures are more prone to explicitly build up contact networks for pragmatic reasons – for instance, it is customary for Americans to arrange situations (open-house parties, receptions) for contacting, and also to resort to contacts when needed. Our examples come from a more rule-oriented context where business people typically prefer direct discussion about facts rather than “wasting time” for “useless” small talk.

#### **4. PERSONAL RELATIONS AS PREREQUISITES FOR BUSINESS RELATIONSHIPS**

Ultimately all business relationships are formed and developed in interaction between people. Individuals make business exchange possible but bring also their character and potential tensions to interaction. The effects of personal contacts on business relationships can be analyzed at various levels. Firstly, personal relations can be seen to form an *essential part of the relational infrastructure* in which goods and services are exchanged (Halinen 1997). Both single personal relations between companies and also the network of personal relations that potentially emerges between the companies have important effects on the development of the business relationship. Second, personal contacts can also be viewed as *an environment or social structure* in which the focal business relationship is embedded. In this social environment both the company’s internal and external personal contacts have a role to play.

Besides the different levels of analysis, the different functions of personal contacts in the development of business relationships can be distinguished. In order to understand and analyze

these functions, we resort to the idea of viewing personal contacts as forces of stability and of change (cf. Halinen, Salmi and Havila 1999; Axelsson and Agndal 2000). We distinguish between those functions of personal contacts that are fundamental as prerequisites and enablers of business relationships and those that start to play a role in the critical phases of relationship development.

#### **4.1 Personal contacts enable business relationships**

Three basic functions of personal contacts are necessary for any business relationship to develop: 1) exchange of information; 2) assessment and 3) negotiation and adaptation. These roles reflect findings of earlier literature (Turnbull 1979). When knowledge-intensive professional services are concerned a fourth function can be distinguished in addition to these: 4) production and transfer of the product itself.

In addition to hard data on price specifications and terms of contract, complementary information of a softer type is transferred through personal contacts. In face-to-face interaction business people often exchange informal and even confidential information, which would never be put in writing. Moreover, negotiators can release additional information by e.g. their body language, thus giving meaning to the hard facts both consciously and unconsciously.

Personal contacts provide an opportunity to assess the competence of the partner and, moreover, they constitute the normal means of persuasion and negotiation. In highly interactive professional services, personal contacts also have an important role in producing the service that for great extent happens in co-operation with the customer. At the same way, personal interaction is necessary for the transfer of a service, which potentially involves learning, and not just exchange of information.

The four functions are clearly instrumental ones, forming the basis and necessary conditions for a business relationship. In addition, personal contacts may affect the development of the relationship either by being a positive force enhancing the business relationship or a negative one, thus hindering the relationship and its evolution. It is customary to focus on the former type of effects, which improve the quality, strength or performance of the relationship. But personal relations may also deteriorate business relationships and be harmful for their development. For instance, a too good and close personal relation between the business partners can ultimately hamper a person's loyalty towards his own company. In some circumstances close relations are bound to increase unethical business behavior giving rise to e.g. corruption (Salmi 2000b).

## **4.2 Personal contacts play a role in the critical phases of business relationships**

The interplay of personal contacts and business relationships can be investigated in the beginning and ending phases of a business relationship, or we can look at the role played by personal contacts in crisis periods of a relationship. When interpreting the available case descriptions from this perspective, six important roles of personal relations could be discovered: personal contacts as door openers or gatekeepers, personal contacts as door closers or terminators and personal contacts as peace makers or trouble makers.

### **4.2.1 Opening the door to a business relationship – or blocking entrance**

There are situations where an existing personal relation provides the first contact and access to a new business partner. Also a third party to potential business partners can play a role here. Often existing contacts are relied upon in order to find information and recommendations, which then lead to a new business relationship. Case A (Halinen 1997) from advertising business illustrates the role of personal contacts as door openers.

*Case A deals with the creation of a new business relationship between an internationally operating consumer-product company, Fiskars Oy, and the Finnish advertising agency, Markkinointi Topitörmä Oy (Törmä). A good personal relation between the Corporate Vice President of Fiskars and the Managing Director of Törmä supported the start-up of business. The former had a long experience of the advertising sector, where he had come to know the latter. Since Fiskars needed an advertising agency to implement a new brand strategy, the Vice President informed his friend, the Managing director of Törmä, of the situation. The marketing staff of Fiskars used their own personal networks to acquire referrals and other necessary information about potential agencies. When they also ended up by suggesting Törmä, the choice was clear. A new agency relationship was initiated.*

In some situations an existing personal relation is even a necessary prerequisite for a business relationship to emerge. Case B provides evidence of the Estonian business context (Salmi 1999).

*Case B concerns establishment of a joint venture on the basis of a close personal relation between the CEOs of joint venture owners, Finnish Mikrolog and Estonian Aectec. The contact formed an important channel of information between the parties. However, it became evident later on that this arrangement was too restricting for the everyday management of the joint venture. One of the reasons was that the Estonian initiator (and part-time CEO of the new unit) was too busy elsewhere. A new full-time managing director was elected for the joint venture. Also the Finnish partner wanted to take some distance. Although the personal contact had been helpful in the initiation, the Finnish*



*partner preferred to move interaction into a more formal inter-organizational level, involving more people from both companies.*

In addition to starting a new relationship and potentially strengthening it, personal contacts may result in broadening the scope of business activities. A seller can, for instance, reach several new units within the customer organization on the basis of personal contacts created elsewhere in the customer organization (see Halinen 1997).

In some extreme cases, assessment of the partner is almost entirely based on personal interaction. For instance, in the turbulent market situation after the collapse of the Soviet system, the lacking business infrastructure and track record of potential partners led to individual, instead of institutional, trust building. Western companies had to rely on personal interaction test when selecting and assessing new business partners, as shown by our case C (Salmi 2000a).

*In looking for suitable partners (re-sellers in the emerging computer markets in Estonia), the Finnish IT company evaluated the candidates through a process where several meetings were held over a long period of time, and where several company representatives also made the final decision to enter into business. As reliable background information was not available, subjective assessment of the individuals was used to choose between suitable candidates. In some cases, the partner was elected on the basis of a positive “gut feeling”, while in other cases, this “interactional test” led to a break-up of negotiations without any objective, apparent reason.*

Thus, personal contacts may also function in a gatekeeper’s role, blocking the entrance to a new relationship. In many service businesses, the personal attraction, and the ability of people to build a trustworthy image of themselves are crucial for getting the relationship started. If the personal interaction does not convince, the deal is lost and thereby the potential for a business relationship.

#### **4.2.2 When a business relationship comes to an end**

Personal relations play an important role in bringing a relationship to an end. They may support a desired ending and play a role of a door closer, or they may cause the ending together with other influencing factors, being in the role of a terminator.

Alajoutsijärvi, Möller and Tähtinen (2000) suggest that good contacts are likely to lead to “a beautiful exit”, i.e. to minimization of damages of relationship ending to all parties. On the basis of the cases it even seems evident that good personal relations can explicitly be used to smooth down

the critical phase of relationship ending. In this way good reputation of the company is maintained for eventual new business opportunities, even with the same partner, as shown in case E.

*Our case E concerns a situation where two customers of one information service company were changing over to competitors. It was decided that these business relationships would be ended within a year. Therefore the key contact people from the service company moved over to new tasks, and our informant was to take the responsibility of the terminating relationships. His ambition was, firstly, to motivate the subordinates to keep on providing good service to the customers during the termination period, and secondly, to quickly create good contacts to the customers that were new to him, in order to facilitate ending negotiations. The need for good personal contacts was short-termed, but nevertheless crucial for successful "terminal care". The company had two major, although implicit motives for this: it wanted to keep up its good reputation in the field and to ensure that the customers still in the future might consider the company as a potential business partner.*

As a channel for external information, a large personal contact network can also function as information source concerning the partner's intentions to terminate the relationship. Or external contacts provide additional information about the partner, thus supporting the firm's own intentions to bring the relationship into an end (see e.g. Tähtinen 2001). In both cases, termination of a business relationship is made easier because of working personal contacts.

The other side of the coin is, that personal relations sometimes worsen and thereby exert a negative influence on business. If a person feels that he/she has been humiliated or treated unfairly, the ending of a business relationship is likely to cause long-lasting damages. Case G gives evidence of this (see Alajoutsijärvi 1996 and Alajoutsijärvi et al. 2000).

*Case G describes the relationship between one of the leading paper producers in Finland and a North American paper machine producer in the late 1950s. The mill ordered a major rebuild of two paper machines in 1957. Both projects faced severe technical problems and the production capacity of the mill and the quality of its products collapsed. However, the seller claimed that the deliveries had been supplied according to contract and did not want to attend the mill's problems without payment. The customer felt that the seller was behaving very arrogantly. The corporate management also ordered a special investigation of the mill, which the mill engineers found to be very humiliating. The consequences of the episode were severe for the business relationship. At the end of the decade the case mill started to develop a partnership with a small, Finnish paper machine producer. The case mill and the other mills of the corporation did not accept the bids of the North American supplier for the next thirty years. Even the apologies of the President of the North American firm were nor accepted. The offence taken turned into mythical proportions having an enduring impact on the organizational memory.*

When the role of personal interaction is crucial for business exchange, as is the case of many services, the change of contact person potentially causes a relationship termination – or at least a crisis situation in the relationship. People change jobs, get ill and retire, which always creates a risk for an on-going business relationship. The subsequent break-up of existing personal relations potentially causes interruptions in information exchange and delays in on-going projects, increasing perceived uncertainty concerning the future of the relationship (see e.g. Halinen 1997). Ultimately, the broken personal relations may erode the very basis for business exchange, particularly if the service or product exchanged is strongly dependent on individual people. The case F by Alajoutsijärvi et al. (2000) provides a nice illustration of this.

*The university had been organizing several internal executive MBA programmes for a large international corporation. The key persons of the relationship were the Vice President of the corporation, the CEO of the University Executive Programme and an associate professor. After five years of successful interaction a few critical events occurred. The corporation A was consolidated with B, a corporation that used external MBA programs in management education. At the same time the Vice-President of corporation A retired and new persons on the customer side became responsible of management education. Furthermore, the associate professor started working at another university, which reduced his interest in the relationship, and also the CEO of the University Executive Programme was planning to retire. The strong personal relations of the past weakened and some of them got broken. The new persons from customer side indicated that they might be interested in continuing the internal programmes, but nothing really happened, except some discussions over the phone. Two years later, the people at the seller's side still did not want to admit that they had lost an important customer.*

#### **4.2.3 Crises: creating and managing them**

Sometimes companies deliberately establish personal contacts in order to be prepared for potential crisis; this is the crisis insurance role as defined by Turnbull (1979). Thus, a secretary may deliberately maintain a friendly relation to supplier of office equipment in order to ensure preferential treatment in problem situations. Or the CEOs of the buyer and seller companies meet occasionally in order to keep open a “channel“, which then can be used in eventual disputes at lower levels of organizational hierarchy.

As crises and conflicts are not rare in business relationships, there is a need to broaden up the discussion about the linkages between crises and personal contacts. Ending of a relationship is potentially a crisis situation, but also in other phases of a buyer-seller relationship the partners are bound to meet with various critical events – arising from the interaction between the parties or from

business environment, i.e. by change impulses from outside (see Halinen et al., 1999). Several cases in our data show that personal relations may play a role in both creating and managing crisis situations. Metaphorically persons and personal contacts can be viewed either as trouble makers or peace makers in a business relationship.

Problems in personal relations, or mismatch in “personal chemistry” – as businesspeople often formulate it – may have various negative consequences for business relationships. In none of our cases, badly functioning personal relations proved the primary reason for trouble. Instead, several influencing factors are often at play at the same time, the unfavorable personal contact being just one contributing factor (see e.g. the management education case G and paper mill case F). While working in boundary spanning roles, on behalf of the company, people necessarily get involved with inter-firm conflicts and, in the worst case, even aggravate them by their own behavior. This easily happens when the person’s own feelings or position within the company are at stake. The mediating role of contact persons becomes clearly visible in case D (Tähtinen, 2001).

*Case D deals with a business relationship, where a software producer (seller), a subsidiary of an international software group, designed a data warehouse solution to an independent unit of a large Nordic company (buyer). The relationship had run into difficulties for various reasons. From the buyer’s perspective, the seller suffered from lack of competent consultants. Several performance failures had occurred and there were also problems in communication between the parties. Disagreements exacerbated the personal relation between project managers on both sides, which later turned into an open conflict. The ramifications for the business relationship were serious. The seller’s project manager did not contact the buyer’s project manager any more, but bypassed her and negotiated with her superiors. It was evident that the project could not advance normally in such conditions. At the moment of application delivery, severe disagreement of the functioning of the application and the fulfillment of the contract emerged. The buyer’s project manager refused to accept the delivery. In order to save the relationship, the seller decided to change the contact person, but even this restoring act did not significantly improve the situation.*

Sometimes good relations are successfully used for solving the crisis situation. And often, the post-crisis activities turn out to be most influential for the future development of the relationship. If the partners learn from the situation and succeed in convincing the partner about this, trust between the partners may even be strengthened. Personal commitment is often the way to convince the partner and both to negotiate and to adapt in difficult situations. Case A (Halinen, 1997) provides evidence for the peace making role of personal contacts (see also Case D, Tähtinen 2001).

*Some time ago advertising agency Törmä planned an image campaign for Fiskars Oy. For various reasons the project ran into difficulties. When after one year’s planning the agency team was ready to present its proposal, it turned out to be a big disappointment*

*for the customer. The proposal did not correspond to the original ideas of Fiskars, and furthermore, would have cost a fortune. During the project, the key personal relation between the Account Manager and the Communications Manager had also started to break down. Both persons were frustrated to cooperation that did not seem to bring expected results. In order to solve the situation, the parties resorted to the good personal relation between the Vice President of Fiskars and the Managing Director of Törmä. The two men met to discuss what had gone wrong and how the project could be brought to a satisfactory conclusion. As a result, the goal of the project was redefined, the agency team was changed and Törmä even promised to provide new creative work without payment.*

Sometimes good contacts even on a high level are not enough to ensure continuation of a business relationship after a crisis, and never should they be the reason for sticking to a partner, if the business relationship in economic terms is not satisfactory. The continuation of case E concerning “the terminal care” of the two customer relationships illustrates such a situation.

*Towards the end of the year, one of the customers had second thoughts and would have liked to renew the contract and continue with the relationship. For this purpose the customer’s contact person appealed to the top level management: as the CEOs of both the customer and the service provider knew each other very well, they had a lunch meeting and discussed the situation. However, the seller decided not to continue the relationship. One key reason for this decision was our informant’s assessment: the customer was definitely too late with the proposal and all resources for keeping up this relationship had already been assigned for other purposes.*

## **5. DISCUSSION**

### **5.1 Summary: the interplay of personal and business relations**

In order to explore the effect of personal contacts on the development of business relationships we started from two basic functions for personal contacts: their function as enablers of a business relationship and their function as change forces for it. In their enabling function, as a medium for information exchange, assessment, negotiation and adaptation, or service production and transfer, personal contacts make the existence of business relationships possible. In their function as change forces, they both create change, sometimes even risking the existence of the business relationship, but also help to manage change in the critical phases of a business relationship.

From the perspective of relationship dynamics, three phases of a relationship are of particular importance: a) initiation, b) crisis period, and c) ending of a business relationship. Our analysis of seven case studies suggests that personal relations may affect these critical phases positively or

negatively. Six dynamic roles are separated: the role of door opener and gatekeeper, the role of door closer and terminator, and the role of peace maker and trouble maker. Even in their basic function as enablers of relationship development, the effects of personal contacts revealed to be either positive or negative. They either promote the development of a relationship, which means they help to keep it viable and profitable, or hamper the progress of the relationship.

Table 1 summarizes the various roles of personal contacts and their positive and negative effects along the development of a business relationship.

Although it is possible to draw a simple classification of the functions of personal contacts on the basis of the data, it also became clear that the dynamic interplay of personal contacts and business relationships is a much more complicated issue. The rich relationship descriptions provided by the case studies revealed the complexity of dynamics that is actually in play in business relationships. Many of the cases give evidence of the fact that several influencing factors and events are responsible for change in business relationships. Personal relations are just one of them, although a very important factor, as inter-firm interaction is always mediated through individual people. It is worth of noting that both in most interactive and people-dependent services, like management education, and in major investment products, like paper machine, the role of people and their relations is crucial. When this is the case, an important question for managers logically follows: can personal relations be managed?

Table 1. The roles of personal contacts in the development of business relationships

	Positive effect on business relationship	Negative effect on business relationship
<b>Basic functions</b>		
Personal relationships enable the business relationship by <ul style="list-style-type: none"> <li>▪ Information exchange</li> <li>▪ Assessment</li> <li>▪ Negotiation &amp; adaptation</li> <li>▪ Production &amp; transfer of service</li> </ul>	<b>+ PROMOTER:</b> fostering the maintenance and development of a business relationship	<b>– INHIBITOR:</b> hindering the maintenance and development of a business relationship

<b>Dynamic functions</b>		
Initiation of a business relationship	+ DOOR OPENER: allowing entrance	– GATEKEEPER: blocking entrance
Crisis / problems in a business relationship	+ PEACE MAKER: managing a crisis	– TROUBLE MAKER: causing a crisis
Ending of a business relationship	+ DOOR CLOSER: supporting a beautiful exit	– TERMINATOR: causing an awkward exit

## 5.2. Towards managing personal relations

While researchers typically are interested in analyzing the development of business relationships over time (involving arguments for and against different stage models, long-term analysis, and debate about whether and when a relationship comes to an end), the most relevant questions for managers are elsewhere. A manager should recognize the specific *situations* where personal contacts are most critical and be sensitive to their influence on the business relationship. Table 1 is an attempt to distinguish these core situations. It is then the manager's task to identify these situations amongst all the complications and noise of the real-world business context.

We are not claiming this to be an easy task. However, a lot is achieved if the manager realizes the three main issues concerning the role played by personal contacts: a) they may have both positive and negative effects, b) their role is different in different situations, and c) all people have some kind of personal relations that are of importance (i.e. not only the manager, but other people in his organization and counterpart organizations). Thus, acknowledging the different levels of internal and external relations and their embeddedness is essential.

Management of personal contacts is complicated. Existing personal contacts, relationship sediments, are past-oriented – some common history is needed for usable contacts to exist. However, in using or managing contacts, orientation is towards the future. Therefore, the intentions and perceptions of the individuals involved and their willingness and ability to use personal relations for company purposes become crucial issues. By definition, it is difficult to manage the

informal side of business interaction that personal contacts typically reflect. This concerns especially the basic roles of personal relations as enablers of business relationships. Their role as change force is analytically different and, as we see it, gives more basis and room for managerial action.

Explicit use of personal relations poses various demands on a manager. If the manager is alert to the different situations discussed here, s/he can direct the use of personal contacts favorably from the company's perspective. Then the following kinds of questions emerge:

- Ending a relationship – Is the business relationship risked by poor personal relations? Do we want to avoid it? Can we do it by investing on personal interaction, or by changing people? Or, do we want to use personal relations for a beautiful exit?
- Managers may intuitively use good personal contacts for initiating a new business relationship; but do they as easily realize that an individual person or personal relation (insider or outsider) is blocking the entrance? And how to get around such a blocking relationship? How to ensure that evaluation of a potential business partner is based on company characteristics, rather than on unsympathetic contact person? Or vice versa, should we rely on the positive outcome of a personal interaction test?
- People are different and their capabilities in relationship management also differ. Could the company use individual competence more systematically in different situations? And, moreover, should people be trained to act as door closers in ending negotiations or peace makers in crisis situations?
- Personal relations (like business relations) are embedded in a network of relations and therefore one negative, badly functioning relation can spread its effects to the larger network. How to avoid this? Or, vice versa, how to foster the positive influence that a good personal relation can have?
- Further challenge to the management of personal contacts is presented when the business takes place in an inter-cultural context. The extent to which personal contacts are resorted to and are seen to be usable is culture-related issue. We believe that managers should be sensitive to their own cultural frames in this respect as well as to the frames of their business partners. One



should ask, how to cherish and use personal contacts in a more rule-oriented and depersonalized context? And how to make a proper division between business deals (market behavior) and personal commitments in a context of tight personalization?

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## Appendix. Description of the secondary data cases used in this study

### *Case A.*

**Focus:** An advertising agency (Törmä) and a consumer product company (Fiskars) developing a many-headed, long-term business relationship in Finland.

**Purpose of the study:** To build an empirically grounded process model for understanding the development of advertising agency-client relationships.

**Data:** Longitudinal case study; 36 semi-structured personal interviews in 1989–1992; company documents

**Reference:** Halinen (1997)

**Illustrating here:** The role of personal relations as a part of relational infrastructure that both limits relationship development and provides possibilities for it. Gives evidence of the important role of good personal contacts in initiating the relationship and in solving crisis situations; also of situations where personal relations functioned well and fostered the relationship development and where the change of key persons hindered the advancement of the relationship.

### *Case B.*

**Focus:** A computer producer (Mikrolog) establishing a joint venture for local production in Estonia.

**Purpose of the study:** To analyze market entry from the viewpoint of network development and learning.

**Data:** 10 personal interviews in 1994–95, and newspaper articles.

**Reference:** Salmi 1999

**Illustrating here:** Initiative for the joint venture emerged in the close and friendly personal relation between the CEOs of the Finnish and Estonian companies. This relation worked as an information channel during the early operations for e.g. solving problem situations. Later on, as the joint venture matured and its personnel learned more about business practices, the personal relations became more inter-organizational in nature, involving also other people.

### *Case C.*

**Focus:** Information technology company (ICL Data) entering a turbulent market i.e. the Baltic States in the early 1990s.

**Purpose of the study:** To examine entry into turbulent foreign markets by investigating the processes involved, interaction between business partners and the connectedness of business relationships.

**Data:** 26 semi-structured interviews of different individuals in various positions in 1991–1996, archival data, company documents.

**Reference:** Salmi 2000a.

**Illustrating here:** Managers resorted to personal relations in order to overcome problems of uncertainty. Personal relations took on the role of an important internal institution, substituting for formal institutional support in the transforming economies with an underdeveloped legal framework. In addition, managers resorted to “an interactional test” when choosing new business partners.

### *Case D.*

**Focus:** A large Nordic company developing and ending a business relationship with a software vendor in Finland in the late 1990s.

**Purpose of the study:** To build an empirically grounded process model for understanding the dissolution of business relationships in tailored software business.

**Data:** A longitudinal case study over the period of 1996–99; 26 semi-structured interviews and archival data.

**Reference:** Tähtinen (forthcoming 2001)

**Illustrating here:** How various influencing factors together with personal relations affect the process of relationship dissolution in its various stages. Provides evidence of the effects of working personal contacts at several levels of the hierarchy between the companies, of large personal contact networks, change of key persons in interaction, and of interpersonal conflicts.

#### **Case E.**

**Focus:** Experiences of one manager providing expert services in the information technology field to large retailers.

**Data:** Several interviews in 2000

**Reference:** unpublished data

**Illustrating here:** How personal relations are used to manage the ending process of a business relationship in an information technology company.

#### **Case F.**

**Focus:** Experiences of an associate professor providing management education for a large international corporation in Finland in early 1990s.

**Purpose of the study:** The case is written to illustrate exit strategies that companies use in order to end a business relationship.

**Data:** Personal experiences reported as a case description.

**Reference:** Alajoutsijärvi et al. (2000)

**Illustrating here:** The impact of personal relations (among other critical factors) on the ending of a business relationship. The break-up of personal relations is illustrated, in particular.

#### **Case G.**

**Focus:** Development of a business relationship between a paper mill and a paper machine producer in the late 1950s and its effects on the forthcoming machine purchases of the paper mill.

**Purpose of the study:** To create understanding of the development of a buyer-seller relationship between a paper mill and a paper machine producer. Later used to illustrate exit strategies that companies use in order to end a business relationship.

**Data:** personal interviews

**Reference:** Alajoutsijärvi et al. (2000), based on Alajoutsijärvi (1996)

**Illustrating here:** The long-lasting damages a badly managed business relationship may cause. Provides evidence of the role of personal irritation in the termination of a business relationship, and describes how this irritation was saved into the organizational memory for several decades.