

EXPECTATION MANAGEMENT IN BUSINESS RELATIONS: STRATEGIES AND TACTICS

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Abstract

For an actor to survive in the hardening competitive world the management of expectations is crucial. The aim of our paper is to elaborate the strategies and tactics of expectation management in business-to-business setting. We start by presenting the nature and sources of expectations, then move on to discuss relationship management strategy and relation portfolio. After that, a classification of expectation management strategies is introduced and tactics for practice are presented. Finally, we divide expectations into classis, mega and nano expectations and suggest that by engaging in qualitative study of expectations in business forecasting research we would gain new knowledge in the area.

1 Introduction

Actors in business relations continuously evaluate the status quo and future of their own as well as of the others. In order to engage to a new partner the evaluation criteria differ from those used in existing relations. Comparison standards play a central role in the status quo evaluation which often takes a form of comparison between expectations and perceived performance. In evaluating the future of a relation expectations used in the comparison are mainly based on experiences derived from the past.

Relation management can be targeted to handling the status quo situation in a relation, taking care of the existing demands and wants of an other party. As business relations tend to be long term in nature, relation management should also be concentrated on the future of the relation. Expectation management is one way of managing the future of business relations. It can be even argued that for an actor to survive in the hardening competitive world the management of expectations is crucial.

The purpose of our paper is to elaborate strategies and tactics of expectation management in business-to-business setting. This is done by first discussing the nature of expectations in business relations, and, after that, possible strategies for expectation

management are presented. On the basis of these strategies, tactics for expectation management are then highlighted. The perspective taken in this paper is the one of a producer's management. We focus on a producer's internal and external customer relations. Internal customer relations were included, because employees have a central role in executing the expectation management tactics targeted to external customers.

This paper is merely theoretical. Expectation management is discussed from various theoretical perspectives, the most important of which are the IMP perspective and the services management literature. The empirical evidence is based on the doctoral dissertation studies of the authors. The data was collected in 1996-97, and it covered 13 customer relations of the Finnish middle-sized high tech company. The data was collected by using in-depth interviews.

2 Expectations

Expectations have been presented by Alderson and Martin (1965) as one of the three primitive terms (or should we say concepts) that together are capable of describing every kind of system relevant to marketing analysis, the other terms (or concepts) being sets and behaviour. According to the authors, expectations are driven by values and information (see figure 1). Today, values and information are in focus of scientific research. However, business is mainly driven by the future discountable today, i.e. expectations.

According to Ojasalo (1999) the nature of expectations can be explicit, implicit, fuzzy, realistic or unrealistic (see figure 1). Customers having explicit expectations have clear, conscious picture what they wish from the future co-operation, customers having implicit expectations, in turn, do not actively think all the aspects of the future co-operation. Customers with explicit expectations know whether their expectations are met or not. The implicit expectations are revealed to customers when they are not met. In case of fuzzy expectations, customers expect something, but are not sure what that something is. If these kinds of expectations are not met, customers are unsatisfied, but do not know what exactly went wrong. Unrealistic expectations are set to impossible high level, and they are not likely to be to be met. Realistic expectations are reversals of unrealistic expectations. (Ojasalo 1999, 82-84)

Expectations can also be official or unofficial. Official expectations, used by an evaluator in an evaluation, are based on the goals and strategies implicitly or explicitly expressed by a company. Unofficial expectations are linked to an evaluator's own individual wishes or even desires. (Järvelin, 2001, 58) It has to be noticed, however, that evaluators never use official expectations as such, but their own individual interpretations of them (Kotsalo-Mustonen 1996, 208).

Expectations always concern two different aspects; the content and the level. The content of expectations can be related to technical, economic or social aspects of interaction between a producer and customers. These aspects can be related to the current operation in a relation, or they may concern the possible future of it. (See Holmlund 1997; Järvelin 2001)

The unofficial/official nature of relations together with the content of a relation can be used when highlighting the sources of the expectations. It can be argued that expectations partly stem from the official sources related to technical, economic, social and also political aspects related to a relation or its context, and partly they originate in personal, unofficial expectations of the evaluator. Sources of expectations have a critical role in expectation management as many of the changes in expectations can be traced to the changes in the sources of expectations. Expectations related to the technical aspects can change for example due to modifications in quality standards or new business models offered in the Internet, expectations related to economic aspects can change due to general economic fluctuations, expectations related to political aspects can change due to, for example, new EU regulations as well as mergers and acquisitions in an industry, and finally the expectations related to social aspects can change due to organizational changes in partner company. Expectations related to the social aspects are also tied to organizational cultures, and relationships in which parties have different organizational cultures, expectations concerning collaboration can differ (see Mittilä 2000; Järvelin 2001, 59).

In Figure 1, the nature of expectations is presented as a conclusion of the discussion presented in this chapter.

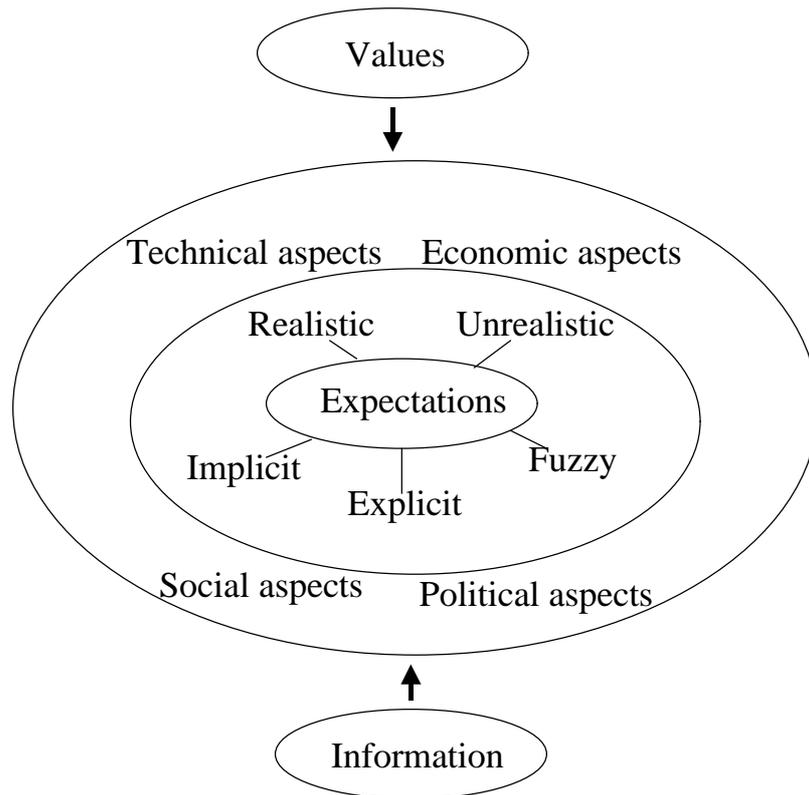


Figure 1: Nature of expectations.

3 Managing Expectations

3.1 Relationship Management Strategy

Strategy is a plan, or something equivalent—a direction, a guide or course of action into the future, a path to get from here to there. It is also a pattern, that is, consistency in behaviour over time. Mintzberg (1994) has delineated realised strategies as the outcomes of intended strategies that can be divided into deliberate, i.e. fully realised strategies, unrealised strategies and emergent strategies. In emergent strategies realised strategies are not expressly intended but actions are taken, one by one, which converge in time in some sort of consistency or pattern.

If a company applies a relationship management strategy as a competitive strategy its has to identify the nature of its customer relations¹. Some characteristics showing the differences between relations are listed in Table 1.

¹ “Because there seem to be two kinds of connections in business markets, it seemed relevant to make a distinction between the terms as well. Therefore, a *business relation* is here defined as *an economically oriented state of existence between or among actors*. It is an outcome of context, or evaluation and bargaining. On one hand, a business relation is an outcome of context, if we examine it from a network perspective where every company has a position in a network. On the other hand, we can take the view of an actor. Then we may have counterparts with whom our communication and interaction is superficial and a situation where we are not interested in the welfare of the counterpart beyond that transaction.

Relation	Relationship
Actors' self-interest	Actors' mutual interest
Task-related intercommunication	Task-related and social intercommunication
Individual goals	Common goals
Remote/superficial	Close/deep
Freedom	Commitment
Independence	Interdependence

Table 1: Characteristics of relations and relationships. (Mittilä 2000)

In relations, actors pursue self-interest and have only individual goals, while relationship parties share interests and want to develop the relationship by setting common goals. Relations tend to be remote and superficial, and people communicate with each other only as role persons, i.e. on task-related issues. Actors are independent and feel free to change their partners in relations, while in relationships they are structurally or mentally committed because of a perceived interdependence. Actors in relationships have more intensive and closer interaction, and in organisations people may also intercommunicate socially.

It is necessary to look at the issue of relations and relationships at collective and individual levels. It may be that even if a company has a relationship-type connection with another company, the people within the relationship may have relation-type

If the counterpart is important enough to our business, we may want to deepen the relation into a *business relationship*, which is defined here as *an economically oriented state of existence between or among parties with collaborative interaction*. This collaboration may be formal (sealed by legal contracts) or informal (voluntary). Collaborative interaction may be constructive, as when parties plan future activities and the relationship's future together. It may be institutionalised, where daily routines are taken care of at the operative level. Collaborative interaction may also be destructive, as in cases where a relationship is dissolved.

According to the above distinction, actors have relationships only in their immediate networks. This is in accordance with the idea that relationship parties have a common (mutual) history. From an actor's point of view there are both relations and relationships in the focal network. From a marketing point of view, a company may be interested in developing relations with customers to a certain extent without engaging in deeper or wider exchanges than economic, or utilitarian, exchange. Then, there is no need to know customers personally, even though a company may have a customer register with the customers' purchasing histories. This is often the case in consumer markets. In business markets too, many companies with standardised products do not develop their single customer relations

connections where they act only as role persons. In this role they create, maintain, enhance and terminate relationships with other role persons. They are not, however, committed to these relationships at the personal level. If a role relationship ends, there is no interaction between the parties, even if they remain as actors in a network. This also happens in companies that stop interacting with each other; they are still actors in a business network and are thus related to former partners.

Because people and organisations are related to each other, each organisation has an implicit or explicit relation portfolio with market relations, mega relations and nano relations. Depending on business, relations may range from transactional relations to loyal and close relationships. Relations may be communicative in the sense that, marketers, for example, communicate their offerings directly to customers but are seldom intercommunicative at a deeper level.

The collective portfolio of relations can be spread into different types of relations. The idea is visualised in Figure 2. Narus and Anderson (1995) have adopted the concepts of transactional and collaborative relationships as polar distinctions of business relationships. Mittilä (2000) prefers, however, a continuum with transactional relations at one end and collaborative relationships at the other.

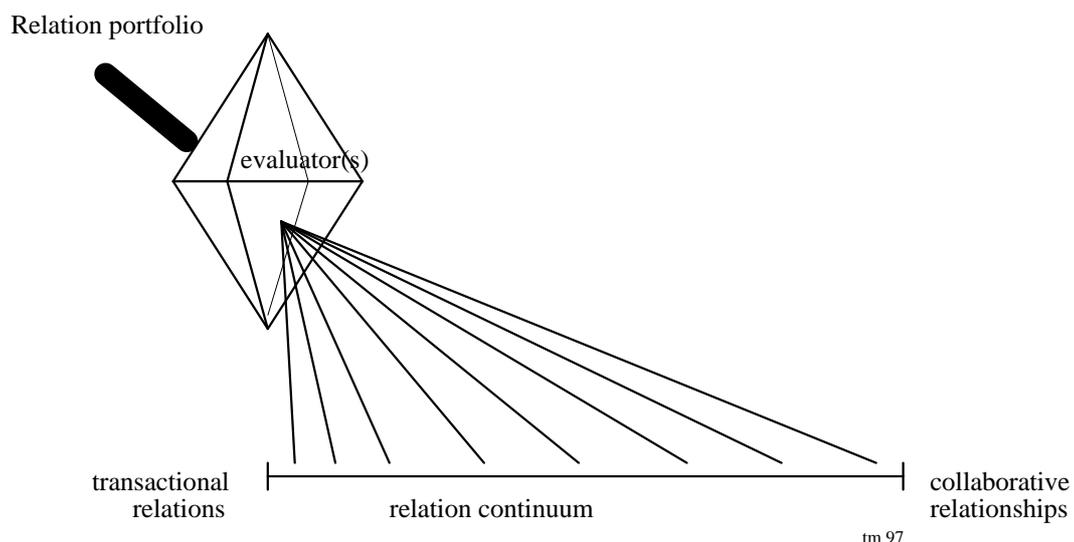


Figure 2: Dispersion of relations.

into relationships. They may, however, develop their exchange network by establishing new relations

We can think of the range/spectrum of evaluators on a relation continuum as reflecting the portfolio of an organisation's relations. Whether relations are seen as transactional or collaborative, or something in between, depends on the evaluation perspective (organisational, personal) and the individual evaluator in the organisation. Depending on the nature of a relation, customers' expectations concerning it may vary to a great extent.

3.2 Expectation Management Strategies

Managing expectations explicitly may not be a daily praxis in most organisations. When elaborating the patterns of companies' behaviour concerning the issue, strategies depicted below in Figure 3 can be recognised.

Companies that tend to be past-oriented use the **laissez-faire strategy** where attention is paid neither to changing conditions, needs and/or wants on the customer side nor inside own organisation. The traditional ways of doing things seem to be good enough for the management. However, in today's turbulent business context this strategy is a 'highway to heaven'.

		Intra-organisational		
		Ignorance	Reaction	Proaction
Intra-relational (Inter-organisational)	Ignorance	Laissez-faire strategy	Intro-reactive strategy	Introvert strategy
	Reaction	Extro-reactive strategy	Co-reactive strategy	Intro-proactive strategy
	Proaction	Extrovert strategy	Extro-proactive strategy	Co-proactive strategy

Figure 3: Strategies for expectation management.

Companies may have a market position where they are not compelled to compete, for example, in a monopolistic or stabilised oligarchic situation. This may also be the case in the public sector organisations. Therefore, intra-organisational focus is adopted. **Intro-reactive strategy** is utilised when paying attention to and reacting on expectation issues raised by employees or business units inside an organisation. This strategy focuses on contemporary action on a short term basis; it is a strategy of ‘extinguishing a fire’. This situation occurs mainly when existing expectations, whatever kind they may be, are not met in an everyday praxis. Meeting the defeat in budget allocations, delays and mistakes in internal deliveries, quality failures in products, disappointments in career opportunities etc. are examples of situations where the unmet expectations may be sources of intra-firm conflicts.

When adopting an **introvert strategy** an actor ignores the customers and concentrate on the expectations expressed within own organisation. This may be the case in a development unit where future products are innovated and developed in isolation from customers. Medical laboratories, top secret innovations and their development are good example of these. Also the fashion industry as well as many art organisations may use this strategy. In an introvert strategy future is strongly present. History and today may serve as starting points but change is the goal of this strategy.

In a situation when employee resources are no limitation to a company, main attention may be directed to inter-organisational customers (buyers, bistomers², and other stakeholders). In an **extro-reactive** strategy their expectations are handled in a parallel way to that discussed earlier in connection with intro-reactive strategy. The extro-reactive strategy can further be divided into **extro-intrareactive** and **extro-interreactive** strategies. In the former, expectations within one relation are in focus while in the latter, the network of relations is taken into account.

Co-reactive strategy refers to a situation where all relation parties in a dyad or network act on short term basis and expectations become an issue mainly in case of a business transaction or when parties express their dissatisfaction, i.e. complain. Then, and only then, issues are negotiated to settle the somehow adverse situation. This is the case in many buyer-seller relations where no commitment exists.

Intro-proactive strategists focus heavily on the future of a company or organisation and the well-being of the staff. They recognise the role of satisfied, innovative employees, and deploy their creativeness to develop the company. A genuine intercommunication exists, organisational research is a solid part of the overall action,

² “A bistomer is an actor representing buyers. A supplier has no monetary exchange with a bistomer which, however, has a role in the exchange of information and decision-making in a multi-party relationship. In that way, bistomers differ from traditional customers (buyers) in business. Marketing activities are directed towards bistomers to create and maintain buyer-seller relationships. Of course, bistomers may act as referees or exert influence, but their role is more official than that. For example, architects and decorators occupy this role in the construction industry. In the medical industry, doctors prescribe pills bought by consumers. In Finland, television companies have created relationships with media houses which help advertisers select the right media for their messages. In retailing, shopkeepers in different industries maintain organisations that create and enhance relationships with suppliers and other stakeholders”. (Mittilä 2000, 39)

not an ad-hoc hobby. Knowledge acquired by the research is implemented in existing systems and operations. Intro-proactive strategy requires stable market conditions.

An **extrovert strategy** is appropriate in situations where the company management can rely on the employees' commitment, and need to concentrate on gaining or defending its market share or share of customer. Market and competitor intelligence, as well as identification and utilisation of weak leads become crucial when implementing this strategy. In the organisation, management is preferred to leadership, and the measures used tend to be mainly financial.

Extro-proactive strategies are dividable into **extro-introproactive** and **extro-interproactive** depending on the number of collective actors taken into account. Extro-introproactive parties pay a considerable attention on the future expectations of the other party or parties in a relation while being only reactive to the expectations of their own company and employees. Extro-interproactive strategists deploy a wider perspective to the contextual expectations, for instance, those of the industries and societies. Tactics in implementing this strategy add to the earlier mentioned ones leadership to the extent that is needed to 'keep the engines going without ongoing maintenance'.

Co-proactive strategy in managing expectations is the one needed in committed relationships. From the managerial point of view, both management and leadership play crucial roles. The parties understand the importance of intercommunication both inside their organisation as well as in other stakeholder relations. All kinds of expectations are identified as well as their role in the future of intra-organisational, customer and other relations. The process of expectation development must be familiar to the organisation's all management levels. This is crucial because, as we have stated earlier, otherwise we may fall into a trap of taking things for granted and not paying enough attention to important issues. In long institutionalised relationships this may be the fact. However, in the new competition companies have to 'earn' even their relationships over and over again.

3.3 Expectation Management Tactics

3.3.1 Customer Value Identification

To be successful producers have to identify the pattern of collaboration valued by different customers. Customers may not be ready to commit themselves to long lasting relationships if they consider it to be too vulnerable for their own businesses. Producers may in this case have unrealistic expectations which may direct their resources into wrong direction. Customers may also put different emphasis on economic, technical and social aspects of interaction. Therefore, without customer intelligence companies have no solid base for expectation management in relations and networks.

Customer intelligence may be executed by ad hoc studies or ongoing perception and dialogue with customers, and by espionage. Ad hoc studies like those of customer preferences, intentions and satisfaction provide producers with cross-sectional information. Processual information is best acquired through perception and ongoing intercommunication with customers and own company's employees who are in connection with external customers. Espionage is a non-acceptable but effective way of gaining valuable delicate information. To be successful in managing expectations companies should trace even weak clues of change within customers' opinions, attitudes, activities etc., and be able to diffuse and utilise this information within their company.

3.3.2 Managing Different Expectations

The different types of expectations call for different expectation management tactics. Unrealistic, realistic, explicit, implicit and fuzzy expectations can also co-exist in a relationship (Järvelin 2001), which makes the expectation management even more demanding. For example, customers can have explicitly stated realistic expectations concerning the technical aspects of the relationship, implicitly stated unrealistic expectations concerning economic aspects together with fuzzy expectations related to social aspects.

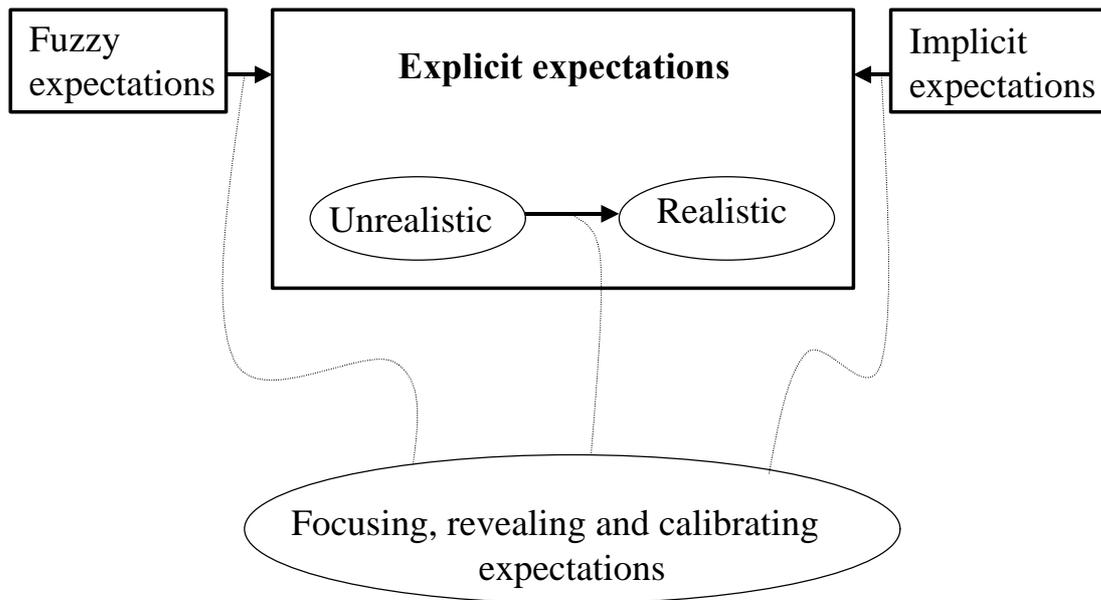


Figure 4: Management of different types of expectations (modified from Ojasalo 1999, 97).

Figure 4 shows the ways to manage different types of expectations. The ideal situation naturally is that customer's expectations are explicit and realistic for both parties. In order to reach that ideal situation fuzzy expectations need to be focused, customers have to be "educated" what they should expect (Ojasalo 1999, 87; see also Järvelin 2001). The best way to do this in practice is to intercommunicate with the customer, i.e. openly discuss with customer.

Implicit expectations are characteristic for institutionalized long term relationships in which the parts of the relationship can become so self evident to the parties that they do not consider them actively or consciously (Ojasalo, 1999, 96; Järvelin 2001, 171). According to Ojasalo (1999, 90) implicit expectations are revealed in two kinds of situations; first when an other actor purposely reveals them, and second when implicit expectations are not met. In these situations ignorance, reactive or proactive strategies may be used. Ignorance strategists do nothing to correct the situation. If the producer applies a short term perspective, it reacts to settle the dispute but does not change behaviour. In a proactive strategy, revealing implicit expectations demands for continuous intercommunication; and preventing implicit expectations in the future

demands for separate expectation management system inside the relationship. An example of this could be discussion forum that is gathered together regularly, and has no other purpose than discussing the expectations, wishes, wants and goals that the parties have.

Calibrating unrealistic explicit expectations simply means setting the expectations to the right, realistic level (Ojasalo 1999, p. 93). Thus, calibrating unrealistic expectations is merely related to the level of expectations compared to focusing fuzzy expectations and revealing implicit expectations which concern the content of the expectations. Calibrating the unrealistic expectations to the right level can be more difficult than focusing and revealing, because now customer has clear and conscious expectations. Consequently, intercommunication in this case means more negotiation and bargaining type of communication (for more, see Mittilä 2000). If unrealistic expectations are not met, the future of a relationship can be damaged, which makes the calibration highly important (see more Ojasalo 1999, 93-94). In the beginning of a relation producers can even consider deliberately terminating it, if customers' expectations are set to too high a level. Unrealistic expectations are characteristic merely for young relationships and relations; in long term relationships parties tend to know the other party or parties and the contextual factors so well that they are able to understand the realistic level (Järvelin 2001).

4 Discussion

Expectations are the driving force in business. Different stakeholders have different explicit or implicit expectations directed towards a company. Shareholders tend to look for high return on their investments, employees longer for long term working opportunities and better wages and salaries, and customers search for high quality products at competitive (sometimes even cheap) prices, problem solving etc. Even society has expectations towards companies in the marketplace. To survive, a company should identify, prioritise and manage different expectations.

We have presented above some strategies and tactics that companies may utilise in managing customer expectations. The characteristics of customers vary according to whether they are core customers, i.e. buyers with whom the company is trading; extended customers (for example bustomers and the ones who grant licences) without

whom a transaction with the buyer is not possible; or augmented customers, for example references, media, politicians and authorities that may affect focal business. Adopting the division from Gummesson's (1999) relationship division, we may divide expectations into classic business expectations that occur in interaction among organisational actors in buyer-seller relations and networks; mega expectations that are personal life expectations of people involved in relations and relationships as well as expectations of augmented customers. Nano expectations are those brought inside a company, for instance, business units' and employees' expectations as well as those of shareholders and other financiers. From a company's point of view, different strategies are adoptable in different relations and different situations.

Business forecasting is an interesting branch in marketing research. It has, to our knowledge, utilised mainly quantitative methods. By adopting a qualitative approach that aims at understanding business actors' expectations of future, further research will provide us with more detailed knowledge in this area.

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