As time goes by: The paradox of stability and change in Australian business networks

Catherine J. Sutton-Brady,
School of Business,
The University of Sydney,
H69 Economics and Business,
NSW 2006, Australia,
Email: c.sutton-brady@econ.usyd.edu.au

Abstract

Stability and change may seem contradictory features but in business networks they coexist (Hakansson and Snehota 1995). This paper explores the paradox of the coexistence of stability and change in an Australian context. Previous research illustrated that stability over time can exist in specific business relationships (Sutton-Brady and Donnan 2003). This research study further investigates time as a proxy variable of stability (Halinen and Tornroos 1995) and attempts to uncover other variables, which may impact on the stability of the relationship. The research was undertaken using a selected sample of Australian wine companies and suppliers to the wine industry. The sample included 15 wineries of varying size and 21 suppliers representing a cross section of all suppliers to this industry. While the overall project looks at wineries and suppliers, for the purposes of this work-in-progress paper findings from the buyer side will be initially presented. A future series of papers are in progress for this research project.

Given the exploratory nature of the research a case study approach was utilized to gain an in-depth understanding of the variables, which may contribute to the stability. The research was conducted using a structured and semi-structured research instrument, which was essentially an interview guide for the researcher ensuring that no issues were overlooked. The semi-structured nature of the guide allowed for a flowing and expanding interview. In addition to utilising in-depth interviews with senior management in each organisation, data was also collected from varied secondary sources through extensive internet and database searches of the various organisations and relevant government and industry bodies. This work-in-progress paper presents the findings from 3 case studies.

In essence this paper further advances the concept of time as a proxy variable for stability while investigating what other variables may be crucial in understanding this concept. From analysis of the case studies, it was found that other variables play a role in determining the stability and change in the relationships and networks, these included location, product/service quality, technology, cooperativeness, adaptations and cost. The major contribution of this work-in-progress paper is the fact that it reopens discussions on time as a proxy variable for stability and attempts to broaden this to include other variables. Caution is advised however because the analysis of the data collected for this research study is ongoing and the findings are therefore not definitive.

Keywords: Relationships, networks, time, stability, change.
Introduction

Stability and change may seem contradictory features but in business networks they coexist (Hakansson and Snehota 1995). This paper explores the paradox of the coexistence of stability and change in an Australian context. Previous research illustrated that stability over time can exist in specific business relationships (Sutton-Brady and Donnan 2003). This research study further investigates time as a proxy variable of stability (Halinen and Tornroos 1995) and attempts to uncover other variables which may impact on the stability of the relationship. The paper will commence by looking at the background to this research. It will outline the theoretical foundations of the study. Additionally the first section will explain the rationale for choosing the Australian wine industry to undertake this research. The research methodology will be presented and the use of a qualitative approach will be explained and substantiated. The findings will be presented in two ways, initially the overall impression from the 15 wineries will be examined and then a more in-depth analysis will be presented using 3 cases (3 wineries). In conclusion the findings will be discussed in light of previous research and literature and the contribution of this paper will be presented. Implications of the research for both academics and practitioners will also be covered. The future research planned for this project will also be discussed.

Background

Stability and change in business markets

Over the last few decades extensive research into business markets, in particular by members of the IMP Group (The Industrial Marketing and Purchasing Group), has seen the development of the interaction approach. This approach has become widely accepted as a paradigm for understanding the dynamics of business markets (Ford et al. 1998). In contrast to the transactional perspective, a central notion in understanding business-to-business relationships is the desirability of adopting a long-term orientation. Much literature has advocated the need to attend to long-term buyer-seller exchange relationships, as opposed to a short-term, narrower focus on transactions between parties to exchange (Dabholkar et al. 1994). The notion that businesses do not work in isolation or that “no business is an island” (Hakansson and Snehota 1989) is now widely accepted in academic literature and this perspective is evident in the behaviour of managers in practice. Authors have also emphasised the importance of the embedded context within which business relationships take place and much has been written about the connectedness of the relationships (Anderson et al. 1994; Sutton-Brady and Donnan 2003). Given discussions of connectedness it is put forward that “Networks are thus the medium and outcome of connectedness effects in a world of interdependent economic actors” (Easton and Araujo 1994). Easton (1995) also suggests that research on networks should concentrate on just four key, general characteristics: connectedness, complexity, the sociality problem and time. Therefore in undertaking research one would have to consider these factors but other issues have also been shown to have relevance in network and relationship research.

Hakansson and Snehota (1995) quite clearly state that “the network of business relationship can thus never be seen as a stable structure. It is a structure with inherent dynamic features characterised by a continuous organising process”. While Anderson et al. (1994) reassert the view that a key issue of network development is change, which they specifically relate to “connectedness in time”, they state that dynamics are ever present in business networks. The word dynamic has its very context in time therefore looking at connections between the entities in the network by its nature has to be time or duration driven. This notion is reaffirmed in earlier work by Easton and Araujo (1994) where in their discussion of networks they refer to the fact that “network change has to be observed against a background of stability”. Easton (1995) also states that “stability is a function of the history of a relationship”. As such any research in this area must consider the issues of stability and change.

In examining the literature on stability and change one finds differing constructs utilised to investigate the concepts in networks and relationships. Time is a concept long associated with the notion of stability. Halinen and Tornroos (1995) discuss in detail the use of time within the interaction approach. Specifically they discuss the use of time as a proxy variable where “the absolute time duration is used
as a proxy variable, which is assumed to reflect the underlying dynamics of a relationship". Kamp (2004) also acknowledges that time is an often used perspective in network research and enables relationships to be viewed from a dynamic angle. Rather than using time in years as an absolute measure of stability some researchers have considered relationships to be stable. This is especially the case when they showed regular volumes of trade over time, typically following closely the client’s turnover. They are conversely considered unstable when variations were found over time in the value of trade (Proenca and de Castro 2004). These authors further postulated that in the banking industry stability was a characteristic of longevity irrespective of irregularities in trade. There has also been much discussion in the literature with regard to the benefits and conversely negative effects of long-term relationships (Low 1996; Gopalakrishna and Sharma 2003; Grayson and Ambler 1999).

Others have seen the matter of change and stability as something clearly driven by the actors. The argument is that the actors choose to endeavour to find stability in their relationships and network (Holmen and Pedersen, 2002). There is also a discussion of internal factors and the impact of change in internal factors on the stability of the relationship and network (Holmen, Pedersen and Jansen 2002). These factors may include such things as changes in technology or personnel within the firm. Holmen et al. (2004) also explain how in relatively stable settings it is easier to identify the networks based on sequencing and time but in dynamic settings the complexity requires continuous updating of the network and it is harder to gain a picture of the stability. This inability to understand the stability is probably complicated by the number of different factors which can have an impact in a dynamic context. Technological change and the availability of alternative suppliers is something which has also been highlighted as factors impacting on stability (Holmen, Pedersen and Jansen 2002).

In keeping with these discussions in the literature this paper will now highlight these issues in the 15 wineries interviewed and more specifically in the three case studies presented.

**Rationale for using the Australian wine industry**

In 2003-04, the Australian wine industry harvested a record crop of around 1.9 million tonnes, up 34 per cent from the drought affected 2002-03 crop. The Australian wine industry is a growing industry. It has doubled from producing 777,000 tonnes of grapes in 1993-94 to 1.9 million tonnes in 2003-04. The export value of the industry is very significant in an Australian context. Export sales continued to grow in 2003-04, albeit slower than in previous years, up 6 per cent to over $2.5 billion. This makes wine the 4th largest valued agricultural export commodity for Australia after wheat, beef and wool. (http://www.abare.gov.au/research/agriculture/wine/wine.html)

With the growth projected to continue, despite the drought, it is considered a good industry to undertake research especially given its’ significance in the Australian economy. The Australian wine industry has a large number of both buyers and suppliers, which provide an extensive population of potential respondents. Contact lists of buyers and sellers are also relatively straightforward to access making for ease of sampling. Additionally the broad cross section of diverse buyers and suppliers in the wine industry enables it to be somewhat representative of other industries in Australia. Companies in the Australian wine industry range from small boutique wine companies to mass-produced wines. This range will enable a comparison of different sized enterprises in the analysis. Additionally suppliers to the wine industry represent a huge cross-section of industries ranging from glass and cork manufacturers, label makers, manufacturers of heavy plant and equipment as well as a vast array of service providers. As such the industry is considered to be a fertile ground for information on business relationships. Indeed many authors have successfully utilised agri-business industries for research purposes both in Australia and New Zealand (Beverland and Lindgreen 2002).

**Methodology**

The main research objective of the paper is to explore stability and change in the Australian wine industry. Given the nature of the research objective, it was considered that an exploratory approach was most appropriate in this study. The research strategy employed was such that “it attempted to examine a contemporary phenomenon in its real life context” (Yin 1981), therefore, a case study approach seemed most relevant. In addition to utilising in-depth interviews with senior management in
each organisation, data was also collected from varied secondary sources through extensive internet and database searches of the various organisations and relevant government and industry bodies. The prime source of data was however the in-depth interviews with senior managers at the wineries and supplier organisations. Support for this approach can also be found through various authors, most notably Eisenhart (1989) who posits that this is the best approach and is well suited to areas for which existing theories seems inadequate. As has been pointed out this is the case for the notion of time as a proxy variable for stability particularly in this exploratory study.

This qualitative study focussed on 15 wineries in Australia, selected to provide a varied cross-section of wineries in terms of size and turnover. They ranged from small boutique wineries to much larger wine corporations. Additionally 21 suppliers were interviewed these suppliers provided us with a good cross-section of products and services supplied to the wine industry. In line with Creswell (1998) this is a purposeful sampling in that cases were selected which showed different perspectives and were accessible. The wineries and their suppliers were not matched; this was mainly due to the competitive nature of the industry and fears concerning confidentiality. Although many wineries did nominate who their main supplier was for certain product categories.

In-depth interviews were carried out with key personnel in the wineries and supplier organisations. To aid the interview process a questionnaire was prepared as a guide. The use of a questionnaire is sometimes regarded as discretionary in qualitative research interviews but in the context of a “long interview it is indispensable” (McCracken 1988). Its function is to guide the interviewer and make sure all issues are covered. It is however just a guide and clearly allows the scope of the interview to be ever-expanding (McCracken 1988). The in-depth nature of the interviews allowed for greater depth in answers and gave the researchers the ability to probe more deeply on issues, which emerged as the interview progressed. Interviewees were allowed to nominate any supplier or buyer to be discussed in the context of the interview, but due to confidentiality issues did not have to name the party to the relationship.

Once the interviews were completed data was transcribed to allow for a detailed analysis of the emerging themes and issues. The analysis of the case studies provides a detailed description of the case and its’ setting (Creswell 1998). For the purposes of this work-in-progress paper three case studies from the overall project will be presented. The three case studies presented are chosen to cover a good cross-section of wineries types as outlined above.

Findings

Overall First Impressions

15 wineries were interviewed in-depth using a structured/semi-structured interview guide. The use of this guide not only allowed an ever-expanding interview but also allowed specific information to be collected. This information included; the length of the relationships, product type, availability of alternatives, adaptations to product, changes in supplier used and whether or not a contract was in place. These details allow us to get an overall impression of the buyers in the wine industry and their relationships with their suppliers.

Of the wineries interviewed 40% were in longer-term relationships, i.e. 5 years or more. There had been no change to the supply arrangements in that time period and the only change visible for some of them was an increase in volume purchased as a result of increasing end consumer demand. This stability is evidenced even though in all cases there were several alternative sources of supply. Interestingly, also in these cases was the fact that there was a lot of adaptation on the supplier side to customise the product for these wineries. This adaptation could be seen to be influenced by the nature of the product discussed in these cases. Products in these cases included bottles, corks and cartons, which given the nature of the industry would require some degree of customisation to suit individual winery’s needs. In the case of the wineries with these longer-term relationships a significant finding was that all of them did not have a contract with their suppliers, yet had managed to maintain the relationship. In their replies there was a distinct emphasis on the importance of maintaining good relationships with the supplier. Furthermore it was felt there was no need for a contract due to the understanding that existed.
30% of wineries were in what could be classed as medium-term relationships, in that the relationships were from 1-5 years. In the majority of these cases the product discussed was labels, which require 100% customisation. In all cases there had been a change in supplier in the last 5 years with most respondents citing quality and flexibility as the reason for change. Clearly in all cases there were several alternative sources of supply which allowed for change to happen. However, now that the relationships were established, they were considered stable and there had for the life of the existing relationship been no significant change in volume.

The final 30% of respondents were in newer relationships; these had only been in existence for one year. However, in one case it was a switch back to an old supplier after an unsuccessful switch. Most companies cited cost and inability to meet demand as the major factors influencing change in supply. Interestingly, many of these new relationships had also been forged due to location factors. Several companies moved from existing suppliers to ones who were in their wine region. These wineries talked about the importance of supporting local industry.

Having provided a brief overview of the wineries interviewed the 3 cases will now be presented. Winery A is a large family owned wine company in the Hunter Valley region of New South Wales (NSW), Winery B is a small boutique winery located in the Orange region of NSW and Winery C is an export orientated wine company located in the Riverina area of NSW.

**Winery A**

This winery is located in the Hunter Valley, NSW a major wine producing region of Australia. NSW accounted for 27% of Australian wine production in 2004 and the Hunter Valley region is the largest region in NSW. Winery A is considered a major player in the Australian wine industry and has been ranked in the Top 20 wine exporters consistently in the last few years. It has been a family owned wine making company since 1858. Four generations of wine making experience has seen them become one of the most prestigious winemakers in Australia. They have an extensive product portfolio and vine yards across South Australia (McLaren Vale, Limestone Coast and Heathcote) and New South Wales (Hunter Valley). South Australia is the top wine producing state of Australia accounting for 45.5% of total production in 2004.

Gavin (name changed to ensure anonymity), the general manager of the Hunter Valley winery who was interviewed, nominated his glass bottle supplier as the one to be discussed. The winery has multiple suppliers for several product categories but in terms of glass bottle suppliers have only one supplier. The story of how this relationship has developed is a very interesting one. For years this winery dealt exclusively with a glass bottle distributor based in Sydney, NSW, this relationship was considered a good and stable relationship and Gavin talked about the mutual beneficial nature of this relationship. It should be noted that while they had an exclusive arrangement with the glass bottle supplier, they did source ceramic bottles elsewhere. The bottle is considered a critical component in wine production with the majority of output bottled.

Supplier A (the distributor) had a catalogue of products for the winery to choose from, differing colours, sizes and shapes. While the quality was acceptable, nonetheless these were generic bottles and allowed no differentiation of the product especially in terms of the premium wines. Customisation was a possibility but was a very costly transaction. 6 years ago the wine company, as a result of increased competitive pressures, decided it had to streamline its’ business. A major cost-cutting exercise was to move away from ceramic totally and only use glass bottles. It was at this time that they also revaluated their relationship with Supplier A. Supplier A is the largest distributor of bottles in NSW and represents one of the largest bottle manufacturers in Australia. Winery A decided to cut out the middleman and go direct to the manufacturer (Supplier B). This switch resulted in significant cost reductions and improvements in quality. Another important factor was the adaptation/customisation of bottles for their premium wines. This customisation was considerably cheaper when they could talk directly to the manufacturer. Additionally the cost savings on generic bottles allows them to trade-off the cost of the customised wine bottles. At this point 10% of bottles are customised for the winery by Supplier B.

The current relationship with the Supplier B has been in place for the last six years, volumes of purchases are growing as demand increases for the wineries products. There is no contract in existence, as Gavin points out “it is a loyalty thing we don’t need a contract, we trust each other.”
Supplier B also regularly visits the winery to check on any problems in production and there is ongoing support and technical development, which Gavin feels benefits both parties.

This case clearly highlights how a seemingly stable network can change as a result of competitive and industry pressures. Supplier A lost his position in the network, a position he had held for almost 20 years when winery A went direct to the manufacturer in order to reduce their overall costs and make them more price competitive in the industry.

**Winery B**

Winery B is a small boutique winery located in the Orange region. The vineyard’s main varieties of grapes are Cabernet Sauvignon, Sauvignon Blanc, Merlot and some Riesling. Covering only four hectares, it is categorised as a small winery. It is a member of the Orange Region Vignerons Association (ORVA) and as such is a supporter of the local region and feels very committed to the area. ORVA represents 80 vineyards in the region and is a constant source of knowledge, education, encouragement and help. Its aim is to promote quality in both the vineyard and the winery. The attitude of the growers and producers is co-operation above competition. ORVA is a very valuable organisation is active in promoting the region. The Orange region is one of the smaller wine producing regions in Australia.

The interview in this case was carried out with the owner Jason (name changed to ensure anonymity). Jason nominated printed labels as the product that the interview would cover. The supplier nominated was the sole supplier of the product to the winery; there had been no change in the volume of supply and no change in supplier in over 8 years. The product is totally customised to suit the winery's needs, but that would be the case for this product type for all wineries. No contract exists with the supplier, however, Jason discussed an unwritten agreement that has developed overtime.

While a long-term stable relationship now exists between this winery and its’ supplier, it was not always a stable relationship. The relationship with this supplier is on its second time around, if an analogy was used, we would say that they were divorced and have since remarried. The initial termination over 10 years ago was as a result of technology. The label printer was using a traditional four plate printing system but because this means of printing is expensive, the small prints runs were unsustainable. Jason therefore made the decision to move to a digital printing company but that relationship was short-lived. Jason found out that his original supplier had moved with the times and was now using digital printing. Interestingly, though the switch back came about as a result of the fact that the printing company was actively supporting the local region. Jason feels this is important in this small community.  “we found out that Company X was actively supporting the region, sponsoring shows and we made the change back to them.”

The winery is as stated a small boutique winery and for this product category only has one supplier and no plans to change. They are also very conscious of the importance of relationships. Jason explains this as follows;

*The small print runs that we do means that it is just not cost effective to have more than one supplier. While I know there are arguments for having multiple suppliers to play one off the other, the relationship with the supplier is more important to me than the price. I have negotiated a price that I am happy with, and while there is another supplier who is actively trying to get some or all of our business, the few cents per label that they are going to save me is not worth the switch. What is important to me is the fact that my current supplier supports the local region and meets my expectations for timing and is flexible with my requirements. The relationship with the suppliers is what is important. The industry is competitive, and the buyer can be picky on price – if you go to a supplier and ask for it to be done at this price, they will normally oblige, but I like the ones that you can develop a relationship with and who will work closely with you. We are strong supporters of the local regions industries, and it is important to us to go with suppliers who feel the same – they support us, we support them. The relationship works both ways.*
This winery values its suppliers because of the relationship they have developed over time. They are also mindful of their place in the overall community and wine region network, and so they place much emphasis on the fact that the supplier supports the local region.

**Winery C**

Winery C is a family winery based in the Riverina area of NSW. This region is a small wine producing region but this company has one of the largest wine making facilities in Australia, sourcing its grapes from neighbouring vineyards in South Australia. This case is unique in that the majority of production is aimed at export markets. Winery C over the last few years has steadily moved up the ranking in export performance and is now ranked number 4 in an impressive list of Australian wine exporters. In addition they are the number 1 Australian wine in the highly lucrative U.S. market ([www.winetitles.com.au](http://www.winetitles.com.au)).

Trisha the procurement manager nominated her synthetic closure supplier for this interview. The relationship has been in place for five years, in the context of this product category this would have to be considered a long-term relationship. Synthetic closures also known in lay terms as plastic corks are relatively new in this industry and adoption has been slow. This slow adoption is due mainly to customer perceptions, where customers still feel wines with a plastic cork are of lower quality. However, with problems of taint in natural cork and a big push from synthetic cork manufacturers, there has been a slow uptake in the industry (Xinhua 2003; Randolph 2002; O’Brien 2002). In Australia synthetic cork now accounts for over 6% of total production.

Winery C is aware of alternative suppliers for this product, but has continued with their existing relationship for 5 years. These corks are specifically used in one brand of wine sold mainly in export markets. The supplier satisfies 100% of volume requirements for the product and has done since the relationship begun. Trisha talks about the close relationship they have with the supplier “we work closely with the company to get the best out of their product, e.g. we have worked together in refining the closure to be able to get it off the corkscrew, as this was an issue in the early days.” This cooperative technical relationship is also evidenced in customer and supplier visits to each others’ plants. Remarkably though, despite discussions of a close relationship they do have a two year contract. Trisha says it is only a formality and they do not rely on it in the everyday operations of the relationship.

The export orientation of the winery makes the quality and reliability of the closure a major issue. Trisha sees the maintenance and development of a close cooperative technical relationship with this supplier as key to the overall success of the product. The closure is a critical component of the final product and one which can have a major impact on customer satisfaction.

**Emerging Themes**

A majority of respondents were in longer-term relationships and in these cases there was evidence of stability in terms of percentage of volume purchased from their suppliers. While clearly the industry is growing and therefore volumes are increasing in a lot of cases, they continue to buy 100% from existing suppliers. There may have been an assumption that suppliers may not cope with additional volumes, but in most cases the wineries were happy with suppliers in terms of meeting their demand. Existence of the stability may have been considered improbable particularly in regard to certain product categories, where a multitude of alternative suppliers are available and aggressively vying for business. One respondent commented that “I know I could probably save a few pennies if I changed to these guys who have been chasing my business, but that is not always the issue. I have a good stable relationship with my current supplier and he may be more expensive, but I can count on him.”

As previously pointed out there was a lot of adaptation on the supplier side to customise the product for these wineries. Many respondents commented on their end products’ quality and image and how forging good relationships was crucial to maintaining their overall product quality. This adaptation was also seen to spill over into technical and developmental cooperation between the parties. One respondent stated that “we have worked together in refining the closure”. This cooperation obviously has an impact on the perceived stability of the relationship, the commitment and cooperation shown here in jointly developing a critical component make the availability of alternatives an almost mute fact.
Of the cases where there was evidence of change in recent years, the companies cited cost and inability to meet demand as the major factors influencing change in supply. Technological factors were also used to explain the need for change. A recurring factor in the initiation of new relationships was location. Many wineries changed to suppliers, who were in their local region and even with existing relationships, it was clear that they favoured local suppliers too. Again, many respondents said it was more expensive in a lot of cases to use the local suppliers and they realised they could get it cheaper elsewhere but an overriding theme was one of supporting their local wine region. A sense of community prevailed in a lot of the interviews especially with smaller wineries.

Overall, the emergent theme was one of importance of the relationships for a variety of different reasons, and almost every respondent, unprompted discussed this issue.

Conclusions

This research shows that within this industry many of the companies are conscious of the importance of their relationships with their suppliers. Relationship maintenance is seen by many as the key to success. With regard to the overall research objective, it has been difficult to conceive any definitive conclusions on whether or not time can be truly a proxy variable for stability. We have seen evidence of seemingly stable relationships from the interviewee’s point of view, but many of those have not been truly long-term in nature. It is also clear that many other factors play a large role in relationship development and stability over time, including location, product/service quality, technology, cooperativeness, adaptations and cost. It is therefore only conjecture at this point in this research project that time can be used as a proxy variable for stability.

Directions for future research

This work-progress paper has only presented one side of the dyad; future papers are in progress to showcase the case studies from the supplier side of the industry. This data has already been collected and should allow for interesting and significant comparisons. Furthermore, it is believed that to accurately explore the concept of stability and change, there is a need for longitudinal research in this area.

References


