The Effects of Previous Episodes in Business-to-Business Interaction

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Abstract

The network approach to studying business-to-business interaction acknowledges that the acts of one relational party can produce effects not only in the dyadic partner but also amongst third parties within the network. Because acts are subject to meaningful interpretation by other parties, the effects are not always as the actor expects or desires.

We use a single case study to explore this phenomenon. The focal company of our research decided to introduce a detailed contract called the Dealer Agreement. The Dealer Agreement was intended and expected to govern commercial exchange with their dealer network, to ensure positive effects on the dealer’s competitiveness and therefore success in the dealers’ served markets. Our informants in the focal company held the view that “if everything is written down, people perform better.”

The evidence we collected from the dealer network shows that this single act - introducing a document to norm and control commercial exchange with dealers – resulted in a number of outcomes, positive and negative, expected and unexpected, and in one case jeopardized the continuity of a well-established and highly valued relationship.

We find that these varied outcomes are a consequence of the contexts brought to bear on the dealers’ interpretations of the act of introducing the agreement. One dealer who responded positively had just begun in the role of dealer for our focal company, and used the newness of their relationship to contextualize the meaning of the agreement. For this party, the Dealer Agreement provided mutually understood grounds for business interaction, and was deemed as a demonstration of the focal company’s commitment to the relationship. Another group of dealers reacted negatively to the introduction of the agreement. They evaluated its introduction in the context of their well-established, long term relationships with the focal company. These informants regarded the Agreement as a betrayal of the trust they had created and maintained over many years of doing business together. These different, meaning-filled interpretations of the focal company’s act have clear consequences in the behaviours of the dyadic partner and the business network. Our research shows the importance of understanding contexts of interpretation.

Keywords: B2B relationships, business interaction, context
Introduction

Companies never work in isolation; they are, instead, commonly embedded in extended networks in which their acts potentially produce outcomes in others. Likewise, acts performed by others within the extend network may affect them.

Networks can be thought of as sets of companies interacting together, in which some might be customers and others suppliers, whether of services or goods. Some of them might be competitors whereas others may be members of the same value chain. Government and regulation institutions are to be found within networks too.

Whether directly or indirectly linked, these actors have relationships each other which result from the continuous exchange of acts amongst the network members. When an actor does something to another, it potentially reshapes their relationship but also might affect others within the extended network. The extent to which such network effects might reach is difficult to predict. Thus, it is difficult to predict the effects these acts might have on any one specific company.

Networks are composed of companies, and companies are composed of sets of people interacting. Thus, the acts of one person potentially affect others and therefore potentially reshape the company identity. Just as it is difficult to define the scope of a company's network, so it is also difficult to define a person's networks. Consequently, it can be difficult to identify those who are affected by one person's acts.

We posit that people's definitions of themselves (we call this life-script, since it is narrative-based) are the result of the effects of other's acts and the environment in which they interact. This includes people belonging to the persons' broader social life in addition to those in to their work-related network. Hence, companies are socially constructed through interaction with other companies as well as through the interaction of the people who work there. This history of interaction not only builds the company identity and its network but also gives shape to their relationships with others, conditioning the parties' interpretation of others' acts.

Literature Review

Business relationships cannot be completely explained by focusing on individual business units. Rather, they are better explained as products of a number of actors whose interaction is embedded in complex networks within which the acts of one party have consequences for their counterparts as well as for other members of their extended network.

Anderson, Håkansson, & Johanson (1994) stress that relationships develop in network contexts in which partners interact as opposed to developing in a vacuum. Turnbull, Ford, & Cunningham (1996) argue that business relationships are the result of constant interaction taking place in a context of complex networks of companies. As interactions acquire meaning with reference to the relationships in which they are performed, relationships are better understood in relation to the wider network (Håkansson and Ford 2002). Olkkonen, Tikkanen, & Alajoutsijärvi (2000) stress that the aim of the network approach is to make sense of interactions between organisations connected in complex business relationships. Håkansson and Snehota (1995b), in the same way, assert that inter-business relationships are connected to wider networks which are themselves composed of relationships. Brito (2001) argues that a network approach to the study of business relationships provides a more comprehensive understanding than the simplistic explanation of cooperation as a contractual and legal inter-corporate connection.

The network approach therefore offers various benefits, particularly to our attempts to make sense of people's acts within business-to-business relationships.
Any company is at any time related to several actors with whom it maintains different types of interactions potentially forming relationships. Progressing beyond the dyad in studying business relationships brings up the need to define the scope of the network under examination. There are a number of approaches to defining network scope. Peck, Payne, Christopher and Clark (1999) propose the model of the ‘Core Firm and its Partnerships,’ in which the company has interaction with suppliers (Supplier partnerships) and customers (Customer partnerships). The company may also have interaction with regulatory authorities, competitors and strategic alliances (External partnerships) and within the same organisation with employees, across departments or business units (Internal partnerships). Hunt and Morgan (1994) also point out the existence of four groups: Supplier partnerships, Lateral partnerships (competitors, non-profit organisations, and governments), Buyer partnerships (final consumers and intermediate customers) and Internal partnerships (functional departments, employees and business units). All these actors compose the company’s immediate network. In turn, each of these network members is a member of its own network, which, in the aggregate, comprises a core firm’s extended network. Anderson et al. (1994) describe this extended network from the perspective of a focal firm interacting with a focal party, both of whom are connected to other parties as well. These parties can be other suppliers or customers who directly or indirectly exchange with either of the focal parties.

Each conjunction of two companies forms a dyadic relationship embedded in an extended network of interconnected suppliers and customers. Accordingly, networks are formed by interconnected dyads (Kelley and Thibaut 1978). This concept implies that networks can extend endlessly, which can render the network not amenable to analysis. Campbell and Wilson (1996) regard networks as amorphous. It is arbitrary to say where a network ends or begins. Håkansson and Snehota (1995c) suggest that the boundaries of a network will always be arbitrarily defined and can change overtime. However, from a researcher’s perspective, it is necessary to define network scope in a way that is consistent with the research question or topic.

Möller and Halinen (1999) have proposed a conceptualisation that identifies four network forms offering different research perspectives: 1) Industries as Networks (Network Visioning) in which the focus is on creating valid views of the network and its potential evolution; 2) Firms in Network (Net Management) in which the focus is on the company’s capabilities to mobilise and coordinate resources and activities with other actors in the network; 3) Relationship Portfolios (Portfolio Management) in which the focus is on the company’s competence to handle and evaluate individual exchange relationships. Ford, McDowell & Tomkins (1996) analyse the effects of one party’s position at the four levels as: within the network, on the relationship portfolio, on the relationship, and in the relationship. Håkansson and Johanson (1992) define network position as the role that a company plays with reference to other companies to which it is directly or indirectly related. Network position is determined by the portfolio of relationships that a company maintains. It brings together a series of obligations and rights that result from the resources that the company contributes to the network (Turnbull et al. 1996). Ritter and Gemünden (2003) draw on these contributions to propose a framework in which they propose three levels of network analysis: 1) Management levels of analysis: what people do at different levels, individual, group, organisation, cluster; 2) Inter-organisational levels of analysis: processes at different levels, episode, dyad, portfolio, net, network; and 3) Output levels of analysis: what the inputs and processes deliver.

**Relationships as Social Constructions**

Business relationships are social constructions that result from the effects of particular acts occurring in the ongoing interaction of the parties, past experiences, the perception of the present situation and expectations of the future (Alajoutsijärvi et al. 2000; Ford et al. 1996; Håkansson and Ford 2002; Håkansson and Snehota 1995c).
Ford and McDowell (1999) suggest that actions have effects that result from the evaluation performed by participants. Some of these effects may be valued positively and others negatively. They have observed that managers behave in a particular way in a relationship, seeking to achieve specific effects. Some effects of their acts are intended and foreseen whereas others are neither foreseen, nor intended. Managers appear to be influenced by the current state of the relationship, and sometimes by the possible effects that relationship actions would have on the wider network in which the company functions. In other work, Ford et al. (1996) suggested that interaction within a relationship would be influenced by the relationship state, the previous experiences of the participants, the effects of the acts that participants in the relationship can predict, their personal beliefs and the value that participants consider relationships have on the overall business performance. However, Batonda and Perry (2003) warn about the complexity of the process that makes interaction outcomes difficult to predict.

The development of relationships is reflected in the features that such relationships acquire or develop. Håkansson and Snehota (1995a) propose that when two related actors mutually acquire meaning in their reciprocal acts and interpretations, bonds start to form. Just as the role of relationships in the evaluation and comprehension of messages in personal settings is considerable, so it is in business contexts (Duck 1976).

Actors are product of their bonds whilst their actions develop bonds. Actors transfer from other relationships norms and rules of behaviour that have been generated in past experiences and socialization. Thus their interpretations of the other’s acts are influenced by their position in the network. Ford et al. (1996) state that companies gain knowledge of methods and procedures, as well as of others’ behaviours, thus building up the broader context within which relationships occur. Individuals participate in episodes drawing on the norms and rules of behaviour that they have construed from previous experiences within the relationship and elsewhere. Håkansson and Ford (2002) suggest five factors that influence the actors’ reactions, and therefore relationship development: 1) Previous acts that have happened within the relationship, 2) Knowledge that the parties gained in other relationships, 3) Current episodes within the relationship and in other relationships the parties are involved in, 4) Expectations of the parties regarding the future, and 5) Episodes occurring in the extended network in which the parties are not directly involved. Interactions between companies are a series of acts and counteracts that affect the parties’ behaviours whilst they move towards potential interdependency. The outcome of the interaction will not depend only on the performed acts but also on the previous actions and reactions of third parties connected to the dyad (Håkansson and Snehota 1995b).

At any moment when a person is performing an act, it stands between an antecedent and consequent episode, both performed by other persons. Each person can be visualized as an organised cluster that may interpret other persons’ acts, and, from the meanings ascribed to those acts, develop feelings of obligation to perform acts of their own (Pearce 1989).

This suggests that business relationships embedded in networks develop as a result of reciprocal acts that parties figure out and coordinate not only on the basis of the current state of the dyadic relationship but also on their past experiences inside an extended network, as well as on their expectations of the future. Möller and Wilson (1995) regard coordination as the creation of control mechanisms that facilitate exchange processes. Coordination means that "conversational participants are able to enact message behaviours that make sense to each other … and that they also feel that what is occurring is within their control" (Rose 1988, p.145). It can be argued that such mechanisms will widely differ from relationship to relationship on account of the several factors that appear to operate within business relationships.

Communication

There is a connection between these views of the development of relationships and the role that communication plays in them. Duck (1976) proposed that business relationships evolve as a
result of interpersonal communication in a particular context. Olkkonen et al. (2000) argue that business networks evolve as a result of interpersonal communication within dyads.

Communication flows in cognitive and communicative processes through structures formed by collective actors. The communication processes have an effect on the features of the relationship and on the structure of the network whilst being influenced by the network structure as well as by the relationship. Anderson and Narus (1990) regard communication as the sharing of meaningful information between two firms, whether formal or informal. Alajoutsijärvi et al. (2000), drawing on the work of Key (1980), take a more broad meaning of the concept stating that communication comprises all the forms of contact, including written and verbal communication, and interaction. They also regard silence as communicative since parties can give meaning to it.

Olkkonen et al. (2000) developed a conceptual model for understanding the role of communication in business networks. They call ‘acts’ the string of interactions, which, with ‘episodes’ represent the content of exchange. The meaning of any act is created from contextual considerations relevant to the episode, actor relationships, and the immediate and extended network. Performance, bonds and atmosphere represent the outcomes of such communication. This model presents a framework that views relationships as dynamic and socially constructed, in which the meaning of exchanged communication, in its broadest sense, is given in the context of the relationship. Such meaning-filled communication promotes or inhibits the development of the relationship.

In the service marketing arena, Liljander and Strandvik (1996) follow the same conceptual trail. They propose that a relationship is composed of a number of episodes. Episodes are defined as sets of interactions, which are reliant on the participants’ judgment.

All in all, this social constructionist perspective on inter-company relationships raises the question of how previous episodes affect inter-company interaction.

Our Research

We rely on data from our three-year investigation into the dynamics of business-to-business relationships. These data illustrate the effects of previous interaction and past experiences on the parties’ meaning-filled interpretation and response, and their consequential effects on relationship features.

Methodology

We used three methods for data collection: 1) Interviews, 2) Analysis of documents, and 3) Observation.

Interviews, twenty three in-depth semi-structured interviews, of an average length of one-hour, were conducted and tape-recorded within the company, with customers and one supplier.

Analysis of Documents, public and internal documents were collected during the data gathering process. Among the public documents are those available in the company websites, printed publications and the company customers’ sales catalogues. Internal documents include a Customer Survey and the Dealer Agreement Contract.

Observation, we have observed business practices whilst waiting for interviews and during the interviews when somebody interrupted with an urgent problem. We have also visited a number of sales channels and observed whether or not the company products had a preferred location at the point of sales. We have also looked for the company’s specific advertising material and have tried to gauge if salespeople tended to favour any specific brand in their interaction with the end consumer. Notes were taken throughout this process.
**Data Management**

The records of each interview were transcribed in full. The notes from observation and pertinent parts of the reviewed documents were also word-processed. The written texts were subsequently coded with the assistance of Nvivo 2.0. Nodes were defined drawing on the most generally used taxonomy of contemporary knowledge of business relationships.

To keep the information confidential, most of it was electronically stored and password protected, including the records of the interviews. The paper-based documents are secured in a locked filing cabinet.

**Acts and Interaction**

The focal company is a large global manufacturer and supplier of imaging solutions with sizeable operations in Australia. The company’s Business Imaging Solutions division serves the market in small cities through a group of independent dealers. We analyse the relationship between the company and this group of dealers.

For many years, the relationship between the company and those dealers was conducted in an informal manner in which a hand-shake was considered enough. However, this situation radically changed with the appointment of a new Regional Dealer Manager who had been a dealer himself.

One of the first actions of the new Regional Dealer Manager was to introduce a ‘Dealer Agreement,’ a formal and very detailed document aimed to govern the relationship between the company and its dealers. The Dealer Agreement was intended to provide a context in which the business exchange between the parties could be performed. It includes details of who is responsible for what within the focal company and describes norms and procedures for ordering equipment, parts or assistance. The document also formalises specific service level agreements, the rights and obligations of the dealer and focal company, and many other matters.

The Team Leader (Dealer Sales) suggested in an interview that the relationship with dealers could be thought as a tennis match that needed rules to make it happen. Therefore the Dealer Agreement was justifiable.

“The way we operate in the world with the dealers is like a tennis match, go back and forth, sometimes we get very close to the net and sometimes not but the simple fact is that we can’t step over the net.”

**Dealers’ Reaction**

Our research with the dealer network found two completely opposite reactions to the introduction of the Dealer Agreement. To those dealers with long-term relationships with the company, the introduction of the agreement (not the contents of the document) was regarded as a problem. They could not accept its introduction. However, recently appointed dealers valued the introduction and the contents of the Dealer Agreement which denoted the company’s legitimacy and happily endorsed it. We attempt to untangle the reasons why these established and new dealers responded in such different ways.

One established dealer told us: “It was the way the dealer agreement was pushed in, gun held. That is a duel: ‘sign or you lose your deal agreement.’” The company interpreted the dealer’s response as follows: “That is a person who felt challenged; who always has been able to get what he wanted in the past.”
We construe this episode in the context of the existing relationship. From the dealer’s perspective on the relationship, the introduction of the Dealer Agreement counted as changing the rules of the game, and thus it was their right not to accept. From the focal company’s perspective, not accepting to sign the Dealer Agreement counted as not working in partnership and thus it was legitimate to make it mandatory.

The act of making the Agreement mandatory was construed by the dealer as dismissing all the established value in the relationship. This interpretation was contextualised by the dealer’s construal of its historical role within the relationship - a trust-based relationship where the rights and obligations of the parties were established in interaction over several years.

Our analysis suggests that the dealer had developed a Life-Script to which the Dealer Agreement presented a challenge. Life-script is a person’s conception of self-in-social-interaction which is developed across a range of episodes and relationships over time (Pearce 1989). Life-Script is constructed through participation in several relationships, which are themselves composed of episodes and interactions.

Within the business perspective, Life-Script can be thought of as a level of interpretive context that defines the individual’s beliefs about their role in the organisation and how they act, which may or may not be consistent with the actor’s Life-Script beyond the business context. Life-Script provides a context for interpreting and providing a basis for response to the acts of others.

The act of making the Dealer Agreement mandatory challenged the dealer’s construal of his Life-Script as it had been historically enacted. The dealer felt he had a relationship with the focal company, but that relationship had been based on trust developed over time rather than a document. Now the introduction of the Dealer Agreement was interpreted by the dealer to mean that there had been no relationship in the past. This put the dealer into paradox.
Using the notation of Brown (1972) and Varela (1975) we illustrate in figure 1 the paradox in which the dealer found himself, because of the focal company’s decision to enforce approval of the Dealer Agreement.

The consequence of the Agreement’s introduction was the creation of a ‘strange loop’ (Cronen et al. 1982) the dealers were immersed in. How can be explained the dealer’s action? Two exclusively disjunctive rules of action could guide the dealer’s action. On the one hand, the dealer, consistent with an interpretation at the Relationship level of context, was obliged to sign the Agreement as it would demonstrate a commitment to continue to do business with the focal company. On the other hand, consistent with an interpretation at the Life-Script level of context, the dealer was obligated not to sign the Agreement, because that would mean that he was suggesting that the trust that had developed over many years of commercial exchange, and which was a critical component of the dealer’s Life-Script was worthless.

This paradox created an inertia that lasted for about 15 months. Finally, the focal company was able to enforce the Agreement with all dealers but one.

**Consequences to the relationship**

The introduction of the Dealer Agreement ruffled relationships with the established dealers at the time of its introduction. The Agreement was intended to be an instrument that underpinned the commercial relationship between the company and its dealers, particularly those who were appointed after the Agreement had been developed. Nevertheless, for established dealers the introduction of the Agreement was an experience that radically changed the features of the relationships that they had with the focal company.

Our research data, which provides the selected verbatim comments below, shows that a number of features of the relationship changed with the introduction of the Dealer Agreement; not all for better.

Trust Competence (Ganesan 1994), appears to have improved: “The dealers that we deal with everyday know that if I spoke to Mary today it will be here tomorrow.” However, Trust Benevolence (Geyskens et al. 1996), diminished: “It is very difficult to trust someone that is saying that that is going to happen when they are saying to you to sign while holding a gun on the other hand.” As the objective of the Dealer Agreement was to establish a structure, it was considered an Instrumental Input that progressed to form a Structural Bond (Möller and Wilson 1995): “We have the dealer manual that put a structure in the place, these are the rules, we make it very close.” However, there was also a deterioration in Social Bonds (Holmlund and Törnroos 1997), “He would definitely understand dealers better but I have no hesitation that he [the Regional Dealer Manager] works for the company in understanding that he is ‘the company first.’” Social Distance increased: “Then [the Regional Dealer Manager] and I had a fall out because I said to him it is your way or the highway.” Cultural Distance (Ford 1980) also increased: “Everything was on your word, everything was just on handshake and suddenly we had to sign things, we had to this, to do that.”

All in all, established dealers felt that the value of their existing relationships with the focal company had been ignored by the company at the time of the introduction of the Agreement: “I also felt that all the years and all the millions of dollars we’ve given, didn’t matter one bit.” So significant was this feeling for one dealer that four years later, he appeared not to have overcome the effects of this episode: “There will always be in the back of my head because I had 12 months of horror, I had meetings with solicitors, I had meetings with the company, it was horror.”
Conclusion

This case study works well in illustrating that the interpreted interaction between companies provides the impetus for change in relationship features. Interpretations of another party's acts are always contextualized. Contexts do not always present in 'charmed loops' (Cronen et al 1982) where the subsequent response is the same no matter what level of context is brought to bear. We have illustrated a 'strange loop' (paradox) in which deontic obligations are in conflict because a single act – the introduction of a Dealer Agreement – is amenable to different interpretation at two levels of context. A long-term relationship, built thorough exchanging acts over time, conditioned the dealer's response to the focal company's act, and created the context for the paradox. Our research shows that this can happen even in cases in which the relationship could be reasonably classified as Customer Partnership (Peck et al. 1999). The dealers' reactions suggest that different network positions were occupied by the two different types of dealers, established and new. Even though their role in the supply chain could be deemed as identical, it appears as if the parties' obligations and rights (Turnbull et al. 1996), were different.

Consistent with Ford et al. (1996) interaction proves to be highly influenced by previous experiences of the parties, providing the Relationship level of interpretive context, as well as the actor's Life-Script.

References


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