Navigating in Business Relationships:

Distinguishing Relationship Value, Relationship Quality, and Relationship Structure

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WIP Paper

Abstract

The inherent complexities of business relationships pose a major challenge for firms that try to navigate their business relationships. A central element of this challenge is to gain an overview how value creation and relationship structure connect with relationship quality and how these relate to strategic and managerial action. Many dimensions have been suggested to define what a relationship is and how relationships may differ. This paper structures the existing literature and suggest five key relationship constructs: relationship strategy, relationship management, relationship structure, relationship value, and relationship quality. For each construct, the dimensions and their content are defined leading to the development of a relationship dashboard. In addition, the paper discusses the interplay between the five key relationship constructs.

Keywords: Business relationship, relationship value, relationship quality, relationship structure
INTRODUCTION

Many different aspects of business relationships and business networks have been studied over the past decades (e.g. Håkansson, 1982; Axelsson & Easton, 1992; Håkansson & Snehota, 1995; Ford et al., 2003; Andersen, Narus & Narayandas, 2009). Many of these studies have focused on a range of structural as well as attitudinal elements without explicitly noting the fundamental differences between the two types. In addition to the structural and attitudinal dimensions of business relationships, value creation in a business relationship constitutes a key construct in the analysis of business relationships as it is the fundamental reason for a relationship to exist (Grönroos, 1997; Wilson, 1995).

In order to analyze a business relationship, which is a relevant and frequent managerial and academic issue, the distinctive constructs of a business relationship need to be defined in order to guide the analysis. As such, the model developed in this paper will be at the individual relationship level; the dyadic level (Möller & Halinen, 1999). The model developed in this paper makes three contributions:

1. Relationship structure is introduced and defined based on earlier contributions. By that, various elements of a business relationship are brought under a suitable umbrella structuring the argumentation and relationship analysis activities.

2. Relationship quality is positioned as the attitudinal outcome measure of a relationship which is based on relationship structure and relationship value assessments.

3. A framework for relationship analysis is developed which offers guidance for research and managerial practice.

The paper is organized as follows: We will shortly review the relationship value literature, followed by the relationship quality literature. We then develop the dimensions of relationship structure. Finally, we discuss managerial implications and conclusions.

RELATIONSHIP VALUE

The raison d’être of any business relationship is to provide value. Several authors have theorized about relationship value (e.g., Grönroos, 1997; Ravald & Grönroos, 1996; Wilson, 1995; Wilson & Jantrainia, 1994; for a review, see Lindgreen & Wynstra, 2005). Baxter (2009, p. 22) points out that the term “has quite different meanings”. One main difference lies in the level of analysis on which product value (focus on the exchange object) and relationship value (holistic focus on interaction) can be distinguished (Lindgreen & Wynstra, 2005). Anderson, Jain, and Chintagunta (1992) define value in business markets as “the worth in monetary terms of the economic, technical, service and social benefits a customer receives in exchange for the price it pays for the market offering”. Relationship value is separate and distinct from product value – the former includes the additional benefits and sacrifices arising from the interaction between customers and suppliers that are beyond product-related issues.

Recently, the argumentation of value creation in relationships has changed towards an understanding of relationships as mechanisms for exchanging “value creation potential” (e.g.
Grönroos, 2011). The notion is that only the actor itself can create value but that the value creation process is enabled by resources exchanged with suppliers. From that perspective, all firms are value potential providers, also seen as “service providers” (Vargo & Lusch, 2004).

Suppliers can contribute to customers’ value creation processes in different ways. Ritter and Walter (2012) define eight relationship functions with which an actor may contribute to another actor’s value creation (figure 1). The eight functions are divided into two groups, where one group of functions is related to operations and the other group to change (Walter, Ritter and Gemünden, 2001; Walter et al., 2003; for alternative conceptualizations of relationship value, see e.g. Ulaga & Eggert, 2006b; for a review, see Lindgreen & Wynstra, 2004).

RELATIONSHIP QUALITY

Relationship quality is a term regularly used for describing a business relationship (Ulaga and Eggert, 2006a). Hereby, relationship quality is typically composed of satisfaction, trust and commitment (e.g. Crosby et al., 1990; Dorsch et al., 1998; Naude and Buttle, 2000; Ulaga and Eggert, 2006b; Walter et al., 2003).

Satisfaction

Customer satisfaction has been discussed extensively (Anderson and Sullivan, 1993; Churchill and Surprenant, 1982; Fornell et al., 1996; Tse and Wilton, 1988). Anderson and Narus (1984, p. 66) define satisfaction as “a positive affective state resulting from the appraisal of all aspects a firm’s working relationship with another firm”. In market research there is a tendency towards a cumulative view of satisfaction, measuring the general level of satisfaction based on all experiences with the firm (Garbarino and Johnson, 1999). Beyond the overall measure, typical subdimensions of satisfaction are illustrated in figure 2.
Trust


Commitment

Commitment has been acknowledged in the relationship marketing literature as an important facet of any long-term business relationship (Anderson and Weitz, 1992; Gundlach, Achrol and Mentzer, 1995; Morgan and Hunt, 1994). The discussion of commitment has a long tradition (Wind, 1970). Generally, commitment is described as a kind of lasting intention to build and maintain a long-term relationship (Dwyer, Schurr and Oh, 1987; Moorman, Zaltman and Despandé, 1992). “Commitment to the relationship entails a desire to develop a stable relationship, a willingness to make short-time sacrifices to maintain the relationship, and a confidence in the stability of the relationship” (Anderson and Weitz, 1992, p. 19). “The essence of commitment [...] is stability and sacrifice” (Morgan and Hunt, 1994). In other words, commitment indicates that a customer’s trade-off between the short-term sacrifices and the long term benefits turned towards a preference for the long-term development. The expected advantages of the long-term relationship justify short-term sacrifices. The behavioral measurement of this facet of loyalty is “making short-term sacrifices”.

Although this conceptualization of relationship quality is widely accepted, useful and also adopted here, it is not without problems. The main concern about this three-dimensional operationalization of relationship quality is that the dimensions influence each other, e.g. the impact of trust on commitment (Morgan and Hunt, 1994).

RELATIONSHIP STRUCTURE

In addition to the value creation potential and the overall relationship quality assessment, a business relationship is defined by various structural elements. If we are to understand business relationships and manage them, we need a fundamental understanding of what such a relationship consists of. However, this seemingly simple question of “what is a business relationship?” is difficult to answer. Our review of the extent literature reveals four different dimensions of relationship structure: criticality, distance, interface, and climate.

Criticality
Criticality of relationships is the degree to which a given business relationship has an impact on a firm’s success, to which degree the firm depends on that relationship. Criticality has an internal and an external dimension. The internal dimension is the degree to which the firm depends on a given input regardless of the supplier. The external dimension is the degree to which a given supplier is replaceable. The external dimension has been labelled “dependence” or “availability of alternatives”.

Distance

The resources of the seller and the buyer which are tied together through a relationship are subject to different types of distances (Ford, 1980):

- Geographical distance refers to the “physical distance between the two companies’ locations” (Ford, 1980 p. 343). This type of distance has an impact on the costs and inconveniences of communication (e.g. time zone differences) as well as logistical costs of transferring resources between the parties. While each firm as their postal address as a resource (sometimes referred to as “location advantage”) and can manage this unilaterally by establishing itself, the relational characteristic is the difference between the two geographical positions, i.e. the geographical distance.

- Cultural distance, also called psychic distance, is defined as “the degree to which the norms, values or working methods between two companies differ because of their separate national characteristics” (Ford, 1980 p. 343). Given globalization and internationalization of firms, the increasing movement of employees across national (cultural) boundaries, a long track record of research in organizational culture, and our interest in business relationships, we redefine cultural distance as the degree to which the two firms differ in their norms, values and ways of working. As such, we replace a national view with an organizational view. Organizations have corporate values and beliefs, policies and strategies (Webster and Wind, 1972) which drive their working behavior and their decisions. While firms can decide about their values etc., the relationship is characterized by the compatibility of the organizational cultures, i.e. the cultural distance.

- Technological distance describes the “differences between the two companies’ product and process technologies” (Ford, 1980 p. 343). Hereby, a low distance indicates ease of integration and a large distance would indicate challenges and costs in tying the resources together. Again, it is the individual firm’s domain to decide on their technologies while the relationship is influenced by the relative difference of the resources.

- We refer to timing distance as the difference between the two organizations’ business cycle, i.e. their planning and delivery horizons. Different firms and different industries have different planning horizons. While retailers may change product preferences rapidly based on consumer responses (e.g. changing from red wine to white wine), the growers cannot change that fast because their planning rhythm is in years, not months. This understanding of timing difference is slightly different from an understanding of time difference as time gaps in the exchange process (e.g. time between ordering and receiving a product (see e.g. Ford, 1980)). Beyond natural restrictions (as in the wine example), firms can choose their planning cycles. Some have yearly processes, others prefer five year cycles. Likewise, firms can invest in production equipment to enable shorter cycles. For a relationship, the difference between the cycles is a key criterion.
Interface

The third dimension of relationship structure is the interface between the two actors, i.e. the interaction pattern between individuals from both firms. The interactions between the two organizations constitute an anchoring of the relationship within the two respective organizations. Even though we talk about business relationships, business relationships are not carried out by businesses or by organizations but by people employed at these institutions. In each organization, human resources are allocated to a given relationship (Campbell and Cunningham, 1985). These human resources can be described by their overall number (e.g. as full-time equivalents), by their hierarchical and functional position (i.e. their position in the organization chart) and their qualifications, backgrounds, personality, and the like.

As more people are involved on either side of the business relationship complexity increases and it is not simply a matter of reducing the importance of the single individual. Different people will typically be responsible for different aspects of the business relationships and this means that interpersonal relationships within the two organizations will come into play as well. People will have different roles and responsibilities in their organisations which will influence the way they view a given relationship. A relationship may be viewed as very positive and actively supported by, say, a purchasing assistant if the supplier is easy to deal with and provide the expected discounts. That same relationship could be viewed very differently by a production manager if the products delivered cause problems in the production line.

Also the different responsibilities of people may cause them to view relationships differently. A purchasing manager’s responsibility and level of authority is different from a purchasing assistant’s and they are therefore likely to value different aspects of a business relationship differently.

Business relationships are likely to comprise a variety of people with different perceptions and therefore the relationship will contain promoters and opponents of various degrees (Walter & Gemünden, 2000). At the same time those promoters and opponents will hold different importance for the relationship because their roles and responsibilities are different. So to understand the relationship we need to understand the constellation of roles of different people, their influence or potential influence on the relationship, which may be connected to organizational position, and the degree to which those people are promoters or opponents of the relationship.

Also related to the interface dimension is the interaction frequency and pattern. How often do interactions take place? Relationships may have different level of interaction at different points in time exhibiting different patterns.

Overall, the interface can be described by position (hierarchy and function of involved people), frequency (of interaction), and attitude towards relationship.

Climate
The relationship climate dimension describes the nature of the interactions between the two actors. Relationships can be more or less confrontational, adversarial and arm’s-length or cooperative (Day, 2000; Wilson, 1995). This has led to conceptualizations of interaction modes (Campbell, 1985) and governance modes (Heide, 1994), hereby distinguishing between hierarchical modes (based on power and dependence), partnership modes (based on joint collaboration), and arm’s length modes (based on short-term interests). Wilkinson & Young (1994) describe how elements of cooperation and competition form the basis of “business dancing”. At any given point in time the actors in a relationship will simultaneously compete with each other for control and resources, and cooperate to achieve better solutions – win/win situations. Thus four different types of relationship climate can be identified: high cooperation/high competition, high cooperation/low competition, low cooperation/high competition, low cooperation/low competition.

Relationships may display different levels of conflict depending on how congruent the actors’ goals are. Likewise, different degrees of uncertainty and ambiguity (Geersbro & Ritter, 2010) have an impact on the climate in the relationship.

THE RELATIONSHIP DASHBOARD

Relationship quality, relationship value, and relationship structure are essential concepts of any business relationship. In order to manage business relationships, relationship analysis of these three constructs is a necessary basis for the development of relationship strategies, i.e. the intentional change programs of/for relationships. Based on a strategy understood as a plan (Mintzberg, 1987), relationship management comprises the actions taken to either maintain the relationship in its current stage or to introduce change. In order to measure the impact of relationship management, a new relationship analysis and the evaluations of gaps between the analysis at a previous point in time and the current analysis is needed. As such, the framework developed here is a tool for understanding, monitoring, and coping with the complexities of business networks (figure 3).

Insert figure 3 about here

With the described conceptualization, a relationship dashboard can be developed supporting relationship analysis (figure 4). Hereby, we acknowledge the fact that a relationship is a dyad, and as such, all constructs are seen from two perspectives, the seller’s and the buyer’s, at the overall relationship level.
The relationship dashboard offers a tool for managers to structure their relationship analysis and their relationship strategizing. The tool ensures that no aspect is overlooked and sufficient data is collected for understanding the relationship. Likewise, the tool illustrates the two perspectives on the relationship.

As described under relationship interface, there are normally various people involved in business relationships within one organization. The tool may also serve as a discussion device to guide internal discussions of customers as different perspectives may exist. Collating different opinions, interpretations and perspectives in a structured way enabled by the relationship dashboard is a critical task in order to understand and make sense of business relationships.

In terms of relationship strategy development, the relationship dashboard allows pinpointing appropriate strategies: if external criticality is perceived as too high, search and development of alternative suppliers is an option; if the interface is too tight and thus too expensive, increased use of digital communication might be advisable, if specific value functions are underdeveloped, they can be explored and developed.

This structured approach makes it possible to trace relationships over time and enables the analysis of dynamic elements in relationships, e.g. descriptions of relationship development (Ford, 1980; Dwyer, Schur & Oh, 1987) and relationship dynamics (Håkansson & Henders, 1995; Naudé & Turnbull, 1998).

CONCLUSIONS

This paper offers an understanding of five fundamental constructs of business relationships, with particular focus on relationship value, relationship quality and relationship structure. It offers a tool for understanding and analyzing the interplay of the three dimensions. By providing a framework, this paper contributes to an understanding and a way of analyzing the fundamental characteristic and building blocks of business relationships and networks: the structure, process, and value creation in relationships. As such the paper offers a starting point for further research into this area.
References


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Figure 1: Radar chart for relationship value estimation (Ritter & Walter, 2012)
Figure 2: Dimensions of satisfaction (adapted from Sharma et al., 1999)
Figure 3: Overview and connections of relationship constructs
Figure 4: Relationship dashboard