WHY DO SOME COMPANIES NOT ENGAGE IN PARTNERING RELATIONSHIPS?

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ABSTRACT

Interfirm marketing relationships are becoming increasingly popular. Marketers are interested in retaining profitable customers and to some extent in involving these customers into the company's design, development, sales and marketing processes so as to facilitate their future marketing efforts. Also the purchasing literature advocates the positive effect from the formation of close relationships with selected suppliers. Although the literature demonstrates positive effects for both suppliers and buyers by engaging in close relationships, partnerships or similar arrangements, academics are now beginning to question if relationships always bring benefits to the relational parties. Furthermore, practitioners also report reluctance from their customers and suppliers in engaging in partnering relationships. Since they invest considerable resources towards establishing, managing and governing partnering relationships with customers and other alliance partners, it is worthwhile questioning why some companies do not want to engage in such arrangements. We conducted a
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qualitative study among five industrial suppliers in various industries and two selected customers of each supplier, either engaged in partnering relationships or customers with whom the suppliers wanted to partner. The study revealed seven factors explaining why companies either would resist or not engage in partnering relationships. The factors were fear of dependency, supply of standardized products and services, lack of added value beyond market-based buyer seller relationships, lack of innovation and reinforcement, lack of strategic fit between the exchange parties, lack of relationalism in company policy, and pace of technological change within the industry. Even if some of the factors may be interrelated, they can be attributed to qualities with the relationship itself, specific characteristics of the core product or service exchanged, perceived outcomes of a relationship, characteristics of the exchange parties, company policy, and industry-specific factors outside the relationship.

INTRODUCTION

Interfirm marketing relationships are becoming increasingly popular. Marketers are interested in retaining profitable customers and to some extent in involving these customers into the company’s design, development, sales and marketing processes so as to facilitate their future marketing efforts (McKenna 1991; Morgan and Hunt 1994; Sheth and Parvatiyar 1995). Studies demonstrating the positive effect of loyal customers and relationship-oriented marketing strategies on companies’ revenues and profitability are emerging (Anderson, Fornell, and Lehmann 1994; Kalwani and Narayandas 1995; Rust and Zahorik 1993). Similarly, the literature on purchasing advocates the positive effect from the formation of close relationships with selected suppliers (e.g., Asmus and Griffin 1993; Noordewier, John, and Nevin 1990). Over the last decade, there has been growing evidence that to be competitive, manufacturing firms have been moving away from a traditional approach of adversarial relationships with a multitude of suppliers to one of forging longer term relationships with a few
selected suppliers (e.g. O’Neal 1989; Spekman, 1988).

In the context of partnering relationships, success depends on the performance of both parties involved in the relationship, as they each bring complementary skills and resources into the partnering process. In other words, the success of partnering strategies for the seller is highly dependent on the customers’ willingness to engage in a partnership, and vice versa. Although the literature demonstrates positive effects for both suppliers and buyers from engaging in close relationships, partnerships or similar arrangements, academics are now beginning to question if relationships always bring benefits to the relational parties (Hakansson and Snehota 1995). Furthermore, practitioners also report reluctance on the part of customers and suppliers to engage in partnering relationships.

Since companies invest considerable resources in establishing, managing and governing partnering relationships with customers and other alliance partners (Anderson and Weitz 1989; Heide 1994), it is worthwhile questioning why some companies do not want to engage in such arrangements. Hakansson and Snehota (1995) have addressed some burdens of relationships. However, questions still remain. We conducted a qualitative study among a selection of large and important business customers to investigate the following questions: What were the main motivations for not engaging in close relationships with their suppliers? How do characteristics of the supplier cause reluctance to engage in a close relationship? How do organizational factors, like policy of the buyer, influence the willingness to engage in relationships? What are the influences of factors outside the relationship, like technological change, attractiveness of alternatives, or type of industry? The purposes of this paper are to report the essence of our findings, to explain why some companies do not engage in partnering relationships, and to offer propositions for further research.
METHOD

Academic research on interfirm marketing relationships has increased substantially in scope and amount, and diverse concepts have been used to describe these arrangements. The diversity has not only created confusion about the meaning of the concepts, but also created problems in finding comparable studies on any given subject of analysis. Both the terms and the forms of business alliances are often loosely defined, and newer forms do not always fit neatly into the traditional classification schemes.

Several marketing scholars have discussed a continuum of working relationships along which industries fall (e.g. Anderson and Narus 1991; Jackson 1985; Webster 1992). On one end you have the purely transactional relationships, where the customer and the supplier focus upon the timely exchange of basic products for highly competitive prices. At the other end are collaborative relationships, or partnerships. The arrangements we describe in this study are interfirm marketing relationships. They are formal arrangements formed between non-competitors, are operative in intent and co-operative in nature. More specifically, they are arrangements formed between industrial buyers and suppliers in order to achieve efficiency and revenue enhancement.

Field Interviews

The purpose of the study is theory construction. As such, it was important to tap a wide range of experiences and perspectives in the course of the data collection. We thus introduced a grounded approach to why business customers do not want to engage in partnering relationships. The field research consisted of in-depth interviews with leading Norwegian suppliers in five different industries and with two of each of the supplier’s most important customers, a total of 15 interviews. In order to avoid industry-specific biases, we selected suppliers from various
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industries, both products and services. The industries represented were information technology (PCs, networks, programs, and consulting services), industrial gases, corrugated cardboard packaging, management consultants, and commercial banking. Two or three representatives from each supplier were interviewed who held positions as general manager, marketing director, marketing manager, sales director, or key account manager. The industries represented by the customers were wood processing, food processing, ship yard and producer of off-shore drilling equipment, wholesale and retail distribution, machine equipment importer and wholesaler, car retailer, selling both to industrial customers, private end users, and through distributors. Two or three representatives were interviewed from each customer who held positions as managing director/director/project manager, financial director, director of human resources, IT manager, purchasing manager, production manager, construction manager, maintenance manager, or distribution manager.

Each interview typically lasted about two hours and was audiotaped unless the informants requested otherwise. The interviews followed a guideline that was presented to the informants beforehand. After a brief description of the research project, the informants were encouraged to speak freely along the topics of the interview guidelines. Although the guidelines provided a structure for each interview, it was sometimes necessary to explain and clarify some of the questions, as well as to probe deeper with additional questions to elicit examples, illustrations, and other insights.

Each interview was fully transcribed from the tape, and was subjected to content analysis using computer-aided processes (Weber 1985) rather than a manual method.

RESEARCH PROPOSITIONS

In the following, we discuss each of the seven factors, explaining why companies would resist or not engage in partnering relationships. We further develop propositions based on the
Fear of Dependency

Fundamental characteristics of close business relationships are cooperation, as opposed to competition and conflict, and interdependence of choice among marketing actors (Hakansson and Snehota 1995; Sheth and Parvatiyar 1995; Webster 1992). The representatives interviewed expressed this by stating that:

"A relationship is to find solutions together.", and

"A relationship is to draw upon each other."

Cooperation implies that one has to rely on the other party in order to complete the tasks within a relationship. It is impossible for companies to cooperate without giving up some of their own independence, which could be uncomfortable and even threatening to the parties involved. The following quotations illustrate this:

"In a relationship, there is an increased participation in the other party's activities."

"A relationship 'intervenes' in the sovereignty of each party."

This fear of dependence was explained to be driven by: (1) A lack of flexibility in choice of suppliers. Being dependent on a few selected suppliers introduces a large element of uncertainty. First of all, in cases such as strikes or fire, most companies would get into serious problems after only a short period of time. Secondly, in industries with continuously changing technology, being dependent on one supplier could make the customer stuck with yesterday's technology. In both cases, customers preferred an arm's length relationship with their suppliers, or would rather use several suppliers in order to be able to switch between the ones that were able to deliver or were in the technological forefront.

(2) A fear of opportunism from the supplier. Opportunism from the supplier can be manifested in different ways. First, once the buyer has established a relationship with the supplier,
the supplier can be tempted to charge “monopoly” prices or take other unilateral advantages of the relationship. Another is lack of development from the supplier side, taking the relationship for granted. (3) A loss of both personal and organizational control. First, when a purchasing agent regards his or her position and working routines as threatened by dealing with one supplier instead of having the power and control from dealing with several competing suppliers, he or she can get the feeling of having lost personal control. By loss of organizational control the respondents referred to having to rely on the supplier on strategic issues. The objective of having the competence and in house control over strategic issues is illustrated by the following quotation from a manager:

“Our objective is to have the overview and the knowledge about every solution that is in operation in the corporation. We do not feel comfortable being totally dependent on external [suppliers]. Then we get the feeling of losing ground. If we were to be responsible for solutions we did not know, we would feel like being in the wilderness.”

The effect of fear of dependence on willingness to engage in a partnering relationship can be summarized in the following proposition:

P1: Companies will resist engaging in partnering relationships when they fear unilateral dependence on the other party due to
a) Lack of flexibility in choosing parties to do business with,
b) Fear of opportunistic behavior of the other party,
c) Loss of control, either personal or organizational.

Standard Products or Services - Commodities

Establishing and maintaining cooperative relationships demands resources from both relational parties (Hakansson and Snehota 1995). Companies are therefore critical of whom they partner. If only commodities are purchased or the supplier can offer nothing more than standard products or services with
little adaptations, at a list price; if there are several alternative suppliers that can offer similar product or service; and if there are no specific investments related to the applications of the product or service, the customer representatives said they used the market or arm’s length supplier-buyer agreements. The following quotation illustrates this;

“If we are talking about a pure commodity which is internationally defined, then there is no incentive to build a partnership with your supplier. When it comes to packing [however], we cannot jump from one supplier one day to another the next. A major difference from commodities is the investments you make, both in physical equipment such as cylinders, and the time you spend with your supplier in order to meet all your requirements. When you do not buy standard products it is necessary to link more closely with one supplier in order to secure the quality you want. In so doing, you also make a choice of partner for a longer period of time.”

These findings can be summarized in the proposition as follows:

**P2:** Companies will not engage in a partnering relationship if the other company can only offer standard products or services.

**Lack of Added Value**

In line with the argument above, the main reason for forming a partnering relationship is that the parties expect to obtain something ‘more’ than they can obtain by an arm’s length buyer-supplier relationship. This ‘more’, or added value, can broadly be categorized into cost reductions, increased sales and development of a competitive advantage, and non-economic added value.

**Cost Reductions**

Cost reductions within a partnering relationship relate to: (1) Reduced transaction costs due to fewer suppliers. This includes
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less time spent on negotiations, coordination, control and inspections, as well as reduced probabilities for misunderstandings when having the same information distributed to several suppliers. (2) reduced unit costs due to coordinated planning, learning, and economy of scale. Reduced unit costs can also be a consequence of increased sales volume when customers decide to concentrate their supplies, having only one or two suppliers. (3) reduced costs of operation due to reduced stop in production. Evaluations and negotiations with new suppliers could cause stops in production causing huge loss. Furthermore, quality differences in materials from different suppliers may cause stops in production, even when the specifications are the same. Therefore, it is often more safe to concentrate the supply from one supplier.

Increased Sales and Development of a Competitive Advantage

Increased sales within a relationship are often a result of cross-sales. By demonstrating a good job in one part/department of the customer's company, the chances of positive word-of-mouth and spillover effects to other departments increase. In addition to this, a cooperative relationship can also result in new products or services being developed, improving the competitive position of both the customer and the supplier. An example of the latter came from one of the customers of the supplier of industrial gases. In cooperation with this customer, the supplier developed a special gas (which was later named after the same customer) which contributed to both improvement in productivity (improved process and cheaper components/materials), as well as benefits in the distribution of fresh meat to the retailers (due to longer durability of the finished products). Thus, the customer gained an advantage over competing meat processors, while the supplier was able to lock out competitors through the development of the tailor-made gas. In addition to this, the outlets distributing the products (the customers' customers) also improved their position vis-à-vis other retailers.
Non-Economic Added Value

Non-economic value derived from partnering relationships can be: (1) Access to a specific competence or a specific product or service. For example direct access to the supplier's research and development department and to persons with special knowledge. (2) Development of competence in cooperation between the parties. Customer and supplier develop competence that benefits both. (3) improvement of the company's reputation. Working with a reputable partner is perceived to improve the reputation of both the customer and the supplier. (4) Social value/reward. Working with a nice customer/supplier enhances the relationship. The personal relationships developed through social events might be stronger than the personal relationships obtained by formalized contacts. Personal bonds (the right 'chemistry') might for example stimulate creativity in the relationship.

The informants believed, however, that not every relationship is likely to achieve one or more of the above-mentioned objectives. The reasons mentioned for not achieving value adding beyond what you would expect from an arm's length buyer-supplier relationship were partly related to the product or service provided, and partly due to the ability and motivation of the parties. Whatever the reason, when the companies do not believe that value-adding effects will be gained, they will not engage in a partnering relationship, or they will disengage from a relationship that no longer produces added value. This can be summarized as follows:

P3: Companies will not engage in partnering relationships if they do not perceive that the relationship will produce added value, economic or non-economic, beyond marked based buyer-supplier exchanges.
Lack of Innovation and Reinforcement

One important reason for customers to form partnering relationships with their supplier was that the customers expected to take part in technological developments within the industry of the suppliers. Similar points of view were presented by the suppliers. New technological solutions can provide advantages for both the customer and supplier. Thus, technological innovations and improvements are main sources for reinforcement of a relationship, and this reinforcement is again perceived to be an import reason for continuing the relationship.

Improvements should be done continuously and systematically. If the relational party, supplier or customer, is not perceived to be able to innovate and develop technologically, it is less likely that it will be preferred as a cooperative partner. Furthermore, customers reported that when their suppliers, even partnership suppliers, ceased to improve and develop technologically, the relationship turned into an ordinary buyer-seller arrangement, and they would often start looking for new relational partners. We summarize these findings as follows:

P4: When a relationship is not perceived to include innovations and reinforcements, companies will not engage in them.

Lack of Strategic Fit

The companies realize that partnering is demanding on resources, and that you cannot form partnerships with everyone. Therefore, they have to be extremely selective in their choice of partner. In general the partner must have both the skills (abilities) and motivation to collaborate, as well as the technological competence needed to realize the purpose of the partnering relationship. The choice of a relational partner usually starts with each company defining their own goals and how they expect the partnership to fulfill them. They then
search for a matching partner to fit into the strategy. Looking at a potential partner from the supplier side, the suppliers reported some general requirements. It should be:

- **Large**, because, as stated "...we do not believe that we can offer the services and products that we want to a customer that cannot afford to pay for them...We should rather capture the upper level of the market,... because then we can add value adding services and other things that develop the relationship."
- **Demanding**, because demanding customers contribute to the development of both the supplier and the relationship.
- "**The client of tomorrow**, because such a customer is open to new solutions. Furthermore, the client of tomorrow is the one that stays and prospers in business and makes the supplier more competitive.
- **Well organized**, because a well-organized customer saves a lot of trouble and costs.
- **Relational oriented**, because if the customer does not have relationships as their philosophy of supply management, investments in the relationship from the supplier side as well as value adding activities will be wasted.
- **Nice**, because "...all other things equal, a good customer is a customer that is nice to visit, and a customer where you as a salesperson feel welcome."

The customers presented similar criteria with respect to suppliers with whom they would want to develop partnering relationships. A partnering supplier should be:

- **Reliable with regards to deliveries, quality, and fulfillment of agreements, as well as competitive with respect to price, quality, and terms of delivery.** "These are the basic requirements to a supplier. If these requirements are not met, the supplier can forget about partnering, value adding services, and relationship development."
- **Important**, because customers will not put resources into and engage in close relationships with unimportant
suppliers.

• Competent, both within their industry area and the customers' industries. “It is beyond doubt that our strategic suppliers must be in the forefront technologically, and know our industry as well as the requirements of our customers [customer's customers] at least as well as we do, preferably better.”

• Well known and have a good reputation, because, as was stated from a customer: “Having this bank's logo on our letterhead strengthens our own corporate image and makes us a more respected company.”

• Large, because the supplier must have the size and capacity to give priority to their partnership customers.

• Relational oriented, because also the supplier must have the basic understanding and philosophy of what is expected from the supplier in a partnering relationship.

As we can see, both from the perspective of the buyer and the supplier, a potential partner must demonstrate both the abilities (skills) and the motivation to cooperate in a relationship. These results can be summarized as:

P5: Companies will not engage in partnering relationships with companies that do not display abilities and motivation to fulfill the objectives of the cooperative relationship. Usually, relational parties are expected to be

a) Competitive and reliable with regards to basic products, services, prices, and deliveries
b) Large, important, and well-known and reputable
c) Competent within their own field and knowledgeable of their partner's industry
d) Demanding
e) Relational oriented
Lack of Relationalism

Lack of relationalism was commented on in the section above. However, the results from our interviews suggest that this should be treated as a separate factor. Lack of relationalism could partly be explained by the type of products or services exchanged (standard or commodities), low adaptations and specific investments, or lack of added value in the relationship. During the interviews, we also sensed a different philosophy of purchasing and supply management between the customer companies. On the one hand, there were companies that deeply believed in partnering or collaborating in close relationship with selected suppliers in order to develop a competitive advantage. In these cases, supplier development had emerged as a strategic consequence, and it was given priority even at the board of directors' level. Organizational and relational learning was an important issue, building both on the historical events and the shadow of the future. Openness, honesty, forgiveness, equity, and trust, and also high performance standards are other terms characterizing these relationships. On the other hand, were companies that expressed a limited belief in cooperation in long-term and close relationships. Relationships were established when they were considered useful to achieve certain defined goals. The relationships were more project oriented, and after the projects were finished the customers neglected the history, zero-leveled the relationship, and invited other suppliers to bid for new contracts. Contracts could vary from single projects with a duration of three months, up to three-year agreements on supply of products and services in addition to defined tasks. The underlying reasoning was that cost-efficiency and effectiveness could best be achieved when competition among the suppliers was introduced. In these companies, supplies were handled by purchasing agents with a traditional purchasing model in mind. Furthermore, in some of the customer companies, the purchasing managers reported heavy organizational requirements for cost reductions. Therefore competition among suppliers was regarded as one
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way to help them meet these requirements.

The following statement by a marketing director illustrates the differences in the two philosophies:

"We realized that the old roles of the buyer and the seller still remained. After going on for three quarters of a year, the supplier admitted that the seller role had been too prevalent. They had accepted everything from us, because we were a large customer. That was not the way we wanted it. We wanted constructive feedback on what we were doing wrong, because here we do a lot of things wrong. That was what we expected them to tell us. We are talking about a different way of both working and thinking, at the same time accepting that you are still a buyer or a seller."

We summarize our findings in the following proposition:

P6: Companies will not engage in partnering relationships due to lack of relationalism in their philosophy of dealing with other firms.

External Factors

Besides qualities related to the product or service exchanged, the relationship itself, the outcomes of the relationship, the involved parties and their organizational policy, factors outside the relationship seemed to affect the willingness to engage in close and long-term relationships. The speed of technological change varies among industries, and industries with rapid changes, new actors with radically improved technology appear almost over night. By engaging in close relationships with a selected number of partners, companies are afraid of being stuck with yesterday's technology and losing ground to their competitors. Partly, this can be related to the fear of being dependent. However, we also will argue that the rate of technological change within an industry is a distinct factor affecting the willingness to engage in partnering relationships. Industries with a rapid technological change, like the IT industry, are often characterized by rapidly growing demand.
Suppliers therefore have no strong incentives to partner in order to sell their products. Also, some partnering arrangements include keeping stock for important customers in order to serve them quickly, and this could result in a loss for the suppliers, leaving them with "old" merchandise they cannot sell. This argument is summarized as:

P7: In industries with rapid technological changes, large growth and many actors, companies will resist engaging in partnering relationships.

DISCUSSION

Academics and practitioners hold that a superior marketing strategy today is to find a way to sustain an existing relationship and increase its scope over time. During the past decade, more and more firms have been moving toward long-term relationships between suppliers and their customers, and vice versa (Anderson, 1995; Sheth and Parvatiyar 1995). Even though the benefits of these relationships to both customers and suppliers have been widely documented in the literature, it is still not clear why some companies should not engage in partnering relationships. In his study on determinants of long-term orientation in buyer-seller relationship, Ganesan (1994) argues that a long-term orientation requires substantial sacrifices. As such, both the potential pros and cons of these relationships should be explored.

Our study revealed seven factors explaining why companies either would resist or not engage in partnering relationships, as outlined previously. With regards to fear of dependency, we suggest, contrary to Hakansson and Snehota (1995), that this can be felt as a burden even if the interpretations and intention of both the involved parties overlap. As can be shown from the data, in addition to intentional behavior within the relationship, unintentional problems arise when developing close relationships with a selected number of partners. Examples of the latter would be incidents like fire or strikes. Further, fear of dependence can be observed both at an individual and
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organizational level. An example at the individual level is purchasing managers reporting having lost their ability and power to "squeeze" the companies' suppliers, and also having to face much stronger departmental control and cuts in both human and financial resources. From the above we see that the fear of dependency factor can be measured at different levels, dividing between exercised and unexercised power sources that are intentionally or unintentionally present in a relationship. Also, these sources of dependency develop over time, and as such, they are both a result of the content of the initial relationship agreement, the development process and factors external to the relationship.

Lack of strategic fit, lack of relationalism, and lack of innovation and reinforcement relate to the initial uncertainty concerning the partners' perceived ability and motivation in realizing the purpose of the relationship, as well as to the actual process of interaction between the parties. A number of authors have underlined the importance of selecting a right partner (e.g. Biemans, 1995; Evans and Laskin, 1994; Bronder and Pritzl, 1992). Quite obviously, many problems can be prevented by carefully selecting future cooperative partners. Our study underlines the importance of determining whether a good fit exists both at an operational and strategic level. The partner's ability and willingness to commit resources into the relationship thus relates equally to the initially defined goals and strategies of achieving them, as well as to the expected innovations and reinforcements. Further more, beyond the commitment relating to type of products and services exchanged, specific investments, and added value, the results indicate an underlying difference in philosophy which is important to the development of the relationship. Last, the representatives interviewed stated that when you've covered the business side of the relationship, it never hurts to have a nice partner - a criterion that often seems to be neglected in our rational decision-making models.

"Assuming that companies act 'under norms of rationality',
even though severely bounded, the only imaginable
inducement for companies to engage in relationships is that the expected benefits from relationships outweigh the cost” (Hakansson and Snehota, 1995; 382).

Similarly to Frazier (1983), we argue for a distinction between value that can be derived from economic and social rewards. The interdependence of relationships make the outcomes for the single party dependent on the effects the relationship has on the other. As shown in our study, the consequences depend both on the content of the cooperative agreement, the process of interaction, the relational partner as such, and external factors. When the companies do not believe that value-adding effects will be gained, they will not engage in close relationships. It is however important to note that relationships that are valuable in some dimensions might be negative in some other dimensions. Further, a relationship which is perceived as good at a certain point in time can become a burden later in the development process.

This study supports the work of Hakansson and Snehota (1995), arguing that interfirm marketing relationships could entail costs and problems that would influence both the way companies make decisions about whether or not to engage in partnering relationships and the way the relationship, if formed, develops. We expand on this by exploring both the potential burdens of close marketing relationships, and give guidelines to what criteria should be used in deciding upon the form of working relationship. Different from previous studies on partnership formation and general motives for joining forces, this study has tried to uncover the other side of the coin. Our study shows that developing long-term relationships with selected customers and suppliers is not simply a sensible strategy; it may also be essential to the long-term competitive advantage for the involved partners without sacrificing their profitability. At the same time, the study underlines the importance of not forming relationships just for the sake of relationships. Rather, to serve as a facilitator of cost reduction and revenue enhancement, the relationship requires strategic and operational planning both at the overall level and from each
partner firm.

REFERENCES


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